

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors
The

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

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.



Hattiesburg, Mississippi
March 24, 2017

EXHIBIT A

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS	2016	2015
Cash and cash equivalents	\$ 1,157,537	\$ 469,689
Accounts receivable	21,991	20,985
Research contracts receivable	20	46,699
Rent receivable	-	18,012
Property, plant and equipment, net	19,232	6,558,056

See accompanying notes to consolidated financial statements.

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, 2016 AND 2015**

	December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (3,750,414)	\$ 110,236
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	61,087	254,289
Loss on sale of buildings and land	3,534,448	-
(Increase) decrease in:		
Accounts receivable	(1,006)	(9,640)
Research contracts receivable	46,679	89,730
Rent receivable	18,012	48,129
Other assets	(1,200)	-
Increase (decrease) in:		
Accounts payable	5,276	(295)
Research contracts payable	(84,655)	(67,221)
Accrued interest	(5,531)	(2,791)
Refundable security deposits	(119,809)	(8,850)
Deferred revenue	(12,562)	75,435
Net cash provided (used) by operating activities	<u>(309,675)</u>	<u>489,022</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(3,164)	-
Cash proceeds from sale of buildings and land	3,165,000	(20,105)
Net cash provided (used) by investing activities	<u>3,161,836</u>	<u>(20,105)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(2,164,313)	(445,285)
Loan origination fees	-	(17,946)
Net cash (used) by financing activities	<u>(2,164,313)</u>	<u>(463,231)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	687,848	5,686
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>469,689</u>	<u>464,003</u>
End of year	<u>\$ 1,157,537</u>	<u>\$ 469,689</u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 29,441</u>	<u>\$ 106,868</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2016 AND 2015

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

Research contracts 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.

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. 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 -

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4 - OPERATING LEASE COMMITMENTS (Cont.)

by major classes as of:

	December 31,	
	2016	2015
Land and improvements	\$ -	\$ 45,901
Buildings and improvements	-	1,975,012
	-	2,020,913
Less accumulated depreciation	-	(505,255)
Net property and equipment held for lease	<u>\$ -</u>	<u>\$ 1,515,658</u>

NOTE 5 - INTANGIBLE ASSETS

Intangible assets consisted of the following as of:

	December 31,	
	2015	2014
Loan origination fees	\$ -	\$ 17,946
Less: accumulated amortization	-	(399)
	<u>\$ -</u>	<u>\$ 17,547</u>
Amortization expense	<u>\$ 17,547</u>	<u>\$ 25,851</u>

Amortization expense for fiscal year 2016 includes \$17,547 to fully amortize the loan origination fees due to the related note being paid in full.

NOTE 6 - CONCENTRATION OF CREDIT RISK

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 7 - CONCENTRATION OF GRANTS

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NOTE 8 - RELATED PARTY TRANSACTIONS

The University contributes salaries for certain Foundation employees. For the years ended December 31, 2016 and 2015, salaries and related benefits totaling \$131,828 and \$140,464, respectively, have been recorded in the statement of activities as unrestricted contributed support and unrestricted expenses.

SUPPLEMENTARY INFORMATION

University of Southern

SCHEDULE 2

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	University of Southern Mississippi Research Foundation, Inc.	Pinion Properties, LLC	Waterborne	Eliminations	Consolidated
REVENUES, GAINS AND OTHER SUPPORT					
Rental revenues	\$ -	\$ 154,126	\$ -	\$ -	\$ 154,126
Research contracts revenue	1,659,462	-	-	-	1,659,462
Contributed support	135,398	-	-	-	135,398
Interest income	1,676	-	-	-	1,676
Loss on sale of Pinion Properties	-	(3,534,448)	-	-	(3,534,448)
Loss on investment	(100,307)	-	-	100,307	-
Other income	500	14,925	287,243	-	302,668
Total revenues, gains and other support	<u>1,696,729</u>	<u>(3,365,397)</u>	<u>287,243</u>	<u>100,307</u>	<u>(1,281,118)</u>
EXPENSES					
Program services:					
Research contracts, The University of Southern Mississippi	1,515,427	-	-	-	1,515,427
Scholarships, grants, and awards	6,939	-	11,075	-	18,014
Waterborne symposium	-	-	208,450	-	208,450
Supporting services:					
Management and general	241,660	9,731	13,032	-	264,423
Rental expenses	1,500	461,482	-	-	462,982
Total expenses	<u>1,765,526</u>	<u>471,213</u>	<u>232,557</u>	<u>-</u>	<u>2,469,296</u>
CHANGE IN NET ASSETS	(68,797)	(3,836,610)	54,686	100,307	(3,750,414)
NET ASSETS					
Beginning of year	1,091,792	4,736,312	(94,969)	(1,000,009)	4,733,126
Member Distributions	-	(875,000)	-	875,000	-
End of year	<u>\$ 1,022,995</u>	<u>\$ 24,702</u>	<u>\$ (40,283)</u>	<u>\$ (24,702)</u>	<u>\$ 982,712</u>

**Program
Services**

Management