

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

**Financial Statements
With Supplementary Information**
Years Ended June 30, 2012 and 2011

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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 statements of net assets of The University of Mississippi Research Foundation (A Component Unit of the University of Mississippi) (the "Foundation") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 September 13, 2012, 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 audits were 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. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Home LLP

Ridgeland, Mississippi
September 13, 2012

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of The University of Mississippi)

Management's Discussion and Analysis

June 30, 2012 and 2011

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 2010 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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Management's Discussion and Analysis
June 30, 2012 and 2011

Condensed Statements of Net Assets

June 30,	2012	2011	2010
Assets			
Current assets	\$ 1,261,585	\$ 3,293,971	\$ 1,607,383
Noncurrent assets	14,893,472	11,372,858	989,217
Total assets	<u>\$ 16,155,057</u>	<u>\$ 14,666,829</u>	<u>\$ 2,596,600</u>
Liabilities			
Current liabilities	\$ 1,123,900	\$ 2,648,505	\$ 664,762
Total liabilities	1,123,900	2,648,505	664,762
Net Assets			
Invested in capital assets	14,551,727	11,372,858	989,217
Restricted - expendable for research	567,943	81,444	93,007
Unrestricted	(88,513)	564,022	849,614
Total net assets	<u>15,031,157</u>	<u>12,018,324</u>	<u>1,931,838</u>
Total liabilities and net assets	<u>\$ 16,155,057</u>	<u>\$ 14,666,829</u>	<u>\$ 2,596,600</u>

During fiscal year 2012, total assets increased by \$1,488,228 and total liabilities decreased by \$1,524,605 resulting in a \$3,012,833 increase in net assets. 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 improvements during the current and prior fiscal years were predominantly attributable to the Foundation's construction of 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 this 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, 2012 consisted of cash and cash equivalents, accounts receivable, grant receivable, pledge receivable, net and investments. The accounts receivable for fiscal year 2012 are rental payments due from Research Park tenants. The grant receivable for the current and prior years represents cost reimbursements from the Foundation's grant through the United States Department of Commerce for the construction of the Research Park. The Foundation received a \$500,000 pledge in November 2011 designated for the Pii Center for Pharmaceutical Technology at the University of which \$50,000 was received during fiscal year 2012. The pledge receivable is reflected at its net present value as the remaining funds will be paid to the Foundation in semiannual payments over a five-year period.

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Noncurrent assets at June 30, 2012 consisted of capital assets and the long-term portion of the Pii Center for Pharmaceutical Technology pledge receivable.

Current liabilities at June 30, 2012 consist of accounts payable and lease deposits from Research Park tenants. Current liabilities at June 30, 2011 and 2010 are comprised of accounts and retainage payable. The payable amounts for the current and prior years represent amounts due to vendors for services rendered.

Investment in capital assets is the largest component of net assets and represents the initial construction phase of the Research Park which was completed during fiscal year 2012. Per the development agreement between the Foundation and the University of Mississippi, the Foundation will convey, upon final completion of construction, the site work at the 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 consist of funds received during the current year in support of the International Conference on the Science of Botanicals hosted by the University's National Center for Natural Products Research, a donation received during fiscal year 2012 designated for the support of the Pii Center for Pharmaceutical Technology at the University to be paid to the Foundation in semiannual payments over a five-year period and 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 non-operating. 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 non-operating 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.

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June 30, 2012 and 2011

Condensed Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,	2012		2011		2010	
Operating revenues						
Federal grants and contracts	\$	605,839	\$	507,808	\$	469,021
Lease income		15,285		-		-
University support		57,230		35,347		-
Total operating revenues		678,354		543,155		469,021
Operating expenses						
Contractual services		949,046		717,391		474,695
Travel		2,843		14,596		-
Depreciation		164,056				
Commodities		35,391		1,689		-
Total operating expenses		1,151,336		733,676		474,695
Operating income (loss)	\$	(472,982)	\$	(190,521)	\$	(5,674)
Non-operating Revenues (Expenses)						
Interest income	\$	395	\$	569	\$	667
Other income		4,084		-		-
Net realized and unrealized gain (loss) on marketable securities		(440,490)		59,422		739,972
Gifts and contributions		553,981		-		43,000
Federal grants and contracts		3,435,642		10,392,642		827,208
Support for University activities		(67,797)		(175,626)		(47,000)
Total non-operating revenues (expenses)		3,485,815		10,277,007		1,563,847
Increase (decrease) in net assets	\$	3,012,833	\$	10,086,486	\$	1,558,173

