UNIVERSITY OF GEORGIA
RESEARCH FOUNDATION, INC.

Financial Statements
for the year ended
June 30, 2010

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Auditors

The Audit Committee of the 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, 2010 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, 2010, 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 September 22, 2010 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 22, 2010

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis

June 30, 2010

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., c/o Controller's office, 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

The Research Foundation is also the sole member of UGARF Media Holdings, LLC ("UMH"). 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, 2010

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, 2010 and one prior. In the following discussion, Fiscal 2010 and Fiscal 2009 refer to the years ended June 30, 2010 and June 30, 2009, respectively.

Financial Highlights

The condensed statements of net assets are shown below:

University of Georgia Research Foundation
Condensed Statements of Net Assets
June 30, 2010 and 2009

	2010	2009	Change	% Change
Assets:				
Current assets	$ 50,688,040	$ 60,882,656	$ (10,194,616)	(17%)
Capital assets, net	376,748	422,830	(46,082)	(11%)
Other noncurrent assets	40,041,128	54,428,172	(14,387,044)	(26%)
Total assets	$ 91,105,916	$ 115,733,658	$ (24,627,742)	(21%)
Liabilities:				
Current liabilities	$ 49,521,232	$ 66,972,359	$ (17,451,127)	(26%)
Total liabilities	49,521,232	66,972,359	(17,451,127)	(26%)
Net assets:				
Invested in capital assets	376,748	422,830	(46,082)	(11%)
Unrestricted	41,207,936	48,338,469	(7,130,533)	(15%)
Total net assets	41,584,684	48,761,299	(7,176,615)	(15%)
Total liabilities and net assets	$ 91,105,916	$ 115,733,658	$ (24,627,742)	(21%)

Current assets decreased by $10,194,616 or 17% from Fiscal 2009 to Fiscal 2010 due to decreases in cash and cash equivalents and accounts receivable related to sponsored research and licensing and royalties revenue. 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 $14,387,044 (26%) decrease in noncurrent assets is attributable to decreases in funds invested.

Current liabilities decreased by $17,451,127 or 26% due to the current year payment of significant prior year accounts payable.

Net assets represent the difference between the Research Foundation's assets and liabilities. Total net assets at June 30, 2010 and 2009 were $41,584,684 and $48,761,299, respectively, which represents a decrease of 15% or $7,176,615. This decrease is attributable primarily to decreases 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, 2010 and 2009

	2010	2009	Change	% Change
Operating revenues	$ 137,825,364	$ 155,601,344	$ (17,775,980)	-11%
Operating expense	147,424,638	150,523,562	(3,098,924)	-2%
Operating income (loss)	(9,599,274)	5,077,782	(14,677,056)	-289%
Nonoperating revenues	2,439,677	(2,665,498)	5,105,175	192%
Equity in net loss of Georgia Ventures Partners, LLC	(17,018)	(156,944)	139,926	89%
Increase (decrease) in net assets	(7,176,615)	2,255,340	(9,431,955)	-418%
Net assets – beginning of year	48,761,299	46,505,959	2,255,340	5%
Net assets – end of year	$ 41,584,684	$ 48,761,299	$ (7,176,615)	-15%

Operating revenues consist primarily of sponsored research, licensing, and royalties. During Fiscal 2010 operating revenues decreased $17,775,980 or 11% primarily due to a significant decrease in licensing and royalties revenue offset by an increase in sponsored research revenue.

Operating expenses decreased by $3,098,924 or 2%, due to decreases in licensing and royalty distributions and management and general expenses.

Nonoperating revenues (expenses) consist of investment income and the change in fair value of investments. Nonoperating revenue of $2,439,677 was recorded for the period ending June 30, 2010, which included $4,538,953 of investment income and a $2,099,276 decrease in the fair value of investments, primarily resulting from continued 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, 2010, the Research Foundation recorded a smaller net loss on this equity investment than was recorded for the prior year.

The condensed statements of cash flows are shown below:

University of Georgia Research Foundation
Condensed Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009	% Change
Cash flows from (used in) operating activities	$ (24,427,450)	$ 11,503,421	(312%)
Cash flows from (used in) investing activities	16,808,115	(4,182,242)	502%
Net increase (decrease) in cash and cash equivalents	(7,619,335)	7,321,179	(204%)
Cash and cash equivalents, beginning of year	18,773,895	11,452,716	64%
Cash and cash equivalents, end of year	$ 11,154,560	$ 18,773,895	(41%)

Cash flows from operations primarily include receipts from research sponsors and licensees, net of disbursements for operations. The net cash flow used in operating activities in Fiscal 2010 reflects decreased receipts of licensing fees and royalties as well as current year disbursement of significant licensing and royalty payments to inventors which were recorded in prior year accounts payable.

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 2010 with a decrease in its net asset position. Nationally, research funding remains competitive, however, sponsored research awards showed a slight upward trend at the University. Due to the expiration of certain patents, the Research Foundation expected 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.

Due to the slow economic recovery in the State of Georgia, the University is expecting budget cuts to continue in Fiscal 2011. Therefore, the Research Foundation's financial support of the University's research mission will continue to be a primary focus. Through financial planning and budgeting, the Research Foundation is able to continue its support of existing and new research initiatives through its unrestricted net assets.

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, 2010

	Research Foundation	Component Units: UMH	Component Units: Real Estate Foundation
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 11,154,560	$ 108,614	$ 18,701,332
Sponsored Research, Licensing, and Royalties Receivable	20,760,035	-	-
Accounts Receivable from University of Georgia	648,460	-	206,889
Trade and Other Receivables, net	-	86,371	28,666
Funds Deposited with the University of Georgia	18,120,768	-	-
Prepaid Expenses and Other Current Assets	4,217	100	231,568
Capital Leases Receivable	-	-	3,416,327
Total Current Assets	$ 50,688,040	$ 195,085	$ 22,584,782
Noncurrent Assets			
Investments	$ 39,141,580	$ -	$ -
Investment in Georgia Venture Partners	790,412	-	-
Investment in GRA Venture Fund	107,822	-	-
Investments Held by Bond Trustee for Debt Service	-	-	206,820
Bond Proceeds	-	-	20,618,617
Operating Funds Held by Trustee	-	-	3,101,549
Capital Leases Interest Receivable	-	-	1,471,469
Capital Leases Receivable	-	-	239,518,454
Capital Assets not being Depreciated			
Land	110,000	162,750	15,724,224
Construction in Progress	-	-	43,129,302
Capital Assets, net of Accumulated Depreciation	266,748	1,205,102	2,388,587
Cost of Bond Issuance, net	-	-	5,508,338
Other Assets	1,314	348,715	-
Total Noncurrent Assets	$ 40,417,876	$ 1,716,567	$ 331,667,360
TOTAL ASSETS	$ 91,105,916	$ 1,911,652	$ 354,252,142

