

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

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2023

And Reports of Independent Auditor

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS (unaudited)	3-8
FINANCIAL STATEMENTS	
Statement of Net Position	9-10
Statement of Revenues, Expenses, and Changes in Net Position.....	11
Statement of Cash Flows.....	12-13
Statement of Fiduciary Net Position – Custodial Fund	14
Statement of Changes in Fiduciary Net Position – Custodial Fund.....	14
Notes to the Financial Statements	15-32
REPORT OF INDEPENDENT AUDITOR ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33-34

Report of Independent Auditor

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the major funds and the aggregate remaining fund information of the University of Georgia Research Foundation, Inc. (the “Research Foundation”), a component unit of the state of Georgia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Research Foundation’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major funds and the aggregate remaining fund information of the Research Foundation as of June 30, 2023 and the respective changes in its 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Research Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Research Foundation’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Research Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Research Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 25, 2023, 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 solely 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 effectiveness of the Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Augusta, Georgia
September 25, 2023

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Introduction

In compliance with reporting standards the University of Georgia Research Foundation, Inc. (the "Research Foundation") and the UGA Real Estate Foundation, Inc. (the "Real Estate Foundation") are treated as a single financial reporting entity and financial information is shown using a blended presentation. The Research Foundation and the Real Estate Foundation are referred to collectively as the "Foundations".

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

The Research Foundation fulfills broad scientific, literary, educational, and charitable purposes and operates to enhance the three-pronged mission of the University of Georgia (the "University") of teaching, research, and public service. The Research Foundation contributes to the research function of the University by securing research contracts, grants, and awards from individuals, institutions, private organizations, and government agencies for the performance of sponsored research in the various University colleges, schools, departments, and other units.

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

The Research Foundation is the sole member of the Real Estate Foundation, which was incorporated under the laws of the state of Georgia as a nonprofit corporation in 1999 and qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The Real Estate Foundation manages and improves various real estate assets for the benefit of the University, governed by 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 multiple limited liability companies of which it is the sole member. These entities are set up in order to construct, finance, own, and lease real estate projects.

Description of the Financial Statements

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

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

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The financial reporting model classifies investment earnings and changes in the fair value of investments as non-operating revenues. As a result, the financial statements may show operating losses that are then offset by non-operating revenues from a total financial perspective.

The *Statement of Cash Flows* presents information in the form of cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Financial Highlights

Condensed financial statements are presented for the year ended June 30, 2023, and one prior fiscal year. In the following discussion, Fiscal 2023 and Fiscal 2022 refer to the years ended June 30, 2023 and 2022, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Position

	June 30,		Change	%
	2023	2022		
ASSETS				
Current Assets	\$ 167,862,844	\$ 114,510,306	\$ 53,352,538	47%
Capital Assets, net	40,191,550	84,671,233	(44,479,683)	-53%
Other Noncurrent Assets	220,448,558	237,407,380	(16,958,822)	-7%
Total Assets	428,502,952	436,588,919	(8,085,967)	-2%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Loss on Refundings, net	11,886,780	12,742,892	(856,112)	-7%
LIABILITIES				
Current Liabilities	107,508,500	89,956,175	17,552,325	20%
Noncurrent Liabilities	210,260,837	241,048,059	(30,787,222)	-13%
Total Liabilities	317,769,337	331,004,234	(13,234,897)	-4%
DEFERRED INFLOWS OF RESOURCES				
Unearned Lease Income	7,820,847	10,679,319	\$ (2,858,472)	-27%
NET POSITION				
Net Investment in Capital Assets	15,819,005	15,952,559	(133,554)	-1%
Unrestricted	98,980,543	91,695,699	7,284,844	8%
Total Net Position	\$ 114,799,548	\$ 107,648,258	\$ 7,151,290	7%

Current assets increased by \$53,352,538 from Fiscal 2022 to Fiscal 2023. The increase was primarily due to a determination that certain investments met the definition of current assets as of June 30, 2023. These investments were considered non-current as of June 30, 2022. Additionally, an increase in accounts receivable related to sponsored research activity and increased cash inflows and current notes receivable from the inception of the Central Housing I Entity financing agreement following the completion of the project in July 2022 and cash inflows from net project activity. These increases in current assets are offset by reduced cash inflows following the early termination of a financing agreement with the Board of Regents in Fiscal 2022, distribution of residual funds to the University, and cash outflows for the purchase of investments.

Capital assets include land, construction in progress, an easement, intangible right-to-use assets (net of applicable amortization), and buildings, improvements, and furniture and fixtures, (net of applicable depreciation). The decrease of \$44,479,683 from Fiscal 2022 to Fiscal 2023 is due primarily to the decrease in the Central Housing I Entity's construction in progress following the transfer of its capital assets to the University under a financing agreement and amortization of depreciable capital assets.

Other noncurrent assets primarily include restricted bond proceeds, investments, and notes and leases receivable. Noncurrent assets decreased \$16,958,822 from Fiscal 2022 to Fiscal 2023. This was due to the reclassification of investments from non-current assets to current assets which was partially offset by an increase in notes receivable recorded as a result of the new financing agreement.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Deferred outflows of resources include deferred loss on refundings that result from the advanced refunding of bond series. Deferred outflows of resources decreased \$856,112 from Fiscal 2022 to Fiscal 2023 due to normal deferred loss amortization.

Current liabilities increased by \$17,552,325 due primarily to increases in accounts payable to the University related to sponsored research and the transfer of the revolving credit agreement balance from noncurrent liabilities to current liabilities. This was offset by a decrease in the Central Housing I Entity's accounts payable and accrued construction costs following the completion of the Central Housing I Entity residence hall and decrease in the Rutherford Entity's accounts payable following payment of residual funds owed the University following the Fiscal 2022 early debt extinguishment of the 2012 Rutherford Entity Bonds.

Noncurrent liabilities decreased by \$30,787,222 from Fiscal 2022 to Fiscal 2023. This decrease is due primarily to the transfer of the revolving credit agreement balance to current liabilities and annual payments of principal on noncurrent debt.

Deferred inflows of resources include unearned lease income resulting from a lessor's recognition of a lease. Deferred inflows of resources decreased by \$2,858,472 from Fiscal 2022 to Fiscal 2023 due to normal unearned lease income amortization.

Net position represents the difference between the Foundations' assets, liabilities, and deferred outflows/inflows of resources. Total net position at June 30, 2023 and 2022 was \$114,799,548 and \$107,648,258, respectively, which represents an increase of \$7,151,290 (7%).

