UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

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Report of Independent Auditor

The Audit Committee of the Board of Directors
University of Georgia Research Foundation, Inc.
Athens, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the University of Georgia Research Foundation, Inc. (the "Research Foundation"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, and the discretely presented component unit, the UGA Real Estate Foundation, Inc. (the "Real Estate Foundation"), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Research Foundation, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016, on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Augusta, Georgia
September 20, 2016

Introduction

The University of Georgia Research Foundation, Inc. (the "Research Foundation") was incorporated under the laws of the state of Georgia as a nonprofit corporation on November 17, 1978. The Research Foundation qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code.

The Research Foundation is organized to fulfill broad scientific, literary, educational, and charitable purposes and operates to enhance the three-pronged mission of the University of Georgia (the "University") of teaching, research, and public service.

The Research Foundation contributes to the research function of the University by securing research contracts, grants, and awards from individuals, institutions, private organizations, and government agencies for the performance of sponsored research in the various University colleges, schools, departments, and other units.

In the Intellectual Property Administration Agreement dated November 8, 1995, the Board of Regents of the University System of Georgia authorized the Research Foundation to serve as the official recipient of all research contracts, grants, and awards for the conduct of sponsored research at the University. The Intellectual Property Administration Agreement also assigned to the Research Foundation all of the Board of Regents' right, title, and interest in intellectual property developed by University personnel. In addition, the Research Foundation administers, protects, and licenses this intellectual property.

The Research Foundation is the sole member of the UGA Real Estate Foundation, Inc. (the "Real Estate Foundation") which operates as an independent nonprofit corporation. The Real Estate Foundation promotes the mission of the University and Research Foundation through facilities and real estate development activities. Separately issued financial statements for the Real Estate Foundation may be obtained at the following address: UGA Real Estate Foundation, Inc., c/o University Business and Accounting Services, 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

The Research Foundation is also the sole member of UGARF Media Holdings, LLC ("UMH"). The purpose for the creation of UMH was concluded in fiscal year 2011 and UMH was legally terminated in May 2016. UMH conducted no operations during the fiscal year ended June 30, 2016.

Description of the Financial Statements

The *Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position*, and the *Statement of Cash Flows* are designed to provide information which will assist in understanding the financial condition and performance of the Research Foundation. The Research Foundation's net position is one indicator of the Research Foundation's financial health. Over time, increases or decreases in net position are one indicator of the changes in the Research Foundation's financial condition when considered with other non-financial facts.

The *Statement of Net Position* presents information on Research Foundation assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The financial reporting model classifies investment earnings and changes in the fair value of investments as non-operating revenues. As a result, the financial statements may show operating losses that are then offset by non-operating revenues from a total financial perspective.

The *Statement of Cash Flows* presents information in the form of cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities.

Financial Highlights

Condensed financial statements are presented for the year ended June 30, 2016, and one prior fiscal year. In the following discussion, Fiscal 2016 and Fiscal 2015 refer to the years ended June 30, 2016 and 2015, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Position
June 30, 2016 and 2015

	2016	2015	Change	% Change
Assets:				
Current assets	$ 59,409,084	$ 55,353,323	$ 4,055,761	7%
Capital assets, net	110,000	291,079	(181,079)	-62%
Other noncurrent assets	40,217,936	45,653,961	(5,436,025)	-12%
Total assets	99,737,020	101,298,363	(1,561,343)	-2%
Liabilities:				
Current liabilities	54,114,787	56,088,731	(1,973,944)	-4%
Total liabilities	54,114,787	56,088,731	(1,973,944)	-4%
Net position:				
Net investment in capital assets	110,000	291,079	(181,079)	-62%
Unrestricted	45,512,233	44,918,553	593,680	1%
Total net position	$ 45,622,233	$ 45,209,632	$ 412,601	1%

Current assets increased by $4,055,761 from Fiscal 2015 to Fiscal 2016 due to increases in accounts receivable related to sponsored research activity. Capital assets, which include land and buildings, net of accumulated depreciation, decreased by $181,079 or 62% due to normal annual depreciation and the sale of the Toccoa Facility assets (land and building.) Other noncurrent assets primarily include investments held by investment managers and other investments. The $5,436,025 decrease in other noncurrent assets is attributable to a decrease in market value of investments offset by additional investment in the GRA Venture Fund.

Current liabilities decreased by $1,973,944 or 4% due to decreases in accounts payable to the University and accounts payable related to sponsored research.

Net position represents the difference between the Research Foundation's assets and liabilities. Total net position at June 30, 2016 and 2015, was $45,622,233 and $45,209,632, respectively, which represents an increase of 1% or $412,601. This increase is a combination of increased operating income attributable to increased sponsored research revenue and decreased support to the University and decreased non-operating revenues (investment income).

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015	Change	% Change
Operating Revenues:				
Sponsored research	$ 160,445,433	$ 147,634,867	$ 12,810,566	9%
Licensing and royalties and other	9,712,876	7,054,952	2,657,924	38%
Total operating revenues	170,158,309	154,689,819	15,468,490	10%
Operating Expenses:				
Research subcontracted to UGA	156,356,506	143,944,365	12,412,141	9%
Intellectual property	8,218,165	6,632,511	1,585,654	24%
Support to UGA	3,665,118	8,118,348	(4,453,230)	-55%
Management and general	467,597	500,630	(33,033)	-7%
Total operating expenses	168,707,386	159,195,854	9,511,532	6%
Operating income (loss)	1,450,923	(4,506,035)	5,956,958	132%
Non-operating revenues (expenses)	(1,038,322)	772,278	(1,810,600)	-234%
Decline in value of Georgia Venture Partners, LLC that is other than temporary	-	(52,000)	52,000	100%
Change in net position	412,601	(3,785,757)	4,198,358	111%
Net position – beginning of year	45,209,632	48,995,389	(3,785,757)	-8%
Net position – end of year	$ 45,622,233	$ 45,209,632	$ 412,601	1%

Operating revenues consist primarily of sponsored research, licensing, and royalties. During Fiscal 2016, operating revenues increased $15,468,490 or 10% due to increases in sponsored research revenue and licensing and royalties. These revenue increases track an increase in both the dollar amount and number of research awards.

Operating expenses increased by $9,511,532 due to an increase in sponsored research offset by a decrease in support to the University in Fiscal 2016. The decrease in support to the University was a return to an average level of support. Fiscal 2015 included $5 million to support the construction of the Center for Molecular Medicine.

Non-operating revenues consist mostly of investment income and the change in fair value of investments. For Fiscal 2016, the Research Foundation reported investment income of $1,167,717 and a decrease in the fair market value of investments of $2,286,298.

University of Georgia Research Foundation, Inc.
Condensed Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015	Change	% Change
Cash flows from operating activities	$ (7,071,407)	$ 3,123,155	$ (10,194,562)	-326%
Cash flows from capital and related financing activities	225,000	-	225,000	100%
Cash flows from investing activities	5,796,164	(225,688)	6,021,852	2668%
Net change in cash and cash equivalents	(1,050,243)	2,897,467	(3,947,710)	-136%
Cash and cash equivalents – beginning of year	10,990,231	8,092,764	2,897,467	36%
Cash and cash equivalents – end of year	$ 9,939,988	$ 10,990,231	$ (1,050,243)	-10%

Cash flows from operations primarily include receipts from research sponsors and licensees, net of disbursements for operations. The increase in net cash flows used in operating activities in Fiscal 2016 is largely due to the timing of increased payments for sponsored research.

Cash flows from capital and related financing activities include proceeds from the sale of the Toccoa Facility assets in Fiscal 2016.

Cash flows from investing activities are comprised of proceeds from sales and maturities of investments, purchases of investments, and interest earned on investments. Significantly more cash was provided by these activities in Fiscal 2016 than in Fiscal 2015 as a result of investment sales exceeding investment purchases.

Economic Outlook

Nationally, research funding and specifically federal research funding remains competitive. The Research Foundation's sponsored research spending increased for the second consecutive year in Fiscal 2016 following a short downward trend in the preceding three years. University faculty are actively seeking new research award opportunities from a variety of funding sources. Research awards increased $23 million between Fiscal 2015 and Fiscal 2016. Additionally, the Research Foundation continues to leverage commercialization opportunities with economic potential to provide new revenue streams.

The state of Georgia continues on a course of economic recovery and the University will build on its efforts to reduce costs and redirect resources in Fiscal 2017. After strategic planning and evaluation in Fiscal 2014, the Research Foundation modified its spending approach and investment strategy to provide funding for research commitments and preserve a corpus to generate a reliable annual revenue stream.

Questions concerning this report or requests for additional information should be directed to University of Georgia, University Business and Accounting Services at (706) 542-6860 or at 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENT OF NET POSITION

JUNE 30, 2016

	Research Foundation	Component Unit Real Estate Foundation
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 9,939,988	$ 17,602,111
Sponsored Research, Licensing, and Royalties Receivable	29,982,655	-
Accounts Receivable from University and Affiliates	786,872	-
Funds Deposited with the University of Georgia	18,645,994	-
Prepaid Expenses and Other Current Assets	53,575	222,471
Capital Leases Receivable, Current Portion	-	6,417,728
Total Current Assets	59,409,084	24,242,310
Noncurrent Assets		
Investments	39,268,856	-
Investment in GRA Venture Fund	949,080	-
Investments Held by UGAF	-	11,259,680
Bond Proceeds Restricted for Construction, Debt Service and Reserves	-	5,801,303
Operating Funds Held by Trustee	-	1,717,926
Capital Lease Interest Receivable	-	1,828,478
Capital Lease Receivable, Noncurrent Portion	-	265,150,934
Capital Assets not being Depreciated		
Land	110,000	15,724,224
Construction in Progress	-	12,709
Easement	-	1,835,296
Capital Assets, net of Accumulated Depreciation	-	1,947,210
Total Noncurrent Assets	40,327,936	305,277,760
Total Assets	99,737,020	329,520,070
Deferred Outflows of Resources		
Deferred Loss on Refundings	$ -	$ 12,908,125

