

THE UNIVERSITY OF SOUTHERN MISSISSIPPI  
RESEARCH FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2011 and 2010





To the Board of Directors  
The University of Southern Mississippi Research Foundation, Inc.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Southern Mississippi Research Foundation, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidated schedule of functional expenses and additional consolidating information on pages 14 through 17 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements.

EXHIBIT A

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

**ASSETS**

<b>ASSETS</b>	December 31,	
	2011	2010
Cash and cash equivalents	\$ 1,555,713	\$ 1,352,570
Research contracts receivable	194,836	533,086
Property, plant and equipment, net	6,743,363	6,873,763
Other assets	31,860	14,617
<b>Total assets</b>	<b>\$ 8,525,772</b>	<b>\$ 8,774,036</b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	\$ 27,707	\$ 62,529
Research contracts payable	274,585	576,583
Refundable security deposits	93,918	88,060
Deferred rental revenue	284,437	282,822
Notes payable	4,323,044	5,166,036
Total liabilities	5,003,691	6,176,030
<b>NET ASSETS, UNRESTRICTED</b>	<b>3,522,081</b>	<b>2,598,006</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,525,772</b>	<b>\$ 8,774,036</b>

See accompanying notes.

EXHIBIT B

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2011 AND 2010

	December 31,	
	2011	2010
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Rental revenues	\$ 2,072,766	\$ 2,190,547
Research contracts revenue	723,476	973,635
Donations	130,001	168,321
Management fee revenue	750,000	750,000
Interest income	523	1,767
Settlement proceeds, net	-	603,010
Other income	16,894	10,717
Total revenues, gains and other support	<u>3,693,660</u>	<u>4,697,997</u>
<b>EXPENSES</b>		
Program services:		
Research contracts, The University of Southern Mississippi	648,387	934,756
Scholarships, grants, and awards	35,326	40,069
Supporting services:		
Management and general	959,590	1,081,293
Rental expenses	1,126,282	1,307,180
Total expenses	<u>2,769,585</u>	<u>3,363,298</u>
<b>CHANGE IN NET ASSETS</b>	924,075	1,334,699
<b>NET ASSETS, UNRESTRICTED</b>		
Beginning of year	<u>2,598,006</u>	<u>1,263,307</u>
End of year	<u>\$ 3,522,081</u>	<u>\$ 2,598,006</u>

See accompanying notes.

EXHIBIT C

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b><i>CASH FLOWS FROM OPERATING ACTIVITIES:</i></b>		
Change in net assets	\$ 924,075	\$ 1,334,699
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	165,512	167,660

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***



THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations** - The University of Southern Mississippi Research Foundation, Inc. (the Foundation) oversees gifts, contributions, and grants provided for sponsored research for individuals, industries, private organizations, and government agencies, throughout the United States, and assists with transferring technology developed through the Foundation to benefit the University of Southern Mississippi and the public. The Foundation bridges the intellectual resources of the academic community to the private sector to ensure technology transfer and commercialization of viable ideas.

The Foundation has an infinite life expectancy and anticipates significant gifts and donations of technology each year. The licensing and marketing activities of the Foundation operate on a continual basis.

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, Pinion Proper

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2011 AND 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Income Tax** - The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Code and is not a private foundation.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, , clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Foundation's income tax returns. The Foundation's income tax returns are subject to examination by taxing authorities for three years after they are filed. The Foundation's open tax periods are 2008 – 2011. The Foundation believes their estimates are appropriate based on current facts and circumstances and that no uncertain tax positions were taken.

**Cash and Cash Equivalents** - For financial statement purposes, the Foundation considers all highly liquid investments with an original maturity of three (3) months or less to be cash equivalents.

**Research Contracts Receivable** - Research contracts receivable are stated at unpaid balances less amounts deemed uncollectable by management. Receivables are written off based on a case-by-case basis and upon evaluation of specific circumstances. At December 31, 2011 and 2010, all accounts were considered collectable by management.

**Property, Plant and Equipment** - Property, plant and equipment acquisitions are recorded at cost or, if donated, fair market value when received. Depreciation is provided over the estimated useful life of depreciable assets, which is three (3), five (5), or seven (7) years for furniture and equipment and fifteen (15) or thirty-nine (39) years for buildings and improvements, and is computed using the straight line method. Property costing in excess of \$500 and having a useful life in excess of one (1) year is capitalized. Depreciation expense for the years ended December 31, 2011 and 2010, was \$165,512 and \$167,660, respectively.

Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The costs and related accumulated depreciation of assets sold or retired are removed from the accounts and any resulting gain or loss is reflected in the accompanying statements of activities.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset, and impairments of long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

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YEAR ENDED DECEMBER 31, 2011

**NOTE 2 - INVESTMENTS**

In September 2009, the Foundation purchased 1,000 shares of common stock of a closely held corporation for \$100,000. Based on management's review of the financial position of the closely held corporation, an unrealized loss has been recorded to reduce the basis of the investment to estimated net realizable value of \$-0- at December 31, 2011 and 2010.

**NOTE 3 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following at:

	December 31,	
	2011	2010
Land and improvements	\$ 2,774,387	\$ 2,774,387
Buildings and improvements	4,556,635	4,550,085
Furniture and equipment	123,034	94,472
	<u>7,454,056</u>	<u>7,418,944</u>
Less: accumulated depreciation	(710,693)	(545,181)
<b>Total</b>	<u>\$ 6,743,363</u>	<u>\$ 6,873,763</u>

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2011 AND 2010

**NOTE 4 - NOTES PAYABLE**

Notes payable as of December 31, 2011 and 2010 consisted of the following:

2011

2010

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2011 AND 2010

**NOTE 5 - OPERATING LEASE COMMITMENTS**

The Foundation leases office space to tenants under noncancelable operating lease agreements with terms of one (1) to ten (10) years. The following is a schedule by years of future minimum rentals under the leases at December 31, 2011.

<u>Year Ended December 31, 2011</u>	<u>Amount</u>
2012	\$ 1,973,205
2013	1,404,331
2014	835,456
2015	835,456
2016	835,456
Thereafter	-
	<u>\$ 5,883,904</u>

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes as of December 31, 2011 and 2010:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 1,071,195	\$ 1,152,577
Buildings and improvements	3,403,640	4,153,414
	<u>4,474,835</u>	<u>5,305,991</u>
Less accumulated depreciation	(470,166)	(482,799)
Net property and equipment held for lease	<u>\$ 4,004,669</u>	<u>\$ 4,823,192</u>

**NOTE 6 - COMMITMENTS**

The Foundation entered into a consulting agreement with an outside party to manage, promote, market, license and commercialize its intellectual property developed and owned by the Foundation. The agreement provides for annual payments of \$750,000 and is set to expire on August 31, 2012. This agreement will not be renewed upon expiration.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2011 AND 2010

**NOTE 6 - COMMITMENTS (Cont.)**

Concurrently, the Foundation entered into an agreement with the University on September 1, 2006 to negotiate and manage the University's private and industrial research projects, intellectual property and market University technology. The Foundation receives compensation of \$750,000 annually until the agreement expires on August 31, 2012. The agreement will not be renewed upon expiration.

**NOTE 7 - RISK AND UNCERTAINTIES**

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of bank deposit accounts. The Foundation maintains its cash balances in financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2011 and 2010, the Foundation had \$263,788 and \$1,566,792, respectively, of cash deposits in excess of the FDIC limits.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

On April 13, 2010, The Foundation and the University entered into a new lease agreement, combining the four previous lease agreements into one. Under the terms of the agreement, the University is provided with up to 62,750 sq. ft. of space for a total annual cost of \$1,150,853. The lease is comprised of four separate spaces plus additional parking and ground lease for temporary modular classroom buildings.

During year ended 2007, a separate lease agreement was entered into between the Foundation

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

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YEARS ENDED DECEMBER 31, 2011 AND 2010

**NOTE 9 - SETTLEMENT PROCEEDS**

In April 2010, the Foundation entered into a lawsuit against a former consultant and employee of the University. The lawsuit was settled in favor of the Foundation in November 2010, resulting in settlement proceeds of \$603,010, net of attorney fees totaling \$164,989. There are no known claims or threatened litigation against the Foundation as of the date of this report.



