

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

**Financial Statements  
for the year ended  
June 30, 2012**

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

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## Report of Independent Auditors

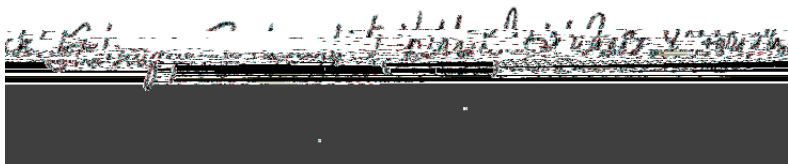
The Audit Committee of the Board of Directors  
University of Georgia Research  
Foundation, Inc.  
Athens, Georgia

We have audited the accompanying statement of net assets of the University of Georgia Research Foundation, Inc., (the "Research Foundation"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the State of Georgia, as of June 30, 2012 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the Research Foundation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Research Foundation as of June 30, 2012, and the results of its operations, the changes in net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012 on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control.



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

**Management's Discussion and Analysis**

**June 30, 2012**

*Introduction*

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

**Management's Discussion and Analysis**

**June 30, 2012**

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies investment earnings and changes in the fair value of investments as nonoperating revenues. As a result,

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Management's Discussion and Analysis

June 30, 2012

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

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

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

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



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

**Statement of Net Assets**

**June 30, 2012**

	<b>Research Foundation</b>	<b>Component Unit Real Estate Foundation</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 6,997,154	\$ 24,373,325
Sponsored Research, Licensing, and Royalties Receivable	20,438,050	-
Accounts Receivable from University of Georgia	691,775	20,849
Trade and Other Receivables, net	-	22,820
Funds Deposited with the University of Georgia	15,720,355	-
Prepaid Expenses and Other Current Assets	4r 18(r)E1O	.8(.0)21.0

See notes to financial statements.





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

**Statement of Revenues, Expenses, and Changes in Net Assets**

**For the Year Ended June 30, 2012**

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

See notes to financial statements.

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

**Statement of Cash Flows**

**For the Year Ended June 30, 2012**

**Research  
Foundation**

See notes to financial statements.





# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

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

**Investments in affiliated companies and partnerships** – The Research Foundation accounts for its investments in affiliated entities and partnerships in which the Research Foundation has significant ownership, which do not qualify as component units, by the equity method of accounting.

Under this method, the net income or loss of the affiliates is recognized as income or loss in the Research Foundation's operating statements and as an increase or decrease to the investment account. Dividends received from the affiliates are treated as a reduction of the investment account. Other investments, consisting of an interest in a limited liability company for which the Research Foundation does not have significant ownership or control, are carried at the lower of cost or fair value.

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

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

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

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

The unrecognized portion of such advance payments is classified as deferred revenues in the statement of net assets. The Research Foundation is obligated to distribute a portion of the licensing revenues and royalties pursuant to the University of Georgia Intellectual Property Policy. Such distributions are recorded as expenses when the related revenues are recognized.

**Operating and nonoperating revenues** – The financial statements distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with sponsored research and licensing and royalty agreements – the Research Foundation's principal activities. Nonexchange revenues, including investment income and net unrealized and realized gains and losses on investments are reported as nonoperating revenues. Operating expenses are all expenses incurred in the course of obtaining sponsored research grants and licensing and royalty agreements and providing support to the University of Georgia.

**Income taxes** – The Research Foundation is exempt from federal income taxes under Section 501(c)(3)gTJ20.8n6J-3516cT







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

**Notes to Financial Statements**

**June 30, 2012**

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

**B. Investments (Continued)**

Credit quality risk

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

The Research Foundation's investments at June 30, 2012 are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

