

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, 2018 and 2017



CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
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 <i>Government Auditing Standards</i>	24

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 (a component unit of the University of Mississippi), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows, 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 financial position of The University of Mississippi Research Foundation as of June 30, 2018 and 2017, 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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 19, 2018, 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 19, 2018

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2018 and 2017

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 2016 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 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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2018 and 2017

Condensed Statements of Net Position

June 30,	2018	2017	2016
Assets			
Current assets	\$ 726,400	\$ 737,812	\$ 624,704
Noncurrent assets	14,234,244	14,576,329	14,651,824
Total assets	14,960,644	15,314,141	15,276,528
Liabilities			
Current liabilities	72,432	84,377	78,676
Noncurrent liabilities	237,699	331,432	120,268
Total liabilities	310,131	415,809	198,944
Net Position			
Net investment in capital assets	14,234,244	14,576,329	14,651,824
Restricted - expendable	297,274	253,329	189,215
Unrestricted	118,995	68,674	236,545
Total net position	\$ 14,650,513	\$ 14,898,332	\$ 15,077,584

During fiscal years 2018 and 2017, total assets decreased and increased by \$353,497 and \$37,613, respectively, and total liabilities decreased and increased by \$105,678 and \$216,865, respectively. These changes resulted in decreases in net position of \$247,819 and \$179,252 for the years ended June 30, 2018 and 2017, respectively. The change in total assets from year to year is primarily due to depreciation on the Research Park capital assets. For fiscal year 2017, the difference was also impacted by the buildout of additional tenant space.

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

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Management's Discussion and Analysis
June 30, 2018 and 2017

liabilities. Included in other liabilities for fiscal year 2016 is 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 were to 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. These funds were repaid in full during fiscal year 2018.

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 \$237,699 and \$267,950 are included in noncurrent liabilities as of June 30, 2018 and 2017, 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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2018 and 2017

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,	2018	2017	2016
Operating revenues	\$ 581,195	\$ 602,931	\$ 579,875
Operating expenses	910,539	835,073	824,555
Operating loss	(329,344)	(232,142)	(244,680)
Nonoperating revenues (expenses)	81,525	52,890	(135,323)
Decrease in net position	\$ (247,819)	\$ (179,252)	\$ (380,003)

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. 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

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2018 and 2017

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. The change in cash provided by (used in) noncapital financing activities between the fiscal years 2017 and 2016 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 years 2018 and 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,	2018	2017	2016
Cash provided by (used in)			
Operating activities	\$ (66,750)	\$ 327,567	\$ 217,625
Noncapital financing activities	98,831	52,603	(135,528)
Capital and related financing activities	(65,055)	(308,283)	-
Investing activities	694	287	205
Increase (decrease) in cash	\$ (32,280)	\$ 72,174	\$ 82,302

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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2018 and 2017

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 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, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash	\$ 612,314	\$ 644,594
Accounts receivable	19,727	20,746
Prepaid ground lease	94,359	72,472
Total current assets	<u>726,400</u>	<u>737,812</u>
Noncurrent assets		
Capital assets, net	14,234,244	14,576,329
Total noncurrent assets	<u>14,234,244</u>	<u>14,576,329</u>
Total assets	<u>14,960,644</u>	<u>15,314,141</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	28,073	27,374
Lease deposits	8,775	12,834
Other liabilities	-	5,250
Unearned revenue	35,584	38,919
Total current liabilities	<u>72,432</u>	<u>84,377</u>
Noncurrent liabilities		
Other liabilities	-	63,482
Unearned revenue	237,699	267,950
Total noncurrent liabilities	<u>237,699</u>	<u>331,432</u>
Total liabilities	<u>310,131</u>	<u>415,809</u>
NET POSITION		
Net investment in capital assets	14,234,244	14,576,329
Restricted - expendable	297,274	253,329
Unrestricted	118,995	68,674
Total net position	<u>\$ 14,650,513</u>	<u>\$ 14,898,332</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
Lease income	\$ 434,492	\$ 459,151
University support	146,703	143,780
Total operating revenues	<u>581,195</u>	<u>602,931</u>
Operating expenses		
Contractual services	484,298	437,363
Depreciation	389,140	383,778
Commodities	37,101	13,932
Total operating expenses	<u>910,539</u>	<u>835,073</u>
Operating loss	<u>(329,344)</u>	<u>(232,142)</u>
Nonoperating revenues (expenses)		
Interest income	694	287
Other income, net	64,856	17,459
Gifts and contributions	75,759	152,550
Support for University activities	<u>(59,784)</u>	<u>(117,406)</u>
Total nonoperating revenues (expenses)	<u>81,525</u>	<u>52,890</u>
Decrease in net position	<u>(247,819)</u>	<u>(179,252)</u>
Net position, beginning of year	<u>14,898,332</u>	<u>15,077,584</u>
Net position, end of year	<u>\$ 14,650,513</u>	<u>\$ 14,898,332</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating activities		
Receipts from University and tenants	\$ 435,511	\$ 439,590
Payments to vendors and contractors	(542,587)	(481,750)
University support and other receipts	40,326	369,727
Net cash (used in) provided by operating activities	<u>(66,750)</u>	<u>327,567</u>
Noncapital financing activities		
Received from private grants and donations	75,759	152,550
Payments to University for research activities	(59,784)	(117,406)
Other receipts	82,856	17,459
Net cash provided by noncapital financing activities	<u>98,831</u>	<u>52,603</u>
Capital and related financing activities		
Purchases of capital assets	(65,055)	(308,283)
Net cash used in capital and related financing activities	<u>(65,055)</u>	<u>(308,283)</u>
Investing activities		
Interest received	694	287
Net cash provided by investing activities	<u>694</u>	<u>287</u>
(Decrease) increase in cash	(32,280)	72,174
Cash, beginning of year	644,594	572,420
Cash, end of year	<u>\$ 612,314</u>	<u>\$ 644,594</u>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	\$ (329,344)	\$ (232,142)
Depreciation	389,140	383,778
Changes in operating assets and liabilities		
Accounts receivable	1,019	(19,561)
Prepaid ground lease	(21,887)	(21,373)
Accounts payable and accrued liabilities	699	(9,082)
Unearned revenue	(33,586)	303,815
Lease deposits	(4,059)	(332)
Other liabilities	(68,732)	(77,536)
Net cash (used in) provided by operating activities	<u>\$ (66,750)</u>	<u>\$ 327,567</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, 2018 and 2017