	Research Foundation	Component Units: UMH	Component Units: Real Estate Foundation
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable - University of Georgia	$ 28,698,491	$ 84,325	$ 5,606
Funds Received for Sponsored Research	18,120,768	-	-
Accounts Payable - Other	2,695,698	7,701	17,797
Deferred Revenue	6,275	24,582	-
Accrued Liabilities	-	24,374	765,271
Accrued Project Costs	-	-	4,656,717
Advance Rent Receipts	-	-	391,334
Advance Lease Payment Receipts	-	-	1,531,443
Revolving Credit Agreement	-	-	10,351,189
Bonds Payable	-	-	6,200,000
Total Current Liabilities	$ 49,521,232	$ 140,982	$ 23,919,357
Noncurrent Liabilities			
Lease Rent Liability	$ -	$ -	$ 1,813,124
Bonds Payable	-	-	301,143,868
Total Noncurrent Liabilities	$ -	$ -	$ 302,956,992
TOTAL LIABILITIES	$ 49,521,232	$ 140,982	$ 326,876,349
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 376,748	$ 1,367,852	$ 8,219,691
Restricted	-	-	2,623,064
Unrestricted	41,207,936	402,818	16,533,038
Total Net Assets	$ 41,584,684	$ 1,770,670	$ 27,375,793
TOTAL NET ASSETS AND LIABILITIES	$ 91,105,916	$ 1,911,652	$ 354,252,142

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Revenue, Expenses, and Changes in Net Assets

Year Ended June 30, 2010

	Research Foundation	Component Units: UMH	Component Units: Real Estate Foundation
Operating Revenues			
Sponsored Research	$ 130,625,369	$ -	$ -
Licensing and Royalties	6,672,555	-	-
Other	527,440	-	-
Advertising	-	1,131,611	-
Rental Income	-	-	3,760,106
Capital Lease Interest Income	-	-	17,222,061
Reimbursed Expenses	-	-	604,168
Total Operating Revenues	$ 137,825,364	$ 1,131,611	$ 21,586,335
Operating Expenses			
Research Subcontracted to UGA (including facilities & administrative cost reimbursements)	$ 127,350,423	$ -	$ -
Licensing and Royalty Distributions	4,351,606	-	-
Licenses and Intellectual Property	6,074,702	-	-
Support to the University of Georgia	6,934,928	-	-
Support to UGARF Media Holdings	2,276,462	-	-
Project Expenses	-	-	4,202,053
Management and General	436,517	2,602,391	640,332
Total Operating Expenses	$ 147,424,638	$ 2,602,391	$ 4,842,385
Total Operating Income (Loss)	$ (9,599,274)	$ (1,470,780)	$ 16,743,950
Nonoperating Revenue (Expense)			
Investment Income	$ 4,538,953	$ 77	$ 62,834
Decrease in Fair Value of Investments	(2,099,276)	-	(18,677)
Net Realized and Unrealized Loss on Derivatives	-	-	(27,321)
Loss on Disposal of Assets	-	(228,054)	-
Interest Expense, net	-	-	(10,951,074)
Support from UGA Research Foundation	-	2,276,462	-
Reimbursements to the University of Georgia	-	(719,615)	-
Other	-	4,902	(8,364)
Total Nonoperating Revenue (Expense)	$ 2,439,677	$ 1,333,772	$ (10,942,602)
Equity in Net Loss of Georgia Venture Partners	$ (17,018)	$ -	$ -
CHANGE IN NET ASSETS	$ (7,176,615)	$ (137,008)	$ 5,801,348
Net Assets, Beginning of Year	$ 48,761,299	$ 1,907,678	$ 21,574,445
Net Assets, End of Year	$ 41,584,684	$ 1,770,670	$ 27,375,793

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Cash Flows

Year Ended June 30, 2010

	Research Foundation
Cash flows from operating activities	
Receipts from research sponsors	$ 132,192,890
Receipts of licensing, royalties, and other	9,298,924
Receipts from UGA	6,065,844
Sponsored research payments to UGA	(135,160,623)
Payments for licensing and royalty distributions and other	(25,910,828)
Payments to UGA	(8,222,577)
Payments to UMH	(2,276,462)
Payments to suppliers	(414,618)
Net cash used in operating activities	$ (24,427,450)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	$ 62,011,139
Purchases of investments	(45,095,202)
Investment in GRA Venture Fund	(107,822)
Net cash provided by investing activities	$ 16,808,115
Net decrease in cash and cash equivalents	$ (7,619,335)
Cash and cash equivalents	
Beginning of year	18,773,895
End of year	$ 11,154,560
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (9,599,274)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	46,082
Changes in assets and liabilities	
Accounts receivable	3,981,522
Prepaid expenses	116,276
Other assets	1,586
Accounts payable, University of Georgia	1,574,322
Accounts payable, other	(20,232,893)
Deferred revenues	(315,071)
Net cash used in operating activities	$ (24,427,450)
Schedule of noncash investing activity	
Decrease in fair value of investments	$ (2,099,276)
Investment income, reinvested	4,538,952
Equity in net loss of Georgia Venture Partners, LLC	(17,018)

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements

Year Ended June 30, 2010

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 Revenues, Expenses, and Changes in Net Assets of the Real Estate Foundation and UMH are reported discretely in the Research Foundation's financial statements for fiscal year 2010 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., c/o Controller's Office, 324 Business Services Building, 456 E. Broad 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. Other investments, consisting of an interest in a limited liability company for which the Research Foundation does not have significant ownership or control, are carried at the lower of cost or fair value.

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 statement 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. The Research Foundation has evaluated the effect of generally accepted accounting principles on Accounting for Uncertainty in Income Taxes that became effective this year. Management believes that the Research Foundation continues to satisfy the requirements of a tax-exempt organization at June 30, 2010. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Research Foundation had no uncertain income tax positions at June 30, 2010.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 – Deposits and investments

A. Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Research Foundation's deposits may not be recovered. The Research Foundation does not have a deposit policy for custodial credit risk.

At June 30, 2010, the book value of the Research Foundation's deposits, including demand accounts and cash and cash equivalents held in managed investment accounts, was $11,154,560. The bank and investment account balances at June 30, 2010 were $11,167,096 of which $11,142,087 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, $10,012,000 were collateralized with securities held by the financial institution, by its trust department or agency, but not in the Research Foundation's name, and $1,130,087 were uncollateralized.

