

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2015

And Report of Independent Auditor

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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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2015, 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 in

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Condensed financial statements are presented for the year ended June 30, 2015, and one prior fiscal year. In the following discussion, Fiscal 2015 and Fiscal 2014 refer to the years ended June 30, 2015 and 2014, respectively.

University of Georgia Research Foundation, Inc. Condensed Statements of Net Position June 30, 2015 and 2014

Assets:				
Current assets	\$ 55,353,323	\$ 45,547,029	\$ 9,806,294	22%
Capital assets, net	291,079	339,337	(48,258)	-14%
Other noncurrent assets	45,653,961	44,709,309	944,652	2%
Total assets	101,298,363	90,595,675	10,702,688	12%
Liabilities:				
Current liabilities	56,088,731	41,600,286	14,488,445	35%
Total liabilities	56,088,731	41,600,286	14,488,445	35%
Net position:				
Net investment in capital assets	291,079	339,337	(48,258)	-14%
Unrestricted	44,918,553	48,656,052	(3,737,499)	-8%
Total net position	\$ 45,209,632	\$ 48,995,389	\$ (3,785,757)	-8%

Current assets increased by \$9,806,294 from Fiscal 2014 to Fiscal 2015 due to increases in cash and cash equivalents and accounts receivable related to sponsored research activity. Capital assets, which include land and buildings, net of accumulated depreciation, decreased by \$48,258 or 14% due to normal annual depreciation. Other noncurrent assets primarily include investments held by investment managers and other investments. The \$944,652 increase in other noncurrent assets is attributable to an increase in market value of investments and additional investment in the GRA Vent

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

University of Georgia Research Foundation, Inc. Condensed Statements of Revenues, Expenses, and Changes in Net Position Years Ended June 30, 2015 and 2014

Operating Revenues:				
Sponsored research	\$ 147,634,867	\$ 139,674,036	\$ 7,960,831	6%
Licensing and royalties and other	7,054,952	7,179,908	(124,956)	-2%
Total operating revenues	154,689,819	146,853,944	7,835,875	5%
Operating Expenses:				
Research subcontracted to UGA	143,944,365	136,167,705	7,776,660	6%
Intellectual property	6,632,511	6,355,733	276,778	4%
Support to UGA	8,118,348	2,605,425	5,512,923	212%
Management and general	500,630	510,466	(9,836)	-2%
Total operating expenses	159,195,854	145,639,329	13,556,525	9%
Operating income (loss)	(4,506,035)	1,214,615	(5,720,650)	-471%
Nonoperating revenues (expenses)	772,278	4,437,391	(3,665,113)	-83%
Decline in value of Georgia Venture				
Partners, LLC that is other than temporary	(52,000)	(211,864)	159,864	75%
Change in net position	(3,785,757)	5,440,142	(9,225,899)	-170%
Net position – beginning of year	48,995,389	43,555,247	5,440,142	12%
Net position – end of year	<u>\$ 45,209,632</u>	<u>\$ 48,995,389</u>	<u>\$ (3,785,757)</u>	-8%

Operating revenues consist primarily of sponsored research, licensing, and royalties. During Fiscal 2015, operating revenues increased \$7,835,875 or 5% due to increases in sponsored research revenue. These revenue increases track an increase in both the dollar amount and number of research awards.

Operating expenses increased by \$13,556,525 due to increases in sponsored research and support to the University in Fiscal 2015. The substantial increase in support to the University was primarily due to the fulfillment of a \$5 million commitment towards the construction of the Center for Molecular Medicine.

Nonoperating revenues consist of investment income and the change in fair value of investments. Nonoperating revenue of \$772,278 included \$1,239,422 of investment income and a \$467,144 decrease in the fair value of investments between June 30, 2014 and June 30, 2015.

The investment in Georgia Venture Partners, LLC, is reported using the equity method whereby the net income or loss of Georgia Venture Partners, LLC is recognized as nonoperating revenue (expense) to the Research

STATEMENT OF NET POSITION (CONTINUED)

JUNE 30,

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2015

Operating Revenues

Sponsored Research	\$	147,634,867	\$	-
Licensing and Royalties		6,527,556		-
Other		100		-
Rental Income		527,296		3,069,278
Capital Lease Interest Income		-		17,953,416
Total Operating Revenues		154,689,819		

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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." Although UMH is still a legally active entity, it owns no assets and conducted no operations during the fiscal year ended June 30, 2015.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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JUNE 30, 2015

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, 2015, are presented below. All investments are presented by investment type and debt securities are presented by maturity. Repurchase agreements are included in cash and cash equivalents on the *Statement of Net Position*.