	<u>Fair Value</u>	<u>Rated Debt Investments</u>		
		<u>U.S. Agencies</u>	<u>Corporate Debt</u>	<u>Mutual Funds</u>
<b>Quality Ratings</b>				
<b>Moody's</b>				
Aaa	\$ 560,671	\$ 300,592	\$ 260,079	\$ -
Aa2	374,884	-	374,884	-
Aa3	247,170	-	247,170	-
A1	874,770	-	874,770	-
A2	1,307,439	-	1,307,439	-
A3	1,435,126	-	1,435,126	-
Baa1	790,335	-	790,335	-
Baa2	946,938	-	946,938	-
<b>Standard &amp; Poor's</b>				
A+	137,512	-	137,512	-
<b>Morningstar</b>				
5-Star	3,509,535	-	-	3,509,535
4-Star	7,066,187	-	-	7,066,187
3-Star	2,230,483	-	-	2,230,483
	<u>\$19,481,050</u>	<u>\$ 300,592</u>	<u>\$ 6,374,253</u>	<u>\$12,806,205</u>
<b>Exempt investments</b>				
U. S. Treasuries	\$ 8,138,839			
Equity Securities - Domestic	5,346,982			
Equity Securities - International	2,082,105			
Managed Futures/Hedge Funds	6,350,798			
	<u>\$41,399,774</u>			

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

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

#### B. Investments (Continued)

##### Concentration of credit risk

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

As of June 30, 2012, investments in a single issuer where those investments are 5% or more of total investments were as follows:

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

##### Foreign currency risk

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

### Note 4 – Investments

#### A. Investments at fair market value

Investments at quoted market prices	\$ <u>41,399,774</u>
Total investments at fair market value	\$ <u><u>41,399,774</u></u>

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

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

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

**Notes to Financial Statements**

**June 30, 2012**

**Note 4 – Investments (Continued)**

**B.**

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

**Notes to Financial Statements**

**June 30, 2012**

**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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

Notes to Financial Statements

June 30, 2012

Note 7 – Capital assets

Capital assets consisted of the following:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ <u>272,750</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>272,750</u>
Capital assets being depreciated				
Library Repository Building	1,142,307	-	-	1,142,307
Less: accumulated depreciation	(921,641)	(46,082)	-	(967,723)
Toccoa Facility Building	209,250	-	-	209,250
Less: accumulated depreciation	(14,386)	(5,231)	-	(19,617)

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

### Note 10 – Commitments and contingencies

In the normal course of business, there are legal actions pending against the Research Foundation. At this time, management does not believe that any of these legal actions are expected to have a material effect on the Research Foundation's financial condition, results of operations, or liquidity.

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

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

As the sole member of the Real Estate Foundation, the Research Foundation is guarantor on up to \$50 million on a revolving credit agreement maintained by the Real Estate Foundation. As of June 30, 2012, current borrowings are all under rental agreements with the University so the Research Foundation's guarantee is not applicable.

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

In prior fiscal years, the Research Foundation made multi-year commitments to support programs and initiatives in poverty, bioenergy, and infectious diseases. The commitment for new funding for these areas has ended but the remaining funds to be spent and budgeted for fiscal year 2013 total approximately \$144,000.

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

Annual commitments totaling \$482,565 exist to support general operating costs of the Research Computing Center, the Coverdell and Riverbend buildings, to provide access dues to research computing resources, and support for the Animal Health Research Center.

A fiscal year 2011 commitment to provide \$750,000 in matching funds on anticipated allocations provided by the Georgia Research Alliance to establish an eminent scholar was delayed until fiscal year 2013.

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

### 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 Di*

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

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

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

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

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

UGA Real Estate Foundation, Inc.  
c/o University Business and Accounting Services  
324 Business Services Building  
456 E. Broad Street  
Athens, GA 30602

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

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





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

**Notes to Financial Statements**

**June 30, 2012**

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

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

**Revenue Recognition** – Rental income is recognized when earned and collectability of the associated receivable is reasonably assured. Rental income consists of the repair and replacement portion of the total capital lease payment and is recognized on a monthly basis in accordance with the related lease agreement. Amounts are offset by rebates to the University related to savings realized by the Real Estate Foundation due to advance refunding of bonds payable and the early extinguishment of certain bonds payable for projects transferred to the University. Advance rent receipts represent rental payments received but not yet earned.

Capital lease interest income is recorded per the related capital lease amortization schedule simultaneously with the rental income described above. Advance lease payment receipts represent both the interest and principal components of capital lease payments received but not yet earned.

