

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

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2019

And Report of Independent Auditor

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

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Report of Independent Auditor

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

We have audited the accompanying financial statements of the business-type activities of the University of Georgia Research Foundation, Inc. (the “Research Foundation”), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Research Foundation, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2019, 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 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.

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia
September 16, 2019

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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 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 of 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, 2019

Financial Highlights

Condensed financial statements are presented for the year ended June 30, 2019, and one prior fiscal year. In the following discussion, Fiscal 2019 and Fiscal 2018 refer to the years ended June 30, 2019 and 2018, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>% Change</u>
Assets				
Current assets	\$ 122,215,325	\$ 93,245,665	\$ 28,969,660	31%
Capital assets, net	20,046,315	19,406,427	639,888	3%
Other noncurrent assets	<u>287,647,346</u>	<u>290,052,732</u>	<u>(2,405,386)</u>	-1%
Total assets	<u>429,908,986</u>	<u>402,704,824</u>	<u>27,204,162</u>	7%
Deferred Outflows of Resources				
Deferred loss on refundings	<u>14,156,893</u>	<u>15,086,273</u>	<u>(929,380)</u>	-6%
Liabilities				
Current liabilities	100,098,169	77,873,817	22,224,352	29%
Noncurrent liabilities	<u>244,770,910</u>	<u>246,903,529</u>	<u>(2,132,619)</u>	-1%
Total liabilities	<u>344,869,079</u>	<u>324,777,346</u>	<u>20,091,733</u>	6%
Net Position				
Net investment in capital assets	11,530,093	10,890,205	639,888	6%
Restricted	2,821,234	2,427,821	393,413	16%
Unrestricted	<u>84,845,473</u>	<u>79,695,725</u>	<u>5,149,748</u>	6%
Total net position	<u>\$ 99,196,800</u>	<u>\$ 93,013,751</u>	<u>\$ 6,183,049</u>	7%

Current assets increased by \$28,969,660 from Fiscal 2018 to Fiscal 2019 due to increases in accounts receivable related to sponsored research activity and a net increase in cash inflows from net project activity, and increases in short-term capital leases receivable.

Capital assets, which include land, construction in progress, an easement, buildings and improvements, and furniture and fixtures (net of accumulated depreciation) increased by \$639,888 due primarily to construction in progress offset by the amortization of depreciable capital assets.

Other noncurrent assets primarily include restricted bond proceeds, trustee held funds, investments held by investment managers, and other investments. The \$2,405,386 decrease in other noncurrent assets is primarily due to principal reduction in accordance with the capital lease amortization schedules offset by investment income and increases in the fair value of investments.

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

JUNE 30, 2019

Deferred outflows of resources include deferred loss on refundings that result from the advanced refunding of bond series. Deferred outflows of resources decreased \$929,380 from Fiscal 2018 to Fiscal 2019 due to the normal deferred loss amortization.

Current liabilities increased by \$22,224,352 due primarily to increases in accounts payable to the University related to sponsored research, and short-term bond principal in accordance with the bond amortization schedules offset by the timing of the renewal on the revolving credit agreement.

Noncurrent liabilities decreased by \$2,132,619 from Fiscal 2018 to Fiscal 2019. This decrease is due to annual payments of principal on noncurrent debt offset by the transfer of the revolving credit agreement balance from current liabilities.

Net position represents the difference between the Foundations' assets, liabilities, and deferred outflows/inflows of resources. Total net position at June 30, 2019 and 2018, was \$99,196,800 and \$93,013,751, respectively, which represents an increase of \$6,183,049.

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

JUNE 30, 2019

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Sponsored research	\$ 183,417,689	\$ 180,061,965	\$ 3,355,724	2%
Licensing and royalties	11,044,508	10,562,657	481,851	5%
Rental income	4,397,588	4,209,458	188,130	4%
Capital lease interest income	12,343,515	12,968,697	(625,182)	-5%
Total operating revenues	<u>211,203,300</u>	<u>207,802,777</u>	<u>3,400,523</u>	2%
Operating Expenses				
Research subcontracted to the University	178,195,774	175,675,292	2,520,482	1%
Intellectual property	9,601,691	9,350,442	251,249	3%
Support to the University	5,885,895	9,846,632	(3,960,737)	-40%
Project expenses	3,363,319	3,224,172	139,147	4%
Management and general	928,300	880,796	47,504	5%
Total operating expenses	<u>197,974,979</u>	<u>198,977,334</u>	<u>(1,002,355)</u>	-1%
Operating income	13,228,321	8,825,443	4,402,878	50%
Non-operating revenues (expenses)	(7,045,272)	(8,811,524)	1,766,252	-20%
Special item	<u>-</u>	<u>(354,800)</u>	<u>354,800</u>	100%
Change in Net Position	6,183,049	(340,881)	6,523,930	1914%
Net position – beginning of year	<u>93,013,751</u>	<u>93,354,632</u>	<u>(340,881)</u>	0%
Net position – end of year	<u>\$ 99,196,800</u>	<u>\$ 93,013,751</u>	<u>\$ 6,183,049</u>	7%

Operating revenues consist primarily of sponsored research, licensing and royalties, interest earned on capital leases, and rental income. During Fiscal 2019, operating revenues increased \$3,400,523 due to increases in sponsored research revenue, and licensing and royalties revenue offset by reduced revenue attributed to annual amortization of lease interest income on the capital leases.

