

CARL L. NICHOLSON, JR., CPA  
RICHARD D. HALBERT, CPA  
RICHARD G. TOPP, CPA  
FRANK H. McWHORTER, JR., CPA  
T. JOHN HARVEY, CPA  
WILLIAM T. KELLY, CPA/ABV, CVA  
SUSAN A. RILEY, CPA  
DAWN T. JONES, CPA  
MICHAEL W. DAVIS, CPA  
GREGORY L. FAIREY, CPA  
JEFFREY M. ALLEN, CPA  
JOHN S. HEATH, CPA  
DONALD J. NESTER, CPA  
PAIGEM. JOHNSON, CPA  
JANICE M. BATES, CPA  
JOE C. TRAVIS, CPA, Cr.FA, CFF  
JOSEPH C. TOWNSEND, CPA, CVA  
TRACY W. HAYNES, CPA  
JAMES E. POLK, CPA  
STEPHEN W. GRAY, CPA  
ANNETTE P. HERRIN, CPA/ABV, CVA, CFE, CFF  
LEIGH E. AGNEW, CPA  
SHELBY L. HOWARTH, CPA  
RENEE MOORE, CPA  
LACEY J. MILLER, CPA  
MICHAEL BRADLEY WOOD, CPA  
LESLIE C. BILANCIA, CPA/ABV, CVA  
WHITNEY J. BILLS, CPA  
SARAH P. ERWIN, CPA  
ADAM K. SMITH, CPA  
MARY M. DENNIS, JD, CPA

**NICHOLSON & COMPANY, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
2 SOUTHERN POINTE PARKWAY, SUITE 100  
HATTIESBURG, MISSISSIPPI 39401  
POST OFFICE DRAWER 15099  
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519  
TOLL FREE 877-842-7137  
FAX 601-264-3642

[www.nicholsoncpas.com](http://www.nicholsoncpas.com)

MEMBERS  
AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

MISSISSIPPI SOCIETY  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

OTHER OFFICES:  
150 OLD HWY 98 EAST  
POST OFFICE BOX 609  
COLUMBIA, MISSISSIPPI 39429  
TELEPHONE: 601-736-3449  
FAX 601-736-0501

2019 23<sup>rd</sup> AVENUE  
GULFPORT, MISSISSIPPI 39501  
POST OFFICE BOX 1842  
GULFPORT, MISSISSIPPI 39502  
TELEPHONE: 228-864-1779  
FAX 228-864-3850

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
AT OR NEAR THE CONCLUSION OF THE AUDIT**

To the Board of Directors  
The University of Southern Mississippi Research Foundation, Inc.  
118 College Drive #5177  
Hattiesburg, Mississippi 39406-0001

Dear Directors:

We have audited the financial statements of The University of Southern Mississippi Research Foundation, Inc. for the year ended December 31, 2012, and have issued our report thereon dated March 9, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 8, 2012. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The University of Southern Mississippi Research Foundation, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of depreciation is based on assets' useful lives. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

To the Board of Directors  
The University of Southern Mississippi Research Foundation, Inc.  
Page 2 of 3

Management's estimate of Research Contracts Receivable and Research Contracts Payable is based on the fulfillment of contract terms and the substantial completion of all conditional terms, if any. We have evaluated the key factors and assumptions used to develop the carrying value in determining that it is reasonable in relation to the financial statements taken as a whole

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- Entry to adjust grants payable to actual \$43,917
- Entry to record depreciation expense \$175,425
- Entry to capitalize repair projects \$137,340

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated March 9, 2013.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Directors  
The University of Southern Mississippi Research Foundation, Inc.  
Page 3 of 3

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of The University of Southern Mississippi Research Foundation, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

