UNIVERSITY OF GEORGIA
RESEARCH FOUNDATION, INC.

Financial Statements
for the year ended
June 30, 2012

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Contents

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Auditors

The Audit Committee of the Board of Directors
University of Georgia Research
Foundation, Inc.
Athens, Georgia

We have audited the accompanying statement of net assets of the University of Georgia Research Foundation, Inc., (the "Research Foundation"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the State of Georgia, as of June 30, 2012 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, 2012, 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 12, 2012 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Augusta, Georgia
September 12, 2012

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 University Business and Accounting Services, 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

The Research Foundation is also the sole member of UGARF Media Holdings, LLC ("UMH"). 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. Although UMH is still a legally active entity, it conducted no operations during the fiscal year ended June 30, 2012.

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.

Financial Highlights

Condensed financial statements are presented for the year ended June 30, 2012 and one prior fiscal year. In the following discussion, Fiscal 2012 and Fiscal 2011 refer to the years ended June 30, 2012 and June 30, 2011, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Assets
June 30, 2012 and 2011

	2012	2011	Change
Assets:			
Current assets	$ 43,852,036	$ 51,235,046	$ (7,383,010)
Capital assets, net	651,984	706,130	(54,146)
Other noncurrent assets	42,205,646	42,947,100	(741,454)
Total assets	$ 86,709,666	$ 94,888,276	$ (8,178,610)
Liabilities:			
Current liabilities	$ 45,196,234	$ 51,482,442	$ (6,286,208)
Total liabilities	$ 45,196,234	$ 51,482,442	$ (6,286,208)
Net assets:			
Invested in capital assets	$ 651,984	$ 706,130	$ (54,146)
Unrestricted	40,861,448	42,699,704	(1,838,256)
Total net assets	$ 41,513,432	$ 43,405,834	$ (1,892,402)
Total liabilities and net assets	$ 86,709,666	$ 94,888,276	$ (8,178,610)

Current assets decreased by $7,383,010 from Fiscal 2011 to Fiscal 2012 due to decreases in accounts receivable from the University and accounts receivable related to sponsored research activity. These decreases reflect a reduction in sponsored research revenues between years and timing of the receipt of cash related to sponsored research projects. Capital assets which include land, buildings, and equipment net of accumulated depreciation decreased by $54,146 or 8%. This is the combination of decreases due to annual depreciation and the disposal of one equipment item transferred from UMH in Fiscal 2011. Other noncurrent assets primarily include investments held by investment managers and other investments. The $741,454 decrease in other noncurrent assets is attributable to volatile market conditions and a decrease in market value of investments.

Current liabilities decreased by $6,286,208 or 12% due to decreases in accounts payable related to sponsored research and royalties. The decreases reflect reduced sponsored research funds payable to the University and timing of royalty payments to recipients.

Net assets represent the difference between the Research Foundation's assets and liabilities. Total net assets at June 30, 2012 and 2011 were $41,513,432 and $43,405,834, respectively, which represents a decrease of 4% or $1,892,402. This decrease is attributable to a lack of nonoperating revenues (investment income) coupled with increased operating expenses and support to the University in Fiscal 2012.

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011	Change
Operating revenues:			
Sponsored research	$ 150,752,047	$ 152,117,565	$ (1,365,518)
Licensing & royalties and other	8,490,917	8,107,385	383,532
Total operating revenues	$ 159,242,964	$ 160,224,950	$ (981,986)
Operating expenses:			
Research subcontracted to UGA	$ 146,975,310	$ 148,429,445	$ (1,454,135)
Intellectual property	7,214,813	7,707,855	(493,042)
Support to affiliates	5,523,051	4,616,153	906,898
Management and general	1,281,525	668,650	612,875
Total operating expenses	$ 160,994,699	$ 161,422,103	$ (427,404)
Operating loss	$ (1,751,735)	$ (1,197,153)	$ (554,582)
Nonoperating revenues (expenses)	$ (2,257)	$ 3,055,280	$ (3,057,537)
Equity in net loss of Georgia Venture Partners, LLC	(138,410)	(36,977)	(101,433)
Increase (decrease) in net assets	$ (1,892,402)	$ 1,821,150	$ (3,713,552)
Net assets – beginning of year	43,405,834	41,584,684	1,821,150
Net assets – end of year	$ 41,513,432	$ 43,405,834	$ (1,892,402)

Operating revenues consist primarily of sponsored research, licensing, and royalties. During Fiscal 2012 operating revenues decreased $981,986 or 1% primarily due to decreases in sponsored research revenue resulting from closure of research awards in Fiscal 2011.

Operating expenses decreased by $427,404 due to a relatively small decrease in sponsored research offset by an overall increase in support to the University and management and general expenses in Fiscal 2012.

Nonoperating revenues consist of investment income and the change in fair value of investments. Nonoperating expense of $2,257 was recorded for Fiscal 2012, as compared to nonoperating revenue of $3,055,280 in Fiscal 2011. The Fiscal 2012 loss included $874,309 of investment income and an $876,566 decrease in the fair value of investments, primarily resulting from volatile market conditions.

