

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

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2013 and 2012**

# 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.

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.

Hattiesburg, Mississippi  
March 17, 2014

EXHIBIT A

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2013 AND 2012**

ASSETS

ASSETS	December 31,	
	2013	2012
Cash and cash equivalents	\$ 903,960	\$ 1,878,490
Accounts receivable	5,490	8,940
Research contracts receivable	99,975	83,371
Rent receivable	8,476	-
Property, plant and equipment, net	7,178,253	6,708,348
Other assets, net	27,588	29,724
Total assets	<u>\$ 8,223,742</u>	\$ 8,708,873

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 99,169	\$ 23,445
Research contracts payable	97,192	149,549
Accrued interest	12,800	-
Refundable security deposits	128,659	100,353
Deferred rental revenue	107,563	284,437
Notes payable	3,210,889	3,780,098
Total liabilities	<u>3,656,272</u>	4,337,882
NET ASSETS, UNRESTRICTED	<u>4,567,470</u>	4,370,991
Total liabilities and net assets	<u>\$ 8,223,742</u>	\$ 8,708,873

EXHIBIT B

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

REVENUES, GAINS AND OTHER SUPPORT	2013	2012
Rental revenues	\$ 1,574,358	\$ 2,095,936
Research contracts revenue	175,224	128,364
Donations	131,467	118,034
Management fee revenue	-	375,000
Gain on involuntary conversion	-	13,932
Interest income	300	419
Other income	88,137	54,231
Total revenues, gains and other support	1,969,486	2,785,916
<b>EXPENSES</b>		
Program services:		
Research contracts, The University of Southern Mississippi	139,078	113,645
Scholarships, grants, and awards	23,111	23,619
Waterborne symposium	78,288	17,890
Supporting services:		
Management and general	204,049	558,431
Rental expenses	1,328,481	1,223,421
Total expenses	1,773,007	1,937,006
CHANGE IN NET ASSETS	196,479	848,910

**NET ASSET**

EXHIBIT C

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 196,479	\$ 848,910
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	207,904	177,562
(Increase) decrease in:		
Accounts receivable	3,450	-
Research contracts receivable	(16,604)	102,525
Rent receivable	(8,476)	-
Increase (decrease) in:		
Accounts payable	75,724	(4,262)
Research contracts payable	(52,357)	(125,036)
Accrued interest	12,800	-
Refundable security deposits	28,306	6,435
Deferred rental revenue	(176,874)	-
Net cash provided by operating activities	270,352	1,006,134
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(675,673)	(140,411)
Net cash (used) by investing activities	(675,673)	(140,411)

CASH FLOWS FRO63611 lele:/TT4 1 Tf .8311 -1.241 TD -.0023 Tc .00152 Tw 5(Ref)-13-35.a-6..LOWS F0undable secrIS



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**THE UNIVERSITY OF SOUTHERN MI**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**PAGE TWO**

**YEARS ENDED DECEMBER 31, 2013 AND 2012**

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.

FASB ASC 740, Accounting for Uncertainty in Income Taxes, clarifies the accounting for uncertainty in tax positions and the recognition of such income tax positions taken or expected to be taken in the Foundation's income tax returns. The Foundation's income tax returns are subject to examination by taxing authorities, generally for three years after they are filed. The Foundation's open tax periods are 2010 – 2013. In evaluation of the Foundation's tax positions, The Foundation believes their estimates are appropriate based on current facts and circumstances and that no uncertain tax positions were taken.

Cash and Cash Equivalents - For the purposes of the Statement of Financial Position and the Statement of Cash Flows, the Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are stated at unpaid balances less amounts deemed uncollectable by management. Receivables are written off on a case-by-case basis and upon evaluation of specific circumstances. At December 31, 2013 and 2012, all accounts were considered collectable by management.