Note 3 – Deposits and investments (Continued)

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, 2010 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	$ 11,118,238	$ 3,914,269	$ 6,817,977	$ 287,012	$ 98,980
U.S. Agencies					
Implicitly Guaranteed	4,999,008	622,664	4,376,344	-	-
Corporate Debt	8,255,892	619,049	6,845,343	668,846	122,654
	$ 24,373,138	5,155,982	$ 18,039,664	$ 955,858	$ 221,634
Other Investments					
Equity Mutual Funds - Domestic	$ 3,818,377				
Equity Mutual Funds - International	1,772,724				
Equity Mutual Funds - Global	1,813,409				
Equity Securities - Domestic	2,778,481				
Equity Securities - International	858,132				
Managed Futures/Hedge Funds	3,727,319				
Total investments	$ 39,141,580				

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, 2010, $28,009,751 of the Research Foundation's applicable investments were uninsured and held by the investment's counterparty in the Research Foundation's name.

Note 3 – Deposits and investments (Continued)

B. Investments (Continued)

Credit quality risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The 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.

The Research Foundation's investments at June 30, 2010 are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

		Rated Debt Investments		
	Fair Value	U.S. Agencies	Corporate Debt	Mutual Funds
Quality Ratings				
Moody's				
Aaa	$ 6,899,813	$ 4,999,008	$ 1,900,805	$ -
Aa2	377,575	-	377,575	-
Aa3	518,070	-	518,070	-
A1	1,867,131	-	1,867,131	-
A2	2,296,407	-	2,296,407	-
A3	1,113,023	-	1,113,023	-
Baa1	39,027	-	39,027	-
Baa2	143,854	-	143,854	-
Morningstar				
5-Star	5,276,494	-	-	5,276,494
4-Star	1,633,580	-	-	1,633,580
3-Star	494,436	-	-	494,436
	$ 20,659,410	$ 4,999,008	$ 8,255,892	$ 7,404,510
Exempt investments				
U. S. Treasuries	$ 11,118,238			
Equity Securities - Domestic	2,778,481			
Equity Securities - International	858,132			
Managed Futures/Hedge Funds	3,727,319			
	$ 39,141,580			

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, 2010, investments in a single issuer where those investments exceed 5% of total investments were as follows:

United States Treasuries	28%
Federal Home Loan Mortgage Corporation	6%

Foreign currency risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Research Foundation's 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	$	39,141,580
Total investments at fair market value	$	39,141,580

Changes in investments for the year ended June 30, 2010 consisted of:

Fair value – July 1, 2009	$	53,617,841
Purchase of investments		45,095,202
Sales of investments		(62,011,139)
Net interest earned and reinvested		4,538,952
Change in fair value		(2,099,276)
Fair value – June 30, 2010	$	39,141,580

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, 2010:

	Amount	Ownership Percent
Georgia Venture Partners, LLC – capital contribution	$ 1,000,000	28.34%
Equity in cumulative net losses	(209,588)	
	$ 790,412	

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, 2010 were for December 31, 2009.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2010

Note 4 – Investments (Continued)

C. Investments – Cost Method

During 2009, the Research Foundation made a commitment to invest $1,000,000 in GRA Venture Fund (T. E.), LLC, (the "Fund"). The Fund was created by Georgia legislature whereby State funds and funds from profit and not-for-profit entities will be combined to provide seed and early stage venture financing for businesses formed around intellectual property resulting from Georgia Research Alliance universities. During fiscal year 2010, the Fund requested contributions of $107,822 from the Research Foundation.

A fair value is not estimated for the investment in the Fund but is evaluated for any impairment or permanent decline in value. At June 30, 2010, the Fund had not experienced any operating losses or changes to indicate a decline in the value of its investments, therefore, the contributions by the Research Foundation are shown at cost.

GRA Venture Fund (T. E.), LLC – capital contribution, at cost	$ 107,822

Note 5 – Fair value measurement of assets and liabilities

The Research Foundation has adopted the provisions of FASB ASC 820, *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	Total
Equity Securities	$ 3,264,265	$ 372,348	$ -	$ 3,636,613
Bonds	-	24,373,138	-	24,373,138
Mutual Funds	-	7,404,510	-	7,404,510
Managed Futures/ Hedge Funds	-	3,538,040	189,279	3,727,319
	$ 3,264,265	$ 35,688,036	$ 189,279	$ 39,141,580

Note 5 – Fair value measurement of assets and liabilities (continued)

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	$	725,527
Decrease in fair value included in changes in net assets		26,539
Purchases, sales, issuances, and settlements (net)		(562,787)
	$	189,279

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, 2010.

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

For assets comprised of investments in entities that calculate net asset value per share or unit, FASB ASC 820, *Fair Value Measurements*, also requires disclosure by categories of like investments of information that could affect the risk that investments cannot be redeemed for the net asset value per share or unit.

The Research Foundation assets in entities that calculate net asset value per share or unit are as follows:

Category		Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Managed Futures (A)	$	1,254,180	Monthly	10 days
Multi-Strategy Hedge Funds (B)		2,283,860	Quarterly	65 days
Multi-Strategy Hedge Funds (C)		189,279	none	N/A
Total	$	3,727,319		

There were no unfunded commitments related to the investments above that calculate net asset value as of June 30, 2010.

Category A – Managed Futures. This category includes investments in diversified hedge funds investing in international equity and global debt securities as well as currencies and commodities. Allocation strategy primarily is based on trend analysis including identification of emerging trends.

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

Note 5 – Fair value measurement of assets and liabilities (continued)

Category C – Multi-Strategy Hedge Funds. This category includes investments of the same type as Category B but consists of investments currently in the process of being liquidated. Redemption payments are made as liquidation of the underlying funds and investments allow. Therefore, no specific redemption date is available.

Note 6 – Facilities and administrative cost revenue

The Research Foundation receives reimbursement from research sponsors for facilities and administrative (F&A) cost incurred. Of the total received, 78% is remitted to the University for reimbursement of (F&A) cost incurred by the University. Additionally, the Research Foundation remitted $2,790,898 for the year ended June 30, 2010 to various departments of the University for (F&A) cost they incurred in the support of research.

Note 7 – Summary of sponsored research activity

The activity for sponsored research awarded to the Research Foundation is summarized for the year ended June 30, 2010 as follows:

Sponsored research awarded but not recognized – beginning of year	$	208,879,993
Sponsored research awarded during the year (including facilities and administrative cost reimbursements)		158,271,925
Sponsored research recognized during the year (including facilities and administrative cost reimbursements)		(130,625,369)
	$	236,526,549

The total number of sponsored research awards was 1,105 for the year ended June 30, 2010.

