

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Independent Auditor's Reports and Financial Statements

Year Ended June 30, 2022

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of the University of Mississippi Research Foundation (the Foundation), a component unit of the University of Mississippi, as of June 30, 2022, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

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, 2022, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further describe in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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 and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022, 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 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.

A handwritten signature in black ink that reads "J E Vance & Company". The signature is written in a cursive, flowing style.

Tupelo, Mississippi
October 11, 2022

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Management's Discussion and Analysis

June 30, 2022

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 statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows. The emphasis of these statements will be on the current year and the adoption of Governmental Accounting Standards Board Statement Number 87, *Leases*. While audited financial statements for fiscal year 2021 are not presented with this report, condensed 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.

Condensed 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, 2022

Condensed Statements of Net Position

June 30,	2022	2021
Assets		
Current assets	\$ 927,293	\$ 767,100
Noncurrent assets	14,088,267	13,078,723
Total assets	15,015,560	13,845,823
Liabilities		
Current liabilities	98,142	196,172
Noncurrent liabilities	1,195,569	146,950
Total liabilities	1,293,711	343,122
Deferred inflow of resources, leases	576,754	-
Total liabilities and deferred inflow	1,870,465	343,122
Net Position		
Net investment in capital assets	13,471,167	13,078,723
Restricted - expendable	398,416	370,573
Unrestricted	(724,488)	53,405
Total net position	\$ 13,145,095	\$ 13,502,701

During fiscal year 2022, total assets increased by \$1,169,737. Assets increased from the recognition of a right to use a leased asset as required by GASB Statement 87 for leases in which UMRF is the lessee and the recognition of the receivables recognized for which UMRF is the lessor. See Note 5 for more detail. In addition, Construction in Progress increased by \$822,155 as UMRF continued to build out space for future tenants. Total assets decreased \$372,483 in fiscal year 2021 with the reduction of prepaid expenses and depreciation of capital assets. Total liabilities increased by \$950,589 with the recognition of liability related to the contract with the University for the lease of the real property at Research Park and the recognition of a note payable with the University to complete a construction project. In addition, GASB Statement 87 required the Foundation to recognize a deferred inflow of resources in amount of \$576,754 which represents the present value of future lease payments under contract with tenants at Insight Park. These changes to the accounting for leases and the continued depreciation of capital assets resulted in a decrease in net position of \$357,606 for the year ended June 30, 2022. In fiscal year 2021 and

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

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Management's Discussion and Analysis

June 30, 2022

prior years, the change in total net position was primarily due to depreciation on the Research Park capital assets.

Current assets for the current fiscal year consist of cash, accounts receivable, lease receivable short term, and prepaid amounts. 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 and, in fiscal year 2022, Long-term lease receivables.

Current liabilities primarily consist of lease liabilities from the lease of the real property at Research Park and unearned income from leases UMRF has with tenants that rent space. There are also lease deposits from Research Park tenants. In FY21, current liabilities also included contributions received for the fiscal year 2020 International Conference on the Science of Botanicals due to the cancellation of the March 2020 conference. That conference was held in fiscal year 2022 and the unearned income was recognized which reduced the current liability related to the conference by \$42,000.

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 occupies 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 \$116,700 and \$146,950 are included in noncurrent liabilities as of June 30, 2022 and 2021, 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.

Condensed 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

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

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Management's Discussion and Analysis

June 30, 2022

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,	2022	2021
Operating revenues	\$ 518,983	\$ 458,446
Operating expenses	<u>847,072</u>	<u>855,117</u>
Operating loss	(328,089)	(396,671)
Nonoperating revenues (expenses)	<u>(29,517)</u>	<u>(1,977)</u>
Decrease in net position	<u>\$ (357,606)</u>	<u>\$ (398,648)</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 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.

Condensed 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.

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Management's Discussion and Analysis

June 30, 2022

Years Ended June 30,	2022	2021
Cash provided by (used in)		
Operating activities	\$ (70,038)	\$ 47,591
Noncapital financing activities	(16,796)	(2,287)
Capital and related financing activities	-	-
Investing activities	(12,721)	310
Increase (decrease) in cash	\$ (99,555)	\$ 45,614

The cash flow from operating activities decreased by \$117,629 from fiscal year 2021. Receipts from University and Tenants increased by \$15,728 and payments to vendors and contractors went down by \$19,962, but University support and other receipts decreased by \$153,319.

