

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

**Financial Statements**  
**With Supplementary Information**  
Years Ended June 30, 2013 and 2012

## CONTENTS

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Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 8
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12 – 21
Supplementary Information	
Schedule of Expenditures of Federal Awards	22
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 <i>Government Auditing Standards</i>	23 – 24
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	25 – 26
Schedule of Findings and Questioned Costs	27

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of The University of Mississippi Research Foundation (A Component Unit of the University of Mississippi) (the "Foundation"), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures and federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013 on our consideration of Foundation's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Foundation's internal control over financial reporting and compliance.



Ridgeland Mississippi  
September 9, 2013

# **THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2013 and 2012

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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 position, the statements of revenues, expenses and changes in net position 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 2011 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 Position**

The statements of net position present the financial position of the Foundation at the end of the fiscal year. The components of the statements include assets, liabilities and net position. 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 position (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 the net position to meet institutional obligations.

Net position is divided into three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets provides a snapshot of the Foundation's net equity in property, plant and equipment. Net position is classified as restricted when limitations or restrictions are placed on its use by external parties. The restricted component of net position is sub-divided into two categories, expendable and nonexpendable. The expendable restricted component of net position is available for expenditures by the Foundation but must be used in accordance with the intent of the appropriate external parties. The unrestricted component of net position is 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, 2013 and 2012

**Condensed Statements of Net Position**

<b>June 30,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>			
Current assets	\$ 1,018,084	\$ 1,261,585	\$ 3,293,971
Noncurrent assets	15,980,351	14,893,472	11,372,858
Total assets	16,998,435	16,155,057	14,666,829
<b>Liabilities</b>			
Current liabilities	371,819	778,074	2,469,531
Noncurrent liabilities	609,808	345,826	178,974
Total liabilities	981,627	1,123,900	2,648,505
<b>Net Position</b>			
Net investment in capital assets	15,737,162	14,551,727	11,372,858
Restricted	562,152	567,943	81,444
Unrestricted (deficit)	(282,506)	(88,513)	564,022
Total net position	\$ 16,016,808	\$ 15,031,157	\$ 12,018,324

During fiscal years 2013 and 2012, total assets increased \$843,378 and \$1,488,228, respectively, and total liabilities decreased \$142,273 and \$1,524,605, respectively. These changes resulted in an increase in net position of \$985,651 and \$3,012,833 for the years ended June 30, 2013 and 2012, respectively. 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 position. The increases in net position in the current and prior two fiscal years were predominantly attributable to the Foundation's construction of the University's Research Park ("Research Park").

Current assets consist of cash and cash equivalents, accounts receivable, grant receivable, pledge receivable, net and investments. Accounts receivable for fiscal year 2012 are rental payments due from Research Park tenants. The grant receivable for the current and prior two fiscal years represents cost reimbursements from the Foundation's grant through the United States Department of Commerce for the construction of the Research Park. During fiscal year 2012, the Foundation received a \$500,000 pledge designated for the Pii Center for Pharmaceutical Technology at the University to be paid to the Foundation in semiannual payments through fiscal year 2017. The current portion of the pledge receivable of \$98,556 and \$99,275 are included in current assets for the years ended June 30, 2013 and 2012, respectively. Investments for the current and prior two fiscal years are the fair market value of the Foundation's shares of ChromaDex Corporation.

# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2013 and 2012

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For the current and prior two fiscal years, noncurrent assets primarily consisted of capital assets. The long-term portions of the pledge receivable of \$243,189 and \$341,745 are also included in noncurrent assets for the years ended June 30, 2013 and 2012, respectively.

Current liabilities primarily consist of accounts payable and accrued liabilities for amounts due to the University of Mississippi (the "University") and third-parties for services rendered or goods received. Lease deposits and unearned revenue from Research Park tenants are also included as current liabilities. During the year ended June 30, 2013, the University's Division of Technology Management advanced funds to a university account in support of the Foundation's Research Park. These funds will be repaid through rental income derived from the Research Park's conference and seminar rooms. The estimated amount to be repaid in the upcoming fiscal year of \$3,400 is reflected as other current liabilities with the remaining balance of \$96,410 included in noncurrent other liabilities at June 30, 2013. Also included in other liabilities are the current and noncurrent portions of the Foundation's ground lease payable and start-up utilities owed to the University.

