UNIVERSITY OF GEORGIA
RESEARCH FOUNDATION, INC.

Financial Statements
for the year ended
June 30, 2009

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Contents

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Auditors

Board of Directors
University of Georgia Research
Foundation, Inc.
Athens, Georgia

We have audited the accompanying statement of net assets of University of Georgia Research Foundation, Inc., (the "Research Foundation"), a discretely presented component unit of the University of Georgia, as of June 30, 2009 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the Research Foundation. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Research Foundation as of June 30, 2009, and the results of its operations, the changes in net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated [Report Date] 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Research Foundation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Cherry, Bekaert & Holland, L.L.P.

Augusta, Georgia
September 25, 2009

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis

June 30, 2009

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 Service 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., 1280 South Lumpkin Street, Athens, GA 30602.

The Research Foundation is also the sole member of UGARF Media Holdings, LLC ("UMH"). UMH was formed in June 2008 to purchase and facilitate the operation of an FCC licensed broadcast television station. During Fiscal 2009 UMH purchased the station and converted transmission to digital broadcast. The station provides the opportunity for faculty and staff to work in research, development, and teaching in media.

Description of the Financial Statements

The statement of net assets, statement of revenues, expenses, and changes in net assets, 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 assets are one indicator of the Research Foundation's financial health. Over time, increases or decreases in net assets are one indicator of the changes in the Research Foundation's financial condition when considered with other non-financial facts.

The *Statement of Net Assets* presents the assets, liabilities, and net assets of the Research Foundation.

The *Statement of Revenues, Expenses, and Changes in Net Assets* 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.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis

June 30, 2009

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.

Condensed financial statements are presented for the year ended June 30, 2009 and one prior. In the following discussion, Fiscal 2009 and Fiscal 2008 refer to the years ended June 30, 2009 and June 30, 2008, respectively.

Financial Highlights

The condensed statements of net assets are shown below:

University of Georgia Research Foundation
Condensed Statements of Net Assets
June 30, 2009 and 2008

	2009	2008	Change	% Change
Assets:				
Current assets	$ 60,882,656	$ 44,091,657	$ 16,790,999	38%
Capital assets, net	422,830	468,912	(46,082)	(10%)
Other noncurrent assets	54,428,172	53,143,372	1,284,800	2%
Total assets	$ 115,733,658	$ 97,703,941	$ 18,029,717	18%
Liabilities:				
Current liabilities	$ 66,972,359	$ 50,889,159	$ 16,083,200	32%
Noncurrent liabilities	-	308,823	(308,823)	(100%)
Total liabilities	66,972,359	51,197,982	15,774,377	31%
Net assets:				
Invested in capital assets	422,830	468,912	(46,082)	(10%)
Unrestricted	48,338,469	46,037,047	2,301,422	5%
Total net assets	48,761,299	46,505,959	2,255,340	5%
Total liabilities and net assets	$ 115,733,658	$ 97,703,941	$ 18,029,717	18%

Current assets increased by $16,790,999 or 38% from Fiscal 2008 to Fiscal 2009 due to an increase in cash and cash equivalents created through licensing and royalty revenue receipts, a principal payment from the University on the Animal Health Research Center note receivable, and an increase in cash on hand due to the assumption of certain research support expenditures by the University that were included in the Research Foundation's original Fiscal 2009 budget.

Capital assets include land and buildings net of accumulated depreciation. The decrease between years is due to annual depreciation on the Library Repository building. Other noncurrent assets primarily include investments held by investment managers and other investments. The $1,284,800 (2%) increase in noncurrent assets is attributable to additions to total funds invested and the reinvestment of earnings.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis

June 30, 2009

Noncurrent liabilities decreased by 100% or $308,823 due to recognition of all noncurrent deferred royalty revenue during Fiscal 2009.

Net assets represent the difference between the Research Foundation's assets and liabilities. Total net assets at June 30, 2009 and 2008 were $48,761,299 and $46,505,959, respectively, which represents an increase of 5% or $2,255,340. This increase is attributable primarily to increases in cash and cash equivalents and sponsored research, licensing and royalties receivables and investments.

The condensed statements of revenues, expenses, and changes in net assets are as follows:

University of Georgia Research Foundation
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008	Change	% Change
Operating revenues	$ 155,601,344	$ 139,512,041	$ 16,089,303	12%
Operating expense	150,523,562	132,168,523	18,355,039	14%
Operating income	5,077,782	7,343,518	(2,265,736)	(31%)
Nonoperating revenues (expenses)	(2,665,498)	1,620,641	(4,286,139)	(264%)
Equity in net loss of Georgia Venture Partners, LLC	(156,944)	(34,529)	(122,415)	355%
Increase in net assets	2,255,340	8,929,630	(6,674,290)	(75%)
Net assets, beginning of year	46,505,959	37,576,329	8,929,630	24%
Net assets, end of year	$ 48,761,299	$ 46,505,959	$ 2,255,340	5%

Operating revenues consist primarily of sponsored research, licensing, and royalties. During Fiscal 2009 operating revenues increased $16,089,303 or 12% primarily due to an increase in licensing and royalties revenue.

Operating expenses increased by $18,355,039 or 14%, due to increases in licensing and royalty distributions, licenses and intellectual property expense, research support, and management and general expenses.

Non operating revenues (expenses) consist of investment income and the change in fair value of investments. Non operating expense of $2,665,498 was recorded for the period ending June 30, 2009, which included $4,304,885 of investment income and a $6,970,383 decrease in the fair value of investments, primarily resulting from market reactions to the various economic crises in the fall of 2008.

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 non operating revenue (expense) to the Research Foundation. For the period ending June 30, 2009, the Research Foundation recorded a larger net loss on this equity investment than was recorded for the prior year.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis

June 30, 2009

The condensed statements of cash flows are shown below:

University of Georgia Research Foundation
Condensed Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008	% Change
Cash flows from operating activities	$ 11,503,421	$ 7,934,490	45%
Cash flows used in investing activities	(4,182,242)	(6,206,889)	(33%)
Cash flows used in noncapital financing activities	-	(75,000)	(100%)
Net increase in cash and cash equivalents	7,321,179	1,652,601	343%
Cash and cash equivalents, beginning of year	11,452,716	9,800,115	17%
Cash and cash equivalents, end of year	$ 18,773,895	$ 11,452,716	64%

Cash flows from operations primarily include receipts from research sponsors and licensees, net of disbursements for operations. The increase in Fiscal 2009 is primarily the result of increased sponsored research and receipts of licensing fees and royalties.

Cash flows from investing activities are comprised of proceeds from sales and maturities of investments, purchase of investments, and interest earned on investments.

Economic Outlook

The Research Foundation ended Fiscal 2009 with a modest increase in its net asset position. Nationally, research funding remains competitive, however, opportunities to receive additional sponsored revenue are available through proposals of grants under the American Recovery and Reinvestment Act of 2009. Due to the expiration of certain patents, the Research Foundation expects reduced levels of licensing and royalty revenues in Fiscal 2010. The Research Foundation continues to leverage commercialization opportunities with economic potential to provide new revenue streams. Through financial planning and budgeting, the Research Foundation is able to continue its support of existing and new research initiatives.

Due to the current economic downturn in the State of Georgia, the University is expected to experience significant permanent budget cuts in Fiscal 2010. As such, the Research Foundation is likely to consider increased financial support of the University's research mission.

