UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Financial Statements for the year ended June 30, 2011

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Contents

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"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the State of Georgia, as of June 30, 2011 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, 2011, 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 21, 2011 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 21, 2011

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis

June 30, 2011

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. In May 2011, UMH ceased operations and transferred certain personal property and its FCC license to the University. The remaining personal property, real property and land were transferred to the Research Foundation effective June 30, 2011.

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 nonoperating. The financial reporting model classifies investment earnings and changes in the fair value of investments as nonoperating revenues. As a result, the financial statements may show operating losses that are then offset by nonoperating revenues from a total financial perspective.

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

Condensed financial statements are presented for the year ended June 30, 2011 and one prior. In the following discussion, Fiscal 2011 and Fiscal 2010 refer to the years ended June 30, 2011 and June 30, 2010, respectively.

Financial Highlights

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Assets
June 30, 2011 and 2010

	2011	2010	Change
Assets:			
Current assets	$ 51,235,046	$ 50,688,040	$ 547,006
Capital assets, net	706,130	376,748	329,382
Other noncurrent assets	42,947,100	40,041,128	2,905,972
Total assets	$ 94,888,276	$ 91,105,916	$ 3,782,360
Liabilities:			
Current liabilities	$ 51,482,442	$ 49,521,232	1,961,210
Total liabilities	51,482,442	49,521,232	1,961,210
Net assets:			
Invested in capital assets	706,130	376,748	329,382
Unrestricted	42,699,704	41,207,936	1,491,768
Total net assets	43,405,834	41,584,684	1,821,150
Total liabilities and net assets	$ 94,888,276	$ 91,105,916	$ 3,782,360

Current assets increased by $547,006 from Fiscal 2010 to Fiscal 2011 due to increases in accounts receivable from the University and those related to sponsored research and licensing and royalties revenue offset by a decrease in cash and cash equivalents. Capital assets which include land, buildings, and equipment net of accumulated depreciation increased by $329,382 or 87%. This is the combination of an increase for land, building, and equipment transferred from UMH and a decrease due to annual depreciation on the Library Repository building. Other noncurrent assets primarily include investments held by investment managers and other investments. The $2,905,972 increase in noncurrent assets is attributable to improved market conditions and an increase in market value of investments.

Current liabilities increased by $1,961,210 or 4% due to an increase in accounts payable related to sponsored research.

Net assets represent the difference between the Research Foundation's assets and liabilities. Total net assets at June 30, 2011 and 2010 were $43,405,834 and $41,584,684, respectively, which represents an increase of 4% or $1,821,150. This increase is attributable primarily to improved investment performance and reduced operating expenditures.

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011	2010	Change
Operating revenues:			
Sponsored research	$ 152,117,565	$ 130,625,369	$ 21,492,196
Licensing & royalties and other	8,107,385	7,199,995	907,390
Total operating revenues	$ 160,224,950	$ 137,825,364	$ 22,399,586
Operating expenses:			
Research subcontracted to UGA	$ 148,429,445	$ 127,350,423	$ 21,079,022
Intellectual property	7,707,855	10,426,308	(2,718,453)
Support to affiliates	4,616,153	9,211,390	(4,595,237)
Management and general	668,650	436,517	232,133
Total operating expenses	$ 161,422,103	$ 147,424,638	$ 13,997,465
Operating loss	$ (1,197,153)	$ (9,599,274)	$ 8,402,121
Nonoperating revenues	$ 3,055,280	$ 2,439,677	615,603
Equity in net loss of Georgia Venture Partners, LLC	(36,977)	(17,018)	(19,959)
Increase (decrease) in net assets	1,821,150	(7,176,615)	8,997,765
Net assets – beginning of year	41,584,684	48,761,299	(7,176,615)
Net assets – end of year	$ 43,405,834	$ 41,584,684	$ 1,821,150

Operating revenues consist primarily of sponsored research, licensing, and royalties. During Fiscal 2011 operating revenues increased $22,399,586 or 16% primarily due to a significant increase in sponsored research revenue.

Operating expenses increased by $13,977,465 or 9%, due to increases in sponsored research of $21 million and decreases in intellectual property expenses and support to affiliates of ($7.3 million).

Nonoperating revenues consist of investment income and the change in fair value of investments. Nonoperating revenue of $3,055,280 was recorded for the period ending June 30, 2011, which included $982,275 of investment income and a $2,073,005 increase in the fair value of investments, primarily resulting from improved market conditions and an increase in market value of investments.

The investment in Georgia Venture Partners, LLC, is reported using the equity method whereby the net income or loss of Georgia Venture Partners, LLC is recognized as nonoperating revenue (expense) to the Research Foundation. For Fiscal 2011 and Fiscal 2010 the Research Foundation recorded its share of Georgia Venture Partners net loss through June 30, 2011 and December 31, 2009, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010	Change
Cash flows used in operating activities	$ (3,963,566)	$ (24,427,450)	$ 20,463,884
Cash flows from investing activities	112,331	16,808,115	(16,695,784)
Net decrease in cash and cash equivalents	(3,851,235)	(7,619,335)	3,768,100
Cash and cash equivalents, beginning of year	11,154,560	18,773,895	(7,619,335)
Cash and cash equivalents, end of year	$ 7,303,325	$ 11,154,560	$ (3,851,235)

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 2011 reflects decreased receipts of licensing fees and royalties as well as a decrease in most expenditure categories.