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)
Statement of Net Position
June 30, 2022

ASSETS

Current assets

Cash	\$ 603,488
Accounts receivable	475
Lease receivable, short term	282,027
Prepaid ground lease and other expense	<u>41,303</u>
Total current assets	927,293

Noncurrent assets

Lease receivable, long term	285,641
Right of use leased asset, net	289,193
Capital assets, net	<u>13,513,433</u>
Total noncurrent assets	<u>14,088,267</u>

Total assets	<u>15,015,560</u>
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LIABILITIES

Current liabilities

Lease liability, short term	4,364
Note payable, short term	48,464
Unearned revenue	32,996
Lease deposits	<u>12,318</u>
Other liabilities	
Total current liabilities	<u>98,142</u>

Noncurrent liabilities

Other liabilities	
Unearned revenue	116,700
Note payable	787,829
Lease liability, long term	<u>291,040</u>
Total noncurrent liabilities	1,195,569

Total liabilities	1,293,711
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Deferred inflow of resources, leases	<u>576,754</u>
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Total liabilities and deferred inflow of resources	<u>1,870,465</u>
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NET POSITION

Net investment in capital assets	13,471,167
Restricted - expendable	398,416
Unrestricted	<u>(724,488)</u>
Total net position	<u>\$ 13,145,095</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2022

Operating revenues	
Lease income	\$ 417,705
Contributions, gifts and grants	86,640
University support	<u>14,638</u>
Total operating revenues	<u>518,983</u>
Operating expenses	
Contractual services	441,731
Depreciation	387,445
Amortization	10,328
Commodities	<u>7,568</u>
Total operating expenses	<u>847,072</u>
Operating loss	<u>(328,089)</u>
Nonoperating revenues (expenses)	
Interest expense	(12,721)
Support for University activities	<u>(16,796)</u>
Total nonoperating (expenses)	<u>(29,517)</u>
Decrease in net position	(357,606)
Net position, beginning of year	<u>13,502,701</u>
Net position, end of year	<u>\$ 13,145,095</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION

(A Component Unit of the University of Mississippi)

Statement of Cash Flows

Year Ended June 30, 2022

Operating activities

Receipts from University and tenants	\$ 418,508
Payments to vendors and contractors	(453,180)
University support and other receipts	<u>(35,366)</u>
Net cash used by operating activities	<u>(70,038)</u>

Noncapital financing activities

Payments to University for research activities	<u>(16,796)</u>
Net cash used in noncapital financing activities	<u>(16,796)</u>

Investing activities

Interest expense	<u>(12,721)</u>
Net cash used for investing activities	<u>(12,721)</u>

Decrease in cash (99,555)

Cash, beginning of year 703,043

Cash, end of year \$ 603,488

Reconciliation of net operating revenues (expenses)

to net cash used by operating activities	
Operating loss	\$ (328,089)
Depreciation	387,445
Amortization	10,328
Changes in operating assets and liabilities	
Other receipts- leases	(567,668)
Right of use asset	(832,483)
Construction in progress	(289,193)
Long term Liability	836,293
Accounts receivable	125
Deferred inflow from leases	576,754
Prepaid ground lease	22,154
Accounts payable and accrued liabilities	(3,881)
Unearned revenue	(177,905)
Lease Liability	295,404
Lease deposits	<u>678</u>

Net cash used by operating activities \$ (70,038)

See accompanying notes to financial statements.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Year Ended June 30, 2022

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)
Year Ended June 30, 2022

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.

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)
Year Ended June 30, 2022

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.

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 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

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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Year Ended June 30, 2022

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

income tax on any unrelated business taxable income.

Adoption of New Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The Entity adopted the requirements of the guidance effective July 1, 2021, and has applied the provisions of this standard to the beginning of the period of adoption.

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, 2022, the Foundation's bank balances were \$603,488. 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, 2022, the Foundation's cash accounts exceeded federally insured limits by approximately \$316,000.

Summary of Carrying Values

The carrying values of deposits are included in the statement of net position as follows:

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Year Ended June 30, 2022

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Carrying value	
Deposits	\$ 603,488
Included in the following statements of net position	
Cash	603,488

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, 2022 and 2021, 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 all development, 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 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

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
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Year Ended June 30, 2022

NOTES TO FINANCIAL STATEMENTS

Note 3. Continued

accompanying financial statements. For the year ended June 30, 2022, the Foundation recognized expenses and University support revenue of \$14,638. Additionally, the Foundation transferred funds to the University to cover certain Research Park operational expenses of which \$2,178 remained unspent and is included in prepaid expense at June 30, 2022.

Research Park utilities paid to the University for the year ended June 30, 2022 totaled \$167,885.

The Foundation provided support of \$16,796 for University research activities during the year ended June 30, 2022.

The University occupies space at the Research Park for which payments of \$179,991 were received by the Foundation and recognized as lease income for the year ended June 30, 2022.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2022 was:

June 30, 2022	Beginning Balance	Additions	Disposals	Ending Balance
Right of Use Leased Asset	\$ -	\$ 299,521	\$ -	\$ 299,521
Accumulated amortization	-	(10,328)	-	(10,328)
Right of Use Leased Asset, net	-	289,193		289,193
Capital assets, Nondepreciable				
Construction in progress	-	822,155		822,155
Land improvements	1,660,429	-	-	1,660,429
Total Capital Assets, Nondepreciable	1,660,429	822,155	-	2,482,584
Capital assets, Depreciable				
Building	12,636,789	-	-	12,636,789
Building improvements	2,008,097	-	-	2,008,097
Land improvements	263,146	-	-	263,146
Equipment	126,170	-	-	126,170
Total Capital Assets, Depreciable	15,034,202	-	-	15,034,202
Total Accumulated Depreciation	(3,615,908)	(387,445)	-	(4,003,353)
Capital Assets, Net of Depreciation	\$ 13,078,723	\$ 434,710	\$ -	\$ 13,513,433

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Year Ended June 30, 2022

NOTES TO FINANCIAL STATEMENTS

Note 5. 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 Foundation's Research Park also has multiple tenant lease agreements with varying terms that are for more than 12 months. Management considers them a lease under GASB 87 and has recorded an asset and a deferred liability. Leases that were longer than one year were recorded as a lease receivable at present value with an 6% discount rate with an amount for unearned income for the future rental payments due under the lease contract on July 1 of the current fiscal year or day one of the lease contract if the lease started during the year.

