UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2014

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1-2

MANAGEMENT'S DISCUSSION AND ANALYSIS 3-6

FINANCIAL STATEMENTS

Statement of Net Position 7-8
Statement of Revenues, Expenses, and Changes in Net Position 9
Statement of Cash Flows 10
Notes to the Financial Statements 11-42

REPORT OF INDEPENDENT AUDITOR ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 43-44

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities 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, and the discretely presented component unit, the UGA Real Estate Foundation, Inc. (the "Real Estate Foundation"), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Research Foundation, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2014 the Research Foundation adopted new accounting guidance, Statement of Governmental Accounting Standard ("SGAS") No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter. Additionally, the accounting changes adopted to conform to the provisions of SGAS No. 65 are required to be applied retroactively by restating the financial statements of prior periods. Accordingly, beginning net position of the Real Estate Foundation has been restated to reflect these changes.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Augusta, Georgia
September 17, 2014

Introduction

The University of Georgia Research Foundation, Inc. (the "Research Foundation") was incorporated under the laws of the State of Georgia as a nonprofit corporation on November 17, 1978. The Research Foundation qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code.

The Research Foundation is organized to fulfill broad scientific, literary, educational, and charitable purposes and operates to enhance the three-pronged mission of the University of Georgia (the "University") of teaching, research, and public service.

The Research Foundation contributes to the research function of the University by securing research contracts, grants, and awards from individuals, institutions, private organizations, and government agencies for the performance of sponsored research in the various University colleges, schools, departments, and other units.

In the Intellectual Property Administration Agreement dated November 8, 1995, the Board of Regents of the University System of Georgia authorized the Research Foundation to serve as the official recipient of all research contracts, grants, and awards for the conduct of sponsored research at the University. The Intellectual Property Administration Agreement also assigned to the Research Foundation all of the Board of Regents' right, title, and interest in intellectual property developed by University personnel. In addition, the Research Foundation administers, protects, and licenses this intellectual property.

The Research Foundation is the sole member of the UGA Real Estate Foundation, Inc. (the "Real Estate Foundation") which operates as an independent nonprofit corporation. The Real Estate Foundation promotes the mission of the University and Research Foundation through facilities and real estate development activities. Separately issued financial statements for the Real Estate Foundation may be obtained at the following address: UGA Real Estate Foundation, Inc., c/o University Business and Accounting Services, 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

The Research Foundation is also the sole member of UGARF Media Holdings, LLC ("UMH"). The purpose for the creation of UMH has been concluded. Although UMH is still a legally active entity, it owns no assets and conducted no operations during the fiscal year ended June 30, 2014.

Description of the Financial Statements

The statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows are designed to provide information which will assist in understanding the financial condition and performance of the Research Foundation. The Research Foundation's net position is one indicator of the Research Foundation's financial health. Over time, increases or decreases in net position are one indicator of the changes in the Research Foundation's financial condition when considered with other non-financial facts.

The *Statement of Net Position* presents information on Research Foundation assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or 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, 2014, and one prior fiscal year. In the following discussion, Fiscal 2014 and Fiscal 2013 refer to the years ended June 30, 2014 and 2013, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Position
June 30, 2014 and 2013

	2014	2013	Change	% Change
Assets:				
Current assets	$ 45,547,029	$ 41,463,540	$ 4,083,489	10%
Capital assets, net	339,337	387,595	(48,258)	-12%
Other noncurrent assets	44,709,309	43,833,207	876,102	2%
Total assets	90,595,675	85,684,342	4,911,333	6%
Liabilities:				
Current liabilities	41,600,286	42,129,095	(528,809)	-1%
Total liabilities	41,600,286	42,129,095	(528,809)	-1%
Net position:				
Net investment in capital assets	339,337	387,595	(48,258)	-12%
Unrestricted	48,656,052	43,167,652	5,488,400	13%
Total net position	$ 48,995,389	$ 43,555,247	$ 5,440,142	12%

Current assets increased by $4,083,489 from Fiscal 2013 to Fiscal 2014 due to increases in cash and cash equivalents and accounts receivable related to sponsored research activity. These increases reflect a decrease in the level of support to the University and decreased management and general expenditures. Capital assets which include land and buildings, net of accumulated depreciation, decreased by $48,258 or 12% due to normal annual depreciation. Other noncurrent assets primarily include investments held by investment managers and other investments. The $876,102 increase in other noncurrent assets is attributable to an increase in market value of investments, additional investment in the GRA Venture Fund, and decline in the value of Georgia Venture Partners.

Current liabilities decreased by $528,809 or 1% due to decreases in accounts payable to the University and accounts payable related to sponsored research offset by increases in accounts payable for royalty distributions.

Net position represents the difference between the Research Foundation's assets and liabilities. Total net position at June 30, 2014 and 2013, was $48,995,389 and $43,555,247, respectively, which represents an increase of 12% or $5,440,142. This increase is attributable to income from operations in Fiscal 2014 rather than the operating loss experienced in Fiscal 2013 and increased nonoperating revenues (investment income).

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013	Change	% Change
Operating Revenues:				
Sponsored Research	$139,674,036	$145,225,538	$ (5,551,502)	-4%
Licensing and Royalties and Other	7,179,908	8,888,325	(1,708,417)	-19%
Total operating revenues	146,853,944	154,113,863	(7,259,919)	-5%
Operating Expenses:				
Research Subcontracted to UGA	136,167,705	141,581,057	(5,413,352)	-4%
Intellectual Property	6,355,733	7,777,589	(1,421,856)	-18%
Support to UGA	2,605,425	4,340,721	(1,735,296)	-40%
Management and General	510,466	1,321,501	(811,035)	-61%
Total operating expenses	145,639,329	155,020,868	(9,381,539)	-6%
Operating income (loss)	1,214,615	(907,005)	2,121,620	234%
Nonoperating revenues (expenses)	4,437,391	3,251,981	1,185,410	36%
Equity in net loss and decline in value of Georgia Venture Partners, LLC that is other than temporary	(211,864)	(303,161)	91,297	30%
Increase in net position	5,440,142	2,041,815	3,398,327	166%
Net position – beginning of year	43,555,247	41,513,432	2,041,815	5%
Net position – end of year	$ 48,995,389	$ 43,555,247	$ 5,440,142	12%

Operating revenues consist primarily of sponsored research, licensing, and royalties. During Fiscal 2014, operating revenues decreased $7,259,919 or 5% primarily due to decreases in sponsored research revenue (due to a downward trend in research awards) and licensing and royalties revenues.

Operating expenses decreased by $9,381,539 due to decreases in sponsored research and support to the University in Fiscal 2014. The decrease in support to the University and management and general expenses was due to a change in the overall approach to funding the research enterprise at the University.

Nonoperating revenues consist of investment income and the change in fair value of investments. Nonoperating revenue of $4,437,391 included $909,705 of investment income and a $3,527,686 increase in the fair value of investments.

The investment in Georgia Venture Partners, LLC, is reported using the equity method whereby the net income or loss of Georgia Venture Partners, LLC is recognized as nonoperating revenue (expense) to the Research Foundation. For Fiscal 2014, the Research Foundation recorded a decline in value that is other than temporary.

For Fiscal 2013, the Research Foundation recorded its share of Georgia Venture Partners net loss through December 31, 2012.

