

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
(A Component Unit of the University of Mississippi)  
**Financial Statements With Supplementary Information**  
**Years Ended June 30, 2014 and 2013**



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## Independent Auditor's Report

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, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 The University of Mississippi Research Foundation as of June 30, 2014, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audit 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.

### ***Prior Year Audited by Other Auditors***

The 2013 financial statements were audited by other auditors and their report thereon, dated September 9, 2013, expressed an unmodified opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014, on our consideration of The University of Mississippi Research 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* in considering The University of Mississippi Research Foundation's internal control over financial reporting and compliance.

**BKD, LLC**

Jackson, Mississippi  
September 10, 2014

# THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2014 and 2013

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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 2012 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 (the "University").

## **Statements of Net Position**

The statements of net position present the financial position of the Foundation at the end of each 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 subdivided 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.

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**Condensed Statements of Net Position**

<b>June 30,</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>			
Current assets	\$ 523,488	\$ 1,018,084	\$ 1,261,585
Noncurrent assets	15,557,835	15,980,351	14,893,472
Total assets	16,081,323	16,998,435	16,155,057
<b>Liabilities</b>			
Current liabilities	113,115	371,819	778,074
Noncurrent liabilities	220,427	609,808	345,826
Total liabilities	333,542	981,627	1,123,900
<b>Net Position</b>			
Net investment in capital assets	15,412,488	15,737,162	14,551,727
Restricted - expendable	531,808	562,152	567,943
Unrestricted (deficit)	(196,515)	(282,506)	(88,513)
Total net position	\$ 15,747,781	\$ 16,016,808	\$ 15,031,157

During fiscal years 2014 and 2013, total assets decreased and increased \$917,112 and \$843,378, respectively, and total liabilities decreased \$648,085 and \$142,273, respectively. These changes resulted in a decrease and an increase in net position of \$269,027 and \$985,651 for the years ended June 30, 2014 and 2013, respectively. 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 position. The increases in net position in the prior two fiscal years were predominantly attributable to construction of the Foundation's Research Park ("Research Park"). The decrease in net position for the current fiscal year resulted primarily from a reduction in grant revenue, as the Research Park construction award ended September 30, 2013.

Current assets consist of cash and cash equivalents, accounts receivable, grant receivable, pledge receivable, net and investments. Accounts receivable are rental payments due from Research Park tenants. The grant receivable for the 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 portions of the pledge receivable of \$97,842, \$98,556 and \$99,275 are included in current assets for the years

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ended June 30, 2014, 2013 and 2012, respectively. Investments for the prior two fiscal years are the fair market value of the Foundation's shares of ChromaDex Corporation.

For the current and prior two fiscal years, noncurrent assets primarily consisted of capital assets. The long-term portions of the pledge receivable of \$145,347, \$243,189 and \$341,745 are also included in noncurrent assets for the years ended June 30, 2014, 2013 and 2012, respectively.

Current liabilities primarily consist of accounts payable and accrued liabilities for amounts due to 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 \$7,895 is reflected as other current liabilities with the remaining balance of \$87,717 included in noncurrent other liabilities at June 30, 2014. 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 during fiscal years 2014 and 2013. Per the development agreement between the Foundation and the University, 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 earned and expenses incurred by the Foundation.

These statements present these activities as either operating or nonoperating. In general terms, operating revenues are revenues earned as a result of providing goods or services. Operating

