

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
**Financial Statements With Independent Auditor's Reports
and Supplementary Information**
Years Ended June 30, 2015 and 2014



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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 basic financial statements of The University of Mississippi Research Foundation (a component unit of the University of Mississippi), which comprised the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows and the related notes to the basic financial statements for the years then ended, as listed in the table of contents.

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 The University of Mississippi Research Foundation as of June 30, 2015 and 2014, and the changes in its net position 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24 2015, 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 24, 2015

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2015 and 2014

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 the Foundation's financial results for the previous two years. While audited financial statements for fiscal year 2013 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").

Mission

The Foundation is organized and operates for scientific, literary, charitable and educational purposes exclusively for the benefit of 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 organizational 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

June 30,	2015	2014	2013
Assets			
Current assets	\$ 616,858	\$ 523,488	\$ 1,018,084
Noncurrent assets	15,080,370	15,557,835	15,980,351
Total assets	<u>15,697,228</u>	<u>16,081,323</u>	<u>16,998,435</u>
Liabilities			
Current liabilities	104,617	113,115	371,819
Noncurrent liabilities	135,024	220,427	609,808
Total liabilities	<u>239,641</u>	<u>333,542</u>	<u>981,627</u>
Net Position			
Net investment in capital assets	15,032,156	15,412,488	15,737,162
Restricted - expendable	314,123	531,808	562,152
Unrestricted (deficit)	111,308	(196,515)	(282,506)
Total net position	<u>\$ 15,457,587</u>	<u>\$ 15,747,781</u>	<u>\$ 16,016,808</u>

During fiscal years 2015 and 2014, total assets decreased \$384,095 and \$917,112, respectively, and total liabilities decreased \$93,901 and \$648,085, respectively. These changes resulted in decreases in net position of \$290,194 and \$269,027 for the years ended June 30, 2015 and 2014, respectively. The change in total assets resulted primarily from depreciation on the Research Park fixed assets. The reduction in liabilities resulted primarily from the completion and final payout of construction liabilities. The initial construction phase of the Research Park was completed during fiscal year 2012, with build out of unfinished space continuing during fiscal year 2013 and the first quarter of fiscal year 2014. The Foundation's grant for the construction of the Research Park ended September 30, 2013.

Current assets consist of cash, accounts receivable, prepaid ground lease and pledge receivable, net. Accounts receivable are rental payments due from Research Park tenants. The prepaid amount for the current fiscal year is for the Foundation's ground lease with the University. 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 \$97,133, \$97,842, and \$98,556 are included in current assets as of June 30, 2015, 2014 and 2013,

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respectively. For fiscal year 2014, current assets included a grant receivable representing cost reimbursements from the Foundation's grant through the United States Department of Commerce for the construction of the Research Park. Investments as of June 30, 2013 were the fair market value of the Foundation's shares of ChromaDex Corporation which were sold during fiscal year 2014.

For the current and prior fiscal year, noncurrent assets primarily consisted of capital assets, net. The long-term portions of the pledge receivable of \$48,214 and \$145,347 are also included in noncurrent assets as of June 30, 2015 and 2014, 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 fiscal year 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 fiscal years 2016 and 2015 of \$4,000 and \$7,895, respectively, are reflected as other current liabilities with the remaining balance of \$86,971 and \$87,717 included in noncurrent other liabilities at June 30, 2015 and 2014, respectively. Included in other liabilities for each year presented are the current and noncurrent portions of the Foundation's start-up utilities owed to the University, along with ground lease payable to the University for the prior two fiscal years.

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 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.

