

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Independent Auditor's Reports and Financial Statements
Years Ended June 30, 2017 and 2016



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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 comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Mississippi Research Foundation as of June 30, 2017 and 2016, and the changes in its financial 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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our 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 22, 2017, 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, LLP

Jackson, Mississippi
September 22, 2017

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Management's Discussion and Analysis
June 30, 2017 and 2016

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 2015 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,	2017	2016	2015
Assets			
Current assets	\$ 737,812	\$ 624,704	\$ 616,858
Noncurrent assets	14,576,329	14,651,824	15,080,370
Total assets	15,314,141	15,276,528	15,697,228
Liabilities			
Current liabilities	84,377	78,676	104,617
Noncurrent liabilities	331,432	120,268	135,024
Total liabilities	415,809	198,944	239,641
Net Position			
Net investment in capital assets	14,576,329	14,651,824	15,032,156
Restricted - expendable	253,329	189,215	314,123
Unrestricted	68,674	236,545	111,308
Total net position	\$ 14,898,332	\$ 15,077,584	\$ 15,457,587

During fiscal years 2017 and 2016, total assets increased and decreased \$37,613 and \$420,700, respectively, and total liabilities increased and decreased \$216,865 and \$40,697, respectively. These changes resulted in decreases in net position of \$179,252 and \$380,003 for the years ended June 30, 2017 and 2016, respectively. The change in total assets for the current year resulted primarily from buildout of additional tenant space and depreciation on the Research Park capital assets. The change in total assets for the prior two years was primarily due to depreciation on the Research Park capital assets and the recognition of an uncollectible pledge receivable in fiscal year 2016.

Current assets for the current and prior fiscal years consist of cash, accounts receivable and prepaid ground lease. Accounts receivable are rental payments due from Research Park tenants. The prepaid amounts are for the Foundation's ground lease with the University. For fiscal year 2015, current assets also included \$97,133 for the current portion of a pledge receivable. During fiscal year 2016, the final two payments of the pledge were deemed uncollectible and were written off as a reduction in gifts and contribution revenue.

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For the current and prior fiscal year, noncurrent assets consisted of capital assets, net. The long-term portion of the aforementioned pledge receivable of \$48,214 was also included in noncurrent assets as of June 30, 2015.

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 the current portion of unearned revenue from Research Park tenants are also included as current liabilities. Included in other liabilities for both prior years presented are the current and noncurrent portions of the Foundation's start-up utilities owed to the University which were repaid in full during fiscal year 2017.

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 2018 and 2017 of \$5,250 and \$4,000, respectively, are reflected as other current liabilities, with the remaining balance of \$63,482 and \$82,624 included in noncurrent other liabilities at June 30, 2017 and 2016, respectively.

During fiscal year 2017, funding of approximately \$300,000 was received by the Foundation from an existing Research Park tenant for the buildout of unfinished space at the Research Park. In exchange, the tenant will occupy a portion of the buildout space with lease revenue being recognized over a period of approximately ten years. The noncurrent portion of the unearned revenue associated with this agreement of \$267,950 is included in noncurrent liabilities as of June 30, 2017.

Net investment in capital assets is the largest component of net position and is primarily composed of the initial construction phase of the Research Park completed during fiscal year 2012 and the buildout of unfinished space during fiscal years 2017, 2014 and 2013.

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 and other funds received in support of various University conferences and programs.

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Management's Discussion and Analysis

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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 gifts and contributions revenue and support for University activities, "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,	2017	2016	2015
Operating revenues	\$ 602,931	\$ 579,875	\$ 774,361
Operating expenses	835,073	824,555	958,458
Operating loss	(232,142)	(244,680)	(184,097)
Nonoperating revenues (expenses)	52,890	(135,323)	(106,097)
Increase (decrease) in net position	\$ (179,252)	\$ (380,003)	\$ (290,194)

The majority of revenues for the current and prior fiscal year were derived from lease income from Research Park tenants, support from the University and funds received in support of various University conferences and programs.