**Operating and Nonoperating Revenues and Expenses** – The financial statements distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with maintaining and leasing real property – the Real Estate Foundation’s principal activity. Nonexchange revenues, including investment income from sources other than capital leases, and net unrealized and realized gains and losses on investments are reported as nonoperating revenues. Interest and financing costs are reported as nonoperating expenses. Operating expenses are all expenses incurred to maintain and lease real property other than financing costs.

**Income Taxes** – The Real Estate Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”), whereby only unrelated business income, as defined by Section 512(a)(1) of

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

**Notes to Financial Statements**

**June 30, 2012**

**Note 3 – Deposits and Investments**

**A. Deposits**

At June 30, 2012 the bank balance of the Real Estate Foundation’s deposits, consisting of cash held in interest bearing checking accounts at financial institutions, cash and cash equivalents held by trustees, short-term money market funds invested in corporate money market securities, and repurchase agreements backed by short-term United States Treasuries was \$52,838,368.

***Custodial Credit Risk***

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Real Estate Foundation’s deposits may not be recovered. The Real Estate Foundation has no deposit policy for custodial credit risk.

The Real Estate Foundation places its cash and cash equivalents on deposit with financial institutions in the United States of America and Italy. For deposits with financial institutions in the United States of America, the Federal Deposit Insurance Corporation (“FDIC”) covers \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. Starting January 1, 2013, the FDIC will no longer fully insure deposits in non-interest bearing transaction accounts and coverage will revert to \$250,000. The Real Estate Foundation from time to time may have amounts on deposit in excess of the insured limits.

**The bank balance of the Real Estate Foundation’s deposits as of June 30, 2012 is presented below by category of risk.**

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

For the year ended June 30, 2012, \$16,844,514 of the amount collateralized with U.S. Securities was held by the financial institution’s trust department or agent in the Real Estate Foundation’s name, and \$125,000 was held by the financial institution’s trust department or agent, but not in the Real Estate Foundation’s name.

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

The uninsured and uncollateralized deposits classified as “Funds Held by Trustee” are primarily invested in Fidelity Institutional Money Market Treasury Portfolio, a short term money market fund.



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

**Notes to Financial Statements**

**June 30, 2012**

**Note 4 – Investments**

**Changes in investments for the year ended June 30, 2012, which are included in Bond Proceeds Restricted for Construction, Debt Service and Reserves**

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

**Notes to Financial Statements**

**June 30, 2012**

**Note 5 – Restricted and Board Designated Assets (Continued)**

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

	<u>2012</u>
<b>Designated for:</b>	
Debt Service	\$ 5,103,118
Future Repairs and Replacements of Real Property	2,546,705

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

**Notes to Financial Statements**

**June 30, 2012**

**Note 7 – Capital Assets**

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

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

**Note 8 – Long-Term Debt**

**\$7,960,000 Bond Issue** – In 2009, the Development Authority of the Unified Government of Athens-Clarke County, Georgia (the “Development Authority”) issued Educational Facilities Revenue Refunding Bonds (UGAREF Carlton Street Parking Deck, LLC Project), Series 2009 (the “Carlton Street Bonds”) and entered into an



# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

### Note 8 – Long-Term Debt (Continued)

**\$39,155,000 Bond Issue (Continued)** – Borrowings under the 2002 CCRC Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2004 and continuing through 2032. On December 15, 2011, the remaining principal balance of \$32,620,000 was fully defeased (see the **\$32,580,000 Bond Issue** below). The 2002 CCRC Bonds will be redeemed in full on December 15, 2012.

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

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

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

Borrowings under the 2011 CCRC Loan Agreement bear interest payable semiannually on December 15 and June 15. Principal payments are due on December 15 starting in 2012 and continuing through 2032.

**\$99,860,000 Bond Issue** – In 2002, the Housing Authority of the City of Athens, Georgia (the "Housing Authority") issued Student Housing Lease Revenue Bonds (UGAREF East Campus Housing, LLC Project), Series 2002 (the "2002 Housing Bonds") and entered into an agreement (the "2002 Housing Loan Agreement") to loan \$99,860,000 to UGAREF East Campus Housing, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the "Housing Entity"). Payment of principal and interest under the 2002 Housing Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the facilities and by the Housing Entity's interest in certain rents and leases derived from the facilities. The Housing Entity used the proceeds of this loan to fund construction of a parking facility which was placed in service in November 2002 and housing and dining facilities that were placed in service in July 2004. The parking facility was sold to the University in August 2010.