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 2012 and Fiscal 2011 the Research Foundation recorded its share of Georgia Venture Partners net loss through December 31, 2011 and June 30, 2011, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011	Change
Cash flows used in operating activities	$ (906,958)	$ (3,963,566)	$ 3,056,608
Cash flows from investing activities	600,787	112,331	488,456
Net decrease in cash and cash equivalents	$ (306,171)	$ (3,851,235)	$ 3,545,064
Cash and cash equivalents, beginning of year	7,303,325	11,154,560	(3,851,235)
Cash and cash equivalents, end of year	$ 6,997,154	$ 7,303,325	$ (306,171)

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 2012 reflects reduced levels of disbursements for operations primarily due to conclusion of ARRA funded research projects which are not recurring sources of funding.

Cash flows from investing activities are comprised of proceeds from sales and maturities of investments, purchases of investments, and interest earned on investments. More cash was provided from these transactions in Fiscal 2012 than in Fiscal 2011.

Economic Outlook

The Research Foundation ended Fiscal 2012 with a slight decrease in its net asset position. Nationally, research funding remains competitive and sponsored research spending showed a slight decrease at the University. Licensing and royalties revenue increased between Fiscal 2012 and Fiscal 2011. The Research Foundation continues to leverage commercialization opportunities with economic potential to provide new revenue streams.

With the State of Georgia continuing to experience a slow economic recovery, the University may be subject to budget reductions in Fiscal 2013. Therefore, the Research Foundation's financial support of the University's research mission will continue to be critical. 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, 2012

	Research Foundation	Component Unit: Real Estate Foundation
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 6,997,154	$ 24,373,325
Sponsored Research, Licensing, and Royalties Receivable	20,438,050	-
Accounts Receivable from University of Georgia	691,775	20,849
Trade and Other Receivables, net	-	22,820
Funds Deposited with the University of Georgia	15,720,355	-
Prepaid Expenses and Other Current Assets	4,702	243,284
Capital Leases Receivable, Current Portion	-	4,480,314
Total Current Assets	$ 43,852,036	$ 29,140,592
Noncurrent Assets		
Investments	$ 41,399,774	$ -
Investment in Georgia Venture Partners	615,025	-
Investment in GRA Venture Fund	189,533	-
Bond Proceeds Restricted for Construction, Debt Service and Reserves	-	27,734,976
Operating Funds Held by Trustee	-	1,721,699
Capital Lease Interest Receivable	-	3,945,428
Capital Lease Receivable, Noncurrent Portion	-	271,204,183
Capital Assets not being Depreciated		
Land	272,750	15,724,224
Construction in Progress	-	1,745,286
Easement	-	1,835,296
Capital Assets, net of Accumulated Depreciation	379,234	2,411,801
Cost of Bond Issuance, net	-	4,350,143
Other Assets	1,314	-
Total Noncurrent Assets	$ 42,857,630	$ 330,673,036
TOTAL ASSETS	$ 86,709,666	$ 359,813,628

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Net Assets - Continued

June 30, 2012

				Component Unit
		Research Foundation		**Real Estate Foundation**
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable - University of Georgia	$	27,968,452	$	271,047
Funds Received for Sponsored Research		15,720,355		-
Accounts Payable and Accrued Liabilities		1,501,152		161,145
Deferred Revenue		6,275		-
Accrued Interest Payable		-		665,438
Accrued Project Costs		-		637,940
Advance Rent and Lease Payment Receipts		-		2,171,564
Lease Rent Liability, Current Portion		-		237,148
Bonds Payable, Current Portion		-		6,810,000
Total Current Liabilities	$	45,196,234	$	10,954,282
Noncurrent Liabilities				
Lease Rent Liability, Noncurrent Portion	$	-	$	1,312,044
Revolving Credit Agreement, Noncurrent Portion		-		10,133,494
Bonds Payable, Noncurrent Portion		-		300,531,640
Total Noncurrent Liabilities	$	-	$	311,977,178
TOTAL LIABILITIES	$	45,196,234	$	322,931,460
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$	651,984	$	9,855,728
Restricted		-		1,683,559
Unrestricted		40,861,448		25,342,881
Total Net Assets	$	41,513,432	$	36,882,168
TOTAL NET ASSETS AND LIABILITIES	$	86,709,666	$	359,813,628

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, 2012

	Research Foundation	Component Unit Real Estate Foundation
Operating Revenues		
Sponsored Research	$ 150,752,047	$ -
Licensing and Royalties	7,513,547	-
Other	977,370	-
Rental Income	-	4,173,121
Capital Lease Interest Income	-	18,039,966
Total Operating Revenues	$ 159,242,964	$ 22,213,087
Operating Expenses		
Research Subcontracted to UGA (including facilities & administrative cost reimbursements)	$ 146,975,310	$ -
Licensing and Royalty Distributions	5,268,732	-
Licenses and Intellectual Property	1,946,081	-
Support to the University of Georgia	5,523,051	-
Project Expenses	-	3,531,994
Management and General	1,281,525	668,942
Total Operating Expenses	$ 160,994,699	$ 4,200,936
Total Operating Income (Loss)	$ (1,751,735)	$ 18,012,151
Nonoperating Revenue (Expenses)		
Investment Income	$ 874,309	$ 58,196
Change in Fair Value of Investments	(876,566)	(3,431)
Interest Expense, net	-	(13,039,423)
Other	-	(2,734)
Total Nonoperating Revenue (Expenses)	$ (2,257)	$ (12,987,392)
Equity in Net Loss of Georgia Venture Partners	$ (138,410)	$ -
CHANGE IN NET ASSETS	$ (1,892,402)	$ 5,024,759
NET ASSETS, beginning of Year	$ 43,405,834	$ 31,857,409
End of Year	$ 41,513,432	$ 36,882,168