Operating expenses decreased by \$1,002,355 primarily due to a decrease in support to the University.

Non-operating revenues and expenses consist mostly of investment income, the change in fair value of investments, and interest expense. For Fiscal 2019, non-operating expenses net of non-operating revenues decreased \$1,766,252 due to reduced interest expense related to annual bond amortization and reduced cost of issuance expense related to the advance refunding of bonds. These reductions are offset by an increase in investment income and increases in the fair value of investments.

The special item in Fiscal 2018 resulted from the dissolution of a Real Estate Foundation Limited Liability Company (LLC) and distribution of its residual funds to the Research Foundation and the University.

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

JUNE 30, 2019

University of Georgia Research Foundation, Inc.
Condensed Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>% Change</u>
Cash flows from operating activities	\$ 18,272,826	\$ 15,551,175	\$ 2,721,651	18%
Cash flows from investing activities	(2,877,592)	1,487,246	(4,364,838)	-293%
Cash flows from noncapital financing activities	-	(354,800)	354,800	100%
Cash flows from capital and related financing activities	<u>(20,015,694)</u>	<u>(19,392,213)</u>	<u>(623,481)</u>	-3%
Net change in cash and cash equivalents	(4,620,460)	(2,708,592)	(1,911,868)	71%
Cash and cash equivalents – beginning of year	<u>41,847,210</u>	<u>44,555,802</u>	<u>(2,708,592)</u>	-6%
Cash and cash equivalents – end of year	<u>\$ 37,226,750</u>	<u>\$ 41,847,210</u>	<u>\$ (4,620,460)</u>	-11%

Cash flows from operations primarily include receipts from research sponsors and licensees (net of disbursements for operations), rental income, principal and interest payments on capital leases receivable, and receipts on reimbursable project costs. The increase in net cash flows from operating activities between Fiscal 2018 and Fiscal 2019 is largely due to the increased cash provided as a result of increases in sponsored research, and licensing and royalties revenues and decreased payments for support to the University.

Cash flows from investing activities are comprised of proceeds from sales and maturities of investments, purchases of investments, and interest earned on investments. The decrease in cash from Fiscal 2018 to Fiscal 2019 is primarily due to an increase in cash used in investing activities offset by an increase in cash provided by investment income.

Cash flows from noncapital financing activities during Fiscal 2018 consist of the distribution of residual funds from the Real Estate Foundation to the Research Foundation and the University following the dissolution of a Real Estate Foundation LLC.

Cash flows from capital and related financing activities are related to capital expenditures, proceeds from new bond issuances, proceeds from the transfer of assets, and bond debt payments of principal and interest. The increase in cash used from Fiscal 2018 to Fiscal 2019 is due primarily to increased cash used for construction in progress offset by decreased cash used on debt and interest payments.

Economic Outlook

Nationally, research funding and specifically federal research funding remains competitive. The Research Foundation's sponsored research revenue increased slightly in Fiscal 2019. 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 2019 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, GA 30602.

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

JUNE 30, 2019

	Research Foundation	Component Unit Real Estate Foundation	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 7,331,861	\$ 21,308,548	\$ 28,640,409
Sponsored Research, Licensing, and Royalties Receivable	55,728,822	-	55,728,822
Accounts Receivable from the University and Affiliates	638,428	117,810	756,238
Funds Deposited with the University	28,325,675	-	28,325,675
Prepaid Expenses and Other Current Assets	-	230,885	230,885
Capital Leases Receivable, current portion	-	8,533,296	8,533,296
Total Current Assets	92,024,786	30,190,539	122,215,325
Noncurrent Assets			
Bond Proceeds Restricted for Construction, Debt Service, and Reserves	-	5,765,025	5,765,025
Operating Funds Held by Trustee Investments	42,758,436	-	42,758,436
Investments Held by UGAF	-	12,257,546	12,257,546
Investment in GRA Venture Fund	962,074	-	962,074
Capital Lease Receivable, noncurrent portion	-	223,082,949	223,082,949
Capital Assets, not being depreciated			
Land	107,629	15,724,224	15,831,853
Construction in Progress	-	776,096	776,096
Easement	-	1,835,296	1,835,296
Capital Assets, net of accumulated depreciation	-	1,603,070	1,603,070
Total Noncurrent Assets	43,828,139	263,865,522	307,693,661
Total Assets	135,852,925	294,056,061	429,908,986
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Loss on Refundings	-	14,156,893	14,156,893