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. Nonoperating revenues were less in fiscal year 2016 due to the write off of the uncollectible portion of a pledge receivable which was written off as a reduction in gifts and contributions revenue.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

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Management's Discussion and Analysis

June 30, 2017 and 2016

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.

During each fiscal year, the Research Park has increased tenant occupancy, providing additional increases in cash from operating activities for the Foundation. The change in cash provided by (used in) noncapital financing activities between the current and prior fiscal year can primarily be attributed to the write off of the uncollectible portion of a pledge receivable during fiscal year 2016. Cash used in capital and related financing activities for fiscal year 2017 was for the buildout of unfinished tenant space at the Research Park. Cash provided by investing activities resulted from interest income during each of the fiscal years.

Condensed Statements of Cash Flows

Years Ended June 30,	2017	2016	2015
Cash provided by (used in)			
Operating activities	\$ 327,567	\$ 217,625	\$ 182,331
Noncapital financing activities	52,603	(135,528)	(106,287)
Capital and related financing activities	(308,283)	-	-
Investing activities	287	205	190
	<hr/>	<hr/>	<hr/>
Increase in cash	\$ 72,174	\$ 82,302	\$ 76,234

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 and contributions management organization and, as such, will maintain limited amounts of capital assets and long-term liabilities related to the Research Park.

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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
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	2017	2016
ASSETS		
Current assets		
Cash	\$ 644,594	\$ 572,420
Accounts receivable	20,746	1,185
Prepaid ground lease	72,472	51,099
Total current assets	737,812	624,704
Noncurrent assets		
Capital assets, net	14,576,329	14,651,824
Total noncurrent assets	14,576,329	14,651,824
Total assets	15,314,141	15,276,528
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	27,374	36,456
Lease deposits	12,834	13,166
Other liabilities	5,250	26,000
Unearned revenue	38,919	3,054
Total current liabilities	84,377	78,676
Noncurrent liabilities		
Other liabilities	63,482	120,268
Unearned revenue	267,950	-
Total noncurrent liabilities	331,432	120,268
Total liabilities	415,809	198,944
NET POSITION		
Net investment in capital assets	14,576,329	14,651,824
Restricted - expendable	253,329	189,215
Unrestricted	68,674	236,545
Total net position	\$ 14,898,332	\$ 15,077,584

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues		
Lease income	\$ 459,151	\$ 440,497
University support	143,780	139,378
Total operating revenues	<u>602,931</u>	<u>579,875</u>
Operating expenses		
Contractual services	437,363	437,918
Depreciation	383,778	380,332
Commodities	13,932	6,305
Total operating expenses	<u>835,073</u>	<u>824,555</u>
Operating loss	<u>(232,142)</u>	<u>(244,680)</u>
Nonoperating revenues (expenses)		
Interest income	287	205
Other income	17,459	11,805
Gifts and contributions	152,550	42,653
Support for University activities	(117,406)	(189,986)
Total nonoperating revenues (expenses)	<u>52,890</u>	<u>(135,323)</u>
Decrease in net position	(179,252)	(380,003)
Net position, beginning of year	<u>15,077,584</u>	<u>15,457,587</u>
Net position, end of year	<u>\$ 14,898,332</u>	<u>\$ 15,077,584</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