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Year Ended June 30, 2022

NOTES TO FINANCIAL STATEMENTS

At June 30, 2022

Leases with terms one year or less

Tenant	Lease Term		Base	2023
	07/01/2022	06/30/2023	\$ 480	\$ 5,760
	03/01/2022	02/28/2023	475	4,275
	07/01/2022	06/30/2023	1,408	16,900
	06/01/2022	05/31/2023	2,420	26,620
	07/01/2022	06/30/2022	500	6,000
	07/01/2022	07/31/2022	825	825
	07/01/2022	06/30/2023	3,100	37,200
	11/01/2021	10/31/2022	850	3,400
	07/01/2022	06/30/2023	245	2,945
	04/01/2019	10/31/2022	6,229	24,914

Leases with terms greater than one year

Tenant	Lease Term		Base
	02/01/2022	01/31/2025	\$ 6,007
	08/01/2018	07/31/2023	8,683
	04/11/2022	07/31/2023	6,000
	12/01/2021	11/30/2026	5,000

Principal

	2023	2024	2025	2026	2027	Total
	\$ 72,084	\$ 72,084	\$ 42,049	\$ -	\$ -	\$ 186,217
	104,190	8,683	-	-	-	112,873
	72,000	6,000	-	-	-	78,000
	60,000	60,000	60,000	60,000	25,000	265,000
	\$ 308,274	\$ 146,767	\$ 102,049	\$ 60,000	\$ 25,000	\$ 642,090

GASB 87 Adjustments

PV of payments with 6% interest

	Lease Rec Short Term	Lease Rec Long Term	Deferred Inflow
	\$ 63,485	\$ 108,620	\$ (170,881)
	100,449	7,437	(95,680)
	69,367	5,970	(75,156)
	48,726	163,614	(235,037)
	\$ 282,027	\$ 285,641	\$ (576,754)

Recognized inflows from GASB leases in 2022 \$ 171,628

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Year Ended June 30, 2022

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

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 Base rent amount increased by \$2,046 in FY2022 and will be adjusted each year.

At June 30, 2022

Leases with terms one year or less

Tenant	Lease Term		Base Monthly
Rose Equipment	07/01/2021	06/30/2022	\$ 480

Leases with terms greater than one year

Tenant	Lease Term		Base Yearly
Insight Park	04/15/10	04/15/50	\$ 22,089

Year	Interest	Principal
2023	\$ 17,724	\$ 4,364
2024	17,462	4,626
2025	17,185	4,904
2026	16,891	5,198
2027	16,579	5,510
2028-2032	77,519	32,924
2033-2037	66,384	44,060
2038-2042	51,482	58,962
2043-2047	31,539	78,904
2048-2050	6,632	55,952
	<u>\$ 319,397</u>	<u>\$ 295,404</u>

GASB 87 Adjustments
PV of payments with 6% interest

Insight Park	Right to Use	Lease Liability	Interest Expense
	<u>\$ 299,521</u>	<u>\$ (295,404)</u>	<u>\$ 17,971</u>

THE UNIVERSITY OF MISSISSIPPI RESEARCH FOUNDATION
(A Component Unit of the University of Mississippi)
Year Ended June 30, 2022

NOTES TO FINANCIAL STATEMENTS

Note 6. 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.

Note 7. Note Payable

The Foundation agreed with the with University of Mississippi to borrow funds to complete the construction of the Biomedical Engineering suites and labs. The University paid the construction costs to complete the renovation and at June 30, 2022, the total construction costs was \$836,293 which includes interest expense of \$14,138. The note will be repaid over 15 years with an interest rate of 1.97%. The Foundation anticipates collecting rent when the Biomedical Engineering department occupies the space in FY23.

The future amount of principal and interest payments are as follows:

Year	Interest	Principal
2023	\$ 16,475	\$ 48,464
2024	15,520	49,419
2025	14,547	50,392
2026	13,554	51,385
2027	12,542	52,397
2028-2032	46,812	277,882
2033-2037	18,341	306,354
	<u>\$ 137,791</u>	<u>\$ 836,293</u>

Note 8. 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)
Year Ended June 30, 2022

NOTES TO FINANCIAL STATEMENTS

Note 9. 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 10. Subsequent Events

Subsequent events were evaluated through October 11, 2022, which is the date the financial statements were available to be issued.

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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*

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

We have audited, in accordance with the 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 business-type activities 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, 2022, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated October 11, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing 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.

A handwritten signature in black ink that reads "J. E. Vance & Company". The signature is written in a cursive, flowing style.

Tupelo, Mississippi
October 11, 2022