

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, 2020 and 2019

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Mississippi Research Foundation (the "Foundation"), a Component Unit of the University of Mississippi, which comprise the statements of net position as of and for the years ended June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof 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 as 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 also have issued our report dated September 22, 2020, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Foundation's 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 Foundation's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
September 22, 2020

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2020 and 2019

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 2018 are not presented with this report, operational and financial position data will be shown in this section to illustrate specific increases and decreases.

The Foundation

The Foundation was established in 1999. The primary 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 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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Management's Discussion and Analysis
June 30, 2020 and 2019

Condensed Statements of Net Position

June 30,	2020	2019	2018
Assets			
Current assets	\$ 747,139	\$ 772,153	\$ 726,400
Noncurrent assets	13,471,167	13,862,828	14,234,244
Total assets	<u>14,218,306</u>	<u>14,634,981</u>	<u>14,960,644</u>
Liabilities			
Current liabilities	139,757	94,927	72,432
Noncurrent liabilities	177,200	207,449	237,699
Total liabilities	<u>316,957</u>	<u>302,376</u>	<u>310,131</u>
Net Position			
Net investment in capital assets	13,471,167	13,862,828	14,234,244
Restricted - expendable	372,860	347,720	297,274
Unrestricted	57,322	122,057	118,995
Total net position	<u>\$ 13,901,349</u>	<u>\$ 14,332,605</u>	<u>\$ 14,650,513</u>

During fiscal years 2020 and 2019, total assets decreased by \$416,675 and \$325,663, respectively, and total liabilities increased and decreased by \$14,581 and \$7,755, respectively. These changes resulted in decreases in net position of \$431,256 and \$317,908 for the years ended June 30, 2020 and 2019, respectively. The change in total assets from year to year is primarily due to depreciation on the Research Park capital assets.

Current assets for the current and prior fiscal years consist of cash, accounts receivable and prepaid ground lease and other expense. Accounts receivable are amounts due from Research Park tenants. The prepaid amounts are primarily the Foundation's ground lease with the University. For the current and prior fiscal years, noncurrent assets consisted of capital assets, net.

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, the current portion of unearned revenue from Research Park tenants, and contributions received for the fiscal year 2020 International Conference on the Science of Botanicals, which will be applied to the fiscal year 2021 conference due to the cancellation of the March 2020 conference, are also included as current liabilities.

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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 portions of the unearned revenue associated with this agreement of \$177,200 and \$207,449 are included in noncurrent liabilities as of June 30, 2020 and 2019, respectively.

Net investment in capital assets is the most significant 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 in subsequent periods.

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.

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.

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Condensed Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30,	2020	2019	2018
Operating revenues	\$ 547,536	\$ 521,794	\$ 581,195
Operating expenses	963,328	897,842	910,539
Operating loss	(415,792)	(376,048)	(329,344)
Nonoperating revenues (expenses)	(15,464)	58,140	81,525
Decrease in net position	<u>\$ (431,256)</u>	<u>\$ (317,908)</u>	<u>\$ (247,819)</u>

The majority of revenues for the current and prior fiscal years 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 for the support for University activities.

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 strives to increase tenant occupancy, providing additional increases in cash from operating activities for the Foundation. Cash used in capital and related financing activities was for the purchase of equipment for fiscal years 2020 and 2019 and was for the buildout of unfinished tenant space at the Research Park for fiscal year 2018. Cash provided by investing activities resulted from interest income during each of the fiscal years.

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Condensed Statements of Cash Flows

Years Ended June 30,	2020	2019	2018
Cash provided by (used in)			
Operating activities	\$ 4,442	\$ 17,957	\$ (66,750)
Noncapital financing activities	(16,345)	56,195	98,831
Capital and related financing activities	(783)	(19,177)	(65,055)
Investing activities	881	1,945	694
	<u>\$ (11,805)</u>	<u>\$ 56,920</u>	<u>\$ (32,280)</u>
Increase (decrease) in cash	<u>\$ (11,805)</u>	<u>\$ 56,920</u>	<u>\$ (32,280)</u>

Capital Assets and Debt Administration

The Foundation was founded to support 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.