Borrowings under the 2002 Housing Loan Agreement bear interest payable semiannually on December 1 and June 1 at fixed rates ranging from 3% to 5.25% depending on the schedule of bond maturities. Principal payments are due on December 1 starting in 2005 and continuing through 2033.

On March 1, 2010, the Housing Authority issued \$34,090,000 in Student Housing Lease Revenue Bonds to advance refund \$32,140,000 of outstanding 2002 Housing Bonds (see **\$34,090,000 Bond Issue** below).

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

**Notes to Financial Statements**

**June 30, 2012**

**Note 8 – Long-Term Debt (Continued)**

***\$99,860,000 Bond Issue (Continued)*** – On August 31, 2010, the Housing Authority entered into an agreement with



# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

### Note 8 – Long-Term Debt (Continued)

**\$25,970,000 Bond Issue** – In 2004, the Development Authority issued \$25,545,000 of Educational Facilities Revenue Bonds (UGAREF Coverdell Building, LLC Project), Series 2004A, and \$425,000 of Educational Facilities Taxable Revenue Bonds (UGAREF Coverdell Building, LLC Project), Series 2004B (collectively, the “Coverdell Bonds”). The Development Authority entered into an agreement (the “Coverdell Loan Agreement”) to loan \$25,970,000 to UGAREF Coverdell Building, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Coverdell Entity”). Payment of principal and interest under the Coverdell Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting a portion of the facility and by the Coverdell Entity’s interest in certain rents and leases derived from a portion of the facility. The Coverdell Entity used the proceeds of this loan to fund construction of a portion of the facility, which was placed in service in December 2005.

Borrowings under the Coverdell Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2006 and continuing through 2034.

**\$62,475,000 Bond Issue** – In 2008, the Development Authority issued \$35,055,000 of Educational Facilities Current Interest Revenue Bonds (UGAREF Central Precinct, LLC Project), and \$27,420,000 of Educational Facilities Convertible Revenue Bonds (UGAREF Central Precinct, LLC Project) (collectively, the “Central Precinct Bonds”) and entered into an agreement (the “Central Precinct Loan Agreement”) to loan \$62,475,000 to UGAREF Central Precinct, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Central Precinct Entity”). Payment of principal and interest under the Central Precinct Bonds is secured by certain real property constituting a parking deck and building addition, and by the Central Precinct Entity’s interest in certain rents and leases derived from these facilities. The Central Precinct Entity used the proceeds of this loan to fund construction of the facilities. The parking deck was placed in service in August 2008 and the building addition was placed in service in May 2009.

Borrowings under the Central Precinct Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2% to 5% depending on the schedule of bond maturities. Principal payments are due on June 15 starting in 2010 and continuing through 2038.

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

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

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

### Note 8 – Long-Term Debt (Continued)

**\$12,505,000 Bond Issue** – In 2009, the Housing Authority issued Revenue Bonds (UGAREF Fraternity Row, LLC Project), Taxable Series 2009 (the “Fraternity Row Bonds”) and entered into an agreement (the “Fraternity Row Loan Agreement”) to loan \$12,505,000 to UGAREF Fraternity Row, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Fraternity Row Entity”). Payment of principal and interest under the Fraternity Row Bonds is secured by certain real property constituting four fraternity houses, and by the Fraternity Row Entity’s interest in certain rents and leases derived from these houses. The Fraternity Row Entity used the proceeds of this loan to fund construction of the houses. The project was placed in service in August 2009.

Borrowings under the Fraternity Row Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 1.25% to 6.30% depending on the schedule of bond maturities. Principal payments are due on June 15 starting in 2010 and continuing through 2039.

**\$17,655,000 Bond Issue** – In 2009, the Development Authority issued Educational Facilities Revenue Bonds (UGAREF PAC Parking Deck, LLC Project), Series 2009 (the “PAC Bonds”) and entered into an agreement (the “PAC Loan Agreement”) to loan \$17,655,000 to UGAREF PAC Parking Deck, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “PAC Entity”). Payment of principal and interest under the PAC Bonds is secured by certain real property constituting two parking decks, and by the PAC Entity’s interest in certain rents and leases derived from these decks. The PAC Entity used the proceeds of this loan to fund construction of the decks. The Intramural Fields parking deck was placed in service in August 2009 and the Performing Arts Center parking deck was placed in service in November 2009.

