

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

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2020

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 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, 2020, 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 financial position of the Research Foundation, as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in conformity 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 8 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, 2020 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.



Augusta, Georgia
September 16, 2020

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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, 2020

Financial Highlights

Condensed financial statements are presented for the year ended June 30, 2020, and one prior fiscal year. In the following discussion, Fiscal 2020 and Fiscal 2019 refer to the years ended June 30, 2020 and 2019, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Assets				
Current assets	\$ 93,191,598	\$ 122,215,325	\$ (29,023,727)	-24%
Capital assets, net	30,216,291	20,046,315	10,169,976	51%
Other noncurrent assets	<u>278,775,986</u>	<u>287,647,346</u>	<u>(8,871,360)</u>	-3%
Total assets	<u>402,183,875</u>	<u>429,908,986</u>	<u>(27,725,111)</u>	-6%
Deferred Outflows of Resources				
Deferred loss on refundings	<u>15,310,091</u>	<u>14,156,893</u>	<u>1,153,198</u>	8%
Liabilities				
Current liabilities	73,315,170	100,098,169	(26,782,999)	-27%
Noncurrent liabilities	<u>241,326,270</u>	<u>244,770,910</u>	<u>(3,444,640)</u>	-1%
Total liabilities	<u>314,641,440</u>	<u>344,869,079</u>	<u>(30,227,639)</u>	-9%
Net Position				
Net investment in capital assets	16,175,069	11,530,093	4,644,976	40%
Restricted	-	2,821,234	(2,821,234)	-100%
Unrestricted	<u>86,677,457</u>	<u>84,845,473</u>	<u>1,831,984</u>	2%
Total net position	<u>\$ 102,852,526</u>	<u>\$ 99,196,800</u>	<u>\$ 3,655,726</u>	4%

Current assets decreased by \$29,023,727 from Fiscal 2019 to Fiscal 2020 due to decreases in accounts receivable related to sponsored research activity, cash outflows related to the dissolution of a Real Estate Foundation Limited Liability Company (LLC), and decreased cash inflows due to the rent deferrals (See Note 12).

Capital assets, which include land, construction in progress, an easement, buildings and improvements, and furniture and fixtures (net of accumulated depreciation) increased by \$10,169,976 from Fiscal 2019 to Fiscal 2020 due primarily to a real estate acquisition offset by amortization of depreciable capital assets.

Other noncurrent assets primarily include restricted bond proceeds, trustee held funds, investments held by investment managers, and other investments. Noncurrent assets decreased \$8,871,360 from Fiscal 2019 to Fiscal 2020 due primarily to the use of liquidated investment proceeds to acquire real estate and to partially mitigate debt service payments and operating expenses due to rent deferrals. These decreases in noncurrent assets were offset by investment income.

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

JUNE 30, 2020

Deferred outflows of resources include deferred loss on refundings that result from the advanced refunding of bond series. Deferred outflows of resources increased \$1,153,198 from Fiscal 2019 to Fiscal 2020 due to the loss on refunding of a Real Estate Foundation bond series offset by normal deferred loss amortization.

Current liabilities decreased by \$26,782,999 due primarily to decreases in accounts payable to the University related to sponsored research offset by an increase in short-term bond principal in accordance with the bond amortization schedules.

Noncurrent liabilities decreased by \$3,444,640 from Fiscal 2019 to Fiscal 2020. This decrease is due to annual payments of principal on noncurrent debt and a decrease in bond debt plus premiums on a new bond issue. This decrease is offset by an increase in the revolving credit agreement borrowings used in a real estate acquisition.

Net position represents the difference between the Foundations' assets, liabilities, and deferred outflows/inflows of resources. Total net position at June 30, 2020 and 2019 was \$102,852,526 and \$99,196,800, respectively, which represents an increase of \$3,655,726 (4%).

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Sponsored research	\$ 265,280,548	\$ 183,417,689	\$ 81,862,859	45%
Licensing and royalties	10,232,962	11,044,508	(811,546)	-7%
Rental income	4,435,711	4,397,588	38,123	1%
Capital lease interest income	11,394,349	12,343,515	(949,166)	-8%
Total operating revenues	<u>291,343,570</u>	<u>211,203,300</u>	<u>80,140,270</u>	38%
Operating Expenses				
Research subcontracted to the University	260,616,547	178,195,774	82,420,773	46%
Intellectual property	9,503,762	9,601,691	(97,929)	-1%
Support to the University	3,799,123	5,885,895	(2,086,772)	-35%
Project expenses	3,708,902	3,363,319	345,583	10%
Management and general	950,561	928,300	22,261	2%
Total operating expenses	<u>278,578,895</u>	<u>197,974,979</u>	<u>80,603,916</u>	41%
Operating income	12,764,675	13,228,321	(463,646)	-4%
Non-operating revenues (expenses)	(7,732,176)	(7,045,272)	(686,904)	10%
Special item	<u>(1,376,773)</u>	<u>-</u>	<u>(1,376,773)</u>	100%
Change in Net Position	3,655,726	6,183,049	(2,527,323)	-41%
Net position – beginning of year	<u>99,196,800</u>	<u>93,013,751</u>	<u>6,183,049</u>	7%
Net position – end of year	<u>\$ 102,852,526</u>	<u>\$ 99,196,800</u>	<u>\$ 3,655,726</u>	4%