*Nicholson & Company, PLLC*

Nicholson & Company, PLLC  
March 9, 2013

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

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2012 and 2011**

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

**CONTENTS**

	<b>Page</b>
<b><i>INDEPENDENT AUDITOR'S REPORT</i></b>	1
<b><i>CONSOLIDATED FINANCIAL STATEMENTS</i></b>	
Exhibit A - Consolidated Statements of Financial Position	4
Exhibit B - Consolidated Statements of Activities	5
Exhibit C - Consolidated Statements of Cash Flows	6
<b><i>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</i></b>	7
<b><i>SUPPLEMENTARY INFORMATION</i></b>	
Schedule 1 - Consolidating Statement of Financial Position - December 31, 2012	13
Schedule 2 - Consolidating Statement of Activities - Year Ended December 31, 2012	14
Schedule 3 - Consolidated Schedule of Functional Expenses - Year Ended December 31, 2012	15

CARL L. NICHOLSON, JR., CPA  
RICHARD D. HALBERT, CPA  
RICHARD G. TOPP, CPA  
FRANK H. McWHORTER, JR., CPA  
T. JOHN HARVEY, CPA  
WILLIAM T. KELLY, CPA/ABV, CVA  
SUSAN A. RILEY, CPA  
DAWN T. JONES, CPA  
MICHAEL W. DAVIS, CPA  
GREGORY L. FAIREY, CPA  
JEFFREY M. ALLEN, CPA  
JOHN S. HEATH, CPA  
DONALD J. NESTER, CPA  
PAIGE M. JOHNSON, CPA  
JANICE M. BATES, CPA  
JOE C. TRAVIS, CPA, C.F.A., CFF  
JOSEPH C. TOWNSEND, CPA, CVA  
TRACY W. HAYNES, CPA  
JAMES E. POLK, CPA  
STEPHEN W. GRAY, CPA  
ANNETTE P. HERRIN, CPA/ABV, CVA, CFE, CFF  
LEIGH F. AGNEW, CPA  
SHELBY L. HOWARTH, CPA  
RENEE MOORE, CPA  
LACEY J. MILLER, CPA  
MICHAEL BRADLEY WOOD, CPA  
LESLIE C. BILANCIA, CPA/ABV, CVA  
WHITNEY J. BILLS, CPA  
SARAH P. ERWIN, CPA  
ADAM K. SMITH, CPA  
MARY M. DENNIS, JD, CPA

**NICHOLSON & COMPANY, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
2 SOUTHERN POINTE PARKWAY, SUITE 100  
HATTIESBURG, MISSISSIPPI 39401  
POST OFFICE DRAWER 15099  
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519  
TOLL FREE 877-842-7137  
FAX 601-264-3642

[www.nicholsoncpas.com](http://www.nicholsoncpas.com)

MEMBERS  
AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

MISSISSIPPI SOCIETY  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

OTHER OFFICES:  
150 OLD HWY 98 EAST  
POST OFFICE BOX 609  
COLUMBIA, MISSISSIPPI 39429  
TELEPHONE: 601-736-3449  
FAX 601-736-0501

2019 23<sup>rd</sup> AVENUE  
GULFPORT, MISSISSIPPI 39501  
POST OFFICE BOX 1842  
GULFPORT, MISSISSIPPI 39502  
TELEPHONE: 228-864-1779  
FAX 228-864-3850

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of The University of Southern Mississippi Research Foundation, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Southern Mississippi Research Foundation, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses and additional consolidating information on pages 13 through 15 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the 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

March 9, 2013



EXHIBIT A

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2012 AND 2011**

**ASSETS**

<b>ASSETS</b>	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 1,878,490	\$ 1,555,713
Research contracts receivable	92,311	194,836
Property, plant and equipment, net	6,708,348	6,743,363
Other assets	29,724	31,860
<b>Total assets</b>	<b>\$ 8,708,873</b>	<b>\$ 8,525,772</b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	\$ 23,445	\$ 27,707
Research contracts payable	149,549	274,585
Refundable security deposits	100,353	93,918
Deferred rental revenue	284,437	284,437
Notes payable	3,780,098	4,323,044
Total liabilities	4,337,882	5,003,691
<b>NET ASSETS, UNRESTRICTED</b>	<b>4,370,991</b>	<b>3,522,081</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,708,873</b>	<b>\$ 8,525,772</b>

See accompanying notes to consolidated financial statements.