Borrowings under the PAC Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. Principal payments are due on June 15 starting in 2010 and continuing through 2039.

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

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

### Note 8 – Long-Term Debt (Continued)

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

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

**\$50,000,000 Revolving Credit Agreement** – In November 2010, the Real Estate Foundation entered into a \$50 million revolving credit agreement with a bank, for a five year term to expire on November 30, 2015. The revolving credit agreement provides for borrowings or letters of credit at the Real Estate Foundation’s option. Credit available under the revolving credit agreement is reduced by outstanding borrowings and outstanding letters of credit. At June 30, 2012, amounts outstanding or issued under this agreement included borrowings of \$10,133,494, with no unused letters of credit or bank reserves, resulting in \$39,866,506 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank’s 30-day London InterBank Offered Rate plus 80.0 basis points (or 0.80%). At June 30, 2012, the rate applicable to the borrowings was 1.04%. Amounts available as borrowing capacity are subject to an unused commitment fee of 0.10% if the outstanding borrowings on the revolving credit line are less than \$30,000,000 and 0.15% if the outstanding borrowings are greater than \$30,000,000. At June 30, 2012, the rate applicable to the unused capacity was 0.10%.

Under this revolving credit agreement, certain borrowings exceeding \$10,000,000 that remain outstanding for a period greater than one year, excluding those borrowings for projects supported by a rental or license agreement with the Board of Regents or the University, are subject to a guarantee requirement with the Research Foundation as guarantor. As of June 30, 2012, there are no borrowings subject to this guarantee requirement.

The bonds payable and revolving credit agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2012, the Real Estate Foundation was not aware of any violations of the covenants.

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

**Notes to Financial Statements**

**June 30, 2012**

**Note 8 – Long-Term Debt (Continued)**

**Following is a summary as of June 30, 2012 of principal and interest payments for the face value of the bonds payable during each of the next five years ending June 30 and every five years thereafter:**

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

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

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

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

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





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

**Notes to Financial Statements**

**June 30, 2012**

**Note 10 – Related Party Transactions**

The Real Estate Foundation leases real property to the Board of Regents under both operating and capital leases, including space subleased under operating leases to the Board of Regents. The Real Estate Foundation also has one-year licensing agreements with the Board of Regents which provides for the operation of parking lots by the Board of Regents on the Real Estate Foundation's land located on Oconee Street in Athens, Georgia, in exchange for a fee adjusted at the end of the term to reflect actual costs incurred. For the year ended June 30, 2012, the amounts reported as Rental Income and Capital Lease Inter

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## Notes to Financial Statements

June 30, 2012

### Note 11 – Commitments and Contingencies

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

In May 2011, the Board approved maximum expenditures of \$23,000,000 related to the potential renovation or replacement of Rutherford Hall, a residence hall located on the University campus. Construction for the replacement of Rutherford Hall began in May 2012 and as of June 30, 2012 expenditures for construction in progress were \$1,727,385. The residence hall is expected to be complete in July 2013 and occupied beginning August 2013. This project is expected to provide sufficient resources to fund the obligations of the project.

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

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

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

### Note 12 – Defined Contribution Plans

The Real Estate Foundation offers a 403(b) defined contribution plan to any of its employees who elect to participate. The Real Estate Foundation matches employee contributions to the plan by 200%, up to a maximum of 10% of the employee's compensation, subject to Internal Revenue Service annual maximum limitations. The plan is administered by Fidelity Investments. Plan provisions are established and amended by Board resolution based on the plan documents. For the year ended June 30, 2012, the employees of the Real Estate Foundation contributed \$19,390 to the plan and the Real Estate Foundation incurred employer contributions to the plan for two employees in the amount of \$21,914 for same time period.

### Note 13 – Subsequent Events

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

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

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

We have audited the financial statements of University of Georgia Research Foundation, Inc. (the “Research Foundation”), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the State of Georgia, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.