

**THE UNIVERSITY OF MISSISSIPPI  
RESEARCH FOUNDATION**  
(A Component Unit of the University of  
Mississippi)

**Financial Statements**  
**With Supplementary Information**  
Years Ended June 30, 2011 and 2010

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The University of Mississippi Research Foundation  
University, Mississippi

We have audited the accompanying statement of net assets of The University of Mississippi Research Foundation (A Component Unit of the University of Mississippi) (the "Foundation") as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Foundation for the year ended June 30, 2010, were audited by other auditors whose report, dated November 1, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation, as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2011, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Foundation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Home LLP".

Ridgeland, Mississippi  
October 10, 2011

# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of The University of Mississippi)

Management's Discussion and Analysis

June 30, 2011 and 2010

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## *Introduction*

Management's Discussion and Analysis serves to provide an introductory overview of the financial position and performance of The University of Mississippi Research Foundation (the "Foundation"). This discussion and analysis has been prepared by management and should be considered in conjunction with the financial statements and accompanying note disclosures. Three financial statements are presented: the statements of net assets, the statements of revenues, expenses and changes in net assets and the statements of cash flows. The emphasis of discussions about these statements will be on the current year in comparison to our financial results for the previous two years. While audited financial statements for fiscal year 2009 are not presented with this report, operational and financial position data will be presented in this section in order to illustrate certain increases and decreases.

## **The Foundation**

The Foundation was established in 1999. The main purpose of the Foundation is to promote the development, implementation and coordination of sponsored research and new technologies at the University of Mississippi.

## **Statements of Net Assets**

The statements of net assets present the financial position of the Foundation at the end of the fiscal year. The components of the statements include assets, liabilities and net assets. Assets and liabilities are presented as current or noncurrent, giving the reader a sense of the availability of assets on a short-term and long-term basis, as well as the Foundation's ability to meet immediate and future obligations. The net assets (assets minus liabilities) section presents a snapshot of the Foundation's overall net worth. This section is categorized to communicate to readers the degree of availability of these net assets to meet institutional obligations.

Net assets are divided into three major categories: invested in capital assets, restricted net assets and unrestricted net assets. Invested in capital assets provides a snapshot of the Foundation's net equity in property, plant and equipment. Assets are classified as restricted when limitations or restrictions are placed on their use by external parties. Restricted net assets are sub-divided into two categories, expendable and nonexpendable. Expendable restricted assets are available for expenditures by the Foundation but must be used in accordance with the intent of the appropriate external parties. Nonexpendable restricted net assets are only available for investment purposes and must remain intact in perpetuity. Unrestricted net assets are available to the Foundation for any lawful purpose of the Foundation.

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(A Component Unit of The University of Mississippi)

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June 30, 2011 and 2010

**Condensed Statements of Net Assets**

<b>June 30,</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
Current assets	\$ 3,293,971	\$ 1,607,383	\$ 341,641
Capital assets	11,372,858	989,217	162,009
Total assets	<u>\$ 14,666,829</u>	<u>\$ 2,596,600</u>	<u>\$ 503,650</u>
<b>Liabilities</b>			
Current liabilities	\$ 2,648,505	\$ 664,762	\$ 129,985
Total liabilities	2,648,505	664,762	129,985
<b>Net Assets</b>			
Invested in capital assets	11,372,858	989,217	162,009
Restricted - expendable for research	81,444	93,007	100,000
Unrestricted	564,022	849,614	111,656
Total net assets	<u>12,018,324</u>	<u>1,931,838</u>	<u>373,665</u>
Total liabilities and net assets	<u>\$ 14,666,829</u>	<u>\$ 2,596,600</u>	<u>\$ 503,650</u>

During fiscal year 2011, total assets increased by \$12,070,229 and total liabilities increased by \$1,983,743 resulting in a \$10,086,486 increase in net assets. The current year improvement is predominantly attributable to the increase in the Foundation's construction in progress of \$10,383,641 for the Research Park.

During fiscal year 2010, total assets increased by \$2,092,950 and total liabilities increased by \$534,777 resulting in a \$1,558,173 increase in net assets. A large portion of the prior year increase was due to an increase in value of ChromaDex Corporation stock the Foundation holds as well as an increase in the value of construction in progress.