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

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

JUNE 30, 2019

	Component Unit		Total
	Research Foundation	Real Estate Foundation	
LIABILITIES			
Current Liabilities			
Accounts Payable to the University and Affiliates	\$ 58,179,707	\$ 9,750	\$ 58,189,457
Funds Received for Sponsored Research	28,325,675	-	28,325,675
Accounts Payable and Accrued Liabilities	1,317,479	182,264	1,499,743
Unearned Revenue	6,275	-	6,275
Accrued Interest Payable	-	513,756	513,756
Advance Rent and Lease Payment Receipts	-	2,026,270	2,026,270
Lease Rent Liability, current portion	-	51,993	51,993
Bonds Payable, current portion	-	9,485,000	9,485,000
Total Current Liabilities	<u>87,829,136</u>	<u>12,269,033</u>	<u>100,098,169</u>
Noncurrent Liabilities			
Lease Rent Liability, noncurrent portion	-	1,824,121	1,824,121
Revolving Credit Agreement, noncurrent portion	-	8,516,222	8,516,222
Bonds Payable, noncurrent portion	-	234,430,567	234,430,567
Total Noncurrent Liabilities	<u>-</u>	<u>244,770,910</u>	<u>244,770,910</u>
Total Liabilities	<u>87,829,136</u>	<u>257,039,943</u>	<u>344,869,079</u>
NET POSITION			
Net Investment in Capital Assets	107,629	11,422,464	11,530,093
Restricted			
Future Repairs and Replacements of Real Property	-	2,821,234	2,821,234
Unrestricted	47,916,160	36,929,313	84,845,473
Total Net Position	<u>\$ 48,023,789</u>	<u>\$ 51,173,011</u>	<u>\$ 99,196,800</u>

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

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

YEAR ENDED JUNE 30, 2019

	Component Unit		Total
	Research Foundation	Real Estate Foundation	
Operating Revenues			
Sponsored Research	\$ 183,417,689	\$ -	\$ 183,417,689
Licensing and Royalties	11,044,508	-	11,044,508
Rental Income	77,445	4,320,143	4,397,588
Capital Lease Interest Income	-	12,343,515	12,343,515
Total Operating Revenues	194,539,642	16,663,658	211,203,300
Operating Expenses			
Research Subcontracted to the University (including facilities and administrative cost reimbursements)	178,195,774	-	178,195,774
Licensing and Royalty Distributions	8,153,646	-	8,153,646
Licenses and Intellectual Property	1,448,045	-	1,448,045
Support to the University	5,885,895	-	5,885,895
Project Expenses	-	3,363,319	3,363,319
Management and General	463,372	464,928	928,300
Total Operating Expenses	194,146,732	3,828,247	197,974,979
Total Operating Income	392,910	12,835,411	13,228,321
Non-operating Revenue (Expenses)			
Investment Income	816,423	1,055,225	1,871,648
Change in Fair Value of Investments	1,003,176	-	1,003,176
Other Expense	-	(1,041)	(1,041)
Interest Expense, net	-	(9,901,906)	(9,901,906)
Loss on Investment in GRA Venture Fund	(17,149)	-	(17,149)
Total Non-operating Revenue (Expenses)	1,802,450	(8,847,722)	(7,045,272)
Change in Net Position	2,195,360	3,987,689	6,183,049
Net Position			
Beginning of Year	45,828,429	47,185,322	93,013,751
End of Year	\$ 48,023,789	\$ 51,173,011	\$ 99,196,800

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

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

YEAR ENDED JUNE 30, 2019

	Research Foundation	Component Unit Real Estate Foundation	Total
Cash Flows from Operating Activities			
Receipts from research sponsors	\$ 158,466,185	\$ -	\$ 158,466,185
Receipts from licensing, royalties, and other income	11,046,653	-	11,046,653
Receipts from the University	9,056,864	-	9,056,864
Receipts from rental income	75,300	4,341,028	4,416,328
Receipts of principal on capital leases	-	8,152,410	8,152,410
Receipts of interest on capital leases	-	12,310,857	12,310,857
Receipts for payments reimbursable by the University and affiliates	-	726,799	726,799
Sponsored research payments to the University	(165,430,222)	-	(165,430,222)
Payments for licensing and royalty distributions	(6,187,402)	-	(6,187,402)
Payments to the University	(9,225,633)	-	(9,225,633)
Payments to suppliers	(509,746)	(3,723,468)	(4,233,214)
Payments reimbursable by the University and affiliates	-	(726,799)	(726,799)
Other operating payments	-	(100,000)	(100,000)
Net Cash from Operating Activities	(2,708,001)	20,980,827	18,272,826
Cash Flows from Investing Activities			
Proceeds from sales and maturities of investments	24,159,184	-	24,159,184
Purchases of investments	(27,231,585)	(345,718)	(27,577,303)
Investment in GRA Venture Fund, net of distributions	(154,863)	-	(154,863)
Net payments for foreign currency fluctuations	-	(1,041)	(1,041)
Investment income	-	696,431	696,431
Net Cash from Investing Activities	(3,227,264)	349,672	(2,877,592)
Cash Flows from Capital and Related Financing Activities			
Capital Expenditures	-	(693,108)	(693,108)
Interest payments on long-term debt	-	(10,177,586)	(10,177,586)
Principal repayment on bonds payable	-	(9,145,000)	(9,145,000)
Net Cash from Capital and Related Financing Activities	-	(20,015,694)	(20,015,694)
Net Change in Cash and Cash Equivalents	(5,935,265)	1,314,805	(4,620,460)
Cash and Cash Equivalents			
Beginning of year	13,267,126	28,580,084	41,847,210
End of year	<u>\$ 7,331,861</u>	<u>\$ 29,894,889</u>	<u>\$ 37,226,750</u>