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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

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 September 19, 2018, 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.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

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 portion of \$30,250 and noncurrent portion of the unearned revenue associated with this agreement of \$237,699 and \$267,950, respectively, are reflected in the accompanying statements of net position as of June 30, 2018 and 2017. Also included in the current portion of unearned revenue for the years ended June 30, 2018 and 2017 are lease payments received in advance from other tenants totaling \$5,334 and \$8,669, 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

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017, the Foundation's bank balances were \$614,440 and \$647,771, 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, 2018 and 2017, the Foundation's cash accounts exceeded federally insured limits by approximately \$358,000 and \$295,000, respectively.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

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:

	2018	2017
Carrying value		
Deposits	\$ 612,314	\$ 644,594
Included in the following statements of net position		
Cash	612,314	644,594

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, 2018 and 2017, 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

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

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, 2018 and 2017, the Foundation recognized expenses and University support revenue of \$146,703 and \$143,780, respectively.

Research Park utilities paid to the University for the years ended June 30, 2018 and 2017 totaled \$124,848 and \$104,403, respectively. Amounts owed to the University for utilities at June 30, 2018 and 2017 were \$12,866 and \$10,695, respectively, and are included in accounts payable and accrued 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 were to be repaid through rental income derived from the Research Park's conference and seminar rooms. The Foundation repaid these funds in full during fiscal year 2018. The estimated amount to be repaid in the fiscal year 2018 of \$5,250 is reflected as other current liabilities with the remaining balance of \$63,482 included in noncurrent other liabilities at June 30, 2017.

The Foundation provided support of \$59,784 and \$117,406 for University research activities during the years ended June 30, 2018 and 2017, respectively, of which \$188 is included in accounts payable and accrued liabilities at June 30, 2017 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 \$41,561 and \$40,595 was recognized for the years ended June 30, 2018 and 2017, respectively. Additionally, the University occupies other space at the Research Park for which payments of \$98,733 and \$98,733 were received by the Foundation and recognized as lease income for the years ended June 30, 2018 and 2017, respectively.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital assets activity for the years ended June 30, 2018 and 2017 was:

June 30, 2018	Beginning Balance	Additions	Disposals	Ending Balance
Building	\$ 12,636,789	\$ -	\$ -	\$ 12,636,789
Building improvements	1,943,042	65,055	-	2,008,097
Land improvements	263,146	-	-	263,146
Equipment	106,210	-	-	106,210
	14,949,187	65,055	-	15,014,242
Accumulated depreciation	(2,051,287)	(389,140)	-	(2,440,427)
	12,897,900	(324,085)	-	12,573,815
Capital assets, nondepreciable				
Land improvements	1,660,429	-	-	1,660,429
Construction in progress	18,000	-	(18,000)	-
	1,678,429	-	(18,000)	1,660,429
Capital assets, net	\$ 14,576,329	\$ (324,085)	\$ (18,000)	\$ 14,234,244