See notes to financial statements.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Statement of Cash Flows

For the Year Ended June 30, 2012

		Research Foundation
Cash flows from operating activities		
Receipts from research sponsors	$	153,053,158
Receipts of licensing, royalties, and other		8,490,917
Receipts from UGA		6,993,758
Sponsored research payments to UGA		(153,315,262)
Payments for licensing and royalty distributions and other		(9,102,155)
Payments to UGA		(5,829,310)
Payments to suppliers		(1,198,064)
Net cash used in operating activities	$	(906,958)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	$	11,834,032
Purchases of investments		(11,210,631)
Investment in GRA Venture Fund, net of return of investment		(22,614)
Net cash provided by investing activities	$	600,787
Net decrease in cash and cash equivalents	$	(306,171)
Cash and cash equivalents		
Beginning of year		7,303,325
End of year	$	6,997,154
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$	(1,751,735)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation		52,636
Disposal of capital assets, net		1,510
Changes in assets and liabilities		
Accounts receivable		3,320,247
Prepaid expenses and other current assets		(186)
Other assets		12,835
Accounts payable, University of Georgia		339,237
Accounts payable and accrued liabilities		(2,881,502)
Net cash used in operating activities	$	(906,958)
Schedule of noncash investing activity		
Decrease in fair value of investments	$	(876,566)
Investment income, reinvested	$	874,309
Equity in net loss of Georgia Venture Partners, LLC	$	(138,410)

See notes to financial statements.

RESEARCH FOUNDATION

Note 1 – Organization

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

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

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

In June 2008, the Research Foundation created UGARF Media Holdings, LLC ("UMH"), a limited liability company, and is its sole member. The purpose for the creation of UMH was concluded in fiscal year 2011 and all its assets transferred either to the University or to the Research Foundation. The Research Foundation refers to the transferred assets as the "Toccoa Facility." Although UMH is still a legal active entity, it conducted no operations during the fiscal year ended June 30, 2012.

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.

Note 2 – Summary of significant accounting policies (Continued)

Reporting entity (Continued) – 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 component unit 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 are reported discretely in the Research Foundation's financial statements for fiscal year 2012 as required by government accounting standards. UMH also qualifies as a component unit of the Research Foundation; however due to lack of operations in Fiscal 2012 the Research Foundation's financial statements reflect no UMH activity.

These statements are the primary financial statements of the Research Foundation. Separately issued comparative financial statements for the Real Estate Foundation may be obtained at the following address: UGA Real Estate Foundation, Inc., c/o University Business and Accounting Services, 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

Notes related to the financial statements of the Real Estate Foundation 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.

During the year ended June 30, 2012, the Research Foundation adopted the provisions of SGAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedures; the provisions of SGAS 62 additionally eliminates the election provided in SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* to apply post-November 30, 1989 FASB Statements and Interpretations 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.

Note 2 – Summary of significant accounting policies (Continued)

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.

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.

Note 2 – Summary of significant accounting policies (Continued)

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

Note 3 – Deposits and investments

A. Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Research Foundation's deposits may not be recovered. The Research Foundation does not have a deposit policy for custodial credit risk. The Research Foundation places its cash and cash equivalents on deposit with financial institutions in the United States.

During 2010, the FDIC permanently increased coverage to $250,000 for substantially all depository accounts. Additionally, the FDIC implemented unlimited coverage for certain non-interest bearing transaction accounts for the period December 31, 2010 through December 31, 2012. Starting January 1, 2013, the FDIC will no longer fully insure deposits in non-interest bearing transaction accounts and the coverage will revert to $250,000.

At June 30, 2012, the book value of the Research Foundation's deposits, including demand accounts and cash and cash equivalents held in managed investment accounts, was $6,997,154. The bank and investment account balances at June 30, 2012 were $7,475,816 of which $7,475,272 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, $5,514,000 were collateralized with securities held by the financial institution, by its trust department or agency, but not in the Research Foundation's name, and $1,961,272 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.