Questions concerning this report or requests for additional information should be directed to Holley Schramski, University of Georgia Controller, 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 Assets

June 30, 2009

		Component Units	
	Research Foundation	UMH	Real Estate Foundation
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 18,773,895	$ 66,307	$ 15,983,207
Sponsored Research, Licensing, and Royalties Receivable	24,849,762	-	-
Accounts Receivable from University of Georgia	540,254	-	2,383,725
Trade and Other Receivables, net	-	138,468	30,525
Funds Deposited with the University of Georgia	16,598,252	-	-
Prepaid Expenses	120,493	1,250	257,351
Capital Leases Receivable	-	-	2,366,490
Total Current Assets	$ 60,882,656	$ 206,025	$ 21,021,298
Noncurrent Assets			
Investments	$ 53,617,841	$ -	$ -
Investment in Georgia Venture Partners	807,431	-	-
Bond Proceeds	-	-	13,045,173
Operating Funds Held by Trustee	-	-	3,534,845
Capital Leases Receivable	-	-	198,549,803
Capital Assets not being Depreciated			
Land	110,000	162,750	20,424,224
Construction in Progress	-	-	34,047,860
Capital Assets Net of Accumulated Depreciation	312,830	1,431,676	2,493,295
Cost of Bond Issuance, net	-	-	4,651,460
Derivative Financial Instruments	-	-	49,221
Other Assets	2,900	348,715	-
Total Noncurrent Assets	$ 54,851,002	$ 1,943,141	$ 276,795,881
TOTAL ASSETS	$ 115,733,658	$ 2,149,166	$ 297,817,179

		Component Units	
	Research Foundation	UMH	Real Estate Foundation
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable - University of Georgia	$ 27,124,170	$ 152,138	$ 162,056
Funds Received for Sponsored Research	16,598,252	-	-
Accounts Payable - Other	22,928,591	51,316	19,029
Deferred Revenue	321,346	25,153	-
Accrued Liabilities	-	12,881	646,958
Accrued Project Costs	-	-	8,632,980
Advance Rent Receipts	-	-	405,230
Advance Lease Payment Receipts	-	-	3,857,939
Bonds Payable	-	-	4,320,000
Total Current Liabilities	$ 66,972,359	$ 241,488	$ 18,044,192
Noncurrent Liabilities			
Lease Rent Liability	$ -	$ -	$ 1,848,649
Revolving Credit Agreement	-	-	29,133,040
Bonds Payable	-	-	227,216,853
Total Noncurrent Liabilities	$ -	$ -	$ 258,198,542
TOTAL LIABILITIES	$ 66,972,359	$ 241,488	$ 276,242,734
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 422,830	$ 1,594,426	$ 9,276,369
Restricted	-	-	2,804,419
Unrestricted	48,338,469	313,252	9,493,657
Total Net Assets	$ 48,761,299	$ 1,907,678	$ 21,574,445
TOTAL LIABILITIES AND NET ASSETS	$ 115,733,658	$ 2,149,166	$ 297,817,179

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2009

		Component Units	
	Research Foundation	UMH	Real Estate Foundation
Operating Revenues			
Sponsored Research	$ 124,577,255	$ -	$ -
Licensing and Royalties	30,531,425	-	-
Other	492,664	-	-
Advertising Income	-	858,668	-
Rental Income	-	-	3,169,439
Capital Lease Interest Income	-	-	12,249,946
Reimbursed Expenses	-	-	1,841,815
Total Operating Revenues	$ 155,601,344	$ 858,668	$ 17,261,200
Operating Expenses			
Research Subcontracted to UGA (including facilities & administrative cost reimbursements)	$ 121,588,635	$ -	$ -
Licensing and Royalty Distributions	14,750,742	-	-
Licenses and Intellectual Property	3,380,926	-	-
Support to the University of Georgia	6,495,613	-	-
Support to UMH	2,998,125	-	-
Project Expenses	-	-	4,772,485
Management and General	1,309,521	1,890,648	718,508
Total Operating Expenses	$ 150,523,562	$ 1,890,648	$ 5,490,993
Total Operating Income (Loss)	$ 5,077,782	$ (1,031,980)	$ 11,770,207
Nonoperating Revenue (Expense)			
Investment Income	$ 4,304,885	$ 340	$ 182,852
Increase (Decrease) in Fair Value of Investments	(6,970,383)	-	23,346
Decrease in Fair Value of Derivatives	-	-	(50,477)
Loss on Disposition of Assets	-	-	(362,641)
Interest Expense, net	-	-	(8,409,178)
Support from Research Foundation	-	2,998,125	-
Support to University of Georgia	-	(58,739)	-
Other	-	-	11,064
Total Nonoperating Revenue (Expense)	$ (2,665,498)	$ 2,939,726	$ (8,605,034)
Equity in Net Loss of Georgia Venture Partners	$ (156,944)	$ -	$ -
CHANGE IN NET ASSETS	$ 2,255,340	$ 1,907,746	$ 3,165,173
Net Assets (Deficit), beginning of year	46,505,959	(68)	18,409,272
Net Assets, end of year	$ 48,761,299	$ 1,907,678	$ 21,574,445

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Cash Flows

Year Ended June 30, 2009

	Research Foundation
Cash flows from operating activities	
Receipts from research sponsors	$ 119,288,032
Receipts of licensing, royalties, and other	27,229,247
Receipts from UGA	5,534,773
Sponsored research payments to UGA	(120,555,801)
Payments for licensing and royalty distributions and other	(5,487,235)
Payments to UGA	(10,119,675)
Payments to UMH	(2,923,125)
Payments to suppliers	(1,462,795)
Net cash provided by operating activities	$ 11,503,421
Cash flows from investing activities	
Proceeds from sales and maturities of investments	$ 42,510,598
Purchases of investments	(48,715,709)
Payments received on note receivable from Animal Health Research Center	
Principal	1,955,898
Interest	66,971
Net cash used in investing activities	$ (4,182,242)
Net increase in cash and cash equivalents	$ 7,321,179
Cash and cash equivalents	
Beginning of year	11,452,716
End of year	$ 18,773,895

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Cash Flows - Continued

Year Ended June 30, 2009

	Research Foundation
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 5,077,782
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	46,082
Changes in assets and liabilities	
Accounts receivable	(5,228,223)
Prepaid expenses	125,931
Accounts payable, University of Georgia	6,476,857
Accounts payable, other	8,785,835
Deferred revenues	(3,780,843)
Net cash provided by operating activities	$ 11,503,421
Schedule of noncash investing activity	
Decrease in fair value of investments	$ (6,970,383)
Investment income, reinvested	4,237,914
Equity in net loss of Georgia Venture Partners, LLC	(156,944)

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements

Year Ended June 30, 2009

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 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, for the purposes of acquiring and facilitating the operation of an FCC licensed television broadcast station.

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 GASB has issued Statements of Governmental Accounting Standards ("SGAS") No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities* and SGAS No. 38, *Certain Financial Statement Note Disclosures.* The financial statement presentation required by these statements provides a comprehensive, entity-wide perspective of the Research Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required. In addition, these statements 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 SGAS No. 39, *Determining Whether Certain Organizations Are Component Units*, the Research Foundation qualifies for treatment as a component unit of the University; therefore, the Research Foundation's financial statements are included in the University's combined financial statements as a discretely presented component unit.

The Real Estate Foundation and UMH qualify as component units of the Research Foundation. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets of the Real Estate Foundation and UMH are reported discretely in the Research Foundations financial statements for fiscal year 2009 as required by government accounting standards.

These statements are the primary financial statements of UGARF and UMH. Complete financial statements for the Real Estate Foundation may be obtained at the following address: UGA Real Estate Foundation, Inc., 1280 South Lumpkin Street, Athens, GA 30602.

Notes related to the financial statements of component units follow the notes for the Research Foundation.

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

In accordance with SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Research Foundation is required to follow all applicable GASB pronouncements. The Research Foundation has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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 repurchase agreements, are carried at cost, which approximates market value.

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 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.

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

Net Assets – The Research Foundation's net assets are comprised primarily of unrestricted net assets. Unrestricted net assets are not subject to donor or other stipulations imposed by outside sources.

Revenue Recognition – Revenue from sponsored research is recognized as expenditures are made for approved research activities. 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 assets. Such amounts are deposited with the University.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued) - The unrecognized portion of such advance payments is classified as deferred revenues in the statements of net assets. 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 Nonoperating Revenues - The financial statements distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with sponsored research and licensing and royalty agreements - the Research Foundation's principal activities. Nonexchange revenues, including investment income and net unrealized and realized gains and losses on investments are reported as nonoperating 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.

New Accounting Pronouncements – In June 2008, GASB issued SGAS No. 53 *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The Research Foundation's management is currently evaluating the impact SGAS No. 53 will have on the Research Foundation's financial statements.

