UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2013

And Report of Independent Auditor

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

Other Matters

Required Supplementary Information

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"). UMH was formed in June 2008 to purchase and facilitate the operation of an FCC licensed broadcast television station. During Fiscal 2009 UMH purchased the station and converted transmission to digital broadcast. In May 2011, UMH ceased operations and transferred certain personal property and its FCC license to the University. The remaining personal property, real property, and land were transferred to the Research Foundation effective June 30, 2011. Although UMH is still a legally active entity, it conducted no operations during the fiscal year ended June 30, 2013.

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 the assets, liabilities, and net position of the Research Foundation.

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

Financial Highlights

Condensed financial statements are presented for the year ended June 30, 2013, and one prior fiscal year. In the following discussion, Fiscal 2013 and Fiscal 2012 refer to the years ended June 30, 2013 and 2012, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Position
June 30, 2013 and 2012

	2013	2012	Change	% Change
Assets:				
Current assets	$ 41,463,540	$ 43,852,036	$ (2,388,496)	-5%
Capital assets, net	387,595	651,984	(264,389)	-41%
Other noncurrent assets	43,833,207	42,205,646	1,627,561	4%
Total assets	85,684,342	86,709,666	(1,025,324)	-1%
Liabilities:				
Current liabilities	42,129,095	45,196,234	(3,067,139)	-7%
Total liabilities	42,129,095	45,196,234	(3,067,139)	-7%
Net position:				
Net investment in capital assets	387,595	651,984	(264,389)	-41%
Unrestricted	43,167,652	40,861,448004 Tc-.0248 Tw[ )6.6(U)-31.2(n)-23.8-2cO-2o346 10		

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012	Change	% Change
Operating Revenues:				
Sponsored Research	$145,225,538	$150,752,047	$ (5,526,509)	-4%
Licensing & Royalties and Other	8,888,325	8,490,917	397,408	5%
Total operating revenues	154,113,863	159,242,964	(5,129,101)	-3%
Operating Expenses:				
Research Subcontracted to UGA	141,581,057	146,975,310	(5,394,253)	-4%
Intellectual Property	7,777,589	7,214,813	562,776	8%
Support to UGA	4,340,721	5,523,051	(1,182,330)	-21%
Management and General	1,321,501	1,281,525	39,976	3%
Total operating expenses	155,020,868	160,994,699	(5,973,831)	-4%
Operating loss	(907,005)	(1,751,735)	844,730	48%
Nonoperating revenues (expenses)	3,251,981	(2,257)	3,254,238	144184%
Equity in net loss of Georgia Ventures Partners, LLC	(303,161)	(138,410)	(164,751)	-119%
Increase (decrease) in net position	2,041,815	(1,892,402)	3,934,217	208%
Net position – beginning of year	41,513,432	43,405,834	(1,892,402)	-4%
Net position – end of year	$ 43,555,247	$ 41,513,432	$ 2,041,815	5%

Operating revenues consist primarily of sponsored research, licensing, and royalties. During Fiscal 2013 operating revenues decreased $5,129,101 or 3% primarily due to decreases in sponsored research revenue resulting from a downward trend in research awards.

Operating expenses decreased by $5,973,831 due to decreases in sponsored research and support to the University in Fiscal 2013, offset by an increase related to royalty distributions.

Nonoperating revenues consist of investment income and the change in fair value of investments. Nonoperating revenue of $3,251,981 was recorded for Fiscal 2013, as compared to nonoperating expense of $2,257 in Fiscal 2012. The Fiscal 2013 revenue included $817,819 of investment income and an $2,647,738 increase in the fair value of investments as well as a $213,576 loss on impairment as the result of an appraisal of the Toccoa Facility assets.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

STATEMENT OF NET POSITION

JUNE 30, 2013

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

STATEMENT OF NET POSITION

Research Foundation

Note 1—Organization

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

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

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

In June 2008, the Research Foundation created UGARF Media Holdings, LLC (“UMH”), a limited liability company, and is its sole member. The purpose for the creation of UMH was concluded in fiscal year 2011 and all its assets transferred either to the University or to the Research Foundation. The Research Foundation refers to the transferred assets as the “Toccoa Facility.” Although UMH is still a legal active entity, it conducted no operations during the fiscal year ended June 30, 2013.

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, 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 consists of the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position. In addition, these standards required 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.