EXHIBIT B

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Rental revenues	\$ 2,095,936	\$ 2,072,766
Research contracts revenue	128,364	723,476
Donations	118,034	130,001
Management fee revenue	375,000	750,000
Gain on involuntary conversion	13,932	-
Interest income	419	523
Other income	54,231	16,894
Total revenues, gains and other support	<u>2,785,916</u>	<u>3,693,660</u>
<b>EXPENSES</b>		
Program services:		
Research contracts, The University of Southern Mississippi	113,645	648,387
Scholarships, grants, and awards	23,619	35,326
Waterborne symposium	17,890	-
Supporting services:		
Management and general	558,431	959,590
Rental expenses	1,223,421	1,126,282
Total expenses	<u>1,937,006</u>	<u>2,769,585</u>
<b>CHANGE IN NET ASSETS</b>	848,910	924,075
<b>NET ASSETS</b>		
Beginning of year	<u>3,522,081</u>	<u>2,598,006</u>
End of year	<u>\$ 4,370,991</u>	<u>\$ 3,522,081</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, 2012 AND 2011**

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 848,910	\$ 924,075
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	177,562	165,512
(Increase) decrease in:		
Research contracts receivable	102,525	338,250
Other assets	-	(17,243)
Increase (decrease) in:		
Accounts payable	(4,262)	(34,822)
Refundable security deposits	6,435	5,858
Deferred rental revenue	-	1,615
Research contracts payable	(125,036)	(301,998)
Net cash provided by operating activities	<u>1,006,134</u>	<u>1,081,247</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(140,411)	(35,112)
Net cash (used) by investing activities	<u>(140,411)</u>	<u>(35,112)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long term debt	-	4,413,626
Repayment of notes payable	(542,946)	(5,256,618)
Net cash (used) by financing activities	<u>(542,946)</u>	<u>(842,992)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>322,777</b>	<b>203,143</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,555,713</u>	<u>1,352,570</u>
End of year	<u>\$ 1,878,490</u>	<u>\$ 1,555,713</u>
<b>SUPPLEMENTARY INFORMATION</b>		
Interest paid	<u>\$ 201,054</u>	<u>\$ 130,126</u>

See accompanying notes to consolidated financial statements.

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

**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 the property. Significant intercompany transactions and balances have been eliminated in consolidation.

During 2012, the Foundation began maintaining the records for the Waterborne Symposium. The amounts are consolidated with the Foundation's.

**Basis of Accounting and Financial Statement Presentation** - The consolidated financial statements of the Foundation have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to non-profit entities. The financial transactions of the Foundation are recorded on an accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Foundation has adopted FASB ASC 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the existence or absence of donor-imposed restrictions. In addition, the Foundation is required to present a statement of cash flows. As permitted by this statement, the Foundation has reclassified its financial statements to present the three classes of net assets. At December 31, 2012 and 2011, all of the Foundation's net assets were unrestricted.

**Use of Estimates** - The preparation of consolidated 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 amounts reported and disclosures made in the consolidated financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**PAGE TWO**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**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 2009 – 2012. 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.

**Research Contracts Receivable** - Research contracts 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, 2012 and 2011, 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, 2012 and 2011 was \$175,425 and \$165,512, 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, 2012 AND 2011**

***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 \$113,645 and \$648,387 as of December 31, 2012 and 2011, 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 expenses relate directly to Pinion operating properties.

***Subsequent Events*** - Management of the Foundation has evaluated subsequent events through March 9, 2013, which is the date the Consolidated Financial statements were available to be issued.

