

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI  
RESEARCH FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2014 and 2013**

# THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for

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

responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Nicholson & Company, PLLC*

Hattiesburg, Mississippi  
February 14, 2015

EXHIBIT A

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 464,003	\$ 903,960

EXHIBIT B

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

<b>REVENUES, GAINS AND OTHER SUPPORT</b>	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Rental revenues	\$ 1,359,785	\$ 1,574,358
Research contracts revenue	193,705	175,224
Donations	137,806	131,467
Interest income	293	300
Other income	233,046	88,137
Total revenues, gains and other support	<u>1,924,635</u>	<u>1,969,486</u>
<b>EXPENSES</b>		
Program services:		
Research contracts, The University of Southern Mississippi	167,226	139,078
Scholarships, grants, and awards	21,907	23,111
Waterborne symposium	228,625	78,288
Total program services	<u>417,758</u>	<u>240,477</u>
Supporting services:		
Management and general	176,861	204,049
Rental expenses	1,274,596	1,328,481
Total supporting services	<u>1,451,457</u>	<u>1,532,530</u>
Total expenses	<u>1,869,215</u>	<u>1,773,007</u>
<b>CHANGE IN NET ASSETS</b>	55,420	196,479
<b>NET ASSETS</b>		
Beginning of year	<u>4,567,470</u>	<u>4,370,991</u>
End of year	<u>\$ 4,622,890</u>	<u>\$ 4,567,470</u>

See accompanying notes to consolidated financial statements.

EXHIBIT C

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 55,420	\$ 196,479
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	231,321	207,904
(Increase) decrease in:		
Accounts receivable	(5,855)	3,450
Research contracts receivable	(36,454)	(16,604)
Rent receivable	(57,665)	(8,476)
Increase (decrease) in:		
Accounts payable	(57,560)	75,724
Research contracts payable	54,684	(52,357)
Accrued interest	(4,478)	12,800
Refundable security deposits	-	28,306
Deferred rental revenue	242	(176,874)
Net cash provided by operating activities	<u>179,655</u>	<u>270,352</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(18,321)	(675,673)
Net cash (used) by investing activities	<u>(18,321)</u>	<u>(675,673)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of notes payable	(601,291)	(569,209)
Net cash (used) by financing activities	<u>(601,291)</u>	<u>(569,209)</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(439,957)	(974,530)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>903,960</u>	<u>1,878,490</u>
End of year	<u>\$ 464,003</u>	<u>\$ 903,960</u>
<b>SUPPLEMENTARY INFORMATION</b>		
Interest paid	<u>\$ 142,709</u>	<u>\$ 187,591</u>

See accompanying notes to A869nsj10.4772 TD0D-.0119 Tc-.0025 Tw(COolidated finc)-ial statements



***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

***Income Tax*** - The Foundation is exempt from federal income taxes on related income under Code section 501(c)(3) of the Internal Revenue Code of 1954.

**THE UNIVERSITY OF SOUTHERN MI**

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**YEAR ENDED DECEMBER 31, 2014**

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 5 - OPERATING LEASE COMMITMENTS**

The Foundation leases office space to tenants under noncancelable operating lease agreements with terms of one to five years. The following is a schedule by years of future minimum rentals under the leases at December 31, 2014:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 900,155
2016	<u>348,107</u>
	<u>\$ 1,248,262</u>

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes as of December 31, 2014 and 2013:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 680,325	\$ 49,232
Buildings and improvements	<u>3,141,947</u>	<u>2,168,365</u>
	3,822,272	2,217,597
Less accumulated depreciation	<u>(689,373)</u>	<u>(396,910)</u>
Net property and equipment held for lease	<u>\$ 3,132,899</u>	<u>\$ 1,820,687</u>

**NOTE 6 - RISK AND UNCERTAINTIES**

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of bank deposit accounts. The Foundation maintains its cash balances in financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2014 and 2013, the Foundation had \$165,384 and \$97,513, respectively, of cash deposits in excess of the FDIC limits.