Note 3 – Deposits and investments (Continued)

B. Investments (Continued)

The Research Foundation's investments at June 30, 2012 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	$	8,138,839	$ 2,049,995	$ 4,669,253	$ 747,164	$ 672,427
U.S. Agencies						
Implicitly Guaranteed		300,592	247,251	53,341	-	-
Corporate Debt		6,374,253	1,915,451	1,966,884	1,626,872	865,046
	$	14,813,684	$ 4,212,697	$ 6,689,478	$ 2,374,036	$ 1,537,473
Other Investments						
Equity Mutual Funds - Domestic	$	3,064,746				
Equity Mutual Funds - International		2,226,889				
Equity Mutual Funds - Global		4,114,537				
Bond Mutual Funds - Domestic		1,699,042				
Bond Mutual Funds - International		1,700,991				
Equity Securities - Domestic		5,346,982				
Equity Securities - International		2,082,105				
Managed Futures/Hedge Funds		6,350,798				
Total investments	$	41,399,774				

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, 2012, $22,242,772 of the Research Foundation's applicable investments were uninsured and held by the investment's counterparty in the Research Foundation's name.

Note 3 – Deposits and investments (Continued)

B. Investments (Continued)

Credit quality risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Research Foundation's investment policies specify that fixed income securities be of investment grade. The short-term investment policy specifies that corporate bonds be rated BBB (Standard & Poor's) or Baa (Moody's) or higher; the long-term policy requires a BBB (Standard & Poor's) or Baa3 (Moody's) rating or higher. The investment policy also requires that securities that drop below investment grade should be sold at the manager's discretion; in the event that a rating falls below investment grade, the manager will contact the financial advisor and advise them of the proposed strategy for disposition of the security.

The Research Foundation's investments at June 30, 2012 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	$ 560,671	$ 300,592	$ 260,079	$ -
Aa2	374,884	-	374,884	-
Aa3	247,170	-	247,170	-
A1	874,770	-	874,770	-
A2	1,307,439	-	1,307,439	-
A3	1,435,126	-	1,435,126	-
Baa1	790,335	-	790,335	-
Baa2	946,938	-	946,938	-
Standard & Poor's				
A+	137,512	-	137,512	-
Morningstar				-
5-Star	3,509,535	-	-	3,509,535
4-Star	7,066,187	-	-	7,066,187
3-Star	2,230,483	-	-	2,230,483
	$19,481,050	$ 300,592	$ 6,374,253	$12,806,205

Exempt investments	
U. S. Treasuries	$ 8,138,839
Equity Securities - Domestic	5,346,982
Equity Securities - International	2,082,105
Managed Futures/Hedge Funds	6,350,798
	$41,399,774

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, 2012, investments in a single issuer where those investments are 5% or more of total investments were as follows:

United States Treasury Bonds and Notes	20%
Oakmark Global Select Fund Class I	5%

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Research Foundation's investments are not exposed to foreign currency risk as securities denominated in currencies other than the U.S. dollar are not permissible by the Research Foundation's investment policy.

Note 4 – Investments

A. Investments at fair market value

Investments at quoted market prices	$	41,399,774
Total investments at fair market value	$	41,399,774

Changes in investments for the year ended June 30, 2012 consisted of:

Fair value – July 1, 2011	$	42,025,432
Purchase of investments		11,210,631
Sales of investments		(11,834,032)
Net interest earned and reinvested		874,309
Change in fair value		(876,566)
Fair value – June 30, 2012	$	41,399,774

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, 2012:

	Amount	Ownership Percent
Georgia Venture Partners, LLC – capital contribution	$ 1,000,000	28.34%
Equity in cumulative net losses	(384,975)	
	$ 615,025	

The Research Foundation generally participates in profit-loss allocations consistent with ownership interests. The fiscal year of the Fund ends on December 31. The Research Foundation has followed the practice of recognizing the net income or loss of the Fund on the basis of the best available financial information. Management has determined the best available financial information for the year ended June 30, 2012 consists of the audited financial statements for this entity for the year ended December 31, 2011.

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 2012, the Research Foundation made contributions of $22,614 to the Fund.

A fair value is not estimated for the investment and it has not been evaluated for impairment because the Research Foundation is exempt from estimating the fair value of financial instruments under generally accepted accounting principles. At June 30, 2012, the Research Foundation did not identify any events or changes in circumstances that might have an adverse effect on fair value, therefore, the contributions by the Research Foundation are shown at cost less distributions of return of initial investment.

GRA Venture Fund (T. E.), LLC – capital contribution, at cost, net of distributions	$189,533

Note 5 – 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 $3,217,021 for the year ended June 30, 2012 to various departments of the University for F&A cost they incurred in the support of research.

Note 6 – Summary of sponsored research activity

The activity for sponsored research awarded to the Research Foundation is summarized for the year ended June 30, 2012 as follows:

Sponsored research awarded but not recognized – beginning of year	$	238,545,197
Sponsored research awarded during the year (including facilities and administrative cost reimbursements)		150,219,906
Sponsored research recognized during the year (including facilities and administrative cost reimbursements)		(150,752,047)
	$	238,013,056

The total number of sponsored research awards was 1,079 for the year ended June 30, 2012.