Net investment in capital assets is the largest component of net position and represents the initial construction phase of the Research Park completed during fiscal year 2012 and the build out of unfinished space completed during fiscal year 2013. Per the development agreement between the Foundation and the University of Mississippi, the Foundation will convey, upon final completion of all 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 restricted - expendable component of the Foundation's net position primarily consists of funds received in the current and prior fiscal years for support of the International Conference on the Science of Botanicals hosted by the University's National Center for Natural Products Research, the Pii Center for Pharmaceutical Technology at the University to be paid to the Foundation in semiannual payments through fiscal year 2017 and a contribution from the Elwood & Stephanie Norris Foundation.

## **Statements of Revenues, Expenses and Changes in Net Position**

The changes in net position presented in the statements of net position are based on the activity included in the statements of revenues, expenses and changes in net position. 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 received for capital expenditures, "increase in net position" is more indicative of the overall financial results for a fiscal year.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Management's Discussion and Analysis  
June 30, 2013 and 2012

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

<b>Years Ended June 30,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating revenues</b>			
Federal grants and contracts	\$ 548,391	\$ 605,839	\$ 507,808
Lease income	164,941	15,285	-
Rental income	3,150	-	-
University support	105,118	57,230	35,347
Total operating revenues	821,600	678,354	543,155
<b>Operating expenses</b>			
Contractual services	1,030,363	949,046	717,391
Travel	2,082	2,843	14,596
Depreciation	362,457	164,056	-
Commodities	110,642	35,391	1,689
Total operating expenses	1,505,544	1,151,336	733,676
Operating loss	<u>\$ (683,944)</u>	<u>\$ (472,982)</u>	<u>\$ (190,521)</u>
<b>Non-operating Revenues (Expenses)</b>			
Interest income	\$ 454	\$ 395	\$ 569
Other income	5,839	4,084	-
Net realized and unrealized gain (loss) on marketable securities	39,252	(440,940)	59,422
Gifts and contributions	171,620	553,981	-
Federal grants and contracts	1,634,816	3,435,642	10,392,642
Support for University activities	(182,386)	(67,797)	(175,626)
Total non-operating revenues (expenses)	1,669,595	3,485,815	10,277,007
Increase in net position	<u>\$ 985,651</u>	<u>\$ 3,012,833</u>	<u>\$ 10,086,486</u>

During the fiscal years ended June 30, 2013, 2012 and 2011, the Foundation recognized operating and non-operating revenues from its grant through the United States Department of Commerce for the Research Park of \$2,183,207, \$4,041,481 and \$10,900,450, respectively. The decreases in grant revenues each fiscal year are due to reduced construction costs as the initial construction phase of the Research Park was completed during fiscal year 2012, and the build out of unfinished Research Park space was completed during fiscal year 2013.

The majority of non-grant related revenues for the current fiscal year were derived from lease income from Research Park tenants, support from the University of Mississippi, funds received in support of the International Conference on the Science of Botanicals hosted by the

# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2013 and 2012

University's National Center for Natural Products Research and the unrealized gain on marketable securities.

In fiscal year 2012, non-grant revenues also included funds received in support of the Pii Center for Pharmaceutical Technology at the University reflected in gifts and contributions. The remaining revenues for the current and prior fiscal years consisted of parking fee proceeds and interest income.

Operating expenses are depicted in the statements of revenues, expenses and changes in net position by the type of goods or services purchased. Operating expenses for each of the years in the three-year period ended June 30, 2013, consisted primarily of payments to the University of Mississippi for grant management and ground lease costs. Additionally, fiscal year 2013 and 2012 included utilities and depreciation expense 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 include support for University activities. Non-operating expenses were greater in the year ended June 30, 2012 than fiscal years 2013 or 2011 primarily due to the recognition of a net unrealized loss of \$440,490 on marketable securities due to the change in the market value of the Foundation's ChromaDex Corporation stock.

## 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, the cash generated from private grants and donations and other non-operating cash receipts. 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 any sales of investments and interest income received.

## Condensed Statements of Cash Flows

<b>Years Ended June 30,</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Cash provided by (used for)</b>			
Operating activities	\$ 121,245	\$ (416,142)	\$ (11,547)
Noncapital financing activities	(4,927)	49,248	(175,626)
Capital financing activities	86,924	424,684	(6,079)
Investing activities	454	395	168,171
Increase (decrease) in cash	\$ 203,696	\$ 58,185	\$ (25,081)

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Management's Discussion and Analysis  
June 30, 2013 and 2012

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During fiscal year 2013 and 2012, cash and cash equivalents increased by \$203,696 and \$58,185, respectively, compared to a decrease of \$25,081 for fiscal year 2011. Throughout each year, cash is drawn from the granting agency and immediately disbursed as payments are due for construction of the Research Park. A significant portion of the increases 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. During the year ended June 30, 2013, the Research Park increased tenant occupancy which provided additional increases in cash for the 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 and long-term liabilities related to the Research Park.