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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 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 (decrease) 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

Years Ended June 30,	2015	2014	2013
Operating revenues	\$ 774,361	\$ 846,588	\$ 821,600
Operating expenses	958,458	1,207,430	1,505,544
Operating loss	(184,097)	(360,842)	(683,944)
Nonoperating Revenues (Expenses)	(106,097)	91,815	1,669,595
Increase (decrease) in net position	<u>\$ (290,194)</u>	<u>\$ (269,027)</u>	<u>\$ 985,651</u>

During the fiscal years ended June 30, 2014 and 2013, the Foundation recognized operating and nonoperating revenues from its grant through the United States Department of Commerce National Institute of Standards and Technology for the Research Park of \$238,929 and \$2,183,207, respectively. The decreases in grant revenues in the prior two years were due to the initial construction phase of the Research Park being completed during fiscal year 2012, with build out of unfinished space during fiscal year 2013 through the first quarter of fiscal year 2014. There were no grant revenues for the current fiscal year, as the Foundation's grant ended September 30, 2013.

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, funds received in

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support of various University conferences and programs and the net 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 fiscal year ended June 30, 2014, due to the distribution of proceeds received from the sale of the Foundation's ChromaDex Corporation stock to the University.

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 summarize cash generated and used through operating activities. The cash flows from noncapital financing activities section summarize 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 summarize proceeds from any sales of investments and interest income received.

Condensed Statements of Cash Flows

Years Ended June 30,	2015	2014	2013
Cash provided by (used in)			
Operating activities	\$ 182,331	\$ 55,568	\$ 121,245
Noncapital financing activities	(106,287)	(667,007)	(4,927)
Capital and related financing activities	-	32,920	86,924
Investing activities	190	647,500	454
	<hr/>		
Increase in cash	\$ 76,234	\$ 68,981	\$ 203,696

During the current and prior fiscal year, cash has 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 prior fiscal year. During each fiscal year, the Research Park has increased tenant occupancy, providing additional increases in cash for the Foundation.

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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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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Statements of Net Position
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current assets		
Cash	\$ 490,118	\$ 413,884
Accounts receivable	145	11,762
Prepaid ground lease	29,462	-
Pledge receivable, net	97,133	97,842
Total current assets	616,858	523,488
Noncurrent assets		
Pledge receivable	48,214	145,347
Capital assets, net	15,032,156	15,412,488
Total noncurrent assets	15,080,370	15,557,835
Total assets	15,697,228	16,081,323
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	17,778	18,055
Lease deposits	12,815	4,999
Other liabilities	38,000	88,395
Unearned revenue	36,024	1,666
Total current liabilities	104,617	113,115
Noncurrent liabilities		
Other liabilities	135,024	220,427
Total liabilities	239,641	333,542
NET POSITION		
Net investment in capital assets	15,032,156	15,412,488
Restricted - expendable	314,123	531,808
Unrestricted (deficit)	111,308	(196,515)
Total net position	\$ 15,457,587	\$ 15,747,781

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues		
Federal grants and contracts	\$ -	\$ 150,351
Lease income	418,664	297,966
Rental income	350	2,005
University support	355,347	396,266
Total operating revenues	<u>774,361</u>	<u>846,588</u>
Operating expenses		
Contractual services	559,514	816,205
Travel	-	187
Depreciation	380,332	380,332
Commodities	18,612	10,706
Total operating expenses	<u>958,458</u>	<u>1,207,430</u>
Operating loss	<u>(184,097)</u>	<u>(360,842)</u>
Nonoperating revenues (expenses)		
Interest income	190	339
Other income	-	11,733
Net realized and unrealized gain on marketable securities	-	306,981
Gifts and contributions	167,789	553,783
Federal grants and contracts	-	88,578
Support for University activities	(274,076)	(869,599)
Total nonoperating revenues	<u>(106,097)</u>	<u>91,815</u>
Decrease in net position	(290,194)	(269,027)
Net position, beginning of year	<u>15,747,781</u>	<u>16,016,808</u>
Net position, end of year	<u>\$ 15,457,587</u>	<u>\$ 15,747,781</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
Years Ended June 30, 2015 and 2014