Current assets at June 30, 2011, 2010 and 2009 consisted of cash and cash equivalents, grant receivable and investments. The grant receivable represents cost reimbursements from the Foundation's grant through the United States Department of Commerce for the construction of the Research Park.

Current liabilities at June 30, 2011, 2010 and 2009 are comprised of accounts and retainage payable. The payable amounts represent amounts due to vendors for services rendered.

Investment in capital assets is the largest component of net assets and represents the Research Park construction in progress. Per the development agreement between the Foundation and the University of Mississippi, the Foundation will convey, upon completion, the site work at the

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Research Park to the University by a special warranty bill of sale. At that time, the University of Mississippi shall assume all obligations and liabilities for the maintenance repair, upkeep, supervision and control of the Research Park site work and related assets conveyed. The Foundation's net assets restricted – expendable for research are attributable to a prior year contribution from the Elwood & Stephanie Norris Foundation.

**Statements of Revenues, Expenses and Changes in Net Assets**

The changes in net assets presented in the statements of net assets are based on the activity included in the statements of revenues, expenses and changes in net assets. The purpose of these statements is to present all revenues received and expenses incurred by the Foundation.

These statements present these activities as either operating or nonoperating. In general terms, operating revenues are revenues earned as a result of providing goods or services. Operating expenses are those expenses incurred to acquire or produce goods and services, or to support the mission of the Foundation. The net result of operating activities is presented as operating income or loss. Since a portion of the Foundation's revenues and expenses is classified as nonoperating including federal grants and contracts received for capital expenditures, "increase in net assets" is more indicative of the overall financial results for a fiscal year.

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

<b>Years Ended June 30,</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Operating revenues			
Federal grants and contracts	\$ 507,808	\$ 469,021	\$ 368,417
University support	35,347	-	-
Total operating revenues	543,155	469,021	368,417
Operating expenses			
Contractual services	717,391	474,695	368,441
Travel	14,596	-	-
Commodities	1,689	-	-
Total operating expenses	733,676	474,695	368,441
Operating income (loss)	\$ (190,521)	\$ (5,674)	\$ (24)

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**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

<b>Years Ended June 30,</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	\$ 569	\$ 667	\$ 1,545
Net realized and unrealized gain (loss) on marketable securities	59,422	739,972	(1,945,854)
Gifts	-	43,000	125
Federal grants and contracts	10,392,642	827,208	15,641
Support for University activities	(175,626)	(47,000)	-
Total nonoperating revenues (expenses)	10,277,007	1,563,847	(1,928,543)
Increase (decrease) in net assets	\$ 10,086,486	\$ 1,558,173	\$ (1,928,567)

During the fiscal year ended June 30, 2011, the Foundation recognized \$10,900,450 in operating and non-operating revenues through the United States Department of Commerce award. The remaining operating and non-operating revenues were comprised of \$35,347 in support from the University of Mississippi, \$569 of interest income and the net realized and unrealized gain (loss) on marketable securities of \$59,422. The increase from the prior year is attributable to continued construction in progress on the Research Park.

For the fiscal year ended June 30, 2010, the Foundation recognized \$1,296,229 in revenues from the United States Department of Commerce award and \$43,000 from private, restricted donations. Additionally, the value of ChromaDex Corporation stock held increased in value by \$739,972. The remaining \$667 was interest earned by the Foundation.

Operating expenses are depicted in the statements of revenues, expenses and changes in net assets by the type of goods or services purchased. Operating expenses for each of the years in the three-year period ended June 30, 2011, consisted primarily of payments to the University of Mississippi for grant management and ground lease costs.

The Foundation's operating loss increased in the current year compared to the prior years due to the cost of the ground lease with the University. The Foundation's nonoperating expenses increased in the current year due to proceeds from the sale of the Foundation's ChromaDex Corporation stock of \$166,000 being paid to the University of Mississippi for research activities.



# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

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## Statements of Cash Flows

The statements of cash flows provide another perspective of financial activities and results. These statements present information about the activities on a cash basis utilizing four categories. The cash flows from operating activities section summarizes cash generated and used through operating activities. The cash flows from noncapital financing activities section summarizes the cash paid to the University of Mississippi for research activities and the cash generated from private grants and donations. Cash flows from capital and related financing activities section summarize the cash used for acquisition, construction, renovation and improvement of capital and related assets. Finally, the cash flows from the investing activities section summarizes proceeds from the sale of investments and interest income received.

### Condensed Statements of Cash Flows

Years Ended June 30,	2011	2010	2009
<b>Cash provided by (used for)</b>			
Operating activities	\$ (11,547)	\$ (5,678)	\$ (24)
Noncapital financing activities	(175,626)	(4,000)	125
Capital financing activities	(6,079)	15,084	-
Investing activities	168,171	667	1,545
Increase (decrease) in cash	\$ (25,081)	\$ 6,073	\$ 1,646

During the current year, cash and cash equivalents decreased by \$25,081 compared to increases of \$6,073 and \$1,646, respectively, for the fiscal years ended June 30, 2010 and 2009. Throughout each year, cash is drawn from the granting agency and immediately disbursed as payments are due for construction of the Research Park and other Foundation operating expenses. The Foundation has also continued to earn interest on the unspent proceeds of a prior year restricted contribution from the Elwood & Stephanie Norris Foundation.

### Capital Assets and Debt Administration

The Foundation was founded for the purpose of supporting the research and other externally sponsored academic activities of the University of Mississippi. It operates primarily as a grants management organization and, as such, will maintain limited amounts of capital assets other than the Research Park and no long-term liabilities.

### Management's Outlook

The Foundation's net assets have improved each fiscal year for the three-year period ended June 30, 2011. The award received from the United States Department of Commerce continues to provide funding for Foundation operations and the anticipated completion of construction of the Research Park during the upcoming fiscal year ending June 30, 2012. Additionally, the Foundation continues to seek resources to further research at the University of Mississippi.

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**Requests for Information**

This report is designed to provide an overview of the Foundation's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Vice Chancellor for Research and Sponsored Programs at 313 Lyceum, University, Mississippi 38677.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of The University of Mississippi)  
Statements of Net Assets  
June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 83,022	\$ 108,103
Grant receivable	2,469,531	649,682
Investments	741,418	849,598
Total current assets	3,293,971	1,607,383
Capital assets		
Construction in progress	11,372,858	989,217
Total assets	\$ 14,666,829	\$ 2,596,600
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,648,505	\$ 664,762
Total current liabilities	2,648,505	664,762
Net assets		
Investment in capital assets	11,372,858	989,217
Restricted - expendable for research	81,444	93,007
Unrestricted	564,022	849,614
Total net assets	12,018,324	1,931,838
Total liabilities and net assets	\$ 14,666,829	\$ 2,596,600

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Change in Net Assets  
June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Operating revenues		
Federal grants and contracts	\$ 507,808	\$ 469,021
University support	35,347	-
Total operating revenues	<u>543,155</u>	<u>469,021</u>
Operating expenses		
Contractual services	717,391	474,695
Travel	14,596	-
Commodities	1,689	-
Total operating expenses	<u>733,676</u>	<u>474,695</u>
Operating loss	<u>(190,521)</u>	<u>(5,674)</u>
Nonoperating revenues (expenses)		
Interest income	569	667
Net realized and unrealized gain (loss) on marketable securities	59,422	739,972
Gifts	-	43,000
Federal grants and contracts	10,392,642	827,208
Support for University activities	(175,626)	(47,000)
Total nonoperating revenues (expenses)	<u>10,277,007</u>	<u>1,563,847</u>
Increase in net assets	10,086,486	1,558,173
Net assets, beginning of year	<u>1,931,838</u>	<u>373,665</u>
Net assets, end of year	<u>\$ 12,018,324</u>	<u>\$ 1,931,838</u>

See accompanying notes to financial statements.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**