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

JUNE 30, 2020

Operating revenues consist primarily of sponsored research, licensing and royalties, interest earned on capital leases, and rental income. During Fiscal 2020, operating revenues increased \$80,140,270 due to increases in sponsored research revenue offset by reduced revenue related to lease restructures due to bond refinancing and rent deferrals, and annual amortization of lease interest income on the capital leases.

Operating expenses increased by \$80,603,916 due to increased sponsored research offset by 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 2020, non-operating expenses net of non-operating revenues increased \$686,904 due to increased losses on the GRA Venture Fund investment, decreased investment income and the fair value of investments offset by reduced interest expense related to annual bond amortization.

A special item 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.
Condensed Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Cash flows from operating activities	\$ 15,730,656	\$ 18,272,826	\$ (2,542,170)	-14%
Cash flows from investing activities	6,432,633	(2,877,592)	9,310,225	324%
Cash flows from noncapital financing activities	(1,376,773)	-	(1,376,773)	-100%
Cash flows from capital and related financing activities	<u>(23,576,043)</u>	<u>(20,015,694)</u>	<u>(3,560,349)</u>	-18%
Net change in cash and cash equivalents	(2,789,527)	(4,620,460)	1,830,933	40%
Cash and cash equivalents – beginning of year	<u>37,226,750</u>	<u>41,847,210</u>	<u>(4,620,460)</u>	-11%
Cash and cash equivalents – end of year	<u>\$ 34,437,223</u>	<u>\$ 37,226,750</u>	<u>\$ (2,789,527)</u>	-7%

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 decrease in net cash flows from operating activities between Fiscal 2019 and Fiscal 2020 is largely due to the timing of payments for support to the University and reduced cash provided by certain restructured lease agreements.

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 2019 to Fiscal 2020 these activities reflect an increase in cash provided by the sales of investments offset by reduced investment income.

Cash flows from noncapital financing activities during Fiscal 2020 consist of the distribution of residual funds to the University following dissolution of a Real Estate Foundation LLC.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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 2019 to Fiscal 2020 is due primarily to increased cash used for a real estate acquisition offset by decreased cash used on debt and interest payments in Fiscal 2020 and increased cash provided by the revolving credit agreement.

Economic Outlook

Nationally, research funding and specifically federal research funding remains competitive. Even though the COVID-19 pandemic caused the suspension of most research in the fourth quarter of the fiscal year, the Research Foundation's sponsored research revenue increased in Fiscal 2020. 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 2020 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.

Although the COVID-19 pandemic has had a significant financial impact on the University's campus operations, the Research Foundation continues to support a strong research enterprise and the Real Estate Foundation expects its lease revenues to provide sufficient resources to fund its obligations.

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, 2020

	Research Foundation	Component Unit Real Estate Foundation	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 7,380,431	\$ 18,287,081	\$ 25,667,512
Sponsored Research, Licensing, and Royalties Receivable	56,903,246	-	56,903,246
Accounts Receivable from the University and Affiliates	1,067,136	26,800	1,093,936
Prepaid Expenses and Other Current Assets	-	246,544	246,544
Capital Leases Interest Receivable	-	2,680,514	2,680,514
Capital Leases Receivable, current portion	-	6,599,846	6,599,846
Total Current Assets	<u>65,350,813</u>	<u>27,840,785</u>	<u>93,191,598</u>
Noncurrent Assets			
Bond Proceeds Restricted for Debt Service	-	5,765,025	5,765,025
Operating Funds Held by Trustee	-	3,004,686	3,004,686
Investments	44,358,524	-	44,358,524
Investments Held by UGAF	-	6,393,333	6,393,333
Investment in GRA Venture Fund	820,951	-	820,951
Capital Leases Receivable, noncurrent portion	-	218,433,467	218,433,467
Capital Assets, not being depreciated			
Land	107,629	26,748,393	26,856,022
Construction in Progress	-	36,226	36,226
Easement	-	1,835,296	1,835,296
Capital Assets, net of accumulated depreciation	-	1,488,747	1,488,747
Total Noncurrent Assets	<u>45,287,104</u>	<u>263,705,173</u>	<u>308,992,277</u>
Total Assets	<u>110,637,917</u>	<u>291,545,958</u>	<u>402,183,875</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Loss on Refundings	-	15,310,091	15,310,091