Property, Plant and Equipment - Property, plant and equipment are stated at cost if purchased or at fair market value on the date of gift if donated. Depreciation is provided over the estimated useful life of depreciable assets, which is three to seven years for furniture and equipment and fifteen or thirty-nine years for buildings and improvements, and is computed using the straight line method. Property costing in excess of \$500 and having a useful life in excess of one year is capitalized. Depreciation expense for the years ended December 31, 2013 and 2012 was \$205,768 and \$175,425, respectively.

Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The costs and related accumulated depreciation of assets sold or retired are removed from the accounts and any resulting gain or loss is reflected in the accompanying statements of activities.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset, and impairments of long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
PAGE THREE  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

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

Revenue Recognition - The Foundation recognizes all contributed support received as income in the period received or unconditionally pledged. Contributed support is reported as unrestricted or restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the restricted net asset is reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts of long-lived assets that do not have stipulations regarding the length of time that the asset must be used are reported as unrestricted support.

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 \$139,078 and \$113,645 as of December 31, 2013 and 2012, respectively.

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 - 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 83 0 TDBelete virectly i3772 Td to thD[a

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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YEAR ENDED DECEMBER 31, 2013**

**NOTE 3 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Land and improvements	\$ 2,820,489	\$ 2,808,778
Buildings and improvements	5,232,825	4,659,584
Furniture and equipment	216,826	126,105
	<u>8,270,140</u>	<u>7,594,467</u>
Less: accumulated depreciation	<u>(1,091,887)</u>	<u>(886,119)</u>
Total	<u>\$ 7,178,253</u>	<u>\$ 6,708,348</u>

**NOTE 4 - NOTES PAYABLE**

Notes payable consist of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Note payable to a commercial bank due in monthly installments of \$62,000, with an interest rate of 4.850%. Maturity date is December 7, 2016 and is secured by real property.	<u>\$ 3,210,889</u>	<u>\$ 3,780,098</u>

Maturities of notes payable at December 31, 2013 are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2014	\$ 596,586
2015	626,593
2016	<u>1,987,710</u>
	<u>\$ 3,210,889</u>

**THE UNIVERSITY OF SOUTHERN MI**



## SUPPLEMENTARY INFORMATION



ASSETS

**University of Southern  
Mississippi Research  
Foundation, Inc.**

**Pinion  
Properties, LLC**

**Waterborne**

**Eliminations**

**Consolidated**

**University of Southern  
Mississippi Research  
Foundation, Inc.**

**Pinion  
Properties, LLC**

**Waterborne**

**Eliminations**

**Consolidated**

REVENUES, GAINS AND OTHER SUPPORT

SCHEDULE 3

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

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2013**

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Rental</b>	
Accounting	\$ -	\$ 26,750	\$ -	\$ 26,750
Advertising	-	260	-	260
Bank charges	-	4,487	-	4,487
Computer and internet	-	-	1,186	1,186
Depreciation and amortization	-	11,434	196,470	207,904
Dues and subscriptions	-	-	1,000	1,000
Insurance	-	1,726	189,074	190,800
Interest expense	-	-	187,591	187,591
Legal and professional fees	-	3,200	2,289	5,489
Meals and entertainment	-	-	987	987
Miscellaneous	-	1,405	671	2,076
Office expense	-	15,867	9,790	25,657
Pest control	-	-	15,710	15,710
Postage	-	-	384	384
Rental expense	-	95	-	95
Repairs and maintenance	-	-	117,462	117,462
Research contracts	139,078	-	-	139,078
Salaries	-	131,006	111,785	242,791
Scholarships and awards	23,111	-	-	23,111
Symposium	78,288	-	-	78,288
Taxes, payroll	-	-	10,859	10,859
Taxes, property	-	-	100,981	100,981
Travel and meetings expense	-	7,819	243	8,062
Uniforms	-	-	2,179	2,179
Utilities	-	-	379,820	379,820
	<u>\$ 240,477</u>	<u>\$ 204,049</u>	<u>\$ 1,328,481</u>	<u>\$ 1,773,007</u>