Note 8 – Capital assets

Capital assets consisted of the following:

	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
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	(829,477)	(46,082)	-	(875,559)
Total capital assets being depreciated, net	312,830	(46,082)	-	266,748
Capital assets – net	$ 422,830	$ (46,082)	$ -	$ 376,748

Note 9 – 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, 2010 was $75,300. The library storage facility is being depreciated over 25 years.

Note 10 – Significant funding sources

For the fiscal year ended June 30, 2010, approximately $99,300,000 (90%) 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 11 – 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 2010 is $149,198 resulting in a total commitment for fiscal year 2011, the final fiscal year, of $249,198.

The Research Foundation has an ongoing commitment to fund a portion of the Coverdell Center lease repayment. The commitment increased from $701,828 in fiscal year 2010 to $814,378 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 $159,261 is committed for fiscal 2011.

In fiscal year 2009 $100,000 per year for three years was committed for faculty research seed grants in BioEnergy. For fiscal year 2011, $127,602 is committed to the program.

Commitments totaling $509,565 annually exist to support general operating costs in the Research Computing Center, Coverdell, and Riverbend buildings and to provide access dues to research computing resources and support for the Animal Health Research Center.

A fiscal year 2010 commitment to provide $750,000 in matching funds on anticipated allocations provided by the Georgia Research Alliance to establish an eminent scholar was delayed until fiscal year 2011.

The Georgia legislature passed legislation establishing the GRA Venture Fund, LLC. The fund provides seed and early stage venture financing for businesses formed around intellectual property resulting from GRA universities. The Research Foundation committed a total of $1,000,000 at $200,000 per year for five years beginning in fiscal year 2009. During fiscal year 2010 $107,822 was requested and transferred to the GRA Venture Fund, LLC.

The Research Foundation committed support to UGARF Media Holdings, LLC in fiscal year 2011 of $522,606. This amount will support WNEG operation costs.

Note 11 – 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, 2010, current borrowings are all under rental agreements with the University so the Research Foundation's guarantee is not applicable. The Real Estate Foundation's revolving line of credit expires on November 30, 2010. In September 2010, the Real Estate Foundation received proposals from banks for a replacement line of credit that would go into effect upon the expiration of the current line of credit. After reviewing the proposals, the Board voted to renew the revolving line of credit with the current provider in the amount of $50,000,000 for a five year period beginning December 1, 2010.

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.

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.

Note 12 – Subsequent events

The Research Foundation has evaluated subsequent events through September 22, 2010, which was the date the financial statements were available to be issued. As of this date, there were no material subsequent events requiring adjustment to or disclosure in the financial statements for the year ended June 30, 2010.

UGARF MEDIA HOLDINGS, LLC

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 January 2010, the WNEG-TV broadcasting studio relocated 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.

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").

Reporting Entity – In accordance with the criteria in SGAS No. 39, *Determining Whether Certain Organizations Are Component Units*, 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 2010.

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, 2010 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, 2010, UMH's net assets are comprised of $402,818 in unrestricted net assets and $1,367,852 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 the UMH receives the revenue for. A formula is used in determining the value of these transactions.

The revenue and expense occur simultaneously at the time that the program is aired. For the year ended June 30, 2010, UMH recognized barter income and expense of $413,846.

Trade revenue and expense occurs when a customer/vendor enters into an agreement to purchase advertising spots and in exchange UMH gets 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. For the year ended June 30, 2010, UMH recognized trade income and expense of $4,028.

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 2010 no provision for income taxes has been recorded. UMH has evaluated the effect of generally accepted accounting principles on Accounting for Uncertainty in Income Taxes that became effective this year. Management believes that UMH continues to satisfy the requirements of a tax-exempt organization at June 30, 2010. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined UMH had no uncertain income tax positions at June 30, 2010.

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 $89,568 at June 30, 2010 and an allowance for doubtful accounts of $3,197.

Note 4 – Capital Assets

Capital assets consisted of the following:

	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Capital assets not being depreciated				
Land	$ 162,750	$ -	$ -	$ 162,750
Capital assets being depreciated				
Furniture and equipment	1,374,443	221,182	(307,520)	1,288,105
Less: accumulated depreciation	(148,094)	(210,027)	75,023	(283,098)
Building and improvements	209,250	-	-	209,250
Less: accumulated depreciation	(3,923)	(5,232)	-	(9,155)
Total capital assets being depreciated, net	1,431,676	5,923	(232,497)	1,205,102
Capital assets – net	$ 1,594,426	$ 5,923	$ (232,497)	$ 1,367,852

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 2010 UMH paid $1,299,713 to UGA under the terms of that agreement.

For the fiscal year ended June 30, 2010, $2,276,462 (68%) 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, 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 $4,175 for this lease in fiscal 2010. Anticipated lease payments until June 30, 2013 are $3,610 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 – Intangible Assets

In October 2008, UMH purchased the assets of WNEG-TV, owned by Media General Operations, Inc. (MG). In accordance with the Asset Purchase Agreement, UMH acquired an FCC license with an estimated fair value of $348,715, which is included in other assets as of June 30, 2010. Since the FCC license is considered to have an indefinite life, generally accepted accounting principles do not allow amortization. However, intangible assets with indefinite lives are subject to an annual impairment test. As of June 30, 2010, there was no impairment of the FCC license.

Note 9 – Subsequent Events

UMH has evaluated subsequent events through September 22, 2010, which was the date the financial statements were available to be issued. As of this date, there were no material subsequent events requiring adjustment to or disclosure in the financial statements for the year ended June 30, 2010.

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.

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.

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 Real Estate 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 Real Estate Foundation to present a Management's Discussion and Analysis ("MD&A"). The MD&A is considered to be required supplemental information and precedes the financial statements.

Reporting entity – In accordance with the criteria in SGAS No. 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.

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

UGA Real Estate Foundation, Inc.
c/o Controller's Office
324 Business Services Building
456 E. Broad Street
Athens, GA 30602

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. In addition, 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, unless those pronouncements 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, 2010, the cash amounts include $3,695,614, reserved for debt service, $1,508,502, reserved for future repairs and replacement of real property, $1,909,643, reserved for project costs, and $400,000, reserved for general operations.