Note 2—Summary of significant accounting policies (continued)

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.

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, 2013, the book value of the Research Foundation's deposits, including demand accounts and cash and cash equivalents held in managed investment accounts, was $373,819. The bank and investment account balances at June 30, 2013, were $729,674 of which $514,732 was uninsured. Of these uninsured deposits, none were collateralized with securities held by the financial institution's trust department or agent in the Research Foundation's name, none were collateralized with securities held by the financial institution, by its trust department or agency, but not in the Research Foundation's name, and $514,732 were uncollateralized.

Note 3—Deposits and investments (continued)

B. Investments

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

The Research Foundation's investments at June 30, 2013, 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	$ 5,714,803	$ 188,844	$ 4,747,326	$ 536,110	$ 242,523
U.S. Agencies					
Implicitly Guaranteed	1,095,992	-	899,419	196,573	-
Corporate Debt	6,342,317	514,882	2,984,870	2,044,440	798,125
Repurchase Agreements	5,743,000	5,743,000	-	-	-
	18,896,112	$ 6,446,726	$ 8,631,615	$ 2,777,123	$ 1,040,648
Other Investments					
Equity Mutual Funds - Domestic	3,854,684				
Equity Mutual Funds - International	2,607,430				
Equity Mutual Funds - Global	4,066,198				
Bond Mutual Funds - Domestic	3,036,524				
Bond Mutual Funds - International	1,720,245				
Equity Securities - Domestic	6,124,579				
Equity Securities - International	1,819,406				
Managed Futures / Hedge Funds	6,838,016				
Total Investments	$ 48,963,194				

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, 2013, $26,840,098 of the Research Foundation's applicable investments were uninsured and held by the investment's counterparty in the Research Foundation's name.

Note 3—Deposits and investments (continued)

B. Investments (continued)

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

The Research Foundation's investments at June 30, 2013, 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	$ 1,326,469	$1,095,992	$ 230,477	$ -	$ -
Aa1	32,739	-	32,739	-	-
Aa2	598,197	-	598,197	-	-
Aa3	225,712	-	225,712	-	-
A1	1,034,907	-	1,034,907	-	-
A2	578,672	-	578,672	-	-
A3	1,637,574	-	1,637,574	-	-
Baa1	432,487	-	432,487	-	-
Baa2	1,141,916	-	1,141,916	-	-
Baa3	301,887	-	301,887	-	-
Standard & Poor's					
AA-	127,749	-	127,749	-	-
Morningstar					
5-Star	4,683,862	-	-	4,683,862	-
4-Star	3,514,815	-	-	3,514,815	-
3-Star	7,086,404	-	-	7,086,404	-
Unrated	5,743,000	-	-	-	5,743,000
	28,466,390	$1,095,992	$ 6,342,317	$ 15,285,081	$ 5,743,000
Exempt investments					
U. S. Treasuries	5,714,803				
Equity Securities - Domestic	6,124,579				
Equity Securities - International	1,819,406				
Managed Futures/Hedge Funds	6,838,016				
	$ 48,963,194				

Note 4—Other investments (continued)

A. Investments – Equity Method (continued)

The investments consist of the following at June 30, 2013:

	Amount	Ownership Percent
Georgia Venture Partners, LLC - capital contribution	$ 1,000,000	28.34%
Equity in cumulative net losses	(688,136)	

Note 6—Capital assets

Capital assets consisted of the following:

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets not being depreciated				
Land	$ 272,750	$ -	$ (90,370)	$ 182,380
Capital assets being depreciated				
Library Repository Building	1,142,307	-	-	1,142,307
Less: accumulated depreciation	(967,723)	(46,082)$ 7.657(001)]Tillbr:1Tmo4Land28(,)32(96)-6.4(7,)53.2(7		

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

During the year ended June 30, 2013, the Real Estate Foundation implemented SGAS No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. SGAS No. 63 identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in SGAS No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The implementation of SGAS No. 63 did not result in a change to beginning net position.

In March 2012, GASB issued 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 guidance provided in SGAS No. 65 will be effective for the Real Estate Foundation for the year ending June 30, 2014. The provisions of SGAS No. 65 are expected to have a significant effect on the net position of the Real Estate Foundation.