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## Statements of Cash Flows

June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Operating activities		
Grants, contracts and University support	\$ 392,780	\$ 474,963
Payments to vendors and contractors	(404,327)	(480,641)
Net cash used in operating activities	(11,547)	(5,678)
Noncapital financing activities		
Received from private grants and donations	-	43,000
Payments to University for research activities	(175,626)	(47,000)
Net cash used by noncapital financing activities	(175,626)	(4,000)
Capital and related financing activities		
Capital grants	8,723,168	816,010
Purchases of capital assets	(8,729,247)	(800,926)
Net cash provided by (used for) capital and related financing activities	(6,079)	15,084
Investing activities		
Proceeds from sales of investments	167,602	-
Interest received	569	667
Net cash provided by investing activities	168,171	667
Increase (decrease) in cash	(25,081)	6,073
Cash and cash equivalents, beginning of year	108,103	102,030
Cash and cash equivalents, end of year	\$ 83,022	\$ 108,103
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	\$ (190,521)	\$ (5,674)
Changes in operating assets and liabilities		
Grant receivable	(150,375)	5,942
Accounts payable and accrued liabilities	329,349	(5,946)
Net cash provided by (used in) operating activities	\$ (11,547)	\$ (5,678)

See accompanying notes to financial statements.

# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of The University of Mississippi)

Years Ended June 30, 2011 and 2010

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Summary of Significant Accounting Policies**

#### Nature of Operations and Reporting Entity

The University of Mississippi Research Foundation (the "Foundation") is a not-for-profit Mississippi corporation established to promote the development, implementation and coordination of sponsored research and new technologies at the University of Mississippi (the "University") in the furtherance of the University's education objectives. The Foundation is considered to be an affiliate and component unit of the University because its economic resources are almost entirely for the direct benefit of the University. Additionally, the Foundation's sole corporate member is the Chancellor of the University.

#### Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared on an accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when reduced to a legal or contractual obligation to pay. The Foundation reports as a Business-Type Activity ("BTA") as defined by Governmental Accounting Standards Board ("GASB") Statement No. 35. BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities (an amendment of GASB Statement No. 34)*. The presentation required by GASB Statement No. 34 and GASB Statement No. 35 provides a comprehensive, entity-wide perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

GASB establishes the standards for external financial reporting for governmental entities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- Invested in capital assets – Capital assets, net of accumulated depreciation.
- Restricted:

*Nonexpendable* – Net assets subject to externally imposed stipulations that they be maintained in perpetuity by the Foundation. Such assets include the principal of the Foundation's permanent endowment funds.

*Expendable* – Net assets whose use by the Foundation is subject to externally imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

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## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Continued**

- Unrestricted: Net assets whose use by the Foundation is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the board of directors or may otherwise be limited by contractual agreements with outside parties.

Pursuant to GASB Statement No. 20, the Foundation has elected to apply the provisions for all relevant pronouncements of the Financial Accounting Standards Board ("FASB") that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

In connection with the preparation of the financial statements, management of the Foundation evaluated subsequent events through October 10, 2011 which was the date the financial statements were available to be issued.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments purchased with an original maturity of three months or less.

### Grant Receivable

Receivables are reported at their gross value when earned as the underlying exchange transaction occurs. Estimated receivables have been recorded for services rendered but not yet billed as of June 30, 2011 and 2010. The receivables were arrived by taking the subsequent payments of expenses invoiced after year end and recording the portions incurred and reimbursable at year end.

### Investments

Investments in equity securities with readily determinable fair values and debt securities are carried at fair value. Fair value is determined using quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net assets. Investments without readily determinable market values are accounted for utilizing the cost-basis method.

# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of The University of Mississippi)

Years Ended June 30, 2011 and 2010

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Continued**

#### Capital Assets

Capital assets are recorded at cost at the date of acquisition or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Expenditures for construction in progress are capitalized as incurred.

Depreciation on assets placed in service will be computed using the straight-line method over the estimated useful life of the asset, generally 40 years for buildings, 20 years for improvements other than buildings, and 3 to 15 years for equipment.

#### Revenue Recognition

Most of the Foundation's revenues for the two years ended June 30, 2011 were derived from a restricted grant from the U. S. Department of Commerce. This grant supports the development of the University's Research Park ("Research Park"). The Foundation recognizes revenue associated with direct costs as the costs are incurred. These revenues are reported as operating or nonoperating revenues, depending on the nature of the cost incurred.

Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are capital related and investment income are included in nonoperating revenues. The Foundation first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as restricted net assets.