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 2011 with a modest increase in its net asset position. Nationally, research funding remains competitive, however, sponsored research showed a substantial increase at the University. Licensing and royalties revenue remained relatively stable between Fiscal 2011 and 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 2012. 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, 2011

	Research Foundation	Component Units: UMH	Component Units: Real Estate Foundation
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 7,303,325	$ -	$ 20,631,912
Sponsored Research, Licensing, and Royalties Receivable	22,650,515	-	-
Accounts Receivable from University of Georgia	1,799,557	-	775
Trade and Other Receivables, net	-	-	39,594
Funds Deposited with the University of Georgia	19,464,298	-	-
Prepaid Expenses and Other Current Assets	4,516	-	253,463
Other Assets	12,835		-
Capital Leases Receivable, Current Portion	-	-	4,193,744
Total Current Assets	$ 51,235,046	$ -	$ 25,119,488
Noncurrent Assets			
Investments	$ 42,025,432	$ -	$ -
Investment in Georgia Venture Partners	753,435	-	-
Investment in GRA Venture Fund	166,919	-	-
Bond Proceeds Restricted for Construction, Debt Service and Reserves	-	-	8,137,040
Operating Funds Held by Trustee	-	-	3,147,133
Capital Lease Interest Receivable			2,678,731
Capital Lease Receivable, Noncurrent Portion	-	-	275,684,497
Capital Assets not being Depreciated			
Land	272,750	-	15,724,224
Construction in Progress	-	-	41,438
Easement	-	-	1,806,919
Capital Assets, net of Accumulated Depreciation	433,380	-	2,528,471
Cost of Bond Issuance, net	-	-	4,950,409
Other Assets	1,314	-	-
Total Noncurrent Assets	$ 43,653,230	$ -	$ 314,698,862
TOTAL ASSETS	$ 94,888,276	$ -	$ 339,818,350

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Net Assets - Continued

June 30, 2011

	Research Foundation	Component Units: UMH	Component Units: Real Estate Foundation
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable - University of Georgia	$ 27,629,215	$ -	$ 14,463
Funds Received for Sponsored Research	19,464,298	-	-
Accounts Payable and Accrued Liabilities	4,382,654	-	49,290
Deferred Revenue	6,275	-	-
Accrued Interest Payable	-	-	680,616
Accrued Project Costs	-	-	240,175
Advance Rent and Lease Payment Receipts	-	-	2,165,531
Lease Rent Liability, Current Portion	-	-	173,153
Bonds Payable, Current Portion	-	-	6,235,000
Total Current Liabilities	$ 51,482,442	$ -	$ 9,558,228
Noncurrent Liabilities			
Lease Rent Liability, Noncurrent Portion	$ -	$ -	$ 1,549,193
Revolving Credit Agreement, Noncurrent Portion	-	-	10,337,006
Bonds Payable, Noncurrent Portion	-	-	286,516,514
Total Noncurrent Liabilities	$ -	$ -	$ 298,402,713
TOTAL LIABILITIES	$ 51,482,442	$ -	$ 307,960,941
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 706,130	$ -	$ 9,764,046
Restricted	-	-	2,749,528
Unrestricted	42,699,704	-	19,343,835
Total Net Assets	$ 43,405,834	$ -	$ 31,857,409
TOTAL NET ASSETS AND LIABILITIES	$ 94,888,276	$ -	$ 339,818,350

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2011

	Research Foundation	Component Units: UMH	Component Units: Real Estate Foundation
Operating Revenues			
Sponsored Research	$ 152,117,565	$ -	$ -
Licensing and Royalties	6,866,279	-	-
Other	1,241,106	-	-
Advertising	-	575,084	-
Rental Income	-	-	3,941,708
Capital Lease Interest Income	-	-	18,180,851
Reimbursed Expenses	-	-	480,356
Total Operating Revenues	$ 160,224,950	$ 575,084	$ 22,602,915
Operating Expenses			
Research Subcontracted to UGA (including facilities & administrative cost reimbursements)	$ 148,429,445	$ -	$ -
Licensing and Royalty Distributions	4,440,389	-	-
Licenses and Intellectual Property	3,267,466	-	-
Support to the University of Georgia	4,093,547	-	-
Support to UGARF Media Holdings	522,606	-	-
Project Expenses	-	-	4,261,847
Management and General	668,650	1,366,287	687,185
Total Operating Expenses	$ 161,422,103	$ 1,366,287	$ 4,949,032
Total Operating Income (Loss)	$ (1,197,153)	$ (791,203)	$ 17,653,883
Nonoperating Revenue (Expenses)			
Investment Income	$ 982,275	$ 12	$ 70,105
Increase in Fair Value of Investments	2,073,005	-	1,914
Interest Expense, net	-	-	(13,249,671)
Support from UGA Research Foundation	-	522,606	-
Support from Arch Foundation	-	184,532	-
Transfer of assets to UGA Research Foundation	-	(514,614)	-
Transfer of assets to University of Georgia	-	(1,174,766)	-
Loss on Transfer of Assets	-	-	(18,493)
Other	-	2,763	23,878
Total Nonoperating Revenue (Expenses)	$ 3,055,280	$ (979,467)	$ (13,172,267)
Equity in Net Loss of Georgia Venture Partners	$ (36,977)	$ -	$ -
CHANGE IN NET ASSETS	$ 1,821,150	$ (1,770,670)	$ 4,481,616
NET ASSETS, beginning of Year	$ 41,584,684	$ 1,770,670	$ 27,375,793
End of Year	$ 43,405,834	$ -	$ 31,857,409

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Cash Flows

For the Year Ended June 30, 2011

	Research Foundation
Cash flows from operating activities	
Receipts from research sponsors	$ 150,095,122
Receipts of licensing, royalties, and other	7,731,922
Receipts from UGA	6,835,901
Sponsored research payments to UGA	(153,769,548)
Payments for licensing and royalty distributions and other	(6,839,330)
Payments to UGA	(6,570,951)
Payments to UMH	(522,606)
Payments to suppliers	(924,076)
Net cash used in operating activities	(3,963,566)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	22,855,903
Purchases of investments	(22,684,475)
Investment in GRA Venture Fund, net of return of investment	(59,097)
Net cash provided by investing activities	112,331
Net decrease in cash and cash equivalents	(3,851,235)
Cash and cash equivalents	
Beginning of year	11,154,560
End of year	$ 7,303,325
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (1,197,153)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	46,082
Transfer of capital assets from UMH	(375,464)
Changes in assets and liabilities	
Accounts receivable	(3,041,577)
Prepaid expenses and other current assets	(299)
Other assets	(12,835)
Accounts payable, University of Georgia	(1,069,276)
Accounts payable and other accrued liabilities	1,686,956
Net cash used in operating activities	$ (3,963,566)
Schedule of noncash investing activity	
Increase in fair value of investments	$ 2,073,005
Investment income, reinvested	982,275
Equity in net loss of Georgia Venture Partners, LLC	(36,977)

See notes to financial statements.