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

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

YEAR ENDED JUNE 30, 2019

	<u>Research Foundation</u>	<u>Component Unit Real Estate Foundation</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 392,910	\$ 12,835,411	\$ 13,228,321
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation	-	114,324	114,324
Straight-line rent expense adjustment	-	21,066	21,066
Receipts of principal on capital leases	-	8,152,410	8,152,410
Changes in assets and liabilities			
Accounts receivable	(24,951,504)	-	(24,951,504)
Prepaid expenses and other current assets	-	(12,872)	(12,872)
Accounts payable to the University and affiliates	21,808,600	(93,089)	21,715,511
Accounts payable and accrued liabilities	44,138	(24,650)	19,488
Unearned revenue	(2,145)	-	(2,145)
Advance rent least payment receipts	-	(11,773)	(11,773)
Net Cash from Operating Activities	<u>\$ (2,708,001)</u>	<u>\$ 20,980,827</u>	<u>\$ 18,272,826</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and cash equivalents, per the statement of net position	\$ 7,331,861	\$ 21,308,548	\$ 28,640,409
Cash and cash equivalents included in bond proceeds restricted for construction, debt service, and reserves	-	5,765,025	5,765,025
Cash and cash equivalents included in operating funds held by trustee	-	2,821,316	2,821,316
Total Cash and Cash Equivalents	<u>\$ 7,331,861</u>	<u>\$ 29,894,889</u>	<u>\$ 37,226,750</u>
Schedule of Noncash Investing, Capital and Related Financing Activities			
Increase in fair value of investments	\$ 1,003,177	\$ -	\$ 1,003,177
Investment income, reinvested	\$ 816,423	\$ -	\$ 816,423
Loss on investment in GRA Venture Fund	\$ (17,149)	\$ -	\$ (17,149)

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1—Organization

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

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

Effective July 1, 2007, the Research Foundation became the sole member of the UGA Real Estate Foundation, Inc. (the “Real Estate Foundation”). 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 supplemental information and precedes the financial statements.

Reporting Entity – In accordance with the criteria in Statement of Governmental Accounting Standard (“SGAS”) No. 61, *The Financial Reporting Entity*, the Research Foundation is a legally separate tax-exempt organization whose activities primarily support the University, a unit of the University System of Georgia (an 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 No. 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, 2019

Note 2—Summary of significant accounting policies (continued)

The Real Estate Foundation qualifies as 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 cost.

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

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

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

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. Investments in startup companies are deemed to have a readily determinable fair market value when the stock becomes publicly traded.

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

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

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

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

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

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

Construction in progress is stated at cost and includes planning, development, and construction costs. When construction is complete and the asset is placed in use, assets are transferred at cost to real property or transferred to lessees as part of a capital lease agreement.

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

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

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. In addition to liabilities, the statement of net position will at times 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 revenue until that time. The Real Estate Foundation does not have any item that qualifies for reporting in this category.

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.

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 replacement reserves. Unrestricted net position is not subject to donor or other stipulations imposed by outside sources. The Real Estate Foundation considers 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.

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 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 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.

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

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

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. 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. Amounts are offset by rebates to the University related to savings realized by the Real Estate Foundation due to advance refunding of bonds payable. Advance lease payment receipts represent both the interest and principal components of capital lease payments received but not yet earned.

Operating and Non-Operating Revenues – The financial statements distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with sponsored research, and licensing and royalty agreements (the Research Foundation’s principal activities), and maintaining and leasing real property (the Real Estate Foundation’s principal activities). Non-exchange 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 to maintain and lease real property.

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.

Implementation of New Accounting Pronouncements - Effective July 1, 2018, the Foundations adopted the provisions of SGAS No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Implementation of this statement requires distinction of bonds offered for public sale from direct borrowings and direct placements, and additional disclosure of terms specified in debt agreements. The Foundations also implemented SGAS No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period* and, therefore, did not record capitalized interest for the year ended June 30, 2019. The implementation of these pronouncements did not result in any changes to net position.

Future Accounting Pronouncements – SGAS No. 87, *Leases*, was issued in June 2017. The standard requires lessors to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. This standard will be effective for the year ending June 30, 2021. The Foundations are currently in the process of evaluating the impact of this adoption on the financials statement.

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

JUNE 30, 2019

Note 3—Deposits and investments

A. Deposits

At June 30, 2019, 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 \$4,822,239.