University of Georgia Research Foundation, Inc.
Condensed Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013	Change	% Change
Cash flows used in operating activities	$ (1,373,482)	$ (2,415,170)	$ 1,041,688	43%
Cash flows from investing activities	3,349,427	1,534,835	1,814,592	118%
Net change in cash and cash equivalents	1,975,945	(880,335)	2,856,280	324%
Cash and cash equivalents – beginning of year	6,116,819	6,997,154	(880,335)	-13%
Cash and cash equivalents – end of year	$ 8,092,764	$ 6,116,819	$ 1,975,945	32%

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 2014 reflects reduced levels of disbursements for operations primarily due to decreased sponsored research and support (including royalty distributions) to the University.

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 2014 than in Fiscal 2013 as a result of favorable market conditions.

Economic Outlook

The Research Foundation ended Fiscal 2014 with a slight increase in its net position. Nationally, research funding remains competitive and sponsored research spending showed a slight decrease for the third consecutive year at the University. Licensing and royalties revenue decreased between Fiscal 2014 and Fiscal 2013. The Research Foundation continues to leverage commercialization opportunities with economic potential to provide new revenue streams.

The State of Georgia continues on a course of economic recovery and the University will build on its efforts to reduce costs and redirect resources in Fiscal 2015. After strategic planning and evaluation, the Research Foundation has modified its spending approach in order to balance funding of the University research function with preserving its long-term viability. This process resulted in a fine tuning of the Research Foundation's investment strategy and increased coordination in the funding of research initiatives with the University. Financial support of the University's research mission will continue to be critical.

Questions concerning this report or requests for additional information should be directed to the University of Georgia Controller's Office 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 POSITION

JUNE 30, 2014

	Research Foundation	Component Unit Real Estate Foundation
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 8,092,764	$ 25,315,356
Sponsored Research, Licensing, and Royalties Receivable	21,491,199	-
Accounts Receivable from University and Affiliates	705,277	2,485,654
Trade and Other Receivables, net	-	189,745
Funds Deposited with the University of Georgia	15,250,932	-
Prepaid Expenses and Other Current Assets	6,857	139,923
Capital Leases Receivable, Current Portion	-	5,434,367
Total Current Assets	45,547,029	33,565,045
Noncurrent Assets		
Investments	44,046,572	-
Investment in Georgia Venture Partners	100,000	-
Investment in GRA Venture Fund	561,423	-
Bond Proceeds Restricted for Construction, Debt Service and Reserves	-	10,811,799
Operating Funds Held by Trustee	-	1,291,745
Capital Lease Interest Receivable	-	4,173,372
Capital Lease Receivable, Noncurrent Portion	-	268,597,733
Capital Assets not being Depreciated		
Land	182,380	15,724,224
Construction in Progress	-	22,912,678
Easement	-	1,835,296
Capital Assets, net of Accumulated Depreciation	156,957	2,178,912
Other Assets	1,314	-
Total Noncurrent Assets	45,048,646	327,525,759
Total Assets	$ 90,595,675	$ 361,090,804
Deferred Outflows of Resources		
Deferred Loss on Refundings	$ -	$ 6,331,998

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2014

	Research Foundation	Component Unit Real Estate Foundation
LIABILITIES		
Current Liabilities		
Accounts Payable - University and Affiliates	$ 25,010,896	$ 167,013
Funds Received for Sponsored Research	15,250,932	-
Accounts Payable and Accrued Liabilities	1,332,183	3,440,436
Unearned Revenue	6,275	-
Accrued Interest Payable	-	704,450
Accrued Project Costs	-	3,246,584
Advance Rent and Lease Payment Receipts	-	2,166,473
Lease Rent Liability, Current Portion	-	135,986
Bonds Payable, Current Portion	-	12,685,000
Total Current Liabilities	41,600,286	22,545,942
Noncurrent Liabilities		
Lease Rent Liability, Noncurrent Portion	-	815,828
Revolving Credit Agreement, Noncurrent Portion	-	8,516,222
Bonds Payable, Noncurrent Portion	-	299,517,404
Total Noncurrent Liabilities	-	308,849,454
Total Liabilities	41,600,286	331,395,396
NET POSITION		
Net Investment in Capital Assets	339,337	11,269,157
Restricted for:		
Future Repairs and Replacements of Real Property	-	1,291,745
Unrestricted	48,656,052	23,466,504
Total Net Position	$ 48,995,389	$ 36,027,406

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

	Research Foundation	Component Unit Real Estate Foundation
Operating Revenues		
Sponsored Research	$ 139,674,036	$ -
Licensing and Royalties	6,576,756	-
Other	100,000	-
Rental Income	503,152	4,301,329
Capital Lease Interest Income	-	17,714,547
Total Operating Revenues	146,853,944	22,015,876
Operating Expenses		
Research Subcontracted to UGA (including facilities and administrative cost reimbursements)	136,167,705	-
Licensing and Royalty Distributions	4,401,286	-
Licenses and Intellectual Property	1,954,447	-
Support to the University of Georgia	2,605,425	-
Project Expenses	-	3,803,611
Management and General	510,466	718,253
Total Operating Expenses	145,639,329	4,521,864
Total Operating Income	1,214,615	17,494,012
Nonoperating Revenue (Expenses)		
Investment Income	909,705	113,061
Change in Fair Value of Investments	3,527,686	-
Interest Expense, net	-	(13,818,541)
Loss on Disposition of Assets, Net of Gains	-	(2,239,582)
Loss on Extinguishment of Debt	-	(799,423)
Other	-	(125)
Total Nonoperating Revenue (Expenses)	4,437,391	(16,744,610)
Decline in Value of Georgia Venture Partners, LLC that is Other than Temporary	(211,864)	-
Change in net position	5,440,142	749,402
Net position, beginning of year, as previously reported	43,555,247	41,959,478
Effect of accounting change	-	(6,681,474)
Net position, beginning of year, restated	43,555,247	35,278,004
Net position, end of year	$ 48,995,389	$ 36,027,406

The accompanying notes to the financial statements are an integral part of this statement.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

	Research Foundation
Cash flows from operating activities	
Receipts from research sponsors	$ 138,443,352
Receipts of licensing, royalties, and other	7,179,907
Receipts from UGA	6,489,303
Sponsored research payments to UGA	(144,360,805)
Payments for licensing and royalty distributions and other	(4,057,335)
Payments to UGA	(4,643,728)
Payments to suppliers	(424,176)
Net cash used in operating activities	(1,373,482)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	26,046,504
Purchases of investments	(22,435,490)
Investment in GRA Venture Fund, net of return of investment	(261,587)
Net cash provided by investing activities	3,349,427
Net increase in cash and cash equivalents	1,975,945
Cash and cash equivalents	
Beginning of year	6,116,819
End of year	$ 8,092,764
Reconciliation of operating income to net cash used in operating activities	
Operating income	$ 1,214,615
Adjustments to reconcile operating income to net cash used in operating activities	
Depreciation	48,258
Changes in assets and liabilities	
Accounts receivable	(1,230,684)
Prepaid expenses and other current assets	(6,857)
Accounts payable, University of Georgia	(1,627,873)
Accounts payable and accrued liabilities	229,059
Net cash used in operating activities	$ (1,373,482)
Schedule of noncash investing activity	
Increase in fair value of investments	$ 3,527,686
Investment income, reinvested	$ 909,705
Decline in value of Georgia Venture Partners, LLC that is other than temporary	$ (211,864)

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 legally active entity, it owns no assets and conducted no operations during the fiscal year ended June 30, 2014.