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2016

	Research Foundation	Component Unit Real Estate Foundation
LIABILITIES		
Current Liabilities		
Accounts Payable - University and Affiliates	$ 34,330,329	$ 34,301
Funds Received for Sponsored Research	18,645,994	-
Accounts Payable and Accrued Liabilities	1,132,189	47,329
Unearned Revenue	6,275	-
Accrued Interest Payable	-	625,329
Advance Rent and Lease Payment Receipts	-	2,179,931
Lease Rent Liability, Current Portion	-	207,009
Bonds Payable, Current Portion	-	9,155,000
Total Current Liabilities	54,114,787	12,248,899
Noncurrent Liabilities		
Lease Rent Liability, Noncurrent Portion	-	1,164,247
Revolving Credit Agreement, Noncurrent Portion	-	8,516,222
Bonds Payable, Noncurrent Portion	-	278,979,942
Total Noncurrent Liabilities	-	288,660,411
Total Liabilities	54,114,787	300,909,310
NET POSITION		
Net Investment in Capital Assets	110,000	11,003,217
Restricted for:		
Future Repairs and Replacements of Real Property	-	1,717,920
Unrestricted	45,512,233	28,797,748
Total Net Position	$ 45,622,233	$ 41,518,885

The accompanying notes to the financial statements are an integral part of this statement.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2016

	Research Foundation	Component Unit Real Estate Foundation
Operating Revenues		
Sponsored Research	$ 160,445,433	$ -
Licensing and Royalties	9,144,606	-
Other	21,847	-
Rental Income	546,423	3,838,529
Capital Lease Interest Income	-	17,050,125
Total Operating Revenues	170,158,309	20,888,654
Operating Expenses		
Research Subcontracted to UGA (including facilities and administrative cost reimbursements)	156,356,506	-
Licensing and Royalty Distributions	6,757,781	-
Licenses and Intellectual Property	1,460,384	-
Support to the University of Georgia	3,665,118	-
Project Expenses	-	3,657,679
Management and General	467,597	759,797
Total Operating Expenses	168,707,386	4,417,476
Total Operating Income (Loss)	1,450,923	16,471,178
Non-operating Revenue (Expenses)		
Investment Income	1,167,717	429,230
Change in Fair Value of Investments	(2,286,298)	-
Interest Expense, net	-	(13,801,208)
Gain on Early Termination of Capital Lease	-	178,418
Loss on Extinguishment of Debt	-	(1,055,343)
Gain on disposal of capital assets	80,259	-
Other	-	(3,333)
Total Non-operating Revenue (Expenses)	(1,038,322)	(14,252,236)
Change in Net Position	412,601	2,218,942
Net Position		
Beginning of Year	45,209,632	39,299,943
End of Year	$ 45,622,233	$ 41,518,885

The accompanying notes to the financial statements are an integral part of this statement.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

	Research Foundation
Cash flows from operating activities	
Receipts from research sponsors	$ 153,649,738
Receipts of licensing, royalties, and other	8,180,580
Receipts from UGA	7,588,992
Sponsored research payments to UGA	(164,436,652)
Payments for licensing and royalty distributions and other	(4,646,992)
Payments to UGA	(6,959,396)
Payments to suppliers	(447,677)
Net cash from operating activities	(7,071,407)
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	225,000
Net cash from capital and related financing activities	225,000
Cash flows from investing activities	
Proceeds from sales and maturities of investments	17,003,727
Purchases of investments	(10,956,814)
Investment in GRA Venture Fund, net of distribution of initial investment	(250,749)
Net cash from investing activities	5,796,164
Net decrease in cash and cash equivalents	(1,050,243)
Cash and cash equivalents	
Beginning of year	10,990,231
End of year	$ 9,939,988
Reconciliation of operating income to net cash from operating activities	
Operating income	$ 1,450,923
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation	36,338
Royalty on receipt of stock	(1,532,296)
Changes in assets and liabilities	
Accounts receivable	(6,795,695)
Prepaid expenses and other current assets	4,030
Accounts payable, University of Georgia	(177,849)
Accounts payable and accrued liabilities	(56,858)
Net cash from operating activities	$ (7,071,407)
Schedule of noncash investing activity	
Decrease in fair value of investments	$ (2,286,298)
Investment income, reinvested	$ 1,167,717

<u>Research Foundation</u>

Note 1—Organization

The University of Georgia Research Foundation, Inc. (the "Research Foundation") was established in November 1978 to contribute to the educational, research, and service functions of the University of Georgia (the "University") in securing gifts, contributions, and grants from individuals, private organizations, and public agencies and in obtaining contracts with such individuals or entities for the performance of sponsored research, development, education, or other programs by the various colleges, schools, departments, or other units of the University.

All research grants awarded to the Research Foundation are subcontracted to the University, which is responsible for the fiscal administration of the grants on behalf of the Research Foundation and the University.

Effective July 1, 2007, the Research Foundation became the sole member of the UGA Real Estate Foundation, Inc. (the "Real Estate Foundation").

In June 2008, the Research Foundation created UGARF Media Holdings, LLC ("UMH"), a limited liability company, and is its sole member. The purpose for the creation of UMH was concluded in fiscal year 2011 and all its assets transferred either to the University or to the Research Foundation. The Research Foundation refers to the transferred assets as the "Toccoa Facility." UMH was legally terminated in May 2016; it conducted no operations during the fiscal year ended June 30, 2016.

Note 2—Summary of significant accounting policies

Basis of Presentation – The Research Foundation's financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

The financial statement presentation provides a comprehensive, entity-wide perspective of the Research Foundation's assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows. As required by accounting principles generally accepted in the United States of America as prescribed by GASB, the financial position and activities of component units are discretely presented in the government-wide financial statements of the Research Foundation, which consist of the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*. In addition, these standards require the Research Foundation to present a Management's Discussion and Analysis ("MD&A"). The MD&A is considered to be required supplemental information and precedes the financial statements.

Reporting Entity – In accordance with the criteria in Statement of Governmental Accounting Standard ("SGAS") No. 61, *The Financial Reporting Entity*, the Research Foundation is a legally separate tax exempt organization whose activities primarily support the University, a unit of the University System of Georgia (an organizational unit of the state of Georgia.) The Research Foundation is considered an affiliated organization of the University and due to its financial significance, the Foundation's financial activities are included in the University and University System of Georgia's reports. The State Accounting Office determined component units of the state of Georgia, as required by SGAS No. 61, should not be assessed in relation to their significance to the University. Accordingly, the Research Foundation qualifies for treatment as a component unit of the state of Georgia.

Note 2—Summary of significant accounting policies (continued)

The Real Estate Foundation qualifies as component unit of the Research Foundation. The *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position* of the Real Estate Foundation are reported discretely in the Research Foundation's financial statements for fiscal year 2016 as required by government accounting standards. UMH also qualified during part of fiscal year 2016 as a component unit of the Research Foundation; however due to lack of operations in fiscal year 2016 the Research Foundation's financial statements reflect no UMH activity.

These statements are the primary financial statements of the Research Foundation. Separately issued comparative financial statements for the Real Estate Foundation may be obtained at the following address: UGA Real Estate Foundation, Inc., c/o University Business and Accounting Services, 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

Notes related to the financial statements of the Real Estate Foundation follow the notes for the Research Foundation.

Basis of Accounting – For financial reporting purposes, the Research Foundation is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the Research Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

During the year ended June 30, 2016, the Research Foundation implemented SGAS No. 72, *Fair Value Measurement and Application*. SGAS No. 72 defines fair value, how fair value is measured, what assets and liabilities should be measured at fair value, and what information about fair value should be reported in the notes to the financial statements. SGAS No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The implementation of SGAS No. 72 did not result in a change to beginning net position.

Cash and Cash Equivalents – The Research Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments, which consist of money markets, certificates of deposit, and non-participating repurchase agreements, are carried at cost.

Investments – In accordance with SGAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Research Foundation is required to present certain investments at their fair value if the investment has a readily determined market value.

Investments in Affiliated Companies and Partnerships – The Research Foundation accounts for its investments in affiliated entities and partnerships in which the Research Foundation has significant ownership, which do not qualify as component units, by the equity method of accounting. Under this method, the net income or loss of the affiliates is recognized as income or loss in the Research Foundation's operating statements and as an increase or decrease to the investment account. Dividends received from the affiliates are treated as a reduction of the investment account.

Other investments, consisting of an interest in a limited liability company for which the Research Foundation does not have significant ownership or control, are carried at the lower of cost or fair value.

Note 2—Summary of significant accounting policies (continued)

Capital Assets – Capital assets are recorded at cost. Depreciation is recorded on a straight-line basis over an estimated useful life of 25 years.

Net Position – The Research Foundation's net position is comprised primarily of unrestricted net position. Unrestricted net position is not subject to donor or other stipulations imposed by outside sources. Net investment in capital assets consists of capital assets, net of accumulated depreciation.

Revenue Recognition – Revenue from sponsored research is recognized as expenditures are made for approved research activities, or the Research Foundation has been notified of approved research activities related to the funds received.

A sponsored research receivable is recorded for amounts expended for authorized purposes but not yet reimbursed by research sponsors. Payments by research sponsors in advance of research expenditures are recorded and classified as funds received for sponsored research in the statement of net position.

Licensing revenues and royalties are derived from licensing of the Research Foundation's intellectual property rights and are generally computed as a royalty based upon a percentage of the licensee's sales of products incorporating the rights licensed from the Research Foundation. Such licensing and royalties are recognized when received except that payments of royalties received in advance of actual sales are initially deferred and subsequently recognized on a straight-line basis over the expected royalty period.

The unrecognized portion of such advance payments is classified as unearned revenues in the statement of net position. The Research Foundation is obligated to distribute a portion of the licensing revenues and royalties pursuant to the University of Georgia Intellectual Property Policy. Such distributions are recorded as expenses when the related revenues are recognized.

Operating and Non-Operating Revenues – The financial statements distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with sponsored research and licensing and royalty agreements – the Research Foundation's principal activities. Non-exchange revenues, including investment income and net unrealized and realized gains and losses on investments are reported as non-operating revenues. Operating expenses are all expenses incurred in the course of obtaining sponsored research grants and licensing and royalty agreements and providing support to the University of Georgia.

