

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

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2022

And Report of Independent Auditor

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.
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Report of Independent Auditor

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

Opinion

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, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Research Foundation’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Georgia Research Foundation, Inc., as of June 30, 2022, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Effect of Adopting New Accounting Standard

As discussed in Note 2 to the financial statements, in 2022 the Research Foundation adopted new accounting guidance SGAS No. 87, *Leases*. Our opinion is not modified by this matter.

Responsibilities of Management 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.

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

Auditor’s Responsibilities for the Audits of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Research Foundation's ability to continue as a going concern for a reasonable period of time.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2022, on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Augusta, Georgia
September 19, 2022

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

JUNE 30, 2022

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 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, 2022

Financial Highlights

Condensed financial statements are presented for the year ended June 30, 2022, and one prior fiscal year. In the following discussion, Fiscal 2022 and Fiscal 2021 refer to the years ended June 30, 2022 and 2021, respectively.

University of Georgia Research Foundation, Inc.
Condensed Statements of Net Position
June 30, 2022 and 2021

	<u>2022</u>	<u>Restated 2021</u>	<u>Change</u>	<u>% Change</u>
Assets				
Current Assets	\$ 114,510,306	\$ 118,411,713	\$ (3,901,407)	-3%
Capital Assets, net	84,671,233	57,775,552	26,895,681	47%
Other Noncurrent Assets	<u>237,407,380</u>	<u>292,312,856</u>	<u>(54,905,476)</u>	-19%
Total Assets	<u>436,588,919</u>	<u>468,500,121</u>	<u>(31,911,202)</u>	-7%
Deferred Outflows of Resources				
Deferred Loss on Refundings, net	<u>12,742,892</u>	<u>13,599,003</u>	<u>(856,111)</u>	-6%
Liabilities				
Current Liabilities	89,956,175	95,533,121	(5,576,946)	-6%
Noncurrent Liabilities	<u>241,048,059</u>	<u>261,477,428</u>	<u>(20,429,369)</u>	-8%
Total Liabilities	<u>331,004,234</u>	<u>357,010,549</u>	<u>(26,006,315)</u>	-7%
Deferred Inflows of Resources				
Unearned Lease Income	<u>10,679,319</u>	<u>13,537,794</u>	<u>\$ (2,858,475)</u>	-21%
Net Position				
Net Investment in Capital Assets	15,952,559	16,053,301	(100,742)	-1%
Unrestricted	<u>91,695,699</u>	<u>95,497,480</u>	<u>(3,801,781)</u>	-4%
Total Net Position	<u>\$ 107,648,258</u>	<u>\$ 111,550,781</u>	<u>\$ (3,902,523)</u>	-3%

Current assets decreased by \$3,901,407 from Fiscal 2021 to Fiscal 2022 due to a decrease in accounts receivable related to sponsored research activity and reduced cash outflow of residual funds related to the early extinguishment of Real Estate Foundation bond debt. These decreases are offset by an increase in cash inflows related to notes receivable deferrals (see Note 12), cash inflows of trustee held funds, and inflows from net project activity.

Capital assets, which include land, construction in progress, an easement, intangible right-to-use assets (net of applicable amortization), and buildings, improvements, and furniture and fixtures (net of accumulated depreciation) increased by \$26,895,681 from Fiscal 2021 to Fiscal 2022 due primarily to the construction in progress on a new residence hall and a land acquisition offset by amortization of depreciable capital assets.

Other noncurrent assets primarily include restricted bond proceeds, trustee held funds, investments, and notes and leases receivable. Noncurrent assets decreased \$54,905,476 from Fiscal 2021 to Fiscal 2022 due primarily to use of bond proceeds for construction costs, note receivable termination following early payment by the University, and principal reduction due in accordance with the note and lease receivable amortization schedules.

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

JUNE 30, 2022

Deferred outflows of resources include deferred loss on refundings that result from the advanced refunding of bond series. Deferred outflows of resources decreased \$856,111 from Fiscal 2021 to Fiscal 2022 due to normal deferred loss amortization.

Current liabilities decreased by \$5,576,946 due primarily to decreases in accounts payable to the University related to sponsored research and accrued construction costs offset by an increase in accounts payable for residual funds owed the University following early debt extinguishment.

Noncurrent liabilities decreased by \$20,429,369 from Fiscal 2021 to Fiscal 2022. This decrease is due to early debt extinguishment and annual payments of principal on noncurrent debt offset by an increase in the revolving credit agreement following the acquisition of land.

Deferred inflows of resources include unearned lease income following a lessor's recognition of a lease. Deferred inflows of resources decreased by \$2,858,475 from Fiscal 2021 to Fiscal 2022 due to normal unearned lease income amortization.

Net position represents the difference between the Foundations' assets, liabilities, and deferred outflows/inflows of resources. Total net position at June 30, 2022 and 2021 was \$107,648,258 and \$111,550,781 (after restatement), respectively, which represents a decrease of \$3,902,523 (3%).