<u>RESEARCH FOUNDATION</u>

Note 1 – Organization

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

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

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

In June 2008, the Research Foundation created UGARF Media Holdings, LLC ("UMH"), a limited liability company, for the purposes of acquiring and facilitating the operation of a FCC licensed television broadcast station. In May 2011, UMH ceased operations and transferred certain personal property and its FCC license to the University. The remaining assets including personal property, real property, and land were transferred to the Research Foundation effective June 30, 2011.

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. As required by accounting principles generally accepted in the United States of America as prescribed by GASB, the financial position and activities of component units are discretely presented in the government-wide financial statements of the Research Foundation, which consist of the Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets. 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 is a legally separate tax exempt organization whose activities primarily support the University, a unit of the University System of Georgia (an organizational unit of the State of Georgia.) The Research Foundation is considered an affiliated organization of the University. The State Accounting Office determined component units of the State of Georgia, as required by SGAS No. 39, should not be assessed in relation to their significance to the University. Accordingly, the Research Foundation's financial activities are not included in the financial statements of the University. The Research Foundation qualifies for treatment as a component unit of the State of Georgia.

Note 2 – Summary of significant accounting policies (Continued)

Reporting entity (Continued) – 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 2011 as required by government accounting standards.

These statements are the primary financial statements of UGARF and UMH. Separately issued comparative 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.

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, which do not qualify as component units, by the equity method of accounting. Under this method, the net income or loss of the affiliates is recognized as income or loss in the Research Foundation's operating statements and as an increase or decrease to the investment account. Dividends received from the affiliates are treated as a reduction of the investment account. Other investments, consisting of an interest in a limited liability company for which the Research Foundation does not have significant ownership or control, are carried at the lower of cost or fair value.

Capital assets – Capital assets are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful life ranging from 4 to 40 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.

Note 2 – Summary of significant accounting policies (Continued)

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.

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. Management believes that the Research Foundation continues to satisfy the requirements of a tax-exempt organization at June 30, 2011. 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, 2011.

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.

Note 3 – Deposits and investments (Continued)

A. Deposits (Continued)

At June 30, 2011, the book value of the Research Foundation's deposits, including demand accounts and cash and cash equivalents held in managed investment accounts, was $7,303,325. The bank and investment account balances at June 30, 2011 were $7,295,985 of which $7,290,146 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, $6,025,000 were collateralized with securities held by the financial institution, by its trust department or agency, but not in the Research Foundation's name, and $1,265,146 were uncollateralized.

B. Investments

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

The Research Foundation's investments at June 30, 2011 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	$ 7,373,297	$ 2,274,436	$ 4,413,430	$ 473,381	$ 212,050
U.S. Agencies					
Implicitly Guaranteed	1,254,851	945,915	308,936	-	-
Corporate Debt	6,909,403	1,283,420	3,484,245	1,610,612	531,126
	$ 15,537,551	$ 4,503,771	$ 8,206,611	$ 2,083.993	$ 743,176
Other Investments					
Equity Mutual Funds - Domestic	$ 2,048,906				
Equity Mutual Funds - International	1,697,745				
Equity Mutual Funds - Global	3,447,239				
Bond Mutual Funds - Domestic	4,783,376				
Bond Mutual Funds - International	1,726,523				
Equity Securities - Domestic	4,440,132				
Equity Securities - International	1,672,258				
Managed Futures/Hedge Funds	6,671,702				
Total investments	$ 42,025,432				

Note 3 – Deposits and investments (Continued)

B. Investments (Continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Research Foundation's policy for managing interest rate risk is divided between short-term and long-term investments. Short-term investments will have a maximum maturity of eighteen months to five years depending on the type of investment. Long-term investments are managed using a planning timeline of five years or more and overall risk measurements rather than specific maturity limits.

Custodial credit risk

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

At June 30, 2011, $21,649,940 of the Research Foundation's applicable investments was 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, 2011 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	$ 2,302,614	$ 1,254,851	$ 1,047,763	-
Aa1	103,905	-	103,905	-
Aa2	184,470	-	184,470	-
Aa3	823,535	-	823,535	-
A1	1,685,815	-	1,685,815	-
A2	1,262,289	-	1,262,289	-
A3	1,051,359	-	1,051,359	-
Baa1	271,538	-	271,538	-
Baa2	351,762	-	351,762	-
Standard & Poor's				
A+	126,967	-	126,967	-
Morningstar				-
5-Star	6,475,427	-	-	6,475,427
4-Star	5,498,069	-	-	5,498,069
3-Star	1,730,293	-	-	1,730,293
	$ 21,868,043	$ 1,254,851	$ 6,909,403	13,703,789

Exempt investments	
U. S. Treasuries	$ 7,373,297
Equity Securities - Domestic	4,440,132
Equity Securities - International	1,672,258
Managed Futures/Hedge Funds	6,671,702
	$ 42,025,432

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 20-70%, bonds 30-70% and alternative investments can range 0-20%.

As of June 30, 2011, investments in a single issuer where those investments exceed 5% of total investments were as follows:

United States Treasuries	18%
RidgeWorth U. S. Government Securities Ultra-Short Bond Fund	7%

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	$	42,025,432
Total investments at fair market value	$	42,025,432

Changes in investments for the year ended June 30, 2011 consisted of:

Fair value – July 1, 2010	$	39,141,580
Purchase of investments		22,684,475
Sales of investments		(22,855,903)
Net interest earned and reinvested		982,275
Change in fair value		2,073,005
Fair value – June 30, 2011	$	42,025,432

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, 2011:

	Amount	Ownership Percent
Georgia Venture Partners, LLC – capital contribution	$ 1,000,000	28.34%
Equity in cumulative net losses	(246,565)	
	$ 753,435	

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

The fiscal year of the Fund ends on December 31. The Research Foundation has followed the practice of recognizing the net income or loss of the Fund on the basis of the most recent available audited financial statements. The most recent available audited financial statements for this entity at June 30, 2011 were for December 31, 2009, however, interim unaudited statements at June 30, 2011 were available and used to record the Research Foundation's share of net losses.