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

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

<b>Years Ended June 30,</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating revenues			
Federal grants and contracts	\$ 150,351	\$ 548,391	\$ 605,839
Lease income	297,966	164,941	15,285
Rental income	2,005	3,150	-
University support	396,266	105,118	57,230
Total operating revenues	846,588	821,600	678,354
Operating expenses			
Contractual services	816,205	1,030,363	949,046
Travel	187	2,082	2,843
Depreciation	380,332	362,457	164,056
Commodities	10,706	110,642	35,391
Total operating expenses	1,207,430	1,505,544	1,151,336
Operating loss	(360,842)	(683,944)	(472,982)
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	339	454	395
Other income	11,733	5,839	4,084
Net realized and unrealized gain (loss)			
On marketable securities	306,981	39,252	(440,490)
Gifts and contributions	553,783	171,620	553,981
Federal grants and contracts	88,578	1,634,816	3,435,642
Support for University activities	(869,599)	(182,386)	(67,797)
Total nonoperating revenues	91,815	1,669,595	3,485,815
Increase (decrease) in net position	\$ (269,027)	\$ 985,651	\$ 3,012,833

During the fiscal years ended June 30, 2014, 2013 and 2012, the Foundation recognized operating and nonoperating revenues from its grant through the United States Department of

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Commerce for the Research Park of \$238,929, \$2,183,207 and \$4,041,481, 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.

The majority of nongrant related revenues for the current and prior fiscal years were derived from lease income from Research Park tenants, support from the University of Mississippi, funds received in support of various University of Mississippi conferences and programs and the realized and unrealized gains on marketable securities.

Operating expenses are depicted in the statements of revenues, expenses and changes in net position by the type of goods or services purchased.

The Foundation's nonoperating expenses are support for University activities. These nonoperating expenses were greater in the current fiscal year due to the distribution of proceeds received from the sale of the Foundation's ChromaDex Corporation stock to the University of Mississippi.

**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 for research activities, the cash generated from private grants and donations and other nonoperating 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>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash provided by (used for)</b>			
Operating activities	\$ 55,568	\$ 121,245	\$ (416,142)
Noncapital financing activities	(667,007)	(4,927)	49,248
Capital and related financing activities	32,920	86,924	424,684
Investing activities	647,500	454	395
Increase in cash and cash equivalents	\$ 68,981	\$ 203,696	\$ 58,185

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During the current and prior two fiscal years, cash and cash equivalents have increased. The current fiscal year changes in noncapital financing and investing activities are due to proceeds received and subsequently distributed to the University, resulting from the Foundation's sale of its shares of ChromaDex Corporation stock. During the years ended June 30, 2014 and 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. 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 award received from the United States Department of Commerce that provided funding for certain Research Park related operations and final construction projects within the Research Park ended September 30, 2013. The Foundation continues discussions with potential anchor tenants for the Research Park, including those who are interested in building out the remaining space in the existing building and those who are interested in new construction opportunities.

The Foundation continues to be a resource to the University's faculty, assisting them with managing gifts for research purposes and for the support of important conferences and meetings. This resource allows some important flexibility, particularly in regard to working with private partners. The Foundation will continue to work with faculty to develop strengths and capacity and encourage technology transfer.

**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.

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Statements of Net Position  
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	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 413,884	\$ 344,903
Accounts receivable	11,762	-
Grant receivable	-	234,445
Pledge receivable, net	97,842	98,556
Investments	-	340,180
Total current assets	523,488	1,018,084
Noncurrent assets		
Pledge receivable, net	145,347	243,189
Capital assets, net	15,412,488	15,737,162
Total noncurrent assets	15,557,835	15,980,351
Total assets	16,081,323	16,998,435
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	18,055	254,572
Lease deposits	4,999	1,986
Other liabilities	88,395	101,689
Unearned revenue	1,666	13,572
Total current liabilities	113,115	371,819
Noncurrent liabilities		
Other liabilities	220,427	609,808
Total liabilities	333,542	981,627
<b>NET POSITION</b>		
Net investment in capital assets	15,412,488	15,737,162
Restricted - expendable	531,808	562,152
Unrestricted (deficit)	(196,515)	(282,506)
Total net position	\$ 15,747,781	\$ 16,016,808