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

JUNE 30, 2022

University of Georgia Research Foundation, Inc.
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>Restated 2021</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Sponsored Research	\$ 258,911,479	\$ 225,611,086	\$ 33,300,393	15%
Licensing and Royalties	11,258,343	10,865,603	392,740	4%
Lease Income	3,428,224	3,323,151	105,073	3%
Repair and Restoration Income	1,766,569	1,665,714	100,855	6%
Financing and Lease Interest Income	9,483,673	10,778,585	(1,294,912)	-12%
Miscellaneous Operating Income	892	14,379	(13,487)	-94%
Total Operating Revenues	<u>284,849,180</u>	<u>252,258,518</u>	<u>32,590,662</u>	13%
Operating Expenses				
Research Subcontracted to the University	253,067,100	220,238,456	32,828,644	15%
Intellectual Property	10,805,898	10,382,184	423,714	4%
Support to the University	3,750,590	3,866,487	(115,897)	-3%
Project Expenses	4,932,920	3,852,671	1,080,249	28%
Management and General	809,653	796,932	12,721	2%
Total Operating Expenses	<u>273,366,161</u>	<u>239,136,730</u>	<u>34,229,431</u>	14%
Operating Income	11,483,019	13,121,788	(1,638,769)	-12%
Non-operating Revenues (Expenses)	(15,385,542)	(6,265,743)	(9,119,799)	-146%
Change in Net Position	(3,902,523)	6,856,045	(10,758,568)	-157%
Net Position – Beginning of Year	<u>111,550,781</u>	<u>104,694,736</u>	<u>6,856,045</u>	7%
Net Position – End of Year	<u>\$ 107,648,258</u>	<u>\$ 111,550,781</u>	<u>\$ (3,902,523)</u>	-3%

Operating revenues consist primarily of sponsored research, licensing and royalties, interest earned on notes and leases receivable, repair and restoration income, and lease income. During Fiscal 2022, operating revenues increased \$32,590,662 due to increases in sponsored research revenue offset by reduced revenues following early payment by the University and note receivable termination in Fiscal 2021 and reduced income attributed to annual amortization of interest income on the notes and leases receivable.

Operating expenses increased by \$34,229,431 due to a increase in the sponsored research subcontracted to the University, payment of residual funds to the University, an overall increase in repair and restoration expenses.

Non-operating revenues and expenses consist mostly of investment income, the change in fair value of investments, and interest expense. For Fiscal 2022, non-operating expenses net of non-operating revenues increased \$9,119,799 due to a decrease in the fair value of investments, investment income, bond interest expense amortization, and loss on the early extinguishment of debt offset by an increase in loss on the extinguishment of debt and loss on early termination of note receivable.

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

JUNE 30, 2022

University of Georgia Research Foundation, Inc.
Condensed Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>Restated 2021</u>	<u>Change</u>	<u>% Change</u>
Cash flows from operating activities	\$ 31,679,953	\$ 27,342,478	\$ 4,337,475	16%
Cash flows from investing activities	(5,444,407)	7,821,314	(13,265,721)	-170%
Cash flows from capital and related financing activities	<u>(49,558,347)</u>	<u>5,335,692</u>	<u>(54,894,039)</u>	-1029%
Net change in cash and cash equivalents	(23,322,801)	40,499,484	(63,822,285)	-158%
Cash and cash equivalents – beginning of year	<u>74,936,707</u>	<u>34,437,223</u>	<u>40,499,484</u>	118%
Cash and cash equivalents – end of year	<u>\$ 51,613,906</u>	<u>\$ 74,936,707</u>	<u>\$ (23,322,801)</u>	-31%

Cash flows from operations primarily include receipts from research sponsors and licensees, lease income, repair and restoration income, principal and interest payments on notes and leases receivable, and receipts on reimbursable project costs net of disbursements for operations. The increase in net cash flows from operating activities between Fiscal 2021 and Fiscal 2022 is the result of increased sponsored research activity and licensing and royalties income offset by the decreased cash provided due to early note receivable termination and 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 2021 to Fiscal 2022, these activities reflect a decrease in cash provided by the sales of investments offset by reduced investment income.

Cash flows from capital and related financing activities are related to capital expenditures, proceeds from new bond issuances, proceeds for the termination of notes receivable, and bond and lease liability payments of principal and interest. The decrease in cash provided from Fiscal 2021 to Fiscal 2022 is due primarily to decreased cash provided by the issuance of a new bond issue and decreased cash provided by the University for the early termination of a note receivable. An increase in cash used from Fiscal 2021 to Fiscal 2022 is due primarily to an increase in cash used by construction in progress on the new residence hall and the acquisition of land offset by cash provided by the University for the termination of a note receivable and increased cash provided by an increase in the revolving credit agreement related to the land acquisition.

Economic Outlook

Nationally, research funding and specifically federal research funding remains competitive. Even though the Research Foundation's net position decreased slightly in Fiscal 2022 due to investment losses caused by volatile market conditions, the Research Foundation is in a strong position to enhance the mission of the University. 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 2022 with a strong financial base and continues to support the real estate and facility needs of the University as evidenced in the number and broad spectrum focus of its construction and associated projects.

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

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

JUNE 30, 2022

	Research Foundation	Component Unit	
		Real Estate Foundation	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 16,674,562	\$ 23,776,480	\$ 40,451,042
Sponsored Research, Licensing, and Royalties Receivable	60,775,054	-	60,775,054
Accounts Receivable from the University and Affiliates	1,846,365	316,867	2,163,232
Lease Receivable, current portion	72,725	2,797,966	2,870,691
Notes Receivable, current portion	-	7,986,325	7,986,325
Prepaid Expenses and Other Current Assets	-	263,962	263,962
Total Current Assets	79,368,706	35,141,600	114,510,306
Noncurrent Assets			
Bond Proceeds Restricted for Debt Service	-	11,162,864	11,162,864
Investments	46,354,120	-	46,354,120
Investments Held by UGAF	-	6,084,546	6,084,546
Investment in GRA Venture Fund	380,463	-	380,463
Lease Receivable, noncurrent portion	148,472	8,329,066	8,477,538
Notes Receivable, noncurrent portion	-	164,947,849	164,947,849
Capital Assets, not being depreciated:			
Land	107,629	29,719,104	29,826,733
Construction in Progress	-	41,707,703	41,707,703
Easement	-	1,835,296	1,835,296
Capital Assets, net of accumulated depreciation	-	1,260,101	1,260,101
Intangible Right-to-Use Assets, net of accumulated amortization	-	10,041,400	10,041,400
Total Noncurrent Assets	46,990,684	275,087,929	322,078,613
Total Assets	126,359,390	310,229,529	436,588,919
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Loss on Refundings, net	\$ -	\$ 12,742,892	\$ 12,742,892