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 financial statement presentation provides a comprehensive, entity-wide perspective of the Research Foundation's assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows. 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 Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. In addition, these standards 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 Statement of Governmental Accounting Standard ("SGAS") No. 61, *The Financial Reporting Entity*, 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. 61, should not be assessed in relation to their significance to the University. Accordingly, the Research Foundation's financial activities are not included in the financial statements of the University. The Research Foundation qualifies for treatment as a component unit of the State of Georgia.

Note 2—Summary of significant accounting policies (continued)

The Real Estate Foundation qualifies as component unit of the Research Foundation. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position of the Real Estate Foundation are reported discretely in the Research Foundation's financial statements for fiscal year 2014 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 2014 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, 2014, the Research Foundation adopted the provisions of SGAS No. 65, *Items Previously Reported as Assets and Liabilities*. SGAS No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of SGAS No. 65 required the restatement of beginning net position of the Real Estate Foundation. See Real Estate Foundation Note 2 and Note 12 for discussion of impact.

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 25 to 40 years.

Net Position – The Research Foundation's net position is comprised primarily of unrestricted net position. Unrestricted net position is not subject to donor or other stipulations imposed by outside sources. Net investment in capital assets, consists of capital assets net of accumulated depreciation.

Revenue Recognition – Revenue from sponsored research is recognized as expenditures are made for approved research activities. A sponsored research receivable is recorded for amounts expended for authorized purposes but not yet reimbursed by research sponsors. Payments by research sponsors in advance of research expenditures are recorded and classified as funds received for sponsored research in the statement of net position. 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 unearned revenues in the statement of net position. 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.

The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts. The Research Foundation from time to time may have amounts on deposit in excess of these insured limits.

At June 30, 2014, the bank and investment accounts values of the Research Foundation's deposits, including demand accounts and cash held in managed investment accounts were $1,329,457 of which $1,115,650 was uninsured and uncollateralized.

Note 3—Deposits and investments (continued)

B. Investments

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

The Research Foundation's investments at June 30, 2014, are presented below. All investments are presented by investment type and debt securities are presented by maturity. Repurchase agreements are included in cash and cash equivalents on the Statement of Net Position.

		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	$ 3,440,882	$ 356,995	$ 2,786,429	$ 297,458	$ -
U.S. Agencies					
Implicitly Guaranteed	312,783	302,708	10,075	-	-
Corporate Debt	11,243,636	7,370,983	2,215,224	1,419,395	238,034
Repurchase Agreements	9,979,000	9,979,000	-	-	-
	24,976,301	$ 18,009,686	$ 5,011,728	$ 1,716,853	$ 238,034
Other Investments					
Equity Mutual Funds - Domestic	3,768,009				
Equity Mutual Funds - International	4,992,108				
Equity Mutual Funds - Global	4,283,941				
Bond Mutual Funds - Domestic	4,322,760				
Equity Securities - Domestic	3,971,557				
Equity Securities - International	367,566				
Managed Futures / Hedge Funds	7,343,330				
Total Investments	$ 54,025,572				

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.

Note 3—Deposits and investments (continued)

B. Investments (continued)

At June 30, 2014, $29,315,424 of the Research Foundation's applicable investments were uninsured and held by the investment's counterparty in the Research Foundation's name.

Credit quality risk

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

The Research Foundation's investments at June 30, 2014, 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	Repurchase Agreements
Quality Ratings					
Moody's					
Aaa	$ 312,783	$ 312,783	$ -	$ -	$ -
Aa1	33,033	-	33,033	-	-
Aa2	646,740	-	646,740	-	-
Aa3	126,429	-	126,429	-	-
A1	2,084,035	-	2,084,035	-	-
A2	1,269,278	-	1,269,278	-	-
A3	1,088,426	-	1,088,426	-	-
Baa1	3,101,049	-	3,101,049	-	-
Baa2	1,823,847	-	1,823,847	-	-
Baa3	817,764	-	817,764	-	-
Standard & Poor's					
A	150,541	-	150,541	-	-
A-	102,494	-	102,494	-	-
Morningstar					
5-Star	4,000,899	-	-	4,000,899	-
4-Star	6,510,352	-	-	6,510,352	-
3-Star	2,398,431	-	-	2,398,431	-
2-Star	1,046,260	-	-	1,046,260	-
Unrated	13,389,876	-	-	3,410,876	9,979,000
	38,902,237	$ 312,783	$ 11,243,636	$ 17,366,818	$ 9,979,000
Exempt investments					
U. S. Treasuries	3,440,882				
Equity Securities - Domestic	3,971,557				
Equity Securities - International	367,566				
Managed Futures/Hedge Funds	7,343,330				
	$ 54,025,572				

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, 2014, investments and repurchase agreement-underlying securities in a single issuer where those investments are 5% or more of total investments were as follows:

Federal Home Loan Mortgage Corporation	18%
United States Treasury Bonds and Notes	6%
Vanguard Scottsdale Short-term Corporate Bond Index Fund	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—Other investments

A. 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.

Note 4—Other investments (continued)

A. Investments – Equity Method (continued)

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, 2014:

	Amount	Ownership Percent
Georgia Venture Partners, LLC - capital contribution	$ 1,000,000	28.34%
Equity in cumulative net losses	(688,136)	
Decline in value that is other than temporary	(211,864)	
	$ 100,000	

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, 2014, consists of the audited financial statements for this entity for the year ended December 31, 2012. During the year ended June 30, 2014, management determined the investment had a decline in value that is other than temporary and recorded a loss in the value of the investment of $211,864.

B. 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 2014, the Research Foundation made contributions of $261,587 to the Fund.

A fair value is not estimated for the investment. At June 30, 2014, 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	$561,423

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 $2,982,972 for the year ended June 30, 2014, to various departments of the University for F&A cost they incurred in the support of research.

Note 6—Capital assets

Capital assets consisted of the following:

	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
Capital assets not being depreciated				
Land	$ 182,380	$ -	$ -	$ 182,380
Capital assets being depreciated				
Library Repository Building	1,142,307	-	-	1,142,307
Less: accumulated depreciation	(1,013,805)	(46,082)	-	(1,059,887)
Toccoa Facility Building	77,620	-	-	77,620
Less: accumulated depreciation	(907)	(2,176)	-	(3,083)
Total capital assets being depreciation, net	205,215	(48,258)	-	156,957
Capital assets - net	$ 387,595	$ (48,258)	$ -	$ 339,337

Note 7—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, 2020. The monthly rental for this lease agreement is $6,275. The lease rental for the year ended June 30, 2014, was $75,300. The library storage facility is being depreciated over 25 years.

Note 8—Significant funding sources

For the fiscal year ended June 30, 2014, approximately $93,000,000 (78%) of the Research Foundation's total federal expenditures and support were awarded by three (3) agencies of the United States government. Changes in governmental spending could have a significant impact on the operations of the Research Foundation.

Note 9—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 position, results of operations, or liquidity.