***NOTE 2 - 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, 2012 and 2011.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
PAGE FOUR  
YEAR ENDED DECEMBER 31, 2012

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

Property, plant and equipment consist of the following:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 2,808,778	\$ 2,774,387
Buildings and improvements	4,659,584	4,556,635
Furniture and equipment	126,105	123,034
	<u>7,594,467</u>	<u>7,454,056</u>
Less: accumulated depreciation	<u>(886,119)</u>	<u>(710,693)</u>
<b>Total</b>	<u><u>\$ 6,708,348</u></u>	<u><u>\$ 6,743,363</u></u>

**NOTE 4 - NOTES PAYABLE**

Notes payable consist of the following:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
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>\$ 3,780,098</u>	<u>\$ 4,323,044</u>
<b>Total notes payable</b>	<u><u>\$ 3,780,098</u></u>	<u><u>\$ 4,323,044</u></u>

Maturities of notes payable at December 31, 2012 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 568,017
2014	596,586
2015	626,593
2016	<u>1,988,902</u>
	<u><u>\$ 3,780,098</u></u>



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
PAGE FIVE  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

**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, 2012:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 1,439,157
2014	861,194
2015	850,899
2016	417,728
	<u>\$ 3,568,978</u>

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes as of December 31, 2012 and 2011:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 1,123,762	\$ 1,071,195
Buildings and improvements	3,800,966	3,403,640
	4,924,728	4,474,835
Less accumulated depreciation	(663,914)	(470,166)
Net property and equipment held for lease	<u>\$ 4,260,814</u>	<u>\$ 4,004,669</u>

**NOTE 6 - COMMITMENTS**

The Foundation entered into a consulting agreement with an outside party to manage, promote, market, license and commercialize its intellectual property developed and owned by the Foundation. The agreement provides for annual payments of \$750,000 and expired on August 31, 2012. This agreement was not renewed upon expiration.

Concurrently, the Foundation entered into an agreement with the University on September 1, 2006 to negotiate and manage the University's private and industrial research projects, intellectual property and to market University technology. The Foundation received compensation of \$750,000 annually until the agreement expired on August 31, 2012. The agreement was not renewed upon expiration.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**PAGE SIX**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

***NOTE 7 - 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, 2012 and 2011, the Foundation had \$0 and \$263,788, respectively, of cash deposits in excess of the FDIC limits.

***NOTE 8 - 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 up to 62,750 sq. ft. of space for a total annual cost of \$1,150,853. The lease is comprised of four separate spaces plus additional parking and ground lease for temporary modular classroom buildings.

During the years ended December 31, 2012 and 2011, the subtotal of rental income for both lease agreements with the University was \$1,137,749, which represents 54% and 55% of the total rental income received by the Foundation as of December 31, 2012 and 2011, respectively.

The University contributes salaries for certain Foundation employees. For the years ended December 31, 2012 and 2011, salaries and related benefits totaling \$117,934 and \$113,732, respectively, have been recorded in the statement of activities as unrestricted contributed support and unrestricted expenses.

***NOTE 9 - GAIN ON INVOLUNTARY CONVERSION***

*FASB ASC 845-10*, Nonmonetary Transactions, requires entities to disclose the amount of gross operating revenue recognized as a result of nonmonetary transactions. In October of 2012, the Foundation received \$226,496 in insurance proceeds related to damage caused by Hurricane Isaac to buildings located in Gulfport, Mississippi. The proceeds exceeded total repairs of \$212,564 by \$13,932 which is reported as a gain on involuntary conversion on Exhibit B.

***SUPPLEMENTARY INFORMATION***

SCHEDULE 1

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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2012**