### **Management's Outlook**

The Foundation's net position has improved each fiscal year for the three-year period ended June 30, 2013. The award received from the United States Department of Commerce will continue until September 30, 2013 to provide funding for certain Research Park related operations and final construction projects 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 Position

June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 344,903	\$ 141,207
Accounts receivable	-	2,829
Grant receivable	234,445	717,346
Pledge receivable, net	98,556	99,275
Investments	340,180	300,928
Total current assets	1,018,084	1,261,585
Noncurrent assets		
Pledge receivable, net	243,189	341,745
Capital assets, net	15,737,162	14,551,727
Total noncurrent assets	15,980,351	14,893,472
Total assets	<u>\$ 16,998,435</u>	<u>\$ 16,155,057</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 254,572	\$ 717,345
Lease deposits	1,986	1,896
Other liabilities	101,689	58,833
Unearned revenue	13,572	-
Total current liabilities	371,819	778,074
Noncurrent liabilities		
Other liabilities	609,808	345,826
Total liabilities	981,627	1,123,900
<b>NET POSITION</b>		
Net investment in capital assets	15,737,162	14,551,727
Restricted - expendable	562,152	567,943
Unrestricted (deficit)	(282,506)	(88,513)
Total net position	<u>\$ 16,016,808</u>	<u>\$ 15,031,157</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 Position  
June 30, 2013 and 2012

	2013	2012
Operating revenues		
Federal grants	\$ 548,391	\$ 605,839
Lease income	164,941	15,285
Rental income	3,150	-
University support	105,118	57,230
Total operating revenues	<u>821,600</u>	<u>678,354</u>
Operating expenses		
Contractual services	1,030,363	949,046
Travel	2,082	2,843
Depreciation	362,457	164,056
Commodities	110,642	35,391
Total operating expenses	<u>1,505,544</u>	<u>1,151,336</u>
Operating loss	<u>(683,944)</u>	<u>(472,982)</u>
Nonoperating revenues (expenses)		
Interest income	454	395
Other income	5,839	4,084
Net realized and unrealized gain (loss) on marketable securities	39,252	(440,490)
Gifts and contributions	171,620	553,981
Federal grants	1,634,816	3,435,642
Support for University activities	(182,386)	(67,797)
Total nonoperating revenues (expenses)	<u>1,669,595</u>	<u>3,485,815</u>
Increase in net position	985,651	3,012,833
Net position, beginning of year	<u>15,031,157</u>	<u>12,018,324</u>
Net position, end of year	<u>\$ 16,016,808</u>	<u>\$ 15,031,157</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, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Operating activities		
Grants, contracts and University support	\$ 1,035,856	\$ 303,545
Receipts from customers	170,920	12,456
Payments to vendors and contractors	(1,511,149)	(791,269)
Other receipts	425,618	59,126
Net cash provided by (used in) operating activities	<u>121,245</u>	<u>(416,142)</u>
Noncapital financing activities		
Received from private grants and donations	171,620	112,961
Payments to University for research activities	(182,386)	(67,797)
Other receipts	5,839	4,084
Net cash provided by (used in) noncapital financing activities	<u>(4,927)</u>	<u>49,248</u>
Capital and related financing activities		
Capital grants	1,630,252	5,490,121
Purchases of capital assets	(1,543,328)	(5,065,437)
Net cash provided by capital and related financing activities	<u>86,924</u>	<u>424,684</u>
Investing activities		
Interest received	454	395
Net cash provided by investing activities	<u>454</u>	<u>395</u>
Increase in cash	203,696	58,185
Cash and cash equivalents, beginning of year	141,207	83,022
Cash and cash equivalents, end of year	<u>\$ 344,903</u>	<u>\$ 141,207</u>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	\$ (683,944)	\$ (472,982)
Depreciation	362,457	164,056
Changes in operating assets and liabilities		
Accounts receivable	2,829	(2,829)
Grant receivable	487,465	(302,294)
Pledge receivable	99,275	-
Accounts payable and accrued liabilities	(467,337)	196,011
Unearned revenue	13,572	-
Lease deposits	90	1,896
Other liabilities	306,838	-
Net cash provided by (used in) operating activities	<u>\$ 121,245</u>	<u>\$ (416,142)</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, 2013 and 2012