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 the Georgia legislature whereby State funds and funds from profit and not-for-profit entities will be combined to provide seed and early stage venture financing for businesses formed around intellectual property resulting from Georgia Research Alliance universities. During fiscal year 2011, the Research Foundation made contributions of $78,727 to the Fund and received distributions of $19,630 from the Fund. These distributions represent a return of investment not dividends or earnings.

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, 2011, the Fund had not experienced any significant recurring 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 less distributions of return of initial investment.

GRA Venture Fund (T. E.), LLC – capital contribution, at cost, net of distributions	$166,919

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 in the table on the following page.

(see following page)

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

	Fair Value Measurements at June 30, 2011			
Description	Level 1	Level 2	Level 3	Total
U.S. Treasuries	$ -	$ 7,373,297	$ -	$ 7,373,297
U.S. Agencies – Implicitly Guaranteed	-	1,254,851	-	1,254,851
Equities				
Domestic (by sector)				
Technology	1,152,621	-	-	1,152,621
Healthcare	813,474	-	-	813,474
Financial Services	607,281	-	-	607,281
Consumer Cyclical	510,671	-	-	510,671
Industrials	481,396	-	-	481,396
Energy	355,867	-	-	355,867
Other (a)	518,822	-	-	518,822
Total equity securities - domestic	4,440,132	-	-	4,440,132
International (by sector)				
Energy	664,656	-	-	664,656
Basic Material	385,505	-	-	385,505
Industrials	218,252	-	-	218,252
Consumer Defensive	194,652	-	-	194,652
Other (a)	209,193	-	-	209,193
Total equity securities - international	1,672,258	-	-	1,672,258
Total equity securities	6,112,390	-	-	6,112,390
Corporate Bonds (by sector)				
Financial Services	-	3,487,112	-	3,487,112
Industrials	-	782,506	-	782,506
Technology	-	642,654	-	642,654
Healthcare	-	493,875	-	493,875
Communication Services	-	475,740	-	475,740
Energy	-	426,030	-	426,030
Other (a)	-	601,486	-	601,486
Total corporate bonds	-	6,909,403	-	6,909,403
Mutual Funds - Equity				
Domestic	-	2,048,906	-	2,048,906
International	-	1,697,745	-	1,697,745
Global	-	3,447,239	-	3,447,239
Total equity mutual funds	-	7,193,890	-	7,193,890
Mutual Funds - Bond				
Domestic	-	4,783,376	-	4,783,376
International	-	1,726,523	-	1,726,523
Total bond mutual funds	-	6,509,899	-	6,509,899
Total mutual funds	-	13,703,789	-	13,703,789
Managed Futures/Hedge Funds				
Managed Futures	-	1,558,192	-	1,558,192
Hedge Funds	-	5,023,079	90,431	5,113,510
Total managed futures/hedge funds	-	6,581,271	90,431	6,671,702
Total investments – recurring basis	$ 6,112,390	$ 35,822,611	$ 90,431	$ 42,025,432

(a) Total of other sectors representing less than 5% of category total.

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	$	189,279
Increase in fair value included in changes in net assets		686
Purchases, sales, issuances, and settlements (net)		(99,534)
	$	90,431

Unrealized losses related to assets measured at fair value using significant unobservable inputs are included in the Increase 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, 2011.

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs. Following is a description by major category of the valuation techniques used for assets measured at fair value using Level 2 and Level 3 inputs.

U.S. government and agency securities, corporate bonds, and mutual funds are valued at the closing price reported on the active market on which the individual securities or similar securities are traded.

Managed futures and hedge funds are valued using the net asset value provided by the investment administrator. Net asset value is the value of the underlying assets less any liabilities. The net asset value reflects the redemption amount expected to be received at the time of valuation.

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)	$	1,558,192	Monthly	10 days
Multi-Strategy Hedge Funds (B)		3,353,502	Quarterly	65 days
Multi-Strategy Hedge Funds (C)		90,431	none	N/A
Multi-Strategy Hedge Funds (D)		1,669,577	Eligible 5/1/2012	N/A
Total	$	6,671,702		

There were no unfunded commitments related to the investments above that calculate net asset value as of June 30, 2011.

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

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.

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.

Category D – Multi-Strategy Hedge Funds. This category includes investments of the same type as Category B but consists of recently acquired investments not yet eligible for redemption. After a waiting period of one year from initial investment date, redemptions are processed quarterly and require a 135 day notice period.

Note 6 – Facilities and administrative cost revenue

The Research Foundation receives reimbursement from research sponsors for facilities and administrative (F&A) cost incurred. Of the total received, 78% is remitted to the University for reimbursement of (F&A) cost incurred by the University. Additionally, the Research Foundation remitted $3,147,781 for the year ended June 30, 2011 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, 2011 as follows:

Sponsored research awarded but not recognized – beginning of year	$	236,526,549
Sponsored research awarded during the year (including facilities and administrative cost reimbursements)		154,136,213
Sponsored research recognized during the year (including facilities and administrative cost reimbursements)		(152,117,565)
	$	238,545,197

The total number of sponsored research awards was 1,058 for the year ended June 30, 2011.

Note 8 – Capital assets

Capital assets consisted of the following:

	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Capital assets not being depreciated				
Land	$ 110,000	$ 162,750	$ -	$ 272,750
Capital assets being depreciated				
Library Repository Building	1,142,307		-	1,142,307
Less: accumulated depreciation	(875,559)	(46,082)	-	(921,641)
Toccoa Facility Building	-	209,250	-	209,250
Less: accumulated depreciation	-	(14,386)	-	(14,386)
Toccoa Facility Equipment	-	24,677	-	24,677
Less: accumulated depreciation	-	(6,827)	-	(6,827)
Total capital assets being depreciated, net	266,748	166,632	-	433,380
Capital assets – net	$ 376,748	$ 329,382	$ -	$ 706,130

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, 2011 was $75,300. The library storage facility is being depreciated over 25 years.