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Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Operating activities		
Receipts from University and tenants	\$ 439,590	\$ 439,457
Payments to vendors and contractors	(481,750)	(301,835)
University support and other receipts	369,727	80,003
Net cash provided by operating activities	<u>327,567</u>	<u>217,625</u>
Noncapital financing activities		
Received from private grants and donations	152,550	42,653
Payments to University for research activities	(117,406)	(189,986)
Other receipts	17,459	11,805
Net cash provided by (used in) noncapital financing activities	<u>52,603</u>	<u>(135,528)</u>
Capital and related financing activities		
Purchases of capital assets	(308,283)	-
Net cash used in capital and related financing activities	<u>(308,283)</u>	<u>-</u>
Investing activities		
Interest received	287	205
Net cash provided by investing activities	<u>287</u>	<u>205</u>
Increase in cash	72,174	82,302
Cash, beginning of year	<u>572,420</u>	<u>490,118</u>
Cash, end of year	<u>\$ 644,594</u>	<u>\$ 572,420</u>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	\$ (232,142)	\$ (244,680)
Depreciation	383,778	380,332
Changes in operating assets and liabilities		
Accounts receivable	(19,561)	(1,040)
Pledge receivable, net	-	145,347
Prepaid ground lease	(21,373)	(21,637)
Accounts payable and accrued liabilities	(9,082)	18,678
Unearned revenue	303,815	(32,970)
Lease deposits	(332)	351
Other liabilities	(77,536)	(26,756)
Net cash provided by operating activities	<u>\$ 327,567</u>	<u>\$ 217,625</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2017 and 2016

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").

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.

Unearned Revenue

During the year ended June 30, 2017, the Foundation received \$308,283 from an existing Research Park tenant for the buildout of unfinished space at the Research Park. In exchange, the tenant will occupy a portion of the buildout space at no cost for approximately 123 months, resulting in the Foundation annually recognizing lease revenue through fiscal year 2027 on a straight-line basis. The current and noncurrent portion of the unearned revenue associated with this agreement of \$30,250 and \$267,950, respectively, are reflected in the accompanying statement of net position as of June 30, 2017. Also included in the current portion of unearned revenue for the years ended June 30, 2017 and 2016 are lease payments received in advance from other tenants totaling \$8,669 and \$3,054, respectively.

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

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Note 1. Continued

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.

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, 2017 and 2016, the Foundation's bank balances were \$647,771 and \$573,329, 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, 2017 and 2016, the Foundation's cash accounts exceeded federally insured limits by approximately \$295,000 and \$194,000, respectively.

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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:

	2017	2016
Carrying value		
Deposits	\$ 644,594	\$ 572,420
Included in the following statements of net position		
Cash	644,594	572,420

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, 2017 and 2016, the Foundation owned 2,197,216 total shares of CENTRI common and preferred 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 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

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NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

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

Amounts paid on behalf of the Foundation by the University in support of Research Park operations are included as expenses with corresponding University support revenue in the accompanying financial statements. For the years ended June 30, 2017 and 2016, the Foundation recognized expenses and University support revenue of \$143,780 and \$139,378, respectively.

Research Park utilities paid to the University for the years ended June 30, 2017 and 2016 totaled \$104,403 and \$167,700, respectively. Amounts owed to the University for utilities at June 30, 2017 and 2016 were \$10,695 and \$73,650, 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. At June 30, 2016, amounts owed to the University for rental income totaled \$89, which is included in accounts payable in the accompanying statements of net position. There were no amounts owed to the University for rental income at June 30, 2017. The estimated amounts to be repaid in the fiscal years 2018 and 2017 of \$5,250 and \$4,000, respectively, are reflected as other current liabilities with the remaining balance of \$63,482 and \$82,712 included in noncurrent other liabilities at June 30, 2017 and 2016, respectively.

The Foundation provided support of \$117,593 and \$189,986 for University research activities during the years ended June 30, 2017 and 2016, respectively, of which \$188 and \$22,359 are included in accounts payable and accrued liabilities at June 30, 2017 and 2016, respectively, in the accompanying statements of net position.