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

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

JUNE 30, 2022

	Research Foundation	Component Unit	
		Real Estate Foundation	Total
LIABILITIES			
Current Liabilities			
Accounts Payable to the University and Affiliates	\$ 66,671,369	\$ 628,234	\$ 67,299,603
Accounts Payable and Accrued Liabilities	1,403,025	3,038,669	4,441,694
Accrued Interest Payable	-	387,296	387,296
Accrued Project Costs	-	142,983	142,983
Advance Note and Lease Payment Receipts	6,275	5,251,997	5,258,272
Advance Repair and Restoration Receipts	-	107,785	107,785
Lease Obligations, current portion	-	2,693,542	2,693,542
Bonds Payable, current portion	-	9,625,000	9,625,000
Total Current Liabilities	68,080,669	21,875,506	89,956,175
Noncurrent Liabilities			
Lease Obligations, noncurrent portion	-	7,986,586	7,986,586
Revolving Credit Agreement, noncurrent portion	-	17,014,475	17,014,475
Bonds Payable, noncurrent portion	-	216,046,998	216,046,998
Total Noncurrent Liabilities	-	241,048,059	241,048,059
Total Liabilities	68,080,669	262,923,565	331,004,234
DEFERRED INFLOWS OF RESOURCES			
Unearned Lease Income	\$ 218,465	\$ 10,460,854	\$ 10,679,319
NET POSITION			
Net Investment in Capital Assets	107,629	15,844,930	15,952,559
Unrestricted	57,952,627	33,743,072	91,695,699
Total Net Position	\$ 58,060,256	\$ 49,588,002	\$ 107,648,258

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

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

YEAR ENDED JUNE 30, 2022

	<u>Component Unit</u>		<u>Total</u>
	<u>Research Foundation</u>	<u>Real Estate Foundation</u>	
Operating Revenues			
Sponsored Research	\$ 258,911,479	\$ -	\$ 258,911,479
Licensing and Royalties	11,258,343	-	11,258,343
Lease Income	72,822	3,355,402	3,428,224
Repair and Restoration Income	-	1,766,569	1,766,569
Lease Interest Income	3,564	172,472	176,036
Financing Interest Income	-	9,307,637	9,307,637
Miscellaneous Operating Income	892	-	892
Total Operating Revenues	<u>270,247,100</u>	<u>14,602,080</u>	<u>284,849,180</u>
Operating Expenses			
Research Subcontracted to the University (including facilities and administrative cost reimbursements)	253,067,100	-	253,067,100
Licensing and Royalty Distributions	9,100,263	-	9,100,263
Licenses and Intellectual Property	1,705,635	-	1,705,635
Support to the University	3,750,590	-	3,750,590
Project Expenses	-	4,932,920	4,932,920
Management and General	355,548	454,105	809,653
Total Operating Expenses	<u>267,979,136</u>	<u>5,387,025</u>	<u>273,366,161</u>
Operating Income	<u>2,267,964</u>	<u>9,215,055</u>	<u>11,483,019</u>
Non-operating Revenue (Expenses)			
Investment Income (Loss)	1,014,854	(375,898)	638,956
Change in Fair Value of Investments	(6,971,568)	-	(6,971,568)
Other Expense	-	(2,890)	(2,890)
Interest Expense, net	-	(8,804,232)	(8,804,232)
Loss on Disposal of Assets	-	(394,902)	(394,902)
Gain on Extinguishment of Debt	-	149,094	149,094
Total Non-operating Revenue (Expenses)	<u>(5,956,714)</u>	<u>(9,428,828)</u>	<u>(15,385,542)</u>
Change in Net Position	<u>(3,688,750)</u>	<u>(213,773)</u>	<u>(3,902,523)</u>
Net Position			
Beginning of Year, as previously reported	61,747,360	48,096,867	109,844,227
Effect of Accounting Change	1,646	1,704,908	1,706,554
Beginning of Year, restated	<u>61,749,006</u>	<u>49,801,775</u>	<u>111,550,781</u>
End of Year	<u>\$ 58,060,256</u>	<u>\$ 49,588,002</u>	<u>\$ 107,648,258</u>

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

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

YEAR ENDED JUNE 30, 2022

	Research Foundation	Component Unit	
		Real Estate Foundation	Total
Cash Flows from Operating Activities			
Receipts from research sponsors	\$ 207,407,462	\$ -	\$ 207,407,462
Receipts from licensing, royalties, and other income	11,259,235	-	11,259,235
Receipts from the University	11,119,256	-	11,119,256
Receipts from lease income	75,300	586,028	661,328
Receipts from repair and restoration income	-	1,735,907	1,735,907
Receipts of principal on leases receivable	-	2,688,739	2,688,739
Receipts of interest on leases receivable	-	169,415	169,415
Receipts of principal on notes receivable	-	12,379,741	12,379,741
Receipts of interest on notes receivable	-	9,260,266	9,260,266
Receipts for payments reimbursable by the University and affiliates	-	1,334,085	1,334,085
Sponsored research payments to the University	(208,351,766)	-	(208,351,766)
Payments for licensing and royalty distributions	(6,739,376)	-	(6,739,376)
Payments to the University	(7,727,752)	-	(7,727,752)
Payments to suppliers	(210,506)	(1,971,996)	(2,182,502)
Payments reimbursable by the University and affiliates	-	(1,334,085)	(1,334,085)
Net Cash Flows from Operating Activities	6,831,853	24,848,100	31,679,953
Cash Flows from Investing Activities			
Proceeds from sales and maturities of investments	11,645,747	-	11,645,747
Purchases of investments	(17,634,767)	(130,813)	(17,765,580)
Investment in GRA Venture Fund, net of distributions	464,429	-	464,429
Net payments for foreign currency fluctuations	-	(2,890)	(2,890)
Investment income	-	213,887	213,887
Net Cash Flows from Investing Activities	(5,524,591)	80,184	(5,444,407)
Cash Flows from Capital and Related Financing Activities			
Capital expenditures and intangible right-to-use expenditures	-	(33,435,877)	(33,435,877)
Borrowings on revolving credit agreement	-	2,973,253	2,973,253
Proceeds from the University for transfer of assets	-	11,793,200	11,793,200
Interest payments on long-term liabilities	-	(9,067,192)	(9,067,192)
Principal repayment on lease obligations	-	(2,588,531)	(2,588,531)
Principal repayment on bonds payable	-	(9,390,000)	(9,390,000)
Payments on bond extinguishment	-	(9,843,200)	(9,843,200)
Net Cash Flows from Capital and Related Financing Activities	-	(49,558,347)	(49,558,347)
Net Change in Cash and Cash Equivalents	1,307,262	(24,630,063)	(23,322,801)
Cash and Cash Equivalents			
Beginning of year	15,367,300	59,569,407	74,936,707
End of year	\$ 16,674,562	\$ 34,939,344	\$ 51,613,906