Income Taxes – The Research Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. In addition, the Research Foundation is not classified as a private foundation based on a determination received from the Internal Revenue Service.

Use of Estimates – The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3—Deposits and investments

A. Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Research Foundation's deposits may not be recovered. The Research Foundation does not have a deposit policy for custodial credit risk. The Research Foundation places its cash and cash equivalents on deposit with financial institutions in the United States.

The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts. The Research Foundation from time to time may have amounts on deposit in excess of these insured limits.

At June 30, 2016, the bank and investment accounts values of the Research Foundation's deposits, including demand accounts and cash held in managed investment accounts were $3,178,570 of which $3,178,413 was uninsured and uncollateralized.

B. Investments

The Research Foundation maintains an investment policy for short-term and long-term investments. The policy establishes primary and secondary objectives, specifies allowable investments, sets target investment mix, and provides investment guidelines.

The Research Foundation's investments at June 30, 2016, are presented below. All investments are presented by investment type and debt securities are presented by maturity. Repurchase agreements of $7,329,000 are carried at cost and are included in cash and cash equivalents on the *Statement of Net Position*.

		Investment Maturity			
	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Investment type					
Debt Securities					
U.S. Treasuries	$ 3,284,691	$ 1,190,107	$ 1,578,376	$ 214,935	$ 301,273
U.S. Agencies					
Implicitly Guaranteed	162,116	75,236	86,880	-	-
Corporate Debt	8,054,778	2,616,762	4,205,899	747,229	484,888
Municipal Debt	372,478	-	251,585	-	120,893
Foreign Government Debt	260,968	76,825	184,143	-	-
	12,135,031	$ 3,958,930	$ 6,306,883	$ 962,164	$ 907,054
Other Investments					
Equity Mutual Funds - Domestic	3,255,185				
Equity Mutual Funds - International	4,457,542				
Equity Mutual Funds - Global	4,820,873				
Bond Mutual Funds - Domestic	1,498,723				
Equity Securities - Domestic	5,408,799				
Equity Securities - International	434,553				
Managed Futures / Hedge Funds	7,258,150				
Total Investments	$ 39,268,856				

Note 3—Deposits and investments (continued)

B. Investments (continued)

Interest rate risk
Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Research Foundation's policy for managing interest rate risk is divided between short-term and long-term investments. Short-term investments will have an average maturity not to exceed eighteen months. Long-term investments are managed using a planning timeline of three to five years and overall risk measurements rather than specific maturity limits.

Custodial credit risk
Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Research Foundation will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Research Foundation does not have a formal policy for managing custodial credit risk for investments.

At June 30, 2016, $25,307,383 of the Research Foundation's applicable investments were uninsured and held by the investment's counterparty in the Research Foundation's name.

Credit quality risk
Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Research Foundation's investment policy specifies that fixed income securities be of investment grade. The short-term investment policy specifies that corporate bonds be rated BBB (Standard & Poor's) or Baa (Moody's) or higher; the long-term policy requires an average A rating or higher by one of the rating agencies.

The Research Foundation's investments at June 30, 2016, are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

		Rated Investments		
Quality Ratings	**Fair Value**	**U.S. Agencies**	**Corporate, Municipal, and Foreign Government Bonds**	**Mutual Funds**
Moody's				
Aaa	$ 239,195	$ 162,116	$ 77,079	$ -
Aa1	220,676	-	220,676	-
Aa2	700,001	-	700,001	-
Aa3	290,161	-	290,161	-
A1	985,401	-	985,401	-
A2	879,526	-	879,526	-
A3	2,184,303	-	2,184,303	-
Baa1	1,675,359	-	1,675,359	-
Baa2	1,274,001	-	1,274,001	-
Baa3	370,040	-	370,040	-
Standard & Poor's				
BBB	31,677	-	31,677	-
Morningstar				
5-Star	4,584,080	-	-	4,584,080
4-Star	7,413,257	-	-	7,413,257
3-Star	2,034,986	-	-	2,034,986
	22,882,663	$ 162,116	$ 8,688,224	$ 14,032,323
Exempt Investments				
U. S. Treasuries	3,284,691			
Equity Securities - Domestic	5,408,799			
Equity Securities - International	434,553			
Managed Futures/Hedge Funds	7,258,150			
	$ 39,268,856			

Note 3—Deposits and investments (continued)

B. Investments (continued)

<u>Concentration of credit risk</u>
Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Research Foundation's policy for managing concentration of credit risk is divided between short-term and long-term investments. For short-term investments, maximum percentages are set for cash and cash equivalents at 15%, asset backed securities at 50%, and corporate bonds at 90%, while U. S. Treasuries, U. S. Agencies debt, and certificates of deposit may comprise 100% for the short-term investments. For long-term investments, equities comprise 30-70%, bonds 20-70%, and alternative investments can range 0-40%.

As of June 30, 2016, investments and repurchase agreement-underlying securities in a single issuer where those investments are 5% or more of total investments were as follows:

Ocean Fund, Ltd.	8%
United States Treasury Bonds and Notes	8%
MFS Global Equity Fund	5%
Oakmark Global Select Fund	5%

<u>Foreign currency risk</u>
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Research Foundation's investments are not exposed to foreign currency risk as securities denominated in currencies other than the U.S. dollar are not permissible by the Research Foundation's investment policy.

Note 4—Other investments

A. Investments – Cost Method

During 2009, the Research Foundation made a commitment to invest $1,000,000 in GRA Venture Fund (T. E.), LLC, (the "Fund"). The Fund was created by the Georgia legislature whereby State funds and funds from profit and not-for-profit entities will be combined to provide seed and early stage venture financing for businesses formed around intellectual property resulting from Georgia Research Alliance universities. In July 2015, the Research Foundation made an additional commitment to invest $1,000,000. During fiscal year 2016, the Research Foundation made total contributions, net of distributions of initial investment, of $250,749 to the Fund.

A fair value is not estimated for the investment. At June 30, 2016, the Research Foundation did not identify any events or changes in circumstances that might have an adverse effect on fair value, therefore, the contributions by the Research Foundation are shown at cost less distributions of return of initial investment.

GRA Venture Fund (T. E.), LLC – capital contribution, at cost, net of distributions	
2009 commitment	$ 749,306
2015 commitment	199,774
	$ 949,080

Note 5—Fair value measurements of assets and liabilities

The Research Foundation has adopted SGAS No. 72, *Fair Value Measurements and Application*, which requires fair value measurement be classified and disclosed in one of the following three categories ("Fair Value Hierarchy"):

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which would generally be included in Level 1 include listed equity securities, mutual funds, and money market funds. As required by accounting principles generally accepted in the United States of America, the Research Foundation, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Research Foundation holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1; inputs include comparable market transactions, pricing of similar instruments, values reported by the administrator, and pricing expectations based on internal modeling. Fair value is determined through the use of models or other valuation methodologies. The types of investments which would generally be included in this category include publicly traded securities with restrictions on disposition, corporate obligations, and US Government and Agency Treasury Inflation Indices.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments. The types of investments which would generally be included in this category include debt and equity securities issued by private entities and partnerships. The inputs into the determination of fair value require significant judgment or estimation. Inputs include recent transactions, earnings forecasts, market multiples, and future cash flows.

The table on the following page summarizes the valuation of the Research Foundation's financial assets and liabilities measured at fair value on a recurring basis and at net asset value as of June 30, 2016.

Note 5—Fair value measurements of assets and liabilities (continued)

	Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Equity Securities:				
Stocks (by sector)				
Consumer	$ 2,613,234	$ -	$ -	$ 2,613,234
Other [a]	3,230,118	-	-	3,230,118
Mutual Funds				
Domestic	3,255,185	-	-	3,255,185
International	4,457,542	-	-	4,457,542
Global	4,820,873	-	-	4,820,873
Total equities	18,376,952	-	-	18,376,952
Fixed income:				
U. S. Treasury and Agency securities	-	3,446,807	-	3,446,807
Bonds (by sector)				
Finance Bank	-	2,027,613	-	2,027,613
Finance Non Bank	-	2,230,419	-	2,230,419
Other Industrials	-	1,441,838	-	1,441,838
Other [a]	-	2,615,876	-	2,615,876
Municipal Bonds	-	372,478	-	372,478
Mutual Funds - Domestic	1,498,723	-	-	1,498,723
Total fixed income	1,498,723	12,135,031	-	13,633,754
Investments measured at net asset value [b]				
Multi-Strategy Hedge Funds	-	-	-	3,927,058
Interval ILS Fund	-	-	-	1,846,065
Managed Futures	-	-	-	1,485,027
Total investments measured at net asset value [b]	-	-	-	7,258,150
Total investments, recurring basis	$ 19,875,675	$ 12,135,031	$ -	$ 39,268,856

[a] Individual sectors included in Equity Securities-Other and Bonds-Other represent less than 5% of total investments.

[b] Certain investments that are measured at fair value using the net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts on the *Statement of Net Position*.

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

Note 5—Fair value measurements of assets and liabilities (continued)

The Research Foundation assets where fair value is measured by net asset value of the entity are as follows:

Category	Fair Value	Redemption Frequency	Redemption Notice Period
Interval ILS Fund [a]	$ 1,846,065	Quarterly	21 days
Managed Futures [b]	1,485,027	Daily	None
Multi-Strategy Hedge Funds [c]	701,168	Quarterly	30 days
Multi-Strategy Hedge Funds [c]	3,225,890	Quarterly	95 days
	$ 7,258,150		

There were no unfunded commitments related to the investments above that calculate net asset value as of June 30, 2016.

[a] *Interval ILS Fund* – This category includes investments in insurance-linked securities (“ILS”) especially reinsurance related securities. ILS funds invest in both liquid instruments as well as illiquid instruments such as catastrophe bonds, private reinsurance contracts, event-linked bonds, and shares or notes issued in connection with non-proportional reinsurance.

[b] *Managed Futures* – This category includes investments in diversified hedge funds investing in equity and debt securities as well as currencies and commodities. The allocation strategy primarily is based on trend analysis including identification of emerging trends.

