

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

**FINANCIAL STATEMENTS**

*As of and for the Year Ended June 30, 2021*

*And Report of Independent Auditor*

**UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.**  
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**REPORT OF INDEPENDENT AUDITOR ON INTERNAL CONTROL OVER  
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## Report of Independent Auditor

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

We have audited the accompanying financial statements of the University of Georgia Research Foundation, Inc. (the "Research Foundation"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Research Foundation, as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2021, 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.

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

Augusta, Georgia  
September 28, 2021

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

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### Introduction

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

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

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

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

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

### Description of the Financial Statements

The *Statement of Net Position*, *Statement of Revenues, Expenses, and Changes in Net Position*, and the *Statement of Cash Flows* are designed to provide information which will assist in understanding the financial condition and performance of the Foundations. The Foundations' net position is one indicator of the Foundations' financial health. Over time, increases or decreases in net position are one indicator of the changes in financial condition when considered with other non-financial facts.

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

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

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

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

### Financial Highlights

Condensed financial statements are presented for the year ended June 30, 2021, and one prior fiscal year. In the following discussion, Fiscal 2021 and Fiscal 2020 refer to the years ended June 30, 2021 and 2020, respectively.

#### University of Georgia Research Foundation, Inc. Condensed Statements of Net Position June 30, 2021 and 2020

	2021	2020	Change	% Change
<b>Assets</b>				
Current assets	\$ 115,660,992	\$ 93,191,598	\$ 22,469,394	24%
Capital assets, net	45,053,363	30,216,291	14,837,072	49%
Other noncurrent assets	280,964,626	278,775,986	2,188,640	1%
<b>Total assets</b>	<b>441,678,981</b>	<b>402,183,875</b>	<b>39,495,106</b>	<b>10%</b>
<b>Deferred Outflows of Resources</b>				
Deferred loss on refundings	13,599,003	15,310,091	(1,711,088)	-11%
<b>Liabilities</b>				
Current liabilities	93,177,024	73,315,170	19,861,854	27%
Noncurrent liabilities	252,256,726	241,326,270	10,930,456	5%
<b>Total liabilities</b>	<b>345,433,750</b>	<b>314,641,440</b>	<b>30,792,310</b>	<b>10%</b>
<b>Net Position</b>				
Net investment in capital assets	16,053,300	16,175,069	(121,769)	-1%
Unrestricted	93,790,934	86,677,457	7,113,477	8%
<b>Total net position</b>	<b>\$ 109,844,234</b>	<b>\$ 102,852,526</b>	<b>\$ 6,991,708</b>	<b>7%</b>

Current assets increased by \$22,469,394 from Fiscal 2020 to Fiscal 2021 due to increases in accounts receivable related to sponsored research activity, capital leases receivable, and reduced cash outflow of residual funds to the University related to the dissolution of a Real Estate Foundation limited liability company.

Capital assets, which include land, construction in progress, an easement, buildings and improvements, and furniture and fixtures (net of accumulated depreciation) increased by \$14,837,072 from Fiscal 2020 to Fiscal 2021 due primarily to the construction in progress on a new residence hall offset by depreciation of depreciable capital assets.

Other noncurrent assets primarily include restricted bond proceeds, trustee held funds, investments held by investment managers, and other investments. Noncurrent assets increased \$2,188,640 from Fiscal 2020 to Fiscal 2021 due primarily to the increase in the fair value of investments and investment income offset by the principal reduction in accordance with the capital lease amortization schedules.

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

*JUNE 30, 2021*

Deferred outflows of resources include deferred loss on refundings that result from the advanced refunding of bond series. Deferred outflows of resources decreased \$1,711,088 from Fiscal 2020 to Fiscal 2021 due to termination of the CCRC Entity's deferred loss on refunding following the early debt extinguishment of the 2011 CCRC Entity Bonds and by normal deferred loss amortization.

Current liabilities increased by \$19,861,854 due primarily to decreases in accounts payable to the University related to sponsored research offset by an increase in short-term bond principal in accordance with the bond amortization schedules.

Noncurrent liabilities increased by \$10,930,456 from Fiscal 2020 to Fiscal 2021. This increase is due to the issuance of 2020 Central Housing I Entity Bonds in Fiscal 2021 offset by the early debt extinguishment of the 2011 CCRC Entity Bonds and annual payments of principal on noncurrent debt.

Net position represents the difference between the Foundations' assets, liabilities, and deferred outflows/inflows of resources. Total net position at June 30, 2021 and 2020 was \$109,844,234 and \$102,852,526, respectively, which represents an increase of \$6,991,708 (7%).