In June 2007, GASB issued SGAS No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes uniform accounting and financial reporting requirements for intangible assets. Entities possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The statement provides that all intangible assets not specifically excluded by its scope provisions be classified as capital assets and amortized according to the useful life of the intangible asset. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The Research Foundation's management is currently evaluating the impact SGAS No. 51 will have on the Research Foundation's financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2009

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.

At June 30, 2009, the book value of the Research Foundation's deposits, including demand accounts and cash and cash equivalents held in managed investment accounts, was $18,773,895. The bank and investment account balances at June 30, 2009 were $20,866,426 of which $20,616,426 was uninsured. Of these uninsured deposits, none were collateralized with securities held by the financial institution's trust department or agent in the Research Foundation's name, $16,388,000 were collateralized with securities held by the financial institution, by its trust department or agency, but not in the Research Foundation's name, and $4,228,426 were uncollateralized.

B. Investments

The Research Foundation maintains both short-term and long-term investment policies. Both establish primary and secondary objectives, specify allowable investments, set target investment mix, and provide investment guidelines.

The Research Foundation's investments at June 30, 2009 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

		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	$ 690,597	$ -	$ 613,487	$ 77,110	$ -
U.S. Agencies					-
Explicitly Guaranteed	1,291,711	-	283,803	-	1,007,908
Implicitly Guaranteed	7,092,815	1,677,250	5,037,241	120,229	258,095
Corporate Debt	32,397,499	29,649,561	1,836,334	722,491	189,113
Municipal Obligation	50,674	-	-	-	50,674
	$ 41,523,296	$ 31,326,811	$ 7,770,865	$ 919,830	$ 1,505,790
Other Investments					
Equity Mutual Funds - Domestic	$ 2,132,038				
Equity Mutual Funds - International	1,133,836				
Equity Mutual Funds - Global	1,336,417				
Equity Securities - Domestic	2,772,900				
Equity Securities - International	1,011,530				
Managed Futures/Hedge Funds	3,707,824				
Total Investments	$ 53,617,841				

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 a maximum maturity of eighteen months to five years depending on the type of investment. Long-term investments are managed using a planning timeline of five years or more 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, 2009, $45,307,726 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 policies specify 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 a BBB (Standard & Poor's) or Baa3 (Moody's) rating or higher. The investment policy also requires that securities that drop below investment grade should be sold at the manager's discretion; in the event that a rating falls below investment grade, the manager will contact the financial advisor and advise them of the proposed strategy for disposition of the security.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2009

Note 3 – Deposits and Investments (Continued)

B. Investments (Continued)

The Research Foundation's investments at June 30, 2009 are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

		Rated Investments			
	Fair Value	**U.S. Agencies**	**Corporate Debt**	**Municipal Obligations**	**Mutual Funds**
Quality Ratings					
Moody's					
Aaa	$ 828,034	$ 490,035	$ 337,999	$ -	$ -
Aa2	1,199,668	-	1,199,668	-	-
Aa3	1,648,800	-	1,648,800	-	-
A1	3,413,098	-	3,362,424	50,674	-
A2	6,579,214	-	6,579,214	-	-
A3	3,833,890	-	3,833,890	-	-
Baa1	4,792,618	-	4,792,618	-	-
Baa2	8,758,122	-	8,758,122	-	-
Baa3	1,884,764	-	1,884,764	-	-
Morningstar					
5-Star	628,395	-	-	-	628,395
4-Star	1,593,813	-	-	-	1,593,813
3-Star	949,561	-	-	-	949,561
Unrated	9,325,013	7,894,491	-	-	1,430,522
	$ 45,434,990	$ 8,384,526	$ 32,397,499	$ 50,674	$ 4,602,291

Exempt investments	
U. S. Treasuries	$ 690,597
Equity Securities - Domestic	2,772,900
Equity Securities - International	1,011,530
Managed Futures/Hedge Funds	3,707,824
	$ 53,617,841

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 40-80%, bonds 20-60% and alternative investments can range 0-20%.

As of June 30, 2009, investments in a single issuer where those investments exceed 5% of total investments were as follows:

Federal National Mortgage Association	8%
Federal Home Loan Mortgage Corporation	5%

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 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 – Investments

A. Investments at fair market value

Investments at quoted market prices	$ 53,617,841
Total investments at fair market value	$ 53,617,841

Changes in investments for the year ended June 30, 2009 consisted of:

Fair value – June 30, 2008	$ 50,145,200
Purchase of investments	48,715,708
Sales of investments	(42,510,598)
Net interest earned and reinvested	4,237,914
Change in fair value	(6,970,383)
Fair value – June 30, 2009	$ 53,617,841

Note 4 – Investments (Continued)

B. Investments – Equity Method

During 2005, the Research Foundation made an investment in Georgia Venture Partners, LLC, (the "Fund"). The Fund's investment portfolio consists primarily of high-risk investments in start-up, unseasoned companies with little or no operating history and may experience significant losses for some time after the Fund's investment. Most of the Fund's investments will be difficult to value. The return to Investor Members on their investments is contingent on the growth and prosperity of the Portfolio Companies in which the Fund invests. The success of these companies is subject to factors over which the Fund has little or no control, including the availability of subsequent financing, the rapid pace of technological change, market shifts (including the entry of competitors with greater resources or development of competing products, or other changes in the demand for Portfolio Companies' products and services), changes in relevant governmental regulations, and changes in the economy generally. Consequently, venture capital investments are highly speculative. The profitability of Portfolio Companies may also depend on the companies' ability to develop and protect intellectual property, and there can be no assurances that they will be successful in securing patent, copyright or other legal protection (or that such legal protection will be available) for their products, know-how or other intellectual property. Such investments are generally highly illiquid in nature. Resale of securities in which the Fund invests will generally be restricted by applicable securities laws, and there will typically be no public market for such securities.

There can be no assurance that an interest in any Portfolio Company will earn a return or that the returns on successful investments will be sufficient to permit returns to the Investor Members. The Fund expects to mitigate these risks by becoming very familiar with each Portfolio Company's business, providing input on important policy issues, providing or assisting in raising needed capital, and recruiting top management. 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, 2009:

	2009	
	Amount	Ownership Percent
Georgia Venture Partners, LLC – capital contribution	$ 1,000,000	28.34%
Equity in cumulative net losses	(192,569)	
	$ 807,431	

The Research Foundation generally participates in profit-loss allocations consistent with ownership interests.

The fiscal year of Georgia Venture Partners ends on December 31. The Research Foundation consistently follows the practice of recognizing the net income or loss of Georgia Venture Partners, LLC on the basis of the most recent available financial statements. The most recent available statements for this entity at June 30, 2009 were for December 31, 2008.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2009

Note 5 – Fair Value Measurement of Assets and Liabilities

Effective July 1, 2008, the Research Foundation adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, which requires fair value measurements be classified and disclosed in one of the following three categories ("Fair Value Hierarchy"):

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges,
Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument,
Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

The Research Foundation assets that are measured and recognized at fair value are categorized according to the Fair Value Hierarchy as follows:

	Level 1	Level 2	Level 3	
Equity Securities	$ 3,784,430	$ -	$ -	$ 3,784,430
Bonds	-	41,523,296	-	41,523,296
Mutual Funds	-	4,059,529	542,761	4,602,290
Managed Futures/Hedge Funds	-	-	3,707,825	3,707,825
	$ 3,784,430	$ 45,582,825	$ 4,250,586	$ 53,617,841

For assets measured at fair value using significant unobservable inputs (Level 3), the reconciliation of the beginning and ending balances is shown below.

	Level 3
Beginning balance	$ 5,394,121
Decrease in fair value included in changes in net assets	(990,196)
Purchases, sales, issuances, and settlements (net)	(153,339)
	$ 4,250,586

Unrealized losses related to assets measured at fair value using significant unobservable inputs are included in the Decrease in Fair Value of Investments on the Statement of Revenue, Expenses, and Changes in Net Assets and are related to investments held at June 30, 2009.