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

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

YEAR ENDED JUNE 30, 2022

	Research Foundation	Component Unit	
		Real Estate Foundation	Total
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 2,267,965	\$ 9,215,055	\$ 11,483,020
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization	-	2,795,112	2,795,112
Accounts receivable	9,342,773	(1,475)	9,341,298
Receipts of principal on leases receivable	-	2,688,739	2,688,739
Receipts of principal on notes receivable	-	12,379,741	12,379,741
Accounts payable and accrued liabilities	172,067	3,073	175,140
Accounts payable to the University and affiliates	(4,878,131)	620,126	(4,258,005)
Advance note and lease payment receipts	-	(35,916)	(35,916)
Advance repair and restoration receipts	-	(30,702)	(30,702)
Unearned lease income adjustment	(72,821)	(2,785,653)	(2,858,474)
Net Cash from Operating Activities	\$ 6,831,853	\$ 24,848,100	\$ 31,679,953
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and cash equivalents, per the statement of net position	\$ 16,674,562	\$ 23,776,480	\$ 40,451,042
Cash and cash equivalents included in bond proceeds restricted for construction, debt service, and reserves	-	11,162,864	11,162,864
Total Cash and Cash Equivalents	\$ 16,674,562	\$ 34,939,344	\$ 51,613,906
Schedule of Noncash Investing, Capital, and Related Financing Activities			
Decrease in fair value of investments	\$ (6,971,568)	\$ -	\$ (6,971,568)
Investment income, reinvested	\$ 1,014,854	\$ -	\$ 1,014,854

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

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2022

Statement of Fiduciary Net Position – Custodial Funds
June 30, 2022

	Research Foundation
ASSETS	
Cash and Cash Equivalents	\$ 31,188
Total Assets	<u>31,188</u>
FIDUCIARY NET POSITION	
Restricted for Other Organizations	31,188
Total Fiduciary Net Position	<u>\$ 31,188</u>

Statement of Changes in Fiduciary Net Position – Custodial Funds
Year Ended June 30, 2022

	Research Foundation
ADDITIONS	
Revenue	\$ -
Total Additions	<u>-</u>
DEDUCTIONS	
Expense	-
Total Deductions	<u>-</u>
Change in Fiduciary Net Position	-
Fiduciary Net Position	
Beginning of Year	31,188
End of Year	<u>\$ 31,188</u>

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

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 1—Organization

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

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

Effective July 1, 2007, the Research Foundation became the sole member of the UGA Real Estate Foundation, Inc. (the “Real Estate Foundation”). The Real Estate Foundation is a not-for-profit corporation that was chartered in 1999 and manages and improves various real estate assets for the benefit of the University, governed by the Board of Regents of the University System of Georgia (the “Board of Regents”). The Real Estate Foundation may also provide support to the Board of Regents and colleges and universities of the University System of Georgia. The Real Estate Foundation has created several limited liability companies of which it is the sole member for various purposes including constructing, financing, owning, and leasing real estate projects.

The Real Estate Foundation is presented as a blended component unit. The Research Foundation and the Real Estate Foundation are collectively referred to as the “Foundations”.

Note 2—Summary of significant accounting policies

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

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

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

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

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

JUNE 30, 2022

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 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.

Notes Interest Receivable – Interest income earned in accordance with the payment schedule and terms included in the financing agreements for which payment has not yet been received.

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

JUNE 30, 2022

Note 2—Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

Deferred Outflows/Inflows of Resources – In accordance with SGAS No. 65, *Items Previously Reported as Assets and Liabilities*, the statement of net position reports a separate financial statement element, deferred outflows of resources, which represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources until that time. The Real Estate Foundation's deferred loss on refundings qualifies for reporting in this category. The deferred loss on refundings results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt using the straight-line method. In addition to liabilities, the statement of net position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as revenue until that time. The Foundations' unearned lease income qualifies for reporting in this category. Unearned lease income results from a lessor's recording of a lease.

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

JUNE 30, 2022

Note 2—Summary of significant accounting policies (continued)

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

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

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

Net Position – Net position is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted net position includes amounts restricted by bond indentures for debt service, operating costs, and repair and restoration reserves. 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, 2022

Note 2—Summary of significant accounting policies (continued)

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

Financing and lease interest income is recorded per the related financing and lease agreement's amortization schedule simultaneously with the repair and restoration and lease income described above.

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, financing, 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 incurred to manage the financing agreement, and maintain and lease real property, other than financing costs.