**University of Georgia Research Foundation, Inc.**  
**Condensed Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>	<b>Change</b>	<b>% Change</b>
<b>Operating Revenues</b>				
Sponsored research	\$ 225,611,086	\$ 265,280,548	\$ (39,669,462)	-15%
Licensing and royalties	10,865,604	10,232,962	632,642	6%
Rental income	4,977,764	4,435,711	542,053	12%
Capital lease interest income	10,566,147	11,394,349	(828,202)	-7%
Miscellaneous Operating Income	14,378	-	14,378	-100%
<b>Total operating revenues</b>	<b>252,034,979</b>	<b>291,343,570</b>	<b>(39,308,591)</b>	<b>-13%</b>
<b>Operating Expenses</b>				
Research subcontracted to the University	220,238,456	260,616,547	(40,378,091)	-15%
Intellectual property	10,382,184	9,503,762	878,422	9%
Support to the University	3,866,487	3,799,123	67,364	2%
Project expenses	3,693,583	3,708,902	(15,319)	0%
Management and general	796,932	950,561	(153,629)	-16%
<b>Total operating expenses</b>	<b>238,977,642</b>	<b>278,578,895</b>	<b>(39,601,253)</b>	<b>-14%</b>
<b>Operating income</b>	<b>13,057,337</b>	<b>12,764,675</b>	<b>292,662</b>	<b>2%</b>
<b>Non-operating revenues (expenses)</b>	<b>(6,065,629)</b>	<b>(7,732,176)</b>	<b>1,666,547</b>	<b>-22%</b>
<b>Special item</b>	<b>-</b>	<b>(1,376,773)</b>	<b>1,376,773</b>	<b>100%</b>
Change in Net Position	6,991,708	3,655,726	3,335,982	91%
Net position – beginning of year	102,852,526	99,196,800	3,655,726	4%
Net position – end of year	<u>\$ 109,844,234</u>	<u>\$ 102,852,526</u>	<u>\$ 6,991,708</u>	<u>7%</u>

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

Operating revenues consist primarily of sponsored research, licensing and royalties, interest earned on capital leases, and rental income. During Fiscal 2021, operating revenues decreased \$39,308,591 due to decreases in sponsored research revenue offset by reduced revenue related to lease restructures due to bond refinancing and rent deferrals, and annual amortization of lease interest income on the capital leases.

Operating expenses decreased by \$39,601,253 due to a decrease in the sponsored research subcontracted to the University.

Non-operating revenues and expenses consist mostly of investment income, the change in fair value of investments, and interest expense. For Fiscal 2021, non-operating expenses net of non-operating revenues decreased \$1,666,547 due to an increase in the fair value of investments and investment income offset by an increase in interest expense and the cost of issuance expense.

A Special item resulted from the dissolution of a Real Estate Foundation limited liability company and distribution of its residual funds to the Research Foundation and the University for Fiscal 2020.

### University of Georgia Research Foundation, Inc. Condensed Statements of Cash Flows Years Ended June 30, 2021 and 2020

	2021	2020	Change	% Change
Cash flows from operating activities	\$ 24,667,756	\$ 15,730,656	\$ 8,937,100	57%
Cash flows from investing activities	7,821,314	6,432,633	1,388,681	-22%
Cash flows from noncapital financing activities	-	(1,376,773)	1,376,773	-100%
Cash flows from capital and related financing activities	8,010,414	(23,576,043)	31,586,457	134%
Net change in cash and cash equivalents	40,499,484	(2,789,527)	43,289,011	1552%
Cash and cash equivalents – beginning of year	34,437,223	37,226,750	(2,789,527)	-7%
Cash and cash equivalents – end of year	\$ 74,936,707	\$ 34,437,223	\$ 40,499,484	118%

Cash flows from operations primarily include receipts from research sponsors and licensees (net of disbursements for operations), rental income, principal and interest payments on capital leases receivable, and receipts on reimbursable project costs. The increase in net cash flows from operating activities between Fiscal 2020 and Fiscal 2021 is the result of increased cash provided by certain restructured lease agreement following the Board approved rent deferrals in Fiscal 2020 and advanced rent received from the University on the new residence hall.

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 2020 to Fiscal 2021 these activities reflect an increase in cash provided by the sales of investments offset by reduced investment income.

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



# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*JUNE 30, 2021*

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Cash flows from capital and related financing activities are related to capital expenditures, proceeds from new bond issuances, proceeds from the transfer of assets, and bond debt payments of principal and interest. The increase in cash provided from Fiscal 2020 to Fiscal 2021 is due primarily to increased cash provided by proceeds from new bond issuance in Fiscal 2021.