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

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
	14,640,904	308,283	-	14,949,187
Accumulated depreciation	(1,667,509)	(383,778)	-	(2,051,287)
	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
	1,678,429	-	-	1,678,429
Capital assets, net	\$ 14,651,824	\$ (75,495)	\$ -	\$ 14,576,329

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

NOTES TO FINANCIAL STATEMENTS

Note 5. Other Liabilities

Other liabilities consist of the following amounts owed to the University at June 30, 2018 and 2017:

June 30, 2018	Beginning Balance	Additions	Deletions	Ending Balance
Due to Technology Management	\$ 68,732	\$ -	\$ 68,732	\$ -

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				(5,250)
Noncurrent other liabilities				<u>\$ 63,482</u>

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Years Ended June 30, 2018 and 2017

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
2019	\$ 108,987
2020	80,950
2021	43,734
2022	30,250
2023	30,250
2024 - 2027	116,700
	<u>\$ 410,871</u>

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, 2018 and 2017

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, 2018, are as follows:

Years Ending June 30,	Amount
2019	\$ 19,675
2020	19,675
2021	19,675
2022	19,675
2023	19,675
2024 - 2028	98,376
2029 - 2033	98,376
2034 - 2038	98,376
2039 - 2043	98,376
2044 - 2048	98,376
2049 - 2050	36,071
	<u>\$ 626,326</u>

Total rental expense for operating leases for the years ended June 30, 2018 and 2017 was \$22,275 and \$21,779, respectively. Cumulative amounts prepaid to the University for the ground lease as of June 30, 2018 and 2017 were \$94,359 and \$72,472, 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, 2018 and 2017

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 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, 2018, 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 19, 2018.

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 and Other Matters

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 19, 2018

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

As part of our audit of the financial statements of The University of Mississippi Research Foundation (the "Foundation") [a component unit of the University of Mississippi] as of and for the year ended June 30, 2018, we wish to communicate the following to you.

Auditor's Responsibility Under 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

An audit performed 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, is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Foundation's significant accounting policies are described in *Note 1* of the audited financial statements.

Critical Accounting Policies and Practices

No matters are reportable.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

No matters are reportable.

Financial Statement Disclosures

The following area involves a particularly sensitive financial statement disclosure for which we are prepared to discuss the issues involved and related judgments made in formulating this disclosure:

- Transactions with the University of Mississippi

Audit Adjustments

No matters are reportable.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Material Communication

Listed below is another material written communication between management and us related to the audit:

- Management representation letter (attached)

This letter is intended solely for the information and use of management, the Board of Directors, and others within the Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 19, 2018



September 19, 2018

BKD, LLP
Certified Public Accountants
190 East Capitol Street, Suite 500
Jackson, MS 39201

We are providing this letter in connection with your audits of our financial statements of The University of Mississippi Research Foundation (the Foundation) as of and for the years ended June 30, 2018 and 2017. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated August 23, 2018 for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.



4. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the Foundation from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of the governing body meetings held through the date of this letter.
 - (e) All significant contracts and grants.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Foundation procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net assets.
7. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Foundation received in communications from employees, customers, regulators, suppliers or others.
9. We have disclosed to you the identity of the Foundation's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of



America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Foundation may deal if the Foundation can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Foundation.

10. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the statement of financial position date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Foundation is contingently liable.
11. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
12. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the consolidated financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.



13. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables, including pledges.
 - (b) Reducing obsolete or excess inventories to estimated net realizable value.
 - (c) Purchase commitments in excess of normal requirements or above prevailing market prices.
14. Except as disclosed in the financial statements, the Foundation has:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
15. With regard to deposit and investment activities:
 - (a) All deposit and any repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and any investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
16. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of financial position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
17. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

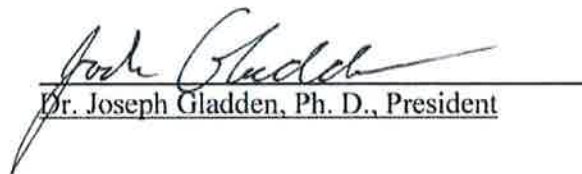


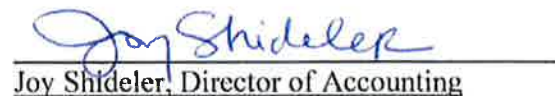
18. The Foundation's investment in CENTRI Technology, Inc. is properly valued at \$0 as no readily determinable market value is available.
19. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
20. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.
21. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
22. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
23. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
24. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
25. We have a process to track the status of audit findings and recommendations.
26. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
27. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit



of the financial statements performed in accordance with *Government Auditing Standards*.

28. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
29. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.


Dr. Joseph Gladden, Ph. D., President


Joy Shideler, Director of Accounting