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, 2019, 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	\$ 250,000	\$ -	\$ 757,912	\$ 1,007,912
Cash Held in Investments	-	-	993,011	993,011
Funds Held by Trustee	-	-	2,821,316	2,821,316
Total Deposits	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 4,572,239</u>	<u>\$ 4,822,239</u>

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.

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, 2019, the Foundations' deposits decreased by \$1,041 due to foreign currency fluctuations between the euro and the dollar on cash balances held in banks related to the Real Estate Foundation's operations in Italy. Amounts held in foreign currency denominations are valued at \$4,249 as of June 30, 2019.

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 an agreement with the University of Georgia Foundation ("UGAF") in order to establish the UGA Real Estate Short-term Holding Fund (the "UGAF Fund") to be managed and held by UGAF. The UGAF Fund serves as a depository account and is separately managed and accounted for by UGAF. The Real Estate Foundation's Board of Trustees (the "Real Estate Board") is responsible for investing decisions. As of June 30, 2019, investments held by UGAF included fixed-income mutual funds in the amount of \$12,257,546.

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

JUNE 30, 2019

Note 3—Deposits and investments (continued)

B. Investments (continued)

The Foundations' investments at June 30, 2019, are presented below. All investments are presented by investment type and debt securities are presented by maturity.

<u>Investment Type</u>	<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>	
Debt Securities					
U.S. Treasuries	\$ 9,519,589	\$ 6,685,305	\$ 1,613,428	\$ 668,058	\$ 552,798
U.S. Agencies - Implicitly Guaranteed	254,899	-	-	254,899	-
Corporate Debt	7,545,384	1,053,802	4,176,461	1,688,011	627,110
Municipal Debt	295,707	30,414	106,840	41,265	117,188
Repurchase Agreements	35,177,892	35,177,892	-	-	-
Repurchase Agreements Held by Trustee	5,765,025	-	-	-	5,765,025
	<u>58,558,496</u>	<u>\$ 42,947,413</u>	<u>\$ 5,896,729</u>	<u>\$ 2,652,233</u>	<u>\$ 7,062,121</u>
Other Investments					
Equity Mutual Funds - Domestic	14,626,825				
Equity Mutual Funds - International	7,308,146				
Commodity Futures ETF	2,036,039				
Equity Securities - Domestic	252,705				
Managed Futures / Hedge Funds	919,142				
Mutual Funds Held by UGAF	12,257,546				
Board of Regents Short-term Fund	9,810,278				
Total Investments	<u>\$ 105,769,177</u>				

Repurchase agreements of \$23,663,000 held by the Research Foundation are included in cash and cash equivalents on the statement of net position. Repurchase agreements held by the Real Estate Foundation of \$11,514,892 and the Board of Regents Short-term Fund are 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, debt service, and reserves 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.

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

JUNE 30, 2019

Note 3—Deposits and investments (continued)

B. Investments (continued)

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, 2019, \$58,811,200 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.

The Foundations' investments at June 30, 2019, are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

<u>Quality Ratings</u>	<u>Total</u>	<u>Rated Investments</u>			
		<u>U.S. Agencies</u>	<u>Corporate, and Municipal Bonds</u>	<u>Mutual Funds and Commodity Futures ETF</u>	<u>Repurchase Agreements</u>
Moody's					
Aaa	\$ 7,312,000	\$ 254,899	\$ 1,292,076	\$ -	\$ 5,765,025
Aa1	321,122	-	321,122	-	-
Aa2	51,084	-	51,084	-	-
Aa3	1,017,604	-	1,017,604	-	-
A1	700,192	-	700,192	-	-
A2	1,535,411	-	1,535,411	-	-
A3	506,438	-	506,438	-	-
Baa1	1,083,081	-	1,083,081	-	-
Baa2	775,647	-	775,647	-	-
Baa3	489,012	-	489,012	-	-
Standard & Poor's					
A	37,594	-	37,594	-	-
Morningstar					
5-Star	3,278,697	-	-	3,278,697	-
4-Star	14,887,616	-	-	14,887,616	-
3-Star	9,671,768	-	-	9,671,768	-
2-Star	3,598,013	-	-	3,598,013	-
Unrated	40,002,184	-	31,831	4,792,461	35,177,892
	<u>85,267,463</u>	<u>\$ 254,899</u>	<u>\$ 7,841,092</u>	<u>\$ 36,228,555</u>	<u>\$ 40,942,917</u>
Exempt Investments					
U. S. Treasuries	9,519,589				
Equity Securities - Domestic	252,705				
Managed Futures/Hedge Funds	919,142				
Board of Regents Short-term Fund	9,810,278				
Total Investments	<u>\$ 105,769,177</u>				

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

JUNE 30, 2019

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, 2019, 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 Mortgage Corporation	24%
Federal National Mortgage Association	9%
Federal Home Loan Bank	6%

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.