### **Economic Outlook**

Nationally, research funding and specifically federal research funding remains competitive. Even though the COVID-19 pandemic continued throughout the fiscal year, the Research Foundation's net position increased in Fiscal 2021 due to investment gains and operating income. 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 2021 with a strong financial base and continues to support the real estate and facility needs of the University as evidenced in the number and broad spectrum focus of its construction and associated projects.

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

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

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

*JUNE 30, 2021*

	<b>Research Foundation</b>	<b>Component Unit Real Estate Foundation</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 15,367,300	\$ 15,475,430	\$ 30,842,730
Sponsored Research, Licensing, and Royalties Receivable	70,252,086	-	70,252,086
Accounts Receivable from the University and Affiliates	1,640,370	-	1,640,370
Prepaid Expenses and Other Current Assets	-	252,777	252,777
Capital Leases Receivable, current portion	-	12,673,029	12,673,029
Total Current Assets	87,259,756	28,401,236	115,660,992
Noncurrent Assets			
Bond Proceeds Restricted for Debt Service	-	41,088,857	41,088,857
Operating Funds Held by Trustee	-	3,005,120	3,005,120
Investments	46,321,816	-	46,321,816
Investments Held by UGAF	-	6,544,679	6,544,679
Investment in GRA Venture Fund	844,893	-	844,893
Capital Leases Receivable, noncurrent portion	-	183,159,261	183,159,261
Capital Assets, not being depreciated:			
Land	107,629	26,748,393	26,856,022
Construction in Progress	-	14,987,621	14,987,621
Easement	-	1,835,296	1,835,296
Capital Assets, net of accumulated depreciation	-	1,374,424	1,374,424
Total Noncurrent Assets	47,274,338	278,743,651	326,017,989
<b>Total Assets</b>	<b>134,534,094</b>	<b>307,144,887</b>	<b>441,678,981</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Loss on Refundings	-	13,599,003	13,599,003

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

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

*JUNE 30, 2021*

	<b>Research Foundation</b>	<b>Component Unit Real Estate Foundation</b>	<b>Total</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable to the University and Affiliates	\$ 71,549,500	\$ 5,339	\$ 71,554,839
Accounts Payable and Accrued Liabilities	1,230,959	3,203,371	4,434,330
Unearned Revenue	6,275	-	6,275
Accrued Interest Payable	-	417,525	417,525
Accrued Project Costs	-	1,444,342	1,444,342
Advance Rent and Lease Payment Receipts	-	5,706,651	5,706,651
Lease Rent Liability, current portion	-	223,062	223,062
Bonds Payable, current portion	-	9,390,000	9,390,000
Total Current Liabilities	<u>72,786,734</u>	<u>20,390,290</u>	<u>93,177,024</u>
Noncurrent Liabilities			
Lease Rent Liability, noncurrent portion	-	1,459,426	1,459,426
Revolving Credit Agreement, noncurrent portion	-	14,041,222	14,041,222
Bonds Payable, noncurrent portion	-	236,756,078	236,756,078
Total Noncurrent Liabilities	<u>-</u>	<u>252,256,726</u>	<u>252,256,726</u>
<b>Total Liabilities</b>	<u>72,786,734</u>	<u>272,647,016</u>	<u>345,433,750</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	107,629	15,945,671	16,053,300
Unrestricted	61,639,731	32,151,203	93,790,934
<b>Total Net Position</b>	<u>\$ 61,747,360</u>	<u>\$ 48,096,874</u>	<u>\$ 109,844,234</u>