## NOTES TO FINANCIAL STATEMENT

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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* as amended by GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, 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, GASB Statement No. 35 and GASB Statement No. 63 provides a comprehensive, entity-wide perspective of the Foundation's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position 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 three net position components:

- Net investment in capital assets – Capital assets, net of accumulated depreciation.
- Restricted: – External restrictions on net position reduced by liabilities and deferred inflows of resources related to those assets.

*Nonexpendable* – Net position component subject to externally imposed stipulations that they be maintained in perpetuity by the Foundation.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

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**Note 1. Continued**

*Expendable* – Net position component 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.

- Unrestricted: Net position component whose use by the Foundation is not subject to externally imposed stipulations. The unrestricted component of net position 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 9, 2013 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 position 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, 2013 and 2012. 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.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

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**Note 1. Continued**

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.

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 position. 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, 2013 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

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

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**Note 1. Continued**

are included in non-operating revenues. The Foundation first applies the restricted component of net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted components of net position 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 position.

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.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications had no effect on the reported results of operations.

**Note 2. Changes in Accounting Standards**

For the fiscal year ended June 30, 2013, the Foundation implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The provisions of this standard have been incorporated in the Management's Discussion and Analysis, in the accompanying financial statements and throughout the note disclosures.

**Note 3. 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. The FDIC federally insured limit is \$250,000 per depositor effective through December 31, 2013. At June 30, 2013 and 2012, the Foundation's bank balances were \$554,215 and \$191,357, respectively. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

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**Note 3. Continued**

Investments

A concentration of credit risk exists at June 30, 2013 and 2012, 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 position as follows:

	<b>2013</b>	<b>2012</b>
Carrying value		
Deposits	\$ 344,903	\$ 141,207
Investments	340,180	300,928
	\$ 685,083	\$ 442,135
Included in the following statements of net position		
Cash	\$ 344,903	\$ 141,207
Investments	340,180	300,928
	\$ 685,083	\$ 442,135

As of June 30, 2013 and 2012, 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, 2013, the market value of ChromaDex Corporation increased and an unrealized gain on marketable securities of \$39,252 was recognized. For 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.

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. As of June 30, 2013, the Foundation owned 2,197,216 shares of CENTRI stock. 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.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

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**Note 3. Continued**

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 held an equity interest in Oxford Polymed Corporation.

**Note 4. 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 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. Effective July 6, 2011, the NIST grant was amended to add the University as a co-recipient of the award.

In connection with the NIST award, 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, 2013 and 2012 totaled \$548,391 and \$605,839, respectively. The indirect revenues generated from the University's subcontract with the Foundation are held by the University in an account used to support the Research Park. Amounts paid from this account on behalf of the Foundation are included as expenses with corresponding University support revenue in the accompanying financial statements. For the years ended June 30, 2013 and 2012, the Foundation recognized expenses and University support revenue of \$105,118 and \$57,230, respectively.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

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**Note 4. Continued**

In addition to grant management and oversight, the Foundation paid the University for certain contractual, landscape and construction costs of \$123,444 and \$934,168 during the years ended June 30, 2013 and 2012, respectively. Amounts owed to the University for the subcontract and construction costs at June 30, 2013 and 2012 were \$184,859 and \$339,750, respectively, and are included in accounts payable in the accompanying statements of net position.

Research Park utilities provided through the University for the years ended June 30, 2013 and 2012 totaled \$128,898 and \$72,690, respectively. Amounts owed to the University for utilities at June 30, 2013 and 2012 were \$171,588 and \$72,690, respectively, and are included in accounts payable and other liabilities in the accompanying statements of net position.

During the year ended June 30, 2013, the University's Division of Technology Management advanced funds to a University account in support of the Foundation's Research Park. These funds will be repaid through rental income derived from the Research Park's conference and seminar rooms. The estimated amount to be repaid in the upcoming fiscal year of \$3,400 is reflected as other current liabilities with the remaining balance of \$96,410 included in noncurrent other liabilities at June 30, 2013.