During the year ended June 30, 2010, the Foundation received restricted donations that were designated for research activities at the University of Mississippi. These donations were expended to cover such research activities.

#### Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.



**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**

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Years Ended June 30, 2011 and 2010

**NOTES TO FINANCIAL STATEMENTS**

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**Note 2. Deposits and Investments**

The Foundation does not have formal policies regarding investments, deposits and related risks.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The Foundation maintains its cash in deposit accounts which, at times, can exceed federally insured limits. In October, 2008, the FDIC raised the federally insured limits to \$250,000 per depositor effective through December 31, 2013. At June 30, 2011 and 2010, the Foundation's bank balances were \$83,022 and \$108,103, respectively. Therefore, no deposit amounts were deemed to be at risk.

Investments

A concentration of credit risk exists at June 30, 2011 and 2010, as the Foundation's investments with readily determined fair values were held in one corporate stock. Additionally, due to market conditions, the fair value of the investment in ChromaDex Corporation stock, as reflected in the accompanying financial statements, has declined to \$327,096 at October 10, 2011.

Summary of Carrying Values

The carrying values of deposits and investments are included in the Statements of Net Assets as follows:

	<b>2011</b>	<b>2010</b>
Carrying value		
Deposits	\$ 83,022	\$ 108,103
Investments	741,418	849,598
	<u>\$ 824,440</u>	<u>\$ 957,701</u>
Included in the following statements of net assets		
Cash	\$ 83,022	\$ 108,103
Investments	741,418	849,598
	<u>\$ 824,440</u>	<u>\$ 957,701</u>

As of June 30, 2011, the Foundation owned 436,128 shares of ChromaDex Corporation, which is a supplier of phytochemical standards and reference materials. During the year ended June 30, 2011, the Foundation sold 112,000 shares of ChromaDex Corporation for a realized loss of \$5,997. This loss offset the unrealized gain of \$65,419 for the year ended June 30, 2011, resulting in a net realized and unrealized gain (loss) on marketable securities of \$59,422.

# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of The University of Mississippi)

Years Ended June 30, 2011 and 2010

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 2. Continued**

For the year ended June 30, 2010, the market value of ChromaDex Corporation had improved significantly from the prior year. Accordingly, \$739,972 was recognized as an unrealized gain on marketable securities.

In October 2008, the Foundation entered into an investor's rights agreement with CENTRI Technology, Inc. ("CENTRI"), which is a data computer software company. On October 20, 2008, the Foundation was granted 1,431,667 shares of stock in CENTRI. No value has been assigned to these shares, as there is no readily determinable market value, and such shares were acquired without any cost to the Foundation as a result of a licensing agreement between CENTRI and the University.

Also, in July 2009, the Foundation entered into an investor rights agreement with Oxford Polymed Corporation, which is "a pharmaceutical company specializing in the production of high margin, low risk, and low cost patent-protected drugs with large market opportunities." In September 2009, 600 common shares of Oxford Polymed Corporation were purchased with a par value of \$0.001 for a total purchase cost of \$0.60 paid for these shares. There is no readily determinable market value for these shares and accordingly, they are carried at their acquired cost basis.

### **Note 3. Transactions With The University of Mississippi**

The Foundation has been awarded a grant from the National Institute of Standards and Technology ("NIST") in the amount of \$19,744,560 for the development of the University of Mississippi Research Park to be constructed on property of the University. In connection therewith, the Foundation and the University entered into a development agreement wherein the Foundation will lease certain parcels of land owned by the University under a ground lease arrangement for the development of the Research Park. The Foundation intends to construct roadways, utilities, buildings, common areas, and other necessary infrastructure for the operation of the Research Park on the leased property. Pursuant to the agreement and upon the completion of the site work related to the project, the Foundation will convey the site work at the Research Park to the University by a special warranty bill of sale. At that time, the University will assume all obligations and liabilities for the maintenance repair, upkeep, supervision and control of the Research Park site work and related assets conveyed.