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses, and Changes in Net Position

	June 30,		Change	%
	2023	2022		
Operating Revenues				
Sponsored Research	\$ 259,569,248	\$ 258,911,479	\$ 657,769	0%
Licensing and Royalties	11,979,696	11,258,343	721,353	6%
Lease Income	3,581,515	3,428,224	153,291	4%
Repair and Restoration Income	1,504,204	1,766,569	(262,365)	-15%
Financing and Lease Interest Income	9,948,632	9,483,673	464,959	5%
Miscellaneous Operating Income	107,998	892	107,106	12007%
Total Operating Revenues	<u>286,691,293</u>	<u>284,849,180</u>	<u>1,842,113</u>	1%
Operating Expenses				
Research Subcontracted to the University	253,379,463	253,067,100	312,363	0%
Licensing	11,048,511	10,805,898	242,613	2%
Support to the University	5,699,317	3,750,590	1,948,727	52%
Project Expenses	4,003,034	4,932,920	(929,886)	-19%
Management and General	735,564	809,653	(74,089)	-9%
Total Operating Expenses	<u>274,865,889</u>	<u>273,366,161</u>	<u>1,499,728</u>	1%
Operating Income	11,825,404	11,483,019	342,385	3%
Non-operating Revenues (Expenses)	<u>(4,674,114)</u>	<u>(15,385,542)</u>	<u>10,711,428</u>	70%
Change in Net Position	7,151,290	(3,902,523)	11,053,813	-283%
Net Position – Beginning of Year	<u>107,648,258</u>	<u>111,550,781</u>	<u>(3,902,523)</u>	-3%
Net Position – End of Year	<u>\$ 114,799,548</u>	<u>\$ 107,648,258</u>	<u>\$ 7,151,290</u>	7%

Operating revenues consist primarily of sponsored research, licensing and royalties, interest earned on notes and leases receivable, repair and restoration income, and lease income. During Fiscal 2023, operating revenues increased \$1,842,113 due to increases in licensing and royalty revenue and in increased revenues following inception of the Central Housing I Entity's financing agreement in Fiscal 2023 offset by a note receivable termination in Fiscal 2022 and reduced income attributed to annual amortization of interest income on the notes and leases receivable.

Operating expenses increased by \$1,499,728 due to an increase in the support to the University offset by a decrease in overall repair and restoration expenses.

Non-operating revenues and expenses consist mostly of investment income, the change in fair value of investments, and interest expense. For Fiscal 2023, non-operating expenses net of non-operating revenues decreased \$10,711,428 due to an increase in the fair value of investments and investment income offset by reduced interest expense related to annual bond amortization.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

University of Georgia Research Foundation, Inc.
Condensed Statements of Cash Flows

	June 30,		Change	%
	2023	2022		
Cash flows from operating activities	\$ 19,702,862	\$ 31,679,953	\$ (11,977,091)	-38%
Cash flows from investing activities	(4,720,477)	(5,444,407)	723,930	-13%
Cash flows from noncapital financing activities	(619,094)	-	(619,094)	100%
Cash flows from capital and related financing activities	<u>(25,921,474)</u>	<u>(49,558,347)</u>	<u>23,636,873</u>	-48%
Net change in cash and cash equivalents	(11,558,183)	(23,322,801)	11,764,618	-50%
Cash and cash equivalents – beginning of year	<u>51,613,906</u>	<u>74,936,707</u>	<u>(23,322,801)</u>	-31%
Cash and cash equivalents – end of year	<u>\$ 40,055,723</u>	<u>\$ 51,613,906</u>	<u>\$ (11,558,183)</u>	-22%

Cash flows from operations primarily include receipts from research sponsors and licensees, lease income, repair and restoration income, principal and interest payments on notes and leases receivable, and receipts on reimbursable project costs net of disbursements for operations. The decrease in net cash flows from operating activities between Fiscal 2022 and Fiscal 2023 is the result of a decrease in sponsored research activity and decreased cash provided due to early note receivable termination and certain restructured lease agreements offset by increased licensing and royalties income.

Cash flows from investing activities are comprised of proceeds from sales and maturities of investments, purchases of investments, and interest earned on investments. From Fiscal 2022 to Fiscal 2023, these activities reflect an decrease in cash resulting from the purchase of investments offset by increased investment income.

Cash flows from noncapital financing activities during Fiscal 2023 consist of the Rutherford Entity's Board approved distribution of residual funds to the University in Fiscal 2023 following the University's early termination of its financing agreement in Fiscal 2022.

Cash flows from capital and related financing activities are related to capital expenditures, proceeds for the termination of notes receivable, and bond and lease liability payments of principal and interest. The decrease in cash used from Fiscal 2022 to Fiscal 2023 is due primarily to decreased cash provided by the University for the early termination of a note receivable in Fiscal 2022, decreased cash provided by the revolving credit agreement in Fiscal 2022, decreased cash used on land acquisition in Fiscal 2022, decreased cash used in construction in progress on the new residence hall in Fiscal 2023, and decreased cash used in bond extinguishment in Fiscal 2022.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Economic Outlook

Nationally, research funding and specifically federal research funding remains competitive. The Research Foundation's sponsored research revenue increased slightly in Fiscal 2023. University faculty are actively seeking new research award opportunities from a variety of funding sources and successfully compete for limited awards. Additionally, the Research Foundation continues to leverage commercialization opportunities with economic potential to provide new revenue streams.

The Real Estate Foundation ended Fiscal 2023 with a strong financial base and continues to support the real estate and facility needs of the University as evidenced in the number and broad spectrum focus of its construction and associated projects.

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENT OF NET POSITION

JUNE 30, 2023

	Research Foundation	Real Estate Foundation	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 13,322,879	\$ 20,967,819	\$ 34,290,698
Investments	51,053,517	-	51,053,517
Sponsored Research, Licensing, and Royalties Receivable	65,512,734	-	65,512,734
Accounts Receivable	-	1,975,521	1,975,521
Accounts Receivable from the University and Affiliates	1,920,314	446,049	2,366,363
Interest Receivable	-	22,820	22,820
Lease Receivable, current portion	73,728	2,920,995	2,994,723
Notes Receivable, current portion	-	9,393,033	9,393,033
Prepaid Expenses and Other Current Assets	-	253,435	253,435
Total Current Assets	<u>131,883,172</u>	<u>35,979,672</u>	<u>167,862,844</u>
Noncurrent Assets			
Bond Proceeds Restricted for Debt Service	-	5,765,025	5,765,025
Investments held by UGAF	-	10,194,358	10,194,358
Investment in GRA Venture Fund	410,160	-	410,160
Lease Receivable, noncurrent portion	74,744	5,408,070	5,482,814
Notes Receivable, noncurrent portion	-	198,596,201	198,596,201
Capital Assets, not being depreciated:			
Land	107,629	29,719,104	29,826,733
Construction in Progress	-	23,131	23,131
Easement	-	1,835,296	1,835,296
Capital Assets, net of accumulated depreciation	-	1,145,778	1,145,778
Intangible Right-to-Use Assets, net of accumulated amortization	-	7,360,612	7,360,612
Total Noncurrent Assets	<u>592,533</u>	<u>260,047,575</u>	<u>260,640,108</u>
Total Assets	<u>132,475,705</u>	<u>296,027,247</u>	<u>428,502,952</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Loss on Refundings, net	\$ -	\$ 11,886,780	\$ 11,886,780