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

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

*YEAR ENDED JUNE 30, 2021*

	<b>Research Foundation</b>	<b>Component Unit Real Estate Foundation</b>	<b>Total</b>
<b>Operating Revenues</b>			
Sponsored Research	\$ 225,611,086	\$ -	\$ 225,611,086
Licensing and Royalties	10,865,604	-	10,865,604
Rental Income	75,300	4,902,464	4,977,764
Capital Lease Interest Income	-	10,566,147	10,566,147
Miscellaneous Operating Income	-	14,378	14,378
Total Operating Revenues	236,551,990	15,482,989	252,034,979
<b>Operating Expenses</b>			
Research Subcontracted to the University (including facilities and administrative cost reimbursements)	220,238,456	-	220,238,456
Licensing and Royalty Distributions	9,073,498	-	9,073,498
Licenses and Intellectual Property	1,308,686	-	1,308,686
Support to the University	3,866,487	-	3,866,487
Project Expenses	-	3,693,583	3,693,583
Management and General	320,721	476,211	796,932
Total Operating Expenses	234,807,848	4,169,794	238,977,642
<b>Operating Income</b>	1,744,142	11,313,195	13,057,337
<b>Non-operating Revenue (Expenses)</b>			
Investment Income	653,312	501,864	1,155,176
Change in Fair Value of Investments	8,866,980	-	8,866,980
Other Expense	-	(1,829)	(1,829)
Interest Expense, net	-	(9,850,379)	(9,850,379)
Loss on Early Termination of Capital Lease	-	(5,155,015)	(5,155,015)
Loss on Extinguishment of Debt	-	(1,021,290)	(1,021,290)
Loss on Investment in GRA Venture Fund	(59,272)	-	(59,272)
<b>Total Non-operating Revenue (Expenses)</b>	9,461,020	(15,526,649)	(6,065,629)
<b>Change in Net Position</b>	11,205,162	(4,213,454)	6,991,708
<b>Net Position</b>			
Beginning of Year	50,542,198	52,310,328	102,852,526
End of Year	\$ 61,747,360	\$ 48,096,874	\$ 109,844,234

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

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

*YEAR ENDED JUNE 30, 2021*

	<b>Research Foundation</b>	<b>Component Unit Real Estate Foundation</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from research sponsors	\$ 139,796,556	\$ -	\$ 139,796,556
Receipts from licensing, royalties, and other income	10,865,604	-	10,865,604
Receipts from the University	10,288,614	-	10,288,614
Receipts from rental income	75,300	4,722,509	4,797,809
Receipts of principal on capital leases	-	7,231,560	7,231,560
Receipts of interest on capital leases	-	12,694,645	12,694,645
Receipts for payments reimbursable by the University and affiliates	-	939,504	939,504
Other operating receipts	-	3,580,732	3,580,732
Sponsored research payments to the University	(145,839,651)	-	(145,839,651)
Payments for licensing and royalty distributions	(6,424,429)	-	(6,424,429)
Payments to the University	(7,915,709)	-	(7,915,709)
Payments to suppliers	(333,202)	(4,074,773)	(4,407,975)
Payments reimbursable by the University and affiliates	-	(939,504)	(939,504)
<b>Net Cash Flows from Operating Activities</b>	<b>513,083</b>	<b>24,154,673</b>	<b>24,667,756</b>
<b>Cash Flows from Investing Activities</b>			
Proceeds from sales and maturities of investments	20,915,004	-	20,915,004
Purchases of investments	(13,358,004)	(222,852)	(13,580,856)
Investment in GRA Venture Fund, net of distributions	(83,214)	-	(83,214)
Net payments for foreign currency fluctuations	-	(1,829)	(1,829)
Investment income	-	572,209	572,209
<b>Net Cash Flows from Investing Activities</b>	<b>7,473,786</b>	<b>347,528</b>	<b>7,821,314</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Capital expenditures	-	(10,310,904)	(10,310,904)
Proceeds from sale of bonds	-	43,456,458	43,456,458
Proceeds from the University for transfer of assets	-	17,507,889	17,507,889
Payments for bond issuance costs	-	(631,612)	(631,612)
Interest payments on long-term debt	-	(9,342,585)	(9,342,585)
Principal repayment on bonds payable	-	(10,575,000)	(10,575,000)
Payments on bond extinguishment	-	(22,093,832)	(22,093,832)
<b>Net Cash Flows from Capital and Related Financing Activities</b>	<b>-</b>	<b>8,010,414</b>	<b>8,010,414</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>7,986,869</b>	<b>32,512,615</b>	<b>40,499,484</b>
<b>Cash and Cash Equivalents</b>			
Beginning of year	7,380,431	27,056,792	34,437,223
End of year	\$ 15,367,300	\$ 59,569,407	\$ 74,936,707