Note 2 – Summary of significant accounting policies (continued)

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

Operating Funds Held by Trustee – Amounts transferred in from cash accounts are held by an independent trustee for the purpose of paying operating expenses and funding reserves for future obligations. From time to time, investments are made by the trustee in accordance with the trust indenture.

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

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

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

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

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

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

Note 2 – Summary of significant accounting policies (continued)

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 ot

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 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.

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. Because the Real Estate Foundation's investments are invested in U. S. treasury obligations or securities backed by the U.S. government, they are considered to be exempt from investment grade credit quality rating requirements.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Real Estate Foundation's policy for managing concentration of credit risk for debt service reserve funds is to invest only in short-term investments of U. S. treasury obligations or securities back by the U.S. government.

Note 4 – 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:

	2013
Restricted for:	
Debt Service	$ 7,727,254
Construction	25,473,884
Future Repairs and Replacements of Real Property	1,379,529
Total	34,580,667
Designated for:	
General Operations of the Real Estate Foundation	136,919
Total Restricted and Board Designated	$ 34,717,586

Note 4 – Restricted

Note 5 – Capital leases receivable (continued)

As of June 30, 2013, lease payments are receivable as follows:

2014	$ 23,264,147
2015	23,254,483
2016	23,245,429
2017	23,234,259
2018	23,222,252
2019 - 2023	115,897,158
2024 - 2028	115,429,020
2029 - 2033	107,064,597
2034 - 2038	57,799,313
2039 - 2040	9,074,503
Total Payments to be Received	521,485,161

Note 7 – Long-term debt (continued)

$99,860,000 Bond Issue (continued) – On December 1, 2011, the Housing Authority issued $48,250,000 in Revenue Refunding Bonds to advance refund $46,720,000 of outstanding 2002 Housing Bonds (see $48,250,000 Bond Issue below).

$34,090,000 Bond Issue – On March 1, 2010, the Housing Authority issued $34,090,000 in Student Housing Lease Revenue Bonds (UGAREF East Campus Housing, LLC Project), Series 2010 (the "2010 Housing Bonds") with interest rates ranging from 2.5% to 5.0% and entered into an agreement (the "2010 Housing Loan Agreement") with the Housing Entity to advance refund $32,140,000 of outstanding 2002 Housing Bonds with interest rates ranging from 4.0% to 5.25%. Payment of principal and interest under the 2010 Housing Bonds is secured by certain real property constituting the facilities and by the Housing Entity's interest in certain rents and leases derived from the facilities.

Note 7 – Long-term debt (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 $264,660. The Housing Entity completed the early extinguishment in order to repay the 2010 Housing Bonds related to the East Campus Housing parking deck, to transfer the deck to the University and to reduce its total debt service payments on the 2010 Housing bonds through 2023 by $905,699. The resulting economic loss (difference between the present value of the extinguished debt and the cash amount transferred to escrow) was $244,320 using an effective interest rate of 3.605%. This economic loss, when netted with the economic gain of $246,501 of the 2002 Housing Bonds, resulted in a net economic gain of $2,181 during Fiscal 2011 for the extinguishment of debt on the combined Housing bonds related to the East Campus Housing parking deck.

$48,250,000 Bond Issue – On December 1, 2011, the Housing Authority issued $48,250,000 in Revenue Refunding Bonds (UGAREF East Campus Housing, LLC Project), Series 2011 (the "2011 Housing Bonds") with interest rates ranging from 2.0% to 5.0% and entered into an agreement (the "2011 Housing Loan Agreement") with the Housing Entity to advance refund $46,720,000 of outstanding 2002 Housing Bonds with interest rates ranging from 4.0% to 5.0%. Payment of principal and interest under the 2011 Housing Bonds is secured by certain real property constituting the facilities and by the Housing Entity's interest in certain rents and leases derived from the facilities.

The net proceeds of $48,814,385 plus an additional $178,618 of 2002 Housing Bonds debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to fund all future debt service payments on the refunded portion of the 2002 Housing Bonds. As a result, $46,720,000 of outstanding 2002 Housing Bonds were considered to be defeased and the liability for those bonds was removed from the Statement of Net Position during Fiscal 2012. The 2002 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 $2,567,790. This difference, reported in the accompanying Statements of Net Position as a deduction from bonds payable, is being charged to operations as interest expense through December 1, 2033 using the straight-line method. The Housing Entity completed the advance refunding to reduce its total debt service payments 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 Housing Loan Agreement bear interest payable semiannually on December 1 and June 1. Principal payments are due annually on December 1 and continue through 2033.

