

**UNIVERSITY OF GEORGIA RESEARCH  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

*As of and for the Year Ended June 30, 2016*

*And Report of Independent Auditor*







# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### 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

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2016				
\$ 59,409,084				
110,000				
40,217,936				
<u>99,737,020</u>	<u>101,298,363</u>	(1,561,343)	-2%	
54,114,787	56,088,731	(1,973,944)	-4%	
<u>54,114,787</u>	<u>56,088,731</u>	(1,973,944)	-4%	
110,000	291,079	(181,079)	-62%	
45,512,233	44,918,553	593,680	1%	
<u>\$ 45,622,233</u>	<u>\$ 45,209,632</u>	\$ 412,601	1%	

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*JUNE 30, 2016*

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**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*JUNE 30, 2016*

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

*JUNE 30, 2016*

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	Research Foundation	Component Unit Real Estate Foundation
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 9,939,988	\$ 17,602,111
Sponsored Research, Licensing, and Royalties Receivable	29,982,655	-

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

*JUNE 30, 2016*

	Research Foundation	Component Unit Real Estate Foundation
<b>LIABILITIES</b>		
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
<b>Total Liabilities</b>	<b>54,114,787</b>	<b>300,909,310</b>
<b>NET POSITION</b>		

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

*YEAR ENDED JUNE 30, 2016*

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	Research Foundation	Component Unit Real Estate Foundation
<b>Operating Revenues</b>		
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
<b>Total Operating Revenues</b>	<b>170,158,309</b>	<b>20,888,654</b>

**Operating Expenses**

Research Subcontracted to UGA (including

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

*YEAR ENDED JUNE 30, 2016*

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	<b>Research Foundation</b>
<b>Cash flows from operating activities</b>	
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)
<b>Cash flows from capital and related financing activities:</b>	

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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**Research Foundation**

**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 gran



UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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**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.

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

**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 type	Fair Value	Investment Maturity			
		Less Than 1 Year	1 5 Years	6 10 Years	More Than 10 Years
<b>Debt Securities</b>					
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	-	-
	<u>12,135,031</u>	<u>\$ 3,958,930</u>	<u>\$ 6,306,883</u>	<u>\$ 962,164</u>	<u>\$ 907,054</u>
<b>Other Investments</b>					
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	<u>\$ 39,268,856</u>				



UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

*JUNE 30, 2016*

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Note 3—Deposits and investments (continued)

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**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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**Note 3—Deposits and investments (continued)**

**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-

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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**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.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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

	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 <sup>(a)</sup>	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
9..6.5(i)5.4(na)3.2(nce) 4a67.ncenk-		3,237,	-	3,2341913
OUmeUrat4e -		3,146,	-	3,1473813
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**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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



**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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**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

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

*JUNE 30, 2016*

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### 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





UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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**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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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**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.

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*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 Type	Total	Less Than 1 Year	1 5 Years	6 10 Years	More than 10 Years
Debt Securities					
Repurchase Agreements	\$ 10,256,717	\$ 10,256,717	\$ -	\$ -	\$ -

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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**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.

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

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
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**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

**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	<u>462,344,197</u>
Less Amounts Representing Interest	<u>(190,775,535)</u>
Total Leases Receivable	271,568,662
Less Current Portion	<u>(6,417,728)</u>
Noncurrent Leases Receivable	<u><u>\$ 265,150,934</u></u>

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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**Note 7—Capital assets**

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
NOTES



**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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**Note 8—Long term debt (continued)**

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
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**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*





UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
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*JUNE 30, 2016*

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**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



UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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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:

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.

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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**Note 10—Operating leases**

The Real Estate Foundation is a lessee under an amende

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2016*

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**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

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**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.

**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.

A handwritten signature in black ink, appearing to read "Christopher Bellet, CPA", is written over a thick, solid black horizontal line. The signature is somewhat cursive and partially obscured by the line.

Augusta, Georgia  
September 20, 2016