

THE UNIVERSITY OF SOUTHERN MISSISSIPPI
RESEARCH FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2010 and 2009

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EXHIBIT A

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION,

DECEMBER 31, 2008 AND 2009

EXHIBIT B

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009

REVENUES, GAINS AND OTHER SUPPORT	December 31,	
	2010	2009
Rental revenues	\$ 2,190,547	\$ 2,200,891
Research contracts revenue	973,635	2,754,860
Donations	168,321	184,734
Management fee revenue	750,000	750,000
Unrealized gain (loss) on investments	-	(100,000)
Interest income	1,767	1,969
Settlement proceeds, net	603,010	-
Other income	10,717	1,245
Total revenues, gains and other support	<u>4,697,997</u>	<u>5,793,699</u>
EXPENSES		
Program services:		
Research contracts, The University of Southern Mississippi	934,756	2,612,058
Scholarships, grants, and awards	40,069	80,037
Supporting services:		
Management and general	1,081,293	1,360,539
Rental expenses	1,307,180	1,250,563
Total expenses	<u>3,363,298</u>	<u>5,303,197</u>
CHANGE IN NET ASSETS	1,334,699	490,502
NET ASSETS, UNRESTRICTED		
Beginning of year	1,263,307	2,461,742
Prior period adjustment	-	(1,688,937)
Beginning of year, (as restated in 2009)	<u>1,263,307</u>	<u>772,805</u>
End of year	<u>\$ 2,598,006</u>	<u>\$ 1,263,307</u>

See accompanying notes.

EXHIBIT C

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PAGE SEVEN
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 6 – COMMITMENTS (Cont.)

Concurrently, the Foundation entered into an agreement with the University to negotiate and manage the University's private and industrial research projects. The Foundation will be compensated \$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, 2010 and 2009, the Foundation had \$1,566,792 and \$395,529, respectively, of cash deposits in excess of the FDIC limits.

NOTE 8 - NET ASSETS

Beginning Net assets for the year ended December 31, 2009, as reflected on the statement of activities, was restated during the issuance of the 2009 audited financial statements in the amount of \$1,688,937. The following schedule represents a detail of the amounts included in the prior period adjustment:

To record rental income in correct period	\$	287,713
To adjust net assets for research contract expenses incurred during periods prior to 2009		498,303
To record security deposits received in 2008		18,510
To correctly state the value of Pinion property and record loss on investment in Saone Corporation incurred during 2008		884,411
	\$	1,688,937

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PAGE EIGHT

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 9 - RELATED PARTY TRANSACTIONS (Cont.)

During year ended 2007, a separate lease agreement was entered into between the Foundation and the University which was amended in 2008. The amended lease provides the University with a total of 5,977 sq. ft. of space located in a separate building for a total annual cost of \$25,194. This lease was canceled during year ended 2010.

During years ended December 31, 2010 and 2009, the subtotal of rental income for both lease agreements with the University was \$1,273,336 and \$1,290,670, respectively, representing 58% of the total rental income received by the Foundation.

The University contributes salaries for certain Foundation employees. For the years ended December 31, 2010 and 2009, salaries and related benefits totaling \$143,185 and \$121,000, respectively, have been recorded in the statement of activities as unrestricted contributed support and unrestricted expenses.

NOTE 10 - 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. Additional related litigation is being pursued by the Foundation. 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, 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>

SCHEDULE 2

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009

	Program Services	Supporting Services		Total
		General and Administrative	Rental	
Accounting	\$ -	\$ 14,500	\$ -	\$ 14,500
Advertising	-	166	-	166
Bank charges	-	-	2,501	2,501
Computer and internet	-	-	6,436	6,436
Consulting fees	-	778,507	260,000	1,038,507
Depreciation	-	8,144	112,653	120,797
Dues and subscriptions	-	63	1,000	1,063
Insurance	-	110,064	195,122	305,186
Interest expense	-	-	175,804	175,804
Legal and professional fees	-	19,091	16,511	35,602
Meals and entertainment	-	-	1,181	1,181
Miscellaneous	-	121,405	1,501	122,906
Office expense	-	8,500	9,449	17,949
Postage	-	85	-	85
Rental expense	-	48,424	-	48,424
Repairs and maintenance	-	-	11,949	11,949
Reproduction	-	624	-	624
Research contracts	2,612,058	-	-	2,612,058
Salaries	-	212,539	-	212,539
Scholarships and awards	80,037	-	-	80,037
Taxes, property	-	10,313	100,383	110,696
Travel and meetings expense	-	28,114	619	28,733
Uniforms	-	-	2,658	2,658
Utilities	-	-	352,796	352,796
	<u>\$ 2,692,095</u>	<u>\$ 1,360,539</u>	<u>\$ 1,250,563</u>	<u>\$ 5,303,197</u>

SCHEDULE 3

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010

	University of Southern Mississippi Research Foundation, Inc.	Pinion Properties, LLC	Eliminat ions	Consolidated
ASSETS				
Cash and cash equivalents	\$ 319,164	\$ 1,033,406	\$ -	\$ 1,352,570
Research contracts receivable	528,522	4,564	-	533,086
Prepaid expenses	282,822	-	(282,822)	-
Property, plant and equipment, net	55,426	6,818,337	-	6,873,763
Other assets	-	14,617	-	14,617
Investment in Pinion	1,000,009	-	(1,000,009)	-
	<u>\$ 2,185,943</u>	<u>\$ 7,870,924</u>	<u>\$ (1,282,831)</u>	<u>\$ 8,774,036</u>
LIABILITIE S				
Accounts payable	\$ 12,078	\$ 50,451	\$ -	\$ 62,529
Research contracts payable	576,583	-	-	576,583
Refundable security deposits	-	88,060	-	88,060
Deferred revenue	282,822	282,822	(282,822)	282,822
Notes payable	-	5,166,036	-	5,166,036
Total liabilities	<u>871,483</u>	<u>5,587,369</u>	<u>(282,822)</u>	<u>6,176,030</u>
NET ASSETS, UNRESTRICTED	<u>1,314,460</u>	<u>2,283,555</u>	<u>(1,000,009)</u>	<u>2,598,006</u>
Total liabilities and net assets	<u>\$ 2,185,943</u>	<u>\$ 7,870,924</u>	<u>\$ (1,282,831)</u>	<u>\$ 8,774,036</u>

University of Southern
Mississippi Research
Foundation, Inc.

Pinion
Properties, LLC

Eliminat ions

Consolidated