# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Financial Statements for the year ended June 30, 2011

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

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The *Statement of Cash Flows*

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

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

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

Operating expenses increased by $13,977,465 or 9%, due to increases in 15fai

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

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

Cash flows from operations primarily include receipts from research sponsors and licensees, net of disbursements for operations. The net cash flow used in operating activities in Fiscal 2011 reflects decreased receipts of licensing fees and royalties as well as a decrease in most expenditure categories.

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

***Economic Outlook***

The Research Foundation ended Fiscal 2011 with a modest increase in its net asset position. Nationally, research funding remains competitive, however, sponsored research showed a substantial increase at the University. Licensing and royalties revenue remained relatively stable between Fiscal 2011 and Fiscal 2010. The Research Foundation continues to leverage commercialization opportunities with economic potential to provide new revenue streams.

Due to the slow economic recovery in the State of Georgia, the University is expecting budget cuts to continue in Fiscal 2012. Therefore, the Research Foundation's financial support of the University's research mission will continue to be a primary focus. Through financial planning and budgeting, the Research Foundation is able to continue its support of existing and new research initiatives through its unrestricted net assets.

Questions concerning this report or requests for additional information should be directed to Holley Schramski, University of Georgia Controller, at (706) 542-6860 or at 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

## UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

### Statement of Net Assets

### June 30, 2011

| | Research Foundation | UMH | Real Estate Foundation |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |

## UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

### Statement of Net Assets - Continued

### June 30, 2011

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

See notes to financial statements.

## UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

### Statement of Cash Flows

### For the Year Ended June 30, 2011

| | Research Foundation |
|---|---|
| **Cash flows from operating activities** | |
| Receipts from research sponsors | $ 150,095,122 |
| Receipts of licensing, royalties, and other | 7,731,922 |

**Note 2 – Summary of significant accounting policies (Continued)**

***Reporting entity (Continued)*** – The Real Estate Foundation and UMH qualify as component units of the Research Foundation. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets of the Real Estate Foundation and UMH are reported discretely in the Research Foundation's financial statements for fiscal year 2011 as required by government accounting standards.

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

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

***Basis of accounting*** – For financial reporting purposes, the Research Foundation is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the Research Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

***Cash and cash equivalents*** – The Research Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments, which consist of money markets, certificates of deposit, and repurchase agreements, are carried at cost, which approximates market value.

***Investments*** – In accordance with SGAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Research Foundation is required to present certain investments at their fair value if the investment has a readily determined market value.

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

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

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

**Note 2 – Summary of significant accounting policies (Continued)**

***Revenue recognition*** – Revenue from sponsored research is recognized as expenditures are made for approved research activities. A sponsored research receivable is recorded for amounts expended for authorized purposes but not yet reimbursed by research sponsors. Payments by research sponsors in advance of research expenditures are recorded and classified as funds received for sponsored research in the statement of net assets. Such amounts are deposited with the University.

Licensing revenues and royalties are derived from licensing of the Research Foundation's intellectual property rights and are generally computed as a royalty based upon a percentage of the licensee's sales of products incorporating the rights licensed from the Research Foundation. Such licensing and royalties are recognized when received except that payments of royalties received in advance of actual sales are initially deferred and subsequently recognized on a

**Note 3 – Deposits and investments (Continued)**

**A. Deposits (Continued)**

At June 30, 2011, the book value of the Research Foundation’s deposits, including demand accounts and cash and cash equivalents held in managed investment accounts, was $7,303,325. The bank and investment account balances at June 30, 2011 were $7,295,985 of which $7,290,146 was uninsured.

**Note 3 – Deposits and investments (Continued)**

**B. Investments (Continued)**

Interest rate risk

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

Custodial credit risk

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

At June 30, 2011, $21,649,940 of the Research Foundation's applicable investments wa

**Note 3 – Deposits and investments (Continued)**

**B. Investments (Continued)**

Credit quality risk

## Note 3 – Deposits and investments (Continued)

### B. Investments (Continued)

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Research Foundation's policy for managing concentration of credit risk is divided between short-term and long-term investments. For short-term investments, maximum percentages are set for cash and cash equivalents at 15%, asset backed securities at 50% and corporate bonds at 90%, while U. S. Treasuries, U. S. Agencies debt, and certificates of deposit may comprise 100% for the short-term investments. For long-term investments, equities comprise 20-70%, bonds 30-70% and alternative investments can range 0-20%.