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position  
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	<b>2014</b>	<b>2013</b>
Operating revenues		
Federal grants and contracts	\$ 150,351	\$ 548,391
Lease income	297,966	164,941
Rental income	2,005	3,150
University support	396,266	105,118
Total operating revenues	<u>846,588</u>	<u>821,600</u>
Operating expenses		
Contractual services	816,205	1,030,363
Travel	187	2,082
Depreciation	380,332	362,457
Commodities	10,706	110,642
Total operating expenses	<u>1,207,430</u>	<u>1,505,544</u>
Operating loss	<u>(360,842)</u>	<u>(683,944)</u>
Nonoperating revenues (expenses)		
Interest income	339	454
Other income	11,733	5,839
Net realized and unrealized gain on marketable securities	306,981	39,252
Gifts and contributions	553,783	171,620
Federal grants and contracts	88,578	1,634,816
Support for University activities	(869,599)	(182,386)
Total nonoperating revenues	<u>91,815</u>	<u>1,669,595</u>
Increase (decrease) in net position	(269,027)	985,651
Net position, beginning of year	<u>16,016,808</u>	<u>15,031,157</u>
Net position, end of year	<u>\$ 15,747,781</u>	<u>\$ 16,016,808</u>

See accompanying notes to financial statements.

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Statements of Cash Flows  
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	2014	2013
Operating activities		
Grants, contracts and University support	\$ 384,796	\$ 1,035,856
Receipts from customers	288,209	170,920
Payments to vendors and contractors	(965,059)	(1,511,149)
Other receipts	347,622	425,618
Net cash provided by operating activities	<u>55,568</u>	<u>121,245</u>
Noncapital financing activities		
Received from private grants and donations	190,859	171,620
Payments to University for research activities	(869,599)	(182,386)
Other receipts	11,733	5,839
Net cash used in noncapital financing activities	<u>(667,007)</u>	<u>(4,927)</u>
Capital and related financing activities		
Capital grants	88,578	1,630,252
Purchases of capital assets	(55,658)	(1,543,328)
Net cash provided by capital and related financing activities	<u>32,920</u>	<u>86,924</u>
Investing activities		
Proceeds from sales of investments	647,161	-
Interest received	339	454
Net cash provided by investing activities	<u>647,500</u>	<u>454</u>
Increase in cash and cash equivalents	68,981	203,696
Cash and cash equivalents, beginning of year	<u>344,903</u>	<u>141,207</u>
Cash and cash equivalents, end of year	<u>\$ 413,884</u>	<u>\$ 344,903</u>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	\$ (360,842)	\$ (683,944)
Depreciation	380,332	362,457
Changes in operating assets and liabilities		
Accounts receivable	(11,762)	2,829
Grant receivable	234,445	487,465
Pledge receivable, net	98,556	99,275
Accounts payable and accrued liabilities	(236,517)	(467,337)
Unearned revenue	(11,906)	13,572
Lease deposits	3,013	90
Other liabilities	(39,751)	306,838
Net cash provided by operating activities	<u>\$ 55,568</u>	<u>\$ 121,245</u>

See accompanying notes to financial statements.

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**NOTES TO FINANCIAL STATEMENTS**

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

Nature of Operations and Reporting Entity

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

Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared on an accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when reduced to a legal or contractual obligation to pay. The Foundation reports as a Business-Type Activity ("BTA") as defined by Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities (an amendment of GASB Statement No. 34)*. 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. 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.

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**Note 1. Continued**

- 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.

*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.

The Foundation follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

In connection with the preparation of the financial statements, management of the Foundation evaluated subsequent events through the date of the Independent Auditor's Report, 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 amounts 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.

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

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 Foundation's Research Park ("Research Park").

Grant Receivable

Receivables are reported at their gross value when earned as the underlying exchange transaction occurs. Estimated receivables were recorded for services rendered but not yet billed as of June 30, 2013. 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% 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 nonoperating 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

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Continued**

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 year ended June 30, 2013 were derived from a restricted grant from the U. S. Department of Commerce. This grant supported the development of the Research Park. The Foundation recognizes revenue associated with direct costs as the costs are incurred. These revenues are reported as operating or nonoperating revenues, depending on the nature of the cost incurred.

Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are capital related and investment income are included in nonoperating revenues. The Foundation first applies 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.

**THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**

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**Note 2. Changes in Accounting Standards**

For the fiscal year ended June 30, 2013, the Foundation implemented GASB Statement No. 63. 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. At June 30, 2014 and 2013, the Foundation's bank balances were \$414,303 and \$554,215, 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.

Investments

A concentration of credit risk existed at June 30, 2013, 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>2014</b>	<b>2013</b>
Carrying value		
Deposits	\$ 413,884	\$ 344,903
Investments	-	340,180
	<hr/> \$ 413,884	<hr/> \$ 685,083

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**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Continued**

	<b>2014</b>	<b>2013</b>
Included in the following statements of net position		
Cash	\$ 413,884	\$ 344,903
Investments	-	340,180
	\$ 413,884	\$ 685,083

As of June 30, 2013, 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. During the year ended June 30, 2014, the Foundation sold all ChromaDex Corporation shares and recognized a realized gain on marketable securities of \$306,981.

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, 2014 and 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.

**Note 4. Transactions with the University of Mississippi**

During the fiscal year ended June 30, 2007, the Foundation was 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 has constructed 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

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 4. Continued**

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, 2014 and 2013 totaled \$150,351 and \$548,931, 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, 2014 and 2013, the Foundation recognized expenses and University support revenue of \$396,266 and \$105,118, respectively.

In addition to grant management and oversight, the Foundation paid the University for certain contractual, landscape and construction costs of \$123,444 during the year ended June 30, 2013. Amounts owed to the University for the subcontract and construction costs at June 30, 2013 were \$184,859, 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, 2014 and 2013 totaled \$144,183 and \$128,898, respectively. Amounts owed to the University for utilities at June 30, 2014 and 2013 were \$131,427 and \$171,588, 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 amounts to be repaid in the upcoming fiscal year of \$7,895 and \$3,400 are reflected as other current liabilities with the remaining balance of \$87,717 and \$96,410 included in noncurrent other liabilities at June 30, 2014 and 2013, respectively.

The Foundation provided support of \$869,599 and \$182,386 for University research activities during the years ended June 30, 2014 and 2013, respectively, of which \$1,164 and \$5,121 are included in accounts payable at June 30, 2014 and 2013 in the accompanying statements of net position.

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 4. Continued**

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 of \$40,281 and \$39,105 was recognized for the years ended June 30, 2014 and 2013, respectively.

The ground lease entered into during fiscal year 2010 between the Foundation and the University was based on an appraisal which set the annual lease value at \$35,550 per acre. Lease expense and a corresponding other liability were recorded by the Foundation based upon this rate from inception of lease through June 30, 2013. During the year ended June 30, 2014, it was determined the initial appraisal did not take into consideration the limited use nature of the property due to its location on the University campus. Two additional appraisals were obtained by the University resulting in a revised annual lease value of \$3,685 per acre. Accordingly, the University forgave \$362,924 of the amount owed by the Foundation for the ground lease to account for the difference in ground lease costs based upon the initial and subsequent appraisals from inception of the lease through fiscal year 2013. This amount is included as nonoperating gift and contribution revenue in the accompanying financial statements for the year ended June 30, 2014. Rent expense for fiscal year 2014 and future minimum rental payments reflected in Note 8. Operating Leases are based upon the revised annual lease value.

**Note 5. Grant Receivable**

Grant receivable as of June 30, 2013 totaled \$234,445 and represented reimbursements receivable from the United States Department of Commerce.