Operating funds held by trustee — Rent receipts of certain real estate projects, interest earned on certain trustee held funds, and amounts transferred in from cash accounts are held by an independent trustee for the purpose of paying operating expenses and funding reserves for future obligations. Investments made by the trustee in accordance with the trust indenture are carried at market value and are included in investments on the Statement of Net Assets for June 30, 2010. As of June 30, 2010, the operating funds held by trustee include $647,451, reserved for debt service, $1,749,670, reserved for future repairs and replacement of real property, and $225,943, reserved for operating costs. Of these reserves, $2,623,064, are reported as restricted net assets on the Statement of Net Assets for June 30, 2010.

Bond proceeds restricted for construction, debt service, and reserves — Proceeds from bond issuances are held by an independent trustee and are restricted for the purpose of funding construction costs, interest, administrative fees, debt service reserves, and costs of issuance associated with the bond offerings. Investments made by the trustee in accordance with the trust indenture are carried at market value and are included in investments on the Statement of Net Assets for June 30, 2010. As of June 30, 2010, the proceeds from bond issuances include $8,807,930, restricted for debt service and $11,810,687, restricted for construction.

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. The Board of Trustees of the Real Estate Foundation has designated certain investment balances to fund future obligations. As of June 30, 2010, investments with a market value of $206,820, were held by trustees as investments reserved for debt service.

Note 2 – Summary of significant accounting policies (Continued)

Capital leases receivable —The Real Estate Foundation enters into lease contracts of real property as a lessor. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or capital leases according to their economic substance. When making such an assessment, the Real Estate Foundation focuses on the following aspects: a) transfer of ownership of the asset to the lessee at the end of the lease term; b) existence of a bargain purchase option held by the lessee; c) whether the lease term is for the major part of the economic life of the asset; d) whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease term; and e) whether the asset is of a specialized nature that only the lessee can use without major modifications being made. If one or more of the conditions are met, the lease is generally classified as a capital lease. The initial recording of the capital lease receivable is made on the day the real property is placed in service, with a corresponding entry to remove the capital asset using the lesser of the net present value of the lease payments or the fair value of the leased property. Capital leases are amortized over the term of the lease using the effective interest rate – the implicit rate that exactly discounts estimated future cash receipts through the expected life of the lease. Lease payments are allocated between the principal component and the interest expense. Capital leases receivable consist of capital lease payments due for real property owned by the University. Collectability of these lease payments is reasonably assured and no allowance for uncollectible amounts has been established.

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

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

Real property includes buildings and improvements stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of the estimated useful life of the related asset of 10 to 30 years or the remaining term on the related ground or air rights leases.

Land 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 transferred to a lessee as part of a capital lease agreement.

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, capitalized during construction, 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. Interest related to projects financed by taxable borrowings does not include a reduction for interest earned on the temporary investment of the proceeds of those borrowings. At the time the qualifying assets are placed in service, amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets.

If a project is determined to be placed in service under a capital lease agreement, the asset, including capitalized interest, is transferred to a lessee under a capital lease agreement. For the year ended June 30, 2010, capitalized interest, net of interest earned on tax-exempt borrowings, amounted to $2,332,437. None of this capitalized interest is being amortized as of the year ended June 30, 2010.

Note 2 – Summary of significant accounting policies (Continued)

Derivative financial instruments – In accordance with SGAS No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Real Estate Foundation is required to present certain information addressing the recognition, measurement, and disclosure regarding derivative instruments entered into in order to hedge a portion of its current and future borrowings for the purpose of managing interest rate risk. In accordance with accounting principles generally accepted in the United States of America, 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 and taxable bond financing as a liability upon issuance. Bond proceeds consist of the par value of the bonds issued plus premiums or minus discounts. Bond premiums and discounts are amortized to interest expense using the effective interest method.

Deferred gains and losses on bond refunding are treated as an offset to the related bond liability and are amortized to interest expense using the straight-line method.

Net assets – As of June 30, 2010, the Real Estate Foundation's net assets are comprised of $16,533,038 in unrestricted net assets, $2,623,064 in restricted net assets, and $8,219,691 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, operating costs, and repair and replacement reserves.

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 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. Interest and financing costs are reported as nonoperating expenses. Operating expenses are all expenses incurred to maintain and lease real property other than financing costs.

Income taxes – The Real Estate Foundation is exempt from federal income taxes under Section 501(c)(3) of the 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 has evaluated the effect of accounting principles generally accepted in the United States of America on Accounting for Uncertainty in Income Taxes that became effective during the year ended June 30, 2010. The Real Estate Foundation currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. Management believes that the Real Estate Foundation continues to satisfy the requirements of a tax-exempt organization at June 30, 2010. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Real Estate Foundation had no uncertain income tax positions at June 30, 2010.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Year Ended June 30, 2010

Note 2 – Summary of significant accounting policies (Continued)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 – Deposits and investments

A. Deposits

At June 30, 2010, 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, short-term money market funds invested in corporate money market securities, and repurchase agreements backed by short-term United States Treasuries was $42,586,757.

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

The Real Estate Foundation's deposits as of June 30, 2010 are presented below by category of risk:

Deposits	FDIC Insured	Collateralized by U.S. Securities	Uninsured or Uncollateralized	Total
Checking accounts	$ 250,000	$ -	$ 1,326,102	$ 1,576,102
Federated prime value obligations Short-term money market fund	-	-	3,471,735	3,471,735
Repurchase agreements	-	13,826,408	-	13,826,408
Repurchase agreements held by trustees	-	7,842,643	-	7,842,643
Funds held by bond trustees	-	125,001	15,744,868	15,869,869
Total deposits	$ 250,000	$ 21,794,052	$ 20,542,705	$ 42,586,757

For the year ended June 30, 2010, $21,669,051 of the amount collateralized with U.S. Securities was held by the financial institution's trust department or agent in the Real Estate Foundation's name, and $125,001 was held by the financial institution's trust department or agent, but not in the Real Estate Foundation's name.

In October and November 2008, the Federal Deposit Insurance Corporation (FDIC) temporarily increased coverage to $250,000 for substantially all depository accounts. The increased coverage is scheduled to expire on December 31, 2013, at which time it is anticipated that amounts insured by the FDIC will return to $100,000.

Note 3 – Deposits and investments (Continued)

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, 2010 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

		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	$ 206,820	$ 206,820	$ -	$ -	$ -
Total investments	$ 206,820	$ 206,820	$ -	$ -	$ -

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.

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, 2010, the Real Estate Foundation's investments decreased by $8,364 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 $266,689 as of June 30, 2010.