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, 2020

	Research Foundation	Component Unit Real Estate Foundation	Total
LIABILITIES			
Current Liabilities			
Accounts Payable to the University and Affiliates	\$ 58,766,557	\$ 6,500	\$ 58,773,057
Accounts Payable and Accrued Liabilities	1,322,887	86,257	1,409,144
Unearned Revenue	6,275	-	6,275
Accrued Interest Payable	-	412,033	412,033
Advance Rent and Lease Payment Receipts	-	1,992,874	1,992,874
Lease Rent Liability, current portion	-	146,787	146,787
Bonds Payable, current portion	-	10,575,000	10,575,000
Total Current Liabilities	<u>60,095,719</u>	<u>13,219,451</u>	<u>73,315,170</u>
Noncurrent Liabilities			
Lease Rent Liability, noncurrent portion	-	1,682,489	1,682,489
Revolving Credit Agreement, noncurrent portion	-	14,041,222	14,041,222
Bonds Payable, noncurrent portion	-	225,602,559	225,602,559
Total Noncurrent Liabilities	<u>-</u>	<u>241,326,270</u>	<u>241,326,270</u>
Total Liabilities	<u>60,095,719</u>	<u>254,545,721</u>	<u>314,641,440</u>
NET POSITION			
Net Investment in Capital Assets	107,629	16,067,440	16,175,069
Unrestricted	50,434,569	36,242,888	86,677,457
Total Net Position	<u>\$ 50,542,198</u>	<u>\$ 52,310,328</u>	<u>\$ 102,852,526</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, 2020

	Research Foundation	Component Unit Real Estate Foundation	Total
Operating Revenues			
Sponsored Research	\$ 265,280,548	\$ -	\$ 265,280,548
Licensing and Royalties	10,232,962	-	10,232,962
Rental Income	75,300	4,360,411	4,435,711
Capital Lease Interest Income	-	11,394,349	11,394,349
Total Operating Revenues	<u>275,588,810</u>	<u>15,754,760</u>	<u>291,343,570</u>
Operating Expenses			
Research Subcontracted to the University (including facilities and administrative cost reimbursements)	260,616,547	-	260,616,547
Licensing and Royalty Distributions	8,028,461	-	8,028,461
Licenses and Intellectual Property	1,475,301	-	1,475,301
Support to the University	3,799,123	-	3,799,123
Project Expenses	-	3,708,902	3,708,902
Management and General	484,029	466,532	950,561
Total Operating Expenses	<u>274,403,461</u>	<u>4,175,434</u>	<u>278,578,895</u>
Operating Income	<u>1,185,349</u>	<u>11,579,326</u>	<u>12,764,675</u>
Non-operating Revenue (Expenses)			
Investment Income	733,566	941,394	1,674,960
Change in Fair Value of Investments	462,444	-	462,444
Other Expense	-	(1,643)	(1,643)
Interest Expense, net	-	(9,762,811)	(9,762,811)
Loss on Investment in GRA Venture Fund	(105,126)	-	(105,126)
Total Non-operating Revenue (Expenses)	<u>1,090,884</u>	<u>(8,823,060)</u>	<u>(7,732,176)</u>
Special Item			
Receipt (Transfer) of Residual Funds from LLC Dissolution	242,176	(1,618,949)	(1,376,773)
Change in Net Position	2,518,409	1,137,317	3,655,726
Net Position			
Beginning of Year	48,023,789	51,173,011	99,196,800
End of Year	<u>\$ 50,542,198</u>	<u>\$ 52,310,328</u>	<u>\$ 102,852,526</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