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

JUNE 30, 2019

Note 4—Other investments – cost method (continued)

During fiscal year 2019, the Research Foundation made total contributions of \$154,863.

A fair value is not estimated for the investment. At June 30, 2019, the Research Foundation recognized its share of losses incurred by the GRA Fund amounting to \$17,149. 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	\$ 506,842
2015 commitment	455,232
	<u>\$ 962,074</u>

Note 5—Fair value measurements of assets and liabilities

The Foundations have adopted SGAS No. 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, mutual funds, and money market funds. As required by accounting principles generally accepted in the United States of America, the Foundations, to the extent that they hold such investments, do not adjust the quoted price for these investments, even in situations where the Foundations hold a large position and a sale could reasonably impact the quoted price.
- 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, values reported by the administrator, 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 Inflation Indices.
- 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.

The table on the following page summarizes the valuation of the Foundations' financial assets and liabilities measured at fair value on a recurring basis and at net asset value as of June 30, 2019.

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

JUNE 30, 2019

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

	Fair Value Measurement			Total
	Level 1	Level 2	Level 3	
Investments by Fair Value Level				
Equity Securities				
Stocks (by sector)				
Health Care	\$ 252,705	\$ -	\$ -	\$ 252,705
Commodity Futures ETF	2,036,039	-	-	2,036,039
Mutual Funds				
Domestic	14,626,825	-	-	14,626,825
International	7,308,146	-	-	7,308,146
Total Equities	24,223,715	-	-	24,223,715
Investment Pools				
Board of Regents Short-term Fund	-	9,810,278	-	9,810,278
Total Investment Pools	-	9,810,278	-	9,810,278
Fixed Income				
U. S. Treasury	-	9,519,589	-	9,519,589
U. S. Agencies - Implicitly Guaranteed	-	254,899	-	254,899
Bonds				
Corporate	-	7,545,384	-	7,545,384
Municipal	-	295,707	-	295,707
Mutual Funds Held by UGAF	12,257,546	-	-	12,257,546
Total Fixed Income	12,257,546	17,615,579	-	29,873,125
Investments Measured at Net Asset Value ^(a)				
Multi-Strategy Hedge Funds	-	-	-	465,892
Business Development Company	-	-	-	453,250
Total Investments Measured at Net Asset Value ^(a)	-	-	-	919,142
Total Investments, Recurring Basis	\$ 36,481,261	\$ 27,425,857	\$ -	\$ 64,826,260

^(a) 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.

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

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

JUNE 30, 2019

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:

<u>Category</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Multi-Strategy Hedge Funds ^(a)	\$ 465,892	\$ -	Quarterly	65 days
Business Development Company ^(b)	453,250	40,000	None	N/A
	<u>\$ 919,142</u>	<u>\$ 40,000</u>		

(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.

(b) *Business Development Company* – This category includes investment in a closed-end management investment company focused on lending to middle-market companies. It seeks to generate current income and, to a lesser extent, capital appreciation primarily through direct originations of secured debt, including first lien, unitranche loans, including last out portions of such loans, and second lien debt, and unsecured debt, including mezzanine debt, as well as through select equity investments.

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

JUNE 30, 2019

Note 6—Restricted and Real Estate Board designated assets

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

Restricted for:		
Debt Service		\$ 5,765,025
Future Repairs and Replacements of Real Property		2,821,234
Total Restricted		<u>8,586,259</u>
Designated for:		
General Operations of the Real Estate Foundation		<u>82</u>
Total Restricted and Designated		<u>\$ 8,586,341</u>

The carrying values of the restricted and Real Estate Board designated cash and cash equivalents and investment balances above are included in the statement of net position as follows:

Operating Funds Held by Trustee	\$ 2,821,316
Bond Proceeds Restricted for Construction, Debt Service, and Reserves	<u>5,765,025</u>
Total Restricted and Designated	<u>\$ 8,586,341</u>

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

	<u>Research Foundation</u>	<u>Real Estate Foundation</u>	<u>Total</u>
Designated for:			
Debt Service	\$ -	\$ 3,689,925	\$ 3,689,925
Future Repairs and Replacements of Real Property	-	9,960,126	9,960,126
General Operations of the Real Estate Foundation	-	400,000	400,000
Total Designated	-	14,050,051	14,050,051
Undesignated Cash and Cash Equivalents	<u>7,331,861</u>	<u>7,258,497</u>	<u>14,590,358</u>
Total Cash and Cash Equivalents	<u>\$ 7,331,861</u>	<u>\$ 21,308,548</u>	<u>\$ 28,640,409</u>

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

JUNE 30, 2019

Note 7—Capital leases receivable

The Real Estate Foundation has entered into multiple 20 to 30-year capital lease agreements (1-year leases with annual renewals) with the Board of Regents to occupy the facilities. Lease payments are due monthly. At the end of the lease term, ownership of the leased facilities will be transferred to the Board of Regents.

As of June 30, 2019, net capital leases receivable was \$231,616,245. This amount includes future minimum lease payments to be received of \$360,413,165 of which \$128,796,920 is unearned interest.

