

THE UNIVERSITY OF SOUTHERN MISSISSIPPI
RESEARCH FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2009

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

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The University of Southern Mississippi Research Foundation, Inc.

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EXHIBIT A

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

ASSETS

ASSETS

Cash and cash equivalents	\$ 595,501
Research contracts receivable	1,303,045
Prepaid expenses	65,000
Property, plant and equipment, net of accumulated depreciation of \$377,521	7,041,423
Other assets	<u>15,973</u>
Total assets	<u><u>\$ 9,020,942</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 23,021
Research contracts payable	1,307,477
Refundable security deposits	88,060
Notes payable	<u>6,339,077</u>
Total liabilities	<u>7,757,635</u>

NET ASSETS, UNRESTRICTED

1,263,307

Total liabilities and net assets

\$ 9,020,942

EXHIBIT B

EXHIBIT C

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 490,502
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	122,153
Donated equipment included in contributions	(40,000)
Increase (decrease) from changes in operating assets and liabilities:	
Research contracts receivable	(1,204,664)
Prepaid expenses	(65,000)
Accounts payable	310,734
Research contracts payable	809,174
Net cash provided (used) by operating activities	<u>422,899</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	<u>(245,391)</u>
Net cash provided (used) by investing activities	<u>(245,391)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of notes payable	<u>(549,045)</u>
Net cash provided (used) by financing activities	<u>(549,045)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(371,537)
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>967,038</u>
End of year	<u>\$ 595,501</u>
SUPPLEMENTARY INFORMATION	
In-kind donations of equipment	<u>\$ 40,000</u>
Interest paid	<u>\$ 175,804</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Principles of Consolidation - The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, Pinion Properties, LLC (Pinion). Pinion was formed on January 10, 2005, as a limited liability company whereby certain real property held by the Foundation was transferred to the newly formed entity to manage and maintain.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEAR ENDED DECEMBER 31, 2009

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

Research contract revenue is recognized as income in the period the service is provided. Such income is derived in part from separate contracts with The University of Southern Mississippi (the University) which provide for research to be performed by certain faculty. Payments to the University under research contracts aggregated \$2,612,058 as of December 31, 2009.

The Foundation has received various contributions of valuable intellectual property that have been patented. However, the ultimate value of the patented property is highly subjective and dependent upon successful commercialization by the Foundation of viable ideas. When intellectual property is successfully marketed or patents are licensed to third parties, royalty fees will be recognized as earned, over the period of the license agreement.

Rental revenue is recognized as it is earned.

Functional Expenses - Functional expenses are allocated between program services and supporting services. Supporting services include general and administrative activities and rental expenses. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide overall support and direction of the Foundation. Rental expenses relate directly to Pinion operating properties.

Subsequent Events - In connection with the preparation of consolidated financial statements, subsequent events are reviewed through the date the financial statements are issued.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

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YEAR ENDED DECEMBER 31, 2009

NOTE 2 - NOTES PAYABLE

Notes payable as of December 31, 2009 consisted of the following:

Note payable to a commercial bank, due in monthly installments of \$6,200, at the 1-month LIBOR rate plus 2.25%, 2.485% at December 31, 2009, maturity date is May 10, 2013, secured by real property.	\$ 782,178
Note payable to a commercial bank due in monthly installments of \$54,183, at the LIBOR Market Index Rate rate plus 2.25%, 2.485% at December 31, 2009, maturity date is July 14, 2011, secured by real property.	<u>5,556,899</u>
Total notes payable	<u><u>\$ 6,339,077</u></u>

Maturities of notes payable at December 31,

	\$--46.5ty
	\$ 39,077

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEAR ENDED DECEMBER 31, 2009

NOTE 7 - OPERATING LEASE COMMITMENTS

The Foundation leases office space to tenants under noncancelable operating lease agreements with terms of one to ten years. The following is a schedule by years of future minimum rentals under the leases at December 31, 2009.

2010	\$ 2,146,852
2011	1,948,786
2012	1,356,226
2013	780,800
2014	780,800
Thereafter	<u>1,106,135</u>
	<u>\$ 8,119,599</u>

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes as of December 31, 2009:

Land and improvements	\$ 1,165,747
Buildings and improvements	<u>4,270,237</u>
	5,435,984
Less accumulated depreciation	<u>(328,561)</u>
Net property and equipment held for lease	<u>\$ 5,107,423</u>

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

Land and improvements	\$ 2,774,387
Buildings and improvements	4,550,085
Furniture and equipment	<u>94,472</u>
	7,418,944
Less: accumulated depreciation	<u>(377,521)</u>
Total	<u>\$ 7,041,423</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEAR ENDED DECEMBER 31, 2009

NOTE 9 - INVESTMENTS

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

NOTE 10 - SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, management of the Foundation has evaluated subsequent events through December 22, 2010, which is the date the financial statements were available to be issued.

In 2010, the Foundation entered into a lawsuit against a former consultant and employee of the University. The lawsuit was settled in favor of the Foundation in 2010, resulting in net settlement proceeds of \$576,000, net of attorney fees. Additional related litigation is being pursued by the Foundation. There are no known claims or threatened litigation against the Foundation as of the date of this report.

SUPPLEMENTARY INFORMATION

Program
Services

General and
A

University of
Southern
Mississippi
Research
Foundation, Inc.

Pinion
Properties, LLC

Consolidating
and Eliminating