In connection therewith, the Foundation and the University entered into a subcontract agreement wherein the University provides grant management services and oversight of the Master Planning and Phase I construction of the Research Park. Contractual services provided by the University to the Foundation for the years ended June 30, 2011 and 2010 totaled \$507,808 and \$469,131, respectively. In addition to grant management and oversight, the Foundation paid the University for certain construction costs of \$358,779 during the year ended June 30, 2011. Amounts owed to the University for the subcontract and construction costs at June 30, 2011 and 2010 were \$323,884 and \$124,039, respectively, and are included in accounts payable in the accompanying statements of net assets. Effective July 6, 2011, the NIST grant was amended to add the University as a co-recipient of the award.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**

(A Component Unit of The University of Mississippi)

Years Ended June 30, 2011 and 2010

**NOTES TO FINANCIAL STATEMENTS**

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**Note 3. Continued**

The Foundation made payments of \$175,626 and \$47,000 to the University in support of research activities during the years ended June 30, 2011 and 2010, respectively.

**Note 4. Grant Receivable**

Grant receivable as of June 30, 2011 and 2010 totaled \$2,469,531 and \$649,682, respectively, and represents reimbursements receivable from the United States Department of Commerce. As of June 30, 2011 and 2010, grant receivable included \$252,260 and \$26,282, respectively, of unbilled amounts relating to contractor retainages.

**Note 5. Capital Assets**

Capital assets activity for the years ended June 30, 2011 and 2010 was:

<b>June 30, 2011</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Capital assets, non-depreciable				
Construction in progress	\$ 989,217	\$ 10,383,641	\$ -	\$ 11,372,858

  

<b>June 30, 2010</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Capital assets, non-depreciable				
Construction in progress	\$ 162,009	\$ 827,208	\$ -	\$ 989,217

**Note 6. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of June 30, 2011 and 2010 totaled \$2,648,505 and \$664,762, respectively, representing amounts due to vendors for services rendered.

**Note 7. Operating Lease**

Leased property under an operating lease consisted of a ground lease with the University with an original lease term of 40 years. The following is a schedule by year of the future minimum rental payments required under this noncancelable operating lease for the next five years and thereafter:

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**

(A Component Unit of The University of Mississippi)

Years Ended June 30, 2011 and 2010

**NOTES TO FINANCIAL STATEMENTS**

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**Note 7. Continued**

<b>Years Ending June 30,</b>	<b>Amount</b>
2012	\$ 156,169
2013	156,169
2014	156,169
2015	156,169
2016	156,169
Thereafter	5,309,749
	<u>\$ 6,090,594</u>

The total rental expense for the operating lease for the year ended June 30, 2011, was \$178,974, which is included in accounts payable in the accompanying statements of net assets.

**Note 8. Grants and Contract Awarded**

At June 30, 2011, the grant from the U. S. Department of Commerce was as follows:

Total award under Grant No. 60NANB6D6134	\$ 19,744,560
Less received as of June 30, 2011	(10,687,731)
Less expended and receivable as of June 30, 2011	(2,469,531)
Remaining funding available	<u>\$ 6,587,298</u>

**Note 9. Construction Commitments and Financing**

The Foundation has commitments with respect to the construction of the Research Park as of June 30, 2011. The estimated remaining cost to complete the Research Park is \$3,750,000 which is anticipated to be fully funded through federal sources. Construction of the Research Park is expected to be completed during the year ending June 30, 2012.

**Note 10. Commitments and Contingencies**

The Foundation participates in certain federal sponsored programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement from the granting agency for expenditures disallowed under the terms of the grant. Management believes disallowances, if any, will not have a material adverse impact on the financial position of the Foundation.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**

(A Component Unit of The University of Mississippi)

Years Ended June 30, 2011 and 2010

**NOTES TO FINANCIAL STATEMENTS**

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**Note 11. Risk Management**

The Foundation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions and natural disasters. The Foundation has commercial coverage for claims arising from such matters. There have been no claims against the Foundation.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
 (A Component Unit of The University of Mississippi)  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2011

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Commerce</b> Congressionally-Identified Project through the NIST for the University Research Park	11.617	\$ 10,900,450

**NOTE TO SCHEDULE:**

1 This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, as was used for the financial statements.

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
The University of Mississippi Research Foundation  
University of Mississippi

We have audited the financial statements of The University of Mississippi Research Foundation (the "Foundation") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity and federal awarding agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Home LLP".