$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 UGAREF Coverdell Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "Coverdell Entity"). Payment of principal and interest under the 2004 Coverdell Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting a portion of the facility and by the Coverdell Entity's interest in certain rents and leases derived from a portion of the facility. The Coverdell Entity used the proceeds of this loan to fund construction of a portion of the facility, which was placed in service in December 2005.

Note 7 – Long-term debt

Note 7 – Long-term debt (continued)

$49,875,000 Bond Issue (continued) – Borrowings under the Housing Phase II Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 4.00% to 5.25% depending on the schedule of bond maturities. Principal payments are due annually on June 15 and continue through 2040.

$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 UGAREF Rutherford Hall, LLC (a single-member limited liability company owned by the Real Estate Foundation) (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 is using the proceeds of this loan to fund construction of the residence hall. The facility is reported as construction in progress at June 30, 2013.

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

$24,400,000 Bond Issue – In 2013, 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 UGAREF Bolton Commons, LLC (a single-member limited liability company owned by the Real Estate Foundation) (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 TD .derty coirom thieRn En26.2455 425D 0 Tc .2371 Tw [($21,9tity’s insing)]TJ 8(e)-the5.2(g)-3.

Note 7 – Long-term debt (continued)

The bonds payable and revolving credit agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2013, the Real Estate Foundation was not aware of any violations of the covenants.

Following is a summary as of June 30, 2013 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
2014	$ 14,545,000	$ 14,475,804
2015	12,965,000	13,884,641
2016	9,695,000	13,432,021
2017	10,020,000	13,072,184
2018	10,390,000	12,674,866
2019 - 2023	57,990,000	56,442,309
2024 - 2028	71,195,000	42,518,798
2029 - 2033	81,175,000	25,424,644
2034 - 2038	49,440,000	9,759,554
2039 - 2043	13,105,000	1,551,455
2044	1,195,000	53,775
	$ 331,715,000	$ 203,290,051

Changes in Long-Term Debt for the fiscal year ended June 30, 2013 are shown below:

	Balance at June 30, 2012	Additions	Disposals and Reductions	Balance at June 30, 2013	Current Portion
Bonds Payable	$ 315,320,000	$ 45,500,000	$ (29,105,000)	$ 331,715,000	$ 14,545,000
Deferred Loss	(7,473,419)	(2,373,335)	487,843	(9,358,911)	-
Net Premium (Discount)	(504,941)	2,403,358	30,768	1,929,185	-
Total Bonds Payable	307,341,640	45,530,023	(28,586,389)	324,285,274	14,545,000
Revolving Credit Agreement	10,133,494	1,000,000	(1,177,708)	9,955,786	-
Total Noncurrent Liabilities	$ 317,475,134	$ 46,530,023	$ (29,764,097)	$ 334,241,060	$ 14,545,000

A summary of the components of interest cost for the year ended June 30, 2013 is as follows:

	Total Interest	Amount Capitalized	Amount Expensed
Interest Cost:			
Interest Expense	$ 12,607,781	$ 793,811	$ 11,813,970
Amortization of Premiums, Discounts, Cost of Issuance, and Deferred Loss	795,905	(16,914)	812,819
Fees	300,900	32,911	267,989
Interest Income	(278,802)	(1,560)	(277,242)
Total Interest Cost	$ 13,425,784	$ 808,248	$ 12,617,536

Note 9 – Related party transactions (continued)

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

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

The Real Estate Foundation has entered into an administrative services agreement with the University whereby the University provides project management, accounting, and other administrative services, as well as provisions for office space, maintenance and utilities to be provided by the University to the Real Estate Foundation. During the year ended June 30, 2013, the Real Estate Foundation paid $275,196, to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

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

Note 9 – Related party transactions (continued)

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. Estimated costs related to the MOU are approximately $1,000,000. As of June 30, 2013, there were no payments or reimbursements related to this MOU. Total project costs incurred by the Real Estate Foundation as of June 30, 2013 were approximately $640,000 and are included in and Accounts Receivable from the University and Affiliates and Accounts Payable and Accrued

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, 2013, 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, 2013.

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 opinions 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 [illegible]

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 inter