

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

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2010 and 2009

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statements of financial position of The University of Southern Mississippi Research Foundation, Inc. (a nonprofit organization) as of December 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of The University of Southern Mississippi Research Foundation, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidated schedule of functional expenses and additional consolidating information on pages 14 through 17 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 taken as a whole.



Hattiesburg, Mississippi
May 27, 2011

EXHIBIT A

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

ASSETS

ASSETS	December 31,	
	2010	2009
Cash and cash equivalents	\$ 1,352,570	\$ 595,501
Research contracts receivable	533,086	1,303,045
Prepaid expenses	-	65,000
Property, plant and equipment, net	6,873,763	7,041,423
Other assets	14,617	15,973
Total assets	\$ 8,774,036	\$ 9,020,942

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 62,529	\$ 23,021
Research contracts payable	576,583	1,307,477
Refundable security deposits	88,060	88,060
Deferred rental revenue	282,822	-
Notes payable	5,166,036	6,339,077
Total liabilities	6,176,030	7,757,635
NET ASSETS, UNRESTRICTED	2,598,006	1,263,307
Total liabilities and net assets	\$ 8,774,036	\$ 9,020,942

See accompanying notes.

EXHIBIT B

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009**

REVENUES, GAINS AND OTHER SUPPORT	December 31,	
	2010	2009
Rental revenues	\$ 2,190,547	\$ 2,200,891
Research contracts revenue	973,635	2,754,860
Donations	168,321	184,734
Management fee revenue	750,000	750,000
Unrealized gain (loss) on investments	-	(100,000)
Interest income	1,767	1,969
Settlement proceeds, net	603,010	-
Other income	10,717	1,245
Total revenues, gains and other support	<u>4,697,997</u>	<u>5,793,699</u>
EXPENSES		
Program services:		
Research contracts, The University of Southern Mississippi	934,756	2,612,058
Scholarships, grants, and awards	40,069	80,037
Supporting services:		
Management and general	1,081,293	1,360,539
Rental expenses	1,307,180	1,250,563
Total expenses	<u>3,363,298</u>	<u>5,303,197</u>
CHANGE IN NET ASSETS	1,334,699	490,502
NET ASSETS, UNRESTRICTED		
Beginning of year	1,263,307	2,461,742
Prior period adjustment	-	(1,688,937)
Beginning of year, (as restated in 2009)	<u>1,263,307</u>	<u>772,805</u>
End of year	<u>\$ 2,598,006</u>	<u>\$ 1,263,307</u>

See accompanying notes.

EXHIBIT C

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,334,699	\$ 490,502
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	167,660	120,797
Donated equipment included in contributions	-	(40,000)
Increase (decrease) from changes in operating assets and liabilities:		
Research contracts receivable	769,959	(1,204,664)
Prepaid expenses	65,000	(65,000)
Other assets	1,356	1,356
Accounts payable	39,508	310,734
Deferred income	282,822	-
Research contracts payable	(730,894)	809,174
Net cash provided by operating activities	<u>1,930,110</u>	<u>422,899</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	-	(245,391)
Net cash (used) by investing activities	<u>-</u>	<u>(245,391)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(1,173,041)	(549,045)
Net cash (used) by financing activities	<u>(1,173,041)</u>	<u>(549,045)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	757,069	(371,537)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>595,501</u>	<u>967,038</u>
End of year	<u>\$ 1,352,570</u>	<u>\$ 595,501</u>
SUPPLEMENTARY INFORMATION		
In-kind donations of equipment	<u>\$ -</u>	<u>\$ 40,000</u>
Interest paid	<u>\$ 154,565</u>	<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
YEARS ENDED DECEMBER 31, 2010 AND 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 the property. Significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation - The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements of Not-for-Profit Entities*. FASB ASC 958-205 requires the reporting of total assets, liabilities and net assets in a statement of financial position; reporting the change in net assets in a statement of activities; and reporting the sources and uses of cash and cash equivalents in a statement of cash flows. FASB ASC 958-205 also requires that net assets, revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees, and accordingly includes "quasi" endowment investments. At December 31, 2010 and 2009, 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. 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, 2010 AND 2009

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

Income Tax - The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Code and is not a private foundation.