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

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

New Accounting Pronouncement – During the year ended June 30, 2022, the Foundations implemented SGAS No. 87, *Leases*. This standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. The implementation of SGAS No. 87 resulted in accounting changes that have been applied retroactively to all periods presented in the financial statements.

Future Accounting Pronouncement – SGAS No. 93, *Replacement of Interbank Offered Rates*, was issued in March 2020. The standard's objective is to address accounting and financial reporting implications as a result of a replacement of the London Interbank Offered Rate (LIBOR). This standard will be effective for the year ending June 30, 2023. The Foundations are currently in the process of evaluating the impact of this adoption on the financial statements.

SGAS No. 96, *Subscription-based Information Technology Arrangements*, was issued in May 2020. The standard provides guidance on accounting and financing reporting for subscription-based information technology arrangements. This standard will be effective for the year ending June 30, 2023. The Foundations are currently in the process of evaluating the impact of this adoption on the financial statements.

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

JUNE 30, 2022

Note 3—Deposits and investments

A. Deposits

At June 30, 2022, 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 \$20,599,820.

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, 2022, 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	\$ 13,082,732	\$ -	\$ 3,897	\$ 13,086,629
Cash Held in Investments	-	-	2,115,352	2,115,352
Funds Held by Trustee	-	-	5,397,839	5,397,839
Total Deposits	<u>\$ 13,082,732</u>	<u>\$ -</u>	<u>\$ 7,517,088</u>	<u>\$ 20,599,820</u>

The funds held in checking accounts include \$31,188 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. The FDIC insured deposits are held in cash sweep accounts with a financial institution that ensures the Real Estate Foundation does not exceed the insured limits.

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, 2022, the Foundations’ deposits decreased by \$2,890 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 \$3,897 as of June 30, 2022.

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, 2022, investments held by UGAF included fixed-income mutual funds in the amount of \$6,084,546.

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

JUNE 30, 2022

Note 3—Deposits and investments (continued)

B. Investments (continued)

The Foundations' investments at June 30, 2022, 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	\$ 3,975,981	\$ 1,958,485	\$ 732,365	\$ 797,680	\$ 487,451
Corporate Debt	11,773,283	1,066,833	2,215,563	7,954,623	536,264
Municipal Debt	79,829	-	9,850	36,826	33,153
Repurchase Agreements	14,710,000	14,710,000	-	-	-
Repurchase Agreements Held by Trustee	-	-	-	-	-
	5,765,025	-	-	5,765,025	-
	36,304,118	<u>\$ 17,735,318</u>	<u>\$ 2,957,778</u>	<u>\$ 14,554,154</u>	<u>\$ 1,056,868</u>
Other Investments					
Equity Mutual Funds - Domestic	20,653,939				
Equity Mutual Funds - International	6,094,529				
Commodity Futures ETF	3,386,093				
Equity Securities - Domestic	44,100				
Managed Futures / Hedge Funds	346,366				
Mutual Funds Held by UGAF	6,084,546				
Board of Regents Short-term Fund	10,697,012				
Total Investments	<u>\$ 83,610,703</u>				

Repurchase agreements of \$14,710,000 held by the Research Foundation are included in Cash and Cash Equivalents on the statement of net position. The Board of Regents Short-term Fund held by the Real Estate Foundation is included in Cash and Cash Equivalents on the statement of net position. Real Estate Foundation repurchase agreements held by the trustee of \$5,765,025 are included in Bond Proceeds Restricted for Construction and Debt Service on the statement of net position.

Interest Rate Risk

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Foundations will not be able to recover the value of the investment. The Foundations do not have a formal policy for managing custodial credit risk for investments. At June 30, 2022, \$36,348,218 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, 2022

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, 2022, are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

Quality Ratings	Total	Rated Investments			
		U.S. Agencies	Corporate and Municipal Bonds	Mutual Funds and Commodity Futures ETF	Repurchase Agreements
Moody's					
Aaa	\$ 6,111,358	\$ -	\$ 346,333	\$ -	\$ 5,765,025
Aa1	36,826	-	36,826	-	-
Aa3	968,243	-	968,243	-	-
A1	2,798,194	-	2,798,194	-	-
A2	4,744,969	-	4,744,969	-	-
A3	1,195,769	-	1,195,769	-	-
Baa1	909,285	-	909,285	-	-
Baa2	447,744	-	447,744	-	-
Baa3	95,325	-	95,325	-	-
Standard & Poor's					
A-	247,488	-	247,488	-	-
BBB+	33,063	-	33,063	-	-
BBB	29,873	-	29,873	-	-
Morningstar					
5-Star	9,321,251	-	-	9,321,251	-
4-Star	9,643,611	-	-	9,643,611	-
3-Star	9,130,781	-	-	9,130,781	-
2-Star	2,686,643	-	-	2,686,643	-
1-Star	1,085,277	-	-	1,085,277	-
Unrated	19,061,544	-	-	4,351,544	14,710,000
	68,547,244	\$ -	\$ 11,853,112	\$ 36,219,107	\$ 20,475,025
Exempt Investments					
U.S. Treasuries	3,975,981				
Equity Securities - Domestic	44,100				
Managed Futures/Hedge Funds	346,366				
Board of Regents Short-term Fund	10,697,012				
Total Investments	\$ 83,610,703				

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

JUNE 30, 2022

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, 2022, investments and repurchase agreement-underlying securities in a single issuer where those investments are 5% or more of total investments were as follows:

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

Foreign Currency Risk

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

Note 4—Other investments – cost method

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

During fiscal year 2022, the Research Foundation made total contributions of \$201,669.

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

JUNE 30, 2022

Note 4—Other investments – cost method (continued)

A fair value is not estimated for the investment. The Research Foundation recognizes its share of losses realized by the GRA Fund; no losses were reported as of June 30, 2022. 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	\$ 15,712
2015 commitment	<u>364,751</u>
	<u>\$ 380,463</u>

Note 5—Fair value measurements of assets and liabilities

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

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which would generally be included in Level 1 include listed equity securities, 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, 2022

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, 2022.