During the fiscal year ended June 30, 2012, the Foundation recognized \$4,041,481 of operating and non-operating revenues from its grant through the United States Department of Commerce for the Research Park. The decrease in grant revenue from the prior year was due to the completion of the initial construction phase of the Research Park during the current year. Other non-grant related operating revenues were derived from lease income from tenants of the Research Park and support from the University of Mississippi. Other non-operating revenues consisted primarily of funds received in support of the Pii Center for Pharmaceutical Technology at the University and in support of the International Conference on the Science of Botanicals hosted by the University's National Center for Natural Products Research. The remaining non-operating revenues for the fiscal year 2012 consisted of parking fee proceeds and interest income.

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For 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 increase in grant revenue from fiscal year 2010 was due to ongoing construction of the Research Park during fiscal year 2011. 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 on marketable securities of \$59,422. The increase from fiscal year 2010 was attributable to continued construction of 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, 2012, consisted primarily of payments to the University of Mississippi for grant management and ground lease costs. Additionally, utilities and depreciation expense are included for the current year due to the completion of the initial construction phase and opening of the Research Park in January 2012.

The Foundation's operating loss continued to increase in the current year compared to the prior years due to depreciation expense and operating costs of the Research Park. The Foundation's non-operating expenses increased in the current year due to the change in the market value of the Foundation's ChromaDex Corporation stock which was recognized as a net unrealized loss of \$440,490 on marketable securities.

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.

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Management's Discussion and Analysis
June 30, 2012 and 2011

Condensed Statements of Cash Flows

Years Ended June 30,	2012	2011	2010
Cash provided by (used for)			
Operating activities	\$ (416,142)	\$ (11,547)	\$ (5,678)
Noncapital financing activities	49,248	(175,626)	(4,000)
Capital financing activities	424,684	(6,079)	15,084
Investing activities	395	168,171	667
	<hr/>	<hr/>	<hr/>
Increase (decrease) in cash	\$ 58,185	\$ (25,081)	\$ 6,073

During the current year, cash and cash equivalents increased by \$58,185 compared to a decrease of \$25,081 in the prior year and a slight increase of \$6,073 for the fiscal year ended June 30, 2010. 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. A significant portion of the increase for the fiscal year ended June 30, 2012 can be attributed to the funds received in support of the Pii Center for Pharmaceutical Technology at the University and funds received in support of the International Conference on the Science of Botanicals hosted by the University's National Center for Natural Products Research. The remainder of the increase resulted from lease income from Research Park tenants and parking fee proceeds.

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, 2012. The award received from the United States Department of Commerce will continue into the fiscal year ending June 30, 2013 to provide funding for certain Research Park related operations and additional construction build out of tenant spaces within the Research Park. Additionally, the Foundation continues to seek resources to further research efforts at the University of Mississippi.

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, 2012 and 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 141,207	\$ 83,022
Accounts receivable	2,829	-
Grant receivable	717,346	2,469,531
Pledge receivable, net	99,275	-
Investments	300,928	741,418
Total current assets	1,261,585	3,293,971
Noncurrent assets		
Pledge receivable, net	341,745	-
Capital assets, net	14,551,727	11,372,858
Total noncurrent assets	14,893,472	11,372,858
Total assets	<u>\$ 16,155,057</u>	<u>\$ 14,666,829</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,122,004	\$ 2,648,505
Lease deposits	1,896	-
Total current liabilities	1,123,900	2,648,505
Net assets		
Investment in capital assets	14,551,727	11,372,858
Restricted - expendable for research	567,943	81,444
Unrestricted	(88,513)	564,022
Total net assets	15,031,157	12,018,324
Total liabilities and net assets	<u>\$ 16,155,057</u>	<u>\$ 14,666,829</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2012 and 2011

	2012	2011
Operating revenues		
Federal grants and contracts	\$ 605,839	\$ 507,808
Lease income	15,285	-
University support	57,230	35,347
Total operating revenues	<u>678,354</u>	<u>543,155</u>
Operating expenses		
Contractual services	949,046	717,391
Travel	2,843	14,596
Depreciation	164,056	-
Commodities	35,391	1,689
Total operating expenses	<u>1,151,336</u>	<u>733,676</u>
Operating income (loss)	<u>(472,982)</u>	<u>(190,521)</u>
Nonoperating revenues (expenses)		
Interest income	395	569
Other income	4,084	-
Net realized and unrealized gain (loss) on marketable securities	(440,490)	59,422
Gifts and contributions	553,981	-
Federal grants and contracts	3,435,642	10,392,642
Support for University activities	(67,797)	(175,626)
Total nonoperating revenues (expenses)	<u>3,485,815</u>	<u>10,277,007</u>
Increase in net assets	3,012,833	10,086,486
Net assets, beginning of year	<u>12,018,324</u>	<u>1,931,838</u>
Net assets, end of year	<u>\$ 15,031,157</u>	<u>\$ 12,018,324</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of The University of Mississippi)