[c] *Multi-Strategy Hedge Funds* – This category includes investments in multi-strategy off-shore funds. Strategies primarily focus on long/short credit strategies which generally take both long and short positions in credit related instruments, such as corporate bonds, bank loans, traded claims, emerging market debt and credit derivatives and multi-strategy opportunistic strategies which generally involve portfolio managers exercising discretion in allocating capital among several types of arbitrage, event driven and directional strategies.

Note 6—Facilities and administrative cost revenue

The Research Foundation receives reimbursement from research sponsors for facilities and administrative (“F&A”) cost incurred. Of the total received, 78% is remitted to the University for reimbursement of F&A cost incurred by the University. Additionally, the Research Foundation remitted $3,500,066 for the year ended June 30, 2016, to various departments of the University for F&A cost they incurred in the support of research.

Note 7—Capital assets

Capital assets consisted of the following:

	Balance at June 30, 2015	Additions	Disposals	Balance at June 30, 2016
Capital assets not being depreciated				
Land	$ 182,380	$ -	$ (72,380)	$ 110,000
Capital assets being depreciated				
Library Repository Building	1,142,307	-	-	1,142,307
Less: accumulated depreciation	(1,105,969)	(36,338)	-	(1,142,307)
Toccoa Facility Building	77,620	-	(77,620)	-
Less: accumulated depreciation	(5,259)	-	5,259	-
Total capital assets being depreciation, net	108,699	(36,338)	(72,361)	-
Capital assets - net	$ 291,079	$ (36,338)	$ (144,741)	$ 110,000

During fiscal year 2016, the Library Repository Building became fully depreciated and the Toccoa Facility land and building were sold.

Note 8—Related-party transactions

On July 23, 1991, the Research Foundation purchased a library storage facility and approximately four acres of land for approximately $1.2 million and subsequently leased the 38,000 square-foot facility to the University. The lease is renewable annually, at the University's option, through June 30, 2020. The monthly rental for this lease agreement is $6,275. The lease rental for the year ended June 30, 2016 was $75,300. The library storage facility was being depreciated over 25 years and became fully depreciated during fiscal year 2016.

Note 9—Significant funding sources

For the fiscal year ended June 30, 2016, approximately $101,000,000 (76%) of the Research Foundation's total federal expenditures and support were awarded by three (3) agencies of the United States government. Changes in governmental spending could have a significant impact on the operations of the Research Foundation.

Note 10—Commitments and contingencies

In the normal course of business, there may be legal actions pending against the Research Foundation. At this time there are no such actions pending, therefore, no legal actions are expected to have a material effect on the Research Foundation's financial position, results of operations, or liquidity.

The Research Foundation has the following contractual commitments, in whole or in part, with parties other than the University:

The Georgia legislature passed legislation establishing the GRA Venture Fund, LLC. The fund provides seed and early stage venture financing for businesses formed around intellectual property resulting from GRA universities. The Research Foundation committed a total of $1,000,000 at $200,000 per year for five years beginning in fiscal year 2009. During fiscal year 2016, $50,975 was requested and transferred to the GRA Venture Fund, LLC. As of June 30, 2016, the Research Foundation's remaining commitment is $189,949. In July 2015, the Research Foundation made an additional commitment of $1,000,000 at $200,000 per year for five years to the GRA Venture Fund, LLC. During fiscal year 2016, $199,774 was requested and transferred to the GRA Venture Fund, LLC. As of June 30, 2016, the Research Foundation's remaining commitment is $802,226.

As the sole member of the Real Estate Foundation, the Research Foundation is guarantor on up to $25 million on a revolving credit agreement maintained by the Real Estate Foundation. As of June 30, 2016, there are no borrowings subject to this guarantee requirement.

The Research Foundation has committed to fund, in whole or in part, the following projects at the University:

In prior fiscal years, the Research Foundation made multi-year commitments to support programs and initiatives in infectious disease. The fiscal year 2017 commitment for these programs is approximately $134,000.

The Research Foundation has an ongoing commitment to fund a portion of the Coverdell Center lease repayment. The current commitment is $585,144 each fiscal year and continues through fiscal year 2035.

Annual commitments totaling $756,713 exist to support general operating costs of the Georgia Advanced Computing Resource Center, the Coverdell and Riverbend buildings, to provide access dues to research computing resources, and support for the Animal Health Research Center.

The Research Foundation established the Special Research Hiring Initiative in fiscal year 2014 and the President's Extraordinary Research Faculty Hiring Initiative in fiscal year 2015. The fiscal year 2017 commitment for these initiatives is budgeted at approximately $5.5 million.

Real Estate Foundation

Note 1—Organization

The UGA Real Estate Foundation, Inc. (the "Real Estate Foundation") is a not-for-profit foundation that was chartered in 1999 and manages and improves various real estate assets for the benefit of the University of Georgia (the "University"), governed by the Board of Regents of the University System of Georgia (the "Board of Regents"). The Real Estate Foundation may also provide support to the Board of Regents and colleges and universities of the University System of Georgia. The Real Estate Foundation has created several limited liability companies of which it is the sole member for various purposes including constructing, financing, owning, and leasing real estate projects.

The Real Estate Foundation's sole member is the University of Georgia Research Foundation, Inc. (the "Research Foundation"). The Real Estate Foundation operates under a cooperative organization agreement with the Board of Regents.

The Research Foundation was incorporated under the laws of the state of Georgia as a nonprofit corporation in 1978 and qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Research Foundation is a cooperative organization serving the University and is organized to fulfill broad scientific, literary, educational and charitable purposes and operates to enhance the three-pronged mission of the University of teaching, research, and public service. The Research Foundation contributes heavily to the research function of the University by securing research contracts, grants, and awards from individuals, institutions, private organizations, and government agencies for the performance of sponsored research, development, education, or other programs in the various University colleges, schools, departments, and other units of the University.

Note 2—Summary of significant accounting policies

Basis of Presentation – The Real Estate Foundation's financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The Statements of Governmental Accounting Standards ("SGAS") are issued by GASB. The financial statements include the accounts of the Real Estate Foundation's limited liability companies. All balances and transactions between the Real Estate Foundation and these limited liability companies have been eliminated.

The financial statement presentation provides a comprehensive, entity-wide perspective of the Real Estate Foundation's assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows. In addition, these statements require the Real Estate Foundation to present a Management's Discussion and Analysis ("MD&A"). The MD&A is considered to be required supplemental information and precedes the financial statements.

Reporting Entity – In accordance with the criteria in SGAS No. 61, *The Financial Reporting Entity*, the Research Foundation is a legally separate, tax exempt organization whose activities primarily support the University, a unit of the University System of Georgia (an organization unit of the State of Georgia). The Research Foundation is considered an affiliated organization of the University and due to its financial significance, the Research Foundation's financial activities are included in the University and University System of Georgia's reports. The State Accounting Office determined component units of the state of Georgia, as required by SGAS No. 61, should not be assessed in relation to their significance to the University. Accordingly, the Research Foundation qualifies for treatment as a component unit of the state of Georgia.

Note 2—Summary of significant accounting policies (continued)

The Real Estate Foundation qualifies as a component unit of the Research Foundation. The statements of the Real Estate Foundation are reported discretely in the Research Foundation's financial statements. The Real Estate Foundation is the sole member of a number of limited liability companies, which effectively carry out the operations of the Real Estate Foundation. Therefore, the Real Estate Foundation and all its limited liability companies are shown using a blended presentation; that is, the activity of the Real Estate Foundation and all its limited liability companies is shown in the same column.

Complete financial statements of each of the blended component units may be obtained at the Real Estate Foundation's administrative office. The address is as follows:

UGA Real Estate Foundation, Inc.
c/o University Business and Accounting Services
324 Business Services Building
456 E. Broad Street
Athens, GA 30602

Basis of Accounting – The Real Estate Foundation's financial statements have been presented using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash and Cash Equivalents – The Real Estate Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents. Investments in the Board of Regents Short-term Fund are carried at fair value. All other short-term investments, which consist of money markets, certificates of deposits, and non-participating repurchase agreements, are carried at cost. Balances may at times exceed federally insured limits.

Operating Funds Held by Trustee – Amounts transferred in from cash accounts are held by an independent trustee for the purpose of paying operating expenses and funding reserves for future obligations. From time to time, investments are made by the trustee in accordance with the trust indenture.

Bond Proceeds Restricted for Construction, Debt Service, and Reserves – Proceeds from bond issuances are held by an independent trustee and are restricted for the purpose of funding construction costs, interest, administrative fees, debt service reserves, and costs of issuance associated with the bond offerings. From time to time, investments are made by the trustee in accordance with the trust indenture.

Investments – In accordance with SGAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Real Estate Foundation is required to present certain investments at their fair value if the investment has a readily determined market value. Investments are carried at market value. Realized gains and losses are computed using the specific identification method.

Note 2—Summary of significant accounting policies (continued)

Capital Leases Receivable – The Real Estate Foundation enters into lease contracts of real property as a lessor. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or capital leases according to their economic substance. When making such an assessment, the Real Estate Foundation focuses on the following aspects: a) transfer of ownership of the asset to the lessee at the end of the lease term; b) existence of a bargain purchase option held by the lessee; c) whether the lease term is for the major part of the economic life of the asset; and d) whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease term. If one or more of the conditions are met, the lease is generally classified as a capital lease. The initial recording of the capital lease receivable is made on the day the real property is placed in service, with a corresponding entry to remove the capital asset using the lesser of the net present value of the lease payments or the fair value of the leased property. Capital leases are amortized over the term of the lease using the effective interest rate – the implicit rate that exactly discounts estimated future cash receipts through the expected life of the lease. Lease payments are allocated between the principal and interest components. Capital leases receivable consist of capital lease payments due for real property owned by the University. Collectability of these lease payments is reasonably assured and no allowance for uncollectible amounts has been established.

Capital Assets – Expenditures for maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized.

Furniture and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets of seven years.

Real property includes buildings and improvements stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of the estimated useful life of the related asset of 10 to 30 years or the remaining term on the related ground or air rights leases. Land and easements are stated at cost and are not depreciated.