The Research Foundation has the following 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 2014, $261,587 was requested and transferred to the GRA Venture Fund, LLC. As of June 30, 2014, the Research Foundation's remaining commitment is $415,013.

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, 2014, 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 bioenergy and infectious disease. The fiscal year 2015 commitment for these programs, including new commitments of $75,000, is approximately $107,000.

The Research Foundation has an ongoing commitment to fund a portion of the Coverdell Center lease repayment. The current commitment is $585,144 each fiscal year and continues through fiscal year 2035.

Annual commitments totaling $448,798 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.

Beginning in fiscal year 2014, the Research Foundation established the Special Research Hiring Initiative. The fiscal year 2015 commitment is budgeted at $1,150,000.

The Research Foundation has committed $750,000 to provide matching funds for an allocation anticipated in fiscal year 2015 from the Georgia Research Alliance to establish an eminent scholar in Infectious Disease.

During fiscal year 2014 the Research Foundation committed $5 million to support the new Center for Molecular Medicine.

Real Estate Foundation

Note 1—Organization

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

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

The Research Foundation was incorporated under the laws of the State of Georgia as a nonprofit corporation in 1978 and qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code (the “Code”). The Research Foundation is a cooperative organization serving the University and is organized to fulfill broad scientific, literary, educational and charitable purposes and operates to enhance the three-pronged mission of the University of teaching, research, and 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”). The Statements of Governmental Accounting Standards (“SGAS”) are issued by GASB. The financial statements 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 financial statement presentation provides a comprehensive, entity-wide perspective of the Real Estate Foundation’s assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows. In addition, these statements require the Real Estate Foundation to present a Management’s Discussion and Analysis (“MD&A”). The MD&A is considered to be required supplemental information and precedes the financial statements.

Reporting Entity – In accordance with the criteria in SGAS No. 61, *The Financial Reporting Entity*, 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. 61, should not be assessed in relation to their significance to the University. Accordingly, the Research Foundation’s financial activities are not included in the financial statements of the University. The Research Foundation qualifies for treatment as a component unit of the State of Georgia.

Note 2—Summary of significant accounting policies (continued)

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, 2014, the Real Estate Foundation implemented SGAS No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The resulting impact to the Real Estate Foundation is debt issuance costs are no longer amortized and are expensed when incurred and certain items on the Statements of Financial Position are now classified as deferred inflows and deferred outflows. The implementation of SGAS No. 65 required the restatement of beginning net position.

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 – 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.

Note 2—Summary of significant accounting policies (continued)

Capital Leases Receivable – The Real Estate Foundation enters into lease contracts of real property as a lessor. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or capital leases according to their economic substance. When making such an assessment, the Real Estate Foundation focuses on the following aspects: a) transfer of ownership of the asset to the lessee at the end of the lease term; b) existence of a bargain purchase option held by the lessee; c) whether the lease term is for the major part of the economic life of the asset; and d) whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease term. If one or more of the conditions are met, the lease is generally classified as a capital lease. The initial recording of the capital lease receivable is made on the day the real property is placed in service, with a corresponding entry to remove the capital asset using the lesser of the net present value of the lease payments or the fair value of the leased property. Capital leases are amortized over the term of the lease using the effective interest rate – the implicit rate that exactly discounts estimated future cash receipts through the expected life of the lease. Lease payments are allocated between the principal and interest components. Capital leases receivable consist of capital lease payments due for real property owned by the University. Collectability of these lease payments is reasonably assured and no allowance for uncollectible amounts has been established.

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

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

Real property includes buildings and improvements stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of the estimated useful life of the related asset of 10 to 30 years or the remaining term on the related ground or air rights leases. Land and easements are stated at cost and are not depreciated.

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.

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, 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, 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.

Note 2—Summary of significant accounting policies (continued)

Deferred Outflows/Inflows of Resources – In accordance with SGAS No. 65, the Statements of Net Position report a separate financial statement element, deferred outflows of resources, which represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources until that time. The Real Estate Foundation's deferred loss on refunding qualifies for reporting in this category. The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt using the straight-line method. In addition to liabilities, the Statements of Financial Position will at times report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as revenue until that time. The Real Estate Foundation does not have any item that qualifies for reporting in this category.

Bonds Payable – The Real Estate Foundation records the net proceeds of tax-exempt and taxable bond financing as a liability upon issuance. Bond proceeds consist of the par value of the bonds issued plus premiums or minus discounts. Bond premiums and discounts are amortized to interest expense using the effective interest method.

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

Revenue Recognition – Rental income is recognized when earned and collectability of the associated receivable is reasonably assured. Rental income consists of the repair and replacement portion of the total capital lease payment and is recognized on a monthly basis in accordance with the related lease agreement. Advance rent receipts represent rental payments received but not yet earned.

Capital lease interest income is recorded per the related capital lease amortization schedule simultaneously with the rental income described above. 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 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 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.

Note 2—Summary of significant accounting policies (continued)

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

Note 3—Deposits and investments

A. Deposits

At June 30, 2014, the bank balance of the Real Estate Foundation's deposits, consisting of cash held in interest bearing checking accounts at financial institutions and cash equivalents held by trustees was $6,882,204.

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.

The bank balance of the Real Estate Foundation's deposits as of June 30, 2014, is presented below by category of risk.

June 30, 2014 Deposits	FDIC Insured	Collateralized by U.S. Securities	Uninsured or Uncollateralized	Total
Checking Accounts	$ 250,000	$ -	$ 150,616	$ 400,616
Funds Held by Trustee	-	-	6,481,588	6,481,588
Total Deposits	$ 250,000	$ -	$ 6,632,204	$ 6,882,204

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.

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, 2014, the Real Estate Foundation's deposits increased (decreased) by ($125) 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 $19,842 as of June 30, 2014.

Note 3—Deposits and investments (continued)

B. Investments

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

As of June 30, 2014 the Real Estate Foundation held investments of $30,562,503**.**

The Real Estate Foundation's investments as of June 30, 2014 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

June 30, 2014		Investment Maturity			
Investment Type	**Fair Value**	**Less Than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**
Debt Securities					
Repurchase Agreements	$ 14,026,717	$14,026,717	$ -	$ -	$ -
Repurchase Agreements Held by Trustee	5,765,000	-	-	-	5,765,000
Investment Pools					
Board of Regents Short-term Fund	10,770,786	10,770,786	-	-	-
Total Investments	$ 30,562,503	$24,797,503	$ -	$ -	$ 5,765,000

Repurchase agreements and the Board of Regents Short-term Fund are included in cash and cash equivalents on the Statements of Net Position.

Repurchase agreements held by trustee are included in bond proceeds restricted for construction, debt service and reserves on the Statements of Net Position.

The Board of Regents Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. Participation in the Board of Regents Investment Pool is voluntary. The Board of Regents Investment Pool is not rated. Additional information on the Board of Regents Investment Pool is disclosed in the audited Financial Statements of the Board of Regents of the University System of Georgia - System Office (oversight unit). This audit can be obtained from the Georgia Department of Audits - Education Audit Division or on their web site at http://www.audits.ga.gov.

<u>Interest rate risk</u>
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 U.S. treasury obligations or securities backed by the U.S. government with a maximum maturity of one year.