As of December 31, 2009, the Foundation adopted the provisions of FASB ASC 740, Income Taxes. FASB ASC 740 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 the IRS, generally for three years after they are filed. In evaluating the Foundation's tax positions, the Foundation believes their estimates are appropriate based on current facts and circumstances and that no uncertain positions were taken.

Cash and Cash Equivalents - For financial statement purposes, the Foundation considers all highly liquid investments with an original maturity of three (3) 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 based on a case-by-case basis and upon evaluation of specific circumstances. At December 31, 2010 and 2009, all accounts were considered collectable by management.

Property, Plant and Equipment - Property, plant and equipment acquisitions are recorded at cost or, if donated, fair market value when received. Depreciation is provided over the estimated useful life of depreciable assets, which is three (3), five (5), or seven (7) years for furniture and equipment and fifteen (15) or thirty-nine (39) 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 (1) year is capitalized. Depreciation expense for the years ended December 31, 2010 and 2009 was \$167,660 and \$120,797, 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

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YEARS ENDED DECEMBER 31, 2010 AND 2009

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 \$934,756 and \$2,612,058 as of December 31, 2010 and 2009, 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 - In connection with the preparation of the consolidated financial statements and in accordance with recently issued FASB ASC 855, *Subsequent Events*, the Foundation has evaluated subsequent events after the statement of financial position through May 27, 2011, which is the date the financial statements were available to be issued.

Recently Issued Pronouncements - In July 2009, FASB approved the FASB Accounting Standards Codification as the official source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles (GAAP), superseding existing FASB and related literature. The FASB ASC is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Foundation adopted FASB ASC 105-10-65 as of December 31, 2009.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PAGE FOUR
YEAR ENDED DECEMBER 31, 2010

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

Reclassification - Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. There was no effect to the 2009 net income related to the reclassifications.

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, 2010 and 2009.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31,	
	2010	2009
Land and improvements	\$ 2,774,387	\$ 2,774,387
Buildings and improvements	4,550,085	4,550,085
Furniture and equipment	94,472	94,472
	<u>7,418,944</u>	<u>7,418,944</u>
Less: accumulated depreciation	<u>(545,181)</u>	<u>(377,521)</u>
Total	<u><u>\$ 6,873,763</u></u>	<u><u>\$ 7,041,423</u></u>

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 4 - NOTES PAYABLE

Notes payable as of December 31, 2010 and 2009 consisted of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Note payable to a commercial bank, due in monthly installments of \$6,200, at the 1-month LIBOR Market Index Rate plus 2.25%. Rates were 2.485% and 2.511% at December 31, 2010 and 2009, respectively. Maturity date is May 10, 2013, and is secured by real property.	\$ 123,266	\$ 782,178
Note payable to a commercial bank due in monthly installments of \$54,183, at the LIBOR Market Index Rate plus 2.25%. Rates were 2.485% and 2.511% at December 31, 2010 and 2009, respectively. Maturity date is July 14, 2011 and is secured by real property. The Foundation intends to refinance the note at maturity with similar terms.	<u>5,042,770</u>	<u>5,556,899</u>
Total notes payable	<u>\$ 5,166,036</u>	<u>\$ 6,339,077</u>

Maturities of notes payable at December 31, 2010 for each of the five (5) subsequent years and thereafter are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2011	\$ 558,400
2012	594,358
2013	556,877
2014	570,874
2015	585,223
Thereafter	<u>2,300,304</u>
	<u>\$ 5,166,036</u>

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 5 - OPERATING LEASE COMMITMENTS

The Foundation leases office space to tenants under noncancelable operating lease agreements with terms of one (1) to ten (10) years. The following is a schedule by years of future minimum rentals under the leases at December 31, 2010.