<u>Investment type</u>					
Debt Securities					
U.S. Treasuries	\$ 3,575,761	\$ 478,496	\$ 2,767,999	\$ 129,688	\$ 199,578
U.S. Agencies					
Implicitly Guaranteed	162,613	-	162,613	-	-
Corporate Debt	10,067,922	5,839,987	3,019,763	882,585	325,587
Municipal Debt	942,546	635,336	108,671	84,286	114,253
Foreign Government Debt	522,742	312,839	209,903	-	-
Repurchase Agreements	10,315,000	10,315,000	-	-	-
	<u>25,586,584</u>	<u>\$ 17,581,658</u>	<u>\$ 6,268,949</u>	<u>\$ 1,096,559</u>	<u>\$ 639,418</u>
Other Investments					
Equity Mutual Funds - Domestic	4,096,814				
Equity Mutual Funds - International	4,729,367				
Equity Mutual Funds - Global	4,394,813				
Bond Mutual Funds - Domestic	3,209,610				
Equity Securities - Domestic	4,228,059				
Equity Securities - International	401,633				
Managed Futures / Hedge Funds	8,575,750				
Total Investments	<u>\$ 55,222,630</u>				

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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

B. Investments (continued)

At June 30, 2015, \$30,216,277 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, 2015, are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

Quality Ratings					
Moody's					
Aaa	\$ 387,511	\$ 162,613	\$ 224,898	\$ -	\$ -
Aa1	32,908	-	32,908	-	-
Aa2	757,401	-	757,401	-	-
Aa3	822,553	-	822,553	-	-
A1	1,107,589	-	1,107,589	-	-
A2	1,296,834	-	1,296,834	-	-
A3	2,236,312	-	2,236,312	-	-
Baa1	3,013,776	-	3,013,776	-	-
Baa2	675,261	-	675,261	-	-
Baa3	812,206	-	812,206	-	-
Ba1	50,090	-	50,090	-	-
Ba2	122,348	-	122,348	-	-
Standard & Poor's					
A+	178,459	-	178,459	-	-
A	151,749	-	151,749	-	-
BBB+	50,826	-	50,826	-	-
Morningstar					
5-Star	5,681,423	-	-	5,681,423	-
4-Star	9,161,560	-	-	9,161,560	-
Unrated	11,902,621	-	-	1,587,621	10,315,000
	38,441,427	\$ 162,613	\$ 11,533,210	\$ 16,430,604	\$ 10,315,000
Exempt investments					
U. S. Treasuries	3,575,761				
Equity Securities - Domestic	4,228,059				
Equity Securities - International	401,633				
Managed Futures/Hedge Funds	8,575,750				
	\$ 55,222,630				

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

B. Investments (continued)

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 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, 2015, investments and repurchase agreement-underlying securities in a single issuer where those investments are 5% or more of total investments were as follows:

Federal Home Loan Mortgage Corporation	19%
United States Treasury Bonds and Notes	6%

Foreign currency risk

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 in

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

A. Investments – Equity Method (continued)

The Fund will also seek to reduce the risks of venture capital investing when possible by careful investment selection based on thorough, fundamental research and analysis, diversification over a number of companies, and structuring investments as senior securities with protective covenants when able.

The investments consist of the following at June 30, 2015:

Georgia Venture Partners, LLC - capital contribution	\$ 1,000,000	28.34%
Equity in cumulative net losses	(688,136)	
Decline in value that is other than temporary	(263,864)	
	<u>\$ 48,000</u>	

The Research Foundation generally participates in profit-loss allocations consistent with ownership interests. The fiscal year of the Fund ends on December 31. The Research Foundation has followed the practice of recognizing the net income or loss of the Fund on the basis of the best available financial information. During July 2015 the Research Foundation and other investors in the Fund agreed to begin the dissolution and liquidation of the Fund. Based on information in the liquidation plan, management determined the investment had a decline in value that is other than temporary and recorded a loss in the value of the investment of \$52,000 during the year ended June 30, 2015.

B. 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. During fiscal year 2015, the Research Foundation made contributions, net of distributions of initial investment, of \$136,908 to the Fund.

A fair value is not estimated for the investment. At June 30, 2015, 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 \$698,331

NOTES TO THE FINANCIAL STATEMENTS

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In the normal course of business, there are legal actions pending against the Research Foundation. At this time, management does not believe that any of these 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 2015, \$174,089 was requested and transferred to the GRA Venture Fund, LLC. As of June 30, 2015, the Research Foundation's remaining commitment is \$240,924. In July 2015, the Research Foundation made an additional commitment of \$1,000,000 to the GRA Venture Fund, LLC.

As the sole member of the Real Estate Foundation, the Research Foundation is guarantor on up to \$50 million on a revolving credit agreement maintained by the Real Estate Foundation. As of June 30, 2015, 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 bioenergy and infectious disease. The fiscal year 2016 commitment for these programs is approximately \$47,000.

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 \$449,468 exist to support general operating costs of the Research Computing Center, the Coverdell and Riverbend buildings, to provide access dues to research computing resources, and support for the Animal Health Research Center.