Note 3—Deposits and investments (continued)

B. Investments (continued)

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. The Real Estate Foundation's policy for managing credit quality risk is to invest only in U. S. treasury obligations or securities backed by the U.S. government.

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. treasury obligations or securities back by the U.S. government.

Note 4—Restricted and Board designated assets

Restricted and Real Estate Foundation Board of Trustees (the "Board") designated assets included in Operating Funds Held by Trustee and Bond Proceeds Restricted for Construction, Debt Service, and Reserves are as follows:

	2014
Restricted for:	
Debt Service	$ 6,326,292
Construction	4,485,507
Future Repairs and Replacements of Real Property	1,291,745
Total Restricted	12,103,544
Designated for:	
General Operations of the Real Estate Foundation	-
Total Restricted and Designated	$ 12,103,544

Note 4—Restricted and Board designated assets (continued)

The carrying values of the restricted and Board designated cash and cash equivalents and investment balances above are included in the Statements of Net Position as follows:

	2014
Operating Funds Held by Trustee	$ 1,291,745
Bond Proceeds Restricted for Construction, Debt Service, and Reserves	10,811,799
Total Restricted and Designated	$ 12,103,544

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

	2014
Designated for:	
Debt Service	$ 3,914,706
Future Repairs and Replacements of Real Property	3,585,634
Terry College Phase I Lease Termination	2,200,000
General Operations of the Real Estate Foundation	400,000
Total Designated	10,100,340
Undesignated Cash and Cash Equivalents	15,215,016
Total Cash and Cash Equivalents	$ 25,315,356

Note 5—Capital leases receivable

The Real Estate Foundation has entered into multiple 20 to 30 year capital lease agreements (1-year leases with annual renewals) with the Board of Regents to occupy the Real Estate Foundation's facilities. Lease payments are due monthly. At the end of the lease term, ownership of the leased facilities will be transferred to the Board of Regents.

As of June 30, 2014, net capital leases receivable were $274,032,100. This amount includes future minimum lease payments to be received of $509,516,256 as of June 30, 2014, of which $235,484,156 is unearned interest.

Note 5—Capital leases receivable (continued)

As of June 30, 2014, lease payments are receivable as follows:

2015	$ 23,784,066
2016	23,775,012
2017	23,763,842
2018	23,751,835
2019	23,738,927
2020 - 2024	118,464,477
2025 - 2029	116,669,390
2030 - 2034	107,229,641
2035 - 2039	44,845,242
2040	3,493,824
Total Payments to be Received	509,516,256
Less Amounts Representing Interest	(235,484,156)
Total Leases Receivable	274,032,100
Less Current Portion	(5,434,367)
Noncurrent Leases Receivable	$ 268,597,733

Note 6—Capital assets

Capital assets consisted of the following at June 30, 2014:

	Restated Balance at June 30, 2013	Additions	Disposals & Reclasses	Balance at June 30, 2014
Nondepreciable Capital Assets:				
Land	$ 15,724,224	$ -	$ -	$ 15,724,224
Construction in Progress	22,121,161	22,558,260	(21,766,743)	22,912,678
Easement	1,835,296	-	-	1,835,296
Total Nondepreciable Capital Assets	39,680,681	22,558,260	(21,766,743)	40,472,198
Depreciable Capital Assets:				
Furniture and Equipment	197,392	-	-	197,392
Less: Accumulated Depreciation	(191,688)	(1,894)	-	(193,582)
Buildings and Improvements	3,179,498	5,500,000	(5,500,000)	3,179,498
Less: Accumulated Depreciation	(890,073)	(114,323)	-	(1,004,396)
Total Depreciable Capital Assets	2,295,129	5,383,783	(5,500,000)	2,178,912
Capital Assets, net	$ 41,975,810	$ 27,942,043	$ (27,266,743)	$ 42,651,110

Note 7—Long-term debt

Bolton Entity

$24,400,000 Bond Issue – In 2013, the Development Authority of the Unified Government of Athens–Clarke County, Georgia (the "Development Authority") issued Revenue Bonds (UGAREF Bolton Commons, LLC Project), Series 2013 (the "Bolton Bonds") and entered into an agreement (the "Bolton Loan Agreement") to loan $24,400,000 to the Bolton Entity. Payment of principal and interest under the Bolton Bonds is secured by certain real property constituting a dining facility and by the Bolton Entity's interest in certain rents and leases derived from the facility. The Bolton Entity is using the proceeds of this loan to fund construction of the dining facility. The facility is reported as construction in progress at June 30, 2014.

Borrowings under the Bolton Loan Agreement bear interest payable semi-annually on December 15 and June 15 at fixed rates ranging from 3.0% to 5.0% depending on the schedule of bond maturities. Principal payments are due annually on June 15 starting in 2015 and continue through 2044.

Carlton Entity

$7,960,000 Bond Issue – In 2009, the Development Authority issued Educational Facilities Revenue Refunding Bonds (UGAREF Carlton Street Parking Deck, LLC Project), Series 2009 (the "Carlton Bonds") and entered into an agreement (the "Carlton Loan Agreement") to loan $7,960,000 to the Carlton Entity. Payment of principal and interest under the Carlton Bonds was secured by certain real property constituting a parking facility and by the Carlton Entity's interest in certain rents and leases derived from the facility. The Carlton 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. The parking facility was sold to the University in June 2014.

Borrowings under the Carlton Loan Agreement bore interest payable semi-annually 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 were due annually on June 15 and continued through 2031.

On June 16, 2014, the Development Authority entered into an agreement with the Carlton Entity to early extinguish $6,675,000 of outstanding Carlton Bonds with interest rates ranging from 3.625% to 4.500% pursuant to the sale of the Carlton Entity's parking deck to the University.

A portion of the proceeds received from the University in the net amount of $7,463,825 (after payment of $34,668 in extinguishment costs) was transferred from the Carlton 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 Carlton Bonds. As a result, $6,675,000 of outstanding Carlton Bonds are considered to be defeased and the liability for those bonds has been removed from the Statements of Net Position for the year ended June 30, 2014.

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 $799,423. This difference has been charged to operations as an ordinary loss on debt extinguishment during the year ended June 30, 2014. The Carlton Entity completed the early extinguishment in order to repay the Carlton Bonds, to sell its parking deck to the University, and to reduce the total debt service payments on the Carlton Bonds over the next 17 years by $1,556,381. The resulting economic gain (difference between the present value of the extinguished debt and the cash amount transferred to escrow) is $857,144 using an effective interest rate of 1.5443%.

Note 7—Long-term debt (continued)

CCRC Entity

$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 the CCRC Entity. Payment of principal and interest under the 2002 CCRC Bonds was 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.

Borrowings under the 2002 CCRC Loan Agreement bore interest payable semi-annually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments were due annually on December 15. On December 15, 2011, bond principal of $32,620,000 was fully defeased (see the *$32,580,000 Bond Issue* below). The 2002 CCRC Bonds were 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 Revenue Bonds with interest rates ranging from 3.7% to 5.0%. Payment of principal and interest under the 2011 CCRC Bonds is secured by certain real property constituting a research facility and by the CCRC Entity's interest in certain rents and leases derived from the facility.