The Foundation provided support of \$182,386 and \$67,797 for University research activities during the years ended June 30, 2013 and 2012, respectively, of which \$5,121 is included in accounts payable at June 30, 2013 in the accompanying statements of net position.

Under an agreement to allow the University to occupy certain suites at the Research Park, the Foundation's ground lease payable was reduced and lease income recognized of \$39,105 and \$3,175 for the years ended June 30, 2013 and 2012, respectively.

**Note 5. Grant Receivable**

Grant receivable as of June 30, 2013 and 2012 totaled \$234,445 and \$717,346, respectively, and represents reimbursements receivable from the United States Department of Commerce.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

**Note 6. Capital Assets**

Capital assets activity for the years ended June 30, 2013 and 2012 was:

<b>June 30, 2013</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Building	\$ 12,636,789	\$ -	\$ -	\$ 12,636,789
Building improvements	-	1,603,326	-	1,603,326
Land improvements	263,146	-	-	263,146
Equipment	99,985	-	-	99,985
	12,999,920	1,603,327	-	14,603,246
Accumulated depreciation	(164,056)	(362,457)	-	(526,513)
	12,835,864	1,240,870	-	14,076,733
Capital assets, non-depreciable				
Land improvements	1,660,429	-	-	1,660,429
Construction in progress	55,434	1,547,892	1,603,326	-
	1,715,863	1,547,892	1,603,326	1,660,429
Capital assets, net	\$ 14,551,727	\$ 2,788,763	\$ 1,603,326	\$ 15,737,162

  

<b>June 30, 2012</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
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
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
	11,372,858	4,740,208	14,397,203	1,715,863
Capital assets, net	\$ 11,372,858	\$ 17,576,072	\$ 14,397,203	\$ 14,551,727

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

**Note 7. Other Liabilities**

Other liabilities consist of the following amounts owed to the University at June 30, 2013 and 2012:

<b>June 30, 2013</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Ground lease	\$ 331,969	\$ 162,235	\$ 39,105	\$ 455,099
Start-up utilities	72,690	103,626	19,728	156,588
Technology Management advance	-	100,598	788	99,810
	404,659	366,459	59,621	711,497
Less current portion				(101,689)
Noncurrent other liabilities				<u>\$ 609,808</u>

  

<b>June 30, 2012</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Ground lease	\$ 178,974	\$ 156,170	\$ 3,175	\$ 331,969
Start-up utilities	-	72,690	-	72,690
	178,974	228,860	3,175	404,659
Less current portion				(58,833)
Noncurrent other liabilities				<u>\$ 345,826</u>

**Note 8. Operating Leases**

Leased property under operating leases consisted of a copier with a lease term of 36 months payable in equal monthly installments of \$240 and 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 these non-cancelable operating leases for the next five years and thereafter:

<b>Years Ending June 30,</b>	<b>Amount</b>
2014	\$ 166,467
2015	166,467
2016	165,507
2017	163,587
2018	163,587
Thereafter	5,234,788
	<u>\$ 6,060,403</u>

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Years Ended June 30, 2013 and 2012

**NOTES TO FINANCIAL STATEMENT**

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**Note 8. Continued**

Total rental expense for both operating leases for the years ended June 30, 2013 and 2012 was \$164,995 and \$156,169, respectively. Amounts owed to the University for the ground lease as of June 30, 2013 and 2012 were \$455,099 and \$331,969, respectively. Such amounts are presented as other liabilities in the accompanying statements of net position.

**Note 9. Grants and Contract Awarded**

At June 30, 2013, the grant from the U. S. Department of Commerce was as follows:

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Total award under Grant No. 60NANB6D6134	\$ 19,744,560
Less received as of June 30, 2013	(19,147,505)
Less expended and receivable as of June 30, 2013	<u>(234,445)</u>
Remaining funding available	<u><u>\$ 362,610</u></u>

**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, 2013

<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	\$ 2,183,207

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.



**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 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, 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 9, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting ("internal control") 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. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

*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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have been identified.

## **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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Ridgeland, Mississippi  
September 9, 2013



**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

**Report on Compliance for Each Major Federal Program**

We have audited The University of Mississippi Research Foundation's (the "Foundation") compliance 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 the Foundation's major federal programs for the year ended June 30, 2013. 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*.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Example Entity's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control over Compliance**

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Ridgeland, Mississippi  
September 9, 2013

**THE UNIVERSITY OF MISSISSIPPI  
RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

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	Yes

Section II - Financial Statement Findings  
No matters were reported.

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