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2023

	Research Foundation	Real Estate Foundation	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable to the University and Affiliates	\$ 68,169,435	\$ 1,981,331	\$ 70,150,766
Accounts Payable and Accrued Liabilities	1,508,950	499,574	2,008,524
Accrued Interest Payable	-	370,030	370,030
Advance Note and Lease Payment Receipts	6,275	5,084,394	5,090,669
Advance Repair and Restoration Receipts	-	127,222	127,222
Lease Obligations, current portion	-	2,811,814	2,811,814
Revolving Credit Agreement, current portion	-	17,014,475	17,014,475
Bonds Payable, current portion	-	9,935,000	9,935,000
Total Current Liabilities	<u>69,684,660</u>	<u>37,823,840</u>	<u>107,508,500</u>
Noncurrent Liabilities:			
Lease Obligations, noncurrent portion	-	5,174,771	5,174,771
Bonds Payable, noncurrent portion	-	205,086,066	205,086,066
Total Noncurrent Liabilities	<u>-</u>	<u>210,260,837</u>	<u>210,260,837</u>
Total Liabilities	<u>69,684,660</u>	<u>248,084,677</u>	<u>317,769,337</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned Lease Income	<u>145,644</u>	<u>7,675,203</u>	<u>7,820,847</u>
NET POSITION			
Net Investment in Capital Assets	107,629	15,711,376	15,819,005
Unrestricted	<u>62,537,772</u>	<u>36,442,771</u>	<u>98,980,543</u>
Total Net Position	<u>\$ 62,645,401</u>	<u>\$ 52,154,147</u>	<u>\$ 114,799,548</u>

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2023

	Research Foundation	Real Estate Foundation	Total
Operating Revenues			
Sponsored Research	\$ 259,569,248	\$ -	\$ 259,569,248
Licensing and Royalties	11,979,696	-	11,979,696
Lease Income	72,822	3,508,693	3,581,515
Repair and Restoration Income	-	1,504,204	1,504,204
Lease Interest Income	-	135,028	135,028
Financing Interest Income	2,575	9,811,029	9,813,604
Miscellaneous Operating Income	107,998	-	107,998
Total Operating Revenues	271,732,339	14,958,954	286,691,293
Operating Expenses			
Research Subcontracted to the University (including facilities and administrative cost reimbursements)	253,379,463	-	253,379,463
Licensing and Royalty Distributions	9,381,216	-	9,381,216
Licenses and Intellectual Property	1,667,295	-	1,667,295
Support to the University	5,699,317	-	5,699,317
Project Expenses	-	4,003,034	4,003,034
Management and General	399,610	335,954	735,564
Total Operating Expenses	270,526,901	4,338,988	274,865,889
Operating Income	1,205,438	10,619,966	11,825,404
Non-operating Revenue (Expenses)			
Investment Income	1,260,457	729,245	1,989,702
Change in Fair Value of Investments	2,119,250	-	2,119,250
Other Income	-	8,878	8,878
Interest Expense, net	-	(8,791,944)	(8,791,944)
Total Non-operating Revenue (Expenses)	3,379,707	(8,053,821)	(4,674,114)
Change in Net Position	4,585,145	2,566,145	7,151,290
Net Position			
Beginning of Year	58,060,256	49,588,002	107,648,258
End of Year	\$ 62,645,401	\$ 52,154,147	\$ 114,799,548

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

	Research Foundation	Real Estate Foundation	Total
Cash Flows from Operating Activities			
Receipts from Research Sponsors	\$ 254,766,393	\$ -	\$ 254,766,393
Receipts from Licensing, Royalties, and Other Income	12,087,695	-	12,087,695
Receipts from the University	11,521,296	-	11,521,296
Receipts from Lease Income	-	770,791	770,791
Receipts from Repair and Restoration Income	-	1,523,641	1,523,641
Receipts of Principal on Leases Receivable	72,725	2,808,030	2,880,755
Receipts of Interest on Leases Receivable	2,575	131,833	134,408
Receipts of Principal on Notes Receivable	-	8,408,020	8,408,020
Receipts of Financing Interest Income	-	9,570,563	9,570,563
Receipts for Payments Reimbursable by the University and Affiliates	-	2,487,804	2,487,804
Sponsored Research Payments to the University	(263,747,978)	-	(263,747,978)
Payments for Licensing and Royalty Distributions	(9,817,601)	-	(9,817,601)
Payments to the University	(6,344,352)	-	(6,344,352)
Payments to Suppliers	(543,048)	(1,507,721)	(2,050,769)
Payments Reimbursable by the University and Affiliates	-	(2,487,804)	(2,487,804)
Net Cash Flows from Operating Activities	(2,002,295)	21,705,157	19,702,862
Cash Flows from Noncapital Financing Activities			
Payment to the University and Affiliates	-	(619,094)	(619,094)
Net Cash Flows from Noncapital Financing Activities	-	(619,094)	(619,094)
Cash Flows from Capital and Related Financing Activities			
Cash paid for Capital Assets	-	(4,617,307)	(4,617,307)
Interest payments on Long-term Liabilities	-	(8,975,955)	(8,975,955)
Principal Repayment on Lease Obligations	-	(2,703,212)	(2,703,212)
Principal Repayment on Bonds Payable	-	(9,625,000)	(9,625,000)
Net Cash Flows from Capital and Related Financing Activities	-	(25,921,474)	(25,921,474)
Cash Flows from Investing Activities			
Proceeds from Sales and Maturities of Investments	9,438,283	-	9,438,283
Purchases of Investments	(10,757,974)	(4,188,689)	(14,946,663)
Investment in GRA Venture Fund, Net of Distributions	(29,697)	-	(29,697)
Net payments for Foreign Currency Fluctuations	-	8,878	8,878
Investment Income	-	808,722	808,722
Net Cash Flows from Investing Activities	(1,349,388)	(3,371,089)	(4,720,477)
Net Change in Cash and Cash Equivalents	(3,351,683)	(8,206,500)	(11,558,183)
Cash and Cash Equivalents			
Beginning of Year	16,674,562	34,939,344	51,613,906
End of Year	\$ 13,322,879	\$ 26,732,844	\$ 40,055,723

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2023

	<u>Research Foundation</u>	<u>Real Estate Foundation</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating Income	\$ 1,205,438	\$ 10,619,966	\$ 11,825,404
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and Amortization	-	2,795,111	2,795,111
Accounts Receivable	(4,876,803)	318,342	(4,558,461)
Prepaid Expenses		(7,174)	(7,174)
Receipts of Principal on Leases Receivable	72,725	2,808,030	2,880,755
Receipts of Principal on Notes Receivable	-	8,408,020	8,408,020
Accounts Payable and Accrued Liabilities	105,926	(273,537)	(167,611)
Accounts Payable to the University and Affiliates	1,563,240	-	1,563,240
Advance Note and Lease Payment Receipts	-	(197,387)	(197,387)
Advance Repair and Restoration Receipts	-	19,437	19,437
Unearned Lease Income Adjustment	(72,821)	(2,785,651)	(2,858,472)
Net Cash from Operating Activities	<u>\$ (2,002,295)</u>	<u>\$ 21,705,157</u>	<u>\$ 19,702,862</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and Cash Equivalents, per the Statement of Net Position	\$ 13,322,879	\$ 20,967,819	\$ 34,290,698
Cash and Cash Equivalents Included in Bond Proceeds Restricted for Construction, Debt Service, and Reserves	-	5,765,025	5,765,025
Total Cash and Cash Equivalents	<u>\$ 13,322,879</u>	<u>\$ 26,732,844</u>	<u>\$ 40,055,723</u>
Schedule of Noncash Investing, Capital, and Related Financing Activities			
Increase in Fair Value of Investments	\$ 2,119,250	\$ -	\$ 2,119,250
Investment Income, Reinvested	\$ 1,260,457	\$ -	\$ 1,260,457