On May 1, 2011, UMH ceased active operation of a FCC licensed television broadcast station. It transferred certain personal property and the FCC license to the University. Other assets were transferred to the Research Foundation on June 30, 2011 and included the following:

Cash	$ 126,315
Accounts receivable	12,835
Capital assets	
Land	162,750
Building, net of accumulated depreciation	194,864
Equipment, net of accumulated depreciation	17,850
Total capital assets transferred	375,464
Total assets transferred	$ 514,614

The transferred equipment included land improvements and a remote broadcast vehicle. The transfer of assets from UMH is included in Operating Revenues-Other on the Statement of Revenues, Expenses, and Changes in Net Assets.

Note 10 – Significant funding sources

For the fiscal year ended June 30, 2011, approximately $115,900,000 (89%) 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:

In prior fiscal years, the Research Foundation made multi-year commitments to support programs and initiatives in poverty, bioenergy, and infectious diseases. The commitment for new funding for these areas has ended but the remaining funds to be spent and budgeted for fiscal year 2012 total approximately $366,000.

The Research Foundation has an ongoing commitment to fund a portion of the Coverdell Center lease repayment. The current commitment is $814,378 each fiscal year and continues through fiscal year 2036.

Annual commitments totaling $482,565 exist to support general operating costs of the Research Computing Center, the Coverdell and Riverbend buildings, to provide access dues to research computing resources, and support for the Animal Health Research Center.

A fiscal year 2011 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 2012.

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 2011, $78,727 was requested and transferred to the GRA Venture Fund, LLC. The Research Foundation's remaining commitment is $813,451.

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, 2011, current borrowings are all under rental agreements with the University so the Research Foundation's guarantee is not applicable.

In the normal course of business, there are legal actions pending against the Research Foundation. At this time, management does not believe that any of these legal actions are expected to have a material effect on the Research Foundation's financial condition, results of operations, or liquidity.

Note 12 – Subsequent events

The Research Foundation has evaluated subsequent events through September 21, 2011, 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, 2011.

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, Inc. (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 a FCC licensed commercial 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.

On May 1, 2011, UMH ceased operations as WNEG-TV and transferred certain personal property and its FCC license to The University of Georgia (the University). The license was changed to a non-commercial license and the call letters were changed to WUGA-TV. On June 30, 2011, UMH transferred the remainder of the assets to the Research Foundation. Consequently, the following notes do not address accounting policies related to assets or include detailed changes in capital assets.

During FY 2011 UMH operated as a business-type activity and provided the opportunity for students, faculty and staff to work in research, development and teaching in media.

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

Note 2 – Summary of significant accounting policies

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

Reporting Entity – 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 2011.

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

Note 2 – Summary of significant accounting policies (Continued)

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

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.

Nonmonetary Transactions – FASB Accounting Principles Board Opinion 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 vendors 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, 2011, UMH recognized barter income and expense of $220,644.

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, 2011, UMH recognized trade income of $5,350 and trade expense of $5,815.

Operating and Nonoperating Revenue and Expenses - The financial statements distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with the sale of airtime. Non-exchange revenues are reported as nonoperating 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 2011 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. Management believes that UMH continues to satisfy the requirements of a tax-exempt organization at June 30, 2011. 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, 2011.

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 – Related Party Transactions

UMH 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 (the University) 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 expired May 1, 2011 upon transfer of the FCC license to the University. The agreement required the University to provide project management, accounting, and other administrative services to ensure the compliant operations of WNEG-TV. During Fiscal 2011 UMH paid $650,527 to the University under the terms of that agreement.

For the fiscal year ended June 30, 2011, UMH received $522,606 nonoperating revenue from the Research Foundation and $184,532 from The Arch Foundation for the University of Georgia, Inc. that was utilized in the operations of the studio.

On May 1, 2011, UMH transferred certain personal property and the FCC license to the University with a net book value of $1,174,766. The balance of UMH's assets was transferred to the Research Foundation on June 30, 2011. The net book value of these assets was $514,614.

REAL ESTATE FOUNDATION

Note 1 – Organization

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

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

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

Note 2 – Summary of Significant Accounting Policies

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

Note 2 – Summary of Significant Accounting Policies (Continued)

Reporting Entity – In accordance with the criteria in SGAS No. 39, *Determining Whether Certain Organizations Are Component Units*, the Research Foundation is a legally separate, tax exempt organization whose activities primarily support the University, a unit of the University System of Georgia (an organization unit of the State of Georgia). The Research Foundation is considered an affiliated organization of the University. The State Accounting Office determined Component Units of the State of Georgia, as required by SGAS No. 39, should not be assessed in relation to their significance to the University. Accordingly, the Research Foundation's financial activities are not included in the financial statements of the University. The Research Foundation qualifies for treatment as a component unit of the State of Georgia.

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

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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. From time to time, investments are made by the trustee in accordance with the trust indenture.

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

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

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 and interest components. Capital leases receivable consist of capital lease payments due for real property owned by the University. Collectibility of these lease payments is reasonably assured and no allowance for uncollectible amounts has been established.

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

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

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

Land and easements are stated at cost and are not depreciated.

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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 lessees under a capital lease agreement.

Derivative Financial Instruments –In accordance with accounting principles generally accepted in the United States of America, 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. As of June 30, 2011, the Real Estate Foundation had no derivative financial instruments.

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 – Net assets of the Real Estate Foundation are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted net assets include amounts restricted by bond indentures for debt service, operating costs, and repair and replacements reserves. Unrestricted net assets are not subject to donor or other stipulations imposed by outside sources.

Note 2 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition – Rental income is recognized when earned and collectibility 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. Amounts are offset by rebates to the University related to savings realized by the Real Estate Foundation due to the early extinguishment of certain bonds payable for projects transferred to the University. 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. 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. 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 tax positions at June 30, 2011.