Statements of Cash Flows

June 30, 2012 and 2011

	2012	2011
Operating activities		
Grants, contracts and University support	\$ 376,060	\$ 392,780
Payments to vendors and contractors	(791,269)	(404,327)
Other receipts (payments)	(933)	-
Net cash used in operating activities	<u>(416,142)</u>	<u>(11,547)</u>
Noncapital financing activities		
Received from private grants and donations	112,961	-
Payments to University for research activities	(67,797)	(175,626)
Other receipts (payments)	4,084	-
Net cash provided by (used in) noncapital financing activities	<u>49,248</u>	<u>(175,626)</u>
Capital and related financing activities		
Capital grants	5,490,121	8,723,168
Purchases of capital assets	(5,065,437)	(8,729,247)
Net cash provided by (used for) capital and related financing activities	<u>424,684</u>	<u>(6,079)</u>
Investing activities		
Proceeds from sales of investments	-	167,602
Interest received	395	569
Net cash provided by investing activities	<u>395</u>	<u>168,171</u>
Increase (decrease) in cash	58,185	(25,081)
Cash and cash equivalents, beginning of year	83,022	108,103
Cash and cash equivalents, end of year	<u>\$ 141,207</u>	<u>\$ 83,022</u>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	\$ (472,982)	\$ (190,521)
Depreciation	164,056	-
Changes in operating assets and liabilities		
Accounts receivable	(2,829)	(150,375)
Grant receivable	(302,294)	-
Accounts payable and accrued liabilities	196,011	329,349
Lease deposits	1,896	-
Net cash used in operating activities	<u>\$ (416,142)</u>	<u>\$ (11,547)</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Years Ended June 30, 2012 and 2011

NOTES TO FINANCIAL STATEMENTS

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
(A Component Unit of The University of Mississippi)
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NOTES TO FINANCIAL STATEMENTS

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.

In connection with the preparation of the financial statements, management of the Foundation evaluated subsequent events through September 13, 2012 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.

Accounts Receivable

Accounts receivable consist of amounts due from tenants of the Research Park.

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, 2012 and 2011. 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.

Pledge Receivable, net

During the year ended June 30, 2012, the Foundation received a donation restricted for the support of the Pii Center for Pharmaceutical Technology at the University. These funds will be paid to the Foundation in semiannual payments through fiscal year 2017 and are reflected at their net present value using a 0.73 percent discount rate.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Years Ended June 30, 2012 and 2011

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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 non-operating 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.

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, 2012 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 non-operating 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 non-exchange 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 non-exchange transactions. Government-mandated non-exchange transactions that are capital related and investment income are included in non-operating 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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Years Ended June 30, 2012 and 2011

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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.

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, 2012 and 2011, the Foundation's bank balances were \$191,357 and \$83,022, respectively. Therefore, no deposit amounts were deemed to be at risk.

Investments

A concentration of credit risk exists at June 30, 2012 and 2011, as the Foundation's investments with readily determined fair values were held in one corporate stock.

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 141,207	\$ 83,022
Investments	300,928	741,418
	\$ 442,135	\$ 824,440
Included in the following statements of net assets		
Cash	\$ 141,207	\$ 83,022
Investments	300,928	741,418
	\$ 442,135	\$ 824,440

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Years Ended June 30, 2012 and 2011

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

As of June 30, 2012 and 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, 2012, the market value of ChromaDex Corporation declined and an unrealized loss on marketable securities of \$440,490 was recognized. For 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.

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 common stock in CENTRI. During the year ended June 30, 2012 the Foundation was granted 540,345 shares of preferred stock and an additional 225,204 shares of common 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.

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. At June 30, 2011, there was no readily determinable market value for these shares and accordingly, they were carried at their acquired cost basis. Effective October 5, 2011, the corporation's stockholders approved filing a Certificate of Dissolution and adopted a Plan of Liquidation. Accordingly, at June 30, 2012, the Foundation no longer has an equity interest in Oxford Polymed Corporation.