	Fair Value Measurement			Total
	Level 1	Level 2	Level 3	
Investments by Fair Value Level				
Equity Securities				
Stocks (by sector)				
Health Care	\$ 44,100	\$ -	\$ -	\$ 44,100
Commodity Futures ETF	3,386,093	-	-	3,386,093
Mutual Funds				
Domestic	20,653,939	-	-	20,653,939
International	6,094,529	-	-	6,094,529
Total Equities	<u>30,178,661</u>	<u>-</u>	<u>-</u>	<u>30,178,661</u>
Investment Pools				
Board of Regents Short-term Fund	-	10,697,012	-	10,697,012
Total Investment Pools	<u>-</u>	<u>10,697,012</u>	<u>-</u>	<u>10,697,012</u>
Fixed Income				
U.S. Treasuries	-	3,975,981	-	3,975,981
Bonds				
Corporate	-	11,773,283	-	11,773,283
Municipal	-	79,829	-	79,829
Mutual Funds Held by UGAF	6,084,546	-	-	6,084,546
Total Fixed Income	<u>6,084,546</u>	<u>15,829,093</u>	<u>-</u>	<u>21,913,639</u>
Investments Measured at Net Asset Value (*)				
Multi-Strategy Hedge Funds	-	-	-	346,366
Total Investments Measured at Net Asset Value (*)	<u>-</u>	<u>-</u>	<u>-</u>	<u>346,366</u>
Total Investments, Recurring Basis	<u>\$ 36,263,207</u>	<u>\$ 26,526,105</u>	<u>\$ -</u>	<u>\$ 63,135,678</u>

(*) 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, 2022

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)	\$ 346,366	\$ -	Quarterly	65 days

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

Note 6—Restricted and real estate board designated assets

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

Restricted for:

Debt Service	\$ 6,555,957
Construction	4,606,907
Total Restricted	<u>\$ 11,162,864</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	\$ -	\$ 3,295,290	\$ 3,295,290
Future Repairs and Replacements of Real Property	-	11,652,560	11,652,560
General Operations of the Real Estate Foundation	-	400,000	400,000
Total Designated	-	15,347,850	15,347,850
Undesignated Cash and Cash Equivalents	16,674,562	8,428,630	25,103,192
Total Cash and Cash Equivalents	<u>\$ 16,674,562</u>	<u>\$ 23,776,480</u>	<u>\$ 40,451,042</u>

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

JUNE 30, 2022

Note 7—Leases receivable

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

As of June 30, 2022, leases receivable was \$11,348,229. These amounts include future minimum lease payments to be received of \$11,688,909 as of June 30, 2022 of which \$340,680 is unearned interest.

As of June 30, 2022, lease payments are receivable as follows:

2023	\$ 3,008,293
2024	3,092,223
2025	2,140,811
2026	1,914,982
2027	<u>1,532,600</u>
Total Payments to be Received	11,688,909
Less Amounts Representing Interest	<u>(340,680)</u>
Total Leases Receivable	11,348,229
Less Current Portion	<u>(2,870,691)</u>
Noncurrent Leases Receivable	<u>\$ 8,477,538</u>

Note 8—Notes receivable

The Real Estate Foundation has entered into multiple 20 to 30-year financing agreements with the Board of Regents. On June 26, 2020, the Real Estate Foundation and the Board of Regents amended certain financing agreements to defer note receivable payments from March 2020 through June 2020 (see Note 12). Interest income accrued on the notes receivable during the deferral was received during Fiscal 2021. The deferred payments were received in Fiscal 2022. The adjustment had no impact on the total payments to be received over the life of the financing agreements. Note payments are due monthly.

As of June 30, 2022, notes receivable were \$172,934,174. These amounts include future minimum note receivable payments to be received of \$250,555,399 of which \$77,621,225 is unearned interest.

As of June 30, 2022, notes receivable payments are receivable as follows:

2023	\$ 16,289,813
2024	16,267,213
2025	16,253,721
2026	16,229,381
2027	16,198,923
2028 - 2032	80,561,456
2033 - 2037	62,685,489
2038 - 2042	23,303,317
2043 - 2044	<u>2,766,086</u>
Total Payments to be Received	250,555,399
Less Amounts Representing Interest	<u>(77,621,225)</u>
Total Notes Receivable	172,934,174
Less Current Portion	<u>(7,986,325)</u>
Noncurrent Notes Receivable	<u>\$ 164,947,849</u>

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

JUNE 30, 2022

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

Capital assets consisted of the following:

	Restated Balance at June 30, 2021	Additions	Disposals and Reclasses	Balance at June 30, 2022
Capital assets not being depreciated				
Land	\$ 26,856,022	\$ 2,970,711	\$ -	\$ 29,826,733
Construction-in-progress	14,987,621	26,720,082	-	41,707,703
Easement	1,835,296	-	-	1,835,296
Total capital assets not being depreciated	<u>43,678,939</u>	<u>29,690,793</u>	<u>-</u>	<u>73,369,732</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	1,960,613	(1,960,613)	3,179,498
Less accumulated depreciation	(1,805,074)	(114,323)	-	(1,919,397)
Intangible Right-to-Use Assets	18,083,766	-	-	18,083,766
Less accumulated amortization	(5,361,577)	(2,680,789)	-	(8,042,366)
Total capital assets being depreciated, net	<u>14,096,613</u>	<u>(834,499)</u>	<u>(1,960,613)</u>	<u>11,301,501</u>
Capital assets, net	<u>\$ 57,775,552</u>	<u>\$ 28,856,294</u>	<u>\$ (1,960,613)</u>	<u>\$ 84,671,233</u>

Note 10—Long-term liabilities

A. Bonds payable

The Real Estate Foundation has entered into multiple loan agreements to borrow bond proceeds from the Development Authority of the Unified Government of Athens-Clarke County, Georgia (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.