Investments at fair market value

Investments held by trustee at quoted market prices	$ 206,820
Total investments at fair market value	$ 206,820

Note 4 – Investments

Changes in investments for the year ended June 30, 2010 consisted of:

Fair value – Beginning of year	$	840,990
Purchase of investments		7,516,202
Sales and maturities of investments		(8,175,978)
Realized gain (investment income)		44,283
Chance in fair value		(18,677)
Fair value – End of year	$	206,820

Note 5 – Derivative financial instruments

During 2008, the Real Estate Foundation entered into an interest rate cap agreement to limit the interest rate on the variable rate 2001 Bonds 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 Real Estate Foundation recorded a loss of $47,923 on the fair value of this derivative for the year ended June 30, 2010. On December 14, 2009, this derivative instrument was terminated and the proceeds of $21,900 have been included in realized and unrealized gains and losses on derivatives in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2010.

During 2006, the Real Estate Foundation entered into an interest rate cap agreement to limit the interest rate on the variable rate 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, 2010 was $0, and has been recorded as an asset in accordance with accounting principles generally accepted in the United States of America. The Real Estate Foundation recorded a loss of $1,298 on the fair value of the derivative for the year ended June 30, 2010.

The Real Estate Foundation's derivatives as of June 30, 2010 are presented below:

Business Type	Changes in Fair Value			Effective	Maturity			
Activities	Classification		Amount	Date	Date	Terms		Notional
Cash flow hedges:								
Rate cap on line of credit	Nonoperating Revenue	$	(1,298)	3/10/2006	12/1/2010	Index: LIBOR 1M+32.5 BP Strike rate 6.0%	$	12,005,438
Rate cap on 2001 bonds	Nonoperating revenue	$	(26,023)	1/31/2008	12/14/2009	Index: SIFMA 1W; Strike rate 4.0%	$	-

Note 5 – Derivative financial instruments (Continued)

All of the Real Estate Foundation's derivatives are treated as investment derivatives since they do not substantially offset changes in cash flows or fair values for the year ended June 30, 2010. There are no cumulative deferred inflows or outflows related to these derivative instruments.

Credit risk
Credit risk is the risk that a counterparty to a derivative instrument will not fulfill its obligations. The Real Estate Foundation does not have a formal policy for managing credit risk for derivatives.

Interest rate risk
Interest rate risk is the risk that changes in interest rates could reduce the value of the derivative instrument. The Real Estate Foundation is exposed to interest rate risk on its interest rate caps. As rates decrease, the value of the derivative decreases.

Termination risk
During the year ended June 30, 2010, the Real Estate Foundation terminated its interest rate cap scheduled to mature in December 2012. A gain of $21,900 was realized upon termination. The Real Estate Foundation is not exposed to termination risk on its derivative instruments.

Rollover risk
The Real Estate Foundation is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Real Estate Foundation will be re-exposed to the risks being hedged by the hedging derivative instrument. After the derivative matures, the Real Estate Foundation would no longer be protected against rising interest rates and may not be able to enter into a new derivative with similar terms.

Note 6 – Capital 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, 2010, net capital leases receivable were $242,934,781. These amounts include future minimum lease payments to be received of $504,003,746 and unearned interest income of $261,068,965 as of June 30, 2010.

As of June 30, 2010, lease payments are receivable as follows:

2011	$	18,377,308
2012		18,376,308
2013		18,374,445
2014		20,813,441
2015		20,803,777
2016 – 2020		103,853,224
2021 – 2025		103,476,389
2026 – 2030		100,351,725
2031 – 2035		78,879,385
2036 – 2040		20,697,744
Total payments to be received		504,003,746
Less amounts representing interest		(261,068,965)
Total leases receivable		242,934,781
Less current portion		(3,416,327)
Noncurrent leases receivable	$	239,518,454

Note 7 – Capital assets

Capital assets consisted of the following at June 30, 2010:

	Balance at July 1,2009	Additions	Disposals and Reclasses	Balances at June 30, 2010
Capital assets not being depreciated				
Land	$ 20,424,224	$ -	$ (4,700,000)	$ 15,724,224
Construction in progress	34,047,860	52,257,173	(43,175,731)	43,129,302
Total capital assets not being depreciated	54,472,084	52,257,173	(47,875,731)	58,853,526
Capital assets being depreciated				
Furniture and equipment	188,339	9,053	-	197,392
Less: Accumulated depreciation	(174,694)	(10,964)	-	(185,658)
Buildings and improvements	2,927,891	14,968	(15,578)	2,927,281
Less: Accumulated depreciation	(448,241)	(103,337)	1,150	(550,428)
Total capital assets being depreciated, net	2,493,295	(90,280)	(14,428)	2,388,587
Capital assets - net	$ 56,965,379	$ 52,166,893	$ (47,890,159)	$ 61,242,113

Note 8 – 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 (0.45% at November 16, 2009, and 2.50% at June 30, 2009). During the year ended June 30, 2010, the Real Estate Foundation expensed all interest costs in connection with the 2001 Loan Agreement. On November 17, 2009, a final principal payment in the amount of $7,795,000 was made using borrowings on the revolving line of credit to fully satisfy the 2001 Bonds debt.

Note 8 – Long-term debt (Continued)

$7,960,000 Bond Issue — In 2009, the Development Authority issued Educational Facilities Revenue Refunding Bonds (UGAREF Carlton Street Parking Deck, LLC Project), Series 2009 (the “Carlton Street Bonds”) and entered into an agreement (the “Carlton Street Loan Agreement”) to loan $7,960,000 to UGAREF Carlton Street Parking Deck, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Carlton Street Entity”). Payment of principal and interest under the Carlton Street Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting a parking facility and by the Carlton Street Entity’s interest in certain rents and leases derived from the facility. The Carlton Street Entity used the proceeds of this loan to repay the revolving line of credit which had been used to refund the 2001 Bonds related to this project.

Borrowings under the Carlton Street Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3.0% to 4.5% depending on the schedule of bond maturities. During the year ended June 30, 2010, the Real Estate Foundation expensed all interest costs in connection with the Carlton Street Loan Agreement. Principal payments are due on June 15 starting in 2010 and continuing through 2031. During the year ended June 30, 2010, a principal payment of $245,000 was made.

$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. During the years ended June 30, 2010 and 2009, the Real Estate Foundation expensed all interest costs in connection with the CCRC Loan Agreement. Principal payments are due on December 15 starting in 2004 and continuing through 2032. During the year ended June 30, 2010, principal payments of $850,000, were made.

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

Borrowings under the 2002 Housing 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. During the year ended June 30, 2010, the Real Estate Foundation expensed all interest costs in connection with the 2002 Housing Loan Agreement. Principal payments are due on December 1st starting in 2005 and continuing through 2033. During the year ended June 30, 2010, principal payments of $2,060,000 were made.