As of June 30, 2019, lease payments are receivable as follows:

2020	\$ 20,646,161
2021	20,626,097
2022	20,607,161
2023	20,592,403
2024	20,568,423
2025 - 2029	102,467,470
2030 - 2034	98,128,328
2035 - 2039	46,661,907
2040 - 2044	<u>10,115,215</u>
Total Payments to be Received	360,413,165
Less Amounts Representing Interest	<u>(128,796,920)</u>
Total Leases Receivable	231,616,245
Less Current Portion	<u>(8,533,296)</u>
Noncurrent Leases Receivable	<u><u>\$ 223,082,949</u></u>

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

JUNE 30, 2019

Note 8—Capital assets

Capital assets consisted of the following:

	Balance at June 30, 2018	Additions	Disposals	Balance at June 30, 2019
Capital assets not being depreciated				
Land	\$ 15,831,853	\$ -	\$ -	\$ 15,831,853
Construction in-progress	21,884	754,212	-	776,096
Easement	1,835,296	-	-	1,835,296
Total capital assets not being depreciated	<u>17,689,033</u>	<u>754,212</u>	<u>-</u>	<u>18,443,245</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	(1,462,104)	(114,324)	-	(1,576,428)
Total capital assets being depreciated, net	<u>1,717,394</u>	<u>(114,324)</u>	<u>-</u>	<u>1,603,070</u>
Capital assets - net	<u>\$ 19,406,427</u>	<u>\$ 639,888</u>	<u>\$ -</u>	<u>\$ 20,046,315</u>

Note 9—Long-term debt

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 (the "Development Authority") or the Housing Authority of the City of Athens, Georgia (the "Housing Authority"). 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.

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

JUNE 30, 2019

Note 9—Long-term debt (continued)

At June 30, 2019, 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 5.25% with maturity dates through fiscal year 2044.

Revenue Bonds	Original Issue Amount	Interest Rates	Maturing Through Year	Outstanding Balance 2019
Bolton Entity, Series 2013	\$ 24,400,000	3.00% - 5.00%	2044	\$ 18,440,000
CCRC Entity, Series 2011	32,580,000	2.00% - 5.25%	2032	24,305,000
Central Precinct Entity, Series 2016	54,025,000	2.00% - 5.00%	2038	48,575,000
EC Housing Entity, Series 2010	34,090,000	2.50% - 5.00%	2023	16,075,000
EC Housing Entity, Series 2011	48,250,000	2.00% - 5.00%	2033	46,325,000
EC Housing Phase II Entity, Series 2017	44,630,000	3.00% - 5.00%	2040	41,145,000
Fraternity Row Entity, Series 2017	12,665,000	1.05% - 4.45%	2039	11,420,000
PAC Entity, Series 2017	15,215,000	2.00% - 5.00%	2039	14,115,000
Rutherford Entity, Series 2012	21,910,000	2.00% - 5.00%	2033	11,945,000

Real Estate Foundation – Bonds Payable

The bonds payable agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2019, the Real Estate Foundation was not aware of any violations of the covenants.

Following is a summary as of June 30, 2019, 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
2020	\$ 9,485,000	\$ 9,586,775
2021	9,865,000	9,204,468
2022	10,170,000	8,839,543
2023	10,630,000	8,386,280
2024	11,035,000	7,956,564
2025 - 2029	62,320,000	32,095,915
2030 - 2034	73,030,000	17,286,391
2035 - 2039	37,420,000	5,996,570
2040 - 2044	8,390,000	877,550
	<u>\$ 232,345,000</u>	<u>\$ 100,230,056</u>

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

JUNE 30, 2019

Note 9—Long-term debt (continued)

Real Estate Foundation – Bonds Payable (continued)

Changes in long-term debt for the fiscal year ended June 30, 2019, are shown below:

	Balance at June 30, 2018	Additions	Disposals and Reductions	Balance at June 30, 2019	Current Portion
Bonds Payable	\$ 241,490,000	\$ -	\$ (9,145,000)	\$ 232,345,000	\$ 9,485,000
Net Premium (Discount)	12,754,853	-	(1,184,286)	11,570,567	-
Total Long-term Debt	\$ 254,244,853	\$ -	\$ (10,329,286)	\$ 243,915,567	\$ 9,485,000

A summary of the components of interest cost for the year ended June 30, 2019, is as follows:

	Interest Expensed 2019
Interest Cost	
Interest Expense	\$ 10,188,034
Amortization of Premiums, Discounts, and Deferred Loss	(254,906)
Fees	242,617
Interest Income	(273,839)
Total Interest Cost	\$ 9,901,906

Note 10—Line of credit

\$25,000,000 Revolving Credit Agreement Fiscal 2018 – In November 2015, the Real Estate Foundation entered into a \$25 million revolving credit agreement with a bank, for a three-year term that expired on November 30, 2018. Credit available under the revolving credit agreement was reduced by outstanding borrowings. Borrowings under the revolving credit agreement bore interest at the bank's 30-day London Interbank Offered Rate plus 60.0 basis points (or 0.60%). Amounts available as borrowing capacity were subject to an unused commitment fee of 0.10%.