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 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 the support of important conferences and meetings. This resource allows necessary flexibility, particularly regarding 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
(A Component Unit of the University of Mississippi)
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash	\$ 254,963	\$ 309,847
Restricted cash	402,466	359,387
Accounts receivable	6,077	651
Prepaid ground lease and other expense	83,633	102,268
Total current assets	747,139	772,153
Noncurrent assets		
Capital assets, net	13,471,167	13,862,828
Total noncurrent assets	13,471,167	13,862,828
Total assets	14,218,306	14,634,981
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	34,526	34,526
Lease deposits	7,786	9,776
Unearned revenue	97,445	50,625
Total current liabilities	139,757	94,927
Noncurrent liabilities		
Unearned revenue	177,200	207,449
Total noncurrent liabilities	177,200	207,449
Total liabilities	316,957	302,376
NET POSITION		
Net investment in capital assets	13,471,167	13,862,828
Restricted - expendable	372,860	347,720
Unrestricted	57,322	122,057
Total net position	\$ 13,901,349	\$ 14,332,605

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues		
Lease income	\$ 423,022	\$ 388,039
University support	124,514	133,755
Total operating revenues	547,536	521,794
Operating expenses		
Contractual services	568,359	501,965
Depreciation	392,444	390,593
Commodities	2,525	5,284
Total operating expenses	963,328	897,842
Operating loss	(415,792)	(376,048)
Nonoperating revenues (expenses)		
Interest income	881	1,945
Other income, net	2,500	5,700
Gifts and contributions	-	171,460
Support for University activities	(18,845)	(120,965)
Total nonoperating revenues (expenses)	(15,464)	58,140
Decrease in net position	(431,256)	(317,908)
Net position, beginning of year	14,332,605	14,650,513
Net position, end of year	\$ 13,901,349	\$ 14,332,605

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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Statements of Cash Flows
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	2020	2019
Operating activities		
Receipts from University and tenants	\$ 417,596	\$ 407,115
Payments to vendors and contractors	(552,249)	(508,705)
University support and other receipts	139,095	119,547
Net cash provided by operating activities	<u>4,442</u>	<u>17,957</u>
Noncapital financing activities		
Received from private grants and donations	-	171,460
Payments to University for research activities	(18,845)	(120,965)
Other receipts	2,500	5,700
Net cash provided by (used in) noncapital financing activities	<u>(16,345)</u>	<u>56,195</u>
Capital and related financing activities		
Purchases of capital assets	(783)	(19,177)
Net cash used in capital and related financing activities	<u>(783)</u>	<u>(19,177)</u>
Investing activities		
Interest received	881	1,945
Net cash provided by investing activities	<u>881</u>	<u>1,945</u>
Increase (decrease) in cash	(11,805)	56,920
Cash, beginning of year	<u>669,234</u>	<u>612,314</u>
Cash, end of year	<u>\$ 657,429</u>	<u>\$ 669,234</u>
Reconciliation of cash		
Cash	\$ 254,963	\$ 309,847
Restricted cash	402,466	359,387
	<u>\$ 657,429</u>	<u>\$ 669,234</u>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	\$ (415,792)	\$ (376,048)
Depreciation	392,444	390,593
Changes in operating assets and liabilities		
Accounts receivable	(5,426)	19,076
Prepaid ground lease and other expense	18,635	(7,909)
Accounts payable and accrued liabilities	-	6,453
Unearned revenue	16,571	(15,209)
Lease deposits	(1,990)	1,001
Other liabilities	-	-
Net cash provided by operating activities	<u>\$ 4,442</u>	<u>\$ 17,957</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, 2020 and 2019

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, liabilities, 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.
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 September 22, 2020, 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 is 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 portion of \$30,250 and noncurrent portion of the unearned revenue associated with this agreement of \$177,200 and \$207,449 are reflected in the accompanying statements of net position as of June 30, 2020 and 2019, respectively. Also included in the current portion of unearned revenue for the years ended June 30, 2020 and 2019 are lease payments received in advance from other tenants totaling \$23,195 and \$20,375, respectively. The remaining \$44,000 reflected in the current portion of unearned revenue represents contributions received for the March 2020 International Conference on the Science of Botanicals which was cancelled. These funds will be recognized as revenue in fiscal year 2021 in support of the March 2021 conference.

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

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Note 1. Continued

transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are capital related and investment income are included in nonoperating revenues. The Foundation first applies the restricted component of net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted components of net position are available.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as restricted net position.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Revision

An immaterial revision has been made to the 2019 financial statements to present restricted cash as a separate financial statement line item on the statement of net position.

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, 2020 and 2019, the Foundation's bank balances were \$657,429 and \$762,743, 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, 2020 and 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$363,000 and \$504,000, 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:

	2020	2019
Carrying value		
Deposits	\$ 657,429	\$ 669,234
Included in the following statements of net position		
Cash	657,429	669,234

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, 2020 and 2019, 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. The shares are carried as a cost investment under GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as they do not meet the definition of an investment as defined in GASB 72, *Fair Value Measurement and Application*.

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

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NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

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.

