UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2014

And Report of Independent Auditor

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

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REPORT OF INDEPENDENT AUDITOR

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

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			

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.

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

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

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		

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)

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

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 asse7lTc.12371.9.1

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

Note 2—Summary

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.

Note 3—Deposits and investments (continued)

B. Investments

The Research Foundation maintains both short-term and long-term investment policies. Both establish primary

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.

Fair Value

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)	

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 acti

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
of the University System

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, ce

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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 St is separate category.

Bonds Payable – nsist of the par value of the bonds iss premiums or minus discounts. Bond premiums and di

Net Position – Net position of the Real Estate Foundation is classified in three components.2005(Ne lance6u7any borrowingused to finance the purchase or construction of those assets. Restricted net position

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

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.

and

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)

Note 7—Long-term debt

Bolton Entity
$24,400,000 Bond Issue

Note 7—Long-

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./TT2 1 eaw6O L2ooan AIssue3Ŧ87 -1.1s3e3Ŧcs

Note 7—Long-term debt (continued)

EC Housing Entity (continued)
$99,860,000 Bond Issue (continued)

Note 7—Long-term debt (continued)

EC Housing Entity

Note 7—Long-term debt (continued)

Fraternity Row

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

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

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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 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:

	As Previously Reported	Restated
Statements of Net Position:		
Noncurrent Assets:		

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.

Augusta, Georgia
September 17, 2014