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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) and its subsidiary, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, 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

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

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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

February 26, 2016

EXHIBIT A

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

| ASSETS | | 2015 | 2014 | | |
|------------------------------------|----|-----------|------|-----------|--|
| Cash and cash equivalents | \$ | 469,689 | \$ | 464,003 | |
| Accounts receivable | | 20,985 | | 11,345 | |
| Research contracts receivable | | 46,699 | | 136,429 | |
| Rent receivable | | 18,012 | | 66,141 | |
| Property, plant and equipment, net | | 6,759,056 | | 6,967,389 | |
| Loan origination fees, net | | 17,547 | | 25,452 | |

EXHIBIT B

CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2015 AND 2014

| | | mber 3\$ | 3\$, B9Æ | | |
|--|----|-----------|----------|-----------|--|
| REVENUES, GAINS AND OTHER SUPPORT | | 2015 | | 2014 | |
| Rental revenues | \$ | 1,295,735 | \$ | 1,359,785 | |
| Research contracts revenue | | 84,676 | | 193,705 | |
| Contributed support | | 140,464 | | 137,806 | |
| Interest income | | 294 | | 293 | |
| Other income | | 356,709 | | 233,046 | |
| Total revenues, gains and other support | | 1,877,878 | | 1,924,635 | |
| EXPENSES | | | | | |
| Program services: | | | | | |
| Research contracts, The University of Southern | | | | | |
| Mississippi | | 74,065 | | 167,226 | |
| Scholarships, grants, and awards | | 32,946 | | 21,907 | |
| Waterborne symposium | | 307,722 | | 228,625 | |
| Total program services | | 414,733 | | 417,758 | |
| Supporting services: | | | | | |
| Management and general | | 192,885 | | 176,861 | |
| Rental expenses | | 1,160,024 | | 1,274,596 | |
| Total supporting services | | 1,352,909 | | 1,451,457 | |
| Total expenses | | 1,767,642 | | 1,869,215 | |
| CHANGE IN NET ASSETS | | 110,236 | | 55,420 | |
| NET ASSETS | | | | | |
| Beginning of year | | 4,622,890 | | 4,567,470 | |
| End of year | \$ | 4,733,126 | \$ | 4,622,890 | |

EXHIBIT C

THE UNIVERSITY OF SOUTHERN MISSISSIPPI RESEARCH FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | | | 2014 | | |
|--|------|---------|----|---------|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Change in net assets | \$ | 110,236 | \$ | 55,420 | | |
| Adjustments to reconcile change in net assets to net | | | | | | |
| cash provided (used) by operating activities: | | | | | | |
| Depreciation and amortization | | 254,289 | | 231,321 | | |
| (Increase) decrease in: | | | | | | |
| Accounts receivable | | (9,640) | | (5,855) | | |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2015 AND 2014

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PAGE THREE YEARS ENDED DECEMBER 31, 2015 AND 2014

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

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 \$74,065 and \$167,226 as of December 31, 2015 and 2014, 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.

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, 2015 and 2014. During 2014, the corporation was dissolved.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PAGE FOUR YEAR ENDED DECEMBER 31, 2015

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | December 31, | | | | |
|--------------------------------|--------------|---------------|--|--|--|
| | 2015 | 2014 | | | |
| Land and improvements | \$ 2,820,4 | \$ 2,820,489 | | | |
| Buildings and improvements | 5,271,2 | 250 5,251,145 | | | |
| Furniture and equipment | 216,8 | 326 216,826 | | | |
| | 8,308,5 | 8,288,460 | | | |
| Less: accumulated depreciation | (1,549,5 | (1,321,071) | | | |
| Total | \$ 6,759,0 | \$ 6,967,389 | | | |

Depreciation expense for the years ended December 31, 2015 and 2014 was \$228,438 and \$229,184, respectively.

NOTE 4 - NOTES PAYABLE

Notes payable consist of the following:

| | December 31, | | | | | |
|--|--------------|-----------|--|----|-----------|--|
| | 2015 20 | | | | | |
| Note payable to a commercial bank with 59 monthly installments of \$22,906 and a balloon payment estimated at \$1,246,684, with an interest rate of 4.600%. Maturity date is September 11, 2020 and is | | | | | | |
| secured by real property. | \$ | 2,164,313 | | \$ | 2,609,598 | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PAGE FIVE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4 - NOTES PAYABLE (Cont.)

Maturities of notes payable at December 31, 2015 are as follows:

| Year Ending December 31, | | Amount |
|--------------------------|----|--------------------|
| 2016 | ¢ | 104 264 |
| 2017 | \$ | 194,364 188,199 |
| 2018 | | 197,041 |
| 2019 | | 206,298 |
| 2020 | | 1,378,411 |
| | \$ | 2,164,313 |

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, 2015:

| Year Ending December 31, | Amount |
|--------------------------|---------|
| 2016 | 373,845 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PAGE SIX YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 6 - INTANGIBLE ASSETS

Intangible assets consisted of the following as of:

| | December 31, | | | | | |
|--|--------------|-----------------|----|-------------------|--|--|
| | | 2015 | | 2014 | | |
| Loan origination fees Less: accumulated amortization | \$ | 17,946 (399) | \$ | 32,038 (6,586) | | |
| | \$ | 17,547 | \$ | 25,452 | | |
| Amortization expense | \$ | 25,851 | \$ | 2,136 | | |

Amortization expense for fiscal year 2015 includes \$25,452 to fully amortize the loan origination fees from prior year. Amortization expense for the new loan origination fees was \$399.

The estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

| Year Ending December 31, | | mount | |
|--------------------------|-------|--------|--|
| 0040 | • | 4 400 | |
| 2016 | \$ | 1,196 | |
| 2017 | | 1,196 | |
| 2018 | | 1,196 | |
| 2019 | 1,196 | | |
| 2020 | | 1,196 | |
| Thereafter | | 11,565 | |
| | • | | |
| | \$ | 17,547 | |

NOTE 7 - CONCENTRATIONS

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, 2015 and 2014, the Foundation had \$196,191 and \$165,384, respectively, of cash deposits in excess of the FDIC limits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PAGE SEVEN YEARS ENDED DECEMBER 31, 2015 AND 2014

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 2014, USM moved out of the four separ



THE UNIV37Ufl@F10 Tf54.93 2.457 TD:0006Tc.0005 T[N]5.565.5(5.8)2()5(asse)2(5.8)T/TT01 2:0007Tc.002,@4eTHs-

| ASSETS | Mis | versity of Southern ssissippi Research Foundation, Inc. | Pro | Pinion perties, LLC | W | aterborne | E | iliminations | Co | onsolidated |
|--|-----|---|-----|---|----|--|----|--------------------------------------|----|---|
| Cash and cash equivalents, unrestricted Accounts receivable Research contracts receivable Rent receivable Property, plant and equipment, net Loan origination fees, net Investment in Pinion | \$ | 123,562 - 46,699 - 6,462 - 1,000,009 | \$ | 242,878 - - 18,012 6,752,594 17,547 | \$ | 103,249 20,985 - - - - - | \$ | - - - - - (1,000,009) | \$ | 469,689 20,985 46,699 18,012 6,759,056 17,547 |
| Total assets | \$ | 1,176,732 | \$ | 7,031,031 | \$ | 124,234 | \$ | (1,000,009) | \$ | 7,331,988 |
| LIABILITIES Accounts payable Research contracts payable Accrued interest Refundable security deposits Deferred rental revenue Notes payable Total liabilities | \$ | 285 84,655 - - - - 84,940 | \$ | 5,066 - 5,531 119,809 - 2,164,313 2,294,719 | \$ | 35,963 - - - 183,240 - 219,203 | \$ | - - - - - | \$ | 41,314 84,655 5,531 119,809 183,240 2,164,313 2,598,862 |
| NET ASSETS, UNRESTRICTED | | 1,091,792 | | 4,736,312 | | (94,969) | | (1,000,009) | | 4,733,126 |
| Total liabilities and net assets | \$ | 1,176,732 | \$ | 7,031,031 | \$ | 124,234 | \$ | (1,000,009) | \$ | 7,331,988 |

| | University of Southern Mississippi Research Foundation, Inc. | | Pinion Properties, LLC | | Waterborne | | Eliminations | | Consolidated | |
|--|--|---------|---------------------------|-----------|------------|---------|--------------|---|--------------|-----------|
| REVENUES, GAINS AND OTHER SUPPORT | | | | | | | | | | |
| Rental revenues | \$ | - | \$ | 1,295,735 | \$ | - | \$ | - | \$ | 1,295,735 |
| Research contract revenue | | 84,676 | | - | | - | | - | | 84,676 |
| Contributed support | | 140,464 | | - | | - | | - | | 140,464 |
| Interest income | | 294 | | - | | - | | - | | 294 |
| Other income | | - | | 122,365 | 2 | 234,344 | | - | | 356,709 |
| Total revenues, gains and other support | | 225,434 | | 1,418,100 | 2 | 234,344 | | - | | 1,877,878 |
| EXPENSES | | | | | | | | | | |
| Program services: | | | | | | | | | | |
| Research contracts, The University of Southern | | | | | | | | | | |
| Mississippi | | 74,065 | | - | | - | | - | | 74,065 |
| Scholarships, grants, and awardsi5,41 | | | | | | | | | | |

| Program Services | Management and General | Rental | Total | |
|---------------------|------------------------|--|--|--|
| \$ - | \$ 19,000 | \$ - | \$ 19,000 | |
| - | 2,000 | - | 2,000 | |
| - | 6,458 | - | 6,458 | |
| - | - | 2,501 | 2,501 | |
| - | - | 5,047 | 5,047 | |
| - | 5,963 | 248,326 | 254,289 | |
| - | - | 1,000 | 1,000 | |
| - | 1,896 | 117,416 | 119,312 | |
| - | - | 104,077 | 104,077 | |
| - | 2,722 | 3,537 | 6,259 | |
| - | - | 42 | 42 | |
| - | - | 1,876 | 1,876 | |
| - | 1,010 | 2,032 | 3,042 | |
| 5,047 | | 26.3 2,501 | | |
| | \$ | Services and General \$ - \$ 19,000 - 2,000 - 6,458 5,963 1,896 2,722 1,010 | Services and General Rental \$ - \$ 19,000 \$ - - 2,000 - - 6,458 - - - 2,501 - - 5,047 - 5,963 248,326 - - 1,000 - 1,896 117,416 - - 104,077 - 2,722 3,537 - - 42 - - 1,876 - 1,010 2,032 | |