YEAR ENDED JUNE 30, 2020

	Research Foundation	Component Unit Real Estate Foundation	Total
Cash Flows from Operating Activities			
Receipts from research sponsors	\$ 205,707,035	\$ -	\$ 205,707,035
Receipts from licensing, royalties, and other income	10,308,262	-	10,308,262
Receipts from the University	9,142,913	-	9,142,913
Receipts from rental income	75,300	4,390,627	4,465,927
Receipts of principal on capital leases	-	6,190,898	6,190,898
Receipts of interest on capital leases	-	9,042,257	9,042,257
Receipts for payments reimbursable by the University and affiliates	-	2,393,675	2,393,675
Sponsored research payments to the University	(211,381,618)	-	(211,381,618)
Payments for licensing and royalty distributions	(5,910,139)	-	(5,910,139)
Payments to the University	(7,202,370)	-	(7,202,370)
Payments to suppliers	(564,908)	(4,067,601)	(4,632,509)
Payments reimbursable by the University and affiliates	-	(2,393,675)	(2,393,675)
Net Cash from Operating Activities	174,475	15,556,181	15,730,656
Cash Flows from Investing Activities			
Proceeds from sales and maturities of investments	18,918,493	6,428,120	25,346,613
Purchases of investments	(19,322,571)	(246,956)	(19,569,527)
Investment in GRA Venture Fund, net of distributions	35,997	-	35,997
Net payments for foreign currency fluctuations	-	(1,643)	(1,643)
Investment income	-	621,193	621,193
Net Cash from Investing Activities	(368,081)	6,800,714	6,432,633
Cash Flows from Noncapital Financing Activities			
Receipts from the Real Estate Foundation (See Note 13)	242,176	-	242,176
Payments to the University and the Research Foundation (See Note 13)	-	(1,618,949)	(1,618,949)
Net Cash Flows from Noncapital Financing Activities	242,176	(1,618,949)	(1,376,773)
Cash Flows from Capital and Related Financing Activities			
Capital expenditures	-	(10,345,303)	(10,345,303)
Borrowings on revolving credit agreement	-	5,525,000	5,525,000
Proceeds from sale of bonds	-	491,355	491,355
Payments for bond issuance costs	-	(479,420)	(479,420)
Interest payments on long-term debt	-	(9,282,675)	(9,282,675)
Principal repayment on bonds payable	-	(9,485,000)	(9,485,000)
Net Cash from Capital and Related Financing Activities	-	(23,576,043)	(23,576,043)
Net Change in Cash and Cash Equivalents	48,570	(2,838,097)	(2,789,527)
Cash and Cash Equivalents			
Beginning of year	7,331,861	29,894,889	37,226,750
End of year	\$ 7,380,431	\$ 27,056,792	\$ 34,437,223

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, 2020

	<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	\$ 1,185,349	\$ 11,579,326	\$ 12,764,675
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation	-	114,323	114,323
Straight-line rent expense adjustment	-	(46,838)	(46,838)
Receipts of principal on capital leases	-	6,190,898	6,190,898
Changes in assets and liabilities			
Accounts receivable	(1,603,132)	-	(1,603,132)
Prepaid expenses and other current assets	-	(15,659)	(15,659)
Capital leases interest receivable	-	(2,680,514)	(2,680,514)
Accounts payable to the University and affiliates	586,850	-	586,850
Accounts payable and accrued liabilities	5,408	56,007	61,415
Advance rent least payment receipts	-	358,638	358,638
Net Cash from Operating Activities	\$ 174,475	\$ 15,556,181	\$ 15,730,656
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and cash equivalents, per the statement of net position	\$ 7,380,431	\$ 18,287,081	\$ 25,667,512
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	-	3,004,686	3,004,686
Total Cash and Cash Equivalents	\$ 7,380,431	\$ 27,056,792	\$ 34,437,223
Schedule of Noncash Investing, Capital, and Related Financing Activities			
Increase in fair value of investments	\$ 46,244	\$ -	\$ 46,244
Investment income, reinvested	\$ 733,566	\$ -	\$ 733,566
Loss on investment in GRA Venture Fund	\$ (105,126)	\$ -	\$ (105,126)
Bonds payable refunded through new bond issue and related cost of issuance	\$ -	\$ 62,458,645	\$ 62,458,645

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

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

Statement of Fiduciary Net Position – Custodial Funds
June 30, 2020

	Research Foundation
ASSETS	
Cash and Cash Equivalents	\$ 31,960
Total Assets	<u>31,960</u>
FIDUCIARY NET POSITION	
Restricted for Other Organizations	<u>31,960</u>
Total Fiduciary Net Position	<u>\$ 31,960</u>

Statement of Changes in Fiduciary Net Position – Custodial Funds
Year Ended June 30, 2020

	Research Foundation
ADDITIONS	
Revenue	\$ 31,960
Total Additions	<u>31,960</u>
Change in Fiduciary Net Position	31,960
Fiduciary Net Position	
Beginning of Year	<u>-</u>
End of Year	<u>\$ 31,960</u>

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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.

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”) 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, 2020

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.

Capital Leases Interest Receivable – Interest income earned in accordance with the payment schedule and terms included in capital lease agreements for which payment has not yet been received.