	2015	2014
Operating activities		
Grants and contracts	\$ -	\$ 384,796
Receipts from customers	430,631	288,209
Payments to vendors and contractors	(510,023)	(965,059)
University support and other receipts	261,723	347,622
Net cash provided by operating activities	<u>182,331</u>	<u>55,568</u>
Noncapital financing activities		
Received from private grants and donations	167,789	190,859
Payments to University for research activities	(274,076)	(869,599)
Other receipts	-	11,733
Net cash used in noncapital financing activities	<u>(106,287)</u>	<u>(667,007)</u>
Capital and related financing activities		
Capital grants	-	88,578
Purchases of capital assets	-	(55,658)
Net cash provided by capital and related financing activities	<u>-</u>	<u>32,920</u>
Investing activities		
Proceeds from sales of investments	-	647,161
Interest received	190	339
Net cash provided by investing activities	<u>190</u>	<u>647,500</u>
Increase in cash	76,234	68,981
Cash, beginning of year	<u>413,884</u>	<u>344,903</u>
Cash, end of year	<u>\$ 490,118</u>	<u>\$ 413,884</u>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	\$ (184,097)	\$ (360,842)
Depreciation	380,332	380,332
Changes in operating assets and liabilities		
Accounts receivable	11,617	(11,762)
Grant receivable	-	234,445
Pledge receivable, net	97,842	98,556
Prepaid ground lease	(29,462)	-
Accounts payable and accrued liabilities	(277)	(236,517)
Unearned revenue	34,358	(11,906)
Lease deposits	7,816	3,013
Other liabilities	(135,798)	(39,751)
Net cash provided by operating activities	<u>\$ 182,331</u>	<u>\$ 55,568</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
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NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

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

Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared on an accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when reduced to a legal or contractual obligation to pay. The Foundation reports as a Business-Type Activity ("BTA") as defined by Governmental Accounting Standards Board ("GASB") Statement No. 35, *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 Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement 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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NOTES TO FINANCIAL STATEMENTS

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 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (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

Note 1. Continued

Accounts Receivable

Accounts receivable consist of amounts due from tenants of the Foundation's Research Park ("Research Park").

Pledge Receivable

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.

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 and improvements to 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

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.

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NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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 Foundation files tax returns in the U.S. federal jurisdiction. The Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2012.

Note 2. Deposits

The Foundation does not have formal policies regarding 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, 2015 and 2014, the Foundation's bank balances were \$495,491 and \$414,303, 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.

At June 30, 2015, the Foundation's cash accounts exceeded federally insured limits by approximately \$115,000.

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NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Summary of Carrying Values

The carrying values of deposits are included in the statements of net position as follows:

	2015		2014
Carrying value			
Deposits	\$ 490,118	\$	413,884
Included in the following statements of net position			
Cash	490,118		413,884

During the year ended June 30, 2014, the Foundation recognized a realized gain on marketable securities of \$306,981 from the sale of its shares of ChromaDex Corporation, a supplier of phytochemical standards and reference materials.

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, 2015 and 2014, 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 3. Transactions with the University of Mississippi

During the 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

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NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

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 provided 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 year ended June 30, 2014 totaled \$150,351. There were no such services provided for the year ended June 30, 2015. 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, 2015 and 2014, the Foundation recognized expenses and University support revenue of \$355,347 and \$396,266, respectively.

Research Park utilities provided through the University for the years ended June 30, 2015 and 2014 totaled \$150,616 and \$144,183, respectively. Amounts owed to the University for utilities at June 30, 2015 and 2014 were \$97,322 and \$131,427, respectively, and are included in accounts payable and accrued liabilities 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 fiscal years 2016 and 2015 of \$4,000 and \$7,895, respectively, are reflected as other current liabilities with the remaining balance of \$86,971 and \$87,717 included in noncurrent other liabilities at June 30, 2015 and 2014, respectively.