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
STATEMENTS OF FIDUCIARY FUNDS – CUSTODIAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

Statement of Fiduciary Net Position – Custodial Funds
June 30, 2023

	Research Foundation
ASSETS	
Cash and Cash Equivalents	\$ 32,813
Total Assets	<u>32,813</u>
FIDUCIARY NET POSITION	
Restricted for Other Organizations	<u>32,813</u>
Total Fiduciary Net Position	<u>\$ 32,813</u>

Statement of Changes in Fiduciary Net Position – Custodial Funds
Year Ended June 30, 2023

	Research Foundation
ADDITIONS	
Contributions	\$ 4,861
Total Additions	<u>4,861</u>
DEDUCTIONS	
Disbursements	<u>3,236</u>
Total Deductions	<u>3,236</u>
Change in Fiduciary Net Position	1,625
Fiduciary Net Position	
Beginning of Year	<u>31,188</u>
End of Year	<u>\$ 32,813</u>

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

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 sponsored 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”). The Real Estate Foundation is a not-for-profit corporation that was chartered in 1999 and manages and improves various real estate assets for the benefit of 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 is presented as a blended component unit. The Research Foundation and the Real Estate Foundation are collectively referred to as the “Foundations”.

Note 2—Summary of significant accounting policies

Basis of Presentation – The Foundations’ financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”).

The financial statement presentation provides a comprehensive, entity-wide perspective of the Foundations’ assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows. As required by accounting principles generally accepted in the United States of America as prescribed by GASB, the financial position and activities of component units are shown using a blended presentation in the government-wide financial statements, which consist of the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows. In addition, these standards require the presentation of Management’s Discussion and Analysis (“MD&A”). The MD&A is considered to be required supplementary information and precedes the financial statements.

The Research Foundation presents statements of fiduciary funds as the custodian of funds for other organizations.

Reporting Entity – In accordance with the criteria in Statement of Governmental Accounting Standard (“SGAS”) 61, *The Financial Reporting Entity*, the Research Foundation is a legally separate tax-exempt organization whose activities primarily support the University, a unit of the University System of Georgia (an organizational unit of the state of Georgia). The Research Foundation is considered an affiliated organization of the University and due to its financial significance, its financial activities are included in the University and University System of Georgia’s reports. The State Accounting Office determined component units of the state of Georgia, as required by SGAS 61, should not be assessed in relation to their significance to the University. Accordingly, the Research Foundation qualifies for treatment as a component unit of the state of Georgia.

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

JUNE 30, 2023

Note 2—Summary of significant accounting policies (continued)

The Real Estate Foundation has been determined to be a component unit of the Research Foundation. The statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows of the Real Estate Foundation are shown using a blended presentation with the Research Foundation as required by government accounting standards.

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 Finance Division, 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

Basis of Accounting – For financial reporting purposes, the Foundations are considered special-purpose government entities engaged only in business-type activities. Accordingly, the Foundations' 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.

Cash and Cash Equivalents – The Foundations consider all short-term investments with an original maturity of three months or less to be cash equivalents. Investments in the Board of Regents Short-Term Fund are carried at fair value. Short-term investments, which consist of money markets, certificates of deposit, and non-participating repurchase agreements, are carried at amortized cost.

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

Investments – The Foundations' investments are reported at fair value using quoted market price or other fair value techniques are required by SGAS 72, *Fair Value Measurements*. Interest and dividends are recognized when earned, realized gains and losses when sales occur and unrealized gains or losses based on the change in fair value between reporting periods.

Investments in Affiliated Companies and Partnerships – The Research Foundation accounts for its interest in a limited liability company for which the Research Foundation does not have significant ownership or control, using the cost method. Contributions are shown at cost less distributions of return of initial investment. Revenue is recognized for dividends received that are distributed from net accumulated earnings of the company since the date of acquisition by the Research Foundation. Losses are recognized if losses incurred by the company are determined to be other than a temporary decrease in value of the investment.

Leases Receivable – Leases are financings of the right to use an underlying leased or owned asset. The Foundations enter into lease and sublease agreements of real property with the University. The lease receivable is measured at the present value of future lease payments expected to be received during the lease term with corresponding unearned lease income. Collectability of these lease receivable payments is reasonably assured and no allowance for uncollectible amounts has been established.

Notes Receivable – The Real Estate Foundation enters into financing agreements of real property with the University. The initial recording of the note receivable is made on the day the real property is placed in service, with a corresponding entry to remove the capital asset using the lesser of the net present value of the note payments or the fair value of the purchased property. Note receivables are allocated between the principal and interest components in accordance with the payment schedule and terms included in the financing agreements. Notes receivable consist of note receivable payments due for real property owned by the University. Collectability of these note receivable payments is reasonably assured and no allowance for uncollectible amounts has been established.

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

JUNE 30, 2023

Note 2—Summary of significant accounting policies (continued)

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

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

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

Construction in progress is stated at cost and includes planning, development, and construction costs. When construction is complete and the asset is placed in use, assets are transferred at cost to real property or placed under a financing agreement with the Board of Regents.

Intangible right-to-use assets recognize the right to use an underlying tangible nonfinancial asset per a lease agreement. The corresponding liability is recorded as a lease obligation. The intangible right-to-use asset and lease obligation is measured at the present value of future lease payments expected to be made during the lease term.

Deferred Outflows/Inflows of Resources – In accordance with SGAS No. 65, *Items Previously Reported as Assets and Liabilities*, the statement of net position reports 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 refundings qualifies for reporting in this category. The deferred loss on refundings 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 which approximates the effective interest method. In addition to liabilities, the statement of net position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow until that time. The Foundations' unearned lease income qualifies for reporting in this category. Unearned lease income results from a lessor's recording of a lease.

Advance Note and Lease Payment Receipts – The Foundations receive note and lease payments in advance of the scheduled due dates and terms of the financing and lease agreements which may include principal and interest. The advance note and lease payments are applied to the related notes and leases receivable, and interest income in accordance with the payment schedules and terms, regardless of when the cash payment is received. Advance note and lease payments receipts and advance repair and restoration receipts represent payments received but not yet earned.