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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Years Ended June 30, 2012 and 2011

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

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, 2012 and 2011 totaled \$605,839 and \$507,808, respectively. In addition to grant management and oversight, the Foundation paid the University for certain landscape and construction costs of \$934,168 and \$358,779 during the years ended June 30, 2012 and 2011. Amounts owed to the University for the subcontract and construction costs at June 30, 2012 and 2011 were \$339,750 and \$323,884, respectively, and are included in accounts payable in the accompanying statements of net assets. Also included in accounts payable at June 30, 2012 is \$72,690 for Research Park utilities. Effective July 6, 2011, the NIST grant was amended to add the University as a co-recipient of the award.

The Foundation made payments of \$67,797 and \$175,626 to the University in support of research activities during the years ended June 30, 2012 and 2011, respectively.

Note 4. Grant Receivable

Grant receivable as of June 30, 2012 and 2011 totaled \$717,346 and \$2,469,531, respectively, and represents reimbursements receivable from the United States Department of Commerce. As of June 30, 2011, grant receivable included \$252,260 of unbilled amounts relating to contractor retainages.

Note 5. Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 was:

June 30, 2012	Beginning Balance	Additions	Disposals	Ending Balance
Building	\$ -	\$ 12,636,789	\$ -	\$ 12,636,789
Land improvements	-	263,146	-	263,146
Equipment	-	99,985	-	99,985
	-	12,999,920	-	12,999,920
Accumulated depreciation	-	(164,056)	-	(164,056)
	-	12,835,864	-	12,835,864

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Years Ended June 30, 2012 and 2011

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

June 30, 2012	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, non-depreciable				
Land improvements	\$ -	\$ 1,660,429	\$ -	\$ 1,660,429
Construction in progress	11,372,858	3,079,779	14,397,203	55,434
	<u>11,372,858</u>	<u>4,740,208</u>	<u>14,397,203</u>	<u>1,715,863</u>
Capital assets, net	<u>\$ 11,372,858</u>	<u>\$ 17,576,072</u>	<u>\$ 14,397,203</u>	<u>\$ 14,551,727</u>

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

Note 6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2012 and 2011 totaled \$1,049,314 and \$2,648,505, 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 initial lease term of 40 years payable in equal monthly installments to be adjusted annually in proportion to the increase in the Consumer Price Index. The following is a schedule by year of the future minimum rental payments required under this non-cancelable operating lease for the next five years and thereafter:

Years Ending June 30,	Amount
2013	\$ 162,089
2014	161,211
2015	161,211
2016	161,211
2017	161,211
Thereafter	<u>5,319,963</u>
	<u>\$ 6,126,896</u>

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of The University of Mississippi)
Years Ended June 30, 2012 and 2011

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

Total rental expense for the operating lease for the years ended June 30, 2012 and 2011 was \$156,169 and \$178,974, respectively. Amounts owed for the operating lease included in accounts payable in the accompanying statements of net assets are \$331,969 and \$178,974 for the years ended June 30, 2012 and 2011, respectively.

Note 8. Grants and Contract Awarded

At June 30, 2012, 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, 2012	(16,481,397)
Less expended and receivable as of June 30, 2012	<u>(717,346)</u>
Remaining funding available	<u><u>\$ 2,545,817</u></u>

Note 9. Construction Commitments and Financing

The Foundation has commitments with respect to the construction build outs of the Research Park as of June 30, 2012. The estimated remaining cost to complete these build outs is \$1,550,000 which is anticipated to be fully funded through federal sources. Construction of the Research Park build outs is expected to be completed during the year ending June 30, 2013.

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.

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, 2012

Federal Grantor/Program Title	Federal CFDA Number	Total Federal Expenditures
U.S. Department of Commerce Congressionally-Identified Project through the NIST for the University Research Park	11.617	\$ 4,041,481

NOTES 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.
- 2 There were no subrecipients during the year.



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
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, 2012, and have issued our report thereon dated September 13, 2012. 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.

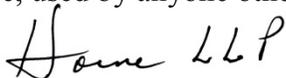
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination 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
September 13, 2012



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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, 2012. 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, 2012.

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
September 13, 2012

**THE UNIVERSITY OF MISSISSIPPI
RESEARCH FOUNDATION**
(A Component Unit of The University of Mississippi)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified	None
Significant deficiencies identified that are not considered to be material weaknesses	None
Noncompliance material to financial statements noted	None

Federal Awards:

Internal control over major programs:	
Material weaknesses identified	None
Significant deficiencies identified that are not considered to be material weaknesses	None
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.