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**Note 6. Capital Assets**

Capital assets activity for the years ended June 30, 2014 and 2013 was:

<b>June 30, 2014</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	31,433	-	1,634,759
Land improvements	263,146	-	-	263,146
Equipment	99,985	6,225	-	106,210
	<u>14,603,246</u>	<u>37,658</u>	<u>-</u>	<u>14,640,904</u>
Accumulated depreciation	(526,513)	(380,332)	-	(906,845)
	<u>14,076,733</u>	<u>(342,674)</u>	<u>-</u>	<u>13,734,059</u>
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
Construction in progress	-	18,000	-	18,000
	<u>1,660,429</u>	<u>18,000</u>	<u>-</u>	<u>1,678,429</u>
Capital assets, net	<u>\$ 15,737,162</u>	<u>\$ (324,674)</u>	<u>\$ -</u>	<u>\$ 15,412,488</u>

  

<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
	<u>12,999,920</u>	<u>1,603,326</u>	<u>-</u>	<u>14,603,246</u>
Accumulated depreciation	(164,056)	(362,457)	-	(526,513)
	<u>12,835,864</u>	<u>1,240,869</u>	<u>-</u>	<u>14,076,733</u>
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
Construction in progress	55,434	1,547,892	1,603,326	-
	<u>1,715,863</u>	<u>1,547,892</u>	<u>1,603,326</u>	<u>1,660,429</u>
Capital assets, net	<u>\$ 14,551,727</u>	<u>\$ 2,788,761</u>	<u>\$ 1,603,326</u>	<u>\$ 15,737,162</u>

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 7. Other Liabilities**

Other liabilities consist of the following amounts owed to the University at June 30, 2014 and 2013:

<b>June 30, 2014</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Ground lease	\$ 455,099	\$ 44,890	\$ 403,206	\$ 96,783
Start-up utilities	156,588	-	40,161	116,427
Technology Management advance	99,810	-	4,198	95,612
	<u>711,497</u>	<u>44,890</u>	<u>447,565</u>	<u>308,822</u>
Less current portion				<u>(88,395)</u>
Noncurrent other liabilities				<u>\$ 220,427</u>
<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
	<u>404,659</u>	<u>366,459</u>	<u>59,621</u>	<u>711,497</u>
Less current portion				<u>(101,689)</u>
Noncurrent other liabilities				<u>\$ 609,808</u>

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**NOTES TO FINANCIAL STATEMENTS**

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**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 future amounts of rental payments required by the Foundation's noncancelable operating leases as of June 30, 2014, are as follows:

<b>Years Ending June 30,</b>	<b>Amount</b>
2015	\$ 47,770
2016	46,810
2017	44,890
2018	44,890
2019	44,890
2020 – 2024	224,452
2025 – 2029	224,452
2030 – 2034	224,452
2035 – 2039	224,452
2040 – 2044	224,452
2045 – 2049	224,452
2050	44,890
	<u>\$ 1,620,852</u>

Total rental expense for both operating leases for the years ended June 30, 2014 and 2013 was \$48,066 and \$164,995, respectively. Amounts owed to the University for the ground lease as of June 30, 2014 and 2013 were \$96,783 and \$455,099, respectively. Such amounts are presented as other liabilities in the accompanying statements of net position.

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**NOTES TO FINANCIAL STATEMENTS**

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**Note 9. Grant Awarded**

At June 30, 2014 and 2013, the grant from the U. S. Department of Commerce was as follows:

Total award under Grant No. 60NANB6D6134	\$ 19,744,560
Less received and expended as of June 30, 2014	(19,620,879)
Less deobligated funds	<u>(123,681)</u>
Remaining funding available as of June 30, 2014	<u><u>\$ -</u></u>
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 as of June 30, 2013	<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.

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Based on an  
Audit of the Financial Statements Performed in Accordance With  
Government Auditing Standards**

Board of Directors  
The University of Mississippi Research Foundation  
University, 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 basic financial statements of The University of Mississippi Research Foundation (the Foundation) which comprise the statement of financial position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated September 10, 2014.

**Internal Control Over Financial Reporting**

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Foundation's internal control to determine the audit procedures that are appropriate in the circumstances 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation'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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not 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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BKD, LLC*

Jackson, Mississippi  
September 10, 2014