Under this revolving credit agreement, certain borrowings were subject to a guarantee requirement with the Research Foundation as guarantor.

The revolving credit agreement required the Real Estate Foundation to meet certain covenants.

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

JUNE 30, 2019

Note 10—Line of credit (continued)

\$25,000,000 Revolving Credit Agreement Fiscal 2019 – In November 2018, the Real Estate Foundation replaced its expiring revolving credit agreement and entered into a new \$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. At June 30, 2019, amounts outstanding and issued under this agreement include borrowings of \$8,516,222, resulting in \$16,483,778 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 48.0 basis points (or 0.48%). At June 30, 2019, the rate applicable to the borrowings was 2.92%. 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, 2019, the Real Estate Foundation was not aware of any violations of the covenants.

Note 11—Operating leases

The Real Estate Foundation is a lessee under an amended multiyear operating lease for University education facilities at Live Oak Square, Atlanta, Georgia, that expires on August 31, 2024, with escalating rents. The Real Estate Foundation recognizes rent for this agreement on a straight-line basis. A straight-line lease liability of \$730,642, as of June 30, 2019, is included in liabilities. For the year ended June 30, 2019, rent expense was \$887,575 and includes additional rents to cover operating expenses of the education facility.

The Real Estate Foundation is a lessee under a multiyear operating lease for University education facilities at Gwinnett Intellicenter, Duluth, Georgia, that expires on April 30, 2027, with escalating rents. The Real Estate Foundation recognizes rent for this agreement on a straight-line basis. A straight-line lease liability of \$1,145,472, as of June 30, 2019, is included in liabilities. For the year ended June 30, 2019, rent expense was \$1,543,903 and includes additional rents to cover operating expenses of the education facility.

The following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2019, that have initial or remaining non-cancelable lease terms in excess of one year:

<u>Years Ending June 30,</u>	
2020	\$ 2,568,541
2021	2,668,490
2022	2,744,766
2023	2,823,101
2024	2,903,734
2025 - 2027	5,276,426
	<u>\$ 18,985,058</u>

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2020. The monthly rental for this lease agreement is \$6,275. The lease rental for the year ended June 30, 2019, 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 \$3,834,950 for the year ended June 30, 2019, to various departments of the University for F&A cost they incurred in the support of research.

In addition to the \$5,885,895 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 2019, \$8,153,646 of license and royalties revenue was distributed of which \$3,339,738 was paid to the University to support inventor's research and departmental research programs, and the Plant Cultivar program. \$750,000 of the aforementioned \$5,885,895 in support to the University was paid to the UGA Foundation to partially fund the Georgia Research Alliance and David Chu Eminent Scholar in Drug Design Endowment which will fund the creation of a new research position at the University.

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, 2019, the amounts reported as Rental Income and Capital Lease Interest Income in the statement of revenues, expenses, and changes in net position consist of revenue earned through lease agreements. The lease agreements with the Board of Regents are the primary source of revenue for the Real Estate Foundation, which constitutes a concentration of credit risk.

Additionally, the lease agreements provide that certain amounts paid by the Real Estate Foundation be reimbursed by the Board of Regents. Amounts reimbursed are primarily insurance and property taxes. For the year ended June 30, 2019, 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.

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

The Real Estate Foundation 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, 2019, the Real Estate Foundation paid \$361,495 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

In September 2018, the Real Estate Board approved the use of \$100,000 unrestricted cash to partially fund the startup expenses of the University Innovation District.

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

JUNE 30, 2019

Note 13—Subsequent event

On July 9, 2019, the Real Estate Board approved the \$10.5 million acquisition of a 6.6 mile, 77 acre, rail corridor that is adjacent to the University. A Real Estate Foundation LLC completed the purchase on August 19, 2019. The purchase was funded with unrestricted cash of \$4,975,000 and borrowings of \$5,525,000 on the revolving credit agreement.

Note 14—Significant funding sources

For the fiscal year ended June 30, 2019, approximately \$124,000,000 (81%) 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 15—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 Venture Fund (T. E.), LLC (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 2019, \$32,354 was requested and transferred to the GRA Fund. As of June 30, 2019, the Research Foundation's remaining commitment is \$102,005. 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 2019, \$122,509 was requested and transferred to the GRA Fund. As of June 30, 2019, the Research Foundation's remaining commitment is \$505,378.

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 infectious disease. The fiscal year 2020 commitment for these programs is approximately \$10,000.

Annual commitments totaling approximately \$763,000 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 2020 commitment for these initiatives is budgeted at \$360,000.

**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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Georgia Research Foundation, Inc. (the “Research Foundation”), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, as of and for the year ended June 30, 2019, 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 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Research Foundation’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 Research Foundation’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 may exist that have not been identified.

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 determination of financial statement amounts. 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 Research Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia
September 16, 2019