Construction in progress is stated at cost and includes planning, development, and construction costs, as well as capitalized interest. When construction is complete and the asset is placed in use, assets are transferred at cost to real property or transferred to lessees as part of a capital lease agreement.

Capitalized Interest – Interest incurred during construction of real estate projects is capitalized until the underlying assets are ready for their intended use. Interest related to projects financed by tax-exempt borrowings, including periodic amortization of any related discount or premium, is capitalized after reduction for interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. Interest related to projects financed by taxable borrowings, including periodic amortization of any related discount or premium, does not include a reduction for interest earned on the temporary investment of the proceeds of those borrowings. At the time the qualifying assets are placed in service, amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets.

If a project is determined to be placed in service under a capital lease agreement, the asset, including capitalized interest, is transferred to lessees under a capital lease agreement.

Note 2—Summary of significant accounting policies (continued)

Deferred Outflows/Inflows of Resources – In accordance with SGAS No. 65, *Items Previously Reported as Assets and Liabilities*, the statement of net position report a separate financial statement element, deferred outflows of resources, which represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources until that time. The Real Estate Foundation's deferred loss on refundings qualifies for reporting in this category. The deferred loss on refundings results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt using the straight-line method. In addition to liabilities, the Statement of Net Position will at times report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as revenue until that time. The Real Estate Foundation does not have any item that qualifies for reporting in this category.

Bonds Payable – The Real Estate Foundation records the net proceeds of tax-exempt and taxable bond financing as a liability upon issuance. Bond proceeds consist of the par value of the bonds issued plus premiums or minus discounts. Bond premiums and discounts are amortized to interest expense using the effective interest method.

Net Position – Net position of the Real Estate Foundation is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted net position includes amounts restricted by bond indentures for debt service, operating costs, and repair and replacements reserves. Unrestricted net position is not subject to donor or other stipulations imposed by outside sources. The Real Estate Foundation considers several factors in determining whether to use restricted or unrestricted resources when restrictions are met.

Revenue Recognition – Rental income is recognized when earned and collectability of the associated receivable is reasonably assured. Rental income consists of the repair and replacement portion of the total capital lease payment and is recognized on a monthly basis in accordance with the related lease agreement. Advance rent receipts represent rental payments received but not yet earned.

Capital lease interest income is recorded per the related capital lease amortization schedule simultaneously with the rental income described above. Amounts are offset by rebates to the University related to savings realized by the Real Estate Foundation due to advance refunding of bonds payable and the early extinguishment of certain bonds payable for projects transferred to the University. Advance lease payment receipts represent both the interest and principal components of capital lease payments received but not yet earned.

Operating and Non-Operating Revenues and Expenses – The financial statements distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with maintaining and leasing real property – the Real Estate Foundation's principal activity. Non-exchange revenues, including investment income from sources other than capital leases, and net unrealized and realized gains and losses on investments are reported as non-operating revenues. Interest and financing costs are reported as non-operating expenses. Operating expenses are all expenses incurred to maintain and lease real property other than financing costs.

Income Taxes – The Real Estate Foundation is exempt from federal income taxes under Section 501(c)(3) of the Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The Internal Revenue Service has determined that the Real Estate Foundation is not a private foundation under Section 509(a) of the Code.

Note 2—Summary of significant accounting policies (continued)

Use of Estimates – The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New Accounting Pronouncement – During the year ended June 30, 2016, the Real Estate Foundation implemented SGAS No. 72, *Fair Value Measurement and Application*. SGAS No. 72 requires disclosures be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The implementation of SGAS No. 72 did not result in a change to the beginning net position of the Real Estate Foundation.

Note 3—Deposits and investments

A. Deposits

At June 30, 2016, the bank balance of the Real Estate Foundation's deposits, consisting of cash held in interest bearing checking accounts at financial institutions and cash equivalents held by trustees was $1,758,078.

Custodial Credit Risk
The custodial credit risk for deposits is the risk that in the event of a bank failure, the Real Estate Foundation's deposits may not be recovered. The Real Estate Foundation has no deposit policy for custodial credit risk.

The Real Estate Foundation places its cash and cash equivalents on deposit with financial institutions in the United States of America and Italy. For deposits with financial institutions in the United States of America, the Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts.

As of June 30, 2016, the bank balance of the Real Estate Foundation's deposits is presented below by category of risk.

June 30, 2016 Deposits	FDIC Insured	Collateralized by U.S. Securities	Uninsured or Uncollateralized	Total
Checking Accounts	$ -	$ -	$ 3,874	$ 3,874
Funds Held by Trustee	-	-	1,754,204	1,754,204
Total Deposits	$ -	$ -	$ 1,758,078	$ 1,758,078

The uninsured and uncollateralized deposits classified as "Funds Held by Trustee" are primarily invested in Fidelity Institutional Money Market Treasury Portfolio, a short term money market fund.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect a deposit. During the year ended June 30, 2016, the Real Estate Foundation's deposits decreased by ($3,333), due to foreign currency fluctuations between the Euro and the dollar on cash balances held in banks. Amounts held in foreign currency denominations are valued at $3,874 as of June 30, 2016.

Note 3—Deposits and investments (continued)

B. Investments

The Real Estate Foundation follows its investment policy which establishes objectives, specifies allowable investments, sets target investment mixes, and provides investment guidelines.

During the year ended June 30, 2016, the Real Estate Foundation entered into an agreement with the University of Georgia Foundation ("UGAF") (the "Agreement") in order to establish the UGA Real Estate Short Term Holding Fund (the "Fund") to be managed and held by UGAF. The Fund serves as a depository account and is separately managed and accounted for by UGAF. The Real Estate Foundation's Board of Trustees (the "Board") is responsible for investing decisions. As of June 30, 2016, investments held by UGAF included fixed-income mutual funds in the amount of $11,259,680.

As of June 30, 2016, the Real Estate Foundation held investments of $34,623,122**.**

As of June 30, 2016, the Real Estate Foundation's investments are presented below. All investments are presented by investment type and debt securities are presented by maturity.

		Investment Maturity			
June 30, 2016		**Less Than**			**More than**
Investment Type	**Total**	**1 Year**	**1-5 Years**	**6-10 Years**	**10 Years**
Debt Securities					
Repurchase Agreements	$ 10,256,717	$ 10,256,717	$ -	$ -	$ -
Repurchase Agreements Held by Trustee	5,765,025	-	-	-	5,765,025
	16,021,742	$ 10,256,717	$ -	$ -	$ 5,765,025
Fixed Income					
Mutual Funds Held by UGAF	11,259,680				
Investment Pools					
Board of Regents Short-term Fund	7,341,700				
Total Investments	$ 34,623,122				

Repurchase agreements and the Board of Regents Short-term Fund are included in cash and cash equivalents on the statement of net position.

Repurchase agreements held by trustee are included in bond proceeds restricted for construction, debt service and reserves on the statement of net position.

<u>Interest Rate Risk</u>
Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Real Estate Foundation's policy for managing interest rate risk is to invest primarily in short-term or intermediate-term investments.

<u>Custodial Credit Risk</u>
Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Real Estate Foundation will not be able to recover the value of the investment. The Real Estate Foundation does not have a formal policy for managing custodial credit risk for investments.

Note 3—Deposits and investments (continued)

B. Investments (continued)

Credit Quality Risk
Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Real Estate Foundation's policy for managing credit quality risk is to invest primarily in a diversified portfolio of investment grade debt securities and fixed-income mutual funds.

The Real Estate Foundation's investments at June 30, 2016, are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

		Rated Debt Investments	
June 30, 2016	**Total**	**Mutual Funds Held by UGAF**	**Repurchase Agreements**
Quality Ratings			
Moody's			
Aaa	$ 5,765,025	$ -	$ 5,765,025
Morningstar			
4-Star	11,259,680	11,259,680	-
Unrated	10,256,717	-	10,256,717
	27,281,422	$ 11,259,680	$ 16,021,742
Investment Pools			
Board of Regents Short-term Fund	7,341,700		
Total Investments	$ 34,623,122		

The Board of Regents Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. Participation in the Board of Regents Investment Pool is voluntary. The Board of Regents Investment Pool is not rated. Additional information on the Board of Regents Investment Pool is disclosed in the audited Financial Statements of the Board of Regents of the University System of Georgia - System Office (oversight unit). This audit can be obtained from the Georgia Department of Audits - Education Audit Division or on their web site at http://www.audits.ga.gov.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Real Estate Foundation's policy for managing concentration of credit risk is to invest primarily in a diversified portfolio of investment grade debt securities and fixed-income mutual funds.

Note 4—Restricted and Board designated assets

Restricted and Board designated assets included in Operating Funds Held by Trustee and Bond Proceeds Restricted for Construction, Debt Service, and Reserves are as follows:

		2016
Restricted for:		
Debt Service	$	5,801,303
Future Repairs and Replacements of Real Property		1,717,920
Total Restricted		7,519,223
Designated for:		
General Operations of the Real Estate Foundation		6
Total Restricted and Designated	$	7,519,229

The carrying values of the restricted and Board designated cash and cash equivalents and investment balances above are included in the statement of net position as follows:

		2016
Operating Funds Held by Trustee	$	1,717,926
Bond Proceeds Restricted for Construction, Debt Service, and Reserves		5,801,303
Total Restricted and Designated	$	7,519,229

Cash and Cash Equivalents, which include Board designated assets, are as follows:

		2016
Designated for:		
Debt Service	$	3,959,292
Future Repairs and Replacements of Real Property		8,049,857
General Operations of the Real Estate Foundation		400,000
Total Designated		12,409,149
Undesignated Cash and Cash Equivalents		5,192,962
Total Cash and Cash Equivalents	$	17,602,111

Note 5—Fair value measurements of assets and liabilities

The Real Estate Foundation has adopted SGAS No. 72, *Fair Value Measurement and Application*, which requires fair value measurement be classified and disclosed in one of the following three Fair Value Hierarchy categories.

Level 1
Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which would generally be included in Level 1 include listed equity securities, mutual funds, and money market funds. The Real Estate Foundation, to the extent that it holds such investments, does not adjust the quoted price for these investments.