<u>Year Ended December 31, 2010</u>	<u>Amount</u>
2011	\$ 1,948,096
2012	1,356,226
2013	780,800
2014	780,800
2015	780,800
Thereafter	<u>325,330</u>
	<u>\$ 5,972,052</u>

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes as of December 31, 2010 and 2009:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 1,152,577	\$ 1,165,747
Buildings and improvements	<u>4,153,414</u>	<u>4,270,237</u>
	5,305,991	5,435,984
Less accumulated depreciation	<u>(482,799)</u>	<u>(328,561)</u>
Net property and equipment held for lease	<u>\$ 4,823,192</u>	<u>\$ 5,107,423</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 is set to expire on August 31, 2012. This agreement will not be renewed upon expiration.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 6 – COMMITMENTS (Cont.)

Concurrently, the Foundation entered into an agreement with the University to negotiate and manage the University's private and industrial research projects. The Foundation will be compensated \$750,000 annually until the agreement expires on August 31, 2012. The agreement will not be renewed upon expiration.

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, 2010 and 2009, the Foundation had \$1,566,792 and \$395,529, respectively, of cash deposits in excess of the FDIC limits.

NOTE 8 - NET ASSETS

Beginning Net assets for the year ended December 31, 2009, as reflected on the statement of activities, was restated during the issuance of the 2009 audited financial statements in the amount of \$1,688,937. The following schedule represents a detail of the amounts included in the prior period adjustment:

To record rental income in correct period	\$	287,713
To adjust net assets for research contract expenses incurred during periods prior to 2009		498,303
To record security deposits received in 2008		18,510
To correctly state the value of Pinion property and record loss on investment in Saone Corporation incurred during 2008		<u>884,411</u>
	\$	<u>1,688,937</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

On April 13, 2010, The Foundation and the University entered into a new lease agreement, combining the 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.

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 9 - RELATED PARTY TRANSACTIONS (Cont.)

During year ended 2007, a separate lease agreement was entered into between the Foundation and the University which was amended in 2008. The amended lease provides the University with a total of 5,977 sq. ft. of space located in a separate building for a total annual cost of \$25,194. This lease was canceled during year ended 2010.

During years ended December 31, 2010 and 2009, the subtotal of rental income for both lease agreements with the University was \$1,273,336 and \$1,290,670, respectively, representing 58% of the total rental income received by the Foundation.

The University contributes salaries for certain Foundation employees. For the years ended December 31, 2010 and 2009, salaries and related benefits totaling \$143,185 and \$121,000, respectively, have been recorded in the statement of activities as unrestricted contributed support and unrestricted expenses.

NOTE 10 - SETTLEMENT PROCEEDS

In April 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 November 2010, resulting in settlement proceeds of \$603,010, net of attorney fees totaling \$164,989. 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

SCHEDULE 1

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010**

	Program Services	Supporting Services		Total
		General and Administrative	Rental	
Accounting	\$ -	\$ 81,324	\$ -	\$ 81,324
Bank charges	-	-	1,391	1,391
Computer and internet	-	-	479	479
Consulting fees	-	757,500	65,000	822,500
Depreciation	-	11,824	155,836	167,660
Dues and subscriptions	-	-	1,000	1,000
Insurance	-	1,730	195,878	197,608
Interest expense	-	-	154,565	154,565
Legal and professional fees	-	43,717	2,633	46,350
Meals and entertainment	-	-	289	289
Miscellaneous	-	7,225	1,521	8,746
Office expense	-	2,779	3,687	6,466
Pest control	-	-	7,120	7,120
Postage	-	-	1,099	1,099
Rental expense	-	18,755	-	18,755
Repairs and maintenance	-	-	143,267	143,267
Reproduction	-	495	-	495
Research contracts	934,756	-	-	934,756
Salaries	-	143,185	75,048	218,233
Scholarships and awards	40,069	-	-	40,069
Taxes, payroll	-	-	5,432	5,432
Taxes, property	-	-	102,714	102,714
Travel and meetings expense	-	12,759	347	13,106
Uniforms	-	-	3,086	3,086
Utilities	-	-	386,788	386,788
	<u>\$ 974,825</u>	<u>\$ 1,081,293</u>	<u>\$ 1,307,180</u>	<u>\$ 3,363,298</u>