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, 2011 the bank balance 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 $31,174,824.

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

The Real Estate Foundation places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. The Real Estate Foundation from time to time may have amounts on deposit in excess of the insured limits.

The bank balance of the Real Estate Foundation's deposits as of June 30, 2011, are presented below by category of risk.

June 30, 2011 Deposits	FDIC Insured	Collateralized by U.S. Securities	Uninsured or Uncollateralized	Total
Checking Accounts	$ 250,000	$ -	$ 376,659	$ 626,659
Federated Prime Value Obligations Short-Term Money Market Funds	-	-	3,479,262	3,479,262
Repurchase Agreements	-	16,413,167	-	16,413,167
Repurchase Agreements Held By Trustee	-	7,188,787	-	7,188,787
Funds Held by Trustee	-	125,000	3,341,949	3,466,949
Total Deposits	$ 250,000	$ 23,726,954	$ 7,197,870	$ 31,174,824

For the year ended June 30, 2011, $23,601,954 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 $125,000 was held by the financial institution's trust department or agent, but not in the Real Estate Foundation's name.

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

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.

As of June 30, 2011, investments consisted of U.S. Treasuries held by trustees with a maturity of less than one year in the amount of $825,000 included in Bond Proceeds Restricted for Construction, Debt Service and Reserves in the Statement of Net Assets.

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 States treasury obligations with a maximum maturity of one year.

Custodial Credit Risk

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

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, 2011, the Real Estate Foundation's investments increased by $23,878 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 $40,430 as of June 30, 2011.

Note 4 – Investments

Changes in investments for the year ended June 30, 2011, which are included in Bond Proceeds Restricted for Construction, Debt Service and Reserves, consisted of:

		2011
Fair Value – Beginning of Period	$	206,820
Purchase of Investments		5,760,842
Sales and Maturities of Investments		(5,200,230)
Realized Gain (Investment Income)		55,654
Changes in Fair Value		1,914
Fair Value – End of Period	$	825,000

Note 5 – Restricted and Board Designated Assets

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

		2011
Restricted for:		
Debt Service	$	9,006,625
Construction		-
Future Repairs and Replacements of Real Property		1,654,000
General Operations of Certain Projects		225,943
Total	$	10,886,568
Designated for:		
General Operations of Certain Projects	$	397,605
Total Restricted and Board Designated	$	11,284,173

The carrying values of the Restricted and Board Designated cash and cash equivalents and investment balances above are included in the Statement of Net Assets as follows:

		2011
Operating Funds Held by Trustee	$	3,147,133
Bond Proceeds Restricted for Construction, Debt Service, and Reserves		8,137,040
Total	$	11,284,173

Note 5 – Restricted and Board Designated Assets (Continued)

Board Designated assets included in Cash and Cash Equivalents are as follows:

		2011
Designated for:		
Debt Service	$	4,123,266
Future Repairs and Replacements of Real Property		1,773,700
Project Costs		606,371
General Operations of Certain Projects		400,000
Total	$	6,903,337
Undesignated Cash and Cash Equivalents		13,728,575
Total Cash and Cash Equivalents	$	20,631,912

Note 6 – 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. On December 14, 2009, this derivative instrument was terminated. 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.

Note 7 – Capital Leases Receivable

The Real Estate Foundation has entered into multiple 20 to 30 year capital lease agreements (1 year leases with annual renewals) with the Board of Regents to occupy the Real Estate Foundation's facilities. 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, 2011, net capital leases receivable were $279,878,241. These amounts include future minimum lease payments to be received of $567,240,660 as of June 30, 2011, of which $287,362,419 is unearned interest.

Note 7 – Capital Leases Receivable (Continued)

As of June 30, 2011, lease payments are receivable as follows:

2012	$	20,967,014
2013		20,965,151
2014		23,404,147
2015		23,394,483
2016		23,385,429
2017 - 2021		116,741,875
2022 - 2026		116,336,780
2027 - 2031		111,879,703
2032 - 2036		82,811,128
2037 - 2040		27,354,950
Total Payments to be Received	$	567,240,660
Less: Amounts Representing Interest		287,362,419
Total Leases Receivable	$	279,878,241
Less: Current Portion		4,193,744
Noncurrent Leases Receivable	$	275,684,497

Note 8 – Capital Assets

Capital assets consisted of the following at June 30, 2011:

	Balance at June 30, 2010	Additions	Disposals & Reclasses	Balance at June 30, 2011
Nondepreciable Capital Assets:				
Land	$ 15,724,224	$ -	$ -	$ 15,724,224
Construction in Progress	42,680,261	6,102,785	(48,741,608)	41,438
Easement	449,041	1,357,878	-	1,806,919
Total Nondepreciable Capital Assets	$ 58,853,526	$ 7,460,663	$ (48,741,608)	$ 17,572,581
Depreciable Capital Assets:				
Furniture and Equipment	$ 197,392	$ -	$ -	$ 197,392
Less: Accumulated Depreciation	(185,658)	(2,242)	-	(187,900)
Buildings and Improvements	2,927,281	252,217	-	3,179,498
Less: Accumulated Depreciation	(550,428)	(110,091)	-	(660,519)
Total Depreciable Capital Assets	$ 2,388,587	$ 139,884	$ -	$ 2,528,471
Capital Assets, net	$ 61,242,113	$ 7,600,547	$ (48,741,608)	$ 20,101,052

Note 9 – Long-Term Debt

$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 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 prior indebtedness 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. Principal payments are due on June 15 starting in 2010 and continuing through 2031.

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

Borrowings under the CCRC Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2004 and continuing through 2032.

$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”). 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. Principal payments are due on December 1 starting in 2005 and continuing through 2033.

On March 1, 2010, the Housing Authority issued $34,090,000 in Student Housing Lease Revenue Bonds to advance refund $32,265,000 of outstanding 2002 Housing Bonds (see ***$34,090,000 Bond Issue*** below).