Note 7 – Capital assets

Capital assets consisted of the following:

	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
Capital assets not being depreciated				
Land	$ 272,750	$ -	$ -	$ 272,750
Capital assets being depreciated				
Library Repository Building	1,142,307	-	-	1,142,307
Less: accumulated depreciation	(921,641)	(46,082)	-	(967,723)
Toccoa Facility Building	209,250	-	-	209,250
Less: accumulated depreciation	(14,386)	(5,231)	-	(19,617)
Toccoa Facility Equipment	24,677	-	(4,833)	19,844
Less: accumulated depreciation	(6,827)	(1,323)	3,323	(4,827)
Total capital assets being depreciated, net	433,380	(52,636)	(1,510)	379,234
Capital assets – net	$ 706,130	$ (52,636)	$ (1,510)	$ 651,984

Note 8 – 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, 2012 was $75,300. The library storage facility is being depreciated over 25 years.

Note 9 – Significant funding sources

For the fiscal year ended June 30, 2012, approximately $114,000,000 (87%) 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 10 – Commitments and contingencies

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.

The Research Foundation has contractual commitments, in whole or in part, with parties other than the University:

The Georgia legislature passed legislation establishing the GRA Venture Fund, LLC. The fund provides seed and early stage venture financing for businesses formed around intellectual property resulting from GRA universities. The Research Foundation committed a total of $1,000,000 at $200,000 per year for five years beginning in fiscal year 2009. During fiscal year 2012, $22,614 was requested and transferred to the GRA Venture Fund, LLC. The Research Foundation's remaining commitment is $790,837.

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, 2012, current borrowings are all under rental agreements with the University so the Research Foundation's guarantee is not applicable.

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 2013 total approximately $144,000.

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 2013.

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 University Business and Accounting Services
324 Business Services Building
456 E. Broad Street
Athens, GA 30602

Basis of Accounting – The Real Estate Foundation's financial statements have been presented using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

During the year ended June 30, 2012, the Real Estate Foundation adopted the provisions of SGAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedures; the provisions of SGAS 62 additionally eliminates the election provided in SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents – The Real Estate Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments, which consist of money markets, certificates of deposit, and repurchase agreements, are carried at cost, which approximates market value. Balances may at times exceed federally insured limits.

Operating Funds Held by Trustee – 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; and d) whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease term. If one or more of the conditions are met, the lease is generally classified as a capital lease. The initial recording of the capital lease receivable is made on the day the real property is placed in service, with a corresponding entry to remove the capital asset using the lesser of the net present value of the lease payments or the fair value of the leased property. Capital leases are amortized over the term of the lease using the effective interest rate – the implicit rate that exactly discounts estimated future cash receipts through the expected life of the lease. Lease payments are allocated between the principal and interest components. Capital leases receivable consist of capital lease payments due for real property owned by the University. Collectability of these lease payments is reasonably assured and no allowance for uncollectible amounts has been established.

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

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

Real property includes buildings and improvements stated at 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued) – Land and easements are stated at cost and are not depreciated.

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 using the effective interest method. During construction the amortized costs are capitalized.

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, including periodic amortization of any related discount or premium and issue costs of 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, including periodic amortization of any related discount or premium and issue costs of 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 Statements of Net Assets. Changes in the fair value of the derivative financial instruments are recorded in the Statements of Revenues, Expenses, and Changes in Net Assets. As of June 30, 2012, 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 collectability of the associated receivable is reasonably assured. Rental income consists of the repair and replacement portion of the total capital lease payment and is recognized on a monthly basis in accordance with the related lease agreement. Amounts are offset by rebates to the University related to savings realized by the Real Estate Foundation due to advance refunding of bonds payable and 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.

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, 2012 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 $52,838,368.

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 of America and Italy. For deposits with financial institutions in the United States of America, 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. Starting January 1, 2013, the FDIC will no longer fully insure deposits in non-interest bearing transaction accounts and coverage will revert to $250,000. 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, 2012 is presented below by category of risk.

June 30, 2012 Deposits	FDIC Insured	Collateralized by U.S. Securities	Uninsured or Uncollateralized	Total
Checking Accounts	$ 250,000	$ -	$ 270,547	$ 520,547
Board of Regents Short Term Fund	-	-	12,603,313	12,603,313
Repurchase Agreements	-	11,079,514	-	11,079,514
Repurchase Agreements Held By Trustee	-	5,765,000	-	5,765,000
Funds Held by Trustee	-	125,000	22,744,994	22,869,994
Total Deposits	$ 250,000	$ 16,969,514	$ 35,618,854	$ 52,838,368

For the year ended June 30, 2012, $16,844,514 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.

SunTrust Bank is the investment management agent and custodian of the Board of Regents Short Term Fund. For the year ended June 30, 2012, the uninsured or uncollateralized amount held in this fund was $12,603,313. This fund's investment objective is the preservation of principal with current income and typically invests in U.S. Government direct obligations and Government Agencies.

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)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect a deposit. During the year ended June 30, 2012, the Real Estate Foundation's deposits decreased by $2,734 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 $15,622 as of June 30, 2012.

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, 2012, investments consisted of U.S. Treasuries held by trustees with a maturity of less than one year in the amount of $821,681 and are included in Bond Proceeds Restricted for Construction, Debt Service and Reserves in the Statements 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.