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2009

Note 6 – Note Receivable

During the year ended June 30, 2005, the Research Foundation issued a loan for $7,500,000 to the University to renovate and upgrade the existing Animal Health Research Center. The loan amount was amortized over 10 years at an annual interest rate of 5% with annual interest payments through the year ended June 30, 2009, and annual principal and interest payments commencing on July 1, 2010. During the year ended June 30, 2009, the Research Foundation received interest payments for interest accrued through June 30, 2009 and principal payments of $1,955,898. The full amount of the note has been received; no additional amounts are due from the University.

Note 7 – 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 $2,546,153 for the year ended June 30, 2009 to various departments of the University for (F&A) cost they incurred in the support of research.

Note 8 – Summary of Sponsored Research Activity

The activity for sponsored research awarded to the Research Foundation is summarized for the year ended June 30, 2009 as follows:

Sponsored research awarded but not recognized – beginning of year	$ 177,539,661
Sponsored research awarded during the year (including facilities and administrative cost reimbursements)	155,917,587
Sponsored research recognized during the year (including facilities and administrative cost reimbursements)	(124,577,255)
	$ 208,879,993

The total number of sponsored research awards was 1,073 for the year ended June 30, 2009.

Note 9 – Capital Assets

Capital assets consisted of the following:

	Balance at June 30, 2008	Additions	Disposals	Balance at June 30, 2009
Capital assets not being depreciated				
Land	$ 110,000	$ -	$ -	$ 110,000
Capital assets being depreciated				
Library Repository Building	1,142,307			1,142,307
Less: accumulated depreciation	(783,395)	(46,082)	-	(829,477)
Total capital assets being depreciated, net	358,912	(46,082)	-	312,830
Capital assets – net	$ 468,912	$ (46,082)	$ -	$ 422,830

Note 10 – 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, 2014. The monthly rental for this lease agreement is $6,275. The lease rental for the year ended June 30, 2009 was $75,300. The library storage facility is being depreciated over 25 years.

During Fiscal 2005, the Research Foundation entered into a loan agreement with the University for the purposes of funding a portion of the construction costs of the Animal Health Research Center. This transaction is discussed fully in Note 6.

Note 11 – Significant Funding Sources

For the fiscal year ended June 30, 2009, approximately $88,900,000 (88 %) of the Research Foundation's total federal expenditures and support were awarded by four (4) agencies of the United States government. Changes in governmental spending could have a significant impact on the operations of the Research Foundation.

Note 12 – Commitments and Contingencies

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

The Research Foundation made a three-year $300,000 commitment in fiscal year 2009 to the University Poverty Initiative. The remaining commitment from fiscal year 2009 is $120,327 resulting in a total commitment for fiscal year 2010 of $220,327.

The Research Foundation has an ongoing commitment to fund a portion of the Coverdell Center lease repayment. The commitment is currently $701,828 each fiscal year and continues through fiscal year 2036.

Beginning with fiscal year 2008, the Research Foundation committed $100,000 per year for three years to provide seed grants to organize and attract Infectious Disease faculty; a total of $241,462 is committed for fiscal 2010.

In fiscal year 2009 $100,000 per year for three years was committed for faculty research seed grants in BioEnergy. For fiscal year 2010, $136,990 is committed to the program.

New commitments for fiscal year 2010 include $750,000 to provide matching funds on anticipated allocations provided by the Georgia Research Alliance to establish an eminent scholar.

The Georgia legislature passed legislation establishing the GRA Venture Fund. The fund would provide 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. To date, no funds have been requested by the GRA Venture Fund.

The Research Foundation committed support to UGARF Media Holdings, LLC in fiscal year 2010 of $1,919,494. This amount will support WNEG operations and start-up costs.

Note 12 – Commitments and Contingencies (Continued)

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, 2009, current borrowings are all under rental agreements with the University so the Research Foundation's guarantee is not applicable.

The Research Foundation is currently engaged in litigation related to ownership of certain patents. Parties adverse to the Research Foundation have asserted claims for money damages and other legal and equitable relief. This litigation is ongoing and it is not currently possible to estimate what effect, if any, the litigation may have on the Research Foundation's financial position or results of operations. Assets related to this litigation have been designated by the Board of Directors to be held until such litigation is resolved.

In the normal course of business, there are legal actions pending against the Research Foundation. Management does not believe that any of these legal actions, with the possible exception of the litigation discussed in the preceding paragraph, are expected to have a material effect on the Research Foundation's financial condition, results of operations, or liquidity.

UMH

Note 1 – Organization

UGARF Media Holdings, LLC ("UMH"), a limited liability company, was established in June 2008. The University of Georgia Research Foundation (the "Research Foundation") is the sole member of this disregarded entity. UMH was organized under the laws of the State of Georgia.

In October, 2008, UMH acquired and began operating an FCC licensed television broadcast station, WNEG-TV. The station is licensed, transmits from Toccoa, GA, and serves northeast Georgia. In the fall of 2009, the WNEG-TV broadcasting studio will relocate to the Grady College of Journalism and Mass Communication at the University of Georgia without affecting the license, transmission, or area served.

UMH operates as a business-type activity and provides the opportunity for students, faculty and staff to work in research, development and teaching in media.

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 Service 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 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 – UMH'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").

Note 2 – Summary of Significant Accounting Policies (Continued)

Reporting Entity – In accordance with the criteria in SGAS No. 39, *Determining Whether Certain Organizations Are Component Units*, the Research Foundation qualifies for treatment as a component unit of the University; therefore, the Research Foundation's financial statements are included in the University's combined financial statements as a discretely presented component unit.

UMH qualifies as a component unit of the Research Foundation. The statements of UMH are reported discretely in the Research Foundation's financial statements for fiscal year 2009.

Basis of Accounting – UMH's financial statements have been presented using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

In accordance with SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, UMH is required to follow all applicable GASB pronouncements. UMH has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents – UMH considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Other Assets – Other assets at June 30, 2009 consist of intangible assets that have indefinite useful lives and are not amortized but rather are tested at least annually or when events and circumstances occur that may indicate impairment.

Capital Assets - Capital assets are recorded at cost, less accumulated depreciation. Depreciation is recorded on a straight-line basis over an estimated useful life of 5 to 40 years. Land is stated at cost and is not depreciated.

Net Assets – As of June 30, 2009, UMH's net assets are comprised of $313,252 in unrestricted net assets and $1,594,426 in net assets invested in capital assets, net of related debt. Unrestricted net assets are not subject to donor or other stipulations imposed by outside sources.

Revenue Recognition – Advertising income is recognized when earned and collectability of the associated receivable is reasonably assured. Advertising income consists of the sale of airtime for advertising spots and paid programming less applicable agency commissions. Advance advertising receipts represent prepaid advertising spots or programming payments received but not yet earned and are classified as deferred revenues in the statement of net assets.

Note 2 – Summary of Significant Accounting Policies (Continued)

Nonmonetary Transactions **–** APB No. 29 *Nonmonetary Transactions*, addresses the issue of nonmonetary transactions. UMH engages in two types of nonmonetary transactions, barter and trade.

Barter revenue and expense occurs when a vendor enters into an agreement with UMH to air the vendor's programming for free or for a reduced cost to UMH. The vendor's program is aired with the vendor's advertising spots inserted for which the vendor received the revenue. UMH may or may not be allowed to insert a number of advertising spots into the programming that UMH receives the revenue for. A formula is used in determining the value of these transactions and the revenue and expense occur simultaneously at the time that the program is aired. For the year ended June 30, 2009, UMH recognized barter income and expense of $221,832.

Trade revenue and expense occurs when a customer/vendor enters into an agreement to purchase advertising spots and in exchange UMH receives a tangible product or service. The cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered (advertising spots) to obtain the product or service. Revenue and expense can occur at different times. No revenue or expense was recognized for the year ended June 30, 2009.

Operating and Non-operating Revenue and Expenses – The financial statements distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with the sale of airtime. Non-exchange revenues are reported as non-operating revenues. Operating expenses are all expenses incurred in the sale of airtime and the maintenance of the physical facilities.

Income Taxes – UMH is a single member LLC, which is a disregarded entity for income tax purposes. Transactions for UMH are included in the income tax reporting of the Research Foundation. 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. UMH's net revenue (expense) before transfers from related parties will constitute unrelated business income. For 2009 no provision for income taxes has been recorded.