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

JUNE 30, 2020

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 in accordance with the payment schedule and terms included in the capital lease agreements. 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.

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.

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

JUNE 30, 2020

Note 2—Summary of significant accounting policies (continued)

Advance Rent and Lease Payment Receipts – The Real Estate Foundation receives lease payments in advance of scheduled due dates and terms of the capital lease agreements which may include principal and interest related to the capital leases receivable. The advance lease payments are applied to the related capital leases receivable, interest income, and if applicable, capital leases interest receivable in accordance with the capital lease agreement payment schedule and terms, regardless of when the cash payment is received from the lessee. Advance rent receipts represent rental payments received but not yet earned.

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.

During the year ended June 30, 2020, the Research Foundation changed its method of revenue recognition related to sponsored research and expenditures, from a timing based on project cash balances in the University accounting system, to a timing based on actual expenditures in the University accounting system. The Research Foundation believes the University expenditure-based timing to be a better match of revenues and expenditures to the research activities performed. The effect of the change on the beginning net position and the increase in net position for the year ended June 30, 2020 is \$0.

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, 2020

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.

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.

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, 2019, the Foundations adopted the provisions of SGAS No. 84, *Fiduciary Activities*. This statement improves guidance regarding the identification and reporting of fiduciary activities and requires activity meeting certain criteria to be reported in a fiduciary fund within a statement of fiduciary net position and a statement of changes in fiduciary 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, 2022. The Foundations are currently in the process of evaluating the impact of this adoption on the financials statement.

Note 3—Deposits and investments

A. Deposits

At June 30, 2020, 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 \$3,943,552.

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

JUNE 30, 2020

Note 3—Deposits and investments (continued)

A. Deposits (continued)

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, 2020, 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	\$ -	\$ 127,102	\$ 377,102
Cash Held in Investments	-	-	561,764	561,764
Funds Held by Trustee	-	-	3,004,686	3,004,686
Total Deposits	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 3,693,552</u>	<u>\$ 3,943,552</u>

The funds held in "Checking Accounts" includes \$31,960 included in the statement of fiduciary net position. 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, 2020, the Foundations' deposits decreased by \$1,643 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 \$10,382 as of June 30, 2020.

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, 2020, investments held by UGAF included fixed-income mutual funds in the amount of \$6,393,333.

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

JUNE 30, 2020

Note 3—Deposits and investments (continued)

B. Investments (continued)

The Foundations' investments at June 30, 2020, 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	\$ 9,823,969	\$ 6,175,459	\$ 1,537,986	\$ 1,427,214	\$ 683,310
U.S. Agencies - Implicitly Guaranteed	256,469	-	-	256,469	-
Corporate Debt	8,614,995	2,967,462	3,244,006	1,691,174	712,353
Municipal Debt	259,896	76,117	20,540	44,117	119,122
Repurchase Agreements	27,253,123	27,253,123	-	-	-
Repurchase Agreements Held by Trustee	5,765,025	-	-	-	5,765,025
	<u>51,973,477</u>	<u>\$ 36,472,161</u>	<u>\$ 4,802,532</u>	<u>\$ 3,418,974</u>	<u>\$ 7,279,810</u>
Other Investments					
Equity Mutual Funds - Domestic	17,032,821				
Equity Mutual Funds - International	4,960,496				
Commodity Futures ETF	2,470,366				
Equity Securities - Domestic	163,457				
Managed Futures / Hedge Funds	776,055				
Mutual Funds Held by UGAF	6,393,333				
Board of Regents Short-term Fund	10,281,240				
Total Investments	<u>\$ 94,051,245</u>				

Repurchase agreements of \$19,253,000 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 \$8,000,123 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 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, 2020, \$52,136,934 of the Foundations' applicable investments were uninsured and held by the investment's counterparty in the Foundations' names.

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

JUNE 30, 2020

Note 3—Deposits and investments (continued)