Note 8 – Long-term debt (Continued)

$34,090,000 Bond Issue — On March 1, 2010, the Housing Authority issued $34,090,000 in Student Housing Lease Revenue Bonds (UGAREF East Campus Housing, LLC Project), Series 2010 (the "2010 Housing Bonds") with interest rates ranging from 2.5% to 5.0% and entered into an agreement (the "2010 Housing Loan Agreement") with the Housing Entity to advance refund $32,265,000 of outstanding 2002 Housing Bonds with interest rates ranging from 4.0% to 5.25%.

The net proceeds of $35,626,248, including $125,000 segregated for future debt service reserves (after payment of $476,550 in underwriting fees and other issuance costs), plus an additional $413,000 of 2002 Series debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 2002 Housing Bonds. As a result, $32,265,000 of outstanding 2002 Housing Bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets for the year ended June 30, 2010.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $3,430,768. This difference, reported in the statement of net assets as a deduction from bonds payable, is being charged to operations as interest expense through December 1, 2023 using the straight-line method. The Housing Entity completed the advance refunding to reduce its total debt service payments over the next 13 years by $1,394,854 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,005,456 at an effective interest rate of 3.60%.

Borrowings under the Loan Agreement bear interest payable semiannually on December 1 and June 1. During the year ended June 30, 2010, the Real Estate Foundation expensed all interest costs in connection with the 2010 Housing Loan Agreement. Principal payments are due on December 1 starting in 2010 and continuing through 2023. During the year ended June 30, 2010, a principal payment of $125,000 was made.

$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 December 2005.

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. During the year ended June 30, 2010, the Real Estate Foundation expensed all interest costs in connection with the Coverdell Loan Agreement. Principal payments are due on December 15 starting in 2006 and continuing through 2034. During the year ended June 30, 2010, principal payments of $525,000, were made on the outstanding Series 2004A bonds. The Series 2004B bonds were paid in full in 2007.

Note 8 – Long-term debt (Continued)

$62,475,000 Bond Issue — In 2008, the Development Authority issued $35,055,000 of Educational Facilities Current Interest Revenue Bonds (UGAREF Central Precinct, LLC Project), and $27,420,000 of Educational Facilities Convertible Revenue Bonds (UGAREF Central Precinct, LLC Project) (collectively, the "Central Precinct Bonds") and entered into an agreement (the "Central Precinct Loan Agreement") to loan $62,475,000 to 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 used 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.

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. All interest costs were expensed during the year ended June 30, 2010. Principal payments are due on June 15 starting in 2010 and continuing through 2038. During the year ended June 30, 2010, a principal payment of $385,000 was made.

$15,705,000 Bond Issue — In 2009, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF O'Malley's Building, LLC Project), Series 2009 (the "O'Malley's Bonds") and entered into an agreement (the "O'Malley's Loan Agreement") to loan $15,705,000 to 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 O'Malley's 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 project was placed in service in July 2009 and is reported as a capital lease receivable at June 30, 2010.

Borrowings under the O'Malley's Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. During the year ended June 30, 2009, the O'Malley's Entity capitalized all interest costs in connection with the O'Malley's Loan Agreement. During the year ended June 30, 2010, the O'Malley's Entity capitalized $21 and expensed $563,637 for interest costs. Principal payments are due on June 15 starting in 2009 and continuing through 2028. During the year ended June 30, 2010, principal payments of $500,000 were made.

$12,505,000 Bond Issue — In 2009, the Housing Authority issued Taxable Revenue Bonds (UGAREF Fraternity Row, LLC Project), Taxable Series 2009 (the "Fraternity Row Bonds") and entered into an agreement (the "Fraternity Row Loan Agreement") to loan $12,505,000 to UGAREF Fraternity Row, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "Fraternity Row Entity"). Payment of principal and interest under the Fraternity Row Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting four fraternity houses, and by the Fraternity Row Entity's interest in certain rents and leases derived from these houses. The Fraternity Row Entity used the proceeds of this loan to fund construction of the houses. The project was placed in service August 2009 and is reported under capital leases receivable at June 30, 2010.

Borrowings under the Fraternity Row Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 1.25% to 6.30% depending on the schedule of bond maturities. During the year ended June 30, 2010, the Fraternity Row Entity capitalized $5,751 and expensed $417,302 for interest costs. Principal payments are due on June 15 starting in 2010 and continuing through 2039. During the year ended June 30, 2010, a principal payment of $120,000 was made.

Note 8 – Long-term debt (Continued)

$17,655,000 Bond Issue — In 2009, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF PAC Parking Deck, LLC Project), Series 2009 (the “PAC Bonds”) and entered into an agreement (the “PAC Loan Agreement”) to loan $17,655,000 to UGAREF PAC Parking Deck, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “PAC Entity”). Payment of principal and interest under the PAC Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting two parking decks, and by the PAC Entity’s interest in certain rents and leases derived from these decks. The PAC Entity used the proceeds of this loan to fund construction of the decks. The Intramural Field parking deck was placed in service August 2009 and the Performing Arts Center parking deck was placed in service November 2009. Both projects are reported under capital leases receivable at June 30, 2010.

Borrowings under the PAC Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. During the year ended June 30, 2010, the PAC Entity capitalized $22,734 and expensed $457,067 for interest costs. Principal payments are due on June 15 starting in 2010 and continuing through 2039. During the year ended June 30, 2010, a principal payment of $320,000 was made.

$49,875,000 Bond Issue — In 2009, the Housing Authority issued Revenue Bonds (UGAREF East Campus Housing Phase II, LLC Project), Series 2009 (the “Housing Phase II Bonds”) and entered into an agreement (the “Housing Phase II Loan Agreement”) to loan $49,875,000 to UGAREF East Campus Housing Phase II, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Housing Phase II”). Payment of principal and interest under the Housing Phase II Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting a residence hall, and by the Housing Phase II Entity’s interest in certain rents and leases derived from this facility. The Housing Phase II Entity is using the proceeds of this loan to fund construction of the residence hall. The facility is reported as construction in progress at June 30, 2010.

Borrowings under the Housing Phase II Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 4.00% to 5.25% depending on the schedule of bond maturities. During the year ended June 30, 2010, the Housing Phase II Entity capitalized all interest in connection with the Housing Phase II Loan Agreement. Principal payments are due on June 15 starting in 2011 and continuing through 2040.