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.

Accounts Receivable – Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. UMH provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of customers to meet their obligations. It is UMH's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Note 3 – Accounts Receivable

UMH recorded trade accounts receivable of $153,398 at June 30, 2009 and an allowance for doubtful accounts of $14,930.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2009

Note 4 – Capital Assets

Capital assets consisted of the following:

	Balance at June 30, 2008	Additions	Disposals	Balance at June 30, 2009
Capital assets not being depreciated				
Land	$ -	$ 162,750	$ -	$ 162,750
Capital assets being depreciated				
Furniture and equipment	-	1,374,443	-	1,374,443
Less: accumulated depreciation	-	(148,094)	-	(148,094)
Building and Improvements	-	209,250	-	209,250
Less: accumulated depreciation	-	(3,923)	-	(3,923)
Total capital assets being depreciated, net	-	1,431,676	-	1,431,676
Capital assets – net	$ -	$ 1,594,426	$ -	$ 1,594,426

Note 5 – Related Party Transactions

UMH has entered into a time brokerage agreement with the Board of Regents of the University System of Georgia, by and on behalf of the University of Georgia, Grady College of Journalism and Mass Communication (UGA) to operate the station in conformity with the Communications Act of 1924, as amended, and FCC rules, regulations and policies. The agreement commenced on October 15, 2008, and expires on April 1, 2013. The agreement requires UGA to provide project management, accounting, and other administrative services to ensure the compliant operations of WNEG-TV. During Fiscal 2009 UMH paid $784,313 to UGA under the terms of that agreement.

For the fiscal year ended June 30, 2009, $2,998,125 (78 %) of UMH's combined operating and non-operating revenue, was provided by the Research Foundation. A significant reduction in the level of support from the Research Foundation could have a material impact on the operations of UMH.

Note 6 – Commitments and Contingencies

In September 2008 UMH entered into a 5 year agreement with Broadview Software, Inc. for a personal, non-transferable, non-assignable and non-exclusive license of software. The monthly fee is $1,250 per month subject to a consumer price index and USA/Canadian exchange rate adjustment each April 1st. The maximum yearly increase shall not exceed 5%.

In September 2008 UMH entered into a 37 month agreement with VentureNet, LLC for a non-exclusive, non-transferable license for the use of a fiber optic link between the University of Georgia Grady College studio and the station in Toccoa. This contract began in February, 2009, at the rate of $4,957 per month. There are no scheduled increases in the rate.

Note 7 – Operating Lease

UMH leases property from the City of Toccoa which is the site of the television broadcast tower. This lease was assumed from the prior owners of WNEG-TV and the terms began on July 1, 1998. The lease calls for an initial term of 5 years and lessee options of (2) additional 5 year terms, followed by lessor options of (2) additional 10 year terms. UMH is currently in the third 5 year term and paid $1,543 for this lease in fiscal 2009. Anticipated lease payments until June 30, 2013 are $3,340 annually subject to an increase at July 1 of each year equal to the consumer price index for the preceding 12 month period.

Note 8 – Business Combination

In October, 2008, UMH purchased the assets of WNEG-TV, owned by Media General Operations, Inc. (MG). UMH operates as a business-type activity and provides the opportunity for University students, faculty and staff to work in research, development and teaching in media.

In accordance with the Asset Purchase Agreement, UMH purchased the following:

Television Station and Certain Assets	$	1,437,500
Digital TV Conversion Equipment		300,000
Net Working Capital		112,242
Total	$	1,849,742

The estimated fair values of the assets and liabilities acquired at the date of acquisition were as follows:

Current Assets	$	152,364
Land		162,750
Building		209,250
Furniture and Equipment		1,019,328
Other Assets		348,715
Current Liabilities		(42,665)
Total	$	1,849,742

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 Service 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 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") and 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.

Reporting Entity – In accordance with the criteria in SGAS No. 39, *Determining Whether Certain Organizations Are Component Units*, the Research Foundation qualifies for treatment as a component unit of the University; therefore, the Research Foundation's financial statements are included in the University's combined financial statements as a discretely presented component unit.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

In accordance with SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Real Estate Foundation is required to follow all applicable GASB pronouncements. The Real Estate Foundation has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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.

The Board of Trustees of the Real Estate Foundation has designated certain cash balances to fund future obligations. As of June 30, 2009, the cash amounts include $3,203,519 reserved for debt service, $1,062,505 reserved for estimated repairs and replacement of real property, $2,037,019 reserved for joint project reserves, and $400,000 reserved for general operations.

Operating Funds Held by Trustee — Rent receipts of certain real estate projects are held by an independent trustee for the purpose of paying operating expenses and funding reserves to fund future obligations. As of June 30, 2009, the operating funds held by trustee include $842,086 reserved for debt service and $1,962,333 reserved for estimated repairs and replacement of real property. The total of these reserves of $2,804,419 are reported as restricted net assets on the statements of net assets for June 30, 2009.

Bond Proceeds Restricted for Construction, Debt Service, and Reserves — Proceeds from bond issuance 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 offering. Investments made by the trustee in accordance with the trust indenture are carried at market value.

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 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 is stated at cost and is not depreciated.

Construction in Progress — 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 recorded as capital leases.

Cost of Bond Issuance – Cost of bond issuance is stated at cost, less accumulated amortization and includes direct, incremental costs associated with the issuance of the bonds. Issuance costs are amortized to interest expense using the effective interest method.

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 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. 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. For the year ended June 30, 2009 capitalized interest, net of interest earned, amounted to $1,683,708.

Derivative Financial Instruments — The Real Estate Foundation entered into derivative financial instrument agreements in order to hedge a portion of its current and future borrowings for the purpose of managing interest rate risk. In accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, these derivative financial instruments are recorded at fair value in the Statement of Net Assets. Changes in the fair value of the derivative financial instruments are recorded in the Statement of Revenues, Expenses, and Changes in Net Assets.

Bonds Payable – The Real Estate Foundation records the net proceeds of tax-exempt 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 Assets – As of June 30, 2009 the Real Estate Foundation's net assets are comprised of $9,493,657 in unrestricted net assets, $2,804,419 in restricted net assets and $9,276,369 in net assets invested in capital assets, net of related debt. Unrestricted net assets are not subject to donor or other stipulations imposed by outside sources. Restricted assets are designated by bond indentures for debt service repair and replacement reserves.

Note 2 – Summary of Significant Accounting Policies (Continued)

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. Advance lease payment receipts represent both the interest and principal components of capital lease payments received but not yet earned.

Operating and Nonoperating Revenues and Expenses -- The financial statements distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with purchasing, maintaining, and leasing real property – the Real Estate Foundation's principal activity. Nonexchange revenues, including investment income from sources other than capital leases, and net unrealized and realized gains and losses on investments are reported as nonoperating revenues. 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 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. The Internal Revenue Service has determined that the Real Estate Foundation is not a private foundation under Section 509(a) of the Code. The Real Estate Foundation currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

New Accounting Pronouncements – In June 2008, GASB issued SGAS No. 53 *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The Real Estate Foundation's management is currently evaluating the impact SGAS No. 53 will have on the financial statements.

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 Real Estate Foundation's deposits may not be recovered. The Real Estate Foundation has no deposit policy for custodial credit risk.

At June 30, 2009 the bank value of the Real Estate Foundation's deposits, consisting of cash held in interest bearing checking accounts at financial institutions, cash and cash equivalents held by trustees, and repurchase agreements backed by short-term United States Treasuries was $32,108,186. Based on the bank balance, $1,274,729 was insured by the Federal Deposit Insurance Corporation (FDIC); $18,840,101 was collateralized; and $11,993,356 and was uninsured and uncollateralized.

In October and November 2008, the FDIC temporarily increased coverage to $250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage is scheduled to expire on December 1, 2013, at which time it is anticipated that amounts insured by the FDIC will return to $100,000.

B. Investments

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

The Real Estate Foundation's investments as of June 30, 2009 are presented below. All investments are presented by investment type and debt securities are presented by maturity. Investments held by trustees are included with Bond Proceeds Restricted for Construction, Debt Service and Reserves on the Statement of Net Assets.