***SUPPLEMENTARY INFORMATION***

SCHEDULE 1

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2011

	Program Services	Supporting Services		Total
		General and Administrative	Rental	
Accounting	\$ -	\$ 35,924	\$ -	\$ 35,924
Bank charges	-	-	6	6
Computer and internet	-	-	402	402
Consulting fees	-	750,000	-	750,000
Depreciation	-	11,434	154,078	165,512
Dues and subscriptions	-	-	1,000	1,000
Insurance	-	1,730	183,779	185,509
Interest expense	-	-	130,126	130,126
Legal and professional fees	-	29,408	2,486	31,894
Miscellaneous	-	-	21,050	21,050
Office expense	-	1,732	2,051	3,783
Pest control	-	-	7,089	7,089
Postage	-	13	50	63
Rental expense	-	13,429	-	13,429
Repairs and maintenance	-	-	71,095	71,095
Research contracts	648,387	-	-	648,387
Salaries	-	113,732	95,268	209,000
Scholarships and awards	35,326	-	-	35,326
Taxes, payroll	-	-	7,838	7,838
Taxes, property	-	-	102,714	102,714
Travel and meetings expense	-	2,188	966	3,154
Uniforms	-	-	3,222	3,222
Utilities	-	-	343,062	343,062
	<u>\$ 683,713</u>	<u>\$ 959,590</u>	<u>\$ 1,126,282</u>	<u>\$ 2,769,585</u>

SCHEDULE 2

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2010

	Program Services	Supporting Services		Total
		General and Administrative	Rental	
Accounting	\$ -	\$ 81,324	\$ -	\$ 81,324
Bank charges	-	-	1,391	1,391
Computer and internet	-	-	479	479
Consulting fees	-	757,500	65,000	822,500
Depreciation	-	11,824	155,836	167,660
Dues and subscriptions	-	-	1,000	1,000
Insurance	-	1,730	195,878	197,608
Interest expense	-	-	154,565	154,565
Legal and professional fees	-	43,717	2,633	46,350
Meals and entertainment	-	-	289	289
Miscellaneous	-	7,225	1,521	8,746
Office expense	-	2,779	3,687	6,466
Pest control	-	-	7,120	7,120
Postage	-	-	1,099	1,099
Rental expense	-	18,755	-	18,755
Repairs and maintenance	-	-	143,267	143,267
Reproduction	-	495	-	495
Research contracts	934,756	-	-	934,756
Salaries	-	143,185	75,048	218,233
Scholarships and awards	40,069	-	-	40,069
Taxes, payroll	-	-	5,432	5,432
Taxes, property	-	-	102,714	102,714
Travel and meetings expense	-	12,759	347	13,106
Uniforms	-	-	3,086	3,086
Utilities	-	-	386,788	386,788
	<u>\$ 974,825</u>	<u>\$ 1,081,293</u>	<u>\$ 1,307,180</u>	<u>\$ 3,363,298</u>

	University of Southern Mississippi Research Foundation, Inc.	Pinion Properties, LLC	Eliminations	Consolidated
<b>ASSETS</b>				
Cash and cash equivalents	\$ 319,966	\$ 1,235,747		-

SCHEDULE 4

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2011

	University of Southern Mississippi Research Foundation, Inc.	Pinion Properties, LLC	Eliminations	Consolidated
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Rental revenues	\$ 1,136,134	\$ 2,074,381	\$ (1,137,749)	\$ 2,072,766
Research contract revenue	723,476	-	-	723,476
Donations	130,001	-	-	130,001
Management fee revenues	750,000	-	-	750,000
Interest income	-	523	-	523
Other income	8,484	8,410	-	16,894
Total revenues, gains and other support	<u>2,748,095</u>	<u>2,083,314</u>	<u>(1,137,749)</u>	<u>3,693,660</u>
<b>EXPENSES</b>				
Program services:				
Research contracts, The University of Southern Mississippi	648,387	-	-	648,387
Scholarships, grants, and awards	35,326	-	-	35,326
Supporting services:				
Management and general	2,097,339	-	(1,137,749)	959,590
Rental	-	1,126,282	-	1,126,282
Total expenses	<u>2,781,052</u>	<u>1,126,282</u>	<u>(1,137,749)</u>	<u>2,769,585</u>
<b>CHANGE IN NET ASSETS</b>	(32,957)	957,032	-	924,075
<b>NET ASSETS</b>				
Beginning of year	<u>1,314,460</u>	<u>2,283,555</u>	<u>(1,000,009)</u>	<u>2,598,006</u>
End of year	<u>\$ 1,281,503</u>	<u>\$ 3,240,587</u>	<u>\$ (1,000,009)</u>	<u>\$ 3,522,081</u>