	<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	\$ 243,728	\$ 1,612,712	\$ 22,050	\$ -	\$ 1,878,490
Research contracts receivable	83,371	8,940	-	-	92,311
Prepaid expenses	284,437	-	-	(284,437)	-
Property, plant and equipment, net	32,557	6,675,791	-	-	6,708,348
Other assets	-	29,724	-	-	29,724
Investment in Pinion	1,000,009	-	-	(1,000,009)	-
	<u>1,644,102</u>	<u>8,327,167</u>	<u>22,050</u>	<u>(1,284,446)</u>	<u>8,708,873</u>
<b>Total assets</b>	<b>\$ 1,644,102</b>	<b>\$ 8,327,167</b>	<b>\$ 22,050</b>	<b>\$ (1,284,446)</b>	<b>\$ 8,708,873</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 1,516	\$ 21,929	\$ -	\$ -	\$ 23,445
Research contracts payable	149,549	-	-	-	149,549
Refundable security deposits	-	100,353	-	-	100,353
Deferred rental revenue	284,437	284,437	-	(284,437)	284,437
Notes payable	-	3,780,098	-	-	3,780,098
Total liabilities	<u>435,502</u>	<u>4,186,817</u>	<u>-</u>	<u>(284,437)</u>	<u>4,337,882</u>
<b>NET ASSETS, UNRESTRICTED</b>	<u>1,208,600</u>	<u>4,140,350</u>	<u>22,050</u>	<u>(1,000,009)</u>	<u>4,370,991</u>
<b>Total liabilities and net assets</b>	<b>\$ 1,644,102</b>	<b>\$ 8,327,167</b>	<b>\$ 22,050</b>	<b>\$ (1,284,446)</b>	<b>\$ 8,708,873</b>

SCHEDULE 2

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

**CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 1,137,749	\$ 2,095,936	\$ -	\$ (1,137,749)	\$ 2,095,936
Research contract revenue	128,364	-	-	-	128,364
Donations	118,034	-	-	-	118,034
Management fee revenue	375,000	-	-	-	375,000
Gain on involuntary conversion	-	13,932	-	-	13,932
Interest income	413	6	-	-	419
Other income	-	13,310	40,921	-	54,231
Total revenues, gains and other support	<u>1,759,560</u>	<u>2,123,184</u>	<u>40,921</u>	<u>(1,137,749)</u>	<u>2,785,916</u>
<b>EXPENSES</b>					
Program services:					
Research contracts, The University of Southern Mississippi	113,645	-	-	-	113,645
Scholarships, grants, and awards	23,507	-	112	-	23,619
Waterborne symposium	-	-	17,890	-	17,890
Supporting services:					
Management and general	1,695,311	-	869	(1,137,749)	558,431
Rental expenses	-	1,223,421	-	-	1,223,421
Total expenses	<u>1,832,463</u>	<u>1,223,421</u>	<u>18,871</u>	<u>(1,137,749)</u>	<u>1,937,006</u>
<b>CHANGE IN NET ASSETS</b>	(72,903)	899,763	22,050	-	848,910
<b>NET ASSETS</b>					
Beginning of year	<u>1,281,503</u>	<u>3,240,587</u>	<u>-</u>	<u>(1,000,009)</u>	<u>3,522,081</u>
End of year	<u>\$ 1,208,600</u>	<u>\$ 4,140,350</u>	<u>\$ 22,050</u>	<u>\$ (1,000,009)</u>	<u>\$ 4,370,991</u>

SCHEDULE 3

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

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2012**

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Rental</b>	
Accounting	\$ -	\$ 21,834	\$ -	\$ 21,834
Bank charges	-	242	135	377
Computer and internet	-	-	416	416
Consulting fees	-	375,000	-	375,000
Depreciation and amortization	-	11,435	166,127	177,562
Dues and subscriptions	-	-	1,000	1,000
Insurance	-	1,726	183,822	185,548
Interest expense	-	-	201,054	201,054
Legal and professional fees	-	12,425	2,542	14,967
Miscellaneous	-	3,380	1,813	5,193
Office expense	-	1,672	3,611	5,283
Pest control	-	-	8,634	8,634
Postage	-	41	114	155
Rental expense	-	10,095	-	10,095
Repairs and maintenance	-	-	88,917	88,917
Research contracts	113,645	-	-	113,645
Salaries	-	117,934	96,897	214,831
Scholarships and awards	23,619	-	-	23,619
Symposium	17,890	-	-	17,890
Taxes, payroll	-	-	10,966	10,966
Taxes, property	-	-	100,981	100,981
Travel and meetings expense	-	2,647	235	2,882
Uniforms	-	-	3,257	3,257
Utilities	-	-	352,900	352,900
	<u>\$ 155,154</u>	<u>\$ 558,431</u>	<u>\$ 1,223,421</u>	<u>\$ 1,937,006</u>