Note 4 – Investments

Changes in investments for the year ended June 30, 2012, which are included in Bond Proceeds Restricted for Construction, Debt Service and Reserves and Operating Funds Held by Trustee at June 30, 2012 consisted of:

		2012
Fair Value – Beginning of Period	$	825,000
Purchase of Investments		4,115,204
Sales and Maturities of Investments		(4,143,928)
Realized Gain (Investment Income)		28,836
Changes in Fair Value		(3,431)
Fair Value – End of Period	$	821,681

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:

		2012
Restricted for:		
Debt Service	$	7,928,151
Construction		19,810,384
Future Repairs and Replacements of Real Property		1,680,000
Total	$	29,418,535
Designated for:		
General Operations of Certain Projects	$	38,140
Total Restricted and Board Designated	$	29,456,675

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:

		2012
Operating Funds Held by Trustee	$	1,721,699
Bond Proceeds Restricted for Construction, Debt Service, and Reserves		27,734,976
Total	$	29,456,675

Note 5 – Restricted and Board Designated Assets (Continued)

Cash and Cash Equivalents, which include Board Designated assets, are as follows:

		2012
Designated for:		
Debt Service	$	5,103,118
Future Repairs and Replacements of Real Property		2,546,705
Project Costs		3,854
General Operations of Certain Projects		400,000
Total	$	8,053,677
Undesignated Cash and Cash Equivalents		16,319,648
Total Cash and Cash Equivalents	$	24,373,325

Note 6 – Capital Leases Receivable

The Real Estate Foundation has entered into multiple 20 to 30 year capital lease agreements (1 year leases with annual renewals) with the Board of Regents to occupy the Real Estate Foundation's facilities. 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, 2012, net capital leases receivable were $275,684,497. These amounts include future minimum lease payments to be received of $546,273,646 as of June 30, 2012, of which $270,589,149 is unearned interest.

As of June 30, 2012, lease payments are receivable as follows:

2013	$	20,965,151
2014		23,404,147
2015		23,394,483
2016		23,385,429
2017		23,374,259
2018 - 2022		116,672,132
2023 - 2027		116,236,655
2028 - 2032		109,883,594
2033 - 2037		71,203,387
2038 - 2040		17,754,409
Total Payments to be Received	$	546,273,646
Less: Amounts Representing Interest		270,589,149
Total Leases Receivable	$	275,684,497
Less: Current Portion		4,480,314
Noncurrent Leases Receivable	$	271,204,183

Note 7 – Capital Assets

Capital assets consisted of the following at June 30, 2012:

	Balance at June 30, 2011	Additions	Disposals & Reclasses	Balance at June 30, 2012
Nondepreciable Capital Assets:				
Land	$ 15,724,224	$ -	$ -	$ 15,724,224
Construction in Progress	41,438	1,705,149	(1,301)	1,745,286
Easement	1,806,919	28,377	-	1,835,296
Total Nondepreciable Capital Assets	$ 17,572,581	$ 1,733,526	$ (1,301)	$ 19,304,806
Depreciable Capital Assets:				
Furniture and Equipment	$ 197,392	$ -	$ -	$ 197,392
Less: Accumulated Depreciation	(187,900)	(1,893)	-	(189,793)
Buildings and Improvements	3,179,498	-	-	3,179,498
Less: Accumulated Depreciation	(660,519)	(114,777)	-	(775,296)
Total Depreciable Capital Assets	$ 2,528,471	$ (116,670)	$ -	$ 2,411,801
Capital Assets, net	$ 20,101,052	$ 1,616,856	$ (1,301)	$ 21,716,607

Note 8 – Long-Term Debt

$7,960,000 Bond Issue – In 2009, the Development Authority of the Unified Government of Athens-Clarke County, Georgia (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 "2002 CCRC Bonds") and entered into an agreement (the "2002 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 2002 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 placed in service in October 2003.

Note 8 – Long-Term Debt (Continued)

$39,155,000 Bond Issue (Continued) – Borrowings under the 2002 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. On December 15, 2011, the remaining principal balance of $32,620,000 was fully defeased (see the ***$32,580,000 Bond Issue*** below). The 2002 CCRC Bonds will be redeemed in full on December 15, 2012.

$32,580,000 Bond Issue – On December 15, 2011, the Development Authority issued $32,580,000 in Revenue Refunding Bonds (UGAREF CCRC Building, LLC Project), Series 2011 (the "2011 CCRC Bonds") with interest rates ranging from 2.0% to 5.25% and entered into an agreement (the "2011 CCRC Loan Agreement") with the CCRC Entity to advance refund $32,620,000 of outstanding 2002 CCRC Educational Facilities Bonds with interest rates ranging from 3.7% to 5.0%.

The net proceeds of $32,899,567 plus an additional $1,245,143 of 2002 CCRC Bonds debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2002 CCRC Bonds. As a result, $32,620,000 of outstanding 2002 CCRC Bonds are considered to be defeased and the liability for those bonds has been removed from the Statements of Net Assets for the year ended June 30, 2012.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $2,075,510. This difference, reported in the accompanying Statement of Net Assets as a deduction from bonds payable, is being charged to operations as interest expense through December 15, 2032 using the straight-line method. The CCRC Entity completed the advance refunding to reduce its total debt service payments over the next 21 years by $4,370,439 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,925,996 at an effective interest rate of 3.684%.