Lease Obligations – The Real Estate Foundation records a lease obligation for the right to use an underlying tangible nonfinancial asset per a lease agreement. The corresponding capital asset is recorded as an intangible right-to-use asset. The lease obligation and intangible right-to-use asset is measured at the present value of future lease payments expected to be made during the lease term.

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

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

JUNE 30, 2023

Note 2—Summary of significant accounting policies (continued)

Net Position – Net position is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted net position includes amounts restricted by bond indentures for debt service, operating costs, and repair and restoration reserves. Restricted net position is \$-0- at June 30, 2023. Unrestricted net position is not subject to donor or other stipulations imposed by outside sources. The Foundations consider several factors in determining whether to use restricted or unrestricted resources when restrictions are met.

Revenue Recognition – Revenue from sponsored research is recognized as expenditures are made for approved research activities, or the Research Foundation has been notified of approved research activities related to the funds received and all eligibility requirements have been met.

A sponsored research receivable is recorded for amounts expended for authorized purposes but not yet reimbursed by research sponsors. Payments by research sponsors in advance of research expenditures are recorded and classified as funds received for sponsored research in the statement of net position. Accounts receivable included amounts due from the University and affiliates. Management believes the amounts due are fully collectible.

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 over the term of the contract except those payments of royalties received in advance of actual sales are initially deferred and subsequently recognized on a straight-line basis over the expected royalty period.

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

The Real Estate Foundation enters financing agreements with the University that outline additional services, including repair and restoration, to be provided for certain real property. Repair and restoration income is recognized when earned and collectability of the associated receivable is reasonably assured and is recognized on a monthly basis in accordance with the related financing agreement. Lease income is recognized on a straight-line basis over the lease term.

Financing and lease interest income is recorded in accordance with the related financing and lease agreement.

Operating and Non-Operating Revenues – The financial statements distinguish between operating and non-operating revenues and expenses. Operating revenues result from transactions associated with sponsored research, and licensing and royalty agreements (the Research Foundation's principal activities) and maintaining, financing, and leasing real property (the Real Estate Foundation's principal activities). Non-operating revenues, including investment income and net unrealized and realized gains and losses on investments, are reported as non-operating revenues. Interest and financing costs are reported as non-operating expenses. Operating expenses are all expenses incurred in the course of obtaining sponsored research grants, licensing and royalty agreements, providing support to the University, and incurred to manage the financing agreement, and maintain and lease real property, other than financing costs.

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

JUNE 30, 2023

Note 2—Summary of significant accounting policies (continued)

Income Taxes – The Foundations are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”), whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. In addition, they are not classified as a private foundation under Section 509(a) of the Code based on determinations received from the Internal Revenue Service.

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

New Accounting Pronouncements – During the year ended June 30, 2023, the Foundations implemented SGAS No. 93, *Replacement of Interbank Offered Rates*. The standard’s objective is to address accounting and financial reporting implications as a result of a replacement of the London Interbank Offered Rate (LIBOR). The implementation of SGAS No. 93 did not result in a change to beginning net position.

During the year ended June 30, 2023, the Foundations implemented SGAS No. 96, *Subscription-Based Information Technology Arrangements*. This standard provides guidance and addresses how costs and investment for subscription-based information technology arrangements are accounted for and disclosed. Using this standard, a subscriber is required to recognize a liability and an intangible right-to-use asset. The implementation of SGAS No. 96 did not result in a change to beginning net position.

Note 3—Deposits and investments

A. Deposits

At June 30, 2023, the bank and investment account values of the Foundations’ deposits, including interest bearing checking accounts, cash held in managed investment accounts, and cash equivalents held by trustees, were \$23,782,004.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Foundations’ deposits may not be recovered. The Foundations do not have a deposit policy for custodial credit risk. The Foundations place their cash and cash equivalents on deposit with financial institutions in the United States and Italy. For deposits with financial institutions in the United States, the Federal Deposit Insurance Corporation (“FDIC”) covers \$250,000 for substantially all depository accounts. The Foundations from time to time may have amounts on deposit in excess of these insured limits.

As of June 30, 2023, the bank balance of the Foundations’ deposits is presented below by category of risk.

	FDIC Insured	Collateralized by U.S. Securities	Uninsured and Uncollateralized	Total
Checking Accounts	\$ 22,436,567	\$ -	\$ 639,830	\$ 23,076,397
Cash Held in Investments	-	-	705,607	705,607
Total Deposits	<u>\$ 22,436,567</u>	<u>\$ -</u>	<u>\$ 1,345,437</u>	<u>\$ 23,782,004</u>

The funds held in checking accounts include \$32,813 included in the statement of fiduciary net position.

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

JUNE 30, 2023

Note 3—Deposits and investments (continued)

A. Deposits (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect a deposit. During the year ended June 30, 2023, the Foundations' deposits increased by \$8,878 due to foreign currency fluctuations between the euro and the dollar on cash balances held in banks. Amounts held in foreign currency denominations are valued at \$141,026 as of June 30, 2023.

B. Investments

The Foundations maintain separate investment policies. The Research Foundation's policy describes its investment objectives and risk posture, identifies a spending rate, establishes asset allocation and investment guidelines, and specifies investment performance criteria. The Real Estate Foundation's policy establishes objectives, specifies allowable investments, sets target investment mixes, and provides investment guidelines.

The Real Estate Foundation entered into agreements with the University of Georgia Foundation ("UGAF") in order to establish the UGA Real Estate Foundation Short-Term Holding Fund and the UGA Real Estate Foundation Cash and Cash Equivalents Fund (the "Funds") to be managed and held by UGAF. The Funds serve as depository accounts and are separately managed and accounted for by UGAF. The Real Estate Foundation's Board of Trustees (the "Board") is responsible for investing decisions. As of June 30, 2023, investments held by UGAF included fixed-income money market and mutual funds in the amount of \$10,194,358.

The Foundations' investments at June 30, 2023, are presented below. All investments are presented by investment type and debt securities are presented by maturity.

	<u>Total</u>	<u>Investment Maturity</u>			<u>More Than 10 Years</u>
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	
<u>Investment Type</u>					
<u>Debt Securities</u>					
U.S. Treasuries	\$ 3,794,837	\$ 1,947,820	\$ 630,864	\$ 773,960	\$ 442,193
Corporate Debt	13,330,028	149,544	4,866,544	7,046,969	1,266,971
Municipal Debt	76,791	9,887	-	35,137	31,767
Repurchase Agreements held by Trustee	5,765,025	-	-	5,765,025	-
	<u>22,966,681</u>	<u>\$ 2,107,251</u>	<u>\$ 5,497,408</u>	<u>\$ 13,621,091</u>	<u>\$ 1,740,931</u>
<u>Other Investments</u>					
Equity Mutual Funds - Domestic	25,777,601				
Equity Mutual Funds - International	4,678,576				
Commodity Futures ETF	3,241,493				
Equity Securities - Domestic	21,430				
Managed Futures / Hedge Funds	132,762				
Money Market Fund held by UGAF	4,010,359				
Mutual Funds held by UGAF	6,183,999				
Board of Regents Short-term Fund	11,754,535				
Total Investments	<u>\$ 78,767,436</u>				

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

JUNE 30, 2023

Note 3—Deposits and investments (continued)

B. Investments (continued)

The Board of Regents Short-Term Fund held by the Real Estate Foundation is included in Cash and Cash Equivalents on the statement of net position. Real Estate Foundation repurchase agreements held by the trustee of \$5,765,025 are included in Bond Proceeds Restricted for Construction and Debt Service on the statement of net position.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Research Foundation's policy for managing interest rate risk is to evaluate investments in light of their ability to provide needed cash flow while still preserving long-term earning and investment potential. The Real Estate Foundation's policy for managing interest rate risk is to invest primarily in short-term or intermediate-term investments.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Foundations will not be able to recover the value of the investment. The Foundations do not have a formal policy for managing custodial credit risk for investments. At June 30, 2023, \$22,988,111 of the Foundations' applicable investments were uninsured and held by the investment's counterparty in the Foundations' names.