SCHEDULE 2

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009**

	Program Services	Supporting Services		Total
		General and Administrative	Rental	
Accounting	\$ -	\$ 14,500	\$ -	\$ 14,500
Advertising	-	166	-	166
Bank charges	-	-	2,501	2,501
Computer and internet	-	-	6,436	6,436
Consulting fees	-	778,507	260,000	1,038,507
Depreciation	-	8,144	112,653	120,797
Dues and subscriptions	-	63	1,000	1,063
Insurance	-	110,064	195,122	305,186
Interest expense	-	-	175,804	175,804
Legal and professional fees	-	19,091	16,511	35,602
Meals and entertainment	-	-	1,181	1,181
Miscellaneous	-	121,405	1,501	122,906
Office expense	-	8,500	9,449	17,949
Postage	-	85	-	85
Rental expense	-	48,424	-	48,424
Repairs and maintenance	-	-	11,949	11,949
Reproduction	-	624	-	624
Research contracts	2,612,058	-	-	2,612,058
Salaries	-	212,539	-	212,539
Scholarships and awards	80,037	-	-	80,037
Taxes, property	-	10,313	100,383	110,696
Travel and meetings expense	-	28,114	619	28,733
Uniforms	-	-	2,658	2,658
Utilities	-	-	352,796	352,796
	<u>\$ 2,692,095</u>	<u>\$ 1,360,539</u>	<u>\$ 1,250,563</u>	<u>\$ 5,303,197</u>

SCHEDULE 3

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010**

	University of Southern Mississippi Research Foundation, Inc.	Pinion Properties, LLC	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 319,164	\$ 1,033,406	\$ -	\$ 1,352,570
Research contracts receivable	528,522	4,564	-	533,086
Prepaid expenses	282,822	-	(282,822)	-
Property, plant and equipment, net	55,426	6,818,337	-	6,873,763
Other assets	-	14,617	-	14,617
Investment in Pinion	1,000,009	-	(1,000,009)	-
Total assets	\$ 2,185,943	\$ 7,870,924	\$ (1,282,831)	\$ 8,774,036
LIABILITIES				
Accounts payable	\$ 12,078	\$ 50,451	\$ -	\$ 62,529
Research contracts payable	576,583	-	-	576,583
Refundable security deposits	-	88,060	-	88,060
Deferred revenue	282,822	282,822	(282,822)	282,822
Notes payable	-	5,166,036	-	5,166,036
Total liabilities	871,483	5,587,369	(282,822)	6,176,030
NET ASSETS, UNRESTRICTED	1,314,460	2,283,555	(1,000,009)	2,598,006
Total liabilities and net assets	\$ 2,185,943	\$ 7,870,924	\$ (1,282,831)	\$ 8,774,036

SCHEDULE 4

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

**CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

	University of Southern Mississippi Research Foundation, Inc.	Pinion Properties, LLC	Eliminations	Consolidated
REVENUES, GAINS AND OTHER SUPPORT				
Rental revenues	\$ 1,272,885	\$ 2,190,998	\$ (1,273,336)	\$ 2,190,547
Research contract revenue	973,635	-	-	973,635
Donations	168,321	-	-	168,321
Management fee revenues	750,000	-	-	750,000
Interest income	-	1,767	-	1,767
Other income	10,717	-	-	10,717
Settlement income, net	-	603,010	-	603,010
Total revenues, gains and other support	3,175,558	2,795,775	(1,273,336)	4,697,997
EXPENSES				
Program services:				
Research contracts, The University of Southern Mississippi	934,756	-	-	934,756
Scholarships, grants, and awards	40,069	-	-	40,069
Supporting services:				
Management and general	2,354,629	-	(1,273,336)	1,081,293
Rental	-	1,307,180	-	1,307,180
Total expenses	3,329,454	1,307,180	(1,273,336)	3,363,298
CHANGE IN NET ASSETS	(153,896)	1,488,595	-	1,334,699
NET ASSETS				
Beginning of year	1,468,356	794,960	(1,000,009)	1,263,307
End of year	\$ 1,314,460	\$ 2,283,555	\$ (1,000,009)	\$ 2,598,006