Under an agreement to allow the University to occupy certain suites at the Research Park, the Foundation's ground lease payable was reduced and lease income of \$40,595 and \$40,252 was recognized for the years ended June 30, 2017 and 2016, respectively. Additionally, the University occupies other space at the Research Park for which payments of \$98,733 and \$93,067 were received by the Foundation and recognized as lease income for the years ended June 30, 2017 and 2016, respectively.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital assets activity for the years ended June 30, 2017 and 2016 was:

June 30, 2017	Beginning Balance	Additions	Disposals	Ending Balance
Building	\$ 12,636,789	\$ -	\$ -	\$ 12,636,789
Building improvements	1,634,759	308,283	-	1,943,042
Land improvements	263,146	-	-	263,146
Equipment	106,210	-	-	106,210
	<hr/> 14,640,904	308,283	-	14,949,187
Accumulated depreciation	(1,667,509)	(383,778)	-	(2,051,287)
	<hr/> 12,973,395	(75,495)	-	12,897,900
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
Construction in progress	18,000	-	-	18,000
	<hr/> 1,678,429	-	-	1,678,429
Capital assets, net	<hr/> <hr/> \$ 14,651,824	\$ (75,495)	\$ -	\$ 14,576,329

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

June 30, 2016	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>	-	-	14,640,904
Accumulated depreciation	(1,287,177)	(380,332)	-	(1,667,509)
	<u>13,353,727</u>	<u>(380,332)</u>	-	<u>12,973,395</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>1,678,429</u>
Capital assets, net	<u>\$ 15,032,156</u>	<u>\$ (380,332)</u>	<u>\$ -</u>	<u>\$ 14,651,824</u>

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 5. Other Liabilities

Other liabilities consist of the following amounts owed to the University at June 30, 2017 and 2016:

June 30, 2017	Beginning Balance	Additions	Deletions	Ending Balance
Start-up utilities	\$ 59,644	\$ -	\$ 59,644	\$ -
Due to Technology Management	86,624	-	17,892	68,732
	146,268	-	77,536	68,732
Less current portion				<u>(5,250)</u>
Noncurrent other liabilities				<u>\$ 63,482</u>

June 30, 2016	Beginning Balance	Additions	Deletions	Ending Balance
Start-up utilities	\$ 82,053	\$ -	\$ 22,409	\$ 59,644
Due to Technology Management	90,971	-	4,347	86,624
	173,024	-	26,756	146,268
Less current portion				<u>(26,000)</u>
Noncurrent other liabilities				<u>\$ 120,268</u>

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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Years Ended June 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 6. Operating Leases

Foundation as Lessor

The Foundation's Research Park has multiple tenant lease agreements with varying terms, with the majority being for terms of 12 months. The future amount of rental payments to be received in excess of one year is as follows:

Years Ending June 30,	Amount
2018	\$ 187,230
2019	37,422
2020	30,250
2021	30,250
2022	30,250
2023 - 2027	<u>146,950</u>
	<u>\$ 462,352</u>

Foundation as Lessee

Leased property under operating leases consisted of a ground lease with the University with an initial lease term of 40 years, payable in equal monthly installments, to be adjusted annually in proportion to the increase in the Consumer Price Index and a copier with a lease term of 36 month payable in equal monthly installments of \$240 which ended during fiscal year 2016. The ground lease provides an option to renew for up to one additional 40-year term.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

The future amounts of rental payments required by the Foundation's noncancelable operating ground lease as of June 30, 2017, are as follows:

Years Ending June 30,	Amount
2018	\$ 19,222
2019	19,222
2020	19,222
2021	19,222
2022	19,222
2023 - 2027	96,108
2028 - 2032	96,108
2033 - 2037	96,108
2038 - 2042	96,108
2043 - 2047	96,108
2048 - 2050	54,461
	<u>\$ 631,111</u>

Total rental expense for operating leases for the years ended June 30, 2017 and 2016 was \$21,779 and \$21,494, respectively. Cumulative amounts prepaid to the University for the ground lease as of June 30, 2017 and 2016 were \$72,472 and \$51,099, respectively. Such amounts are presented as prepaid ground lease in the accompanying statements of net position.

Note 7. 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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2017 and 2016

NOTES TO FINANCIAL STATEMENTS

Note 8. 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") [a component unit of the University of Mississippi], which comprise the statement of net position as of June 30, 2017, 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 22, 2017.

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 of the financial statements, 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 or significant deficiencies. Given these limitations, during our audit, we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have 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, LLP

Jackson, Mississippi
September 22, 2017