At June 30, 2022, borrowings under the Real Estate Foundation's loan agreements bear interest payable semi-annually in December and June at rates ranging from 1.05% to 5.00% with maturity dates through fiscal year 2052.

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

JUNE 30, 2022

Note 10—Long-term liabilities (continued)

A. Bonds payable (continued)

Revenue Bonds	Original Issue Amount	Interest Rates	Maturing Through Year	Outstanding Balance 2022
Bolton Entity, Series 2013	\$ 24,400,000	3.00% - 5.00%	2044	\$ 17,135,000
Central Precinct Entity, Series 2016	54,025,000	2.00% - 5.00%	2038	42,645,000
Central Housing I Entity, Series 2020	38,970,000	2.00% - 5.00%	2052	38,970,000
EC Housing Entity, Series 2019	62,950,000	1.87% - 3.07%	2033	55,140,000
EC Housing Phase II Entity, Series 2017	44,630,000	3.00% - 5.00%	2040	37,395,000
Fraternity Row Entity, Series 2017	12,665,000	1.05% - 4.45%	2039	10,170,000
PAC Entity, Series 2017	15,215,000	2.00% - 5.00%	2039	12,570,000
				<u>\$ 214,025,000</u>

***Defeasance and refunding of revenue bonds
Rutherford Entity***

On June 15, 2022, the Housing Authority entered into an agreement with the Rutherford Entity to early extinguish \$9,825,000 of outstanding 2012 Rutherford Entity Bonds with interest rates ranging from 3.0% to 5.00% pursuant to the financing agreement termination by the University.

A portion of the proceeds received from the University in the net amount of \$9,825,000 (after payment of \$18,200 in extinguishment costs) was transferred from the Rutherford Entity to an independent trustee. As a result, \$9,825,000 of outstanding Rutherford Bonds were repaid.

The early extinguishment resulted in a loss consisting of the difference between the reacquisition price and the net carrying amount of the extinguished debt of \$232,795. This difference has been recorded as a \$381,889 ordinary loss on disposal of assets and a \$149,094 ordinary gain on extinguishment of debt during the year ended June 30, 2022. The Rutherford Entity completed the early extinguishment in order to repay the Rutherford Bonds and to reduce its total debt service payments on the Rutherford Bonds over the next 11 years by \$2,210,237.

Real Estate Foundation – bonds payable

The bonds payable agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2022, 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, 2022

Note 10—Long-term liabilities (continued)

A. Bonds payable (continued)

Following is a summary as of June 30, 2022, of principal and interest payments for the face value of the bonds payable during each of the next five years ending June 30 and every five years thereafter:

	<u>Principal</u>	<u>Interest</u>
2023	\$ 9,625,000	\$ 7,829,065
2024	9,935,000	7,493,016
2025	10,240,000	7,136,373
2026	10,565,000	6,783,518
2027	10,925,000	6,398,310
2028 - 2032	61,060,000	25,209,701
2033 - 2037	55,365,000	13,698,747
2038 - 2042	26,410,000	5,536,449
2043 - 2047	10,520,000	2,332,050
2048 - 2052	9,380,000	980,400
	<u>\$ 214,025,000</u>	<u>\$ 83,397,629</u>

Changes in long-term debt for the fiscal year ended June 30, 2022 are shown below:

	<u>Restated Balance at June 30, 2021</u>	<u>Additions</u>	<u>Disposals and Reductions</u>	<u>Balance at June 30, 2022</u>	<u>Current Portion</u>
Bonds Payable	\$ 233,240,000	\$ -	\$ (19,215,000)	\$ 214,025,000	\$ 9,625,000
Net Premium (Discount)	12,906,078	-	(1,259,080)	11,646,998	-
Total Long-term Debt	<u>\$ 246,146,078</u>	<u>\$ -</u>	<u>\$ (20,474,080)</u>	<u>\$ 225,671,998</u>	<u>\$ 9,625,000</u>

B. Lease obligations

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

<u>Description</u>	<u>Original Principal</u>	<u>Lease Term</u>	<u>Begin Month/Year</u>	<u>End Month/Year</u>	<u>Outstanding Balances 2022</u>
Gwinnett Intellicenter	\$ 15,122,755	124 months	Jan 2017	Apr 2027	\$ 8,145,489
Live Oak Square	5,945,613	66 months	Mar 2019	Aug 2024	2,534,639
					<u>\$ 10,680,128</u>

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

JUNE 30, 2022

Note 10—Long-term liabilities (continued)

B. Lease obligations (continued)

A summary of principal and interest amounts as of June 30, 2022, for the remaining leases are as follows:

	<u>Principal</u>	<u>Interest</u>
2023	\$ 2,693,542	\$ 129,559
2024	2,811,814	91,920
2025	1,890,949	57,977
2026	1,760,858	34,042
2027	1,522,965	9,636
	<u>\$ 10,680,128</u>	<u>\$ 323,134</u>

Changes in lease obligations for the year ended June 30, 2022, are shown below:

	<u>Restated Balance at June 30, 2021</u>	<u>Additions</u>	<u>Disposals and Reductions</u>	<u>Balance at June 30, 2022</u>	<u>Current Portion</u>
Lease Obligations	\$ 13,259,287	\$ -	\$ (2,579,159)	\$ 10,680,128	\$ 2,693,542

C. Components of interest cost

A summary of the components of interest cost for the year ended June 30, 2022 is as follows:

Interest Cost	
Interest Expense	\$ 8,754,206
Amortization of Premiums, Discounts, and Deferred Loss	(1,091,785)
Cost of Issuance	856,112
Fees	285,699
Total Interest Cost	<u>\$ 8,804,232</u>

Note 11—Line of credit

\$25,000,000 Revolving Credit Agreement Fiscal 2019 – In November 2018, the Real Estate Foundation entered into a 25 million revolving credit agreement with a bank, for a five-year term to expire on November 30, 2023. Credit available under the revolving credit agreement is reduced by outstanding borrowings. As of June 30, 2022, amounts outstanding and issued under this agreement include borrowings of \$17,014,475, resulting in \$7,985,525 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day London Interbank Offered Rate plus 48.0 basis points (or 0.48%). At June 30, 2022, the rate applicable to the borrowings was 1.54%. 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, 2022, 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, 2022

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, 2022 was \$75,300. The library storage facility was being depreciated over 25 years and became fully depreciated during fiscal year 2016.