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

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

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or As oaosit As otment4 exceas

**Note 4 – Investments (Continued)**

**C. Investments – Cost Method**

During 2009, the Research Foundation made a commitment to invest $1,000,000 in GRA Venture Fund (T. E.), LLC, (the "Fund"). The Fund was created by the Georgia legislature whereby State funds and funds from profit and not-for-profit entities will be combined to provide seed and early stage venture financing for businesses formed around intellectual property resulting from Georgia Research Alliance universities. During fiscal year 2011, the Research Foundation made contributions

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

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

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

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

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

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

**Note 6 – Facilities and administrative cost revenue**

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

**Note 7 – Summary of sponsored research activity**

The activity for sponsored research awarded to the Research Foundation is summarized for the year ended June 30, 2011 as follows:

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

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

**Note 8 – Capital assets**

Capital assets consisted of the following:

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

**Note 9 – Related party transactions**

On July 23, 1991, the Research Foundation purchased a library storage facility and approximately four acres of land for approximately $1.2 million and subsequently leased the 38,000 square-foot facility to the University. The lease is renewable annually, at the University's option, through June 30, 2014. The monthly rental for this lease agreement is $6,275. The lease rental for the year ended June 30, 2011 was $75,300. The library storage facility is being depreciated over 25 years.

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

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

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

**Note 10 – Significant funding sources**

For the fiscal year ended June 30, 2011, approximately $115,900,000 (89%) of the Research Foundation's total federal expenditures and support were awarded by four (4) agencies of the United States government. Changes in governmental spending could have a significant impact on the operations of the Research Foundation.

**Note 11 – Commitments and contingencies**

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

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

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

Annual commitments totaling $482,565 exist to support general operating costs of the Research Computing Center, the Coverdell and Riverbend buildings, to provide access dues

## UGARF MEDIA HOLDINGS, LLC

**Note 1 – Organization**

**Note 2 – Summary of significant accounting policies (Continued)**

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

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

***Nonmonetary Transactions*** – FASB Accounting Principles Board Opinion No. 29, *Nonmonetary Transactions*, addresses the issue of nonmonetary transactions. UMH engages in two types of nonmonetary transactions, barter and trade.

Barter revenue and expense occurs when a vendor enters into an agreement with UMH to air the vendors programming for free or for a reduced cost to UMH. The vendor's program is aired with the vendor's advertising spots inserted for which the vendor received the revenue. UMH may or may not be allowed to insert a number of advertising spots into the programming that the UMH receives the revenue for. A formula is used in determining the value of these transactions.

The revenue and expense occur simultaneously at the time that the program is aired. For the year ended June 30, 2011, UMH recognized barter income and expense of $220,644.

Trade revenue and expense occurs when a customer/vendor enters into an agreement to purchase advertising spots and in exchange UMH gets a tangible product or service. The cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered (advertising spots) to obtain the product or service. Revenue and expense can occur at different times. For the year ended June 30, 2011, UMH recognized trade income of $5,350 and trade expense of $5,815.

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**Note 2 – Summary of significant accounting policies (Continued)**

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

**Note 3 – Related Party Transactions**

UMH entered into a time brokerage agreement with the Board of Regents of the University System of Georgia, by and on behalf of the University of Georgia, Grady College of Journalism and Mass Communication (the University) to operate the station in conformity with the Communications Act of 1924, as amended, and FCC rules, regulations and policies. The agreement commenced on October 15, 2008, and expired May 1, 2011 upon transfer of the FCC license to the University. The agreement required the University to provide project management, accounting, and other administrative services to ensure the compliant operations of WNEG-TV. During Fiscal 2011 UMH paid $650,527 to the University under the terms of that agreement.

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

On May 1, 2011, UMH transferred certain personal propert

## REAL ESTATE FOUNDATION

### Note 1 – Organization

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

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

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

### Note 2 – Summary of Significant Accounting Policies

***Basis of Presentation*** – The Real Estate Foundation’s financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”) and include the accounts of the Real Estate Foundation’s limited liability companies. All balances and transactions between the Real Estate Foundation and these limited liability companies have been eliminated.

The GASB has issued Statements of Governmental Accounting Standards (“SGAS”) No. 35, *Basic Financial Statements–and Management’s Discussion and Analysis–for Public Colleges and Universities* and SGAS No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required b.5(m)nh’s oysis–for Public

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

The Real Estate Foundation qualifies as a component unit of the Research Foundation. The statements of the Real Estate Foundation are reported discretely in the Research Foundation's financial statements. The Real Estate Foundation is the sole member of a number of limited liability companies, which effectively carry out the operations of the Real Estate Foundation. Therefore, the Real Estate Foundation and all its limited liability companies are shown using a blended presentation; that is, the activity of the Real Estate Foundation and all its limited liability companies is shown in the same column.

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

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

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

In accordance with SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Real Estate Foundation is required to follow all applicable GASB pronouncements. In addition, the Real Estate Foundation has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**

**Note 3 – Deposits and Investments**

**A. Deposits**

At June 30, 2011 the bank balance of the Real Estate Foundation's deposits, consisting of cash held in interest bearing checking accounts at financial institutions, cash and cash equiva

## Note 4 – Investments

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

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

## Note 5 – Restricted and Board Designated Assets

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

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

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

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

**Note 9 – Long-Term Debt**

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

**Note 9 – Long-Term Debt (Continued)**

***$99,860,000 Bond Issue (Continued)***

**Note 9 – Long-Term Debt (Continued)**

***$34,090,000 Bond Issue (Continued)*** — A portion of the proceeds received from the University in the net amount of $3,810,217 (after payment of $24,520 in extinguishment costs) was transferred from the Housing Entity and deposited into an irrevocable trust with an escrow agent and used to purchase U.S. government securities. Those securities are to provide for all future debt service payments on the extinguished portion of the 2010 Housing bonds. As a result, $3,410,000 of outstanding 2010 Housing Bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets for the year ended June 30, 2011.