Beginning in fiscal year 2014, the Research Foundation established the Special Research Hiring Initiative. The fiscal year 2016 commitment for this initiative and the President's Extraordinary Research Faculty Hiring Initiative established in fiscal year 2015 is budgeted at \$2,501,778.

Early in fiscal year 2016, the Toccoa Facility land and building which are included in land and capital assets, net of accumulated depreciation at June 30, 2015, were sold for \$225,000 resulting in a gain of \$80,259. As a result of this sale, the Research Foundation has begun the process to dissolve UGARF Media Holdings, LLC.

As discussed in Note 4, during July 2015 the Research Foundation and other investors agreed to begin the dissolution and liquidation of the Georgia Venture Partners, LLC.

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Real Estate Foundation

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.

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. 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's financial activities are not included in the financial statements of the University. The Research Foundation qualifies for treatment as a component unit of the State of Georgia.

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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. Short-term investments, which consist of money markets, certificates of deposit, and repurchase agreements, are carried at cost, which approximates market value. 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.

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

As of June 30, 2015, the Real Estate Foundation held investments of \$33,327,579.

The Real Estate Foundation's investments as of June 30, 2015, are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Debt Securities					
Repurchase Agreements	\$ 16,705,806	\$ 16,705,806	\$ -	\$ -	\$ -
Repurchase Agreements Held by Trustee	5,765,025	-	-	-	5,765,025
Investment Pools					
Board of Regents Short-term Fund	10,856,748	10,856,748	-	-	-
Total Investments	\$ 33,327,579	\$ 27,562,554	\$ -	\$ -	\$ 5,765,025

Repurchase agreements and the Board of Regents Short-term Fund are included in cash and cash equivalents on the Statements of Net Position.

Repurchase agreements held by trustee are included in bond proceeds restricted for construction, debt service and reserves on the Statements of Net Position.

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 Investm

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As of June 30, 2015, lease payments are receivable as follows:

2016	25,288,318
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\$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. Payment of principal and interest under the 2002 CCRC Bonds was insured by a financial guaranty insurance policy and 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 CCRC Entity used the proceeds of this loan to fund construction of the research facility, which was placed in service in October 2003.

Borrowings under the 2002 CCRC Loan Agreement bore interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments were due annually on December 15. On December 15, 2011, bond principal of \$32,620,000 was fully defeased (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 Statements 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.

NOTES TO THE FINANCIAL STATEMENTS

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\$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 “Central Precinct Bonds”) and entered into an agreement (the “Central Precinct Loan Agreement”) to loan \$62,475,000 to the Central Precinct Entity. Payment of principal and interest under the Central Precinct Bonds is 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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

\$21,100,000 Bond Issue (continued) – 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 Statements of Net Position as a deferred outflow of resources, is being charged to operations as interest expense through De

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

\$99,860,000 Bond Issue (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 \$483,747. The EC Housing Entity completed the early extinguishment in order to repay the 2002 EC Housing Bonds related to the parking deck, to sell the parking deck to the University, and to reduce its total debt service payments on the 2002 EC Housing Bonds through 2031 by \$ue

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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Changes in long-term debt for the fiscal year ended June 30, 2015, are shown below:

Bonds Payable	<u>\$ 310,495,000</u>	<u>\$ -</u>	<u>\$ (12,685,000)</u>	<u>\$ 297,810,000</u>	<u>\$ 9,405,000</u>
Net Premium (Discount)	<u>1,707,404</u>	<u>-</u>	<u>(168,103)</u>	<u>1,539,301</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 312,202,404</u>	<u>\$ -</u>	<u>\$ (12,853,103)</u>	<u>\$ 299,349,301</u>	<u>\$ 9,405,000</u>

A summary of the components of interest cost for the year ended June 30, 2015, is as follows:

NOTES TO THE FINANCIAL STATEMENTS

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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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

In June 2015, the Board authorized a letter of intent to sell the O'Malley's Entity's building and land to the University for a purchase price of \$11,600,000. In connection with the sale, the Board approved the defeasance of the related O'Malley's Bonds. The sale and defeasance are expected to be completed during the year ending June 30, 2016.

The Real Estate Foundation offers a 403(b) defined contribution plan to any of its employees who elect to participate. The Real Estate Foundation matches 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 is administered by Fidelity Investments. Plan provisions are established and amended by a Board resolution based on the plan documents. For the year ended June 30, 2015, the employees of the Real Estate Foundation contributed \$20,414, to the plan and the Real Estate Foundation incurred employer contributions to the plan for two employees in the amount of \$24,796, for the same time period. During the year ending June 30, 2016, the Real Estate Foundation's employees will be transferred to the University, and the Real Estate Foundation's 403(b) defined contribution plan will be terminated.

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, 2015, 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 17, 2015.

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,