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 fund all future debt service payments on the refunded 2002 CCRC Bonds. As a result, $32,620,000 of outstanding 2002 CCRC Bonds were considered to be defeased and the liability for those bonds was removed from the Statement of Net Position during Fiscal 2012. The 2002 CCRC Bonds were redeemed in full on December 15, 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 $1,441,162 (restated). This difference, reported in the accompanying Statements of Net Position as a deferred outflow of resources, 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 through 2032 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 semi-annually on December 15 and June 15. Principal payments are due annually on December 15 and continue through 2032.

Note 7—Long-term debt (continued)

Central Precinct Entity

$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 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 semi-annually 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 annually on June 15 and continue through 2038.

Coverdell Entity

$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 "2004 Coverdell Bonds"). The Development Authority entered into an agreement (the "2004 Coverdell Loan Agreement") to loan $25,970,000 to the Coverdell Entity. Payment of principal and interest under the 2004 Coverdell Bonds was 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 2004 Coverdell Loan Agreement bore interest payable semi-annually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments were due annually on December 15. The 2004B Coverdell Bonds were paid in full in 2007. The remaining principal balance of $22,295,000 on the outstanding 2004A Coverdell Bonds was fully defeased on May 16, 2013 (see the *$21,100,000 Bond Issue* below).

$21,100,000 Bond Issue – On May 16, 2013, the Development Authority issued $21,100,000 in Revenue Refunding Bonds (UGAREF Coverdell Building, LLC Project), Series 2013 (the "2013 Coverdell Bonds") with interest rates ranging from 2.0% to 5.0% and entered into an agreement (the "2013 Coverdell Loan Agreement") with the Coverdell Entity to advance refund $22,295,000 of outstanding 2004A Educational Facilities Revenue Bonds with interest rates ranging from 4.0% to 5.0%. Payment of principal and interest under the 2013 Coverdell Bonds is 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 net proceeds of $22,666,446 plus an additional $823,253 of 2004 Coverdell Bonds debt service reserve funds and $828,730 debt service funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to fund all future debt service payments on the refunded 2004 Coverdell bonds. As a result, $22,295,000 of outstanding 2004 Coverdell Bonds are considered to be defeased and the liability for those bonds was removed from the Statement of Net Position during Fiscal 2013.

Note 7—Long-term debt (continued)

Coverdell Entity (continued)

$21,100,000 Bond Issue (continued) – 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 $1,680,333 (restated). This difference, reported in the accompanying Statements of Net Position as a deferred outflow of resources, is being charged to operations as interest expense through December 15, 2034, using the straight-line method. The Coverdell Entity completed the advance refunding to reduce its total debt service payments through 2034 by $3,073,367 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,706,994 at an effective interest rate of 3.039%.

Borrowings under the 2013 Coverdell Loan Agreement bear interest payable semi-annually on December 15 and June 15. Principal payments are due annually on December 15 and continue through 2034.

EC Housing Entity

$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 EC Housing Bonds") and entered into an agreement (the "2002 EC Housing Loan Agreement") to loan $99,860,000 to the EC Housing Entity. Payment of principal and interest under the 2002 EC Housing Bonds was insured by a financial guaranty insurance policy and secured by certain real property constituting the facilities and by the EC Housing Entity's interest in certain rents and leases derived from the facilities. The EC 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 EC Housing Loan Agreement bore interest payable semi-annually on December 1 and June 1 at fixed rates ranging from 3% to 5.25% depending on the schedule of bond maturities. Principal payments were due annually on December 1. The 2002 EC Housing Bonds were redeemed in full on December 1, 2012.

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 EC Housing Bonds (see *$34,090,000 Bond Issue* below).

On August 31, 2010, the Housing Authority entered into an agreement with the EC Housing Entity to early extinguish $5,235,000 of outstanding 2002 EC Housing Bonds with interest rates ranging from 4.00% to 5.00% pursuant to the sale 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) were transferred from the EC Housing Entity and deposited into an irrevocable trust with an escrow agent and used to purchase U.S. government securities. Those securities funded all future debt service payments on the extinguished portion of the 2002 EC Housing Bonds. As a result, $5,235,000 of outstanding 2002 EC Housing Bonds were considered defeased and the liability for those bonds was removed from the Statement of Net Position during Fiscal 2011. The 2002 EC Housing Bonds were redeemed in full on December 1, 2012.

Note 7—Long-term debt (continued)

EC Housing Entity (continued)

$99,860,000 Bond Issue (continued) – 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 $483,747 (restated). The EC Housing Entity completed the early extinguishment in order to repay the 2002 EC Housing Bonds related to the parking deck, to sell the parking deck to the University, and to reduce its total debt service payments on the 2002 EC 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 EC 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 EC Housing Bonds") with interest rates ranging from 2.5% to 5.0% and entered into an agreement (the "2010 EC Housing Loan Agreement") with the EC Housing Entity to advance refund $32,140,000 of outstanding 2002 EC Housing Bonds with interest rates ranging from 4.0% to 5.25%. Payment of principal and interest under the 2010 EC Housing Bonds is secured by certain real property constituting the facilities and by the EC Housing Entity's interest in certain rents and leases derived from the facilities.

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 EC 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 fund all future debt service payments on the refunded portion of the 2002 EC Housing Bonds. As a result, $32,140,000 of outstanding 2002 EC Housing Bonds were considered to be defeased and the liability for those bonds was removed from the Statement of Net Position during Fiscal 2010. The 2002 EC Housing Bonds were redeemed in full on December 1, 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 $2,949,160 (restated). This difference, reported in the Statements of Net Position as a deferred outflow of resources, is being charged to operations as interest expense through December 1, 2023, using the straight-line method. The EC 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 EC Housing Loan Agreement bear interest payable semi-annually on December 1 and June 1. Principal payments are due annually on December 1 and continue through 2023.

On August 31, 2010, the Housing Authority entered into an agreement with the EC Housing Entity to early extinguish $3,410,000 of outstanding 2010 EC Housing Bonds with interest rates ranging from 3.25% to 5.00% pursuant to the sale 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 EC 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 EC Housing Bonds. As a result, $3,410,000 of outstanding 2010 EC Housing Bonds are considered to be defeased and the liability for those bonds was removed from the Statement of Net Position during Fiscal 2011.

Note 7—Long-term debt (continued)

EC Housing Entity (continued)

$34,090,000 Bond Issue (continued) – 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 $217,525 (restated). The EC Housing Entity completed the early extinguishment in order to repay the 2010 EC Housing Bonds related to the EC Housing Entity's parking deck, to sell the parking deck to the University, and to reduce its total debt service payments on the 2010 EC 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 EC Housing Bonds, resulted in a net economic gain of $2,181 for the extinguishment of debt on the combined 2002 and 2010 EC Housing Bonds related to the EC Housing Entity's 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 EC Housing Bonds") with interest rates ranging from 2.0% to 5.0% and entered into an agreement (the "2011 Housing Loan Agreement") with the EC Housing Entity to advance refund $46,720,000 of outstanding 2002 EC Housing Bonds with interest rates ranging from 4.0% to 5.0%. Payment of principal and interest under the 2011 EC Housing Bonds is secured by certain real property constituting the facilities and by the EC Housing Entity's interest in certain rents and leases derived from the facilities.