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, 2020 and 2019, the Foundation recognized expenses and University support revenue of \$124,514 and \$133,755, respectively. Additionally, the Foundation transferred funds to the University to cover certain Research Park operational expenses, of which \$2,482 remained unspent and is included in prepaid expense at June 30, 2020.

Research Park utilities paid to the University for the years ended June 30, 2020 and 2019 totaled \$155,414 and \$130,619, respectively.

The Foundation provided support of \$18,845 and \$120,965 for University research activities during the years ended June 30, 2020 and 2019, respectively, of which \$2,041 and \$9,532 is included in accounts payable and accrued liabilities in the accompanying statements of net position.

Under an agreement to allow the University to occupy certain suites at the Research Park which ended December 31, 2018, the Foundation's ground lease payable was reduced by \$20,042 and \$19,675, and lease income of \$0 and \$21,271 was recognized for the years ended June 30, 2020 and 2019, respectively. Additionally, the University occupies other space at the Research Park for which payments of \$44,439 and \$72,172 were received by the Foundation and recognized as lease income for the years ended June 30, 2020 and 2019, respectively.

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NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital assets activity for the years ended June 30, 2020 and 2019 was:

June 30, 2020	Beginning Balance	Additions	Disposals	Ending Balance
Building	\$ 12,636,789	\$ -	\$ -	\$ 12,636,789
Building improvements	2,008,097	-	-	2,008,097
Land improvements	263,146	-	-	263,146
Equipment	125,387	783	-	126,170
	<u>15,033,419</u>	<u>783</u>	<u>-</u>	<u>15,034,202</u>
Accumulated depreciation	(2,831,020)	(392,444)	-	(3,223,464)
	<u>12,202,399</u>	<u>(391,661)</u>	<u>-</u>	<u>11,810,738</u>
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
	<u>1,660,429</u>	<u>-</u>	<u>-</u>	<u>1,660,429</u>
Capital assets, net	<u>\$ 13,862,828</u>	<u>\$ (391,661)</u>	<u>\$ -</u>	<u>\$ 13,471,167</u>

June 30, 2019	Beginning Balance	Additions	Disposals	Ending Balance
Building	\$ 12,636,789	\$ -	\$ -	\$ 12,636,789
Building improvements	2,008,097	-	-	2,008,097
Land improvements	263,146	-	-	263,146
Equipment	106,210	19,177	-	125,387
	<u>15,014,242</u>	<u>19,177</u>	<u>-</u>	<u>15,033,419</u>
Accumulated depreciation	(2,440,427)	(390,593)	-	(2,831,020)
	<u>12,573,815</u>	<u>(371,416)</u>	<u>-</u>	<u>12,202,399</u>
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
	<u>1,660,429</u>	<u>-</u>	<u>-</u>	<u>1,660,429</u>
Capital assets, net	<u>\$ 14,234,244</u>	<u>\$ (371,416)</u>	<u>\$ -</u>	<u>\$ 13,862,828</u>

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2020 and 2019

NOTES TO FINANCIAL STATEMENTS

Note 5. 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
2021	\$ 264,236
2022	238,930
2023	204,836
2024	77,047
2025	30,250
2026 - 2027	56,200
	<hr/>
	\$ 871,499
	<hr/> <hr/>

Foundation as Lessee

Leased property under operating leases consists of an annual copier lease 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 UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2020 and 2019

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

The future amounts of rental payments required by the Foundation's noncancelable operating ground lease as of June 30, 2020, are as follows:

Years Ending June 30,	Amount
2021	\$ 20,350
2022	20,350
2023	20,350
2024	20,350
2025	20,350
2026 - 2030	101,751
2031 - 2035	101,751
2036 - 2040	101,751
2041 - 2045	101,751
2046 - 2050	98,359
	<u>\$ 607,113</u>

Total rental expense for operating leases for the years ended June 30, 2020 and 2019 was \$21,634 and \$22,219, respectively. Cumulative amounts prepaid to the University for the ground lease as of June 30, 2020 and 2019 were \$76,813 and \$96,855, respectively. Such amounts are included in prepaid ground lease and other expense in the accompanying statements of net position.

Note 6. 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, 2020 and 2019

NOTES TO FINANCIAL STATEMENTS

Note 7. 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.

Note 8. Coronavirus Aid, Relief, and Economic Security Act

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may affect the financial position, results of operations and cash flows of the Foundation. No impact has currently been identified; however, the duration of these uncertainties and the ultimate financial effects may change in the future.

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

Independent Auditor's Report

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 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, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2020.

Internal Control over Financial Reporting

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
September 22, 2020