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**YEARS ENDED DECEMBER 31, 2014 AND 2013**

***NOTE 7 - RELATED PARTY TRANSACTIONS***

On April 13, 2010, the Foundation and the University entered into a lease agreement, combining four previous lease agreements into one. Under the terms of the agreement, the University is provided with

***SUPPLEMENTARY INFORMATION***



	<b>University of Southern Mississippi Research Foundation, Inc.</b>	<b>Pinion Properties, LLC</b>	<b>Waterborne</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Cash and cash equivalents, unrestricted	\$ 151,941	\$ 213,931	\$ 98,131	\$ -	\$ 464,003
Accounts receivable	-	-	11,345	-	11,345
Research contracts receivable	136,429	-	-	-	136,429
Rent receivable	56,842	65,891	-	(56,592)	66,141
Property, plant and equipment, net	12,425	6,954,964	-	-	6,967,389
Other assets	-	25,452	-	-	25,452

SCHEDULE 2

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014**

	<b>University of Southern Mississippi Research Foundation, Inc.</b>	<b>Pinion Properties, LLC</b>	<b>Waterborne</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Rental revenues	\$ 42,444	\$ 1,359,785	\$ -	\$ (42,444)	\$ 1,359,785
Research contract revenue	193,705	-	-	-	193,705
Donations	137,806	-	-	-	137,806
Interest income	293	-	-	-	293
Other income	-	6,820	226,226	-	233,046
Total revenues, gains and other support	<u>374,248</u>	<u>1,366,605</u>	<u>226,226</u>	<u>(42,444)</u>	<u>1,924,635</u>
<b>EXPENSES</b>					
Program services:					
Research contracts, The University of Southern Mississippi	167,226	-	-	-	167,226
Scholarships, grants, and awards	18,801	-	3,106	-	21,907
Waterborne symposium	-	-	228,625	-	228,625
Supporting services:					
Management and general	212,533	-	6,772	(42,444)	176,861
Rental expenses	-	1,274,596	-	-	1,274,596
Total expenses	<u>398,560</u>	<u>1,274,596</u>	<u>238,503</u>	<u>(42,444)</u>	<u>1,869,215</u>
<b>CHANGE IN NET ASSETS</b>	(24,312)	92,009	(12,277)	-	55,420
<b>NET ASSETS</b>					
Beginning of year	<u>1,171,057</u>	<u>4,386,227</u>	<u>10,195</u>	<u>(1,000,009)</u>	<u>4,567,470</u>
End of year	<u>\$ 1,146,745</u>	<u>\$ 4,478,236</u>	<u>\$ (2,082)</u>	<u>\$ (1,000,009)</u>	<u>\$ 4,622,890</u>

SCHEDULE 3

**THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.**

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014**

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Rental</b>	
Accounting	\$ -	\$ 13,483	\$ -	\$ 13,483
Bank charges	-	6,087	-	6,087
Computer and internet	-	-	2,045	2,045
Depreciation and amortization	-	8,698	222,622	231,320
Dues and subscriptions	-	-	1,000	1,000
Insurance	-	1,896	187,105	189,001
Interest expense	-	-	138,231	138,231
Legal and professional fees	-	-	2,249	2,249
Meals and entertainment	-	-	525	525
Miscellaneous	-	5	436	441
Office expense	-	679	2,290	2,969
Pest control	-	-	7,991	7,991
Postage	-	32	176	208
Rental expense	-	95	-	95
Repairs and maintenance	-	-	62,585	62,585
Research contracts	167,226	-	-	167,226
Salaries	-	131,722	112,274	243,996
Scholarships and awards	21,907	-	-	21,907
Symposium	228,625	-	-	228,625
Taxes, payroll	-	-	5,985	5,985
Taxes, property	-	-	103,616	103,616
Travel and meetings expense	-	14,164	-	14,164
Uniforms	-	-	2,325	2,325
Utilities	-	-	423,141	423,141
	<u>\$ 417,758</u>	<u>\$ 176,861</u>	<u>\$ 1,274,596</u>	<u>\$ 1,869,215</u>