The net proceeds of $48,814,385 plus an additional $178,618 of 2002 EC 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 fund all future debt service payments on the refunded portion of the 2002 EC Housing Bonds. As a result, $46,720,000 of outstanding 2002 EC Housing Bonds were considered to be defeased and the liability for those bonds was removed from the Statement of Net Position during Fiscal 2012. The 2002 EC Housing Bonds were redeemed in full on December 1, 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 $1,646,076 (restated). This difference, reported in the accompanying Statements of Net Position as a deferred outflow of resources, is being charged to operations as interest expense through December 1, 2033, using the straight-line method. The EC Housing Entity completed the advance refunding to reduce its total debt service payments through 2033 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 EC Housing Loan Agreement bear interest payable semi-annually on December 1 and June 1. Principal payments are due annually on December 1 and continue through 2033.

EC Housing Phase II Entity

$49,875,000 Bond Issue – In 2009, the Housing Authority issued Revenue Bonds (UGAREF East Campus Housing Phase II, LLC Project), Series 2009 (the "EC Housing Phase II Bonds") and entered into an agreement (the "EC Housing Phase II Loan Agreement") to loan $49,875,000 to the EC Housing Phase II Entity. Payment of principal and interest under the EC Housing Phase II Bonds is secured by certain real property constituting a residence hall, and by the EC Housing Phase II Entity's interest in certain rents and leases derived from this facility. The EC 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 EC Housing Phase II Loan Agreement bear interest payable semi-annually 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 annually on June 15 and continue through 2040.

Note 7—Long-term debt (continued)

Fraternity Row Entity

$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 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 semi-annually 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 annually on June 15 and continue through 2039.

O'Malley's Entity

$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 the O'Malley's Entity. Payment of principal and interest under the O'Malley's Bonds is secured by certain real property constituting an educational facility 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 used 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 semi-annually 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 annually on June 15 and continue through 2028.

PAC Entity

$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 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 semi-annually 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 annually on June 15 and continue through 2039.

Rutherford Entity

$21,910,000 Bond Issue – In 2012, the Housing Authority issued Revenue Bonds (UGAREF Rutherford Hall, LLC Project), Series 2012 (the "Rutherford Bonds") and entered into an agreement (the "Rutherford Loan Agreement") to loan $21,910,000 to the Rutherford Entity. Payment of principal and interest under the Rutherford Bonds is secured by certain real property constituting a residence hall, and by the Rutherford Entity's interest in certain rents and leases derived from this facility. The Rutherford Entity used the proceeds of this loan to fund construction of a residence hall, which was placed in service in July 2013.

Borrowings under the Rutherford Loan Agreement bear interest payable semi-annually 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 annually on June 15 starting in 2014 and continue through 2033.

Note 7—Long-term debt (continued)

Real Estate Foundation

$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, 2014, amounts outstanding or issued under this agreement included borrowings of $8,516,222, with no unused letters of credit or bank reserves, resulting in $41,483,778 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day London InterBank Offered Rate plus 80.0 basis points (or 0.80%). At June 30, 2014, the rate applicable to the borrowings was 0.95%. 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, 2014, the rate applicable to the unused capacity was 0.10%.

Under this revolving credit agreement, certain borrowings are subject to a guarantee requirement with the Research Foundation as guarantor. As of June 30, 2014, 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, 2014, the Real Estate Foundation was not aware of any violations of the covenants.

Following is a summary as of June 30, 2014, 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
2015	$ 12,685,000	$ 13,603,229
2016	9,405,000	13,161,809
2017	9,715,000	12,813,571
2018	10,075,000	12,428,454
2019	10,355,000	12,001,366
2020 - 2024	58,545,000	52,960,304
2025 - 2029	70,990,000	38,708,086
2030 - 2034	79,570,000	21,756,009
2035 - 2039	40,615,000	7,564,481
2040 - 2044	8,540,000	914,200
	$ 310,495,000	$ 185,911,509

Note 7—Long-term debt (continued)

Changes in Long-Term Debt for the fiscal year ended June 30, 2014, are shown below:

	Restated Balance at June 30, 2013	Additions	Disposals and Reductions	Balance at June 30, 2014	Current Portion
Bonds Payable	$ 331,715,000	$ -	$ (21,220,000)	$ 310,495,000	$12,685,000
Net Premium (Discount)	1,929,185	-	(221,781)	1,707,404	-
Total Bonds Payable	333,644,185	-	(21,441,781)	312,202,404	12,685,000
Revolving Credit Agreement	9,955,786	5,457,327	(6,896,891)	8,516,222	-
Total Noncurrent Liabilities	$ 343,599,971	$ 5,457,327	$ (28,338,672)	$ 320,718,626	$12,685,000

A summary of the components of interest cost for the year ended June 30, 2014, is as follows:

	Total Interest	Amount Capitalized	Amount Expensed
Interest Cost			
Interest Expense	$ 14,603,456	$ 1,066,636	$ 13,536,820
Amortization of Premiums, Discounts, and Deferred Loss	238,078	(41,767)	279,845
Fees	283,229	7,380	275,849
Interest Income	(275,510)	(1,537)	(273,973)
Total Interest Cost	$ 14,849,253	$ 1,030,712	$ 13,818,541

Note 8—Operating leases

The Real Estate Foundation is a lessee under an amended multi-year operating lease for University education facilities at One Live Oak Center, Atlanta, Georgia, that expires on August 31, 2024, with escalating rents. For the year ended June 30, 2014, rent expense has been recognized on a straight-line basis in the amount of $562,229, and a straight-line lease liability of $55,397 is included in liabilities as of June 30, 2014.

The Real Estate Foundation was a lessee under an amended multi-year operating lease for University office space on Spring Street in Athens, Georgia, that expired in June 2014. For the year ended June 30, 2014, rent expense has been recognized on a straight-line basis in the amount of $413,049, and a straight-line lease liability of $0 is included in liabilities as of June 30, 2014.

The Real Estate Foundation is a lessee under a multi-year 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, 2014, rent expense has been recognized on a straight-line basis in the amount of $1,327,448, and a straight-line lease liability of $896,417 is included in liabilities as of June 30, 2014.

Note 8—Operating leases (continued)

The following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2014, that have initial or remaining noncancelable lease terms in excess of one year:

Years Ending June 30,	
2015	$ 1,523,447
2016	2,237,066
2017	2,296,986
2018	2,358,467
2019	1,653,754
2020 - 2024	4,842,940
2025	171,933
	$ 15,084,593

Note 9—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, 2014, the amounts reported as Rental Income and Capital Lease Interest Income in the Statements of Revenues, Expenses, and Changes in Net Position 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 be reimbursed by the Board of Regents. Amounts reimbursed are primarily insurance and property taxes. For the year ended June 30, 2014, the expenses which were paid by the Real Estate Foundation and reimbursed by the University are reported as Receipts for Payments Reimbursable by the University and Affiliates and Payments Reimbursable by the University and Affiliates 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.