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 policy specifies acceptable categories of fixed income securities, the overall rating of bond portfolios, and specifies an investment limit for foreign securities. The Real Estate Foundation's policy is to invest primarily in a diversified portfolio of investment grade debt securities and fixed income mutual funds.

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

JUNE 30, 2023

Note 3—Deposits and investments (continued)

B. Investments (continued)

The Foundations' investments at June 30, 2023, are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

Quality Ratings	Total	Rated Investments			
		U.S. Agencies	Corporate and Municipal Bonds	Mutual Funds, Money Markets, & Commodity Futures ETF	Repurchase Agreements
Moody's					
Aaa	\$ 7,716,527	\$ 1,157,912	\$ 793,590	\$ -	\$ 5,765,025
Aaa - mf	4,010,359			4,010,359	
Aa1	35,137	-	35,137	-	-
Aa3	1,255,862	-	1,255,862	-	-
A1	4,046,146	-	4,046,146	-	-
A2	3,556,805	-	3,556,805	-	-
A3	2,510,982	-	2,510,982	-	-
Baa1	456,010	-	456,010	-	-
Baa2	387,679	-	387,679	-	-
Baa3	93,056	-	93,056	-	-
Standard & Poor's					
A-	271,552	-	271,552	-	-
Morningstar					
5-Star	8,625,587	-	-	8,625,587	-
4-Star	15,025,300	-	-	15,025,300	-
3-Star	9,570,040	-	-	9,570,040	-
2-Star	2,043,326	-	-	2,043,326	-
1-Star	81,477	-	-	81,477	-
Unrated	4,535,939	-	-	4,535,939	-
	<u>64,221,784</u>	<u>\$ 1,157,912</u>	<u>\$ 13,406,819</u>	<u>\$ 43,892,028</u>	<u>\$ 5,765,025</u>
Exempt Investments					
U.S. Treasuries	2,636,925				
Equity Securities - Domestic	21,430				
Managed Futures/Hedge Funds	132,762				
Board of Regents Short-term Fund	11,754,535				
Total Investments	<u>\$ 78,767,436</u>				

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

JUNE 30, 2023

Note 3—Deposits and investments (continued)

B. Investments (continued)

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

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 manages concentration of credit risk by including limits in its investment policy on holdings of individual classes of investments, holdings with a single manager, and the diversity of individual portfolios. For short-term investments, the investment security mix is driven by the management of investments to meet cash needs. For long-term investments, equities comprise 30% - 70%, bonds 20% - 70%, and alternative investments can range 0% - 40%.

The Real Estate Foundation's policy for managing concentration of credit risk is to invest primarily in a diversified portfolio of investment grade debt securities and fixed-income mutual funds.

As of June 30, 2023, investments and repurchase agreement-underlying securities in a single issuer where those investments are 5% or more of total investments were as follows:

Federal Home Loan Bank	7%
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Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds and external investment pools are exempt from concentration of credit risk disclosure.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundations do not have a formal policy for managing foreign currency risk; however, investments do not include securities denominated in currencies other than the U.S. dollar.

Note 4—Other investments – cost method

During 2009, the Research Foundation made a commitment to invest \$1,000,000 in GRA Venture Fund (T. E.), LLC, (the "GRA Fund"). The GRA Fund was created by the Georgia legislature whereby state funds and funds from profit and not-for-profit entities will be combined to provide seed and early-stage venture financing for businesses formed around intellectual property resulting from Georgia Research Alliance (the "GRA") universities. In July 2015, the Research Foundation made an additional commitment to invest \$1,000,000.

During fiscal year 2023, the Research Foundation made total contributions of \$57,241.

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

JUNE 30, 2023

Note 4—Other investments – cost method (continued)

The Research Foundation's interest in the GRA fund is measured using the cost method. The Research Foundation recognizes its share of losses realized by the GRA Fund; no losses were reported as of June 30, 2023. The total investment by the Research Foundation is shown at cost less distributions of return of initial investment and other than temporary losses.

GRA Venture Fund (T. E.), LLC – capital contribution, at cost, net of distributions and losses

2009 commitment	\$ 20,264
2015 commitment	<u>389,896</u>
	<u>\$ 410,160</u>

Note 5—Fair value measurements of assets and liabilities

The Foundations have adopted SGAS 72, *Fair Value Measurements and Application*, which requires fair value measurement be classified and disclosed in one of the following three Fair Value Hierarchy categories.

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which would generally be included in Level 1 include listed equity securities and mutual funds.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1; inputs include comparable market transactions, pricing of similar instruments, and pricing expectations based on internal modeling. Fair value is determined through the use of models or other valuation methodologies. The types of investments which would generally be included in this category include publicly-traded securities with restrictions on disposition, corporate obligations, and U.S. Government and Agency Treasury securities.

Level 3 – Pricing inputs are unobservable for the investments and include situations where there is little, if any, market activity for the investments. The types of investments which would generally be included in this category include debt and equity securities issued by private entities and partnerships. The inputs into the determination of fair value require significant judgment or estimation. Inputs include recent transactions, earnings forecasts, market multiples, and future cash flows.

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

JUNE 30, 2023

Note 5—Fair value measurements of assets and liabilities (continued)

The table below summarizes the valuation techniques of the Foundations' financial assets and liabilities measured at fair value on a recurring basis and at net asset value as of June 30, 2023.

	Fair Value Measurement			Total
	Level 1	Level 2	Level 3	
Investments by Fair Value Level				
Equity Securities				
Stocks (by sector)				
Health Care	\$ 21,430	\$ -	\$ -	\$ 21,430
Commodity Futures ETF	3,241,493	-	-	3,241,493
Mutual Funds				
Domestic	25,777,601	-	-	25,777,601
International	4,678,576	-	-	4,678,576
Total Equities	33,719,100	-	-	33,719,100
Investment Pools				
Board of Regents Short-Term Fund	-	11,754,535	-	11,754,535
Total Investment Pools	-	11,754,535	-	11,754,535
Fixed Income				
U.S. Treasuries	-	3,794,837	-	3,794,837
Bonds				
Corporate	-	13,330,028	-	13,330,028
Municipal	-	76,791	-	76,791
Mutual Funds held by UGAF	6,183,999	-	-	6,183,999
Total Fixed Income	6,183,999	17,201,656	-	23,385,655
Investments Measured at Net Asset Value ^(*)				
Multi-Strategy Hedge Funds	-	-	-	132,762
Total Investments Measured at Net Asset Value ^(*)	-	-	-	132,762
Total Investments, Recurring Basis	\$ 39,903,099	\$ 28,956,191	\$ -	\$ 68,992,052

(*) Certain investments that are measured at fair value using the net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts on the statement of net position.