B. Investments (continued)

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Research Foundation's investment 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, 2020, 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	\$ 6,870,724	\$ 256,469	\$ 849,230	\$ -	\$ 5,765,025
Aa1	832,791	-	832,791	-	-
Aa2	50,679	-	50,679	-	-
Aa3	848,114	-	848,114	-	-
A1	809,303	-	809,303	-	-
A2	2,103,164	-	2,103,164	-	-
A3	1,498,477	-	1,498,477	-	-
Baa1	856,979	-	856,979	-	-
Baa2	608,535	-	608,535	-	-
Baa3	213,411	-	213,411	-	-
Standard & Poor's					
A+	50,655	-	50,655	-	-
A-	39,959	-	39,959	-	-
BBB	113,594	-	113,594	-	-
Morningstar					
5-Star	6,209,435	-	-	6,209,435	-
4-Star	12,488,148	-	-	12,488,148	-
3-Star	3,631,308	-	-	3,631,308	-
2-Star	2,011,461	-	-	2,011,461	-
1-Star	194,593	-	-	194,593	-
Unrated	33,575,194	-	-	6,322,071	27,253,123
	<u>73,006,524</u>	<u>\$ 256,469</u>	<u>\$ 8,874,891</u>	<u>\$ 30,857,016</u>	<u>\$ 33,018,148</u>
Exempt Investments					
U. S. Treasuries	9,823,969				
Equity Securities - Domestic	163,457				
Managed Futures/Hedge Funds	776,055				
Board of Regents Short-term Fund	10,281,240				
Total Investments	<u>\$ 94,051,245</u>				

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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, 2020, 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	28%
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, 2020

Note 4—Other investments – cost method (continued)

During fiscal year 2020, the Research Foundation made total contributions of \$110,033.

A fair value is not estimated for the investment. At June 30, 2020, the Research Foundation recognized its share of losses incurred by the GRA Fund amounting to \$105,126. 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	\$ 375,402
2015 commitment	<u>445,549</u>
	<u>\$ 820,951</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.

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

JUNE 30, 2020

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

The table below 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, 2020.

	Fair Value Measurement			Total
	Level 1	Level 2	Level 3	
Investments by Fair Value Level				
Equity Securities				
Stocks (by sector)				
Health Care	\$ 163,457	\$ -	\$ -	\$ 163,457
Commodity Futures ETF	2,470,366	-	-	2,470,366
Mutual Funds				
Domestic	17,032,821	-	-	17,032,821
International	4,960,496	-	-	4,960,496
Total Equities	24,627,140	-	-	24,627,140
Investment Pools				
Board of Regents Short-term Fund	-	10,281,240	-	10,281,240
Total Investment Pools	-	10,281,240	-	10,281,240
Fixed Income				
U. S. Treasury	-	9,823,969	-	9,823,969
U. S. Agencies - Implicitly Guaranteed	-	256,469	-	256,469
Bonds				
Corporate	-	8,614,995	-	8,614,995
Municipal	-	259,896	-	259,896
Mutual Funds Held by UGAF	6,393,333	-	-	6,393,333
Total Fixed Income	6,393,333	18,955,329	-	25,348,662
Investments Measured at Net Asset Value ^(a)				
Multi-Strategy Hedge Funds	-	-	-	329,261
Business Development Company	-	-	-	446,794
Total Investments Measured at Net Asset Value ^(a)	-	-	-	776,055
Total Investments, Recurring Basis	\$ 31,020,473	\$ 29,236,569	\$ -	\$ 61,033,097

^(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, 2020

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)	\$ 329,261	\$ -	Quarterly	65 days
Business Development Company ^(b)	446,794	-	None	N/A
	<u>\$ 776,055</u>	<u>\$ -</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.

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 Debt Service are as follows:

Restricted for:	
Debt Service	\$ 5,765,025
Designated for:	
Future Repairs and Replacements of Real Property	<u>3,004,686</u>
Total Restricted and Designated	<u>\$ 8,769,711</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	\$ 3,004,686
Bond Proceeds Restricted for Debt Service	<u>5,765,025</u>
Total Restricted and Designated	<u>\$ 8,769,711</u>

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

JUNE 30, 2020

Note 6—Restricted and Real Estate Board designated assets (continued)

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	\$ -	\$ 4,110,769	\$ 4,110,769
Future Repairs and Replacements of Real Property	-	11,081,397	11,081,397
General Operations of the Real Estate Foundation	-	400,000	400,000
Total Designated	-	15,592,166	15,592,166
Undesignated Cash and Cash Equivalents	7,380,431	2,694,915	10,075,346
Total Cash and Cash Equivalents	<u>\$ 7,380,431</u>	<u>\$ 18,287,081</u>	<u>\$ 25,667,512</u>

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 Real Estate Foundation's facilities. On June 26, 2020, the Real Estate Foundation and the Board of Regents amended certain lease agreements to defer lease payments from March 2020 through June 2020 (see Note 12). Interest income accrued on the capital leases receivable during the deferral period resulting in the Capital Leases Interest Receivable presented as a current asset on the statement of net position. The deferred payments are scheduled to be received in Fiscal 2022. The adjustment had no impact on the total payments to be received over the life of the leases. 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, 2020, net capital leases receivable was \$225,033,313. This amount includes future minimum lease payments to be received of \$333,876,886 of which \$106,163,059 is unearned interest. As of June 30, 2020, interest earned on capital leases receivables in excess of the payment amounts is \$2,680,514 and is recorded as a current receivable on the statement of net position. This amount is scheduled to be received in Fiscal 2021.