Borrowings under the 2011 CCRC Loan Agreement bear interest payable semiannually on December 15 and June 15. Principal payments are due on December 15 starting in 2012 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 a parking facility which was placed in service in November 2002 and housing and dining facilities that were placed in service in July 2004. The parking facility was sold to the University in August 2010.

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 $32,140,000 of outstanding 2002 Housing Bonds (see ***$34,090,000 Bond Issue*** below).

Note 8 – 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 was removed from the Statements 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 10. 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 through 2031 by $4,069,249. The resulting economic gain (difference between the present value of the extinguished debt and the cash amount transferred to escrow) was $246,501 using an effective interest rate of 4.8260%.

On December 1, 2011, the Housing Authority issued $48,250,000 in Revenue Refunding Bonds to advance refund $46,720,000 of outstanding 2002 Housing Bonds (see ***$48,250,000 Bond Issue*** below).

$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 $32,140,000 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 Housing Bonds debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 2002 Housing Bonds. As a result, $32,140,000 of outstanding 2002 Housing Bonds are considered to be defeased and the liability for those bonds was removed from the Statement of Net Assets during Fiscal 2010.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $3,555,015. This difference, reported in the Statements 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 through 2023 by $1,177,979 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $856,685 at an effective interest rate of 3.60%.

Borrowings under the 2010 Housing 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.

Note 8 – Long-Term Debt (Continued)

$34,090,000 Bond Issue (Continued) – 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.

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 was removed from the Statements 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 10. 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 through 2023 by $905,699. The resulting economic loss (difference between the present value of the extinguished debt and the cash amount transferred to escrow) was $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 during Fiscal 2011 for the extinguishment of debt on the combined Housing bonds related to the East Campus Housing parking deck.

$48,250,000 Bond Issue – On December 1, 2011, the Housing Authority issued $48,250,000 in Revenue Refunding Bonds (UGAREF East Campus Housing, LLC Project), Series 2011 (the "2011 Housing Bonds") with interest rates ranging from 2.0% to 5.0% and entered into an agreement (the "2011 Housing Loan Agreement") with the Housing Entity to advance refund $46,720,000 of outstanding 2002 Housing Bonds with interest rates ranging from 4.0% to 5.0%.

The net proceeds of $48,814,385 plus an additional $178,618 of 2002 Housing Bonds debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 2002 Housing Bonds. As a result, $46,720,000 of outstanding 2002 Housing Bonds are considered to be defeased and the liability for those bonds has been removed from the Statements of Net Assets for the year ended June 30, 2012.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $2,567,790. This difference, reported in the accompanying Statements of Net Assets as a deduction from bonds payable, is being charged to operations as interest expense through December 1, 2033 using the straight-line method. The Housing Entity completed the advance refunding to reduce its total debt service payments over the next 22 years by $6,751,019 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,922,277 at an effective interest rate of 4.103%.

Borrowings under the 2011 Housing Loan Agreement bear interest payable semiannually on December 1 and June 1. Principal payments are due on December 1 starting in 2012 and continuing through 2033.

Note 8 – Long-Term Debt (Continued)

$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 placed in service 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.

$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.

Note 8 – Long-Term Debt (Continued)

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

$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 Entity”). 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.

Note 8 – Long-Term Debt (Continued)

$21,910,000 Bond Issue – In 2012, the Housing Authority issued Revenue Bonds (UGAREF Rutherford Hall, LLC Project), Series 2012 (the "Rutherford Hall Bonds") and entered into an agreement (the "Rutherford Hall Loan Agreement") to loan $21,910,000 to UGAREF Rutherford Hall, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "Rutherford Hall Entity"). Payment of principal and interest under the Rutherford Hall Bonds is insured by certain real property constituting a residence hall, and by the Rutherford Hall Entity's interest in certain rents and leases derived from this facility. The Rutherford Hall Entity is using the proceeds of this loan to fund construction of the residence hall. The facility is reported as construction in progress at June 30, 2012.

Borrowings under the Rutherford Hall Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.00% to 5.00% depending on the schedule of bond maturities. Principal payments are due on June 15 starting in 2014 and continuing through 2033.

$50,000,000 Revolving Credit Agreement – In November 2010, the Real Estate Foundation entered into a $50 million revolving credit agreement with a bank, for a five year term 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, 2012, amounts outstanding or issued under this agreement included borrowings of $10,133,494, with no unused letters of credit or bank reserves, resulting in $39,866,506 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, 2012, the rate applicable to the borrowings was 1.04%. 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, 2012, 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, 2012, 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, 2012, the Real Estate Foundation was not aware of any violations of the covenants.