Note 9 – Long-Term Debt (Continued)

$99,860,000 Bond Issue (Continued) — On August 31, 2010, the Housing Authority entered into an agreement with the Housing Entity to early extinguish $5,235,000 of outstanding 2002 Housing Bonds with interest rates ranging from 4.00% to 5.00% pursuant to the transfer of the parking deck facility to the University.

A portion of the proceeds received from the University in the net amount of $5,771,157 (after payment of $37,642 in extinguishment costs) was transferred from the Housing Entity and deposited into an irrevocable trust with an escrow agent and used to purchase U.S. government securities. Those securities are to provide for all future debt service payments on the extinguished portion of the 2002 Housing bonds. As a result, $5,235,000 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, 2011.

The early extinguishment resulted in a loss consisting of the difference between the reacquisition price and the net carrying amount of the extinguished debt of $616,143. See discussion in Note 12. The Housing Entity completed the early extinguishment in order to repay the 2002 Housing bonds related to the parking deck to transfer the deck to the University and to reduce its total debt service payments on the 2002 Housing bonds over the next 22 years by $4,069,249. The resulting economic gain (difference between the present value of the extinguished debt and the cash amount transferred to escrow) is $246,501 using an effective interest rate of 4.8260%.

$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 $32,065,000 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.

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. Principal payments are due on December 1 starting in 2010 and continuing through 2023.

On August 31, 2010, the Housing Authority entered into an agreement with the Housing Entity to early extinguish $3,410,000 of outstanding 2010 Housing Bonds with interest rates ranging from 3.25% to 5.00% pursuant to the transfer of the parking deck facility to the University.

Note 9 – Long-Term Debt (Continued)

$34,090,000 Bond Issue (Continued) — A portion of the proceeds received from the University in the net amount of $3,810,217 (after payment of $24,520 in extinguishment costs) was transferred from the Housing Entity and deposited into an irrevocable trust with an escrow agent and used to purchase U.S. government securities. Those securities are to provide for all future debt service payments on the extinguished portion of the 2010 Housing bonds. As a result, $3,410,000 of outstanding 2010 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, 2011.

The early extinguishment resulted in a loss consisting of the difference between the reacquisition price and the net carrying amount of the extinguished debt of $264,660. See discussion in Note 12. The Housing Entity completed the early extinguishment in order to repay the 2010 Housing bonds related to the East Campus Housing parking deck to transfer the deck to the University and to reduce its total debt service payments on the 2010 Housing bonds over the next 13 years by $905,699. The resulting economic loss (difference between the present value of the extinguished debt and the cash amount transferred to escrow) is $244,320 using an effective interest rate of 3.605%. This economic loss, when netted with the economic gain of $246,501 of the 2002 Housing Bonds, resulted in a net economic gain of $2,181 for the extinguishment of debt on the combined Housing bonds related to the East Campus Housing parking deck.

$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. Principal payments are due on December 15 starting in 2006 and continuing through 2034.

$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 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. Principal payments are due on June 15 starting in 2010 and continuing through 2038.

Note 9 – Long-Term Debt (Continued)

$15,705,000 Bond Issue — In 2009, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF O'Malley's Building, LLC Project), Series 2009 (the "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 secured by certain real property constituting the Interim 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.

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. Principal payments are due on June 15 starting in 2009 and continuing through 2028.

$12,505,000 Bond Issue — In 2009, the Housing Authority issued Revenue Bonds (UGAREF Fraternity Row, LLC Project), Taxable Series 2009 (the "Fraternity Row Bonds") and entered into an agreement (the "Fraternity Row Loan Agreement") to loan $12,505,000 to 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 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.

Borrowings under the Fraternity Row Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 1.25% to 6.30% depending on the schedule of bond maturities. Principal payments are due on June 15 starting in 2010 and continuing through 2039.

$***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 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 Fields parking deck was placed in service August 2009 and the Performing Arts Center parking deck was placed in service November 2009.

Borrowings under the PAC Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. Principal payments are due on June 15 starting in 2010 and continuing through 2039.

Note 9 – Long-Term Debt (Continued)

$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 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 used the proceeds of this loan to fund construction of the residence hall, which was placed in service in July 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. Principal payments are due on June 15 starting in 2011 and continuing through 2040.

$50,000,000 Original 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. 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%).

$50,000,000 Revised Revolving Credit Agreement — In November 2010, the Real Estate Foundation entered into a revised $50 million revolving credit agreement with a bank, for a five year term to expire on November 30, 2015. 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, 2011, amounts outstanding or issued under this agreement included borrowings of $10,337,006, with no unused letters of credit or bank reserves, resulting in $39,662,994 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day London InterBank Offered Rate plus 80.0 basis points (or 0.80%). At June 30, 2011, the rate applicable to the borrowings was 0.991%. Amounts available as borrowing capacity are subject to an unused commitment fee of 0.10% if the outstanding borrowings on the revolving credit line are less than $30,000,000 and 0.15% if the outstanding borrowings are greater than $30,000,000. At June 30, 2011, the rate applicable to the unused capacity was 0.10%.

Under this revolving credit agreement, certain borrowings exceeding $10,000,000 that remain outstanding for a period greater than one year, excluding those borrowings for projects supported by a rental or license agreement with the Board of Regents or the University, are subject to a guarantee requirement with the Research Foundation as guarantor. As of June 30, 2011, there are no borrowings subject to this guarantee requirement.

The bonds payable and revolving credit agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2011, the Real Estate Foundation was in compliance with all covenants.