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

***$25,970,000 Bond Issue*** — In 2004, the Development Authority issued $25,545,000 of Educational Facilities Revenue Bonds (UGAREF Coverdell Building, LLC Project), Series 2004A, and $425,000 of Educational Facilities Taxable Revenue Bonds (UGAREF Coverdell Building, LLC Project), Series 2004B (collectively, the "Coverdell Bonds"). The Development Authority entered into an agreement (the "Coverdell Loan Agreement") to loan $25,970,000 to UGAREF Coverdell Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "Coverdell Entity"

**Note 9 – Long-Term Debt (Continued)**

***$15,705,000 Bond Issue*** — In 2009, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF O'Malley's Building, LLC Project), Series 2009 (the "O'Malley's Bonds") and entered into an agreement (the "O'Malley's Loan Agreement") to loan $15,705,000 to UGAREF O'Malley's Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "O'Malley's Entity"). Payment of principal and interest under the O'Malley's Bonds is secured by certain real property constituting the Interim Medical Partnership Building and underlying land, and by the O'Malley's Entity's interest in certain rents and leases derived from this facility. The O'Malley's Entity is using the proceeds of this loan to fund construction of the facility. The project was placed in service in July 2009.

Borrowings under the O'Malley's Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. Principal payments are due on June 15 starting in 2009 and continuing through 2028.

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

**Note 9 – Long-Term Debt (Continued)**

***$49,875,000 Bond Issue*** — In 2009, the Housing Authority issued Revenue Bonds (UGAREF East Campus Housing Phase II, LLC Project), Series 2009 (the "Housing Phase II Bonds") and entered into an agreement (the "Housing Phase II Loan Agreement") to loan $49,875,000 to UGAREF

**Note 9 – Long-Term Debt (Continued)**

**Following is a summary as of June 30, 2011 of principal and interest payments for the face value of the bonds payable during each of the next five years ending June 30 and every five years thereafter:**

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

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

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

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

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

**Note 10 – Disclosures About Fair Value of Financial Instruments**

The Real Estate Foundation adopted the provisions of accounting principles generally accepted in the United States of America as they relate to fair value measurements, for financial assets and liabilities measured at fair value. These principles require fair value measurements be classified and disclosed in one of the following three categories ("Fair Value Hierarchy"):

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.
Level 2: Financial instruments valued using inputs that in

**Note 11 – Operating Leases (Continued)**

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

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

**Note 12 – Related Party Transactions**

The Real Estate Foundation leases real property to the Board of Regents under both operating and capital leases, including space subleased under operating leases to the Board of Regents. The Real Estate Foundation also has one-year licensing agreements with the Board of Regents which provides for the operation of parking lots by the Board of Regents on the Real Estate Foundation's land located on Oconee Street in Athens, Georgia, in exchange for a fee adjusted at the end of the term to reflect actual costs incurred. Additionally, lease agreements provide for certain expenses to be reimbursed to the Real Estate Foundation. For the year ended June 30, 2011, the amounts reported as Rental Income, Capital Lease Interest Income, and Reimbursed Expenses in the Statement of Revenues, Expenses, and Changes in Net Assets consists of revenue earned through lease agreements and the reimbursement of expenses from the Board of Regents. The lease agreements with the Board of Regents are the primary source of revenue for the Real Estate Foundation, which constitutes a concentration of credit risk.

The Real Estate Foundation leases the use of land from the Board of Regents where it has constructed property on Board of Regents' land. These ground leases are for a period of up to 3 years during construction and continue for 30 years after construction is complete for a base rental of $10 per year. Under the ground leases, the ownership of any building or structure constructed on the land passes to the Board of Regents at the end of the ground lease.

The Real Estate Foundation leases air rights from the Board of Regents where it has constructed property above the lower floors on the Board of Regents' land. The air rights lease is for a period of up to three years during construction and continues for 30 years after construction is complete for a base rental of $10 per year. Under the air rights lease, the ownership of any building or structure constructed above the lower floors of the building passes to the Board of Regents at the end of the air rights lease.

The Real Estate Foundation has entered into an administrative services agreement with the University whereby the University provides project management, accounting, and other administrative services, as well as provisions for office space, maintenance, utilities and parking to be provided by the University to the Real Estate Foundation. During the year ended June 30, 2011, the Real Estate Foundation paid $267,382 to the University under the terms of that

**Note 12 – Related Party Transactions (Continued)**

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

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

**Note 13 – Commitments and Contingencies**

In 2009, the Board approved a maximum of $2,187,500 for

This report is intended solely for th

nd, L.L.P. Cherry, Bekaert & Holla