Level 2
Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1; inputs include comparable market transactions, pricing of similar instruments, values reported by the administrator, and pricing expectations based on internal modeling. Fair value is determined through the use of models or other valuation methodologies. The types of investments which would generally be included in this category include publicly traded securities with restrictions on disposition, corporate obligations, and U.S. Government and Agency Treasury Inflation Indices.

Level 3
Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments. The types of investments which would generally be included in this category include debt and equity securities issued by private entities and partnerships. The inputs into the determination of fair value require significant judgment or estimation. Inputs include recent transactions, earnings forecasts, market multiples, and future cash flows.

The table below summarizes the valuation of the Real Estate Foundation's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016, based on the level of input utilized to measure fair value.

Measurement at fair value on a recurring basis:

June 30, 2016	**Fair Value Measurement**			
Investments - Recurring Basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed Income				
Mutual Funds Held by UGAF	$ 11,259,680	$ 11,259,680	$ -	$ -
Investment Pools				
Board of Regents				
Short-term Fund	7,341,700	-	7,341,700	-
Total Investments - Recurring Basis	$ 18,601,380	$ 11,259,680	$ 7,341,700	$ -

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

Note 6—Capital leases receivable

The Real Estate Foundation has entered into multiple 20 to 30-year capital lease agreements (1-year leases with annual renewals) with the Board of Regents to occupy the Real Estate Foundation's facilities. Lease payments are due monthly. At the end of the lease term, ownership of the leased facilities will be transferred to the Board of Regents.

As of June 30, 2016, net capital leases receivable were $271,568,662. These amounts include future minimum lease payments to be received of $462,344,197 as of June 30, 2016, of which $190,775,535 is unearned interest.

As of June 30, 2016, lease payments are receivable as follows:

2017	$ 22,825,004
2018	22,807,616
2019	22,660,807
2020	22,642,150
2021	22,622,086
2022 - 2026	112,814,357
2027 - 2031	112,161,763
2032 - 2036	86,202,902
2037 - 2041	33,458,382
2042 - 2044	4,149,130
Total Payments to be Received	462,344,197
Less Amounts Representing Interest	(190,775,535)
Total Leases Receivable	271,568,662
Less Current Portion	(6,417,728)
Noncurrent Leases Receivable	$ 265,150,934

Note 7—Capital assets

Capital assets consisted of the following at June 30, 2016:

	Balance at June 30, 2015	Additions	Disposals and Reclasses	Balance at June 30, 2016
Nondepreciable Capital Assets				
Land	$ 15,724,224	$ -	$ -	$ 15,724,224
Construction in Progress	12,709	-	-	12,709
Easement	1,835,296	-	-	1,835,296
Total Nondepreciable Capital Assets	17,572,229	-	-	17,572,229
Depreciable Capital Assets				
Furniture and Equipment	197,392	-	-	197,392
Less Accumulated Depreciation	(195,308)	(1,330)	-	(196,638)
Buildings and Improvements	3,179,498	-	-	3,179,498
Less Accumulated Depreciation	(1,118,719)	(114,323)	-	(1,233,042)
Total Depreciable Capital Assets	2,062,863	(115,653)	-	1,947,210
Capital Assets, net	$ 19,635,092	$ (115,653)	$ -	$ 19,519,439

Note 8—Long-term debt

Bolton Entity

$24,400,000 Bond Issue – In 2013, the Development Authority of the Unified Government of Athens–Clarke County, Georgia (the "Development Authority") issued Revenue Bonds (UGAREF Bolton Commons, LLC Project), Series 2013 (the "Bolton Bonds") and entered into an agreement (the "Bolton Loan Agreement") to loan $24,400,000 to the Bolton Entity. Payment of principal and interest under the Bolton Bonds is secured by certain real property constituting a dining facility and by the Bolton Entity's interest in certain rents and leases derived from this facility. The Bolton Entity used the proceeds of this loan to fund construction of the dining facility which was placed in service in August 2014.

Borrowings under the Bolton Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3.0% to 5.0% depending on the schedule of bond maturities. Principal payments are due annually on June 15 and continue through June 15, 2044.

CCRC Entity

$39,155,000 Bond Issue – In 2002, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF CCRC Building, LLC Project), Series 2002 (the "2002 CCRC Bonds") and entered into an agreement (the "2002 CCRC Loan Agreement") to loan $39,155,000 to the CCRC Entity. The CCRC Entity used the proceeds of this loan to fund construction of a research facility, which was placed in service in October 2003. On December 15, 2011, the Development Authority issued $32,580,000 in Revenue Refunding Bonds to advance refund $32,620,000 of outstanding 2002 CCRC Bonds (see the *$32,580,000 Bond Issue* below). The 2002 CCRC Bonds were redeemed in full on December 15, 2012.

$32,580,000 Bond Issue – On December 15, 2011, the Development Authority issued $32,580,000 in Revenue Refunding Bonds (UGAREF CCRC Building, LLC Project), Series 2011 (the "2011 CCRC Bonds") with interest rates ranging from 2.0% to 5.25% and entered into an agreement (the "2011 CCRC Loan Agreement") with the CCRC Entity to advance refund $32,620,000 of outstanding 2002 CCRC Bonds with interest rates ranging from 3.7% to 5.0%. Payment of principal and interest under the 2011 CCRC Bonds is secured by certain real property constituting a research facility and by the CCRC Entity's interest in certain rents and leases derived from this facility.

The net proceeds of $32,899,567 plus an additional $1,245,143 of 2002 CCRC Bonds debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to fund all future debt service payments on the refunded 2002 CCRC Bonds. As a result, $32,620,000 of outstanding 2002 CCRC Bonds were considered to be defeased and the liability for those bonds was removed from the statement of net position during Fiscal 2012. The 2002 CCRC Bonds were redeemed in full on December 15, 2012.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $1,441,162. This difference, reported in the accompanying statement of net position as a deferred outflow of resources, is being charged to operations as interest expense through December 15, 2032, using the straight-line method. The CCRC Entity completed the advance refunding to reduce its total debt service payments through 2032 by $4,370,439 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,925,996 at an effective interest rate of 3.684%.

Borrowings under the 2011 CCRC Loan Agreement bear interest payable semiannually on December 15 and June 15. Principal payments are due annually on December 15 and continue through December 15, 2032.

Note 8—Long-term debt (continued)

Central Precinct Entity

$62,475,000 Bond Issue – In 2008, the Development Authority issued $35,055,000 of Educational Facilities Current Interest Revenue Bonds (UGAREF Central Precinct, LLC Project), and $27,420,000 of Educational Facilities Convertible Revenue Bonds (UGAREF Central Precinct, LLC Project) (collectively, the “2008 Central Precinct Bonds”) and entered into an agreement (the “2008 Central Precinct Loan Agreement”) to loan $62,475,000 to the Central Precinct Entity. Payment of principal and interest under the 2008 Central Precinct Bonds was secured by certain real property constituting a parking deck and student center expansion, and by the Central Precinct Entity’s interest in certain rents and leases derived from these facilities. The Central Precinct Entity used the proceeds of this loan to fund construction of these facilities. The parking deck was placed in service in August 2008 and the student center expansion was placed in service in May 2009.

Borrowings under the 2008 Central Precinct Loan Agreement bore interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2% to 5% depending on the schedule of bond maturities. Principal payments were due annually on June 15. The remaining principal balance of $56,135,000 was fully defeased on June 16, 2016 (see the *$54,025,000 Bond Issue* below).

$54,025,000 Bond Issue – On June 16, 2016, the Development Authority issued $54,025,000 in Revenue Refunding Bonds (UGAREF Central Precinct, LLC Project), Series 2016 (the "2016 Central Precinct Bonds") with interest rates ranging from 2.0% to 5.0% and entered into an agreement (the "2016 Central Precinct Loan Agreement") with the Central Precinct Entity to advance refund $56,135,000 of outstanding 2008 Central Precinct Bonds with interest rates ranging from 4.0% to 5.0%. Payment of principal and interest under the 2016 Central Precinct Bonds is secured by certain property constituting a parking deck and student center expansion, and by the Central Precinct Entity’s interest in certain rents and leases derived from these facilities.

The net proceeds of $60,510,468 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent and will fund all future debt service payments on the refunded 2008 Central Precinct Bonds. As a result, $56,135,000 of outstanding 2008 Central Precinct Bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position during the year ended June 30, 2016.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $7,461,830. This difference, reported in the accompanying statement of net position as a deferred outflow of resources, is being charged to operations as interest expense through June 15, 2038, using the straight-line method. The Central Precinct Entity completed the advance refunding to reduce its total debt service payments through 2038 by $9,051,501 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $7,119,726 at an effective interest rate of 2.22%.

Borrowings under the 2016 Central Precinct Loan Agreement bear interest payable semiannually on December 15 and June 15. Principal payments are due annually on June 15 and continue through June 15, 2038.

Note 8—Long-term debt (continued)

Coverdell Entity

$25,970,000 Bond Issue – In 2004, the Development Authority issued $25,545,000 of Educational Facilities Revenue Bonds (UGAREF Coverdell Building, LLC Project), Series 2004A, and $425,000 of Educational Facilities Taxable Revenue Bonds (UGAREF Coverdell Building, LLC Project), Series 2004B (collectively, the "2004 Coverdell Bonds"). The Development Authority entered into an agreement (the "2004 Coverdell Loan Agreement") to loan $25,970,000 to the Coverdell Entity. The Coverdell Entity used the proceeds of this loan to fund construction of a portion of a research facility, which was placed in service in December 2005. On May 16, 2013, the Development Authority issued $21,100,000 in Revenue Refunding Bonds to advance refund $22,295,000 of outstanding 2004A Coverdell Bonds (see the *$21,100,000 Bond Issue* below). The 2004B Coverdell Bonds were paid in full in 2007. The 2004A Coverdell Bonds were redeemed in full on December 15, 2014.