As of June 30, 2020, lease payments are receivable as follows:

2021	\$ 19,882,813
2022	24,333,465
2023	19,844,832
2024	19,822,232
2025	19,808,740
2026 - 2030	98,635,255
2031 - 2035	85,055,484
2036 - 2040	40,961,893
2041 - 2044	5,532,172
Total Payments to be Received	333,876,886
Less Amounts Representing Interest	<u>(108,843,573)</u>
Total Leases Receivable	225,033,313
Less Current Portion	<u>(6,599,846)</u>
Noncurrent Leases Receivable	<u>\$ 218,433,467</u>

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

JUNE 30, 2020

Note 8—Capital assets

Capital assets consisted of the following:

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Disposals and Reclases</u>	<u>Balance at June 30, 2020</u>
Capital assets not being depreciated				
Land	\$ 15,831,853	\$ 11,024,169	\$ -	\$ 26,856,022
Construction in-progress	776,096	14,342	(754,212)	36,226
Easement	1,835,296	-	-	1,835,296
Total capital assets not being depreciated	<u>18,443,245</u>	<u>11,038,511</u>	<u>(754,212)</u>	<u>28,727,544</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	(1,576,428)	(114,323)	-	(1,690,751)
Total capital assets being depreciated, net	<u>1,603,070</u>	<u>(114,323)</u>	<u>-</u>	<u>1,488,747</u>
Capital assets - net	<u>\$ 20,046,315</u>	<u>\$ 10,924,188</u>	<u>\$ (754,212)</u>	<u>\$ 30,216,291</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, 2020

Note 9—Long-term debt (continued)

At June 30, 2020, 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 2020
Bolton Entity, Series 2013	\$ 24,400,000	3.00% - 5.00%	2044	\$ 18,020,000
CCRC Entity, Series 2011	32,580,000	2.00% - 5.25%	2032	22,985,000
Central Precinct Entity, Series 2016	54,025,000	2.00% - 5.00%	2038	46,655,000
EC Housing Entity, Series 2019	62,950,000	1.87% - 3.07%	2033	62,950,000
EC Housing Phase II Entity, Series 2017	44,630,000	3.00% - 5.00%	2040	39,955,000
Fraternity Row Entity, Series 2017	12,665,000	1.05% - 4.45%	2039	11,015,000
PAC Entity, Series 2017	15,215,000	2.00% - 5.00%	2039	13,615,000
Rutherford Entity, Series 2012	21,910,000	2.00% - 5.00%	2033	11,265,000
				<u>\$ 226,460,000</u>

Defeasance and Refunding of Revenue Bonds

EC Housing Entity

On December 11, 2019, the Housing Authority issued \$62,950,000 in Revenue Refunding Bonds (UGAREF East Campus Housing, LLC Project), Taxable Series 2019 (the “2019 EC Housing Bonds”) with interest rates ranging from 1.87% to 3.07% and entered into an agreement (the “2019 EC Housing Loan Agreement”) with the EC Housing Entity to advance refund \$13,135,000 of outstanding 2010 EC Housing Bonds with interest rates ranging from 3.25% to 5.0% and \$46,215,000 of outstanding 2011 EC Housing Bonds with interest rates ranging from 3.0% to 5.0%.

The net proceeds of \$62,238,319 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent and will fund all future debt service payments on the refunded 2010 EC Housing Bonds and 2011 EC Housing Bonds. As a result, \$13,135,000 of outstanding 2010 EC Housing Bonds and \$46,215,000 of outstanding 2011 EC Housing Bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position for the year ended June 30, 2020.

The advance refunding resulted in a loss, which consisted of the difference between the reacquisition price and the net carrying amount of the old debt, of \$3,973,449. This difference, reported in the accompanying statement of net position as a deferred outflow of resources, is being charged to operations as interest expense through December 1, 2033, using the straight-line method. The EC Housing Entity completed the advance refunding to reduce its total debt service payments through Fiscal 2034 by \$3,889,520 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3,256,695 at an effective interest rate of 2.69%.

Real Estate Foundation – Bonds Payable

The bonds payable agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2020, the Real Estate Foundation was not aware of any violations of the covenants.