Note 9—Related-party transactions (continued)

The Real Estate Foundation has entered into an administrative services agreement with the University whereby the University provides project management, accounting, and other administrative services, 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, 2014, the Real Estate Foundation paid $280,000 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

On July 13, 2012, the Real Estate Foundation and the University of Georgia Foundation (the "UGA Foundation") entered into a Memorandum of Agreement ("Lease Termination MOA") in connection with 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 Lease 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 UGA Foundation deposited $4,700,000 with the Real Estate Foundation in July 2012 for the purpose of paying the termination funds. During the year ended June 30, 2013, the Real Estate Foundation paid Sigma Chi $2,500,000 related to this agreement. Expenses paid by the Real Estate Foundation and reimbursed by the UGA Foundation are reported as Receipts for Payments Reimbursable by the University and Affiliates and Payments Reimbursable by the University and Affiliates in the Statements of Cash Flows. The remaining $2,200,000 to be paid to Sigma Chi related to this agreement is included in Accounts Payable and Accrued Liabilities on the Statements of Net Position as of June 30, 2014. The relocation was completed on schedule and the remaining $2,200,000 was paid to Sigma Chi in July 2014.

On March 1, 2013, the Real Estate Foundation and the UGA Foundation entered into a Memorandum of Agreement (the "Terry Entity MOA") for the Real Estate Foundation to oversee the design and construction of the Terry Entity project, a new approximately 75,000 square foot building, on the campus of the University for the Terry College of Business. The Terry Entity MOA specifies that the UGA Foundation will reimburse the Real Estate Foundation for all project costs incurred by the Real Estate Foundation in connection with the completion of the Terry Entity project. During Fiscal 2014, the Real Estate Foundation was reimbursed $3,159,335 for project costs and had a receivable from the UGA Foundation for $2,485,654 at June 30, 2014. Expenses paid by the Real Estate Foundation and reimbursed by the UGA Foundation are reported as Receipts for Payments Reimbursable by the University and Affiliates and Payments Reimbursable by the University and Affiliates in the Statements of Cash Flows.

On March 25, 2013, the Real Estate Foundation and the University entered into a Memorandum of Understanding (the "MOU") for the Real Estate Foundation to oversee improvements to the University's property in connection with replacement of the Bolton Dining Commons. The MOU specifies that the University will reimburse the Real Estate Foundation for all project costs incurred by the Real Estate Foundation in connection with the improvements not to exceed $5,000,000. During Fiscal 2014, the Real Estate Foundation was reimbursed by the University for $1,126,861 in project costs and had a receivable of $0. Expenses paid by the Real Estate Foundation and reimbursed by the University are reported as Receipts for Payments Reimbursable by the University and Affiliates and Payments Reimbursable by the University and Affiliates in the Statements of Cash Flows.

In May 2013, the Board authorized the Spring Entity to exercise its option to purchase the improved real property known as the Porterfield Property which was leased by the Spring Entity. In May 2014, the Board authorized the Spring Entity to grant an option to the Board of Regents for the purchase of the property from the Spring Entity. On June 18, 2014, the Spring Entity purchased the Porterfield Property for $5,500,000 and sold the property to the University on June 26, 2014, for $3,000,000. After incurring closing and pre-purchase costs of $45,279, the resulting loss of $2,545,279 is shown as a Loss on Disposal of Assets in the Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2014. The Spring Entity borrowed $2,535,791 from the Real Estate Foundation to complete the acquisition. The Board approved debt forgiveness of this amount.

Note 9—Related-party transactions (continued)

In May 2014, the Board approved the use of $1,258,172 of the Real Estate Foundation's cash to pay off the Cortona Foundation's debt. The payoff was completed on May 30, 2014 and the debt between the Real Estate Foundation and Cortona Foundation was forgiven as approved by the Board. Due to this debt reduction, the General Council of the Cortona Foundation approved a rent reduction to the University.

On June 16, 2014, the Carlton Entity sold its parking deck facility to the University. In connection with the sale, the Development Authority entered into an agreement with the Carlton Entity to early extinguish $6,675,000 of the outstanding Carlton Bonds. The loss on extinguishment of the bonds was $799,423. The gain on the sale was $305,697. This gain was included in Loss on Disposal of Assets, Net of Gains for the year ended June 30, 2014, in the Statements of Revenues, Expenses, and Changes in Net Position, and consisted of the following components:

Proceeds received from University	$	7,498,494
Capital lease receivable at time of sale		(7,192,797)
Total Gain	$	305,697

Note 10—Commitments and contingencies

The Real Estate Foundation has the following 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 replacement of Rutherford Hall, a residence hall located on the University campus. Construction for the replacement of Rutherford Hall began in May 2012. As of June 30, 2013, expenditures for construction in progress were $20,514,357 and the facility was placed in service on August 1, 2013, when the construction in progress was reclassified as a capital lease receivable for $21,700,179 with the Board of Regents. Occupancy began in August 2013 and 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 Commons, a dining facility on the University campus. Construction began in November 2012 and as of June 30, 2014 expenditures for construction in progress were $22,865,731. The Bolton Entity dining facility was placed in service August 1, 2014 and, subsequent to Fiscal 2014, is under lease with the Board of Regents. This project is expected to provide sufficient resources to fund the obligations of the project.

During July 2012, the Board approved the University's request for the Real Estate Foundation to enter into a Lease Termination Agreement with Sigma Chi. The purpose of the request is the relocation of the existing Sigma Chi fraternity house by June 30, 2014. The UGA Foundation deposited $4,700,000 with the Real Estate Foundation in July 2012. Payments to Sigma Chi have been made according to a designated schedule and as of June 30, 2014 the amount owed on this Lease Termination Agreement was $2,200,000. The relocation was completed on schedule and the remaining $2,200,000 was paid to Sigma Chi in July 2014.

Note 11—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 a Board resolution based on the plan documents. For the year ended June 30, 2014, the employees of the Real Estate Foundation contributed $20,140 to the plan and the Real Estate Foundation incurred employer contributions to the plan for two employees in the amount of $24,116 for the same time period.

Note 12—Change in accounting principle

During the year ended June 30, 2014, the Real Estate Foundation implemented SGAS No. 65, *Items Previously Reported as Assets and Liabilities*. SGAS No. 65 requires accounting changes adopted to conform to its provisions to be applied retroactively by restating financial statements for all periods presented. For the Real Estate Foundation, restatement is required to recognize the cost of bond issuances when incurred, rather than amortizing these costs over the life of the bond. Additionally, restatement is required to recognize deferred loss on refundings as a deferred outflow of resources rather than a component of bonds payable. The following summarizes the effect of the restatement of the financial statements as of and for the year ended June 30, 2013, as a result of the implementation of SGAS No. 65:

	2013	
	As Previously Reported	Restated
Statements of Net Position:		
Noncurrent Assets:		
Cost of Bond Issuance, net of Accumulated Amortization	$ 4,045,390	$ -
Deferred Outflows of Resources:		
Deferred Loss on Refundings	-	6,767,784
Noncurrent Liabilities:		
Bonds Payable, noncurrent portion	309,740,274	319,099,185
Net Position:		
Unrestricted	30,668,377	23,986,903
Total Net Position	41,959,748	35,278,004
Statements of Revenues, Expenses, and Changes in Net Position:		
Nonoperating Revenues (Expenses):		
Interest Expense, net	(12,617,536)	(12,928,212)
Change in Net Position	5,077,310	4,766,634

Cherry Bekaert LLP
CPAs & Advisors

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Georgia Research Foundation, Inc. (the "Research Foundation"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the State of Georgia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements, and have issued our report thereon dated September 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Research Foundation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Research Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Research Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Augusta, Georgia
September 17, 2014