The Foundation provided support of \$274,076 and \$869,599 for University research activities during the years ended June 30, 2015 and 2014, respectively, of which \$2,507 and \$1,164 are included in accounts payable and accrued liabilities at June 30, 2015 and 2014 in the accompanying statements of net position.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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Years Ended June 30, 2015 and 2014

NOTES TO FINANCIAL STATEMENTS

Note 3. 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 \$39,681 and \$40,281 was recognized for the years ended June 30, 2015 and 2014, 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 \$441,580 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 2014. These amounts of \$105,194 and \$362,924 are included as nonoperating gift and contribution revenue in the accompanying financial statements for the year ended June 30, 2015 and 2014, respectively. Rent expense and future minimum rental payments reflected in Note 6. Operating Leases are based upon the revised annual lease value.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014 was:

June 30, 2015	Beginning Balance	Additions	Disposals	Ending Balance
Building	\$ 12,636,789	\$ -	\$ -	\$ 12,636,789
Building improvements	1,634,759	-	-	1,634,759
Land improvements	263,146	-	-	263,146
Equipment	106,210	-	-	106,210
	<u>14,640,904</u>	<u>-</u>	<u>-</u>	<u>14,640,904</u>
Accumulated depreciation	(906,845)	(380,332)	-	(1,287,177)
	<u>13,734,059</u>	<u>(380,332)</u>	<u>-</u>	<u>13,353,727</u>
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
Construction in progress	18,000	-	-	18,000
	<u>1,678,429</u>	<u>-</u>	<u>-</u>	<u>1,678,429</u>
Capital assets, net	<u>\$ 15,412,488</u>	<u>\$ (380,332)</u>	<u>\$ -</u>	<u>\$ 15,032,156</u>
June 30, 2014	Beginning Balance	Additions	Disposals	Ending Balance
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>

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2015 and 2014

NOTES TO FINANCIAL STATEMENTS

Note 5. Other Liabilities

Other liabilities consist of the following amounts owed to the University at June 30, 2015 and 2014:

June 30, 2015	Beginning Balance	Additions	Deletions	Ending Balance
Ground lease	\$ 96,783	\$ 18,630	\$ 115,413	\$ -
Start-up utilities	116,427	-	34,374	82,053
Due to Technology Management	95,612	-	4,641	90,971
	<u>308,822</u>	<u>18,630</u>	<u>154,428</u>	<u>173,024</u>
Less current portion				<u>(38,000)</u>
Noncurrent other liabilities				<u>\$ 135,024</u>

June 30, 2014	Beginning Balance	Additions	Deletions	Ending Balance
Ground lease	\$ 455,099	\$ 44,890	\$ 403,206	\$ 96,783
Start-up utilities	156,588	-	40,161	116,427
Due to Technology Management	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>

Note 6. 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 ground lease provides an option to renew for up to one additional 40-year term. The future amounts of rental payments required by the Foundation's noncancelable operating leases as of June 30, 2015, are as follows:

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

Years Ending June 30,	Amount
2016	\$ 21,510
2017	20,536
2018	18,616
2019	18,616
2020	18,616
2021 – 2025	93,079
2026 – 2030	93,079
2031 – 2035	93,079
2036 – 2040	93,079
2041 – 2045	93,079
2046 – 2050	93,079
	<u>\$ 656,368</u>

Total rental expense for both operating leases for the years ended June 30, 2015 and 2014 was \$21,606 and \$48,066, respectively. Amounts (prepaid) owed to the University for the ground lease as of June 30, 2015 and 2014 were \$(29,462) and \$96,783, respectively. Such amounts are presented as prepaid ground lease and other liabilities in the accompanying statements of net position.

Note 7. Grant Awarded

At June 30, 2014, 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>

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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Years Ended June 30, 2015 and 2014

NOTES TO FINANCIAL STATEMENTS

Note 8. Commitments and Contingencies

The Foundation has participated 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 9. 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 net position as of June 30, 2015, 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 24, 2015.

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

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 24, 2015