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

JUNE 30, 2023

Note 5—Fair value measurements of assets and liabilities (continued)

The Foundations' assets where fair value is measured by net asset value of the entity are as follows:

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Funds ^(a)	\$ 132,762	\$ -	Quarterly	65 days

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

Note 6—Restricted and real estate board designated assets

Assets included in Bond Proceeds Restricted for Debt Service are as follows:

Restricted for:	
Debt Service	\$ 5,765,025
Total Restricted	<u>\$ 5,765,025</u>

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

	Research Foundation	Real Estate Foundation	Total
Designated for:			
Debt Service	\$ -	\$ 3,508,394	\$ 3,508,394
Future Repairs and Replacements of Real Property	-	12,592,843	12,592,843
General Operations of the Real Estate Foundation	-	400,000	400,000
Total Designated	-	16,501,237	16,501,237
Undesignated Cash and Cash Equivalents	13,322,879	4,466,582	17,789,461
Total Cash and Cash Equivalents	<u>\$ 13,322,879</u>	<u>\$ 20,967,819</u>	<u>\$ 34,290,698</u>

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

JUNE 30, 2023

Note 7—Leases receivable

The Foundations have entered into multiple lease and sublease agreements with the Board of Regents to occupy the Foundation's facilities.

As of June 30, 2023, leases receivable was \$8,477,537. These amounts include future minimum lease payments to be received of \$8,680,616 as of June 30, 2023 of which \$203,079 is unearned interest.

As of June 30, 2023, lease payments are as follows:

2024	\$ 3,092,223
2025	2,140,811
2026	1,914,982
2027	<u>1,532,600</u>
Total Payments to be Received	8,680,616
Less Amounts Representing Interest	<u>(203,079)</u>
Total Leases Receivable	8,477,537
Less Current Portion	<u>(2,994,723)</u>
Noncurrent Leases Receivable	<u><u>\$ 5,482,814</u></u>

Note 8—Notes receivable

As of June 30, 2023, notes receivable was \$207,989,234. These amounts include future minimum note receivable payments to be received of \$301,607,152 of which \$93,617,918 is unearned interest.

As of June 30, 2023, notes receivable payments are as follows:

2024	\$ 18,790,869
2025	18,786,515
2026	18,769,795
2027	18,750,446
2028	18,740,651
2029 - 2033	92,951,823
2034 - 2038	67,085,374
2039 - 2043	26,413,805
2044 - 2048	12,459,608
2049 - 2052	<u>8,858,266</u>
Total Payments to be Received	301,607,152
Less Amounts Representing Interest	<u>(93,617,918)</u>
Total Notes Receivable	207,989,234
Less Current Portion	<u>(9,393,033)</u>
Noncurrent Notes Receivable	<u><u>\$ 198,596,201</u></u>

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

JUNE 30, 2023

Note 9—Capital and intangible right-to-use assets

Capital assets consisted of the following:

	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Disposals and Reclasses</u>	<u>Balance at June 30, 2023</u>
Capital assets not being depreciated				
Land	\$ 29,826,733	\$ -	\$ -	\$ 29,826,733
Construction-in-progress	41,707,703	1,783,605	(43,468,177)	23,131
Easement	1,835,296	-	-	1,835,296
Total capital assets not being depreciated	<u>73,369,732</u>	<u>1,783,605</u>	<u>(43,468,177)</u>	<u>31,685,160</u>
Capital assets being depreciated				
Furniture and equipment	197,392	-	-	197,392
Less accumulated depreciation	(197,392)	-	-	(197,392)
Library repository building	1,142,307	-	-	1,142,307
Less accumulated depreciation	(1,142,307)	-	-	(1,142,307)
Other buildings and improvements	3,179,498	-	-	3,179,498
Less accumulated depreciation	(1,919,397)	(114,323)	-	(2,033,720)
Intangible Right-to-Use Assets	18,083,766	-	-	18,083,766
Less accumulated amortization	(8,042,366)	(2,680,788)	-	(10,723,154)
Total capital assets being depreciated, net	<u>11,301,501</u>	<u>(2,795,111)</u>	<u>-</u>	<u>8,506,390</u>
Capital assets, net	<u>\$ 84,671,233</u>	<u>\$ (1,011,506)</u>	<u>\$ (43,468,177)</u>	<u>\$ 40,191,550</u>

Note 10—Long-term liabilities

A. Bonds payable

The Real Estate Foundation has entered into multiple loan agreements to borrow bond proceeds from the Development Authority of the Unified Government of Athens-Clarke County, Georgia or the Housing Authority of the city of Athens, Georgia. The Real Estate Foundation used the proceeds of these loans to fund construction, acquisition, renovation, and the equipping of various facilities located on the University's campus. These properties are secured by certain real properties and by the Real Estate Foundation's interest in certain rents and leases derived from these facilities.

At June 30, 2023, borrowings under the Real Estate Foundation's loan agreements bear interest payable semi-annually in December and June at rates ranging from 1.05% to 5.00% with maturity dates through fiscal year 2052.

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

JUNE 30, 2023

Note 10—Long-term liabilities (continued)

A. Bonds payable (continued)

Revenue Bonds	Original Issue Amount	Interest Rates	Maturing Through Year	Outstanding Balance 2023
Bolton Entity, Series 2013	\$ 24,400,000	3.00% - 5.00%	2044	\$ 16,665,000
Central Precinct Entity, Series 2016	54,025,000	2.00% - 5.00%	2038	40,545,000
Central Housing I Entity, Series 2020	38,970,000	2.00% - 5.00%	2052	38,300,000
EC Housing Entity, Series 2019	62,950,000	1.87% - 3.07%	2033	51,120,000
EC Housing Phase II Entity, Series 2017	44,630,000	3.00% - 5.00%	2040	36,020,000
Fraternity Row Entity, Series 2017	12,665,000	1.05% - 4.45%	2039	9,735,000
PAC Entity, Series 2017	15,215,000	2.00% - 5.00%	2039	12,015,000
				\$ 204,400,000

Real Estate Foundation – bonds payable

The bonds payable agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2023, the Real Estate Foundation was not aware of any violations of the covenants.