Ridgeland, Mississippi  
October 10, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
The University of Mississippi Research Foundation  
University of Mississippi

Compliance

We have audited the compliance of the University of Mississippi Research Foundation (the "Foundation") with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Foundation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Home LLP".

Ridgeland, Mississippi  
October 10, 2011

**THE UNIVERSITY OF MISSISSIPPI  
RESEARCH FOUNDATION**  
(A Component Unit of The University of Mississippi)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2011

Section I - Summary of Auditor's Results

**Financial Statements:**

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted	No

**Federal Awards:**

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major program	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
11.617	Congressionally-Identified Projects – University Research Park

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee	No

Section II - Financial Statement Findings  
No matters were reported.

Section III - Federal Award Findings and Questioned Costs  
No matters were reported.

**THE UNIVERSITY OF MISSISSIPPI**  
**RESEARCH FOUNDATION**  
(A Component Unit of The University of Mississippi)  
Summary Schedule of Prior Year Audit Findings  
Year Ended June 30, 2011

Identifying number: 2010-01: Internal Control over Cash Management

Audit Finding:

Finding Type: Significant Deficiency and Immaterial Noncompliance

Program Tested: Congressionally – Identified Projects – UM Research Park (U.S. Department of Commerce – CFDA #11.617)

Questioned Cost: None

*Criteria*

In accordance with the requirements for cash management contained in the A-102 Common Rule, OMB Circular A-110 (2 CFR Section 215.22), Treasury regulations at 31 CFR part 205, program legislation, federal awarding agency regulations, and the terms and conditions of the award, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipients.

*Condition and Cause*

Pursuant to the terms of the NIST grant awarded by the U.S. Department of Commerce to the Foundation, advances taken under this grant are limited to the minimum amounts necessary to meet immediate needs and shall be for periods not to exceed 30 days.

During testing by prior auditor of 100 percent of the cash advance draw-downs, the prior auditor identified one instance in which an advance totaling \$15,086 was drawn-down for a period exceeding the 30 day requirement as a result of initial questions regarding the characterization and allowability of the related expenditure prior to its payment to the vendor. The time required to resolve these matters resulted in the advance funding related to the expenditure exceeding the 30 day limitation.

*Effect*

Failure to establish formalized procedures to minimize the time elapsing between transfer of funds and disbursement could result in a material noncompliance finding and subject the Foundation to liabilities related to the return of earned interest.

**THE UNIVERSITY OF MISSISSIPPI**  
**RESEARCH FOUNDATION**  
(A Component Unit of The University of Mississippi)  
Summary Schedule of Prior Year Audit Findings  
Year Ended June 30, 2011

Corrective Action Taken:

This error occurred because funds were drawn down, but the invoice was not presented for payment in a timely manner. We have revised our policy so that all invoices are properly reviewed and approved prior to drawing funds, and funds are not drawn until the check has been prepared and signed by both (required) signatories. The day following our request to draw down funds, we check to ensure funds have arrived at our bank. Once the funds are in the bank, the check is mailed to the vendor. This procedure follows our policy of segregation of duties, in the following manner:

- 1) Invoice is reviewed by appropriate officials (depending on nature of invoice);
- 2) Appropriate officials authorized payment;
- 3) The Accountant ensures funds are available, and that invoice follows approved budget;
- 4) The Accountant requests check to be prepared;
- 5) Check prepared by Assistant to Vice Chancellor for Research and Sponsored Programs at the University of Mississippi;
- 6) Check signed by President and Treasurer of UMRF, and placed in secure cabinet;
- 7) The Accountant then notifies University of Mississippi Accounting Department draw-down sufficient funds;
- 8) After receipt of funds by bank is verified, check is mailed to vendor by Assistant to Vice Chancellor for Research and Sponsored Programs at the University of Mississippi.

**THE UNIVERSITY OF MISSISSIPPI**  
**RESEARCH FOUNDATION**  
(A Component Unit of The University of Mississippi)  
Corrective Action Plan  
Year Ended June 30, 2011

The current year single audit disclosed no significant findings, and no significant uncorrected or unresolved findings exist from a prior year single audit. Accordingly, no corrective action plan is required.