$21,100,000 Bond Issue – On May 16, 2013, the Development Authority issued $21,100,000 in Revenue Refunding Bonds (UGAREF Coverdell Building, LLC Project), Series 2013 (the "2013 Coverdell Bonds") with interest rates ranging from 2.0% to 5.0% and entered into an agreement (the "2013 Coverdell Loan Agreement") with the Coverdell Entity to advance refund $22,295,000 of outstanding 2004A Coverdell Bonds with interest rates ranging from 4.0% to 5.0%. Payment of principal and interest under the 2013 Coverdell Bonds is secured by certain real property constituting a portion of a research facility and by the Coverdell Entity's interest in certain rents and leases derived from a portion of this facility.

The net proceeds of $22,666,446 plus an additional $823,253 of 2004 Coverdell Bonds debt service reserve funds and $828,730 debt service funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to fund all future debt service payments on the refunded 2004 Coverdell bonds. As a result, $22,295,000 of outstanding 2004 Coverdell Bonds are considered to be defeased and the liability for those bonds was removed from the statement of net position during Fiscal 2013. The 2004A Coverdell Bonds were redeemed in full on December 15, 2014.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $1,680,333. This difference, reported in the accompanying statement of net position as a deferred outflow of resources, is being charged to operations as interest expense through December 15, 2034, using the straight-line method. The Coverdell Entity completed the advance refunding to reduce its total debt service payments through 2034 by $3,073,367 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,706,994 at an effective interest rate of 3.039%.

Borrowings under the 2013 Coverdell Loan Agreement bear interest payable semiannually on December 15 and June 15. Principal payments are due annually on December 15 and continue through December 15, 2034.

Note 8—Long-term debt (continued)

EC Housing Entity

$99,860,000 Bond Issue – In 2002, the Housing Authority of the City of Athens, Georgia (the "Housing Authority") issued Student Housing Lease Revenue Bonds (UGAREF East Campus Housing, LLC Project), Series 2002 (the "2002 EC Housing Bonds") and entered into an agreement (the "2002 EC Housing Loan Agreement") to loan $99,860,000 to the EC Housing Entity. The EC Housing Entity used the proceeds of this loan to fund construction of a parking deck which was placed in service in November 2002, and residence halls and a dining facility that were placed in service in July 2004. The parking deck was transferred to the University in August 2010 and the associated debt was retired. The 2002 EC Housing Bonds were redeemed in full on December 1, 2012.

On March 1, 2010, the Housing Authority issued $34,090,000 in Student Housing Lease Revenue Bonds to advance refund $32,140,000 of outstanding 2002 EC Housing Bonds (see *$34,090,000 Bond Issue* below).

On December 1, 2011, the Housing Authority issued $48,250,000 in Revenue Refunding Bonds to advance refund $46,720,000 of outstanding 2002 EC Housing Bonds (see *$48,250,000 Bond Issue* below).

$34,090,000 Bond Issue – On March 1, 2010, the Housing Authority issued $34,090,000 in Student Housing Lease Revenue Bonds (UGAREF East Campus Housing, LLC Project), Series 2010 (the "2010 EC Housing Bonds") with interest rates ranging from 2.5% to 5.0% and entered into an agreement (the "2010 EC Housing Loan Agreement") with the EC Housing Entity to advance refund $32,140,000 of outstanding 2002 EC Housing Bonds with interest rates ranging from 4.0% to 5.25%. Payment of principal and interest under the 2010 EC Housing Bonds is secured by certain real property constituting the residence halls, and a dining facility and by the EC Housing Entity's interest in certain rents and leases derived from these facilities.

The net proceeds of $35,626,248, including $125,000 segregated for future debt service reserves (after payment of $476,550 in underwriting fees and other issuance costs), plus an additional $413,000 of 2002 EC Housing Bonds debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to fund all future debt service payments on the refunded portion of the 2002 EC Housing Bonds. As a result, $32,140,000 of outstanding 2002 EC Housing Bonds were considered to be defeased and the liability for those bonds was removed from the statement of net position during Fiscal 2010. The 2002 EC Housing Bonds were redeemed in full on December 1, 2012.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $2,949,160. This difference, reported in the statement of net position as a deferred outflow of resources, is being charged to operations as interest expense through December 1, 2023, using the straight-line method. The EC Housing Entity completed the advance refunding to reduce its total debt service payments through 2023 by $1,177,979 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $856,685 at an effective interest rate of 3.60%.

Borrowings under the 2010 EC Housing Loan Agreement bear interest payable semiannually on December 1 and June 1. Principal payments are due annually on December 1 and continue through December 1, 2023.

Note 8—Long-term debt (continued)

EC Housing Entity (continued)

$48,250,000 Bond Issue – On December 1, 2011, the Housing Authority issued $48,250,000 in Revenue Refunding Bonds (UGAREF East Campus Housing, LLC Project), Series 2011 (the “2011 EC Housing Bonds”) with interest rates ranging from 2.0% to 5.0% and entered into an agreement (the “2011 Housing Loan Agreement”) with the EC Housing Entity to advance refund $46,720,000 of outstanding 2002 EC Housing Bonds with interest rates ranging from 4.0% to 5.0%. Payment of principal and interest under the 2011 EC Housing Bonds is secured by certain real property constituting the residence halls and a dining facility and by the EC Housing Entity’s interest in certain rents and leases derived from these facilities.

The net proceeds of $48,814,385 plus an additional $178,618 of 2002 EC Housing Bonds debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to fund all future debt service payments on the refunded portion of the 2002 EC Housing Bonds. As a result, $46,720,000 of outstanding 2002 EC Housing Bonds were considered to be defeased and the liability for those bonds was removed from the statement of net position during Fiscal 2012. The 2002 EC Housing Bonds were redeemed in full on December 1, 2012.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $1,646,076. This difference, reported in the accompanying statement of net position as a deferred outflow of resources, is being charged to operations as interest expense through December 1, 2033, using the straight-line method. The EC Housing Entity completed the advance refunding to reduce its total debt service payments through 2033 by $6,751,019 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,922,277 at an effective interest rate of 4.103%.

Borrowings under the 2011 EC Housing Loan Agreement bear interest payable semiannually on December 1 and June 1. Principal payments are due annually on December 1 and continue through December 1, 2033.

EC Housing Phase II Entity

$49,875,000 Bond Issue – In 2009, the Housing Authority issued Revenue Bonds (UGAREF East Campus Housing Phase II, LLC Project), Series 2009 (the “EC Housing Phase II Bonds”) and entered into an agreement (the “EC Housing Phase II Loan Agreement”) to loan $49,875,000 to the EC Housing Phase II Entity. Payment of principal and interest under the EC Housing Phase II Bonds is secured by certain real property constituting a residence hall, and by the EC Housing Phase II Entity’s interest in certain rents and leases derived from this facility. The EC Housing Phase II Entity used the proceeds of this loan to fund construction of the residence hall, which was placed in service in July 2010.

Borrowings under the EC Housing Phase II Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 4.00% to 5.25% depending on the schedule of bond maturities. Principal payments are due annually on June 15 and continue through June 15, 2040.

Note 8—Long-term debt (continued)

Fraternity Row Entity

$12,505,000 Bond Issue – In 2009, the Housing Authority issued Revenue Bonds (UGAREF Fraternity Row, LLC Project), Taxable Series 2009 (the "Fraternity Row Bonds") and entered into an agreement (the "Fraternity Row Loan Agreement") to loan $12,505,000 to the Fraternity Row Entity. Payment of principal and interest under the Fraternity Row Bonds is secured by certain real property constituting four fraternity houses, and by the Fraternity Row Entity's interest in certain rents and leases derived from these houses. The Fraternity Row Entity used the proceeds of this loan to fund construction of the houses. The project was placed in service in August 2009.

Borrowings under the Fraternity Row Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 1.25% to 6.30% depending on the schedule of bond maturities. Principal payments are due annually on June 15 and continue through June 15, 2039.

O'Malley's Entity

$15,705,000 Bond Issue – In 2009, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF O'Malley's Building, LLC Project), Series 2009 (the "O'Malley's Bonds") and entered into an agreement (the "O'Malley's Loan Agreement") to loan $15,705,000 to the O'Malley's Entity. Payment of principal and interest under the O'Malley's Bonds was secured by certain real property constituting an educational facility and underlying land, and by the O'Malley's Entity's interest in certain rents and leases derived from this facility. The O'Malley's Entity used the proceeds of this loan to fund construction of the educational facility. The project was placed in service in July 2009. Title to the educational facility and underlying land was transferred to the University in October 2015, and the capital lease associated with the project was terminated.

Borrowings under the O'Malley's Loan Agreement bore interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. Principal payments were due annually on June 15.

On October 30, 2015, the Development Authority entered into an agreement with the O'Malley's Entity to early extinguish $10,225,000 of outstanding O'Malley's Bonds with interest rates ranging from 3.0% to 5.0% pursuant to the transfer of the O'Malley's Entity's title to the educational facility and underlying land to the University and the early termination of the capital lease agreement related to the project.

A portion of the proceeds received from the University in the net amount of $11,535,546 (after payment of $28,827 in extinguishment costs) was transferred from the O'Malley's Entity and deposited into an irrevocable trust with an escrow agent and used to purchase U.S. government securities. Those securities are to provide for all future debt service payments on the extinguished portion of the O'Malley's Bonds. As a result, $10,225,000 of outstanding O'Malley's Bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position for the year ended June 30, 2016.

Note 8—Long-term debt (continued)

O'Malley's Entity (continued)

The early extinguishment resulted in a loss consisting of the difference between the reacquisition price and the net carrying amount of the extinguished debt of $1,055,343. This difference has been charged to operations as an ordinary loss on debt extinguishment during the year ended June 30, 2016. The O'Malley's Entity completed the early extinguishment in order to repay the O'Malley's Bonds, to transfer the O'Malley's Entity's title to the educational facility and underlying land to the University, and to reduce its total debt service payments on the O'Malley's Bonds over the next 13 years by $1,919,173. The resulting economic gain (difference between the present value of the extinguished debt and the cash amount transferred to escrow) is $1,387,425 using an effective interest rate of 1.034%.

PAC Entity

$17,655,000 Bond Issue – In 2009, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF PAC Parking Deck, LLC Project), Series 2009 (the "PAC Bonds") and entered into an agreement (the "PAC Loan Agreement") to loan $17,655,000 to the PAC Entity. Payment of principal and interest under the PAC Bonds is secured by certain real property constituting two parking decks, and by the PAC Entity's interest in certain rents and leases derived from these parking decks. The PAC Entity used the proceeds of this loan to fund construction of the parking decks. The Intramural Fields parking deck was placed in service in August 2009 and the Performing Arts Center parking deck was placed in service in November 2009.