Following is a summary as of June 30, 2023, of principal and interest payments for the face value of the bonds payable during each of the next five years ending June 30 and every five years thereafter:

	Principal	Interest
2024	\$ 9,935,000	\$ 7,493,016
2025	10,240,000	7,136,373
2026	10,565,000	6,783,518
2027	10,925,000	6,398,310
2028	11,340,000	5,967,209
2029 - 2033	63,240,000	22,863,167
2034 - 2038	50,980,000	11,712,666
2039 - 2043	19,955,000	4,536,880
2044 - 2048	9,620,000	1,990,100
2049 - 2052	7,600,000	687,325
	\$ 204,400,000	\$ 75,568,564

Changes in long-term debt for the fiscal year ended June 30, 2023 are shown below:

	Balance at June 30, 2022	Additions	Disposals and Reductions	Balance at June 30, 2023	Current Portion
Bonds Payable	\$ 214,025,000	\$ -	\$ (9,625,000)	\$ 204,400,000	\$ 9,935,000
Net Premium (Discount)	11,646,998	-	(1,025,932)	10,621,066	-
Total Long-term Debt	\$ 225,671,998	\$ -	\$ (10,650,932)	\$ 215,021,066	\$ 9,935,000

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

JUNE 30, 2023

Note 10—Long-term liabilities (continued)

B. Lease obligations

The Real Estate Foundation has entered into multiple lease agreements as the lessee. The interest rates on the leases are based on the state's annual borrowing rate of 1.37%. These leases are subleased to the University as described in Note 7.

Description	Original Principal	Lease Term	Begin Month/Year	End Month/Year	Outstanding Balances 2023
Gwinnett Intellicenter	\$ 15,122,755	124 months	Jan 2017	Apr 2027	\$ 6,592,934
Live Oak Square	5,945,613	66 months	Mar 2019	Aug 2024	1,393,651
					\$ 7,986,585

A summary of principal and interest amounts as of June 30, 2023, for the remaining leases are as follows:

	Principal	Interest
2024	\$ 2,811,814	\$ 91,920
2025	1,890,949	57,977
2026	1,760,858	34,042
2027	1,522,964	9,636
	\$ 7,986,585	\$ 193,575

Changes in lease obligations for the year ended June 30, 2023, are shown below:

	Balance at June 30, 2022	Additions	Disposals and Reductions	Balance at June 30, 2023	Current Portion
Lease Obligations	\$ 10,680,128	\$ -	\$ (2,693,543)	\$ 7,986,585	\$ 2,811,814

C. Components of interest expense

A summary of the components of interest cost for the year ended June 30, 2023 is as follows:

Interest Expense	
Interest Expense	\$ 8,694,528
Amortization of Premiums, Discounts, and Deferred Loss	(169,822)
Fees	267,238
Total Interest Expense	\$ 8,791,944

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

JUNE 30, 2023

Note 11—Line of credit

\$25,000,000 Revolving Credit Agreement Fiscal 2019 – In November 2018, the Real Estate Foundation entered into a 25 million revolving credit agreement with a bank, for a five-year term to expire on November 30, 2023. Credit available under the revolving credit agreement is reduced by outstanding borrowings. As of June 30, 2023, amounts outstanding and issued under this agreement include borrowings of \$17,014,475 resulting in \$7,985,525 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's One Month Term Secured Overnight Financing Rate (SOFR) plus 48.0 basis points (or 0.48%). At June 30, 2023, the rate applicable to the borrowings was 5.64%. Amounts available as borrowing capacity are subject to an unused commitment fee of 0.10%.

The revolving credit agreement requires the Real Estate Foundation to meet certain covenants. At June 30, 2023, the Real Estate Foundation was not aware of any violations of the covenants.

Note 12—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, 2025. The monthly rental for this lease agreement is \$6,275. The lease rental for the year ended June 30, 2023 was \$75,300. The library storage facility was being depreciated over 25 years and became fully depreciated during fiscal year 2016.

The Research Foundation receives reimbursement from research sponsors for facilities and administrative ("F&A") cost incurred. Of the total received, 78% is remitted to the University for reimbursement of F&A cost incurred by the University. Additionally, the Research Foundation remitted \$5,405,460 for the year ended June 30, 2023 to various departments of the University for F&A cost they incurred in the support of research.

In addition to the \$5,699,317 in support to the University shown on the statement of revenues, expenses, and changes in net position, the Research Foundation distributes a portion of license and royalties revenue on a quarterly basis. Distributions are made to parties according to the Intellectual Property Administration Agreement and other contractual provisions. During fiscal year 2023, \$9,381,216 of license and royalties revenue was distributed of which \$4,067,864 was paid to the University to support inventor's research and departmental research programs, and the Plant Cultivar program.

The Real Estate Foundation has multiple financing agreements, leases and subleases of real property with 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, 2023, the amounts reported as Lease Income, Repair and Restoration Income, Financing and Lease Interest Income in the statement of revenues, expenses, and changes in net position consist of revenue earned through financing and lease agreements. The financing and 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 financing and 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, 2023, 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 statement of cash flows.

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

JUNE 30, 2023

Note 12—Related party transactions (continued)

The Real Estate Foundation leases the use of land from the Board of Regents where it has constructed property on Board of Regents' land. These ground leases are for a period of up to 3 years during construction and continue for 30 years after construction is complete for a base lease amount 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 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, 2023, the Real Estate Foundation paid \$239,718 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

Note 13—Significant funding sources

For the fiscal year ended June 30, 2023, approximately \$162,500,000 (76%) 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 14—Commitments and contingencies

In the normal course of business, there may be legal actions pending against the Research Foundation. At this time there are no such actions pending, therefore, no legal actions are expected to have a material effect on the Research Foundation's financial position, results of operations, or liquidity.

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

The Georgia legislature passed legislation establishing the GRA Fund. 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 2023, \$6,780 was requested and transferred to the GRA Fund. As of June 30, 2023, the Research Foundation's remaining commitment is \$74,011. In July 2015, the Research Foundation made an additional commitment of \$1,000,000 at \$200,000 per year for five years to the GRA Fund. During fiscal year 2023, \$17,558 was requested and transferred to the GRA Fund. As of June 30, 2023, the Research Foundation's remaining commitment is \$95,166.

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

Annual commitments totaling approximately \$495,000 exist to support general operating costs of the Georgia Advanced Computing Resource Center, the Coverdell and Riverbend buildings, to provide access dues to research computing resources, and support for the Animal Health Research Center.

The Research Foundation established the Special Research Hiring Initiative in fiscal year 2014 and the President's Extraordinary Research Faculty Hiring Initiative in fiscal year 2015. The fiscal year 2023 commitment for these initiatives is budgeted at approximately \$286,000.

In May 2023, the Real Estate Foundation Board approved maximum expenditures of \$74,000,000 related to the construction of a new first year residence hall on the University campus and \$60,700,000 related to the construction of a west campus dining, learning and wellness center on the University campus. The Real Estate Foundation expects to borrow tax exempt obligations in an amount not to exceed \$134,700,000.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major funds and the aggregate remaining fund information the University of Georgia Research Foundation, Inc. (the "Research Foundation"), a component unit of the state of Georgia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements, and have issued our report thereon dated September 25, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Augusta, Georgia
September 25, 2023