The Research Foundation receives reimbursement from research sponsors for facilities and administrative ("F&A") cost incurred. Of the total received, 78% is remitted to the University for reimbursement of F&A cost incurred by the University. Additionally, the Research Foundation remitted \$5,274,877 for the year ended June 30, 2022 to various departments of the University for F&A cost they incurred in the support of research.

In addition to the \$3,750,590 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 2022, \$9,097,825 of license and royalties revenue was distributed of which \$3,977,162 was paid to the University to support inventor's research and departmental research programs, and the Plant Cultivar program.

The Real Estate Foundation has multiple financing agreements, leases and subleases of real property with the Board of Regents. The Real Estate Foundation also has one-year licensing agreements with the Board of Regents which provides for the operation of parking lots by the Board of Regents on the Real Estate Foundation's land located on Oconee Street in Athens, Georgia, in exchange for a fee adjusted at the end of the term to reflect actual costs incurred. For the year ended June 30, 2022, the amounts reported as Lease Income, Repair and Restoration Income, Financing and Lease Interest Income in the statement of revenues, expenses, and changes in net position consist of revenue earned through financing and lease agreements. The financing and lease agreements with the Board of Regents are the primary source of revenue for the Real Estate Foundation, which constitutes a concentration of credit risk.

Additionally, the financing and lease agreements provide that certain amounts paid by the Real Estate Foundation be reimbursed by the Board of Regents. Amounts reimbursed are primarily insurance and property taxes. For the year ended June 30, 2022, 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 lease amount of \$10 per year. Under the ground leases, the ownership of any building or structure constructed on the land passes to the Board of Regents at the end of the ground lease.

The Real Estate Foundation has entered into an administrative services agreement with the University whereby the University provides project management, accounting, and other administrative services, as well as provisions for office space, maintenance, and utilities to be provided by the University to the Real Estate Foundation. During the year ended June 30, 2022, the Real Estate Foundation paid \$349,418 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

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

JUNE 30, 2022

Note 12—Related party transactions (continued)

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 financing agreements on June 26, 2020, to defer note receivable payments from March 2020 through June 2020. The deferred payments were received during Fiscal 2022.

On June 15, 2022, the Rutherford Entity terminated the financing agreement with the Board of Regents following early receipt of the related note receivable from the University. In connection with the termination, the Housing Authority entered into an agreement with the Rutherford Entity to early extinguish \$9,825,000 of outstanding 2012 Rutherford Entity Bonds. The gain on extinguishment of the bonds is \$149,094. The loss on early termination of the financing agreement is \$381,889. The loss is shown in the Gain (Loss) on Disposal of Assets for the year ended June 30, 2022, in the statement of revenues, expenses, and changes in net position, and consisted of the following components:

Proceeds Received from University	\$ 9,843,200
Capital Lease Receivable at Time of Sale	<u>(10,225,089)</u>
Total Loss	<u>\$ (381,889)</u>

On March 31, 2022, the Spring Entity sold a building and land acquired on July 23, 2021, as approved by the Board, to the Board of Regents. The loss on the sale is \$13,013 and is shown in the Gain (Loss) on Disposal of Assets for the year ended June 30, 2022 in the statement of revenues, expenses, and changes in net position, and consisted of the following components:

Sale Price	\$ 1,950,000
Closing Costs	(2,400)
Building and Land Capital Asset	<u>(1,960,613)</u>
Total Loss	<u>\$ (13,013)</u>

Note 13—Change in accounting principle

During the year ended June 30, 2022, the Foundations implemented SGAS No. 87, *Leases*. SGAS No. 87 requires accounting changes adopted to conform to its provisions to be applied retroactively by restating financial statements for all periods presented. Under this statement, a lessee is required to recognize a lease obligation and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. As a result of this standard, the Foundations recognized assets of \$2,870,691 in lease receivable, current portion, \$8,477,538 in lease receivable, noncurrent portion, and \$10,041,400 in intangible right-to-use assets, net of accumulated amortization at June 30, 2022. The Foundations recognized \$5,258,272 in advance note and lease payment receipts, \$107,785 in advance repair and restoration receipts, \$2,693,542 in lease obligations, current portion, \$7,986,586 in lease obligations noncurrent portion, and \$10,679,319 in unearned lease income, at June 30, 2022. The effect of the change in accounting principle resulted in a prior period adjustment to net position of \$1,706,554.

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

JUNE 30, 2022

Note 14—Significant funding sources

For the fiscal year ended June 30, 2022, approximately \$167,000,000 (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 2022, \$4,991 was requested and transferred to the GRA Fund. As of June 30, 2022, the Research Foundation's remaining commitment is \$80,981. 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 2022, \$196,679 was requested and transferred to the GRA Fund. As of June 30, 2022, the Research Foundation's remaining commitment is \$131,425.

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 2022 commitment for these initiatives is budgeted at approximately \$367,000.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2022, 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 19, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Research Foundation’s internal control over financial reporting (“internal control”) 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Foundation’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

Cherry Bekaert LLP

Augusta, Georgia
September 19, 2022