		Investment Maturity			
Investment Type	**Fair Value**	**Less Than 1 Year**	**1-5 Years**	**6-10 Years**	**More Than 10 Years**
Debt Securities					
U.S. Treasuries					
Held by Trustees	$ 840,990	$ 840,990	$ -	$ -	$ -
Total Investments	$ 840,990	$ 840,990	$ -	$ -	$ -

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 Real Estate Foundation's policy for managing interest rate risk for debt service reserve funds is to invest only in short-term United State treasury obligations with a maximum maturity of one year.

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 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)

Credit Quality Risk
Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Since all of the Real Estate Foundation's investments are invested in U. S. Treasuries, they are considered to be exempt from investment grade credit quality rating requirements.

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 for debt service reserve funds is to invest only in short-term investments of U. S. Treasuries.

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. During the year ended June 30, 2009, the Real Estate Foundation's investments decreased by $32,798 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 $85,938 as of June 30, 2009.

Note 4 – Investments

Investments at fair market value

		2009
Investments at quoted market prices	$	-
Investments held by trustee at quoted market prices		840,990
Total investments at fair market value	$	840,990

Changes in investments for the year ended June 30, 2009 consisted of:

		2009
Fair value – Beginning of Period	$	2,979,494
Purchase of investments		6,387,931
Sales and maturities of investments		(8,595,590)
Realized gain (investment income)		45,809
Change in fair value		23,346
Fair value – End of Period	$	840,990

Note 5 – Leases Receivable

The Real Estate Foundation has entered into multiple 25 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. The proceeds of the bonds payable were used to construct these 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, 2009, net capital leases receivable were $200,916,293. This amount included future minimum lease payments to be received of $435,722,202 and unearned interest income of $234,805,909 as of June 30, 2009.

As of June 30, 2009, lease payments are receivable as follows:

2010	$	14,894,666
2011		15,061,862
2012		15,060,862
2013		15,058,999
2014		17,497,995
2015 -- 2019		87,335,007
2020 -- 2024		86,985,802
2025 -- 2029		86,482,551
2030 -- 2034		79,519,283
2035 -- 2038		17,825,175
Total payments to be received	$	435,722,202
Less amounts representing interest		(234,805,909)
Total leases receivable		200,916,293
Less current portion		(2,366,490)
Noncurrent leases receivable	$	198,549,803

Note 6 – Capital Assets

Capital assets consisted of the following at June 30, 2009:	Balance at June 30, 2008	Additions	Disposals and Reclasses	Balance at June 30, 2009
Capital assets not being depreciated				
Land	$ 20,424,224	$ -	$ -	$ 20,424,224
Construction in progress	29,263,694	62,845,013	(58,060,847)	34,047,860
Total capital assets not being depreciated	$ 49,687,918	$ 62,845,013	$ (58,060,847)	$ 54,472,084
Capital assets being depreciated				
Furniture and equipment	$ 187,301	$ 1,038	$ -	$ 188,339
Less: accumulated depreciation	(160,701)	(13,993)	-	(174,694)
Buildings and improvements	2,810,208	185,323	(67,640)	2,927,891
Less: accumulated depreciation	(357,465)	(101,835)	11,059	(448,241)
Total capital assets being depreciated, net	$ 2,479,343	$ 70,533	$ (56,581)	$ 2,493,295
Capital assets -- net	$ 52,167,261	$ 62,915,546	$ (58,117,428)	$ 56,965,379

Note 7 – Long-Term Debt

$25,620,000 Bond Issue — In 2001, the Development Authority of the Unified Government of Athens-Clarke County, Georgia (the "Development Authority") issued Revenue Bonds (UGA Real Estate Foundation, Inc. Project), Series 2001 (the "2001 Bonds") and entered into an agreement (the "2001 Loan Agreement") to loan $25,620,000 to the Real Estate Foundation. The 2001 Bonds are secured by a letter of credit issued on behalf of the Real Estate Foundation in favor of the Development Authority under the Real Estate Foundation's $50 million credit agreement discussed below. During 2002, the Real Estate Foundation used the proceeds of this loan to fund purchases and improvements of certain properties.

Borrowings under the 2001 Loan Agreement bear interest payable monthly at a formula rate adjusted each week (2.50% at June 30, 2009). The loan matures in 2031, subject to certain early repayment provisions. During the year ended June 30, 2009, principal payments in the amount of $220,000 were made.

During 2008, the Real Estate Foundation entered into an interest rate cap agreement effectively limiting the interest rate on the 2001 Loan Agreement to a 4.0% fixed rate until December 3, 2012. The Real Estate Foundation paid a premium of $75,000 in connection with this agreement The fair value of the interest rate cap as of June 30, 2009 was $47,923 and has been recorded as an asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a loss of $26,108 on the fair value of this derivative for the year ended June 30, 2009.

Note 7 – Long-Term Debt (Continued)

$39,155,000 Bond Issue — In 2002, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF CCRC Building, LLC Project), Series 2002 (the "CCRC Bonds") and entered into an agreement (the "CCRC Loan Agreement") to loan $39,155,000 to UGAREF CCRC Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "CCRC Entity"). Payment of principal and interest under the CCRC Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the facility and by the CCRC Entity's interest in certain rents and leases derived from the facility. The CCRC Entity used the proceeds of this loan to fund construction of the facility, which was completed in October 2003.

Borrowings under the CCRC Loan Agreement bear 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 are due on December 15 starting in 2004 and continuing through 2032. During the year ended June 30, 2009, principal payments of $825,000 were made.

$99,860,000 Bond Issue — In 2002, the Housing Authority of the City of Athens, Georgia (the "Authority") issued Student Housing Lease Revenue Bonds (UGAREF East Campus Housing, LLC Project), Series 2002 (the "Bonds") and entered into an agreement (the "Loan Agreement") to loan $99,860,000 to the Real Estate Foundation. Payment of principal and interest under the Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the facilities and by the Real Estate Foundation's interest in certain rents and leases derived from the facilities. The Real Estate Foundation used the proceeds of this loan to fund construction of certain real estate projects which were completed in July 2004.

Borrowings under the Loan Agreement bear interest payable semiannually on December 1 and June 1 at fixed rates ranging from 3% to 5.25% depending on the schedule of bond maturities. Principal payments are due on December 1st starting in 2005 and continuing through 2033. During the year ended June 30, 2009, principal payments of $2,000,000 were made.

$8,215,000 Bond Issue — In 2003, the Oconee County Industrial Development Authority issued Revenue Bonds (UGAREF Gainesville Campus, LLC Project), Series 2003 (the "Gainesville Campus Bonds") and entered into an agreement (the "Gainesville Campus Loan Agreement") to loan $8,215,000 to UGAREF Gainesville Campus, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "Gainesville Campus Entity"). Payment of principal and interest under the Gainesville Campus Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the land and educational facility and by the Gainesville Campus Entity's interest in certain rents and leases derived from the land and educational facility. During 2003, the Gainesville Campus Entity used the proceeds of this loan to fund the acquisition of the land and educational facility.

Borrowings under the Gainesville Campus Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.2% to 4.375% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2003 and continuing through 2027. During the year ended June 30, 2009, principal payments of $260,000 were made.

Note 7 – Long-Term Debt (Continued)

In April 2008, the Gainesville Campus Entity, the Board of Regents, and the Gainesville State College Foundation, Inc. (the "Gainesville Foundation") entered into a Memorandum of Understanding to document their collective intent to enter into a series of transactions with the ultimate goal of transferring the property securing the Gainesville Campus Bonds to the Gainesville Foundation, along with the associated bonds payable. These transactions were complete in December 2008, and the remaining principal balance and remaining unspent bond proceeds were transferred to the Board of Regents in conjunction with the transfer of the Gainesville Entity's property to the Gainesville Foundation to include the assumption of all of the Gainesville Campus Entity's obligations under the Series 2003 bonds payable. The Real Estate Foundation has no further obligations under the Gainesville Campus Bonds.