Borrowings under the PAC Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. Principal payments are due annually on June 15 and continue through June 15, 2039.

Rutherford Entity

$21,910,000 Bond Issue – In 2012, the Housing Authority issued Revenue Bonds (UGAREF Rutherford Hall, LLC Project), Series 2012 (the "Rutherford Bonds") and entered into an agreement (the "Rutherford Loan Agreement") to loan $21,910,000 to the Rutherford Entity. Payment of principal and interest under the Rutherford Bonds is secured by certain real property constituting a residence hall, and by the Rutherford Entity's interest in certain rents and leases derived from this facility. The Rutherford Entity used the proceeds of this loan to fund construction of the residence hall, which was placed in service in July 2013.

Borrowings under the Rutherford Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.00% to 5.00% depending on the schedule of bond maturities. Principal payments are due annually on June 15 and continue through June 15, 2033.

Note 8—Long-term debt (continued)

Real Estate Foundation

The bonds payable agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2016 and 2015, the Real Estate Foundation was not aware of any violations of the covenants.

Following is a summary as of June 30, 2016, of principal and interest payments for the face value of the bonds payable during each of the next five years ending June 30 and every five years thereafter:

	Principal	Interest
2017	$ 9,155,000	$ 11,899,152
2018	9,455,000	11,572,516
2019	9,695,000	11,187,979
2020	10,070,000	10,797,021
2021	10,490,000	10,367,691
2022 - 2026	59,020,000	44,787,658
2027 - 2031	72,690,000	30,461,601
2032 - 2036	65,415,000	13,906,671
2037 - 2041	27,265,000	3,738,105
2042 - 2044	3,430,000	313,200
	$ 276,685,000	$ 149,031,594

Changes in long-term debt for the fiscal year ended June 30, 2016, are shown below:

	Balance at June 30, 2015	Additions	Disposals and Reductions	Balance at June 30, 2016	Current Portion
Bonds Payable	$ 297,810,000	$ 54,025,000	$ (75,150,000)	$ 276,685,000	$ 9,155,000
Net Premium (Discount)	1,539,301	7,118,584	2,792,057	11,449,942	-
Total Long-Term Debt	$ 299,349,301	$ 61,143,584	$ (72,357,943)	$ 288,134,942	$ 9,155,000

Note 8—Long-term debt (continued)

Real Estate Foundation (continued)

A summary of the components of interest cost for the year ended June 30, 2016, is as follows:

	Total Interest	Amount Capitalized	Amount Expensed
Interest Cost			
Interest Expense	$ 12,938,384	$ -	$ 12,938,384
Amortization of Premiums, Discounts, and Deferred Loss	273,410	-	273,410
Cost of Issuance	596,839	-	596,839
Fees	266,414	-	266,414
Interest Income	(273,839)	-	(273,839)
Total Interest Cost	$ 13,801,208	$ -	$ 13,801,208

Note 9—Line of credit

$50,000,000 Revolving Credit Agreement – In November 2010, the Real Estate Foundation entered into a $50 million revolving credit agreement with a bank, for a five-year term that expired on November 30, 2015. The revolving credit agreement provided for borrowings or letters of credit at the Real Estate Foundation's option. Upon expiration of the $50 million revolving credit agreement on November 30, 2015, a $25 million revolving credit agreement was entered into with a bank (see *$25,000,000 Revolving Credit Agreement* below).

$25,000,000 Revolving Credit Agreement – In November 2015, the Real Estate Foundation entered into a $25 million revolving credit agreement with a bank, for a three-year term to expire on November 30, 2018. Credit available under the revolving credit agreement is reduced by outstanding borrowings. At June 30, 2016, amounts outstanding and issued under this agreement include borrowings of $8,516,222 resulting in $16,483,778 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day London Interbank Offered Rate plus 60.0 basis points (or 0.60%). At June 30, 2016, the rate applicable to the borrowings was 1.05%. Amounts available as borrowing capacity are subject to an unused commitment fee of 0.10%.

Under this revolving credit agreement, certain borrowings are subject to a guarantee requirement with the Research Foundation as guarantor. As of June 30, 2016, there are no borrowings subject to this guarantee requirement.

The revolving credit agreement requires the Real Estate Foundation to meet certain covenants. At June 30, 2016, the Real Estate Foundation was not aware of any violations of the covenants.

Note 10—Operating leases

The Real Estate Foundation is a lessee under an amended multiyear operating lease for University education facilities at One Live Oak Center, Atlanta, Georgia, that expires on August 31, 2024, with escalating rents. The Real Estate Foundation recognizes rent for this agreement on a straight-line basis. A straight-line lease liability of $781,602, as of June 30, 2016, is included in liabilities. For the year ended June 30, 2016, rent expense was $860,390, and includes additional rents to cover operating expenses of the education facility.

The Real Estate Foundation is a lessee under a multiyear operating lease for University education facilities at Gwinnett Intellicenter, Duluth, Georgia, that expires on December 31, 2018, with escalating rents. The Real Estate Foundation recognizes rent for this agreement on a straight-line basis. A straight-line lease liability of $589,654, as of June 30, 2016, is included in liabilities. For the year ended June 30, 2016, rent expense was $1,352,573, and includes additional rents to cover operating expenses of the education facility.

The following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2016, that have initial or remaining noncancelable lease terms in excess of one year:

Years Ending June 30,	
2017	$ 2,296,986
2018	2,358,467
2019	1,653,755
2020	912,301
2021	939,565
2022 - 2025	3,163,007
	$ 11,324,081

Note 11—Related-party transactions

The Real Estate Foundation leases real property to the Board of Regents under both operating and capital leases, including space subleased under operating leases to the Board of Regents. The Real Estate Foundation also has one-year licensing agreements with the Board of Regents which provides for the operation of parking lots by the Board of Regents on the Real Estate Foundation's land located on Oconee Street in Athens, Georgia, in exchange for a fee adjusted at the end of the term to reflect actual costs incurred. For the year ended June 30, 2016, the amounts reported as Rental Income and Capital Lease Interest Income in the statement of revenues, expenses, and changes in net position consists of revenue earned through lease agreements. The lease agreements with the Board of Regents are the primary source of revenue for the Real Estate Foundation, which constitutes a concentration of credit risk.

Additionally, the lease agreements provide that certain amounts paid by the Real Estate Foundation be reimbursed by the Board of Regents. Amounts reimbursed are primarily insurance and property taxes. For the year ended June 30, 2016, the expenses which were paid by the Real Estate Foundation and reimbursed by the University are reported as Receipts for Payments Reimbursable by the University and Affiliates and Payments Reimbursable by the University and Affiliates in the statement of cash flows.

Note 11—Related-party transactions (continued)

The Real Estate Foundation leases the use of land from the Board of Regents where it has constructed property on Board of Regents' land. These ground leases are for a period of up to 3 years during construction and continue for 30 years after construction is complete for a base rental of $10 per year. Under the ground leases, the ownership of any building or structure constructed on the land passes to the Board of Regents at the end of the ground lease.

The Real Estate Foundation leases air rights from the Board of Regents where it has constructed property above the lower floors on the Board of Regents' land. The air rights lease is for a period of up to 3 years during construction and continues for 30 years after construction is complete for a base rental of $10 per year. Under the air rights lease, the ownership of any building or structure constructed above the lower floors of the building passes to the Board of Regents at the end of the air rights lease.

The Real Estate Foundation has entered into an administrative services agreement with the University whereby the University provides project management, accounting, and other administrative services, as well as provisions for office space, maintenance, and utilities to be provided by the University to the Real Estate Foundation. During the year ended June 30, 2016, the Real Estate Foundation paid $299,861, to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

On March 1, 2013, the Real Estate Foundation and UGAF entered into a Memorandum of Agreement (the "Terry Entity MOA") for the Real Estate Foundation to oversee the design and construction of the Terry Entity project, a new approximately 75,000 square foot building, on the campus of the University for the Terry College of Business. The Terry Entity MOA specifies that UGAF will reimburse the Real Estate Foundation for all project costs incurred by the Real Estate Foundation in connection with the completion of the Terry Entity project. During the year ended June 30, 2016, the Real Estate Foundation was reimbursed $7,086,120, for project costs. Expenses paid by the Real Estate Foundation and reimbursed by UGAF are reported as Receipts for Payments Reimbursable by the University and Affiliates and Payments Reimbursable by the University and Affiliates in the statement of cash flows. The building was completed and placed in service in July 2015.

On October 30, 2015, the O'Malley's Entity terminated the capital lease with the Board of Regents and transferred its title to the educational building and underlying land to the University. In connection with the transfer, the Development Authority entered into an agreement with the O'Malley's Entity to early extinguish $10,225,000 of the outstanding O'Malley's Bonds. The loss on extinguishment of the bonds was $1,055,343. The gain on early termination of the capital lease was $178,418. This gain is shown in the Gain on Termination of Capital Lease for the year ended June 30, 2016, in the statement of revenues, expenses, and changes in net position, and consisted of the following components:

Proceeds received from University	$ 11,566,665
Capital lease receivable at time of sale	(11,388,247)
Total Gain	$ 178,418

Note 12—Defined contribution plan

The Real Estate Foundation previously offered a 403(b) defined contribution plan to any of its employees who elected to participate. The Real Estate Foundation matched employee contributions to the plan by 200%, up to a maximum of 10% of the employee's compensation, subject to Internal Revenue Service annual maximum limitations. The plan was administered by Fidelity Investments. Beginning July 1, 2015, the Real Estate Foundation's employees became employees of the University. The Board approved termination of the plan and the termination was completed in December 2015.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Audit Committee of the Board of Directors
University of Georgia Research Foundation, Inc.
Athens, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Georgia Research Foundation, Inc. (the "Research Foundation"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements, and have issued our report thereon dated September 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Research Foundation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Research Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Research Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Augusta, Georgia
September 20, 2016