Note 8 – Long-Term Debt (Continued)

Following is a summary as of June 30, 2012 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
2013	$ 6,810,000	$ 12,500,586
2014	14,845,000	13,633,751
2015	8,865,000	13,060,626
2016	9,195,000	12,721,156
2017	9,520,000	12,366,044
2018 - 2022	53,655,000	55,519,889
2023 - 2027	65,765,000	42,795,279
2028 - 2032	76,520,000	26,532,908
2033 - 2037	47,020,000	8,994,811
2038 - 2040	23,125,000	2,456,155
Total	$ 315,320,000	$ 200,581,205

Changes in Long-Term Debt for the fiscal year ended June 30, 2012 are shown below:

	Balance at June 30, 2011	Additions	Disposals & Reclasses	Balance at June 30, 2012	Current Portion
Bonds Payable	$ 298,030,000	$ 102,740,000	$ (85,450,000)	$ 315,320,000	$ 6,810,000
Deferred Loss	(3,098,088)	(4,643,300)	267,969	(7,473,419)	-
Net Premium (Discount)	(2,180,398)	2,363,717	(688,260)	(504,941)	-
Total Bonds Payable	$ 292,751,514	$ 100,460,417	$ (85,870,291)	$ 307,341,640	$ 6,810,000
Revolving Credit Agreement	$ 10,337,006	$ 913,774	$ (1,117,286)	$ 10,133,494	$ -
Total Noncurrent Liabilities	$ 303,088,520	$ 101,374,191	$ (86,987,577)	$ 317,475,134	$ 6,810,000

A summary of the components of interest cost for the year ended June 30, 2012 is as follows:

	Total Interest	Amount Capitalized	Amount Expensed
Interest Cost			
Interest Expense	$ 12,381,985	$ 35,376	$ 12,346,609
Amortization of Premiums, Discounts, Cost of Issuance, and Deferred Loss	756,755	(930)	757,685
Fees	221,891	-	221,891
Interest Income	(286,762)	-	(286,762)
Total Interest Cost	$ 13,073,869	$ 34,446	$ 13,039,423

Note 9 – 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, 2012, rent expense has been recognized on a straight-line basis in the amount of $772,600 and a straight-line lease liability of $432,896 is included in accrued liabilities as of June 30, 2012.

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, 2012, rent expense has been recognized on a straight-line basis in the amount of $413,008 and a straight-line lease liability of $48,907 is included in accrued liabilities as of June 30, 2012.

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, 2012, rent expense has been recognized on a straight-line basis in the amount of $1,287,539 and a straight-line lease liability of $1,067,389 is included in accrued liabilities as of June 30, 2012.

The following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2012 that have initial or remaining noncancelable lease terms in excess of one year:

Years Ending June 30,	
2013	$ 2,642,916
2014	2,709,265
2015	1,933,744
2016	1,426,423
2017	1,462,083
2018 – 2019	2,266,686
Total	$ 12,441,117

Note 10 – 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. For the year ended June 30, 2012, the amounts reported as Rental Income and Capital Lease Interest Income in the Statements of Revenues, Expenses, and Changes in Net Assets consists of revenue earned through lease agreements. 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.

Additionally, the lease agreements provide that certain amounts paid by the Real Estate Foundation on behalf of the Board of Regents be reimbursed by the Board of Regents. Amounts reimbursed are primarily insurance and property taxes. For the year ended June 30, 2012, the expenses which were paid by the Real Estate Foundation and reimbursed by the University are reported as Receipts for Payments Made on Behalf of UGA and Payments Made on Behalf of UGA in the Statements of Cash Flows.

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 and utilities to be provided by the University to the Real Estate Foundation. During the year ended June 30, 2012, the Real Estate Foundation paid $275,196 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

Note 11 – Commitments and Contingencies

The Real Estate Foundation has contractual commitments, in whole or in part, with parties other than the University:

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. Construction for the replacement of Rutherford Hall began in May 2012 and as of June 30, 2012 expenditures for construction in progress were $1,727,385. The residence hall is expected to be complete in July 2013 and occupied beginning August 2013. This project is expected to provide sufficient resources to fund the obligations of the project.

In May 2012, the Board approved maximum expenditures of $27,000,000 related to the replacement of Bolton Dining Commons, a dining facility on the University campus. Construction is scheduled to begin in late spring 2013 and be complete by July 2014.

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

In 2012, the Board committed to utilize $630,000 of the repair and replacement reserves to fund repairs to the Housing Entity's residence halls. At June 30, 2012, the University was owed $270,929 for the portion of the repairs that were complete.

Note 12 – Defined Contribution Plans

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, 2012, the employees of the Real Estate Foundation contributed $19,390 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 13 – Subsequent Events

During July 2012, the Board approved the University's request for the Real Estate Foundation to enter into a Lease Termination Agreement with the Delta Chapter House Association of the Sigma Chi Fraternity ("Sigma Chi"). The purpose of the request is the relocation of the existing Sigma Chi fraternity house by June 30, 2014. The Termination Agreement stipulates that the Real Estate Foundation will pay Sigma Chi, according to a fixed schedule, $4,700,000 for the termination of the Ground Lease between Sigma Chi and the Board of Regents. The University of Georgia Foundation deposited $4,700,000 with the Real Estate Foundation in July 2012 for the purpose of paying the termination funds.

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Audit Committee of the Board of Directors
University of Georgia Research
Foundation, Inc.
Athens, Georgia

We have audited the financial statements of University of Georgia Research Foundation, Inc. (the "Research Foundation"), 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, 2012, and have issued our report thereon dated September 12, 2012. 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 12, 2012