$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 "Coverdell Bonds"). The Development Authority entered into an agreement (the "Coverdell Loan Agreement") to loan $25,970,000 to UGAREF Coverdell Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "Coverdell Entity"). Payment of principal and interest under the Coverdell Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting a portion of the facility and by the Coverdell Entity's interest in certain rents and leases derived from a portion of the facility. The Coverdell Entity used the proceeds of this loan to fund construction of a portion of the facility, which was completed in 2007.

Borrowings under the Coverdell Loan Agreement bear 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 are due on December 15 starting in 2006 and continuing through 2034. During the year ended June 30, 2009, principal payments of $510,000 were made on the outstanding Series 2004A bonds. The Series 2004B bonds were paid off in 2007.

$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"). The Development Authority entered into an agreement (the "Central Precinct Loan Agreement") to loan $62,475,000 to UGAREF Central Precinct, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "Central Precinct Entity"). Payment of principal and interest under the Central Precinct Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting a parking deck and building addition, and by the Central Precinct Entity's interest in certain rents and leases derived from these facilities. The Central Precinct Entity is using the proceeds of this loan to fund construction of the facilities. The parking deck was placed in service in August 2008 and the building addition was placed in service in May 2009 and both have been reported as a capital lease receivable at June 30, 2009.

Borrowings under the Central Precinct Loan Agreement bear 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 are due on June 15 starting in 2010 and continuing through 2038.

Note 7 – Long-Term Debt (Continued)

$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 "Bonds") and entered into an agreement (the "Loan Agreement") to loan $15,705,000 to UGAREF O'Malley's Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "O'Malley's Entity"). Payment of principal and interest under the Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the medical partnership building 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 is using the proceeds of this loan to fund construction of the facility. The facility is reported as construction in progress at June 30, 2009.

Borrowings under the Loan Agreement bear interest payable semiannually on December 15th and June 15th at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. During the year ended June 30, 2009, the O'Malley's Entity capitalized all interest in connection with the Loan Agreement. Once the project is complete, interest costs will be expensed. Principal payments are due on June 15 starting in 2009 and continuing through 2028. During the year ended June 30, 2009, the O'Malley's Entity made a principal payment of $2,205,000.

$50,000,000 Revolving Credit Agreement — During 2002, the Real Estate Foundation established a $50 million revolving credit agreement with a bank. The agreement expired on November 30, 2007 and was renewed through November 30, 2010. The revolving credit agreement provides for borrowings or letters of credit at the Real Estate Foundation's option. Credit available under the revolving credit agreement is reduced by outstanding borrowings and outstanding letters of credit. At June 30, 2009, amounts outstanding or issued under this agreement included borrowings of $29,133,040 and unused letters of credit and bank reserves of $5,767,285 with $2,130,000 tendered resulting in $12,969,6765 available as borrowing capacity under this line. The letter of credit is used as security for the 2001 Bonds, and the outstanding amount reduces amounts available for borrowing. Borrowings under the revolving credit agreement bear interest at the bank's 30-day London InterBank Offered Rate plus 32.5 basis points (or 0.325%). At June 30, 2009, the rate applicable to the borrowings was 0.645%.

All borrowings under this revolving credit agreement are subject to a guarantee requirement with the Research Foundation as guarantor, except for those borrowings for projects supported by a rental or license agreement with the Board of Regents or the University. As of June 30, 2009, there are no borrowings subject to this guarantee requirement.

During 2006, the Real Estate Foundation entered into an interest rate cap agreement effectively limiting the interest rate on the revolving credit agreement to a 6% fixed rate until December 1, 2010. The Real Estate Foundation paid a premium of $122,000 in connection with this agreement. The fair value of the interest rate cap as of June 30, 2009 was $1,298 and has been recorded as an asset in accordance with SFAS No. 133. The Real Estate Foundation recorded a loss of $24,367 on the fair value of the derivative for the year ended June 30, 2009.

The bonds payable and revolving credit agreement require the Real Estate Foundation to meet certain covenants. At June 30, 2009, the Real Estate Foundation was in compliance with all covenants.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2009

Note 7 – Long-Term Debt (Continued)

Following is a summary as of June 30, 2009 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
2010	$ 4,320,000	$ 9,619,608
2011	4,470,000	9,461,058
2012	4,635,000	9,293,224
2013	4,815,000	9,110,269
2014	6,035,000	10,284,533
2015 -- 2019	34,260,000	47,027,164
2020 -- 2024	43,185,000	37,673,745
2025 -- 2029	53,215,000	25,764,875
2030 -- 2034	66,050,000	11,126,065
2035 -- 2038	14,635,000	1,479,214
Total	$ 235,620,000	$ 170,839,755

Changes in Long-Term Debt for the fiscal year ended June 30, 2009 are shown below:

	Balance at June 30, 2008	Additions	Disposals and Reductions	Balance at June 30, 2009	Current Portion
Revolving Credit Agreement	$ 18,226,887	$ 21,872,159	$ (10,966,006)	$ 29,133,040	$ -
Bonds Payable	232,830,000	15,705,000	(12,915,000)	235,620,000	4,320,000
Net premium (Discount)	(4,652,459)	248,357	320,955	(4,083,147)	-
Total Bonds Payable	$ 228,177,541	$ 15,953,357	$ (12,594,045)	$ 231,536,853	$ 4,320,000
Total Noncurrent Liabilities	$ 246,404,428	$ 37,825,516	$ (23,560,051)	$ 260,669,893	$ 4,320,000

Note 7 – Long-Term Debt (Continued)

A summary of total interest cost and investment income for the year ended June 30, 2009 is as follows:

	Total Interest	Amount Capitalized	Amount Expensed
Interest Cost:			
Interest Expense	$ 9,840,739	$ 1,433,554	$ 8,407,185
Amortization of Premiums, Discounts and Costs of Issuance	553,596	324,363	229,233
Fees	237,716	71,228	166,488
Interest Income	(539,165)	(145,437)	(393,728)
Total Interest Cost	$ 10,092,886	$ 1,683,708	$ 8,409,178

Note 8 – Disclosures about Fair Value of Financial Instruments

Effective July 1, 2008, the Real Estate Foundation adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, for financial assets and liabilities measured at fair value. This statement requires fair value measurements be classified and disclosed in one of the following three categories ("Fair Value Hierarchy"):

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.
Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

Assets Measured at Fair Value on a Recurring Basis:

Description	6/30/2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Trading Securities	$ 840,990	$ 840,990	$ -
Derivative Financial Instruments	49,221	-	49,221
Trading securities	$ 890,211	$ 840,990	$ 49,221

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents – The carrying amount approximates fair value because of the short-term maturity of these instruments.

Derivatives – Interest rate caps are carried at fair value. SunTrust Bank calculates "Mark-To-Market Estimates" by constructing mid-market forward curves with available market data from external and internal sources. Once constructed, the mid-market forward curves generate a nominal amount for each of a transaction's expected future payments. SunTrust Bank discounts those expected future payments at the respective zero rate, and the sum of all discounted payments equals the Mark-To-Market Estimate.

Operating Funds Held by Trustee – Funds held by the trustee are carried at fair value based on quoted market prices for those or similar investments.

Bond Proceeds Restricted for Construction, Debt Service and Reserves – Funds held by the trustee are carried at fair value based on quoted market prices for those or similar investments.

Note 8 – Disclosures about Fair Value of Financial Instruments (Continued)

Bonds Payable – Based on the borrowing rates currently available to the Real Estate Foundation for bonds payable with similar terms and maturities, the fair value of bonds payable was approximately $228,173,119 as of June 30, 2009, compared to the recorded balance of $231,536,853 for the same period.

Revolving Credit Agreement – The carrying amount approximates fair value because the interest rate approximates the current rates at which similar loans could be obtained from lenders for the same remaining maturities.

Other Receivables and Payables – The carrying amount approximates fair value because of the short-term maturity of these instruments. The derivative financial instruments are carried at fair value based upon the net present value of future cash flows attributable to the difference between the contractual variable and fixed rates in the agreement.

Note 9 – Operating Leases

The Real Estate Foundation is a lessee under an operating lease for office space that expired on November 30, 2008, with a base rent of $4,062 per month. This lease was extended on a month-to-month basis through May 2009 at a reduced rate due to a reduction in the square footage utilized by the Real Estate Foundation. Total rent expense for the year ended June 30, 2009 was $38,066.