$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, 2010, amounts outstanding or issued under this agreement included borrowings of $10,351,189, and unused letters of credit and bank reserves of $0 (with $2,130,000 tendered), resulting in $39,648,811 available as borrowing capacity under this line. The letters of credit were used as security for the 2001 Bonds, and the outstanding amount reduced amounts available for borrowing. In November, 2009, the 2001 Bonds were repaid using the revolving credit agreement, and were subsequently refinanced with the Carlton Street Bonds. 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, 2010, the rate applicable to the borrowings was 0.678%.

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, 2010, there are no borrowings subject to this guarantee requirement.

The bonds payable and revolving credit agreement require the Real Estate Foundation to meet certain covenants. At June 30, 2010 the Real Estate Foundation was in compliance with all covenants.

Note 8 – Long-term debt (Continued)

Following is a summary as of June 30, 2010 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
2011	$ 6,200,000	$ 13,147,778
2012	6,480,000	12,921,769
2013	6,725,000	12,676,826
2014	8,010,000	13,786,243
2015	8,320,000	13,456,649
2016 – 2020	47,020,000	61,590,770
2021 – 2025	58,260,000	50,062,184
2026 – 2030	70,825,000	34,737,970
2031 – 2035	70,150,000	16,269,757
2036 – 2040	30,650,000	3,961,665
Total	$ 312,640,000	$ 232,611,611

Changes in long-term debt for the fiscal year ended June 30, 2010 are shown below:

	Balance at July 1,2009	Additions	Disposals and Reclasses	Balance at June 30, 2010	Current Portion
Revolving credit agreement	$ 29,133,040	$ 17,220,062	$ (36,001,913)	$ 10,351,189	$ 10,351,189
Bonds payable	235,620,000	122,085,000	(45,065,000)	312,640,000	6,200,000
Deferred loss	-	(3,430,768)	83,170	(3,347,598)	-
Net premium (discount)	(4,083,147)	2,369,315	(234,702)	(1,948,534)	-
Total bonds payable	231,536,853	121,023,547	(45,216,532)	307,343,868	6,200,000
Noncurrent liabilities	$ 260,669,893	$ 138,243,609	$ (81,218,445)	$ 317,695,057	$ 16,551,189

A summary of total interest cost and investment income for the year ended June 30, 2010 is as follows:

	Total Interest	Amount Capitalized	Amount Expensed
Interest cost:			
Interest expense	$ 12,786,489	$ 2,323,866	$ 10,462,623
Amortization of premiums, discounts and costs of issuance	691,087	5,729	685,358
Fees	198,591	16,933	181,658
Interest income	(392,656)	(14,091)	(378,565)
Total interest cost	$ 13,283,511	$ 2,332,437	$ 10,951,074

Note 9 – Disclosures about fair value of financial instruments

The Real Estate Foundation adopted the provisions of accounting principles generally accepted in the United States of America as they relate to fair value measurements, for financial assets and liabilities measured at fair value. These principles require 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	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasury Securities	$ 206,820	$ 206,820	$ -
Derivative financial instruments	-	-	-
Totals	$ 206,820	$ 206,820	$ -

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.

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 $329,788,274 as of June 30, 2010, compared to the recorded balance of $307,343,868 for the same periods.

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.

Note 9 – Disclosures about fair value of financial instruments (Continued)

Other receivables and payables – The carrying amount approximates fair value because of the short-term maturity of these instruments.

Note 10 – Operating leases

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, 2010 rent expense has been recognized on a straight-line basis in the amount of $709,442, and a straight-line lease liability of $631,599 is included in accrued liabilities as of June 30, 2010.

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, 2010, rent expense has been recognized on a straight-line basis in the amount of $413,008, and a straight-line lease liability of $72,409 is included in accrued liabilities as of June 30, 2010.

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, 2010, rent expense has been recognized on a straight-line basis in the amount of $1,278,389, and a straight-line lease liability of $1,109,116 is included in accrued liabilities as of June 30, 2010.

The following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2010 that have initial or remaining noncancelable lease terms in excess of one year:

Years ending June 30,		
2011	$	2,496,546
2012		2,578,920
2013		2,642,916
2014		2,709,265
2015		1,933,744
2016 – 2019		5,155,192
Total	$	17,516,583

Note 11 – 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 $3,760,106, $17,222,061, and $4,543,422, respectively, for the year ended June 30, 2010. As of June 30, 2010, balances receivable under capital leases are $242,934,781, of which $3,416,327 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, 2010, the Real Estate Foundation requested reimbursement from the Board of Regents for expenses of $604,168. As of June 30, 2010, accounts receivable from related party included reimbursable expenses of $206,889.

Note 11 – Related party transactions (Continued)

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 $232,129 was recorded for the years ended June 30, 2010. As of June 30, 2010, the Real Estate Foundation has accrued an amount payable to the University of $0, 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 on 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.

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, 2010, the Real Estate Foundation paid $245,000 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis. Effective July 1, 2010, the amount of the annual payment under the administrative services agreement was modified to include provisions for office space, maintenance, utilities and parking to be provided by the University to the Real Estate Foundation.

Note 12 – Commitments and contingencies

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, 2010, $592,663 of this amount has been expended.

In May 2010, the Real Estate Foundation and the University agreed to transfer ownership of the parking deck at East Campus Village to the University upon payment of an amount sufficient to defease the outstanding bond debt associated with the parking deck (pro rata portions of the 2002 Housing Bonds and 2010 Housing Bonds). The Real Estate Foundation will deposit this amount with an escrow agent to defease the debt. On August 31, 2010, the Real Estate Foundation received $8,758,679 from the University in relation to this transfer.

The Real Estate Foundation's revolving line of credit expires on November 30, 2010. In September 2010, the Real Estate Foundation received proposals from banks for a replacement line of credit that would go into effect upon the expiration of the current line of credit. After reviewing the proposals, the Board voted to renew the revolving line of credit with the current provider in the amount of $50,000,000 for a five year period beginning December 1, 2010.

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. As of the year ended June 30, 2010, $298,559 has been expended on this project.

Note 13 – 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, 2010, the employees of the Real Estate Foundation contributed $19,080 to the plan and the Real Estate Foundation incurred employer contributions to the plan for two employees in the amount of $21,974 for same time period.

Note 14 – Subsequent events

Construction of a $50.7 million residence hall was complete in July 2010 and is under lease with the Board of Regents effective July 26, 2010.

The Real Estate Foundation has evaluated subsequent events through September 22, 2010, which was the date the financial statements were available to be issued. As of this date, there were no additional material subsequent events requiring adjustment to or disclosure in the financial statements for the year ended June 30, 2010.

CHERRY BEKAERT& HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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*

The Audit Committee of the 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 and for the year ended June 30, 2010, and have issued our report thereon dated September 22, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 22, 2010