Note 9 – Long-Term Debt (Continued)

Following is a summary as of June 30, 2011 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
2012	$ 6,235,000	$ 12,544,027
2013	6,470,000	12,309,085
2014	7,750,000	13,428,801
2015	8,050,000	13,109,807
2016	8,365,000	12,782,906
2017 - 2021	47,410,000	58,013,492
2022 - 2026	58,735,000	46,283,499
2027 - 2031	70,450,000	30,669,167
2032 - 2036	61,440,000	12,996,767
2037 - 2040	23,125,000	2,456,155
Total	$ 298,030,000	$ 214,593,706

Changes in Long-Term Debt for the fiscal year ended June 30, 2011 are shown below:

	Balance at June 30, 2010	Additions	Disposals & Reclasses	Balance at June 30, 2011	Current Portion
Bonds Payable	$ 312,640,000	$ -	$ (14,610,000)	$ 298,030,000	$ 6,235,000
Deferred Loss	(3,347,598)	-	249,510	(3,098,088)	-
Net Premium (Discount)	(1,948,534)	-	(231,864)	(2,180,398)	-
Total Bonds Payable	$ 307,343,868	$ -	$ (14,592,354)	$ 292,751,514	$ 6,235,000
Revolving Credit Agreement	10,351,189	28,105	(42,288)	10,337,006	-
Total Noncurrent Liabilities	$ 317,695,057	$ 28,105	$ (14,634,642)	$ 303,088,520	$ 6,235,000

A summary of the components of interest cost for the year ended June 30, 2011 is as follows:

	Total Interest	Amount Capitalized	Amount Expensed
Interest Cost			
Interest Expense	$ 12,829,386	$ 160,921	$ 12,668,465
Amortization of Premiums, Discounts, Cost of Issuance, and Deferred Loss	693,309	420	692,889
Fees	253,379	194	253,185
Interest Income	(364,866)	2	(364,868)
Total Interest Cost	$ 13,411,208	$ 161,537	$ 13,249,671

Note 10 – 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.

As of June 30, 2011, investments measured at fair value on a recurring basis consisted of U.S. Treasury Securities in the amount of $825,000 measured using level 2 inputs.

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:

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 $303,909,278 as of June 30, 2011 compared to the recorded balance of $292,751,514 for the same periods.

Other Instruments – The carrying amount reported in the Statement of Net Assets for cash and cash equivalents, operating funds held by trustee, bond proceeds restricted for construction, debt service and reserves, revolving credit agreement and other receivables and payables approximate fair value.

Note 11 – Operating Leases

The Real Estate Foundation is a lessee under an amended multiyear operating lease for University education facilities at One Live Oak Center, Atlanta, Georgia, that expires on January 31, 2015, with escalating rents. For the year ended June 30, 2011, rent expense has been recognized on a straight-line basis in the amount of $783,198 and a straight-line lease liability of $554,463 is included in accounts payable and accrued liabilities as of June 30, 2011.

The Real Estate Foundation is a lessee under an amended multiyear operating lease for University office space on Spring Street in Athens, Georgia, that expires on June 30, 2014, with escalating rents. For the year ended June 30, 2011, rent expense has been recognized on a straight-line basis in the amount of $413,008 and a straight-line lease liability of $63,871 is included in accounts payable and accrued liabilities as of June 30, 2011.

The Real Estate Foundation is a lessee under a multiyear operating lease for University education facilities at Gwinnett Intellicenter, Duluth, Georgia, that expires on December 31, 2019, with escalating rents. For the year ended June 30, 2011, rent expense has been recognized on a straight-line basis in the amount of $1,274,756 and a straight-line lease liability of $1,104,012 is included in accounts payable and accrued liabilities as of June 30, 2011.

Note 11 – Operating Leases (Continued)

The following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2011 that have initial or remaining noncancelable lease terms in excess of one year:

Years Ending June 30,		
2012	$	2,578,920
2013		2,642,916
2014		2,709,265
2015		1,933,744
2016		1,426,423
2017 – 2019		3,728,769
Total	$	15,020,037

Note 12 – Related Party Transactions

The Real Estate Foundation leases real property to the Board of Regents under both operating and capital leases, including space subleased under operating leases to the Board of Regents. The Real Estate Foundation also has one-year licensing agreements with the Board of Regents which provides for the operation of parking lots by the Board of Regents on the Real Estate Foundation's land located on Oconee Street in Athens, Georgia, in exchange for a fee adjusted at the end of the term to reflect actual costs incurred. Additionally, lease agreements provide for certain expenses to be reimbursed to the Real Estate Foundation. For the year ended June 30, 2011, the amounts reported as Rental Income, Capital Lease Interest Income, and Reimbursed Expenses in the Statement of Revenues, Expenses, and Changes in Net Assets consists of revenue earned through lease agreements and the reimbursement of expenses from the Board of Regents. 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 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, as well as provisions for office space, maintenance, utilities and parking to be provided by the University to the Real Estate Foundation. During the year ended June 30, 2011, the Real Estate Foundation paid $267,382 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

Note 12 – Related Party Transactions (Continued)

In August 2010, the Housing Entity entered into an agreement with the University to transfer the parking deck facility to the University. In connection with the transfer, the Housing Authority entered into an agreement with the Housing Entity to early extinguish $5,235,000 of the outstanding 2002 bonds and $3,410,000 of the outstanding 2010 Housing Bonds. After consideration of extinguishments costs and funding escrow balances to extinguish the related bond debt, the resulting loss on the transfer was $18,943, which is included as a Net Loss on Transfer of Asset for the year ended June 30, 2011 in the Statement of Revenues, Expenses, and Changes in Net Assets, and consisted of the following components:

Proceeds received from University	$	8,758,679
Capital lease receivable at time of transfer		(7,896,369)
Loss on extinguishment of 2002 bond debt		(616,143)
Loss on extinguishment of 2010 bond debt		(264,660)
	$	(18,493)

Note 13 – Commitments and Contingencies

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 June 30, 2011, $1,806,919 has been expended on this project.

In May 2011, the Board approved maximum expenditures of $23,000,000 related to the potential renovation or replacement of Rutherford Hall, a residence hall located on the University campus. This project is expected to begin construction in May 2012 and be complete in July 2013 in time for fall semester occupancy.

Note 14 – 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, 2011, the employees of the Real Estate Foundation contributed $19,140 to the plan and the Real Estate Foundation incurred employer contributions to the plan for two employees in the amount of $21,914 for same time period.

Note 15 – Subsequent Events

The Real Estate Foundation has evaluated subsequent events through September 21, 2011, 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, 2011.

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"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the State of Georgia, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 21, 2011. 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

Management of the Research Foundation is responsible for establishing and maintaining effective 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 21, 2011