The Real Estate Foundation is a lessee under an amended multiyear operating lease for University education facilities that expires on January 31, 2015, with escalating rents. For the year ended June 30, 2009, rent expense has been recognized on a straight-line basis in the amount of $729,265 and a straight-line lease liability of $690,337 is included in accrued liabilities as of June 30, 2009.

The Real Estate Foundation is a lessee under an amended multiyear operating lease for University office space that expires on June 30, 2014, with escalating rents. For the year ended June 30, 2009, rent expense has been recognized on a straight-line basis in the amount of $413,007 and a straight-line lease liability of $74,843 is included in accrued liabilities as of June 30, 2009.

The Real Estate Foundation is a lessee under a multiyear operating lease for University education facilities that expires on December 31, 2019, with escalating rents. For the year ended June 30, 2009, rent expense has been recognized on a straight-line basis in the amount of $1,263,584 and a straight-line lease liability of $1,083,469 is included in accrued liabilities as of June 30, 2009.

Note 9 – Operating Leases (Continued)

The following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2009 that have initial or remaining noncancelable lease terms in excess of one year:

Years Ending June 30,		
2010	$	2,361,175
2011		2,438,311
2012		2,499,077
2013		2,560,677
2014		2,624,559
2015 -- 2019		7,038,296
Total	$	19,522,095

Note 10 – Related Party Transactions

The Real Estate Foundation has leased real property to the Board of Regents under both operating and capital leases. The Real Estate Foundation has also subleased space under operating leases to the Board of Regents. Rental income and the receipt of capital lease interest and principal from the Board of Regents totaled $3,169,439, $12,249,946, and $2,288,525, respectively, for the year ended June 30, 2009. As of June 30, 2009, balances receivable under capital leases are $200,916,293, of which $2,366,490 is the current portion. 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.

The lease agreements provide for certain expenses to be reimbursed to the Real Estate Foundation. During the year ended June 30, 2009, the Real Estate Foundation requested reimbursement from the Board of Regents for expenses of $1,841,815. As of June 30, 2009, accounts receivable from related party included reimbursable expenses of $2,383,725.

The Real Estate Foundation has one-year licensing agreements with the Board of Regents to allow the Board of Regents to operate parking lots on the Real Estate Foundation's land in exchange for a fee adjusted at the end of the term to reflect actual costs incurred. Under these licensing agreements, rental income of $396,417 was recorded for the year ended June 30, 2009. As of June 30, 2009, the Real Estate Foundation has accrued an amount payable to the University of $145,788 to reflect revenues in excess of expenses.

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 of the Board of Regents' land. The air rights lease is for a period of up to three 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.

Note 10 – Related Party Transactions (Continued)

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. During the year ended June 30, 2009, the Real Estate Foundation paid $200,000 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis. Effective July 1, 2009, the amount of the annual payment under the administrative services agreement was raised to $245,000 and modified to include provisions for office space, maintenance, utilities and parking to be provided by the University to the Real Estate Foundation.

In April 2008, the Gainesville Campus Entity, the Board of Regents, and the Gainesville Foundation entered into a Memorandum of Understanding to document their collective intent to enter into a series of transactions with the ultimate goal of transferring property recorded as a capital lease receivable in the amount of $6,581,021 in the June 30, 2008 financial statements to the Gainesville Foundation, along with the associated bonds payable. Prior to this transfer, the Gainesville Campus Entity completed construction on an 11,000 square foot student facility in the amount of $1,478,028 on the Gainesville State College campus. This addition was complete in December 2008 and the building and improvements were transferred to the Gainesville Foundation, along with a ground lease for the footprint of land under these facilities and the assumption of all of the Gainesville Campus Entity's obligations under the Series 2003 bonds payable and related remaining restricted bond proceeds of $532,729. The Real Estate Foundation received a $75,000 administrative fee and reimbursement of all costs of the student facility addition, which is included in reimbursed expenses revenue. The land itself was transferred to the Board of Regents.

Note 11 – Commitments and Contingencies

As of June 30, 2009, a letter of credit was outstanding in the amount of $7,897,285. This letter of credit serves as security for the 2001 bonds payable and reduces the amount available for borrowing on the Real Estate Foundation's revolving line of credit.

In 2009, the Board committed to utilize $1,068,333 of the repair and replacement reserves to fund dormitory repairs and replacements.

As of June 30, 2009, the Real Estate Foundation has disputed certain project costs on the Central Precinct project in the amount of $299,541 which management feels are outside the scope of the construction contract. This amount has not been reflected as a liability in these financial statements as a settlement amount cannot reasonably be estimated at this time. The additional amount to be paid by the Real Estate Foundation due to this dispute will range from $0 to $299,541. Sufficient funds are on hand to pay this amount.

On July 15, 2009, new bonds were issued in the amount of $49,875,000 in order to fund construction of a new residence hall. The project is expected to be complete during the year ending June 30, 2011.

Note 11 – Commitments and Contingencies (Continued)

In September 2008, a rental agreement was authorized between the Real Estate Foundation and the Board of Regents to lease a facility currently under construction that will serve as the initial location for the MCG-UGA Medical Partnership. The initial rental period beginning June 12, 2008 through June 30, 2009 in the amount of $2,500,000 was paid in one lump sum on June 1, 2009. The agreement includes nineteen renewal periods with an annual lease payment of $1,291,830 per year. Financing of the construction is currently maintained on the $15,705,000 bond obligation. Ownership of the property and improvements will transfer to the Board of Regents at the end of the renewal terms so this will be treated as a capital lease by the Real Estate Foundation once construction is complete. As of June 30, 2009, all costs related to the project have been capitalized and included in construction in progress. Lease payments received during the year ended June 30, 2009 total $2,610,467 and are included in advance lease payment receipts. Until construction is complete, these lease amounts will not be included in the schedule of lease maturities. The facility was complete on July 1, 2009.

In 2009, the Board approved a maximum of $2,187,500 for the Real Estate Foundation's portion of the joint venture with the University and Athens-Clarke County, Georgia, to build a bridge to provide access to one of the Real Estate Foundation's parcels of land.

In September 2009, the Board approved the issuance of up to $25,000,000 in tax-exempt Educational Facilities Revenue Bonds as permanent financing for two new parking decks. One of the decks has been completed and placed in service as of August 2009, and the other deck is currently under construction and projected to be complete by the year ending June 30, 2010.

In September 2009, the Board approved the issuance of up to $15,000,000 in taxable Housing Authority Revenue Bonds as permanent financing for the relocation of four fraternity houses (collectively known as "Greek Park") under construction as of the year ended June 30, 2009. Greek Park was complete and placed in service in August 2009.

In September 2009, the Board approved $525,000 to expand the classroom space at the Executive Education Center used by the Terry College of Business in Atlanta. All costs to the Real Estate Foundation will be reimbursed by the landlord and the University.

In September 2009, the Board approved the issuance of up to $11,000,000 in tax-exempt Educational Facilities Revenue Bonds in order to refinance the Carlton Street Parking Deck, currently financed under the 2001 Bonds, in order to obtain a fixed interest rate and release the borrowing capacity currently committed as a letter of credit under the Real Estate Foundation's revolving credit agreement. Additional authorization was granted by the Board to amend the rental agreement to reduce the rent charged to the University if needed to retain the tax-exempt status of these bonds.

Note 12 – Defined Contribution Plans

Starting in 2003, 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 Board resolution based on the plan documents. For the year ended June 30, 2009, the employees of the Real Estate Foundation contributed $18,400 to the plan and the Real Estate Foundation incurred employer contributions to the plan for two employees in the amount of $21,830 for same time period.

Report 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*

Board of Directors
University of Georgia Research
Foundation, Inc.
Athens, Georgia

We have audited the financial statements of University of Georgia Research Foundation, Inc. (the "Research Foundation"), a discretely presented component unit of the University of Georgia, as of June 30, 2009, and have issued our report thereon dated [Report Date]. 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Research Foundation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Research Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Research Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Research Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free of 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*.

This report is intended solely for the information and use of the Audit Committee of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Augusta, Georgia
September 25, 2009