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

JUNE 30, 2020

Note 9—Long-term debt (continued)

Real Estate Foundation – Bonds Payable (continued)

Following is a summary as of June 30, 2020, 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
2021	\$ 10,575,000	\$ 8,251,184
2022	10,820,000	7,944,351
2023	11,215,000	7,553,708
2024	11,580,000	7,165,373
2025	11,930,000	6,766,629
2026 - 2030	66,030,000	27,068,151
2031 - 2035	66,280,000	13,861,026
2036 - 2040	33,555,000	4,556,666
2041 - 2044	4,475,000	514,575
	<u>\$ 226,460,000</u>	<u>\$ 83,681,663</u>

Changes in long-term debt for the fiscal year ended June 30, 2020 are shown below:

	Balance at June 30, 2019	Additions	Disposals and Reductions	Balance at June 30, 2020	Current Portion
Bonds Payable	\$ 232,345,000	\$ 62,950,000	\$ (68,835,000)	\$ 226,460,000	\$ 10,575,000
Net Premium (Discount)	11,570,567	-	(1,853,008)	9,717,559	-
Total Long-term Debt	<u>\$ 243,915,567</u>	<u>\$ 62,950,000</u>	<u>\$ (70,688,008)</u>	<u>\$ 236,177,559</u>	<u>\$ 10,575,000</u>

A summary of the components of interest cost for the year ended June 30, 2020 is as follows:

	Interest Expensed 2020
Interest Cost	
Interest Expense	\$ 9,243,562
Amortization of Premiums, Discounts, and Deferred Loss	(117,887)
Cost of Issuance	699,745
Fees	211,230
Interest Income	(273,839)
Total Interest Cost	<u>\$ 9,762,811</u>

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

JUNE 30, 2020

Note 10—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. At June 30, 2020, amounts outstanding and issued under this agreement include borrowings of \$14,041,222, resulting in \$10,958,778 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, 2020, the rate applicable to the borrowings was 0.65%. 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, 2020, 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 \$678,649, as of June 30, 2020, is included in liabilities. For the year ended June 30, 2020, rent expense was \$1,022,844 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 \$1,150,267, as of June 30, 2020, is included in liabilities. For the year ended June 30, 2020, rent expense was \$1,540,621 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, 2020, that have initial or remaining non-cancelable lease terms in excess of one year:

Years Ending June 30,

2021	\$ 2,668,490
2022	2,744,766
2023	2,823,101
2024	2,903,734
2025	1,948,926
2026 - 2027	<u>3,327,500</u>
	<u>\$ 16,416,517</u>

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, 2020 was \$75,300. The library storage facility was being depreciated over 25 years and became fully depreciated during fiscal year 2016.

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

JUNE 30, 2020

Note 12—Related party transactions (continued)

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 \$4,553,911 for the year ended June 30, 2020 to various departments of the University for F&A cost they incurred in the support of research.

In addition to the \$3,799,123 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 2020, \$8,028,461 of license and royalties revenue was distributed of which \$3,403,246 was paid to the University to support inventor’s research and departmental research programs, and the Plant Cultivar program.

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, 2020, 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, 2020, 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, 2020, the Real Estate Foundation paid \$370,635 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

In response to the significant financial impact of the coronavirus disease 2019 (“COVID-19”) to the University’s campus operations, the Real Estate Foundation agreed to use unrestricted cash to partially mitigate debt service payments and operating expenses. The Real Estate Foundation and Board of Regents amended certain lease agreements on June 26, 2020, to defer rent payments from March 2020 through June 2020. The deferred rents are scheduled to be received during Fiscal 2022.

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 13—Dissolution of Coverdell Entity

In November 2019, the Real Estate Board approved the dissolution of the Coverdell Entity (a Real Estate Foundation LLC). As a result, the Coverdell Entity distributed residual funds of \$1,376,773 to the University and \$242,176 to the Research Foundation for a total distribution of \$1,618,949.

Note 14—Significant funding sources

For the fiscal year ended June 30, 2020, approximately \$132,000,000 (80%) 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 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 2020, \$8,040 was requested and transferred to the GRA Fund. As of June 30, 2020, the Research Foundation's remaining commitment is \$93,965. 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 2020, \$101,993 was requested and transferred to the GRA Fund. As of June 30, 2020, the Research Foundation's remaining commitment is \$403,385.

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

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 2021 commitment for these initiatives is budgeted at approximately \$450,000.

Note 16—Risks and uncertainties

The Foundations' operations may be affected by the recent and ongoing outbreak of COVID-19 which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Foundations' financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption of the Foundations' revenue and a decline in value of assets held by the Foundations, including marketable securities.

**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, 2020, 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, 2020.

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 "Chung Bekant LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia
September 16, 2020