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

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

YEAR ENDED JUNE 30, 2021

	Research Foundation	Component Unit Real Estate Foundation	Total
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 1,744,142	\$ 11,313,195	\$ 13,057,337
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation	-	114,323	114,323
Straight-line rent expense adjustment	-	(146,788)	(146,788)
Receipts of principal on capital leases	-	7,231,560	7,231,560
Changes in assets and liabilities			
Accounts receivable	(13,922,074)	-	(13,922,074)
Prepaid expenses and other current assets	-	(6,233)	(6,233)
Capital leases interest receivable	-	2,680,514	2,680,514
Accounts payable to the University and affiliates	12,782,943	-	12,782,943
Accounts payable and accrued liabilities	(91,928)	(52,235)	(144,163)
Advance rent least payment receipts	-	3,020,337	3,020,337
<b>Net Cash from Operating Activities</b>	<b>\$ 513,083</b>	<b>\$ 24,154,673</b>	<b>\$ 24,667,756</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>			
Cash and cash equivalents, per the statement of net position	\$ 15,367,300	\$ 15,475,430	\$ 30,842,730
Cash and cash equivalents included in bond proceeds restricted for construction, debt service, and reserves	-	41,088,857	41,088,857
Cash and cash equivalents included in operating funds held by trustee	-	3,005,120	3,005,120
<b>Total Cash and Cash Equivalents</b>	<b>\$ 15,367,300</b>	<b>\$ 59,569,407</b>	<b>\$ 74,936,707</b>
<b>Schedule of Noncash Investing, Capital, and Related Financing Activities</b>			
Increase in fair value of investments	\$ 8,866,980	\$ -	\$ 8,866,980
Investment income, reinvested	\$ 653,312	\$ -	\$ 653,312
Loss on investment in GRA Venture Fund	\$ (59,272)	\$ -	\$ (59,272)

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

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

**Statement of Fiduciary Net Position – Custodial Funds**  
**June 30, 2021**

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

**Statement of Changes in Fiduciary Net Position – Custodial Funds**  
**Year Ended June 30, 2021**

	<b>Research Foundation</b>
<b>ADDITIONS</b>	
Revenue	\$ -
<b>Total Additions</b>	<u>-</u>
<b>DEDUCTIONS</b>	
Expense	772
<b>Total Deductions</b>	<u>772</u>
<b>Change in Fiduciary Net Position</b>	(772)
<b>Fiduciary Net Position</b>	
Beginning of Year	31,960
End of Year	<u>\$ 31,188</u>

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### 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 supplemental information and precedes the financial statements.

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

*Reporting Entity* – In accordance with the criteria in Statement of Governmental Accounting Standard (“SGAS”) 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, 2021*

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**Note 2—Summary of significant accounting policies (continued)**

The Real Estate Foundation qualifies as a component unit of the Research Foundation. The *Statement of Net Position*, the *Statement of Revenues, Expenses, and Changes in Net Position*, and the *Statement of Cash Flows* of the Real Estate Foundation are shown using a blended presentation with the Research Foundation as required by government accounting standards.

These statements are the primary financial statements of the Research Foundation. Separately issued comparative financial statements for the Real Estate Foundation may be obtained at the following address: UGA Real Estate Foundation, Inc., c/o Finance Division, 324 Business Services Building, 456 E. Broad Street, Athens, GA 30602.

*Basis of Accounting* – For financial reporting purposes, the Foundations are considered special-purpose government entities engaged only in business-type activities. Accordingly, the Foundations' financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

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

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

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

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

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

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

*JUNE 30, 2021*

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**Note 2—Summary of significant accounting policies (continued)**

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

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

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

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

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

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

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

*JUNE 30, 2021*

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**Note 2—Summary of significant accounting policies (continued)**

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

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

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

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

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, 2021

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### **Note 2—Summary of significant accounting policies (continued)**

Rental income is recognized when earned and collectability of the associated receivable is reasonably assured. Rental income consists of the repair and replacement portion of the total capital lease payment and is recognized on a monthly basis in accordance with the related lease agreement.

Capital lease interest income is recorded per the related capital lease amortization schedule simultaneously with the rental income described above. Amounts are offset by rebates to the University related to savings realized by the Real Estate Foundation due to advance refunding of bonds payable.

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

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

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

*Future Accounting Pronouncements* – SGAS No. 87, *Leases*, was issued in June 2017. The standard requires lessors to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. This standard will be effective for the year ending June 30, 2022. The Foundations are currently in the process of evaluating the impact of this adoption on the financials statement.

### **Note 3—Deposits and investments**

#### **A. Deposits**

At June 30, 2021, 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 \$46,797,209.

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

*JUNE 30, 2021*

**Note 3—Deposits and investments (continued)**

**A. Deposits (continued)**

Custodial Credit Risk

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

As of June 30, 2021, the bank balance of the Foundations' deposits is presented below by category of risk.

	<b>FDIC Insured</b>	<b>Collateralized by U.S. Securities</b>	<b>Uninsured and Uncollateralized</b>	<b>Total</b>
Checking Accounts	\$ 250,000	\$ -	\$ 109,235	\$ 359,235
Cash Held in Investments	-	-	8,109,022	8,109,022
Funds Held by Trustee	-	-	38,328,952	38,328,952
Total Deposits	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 46,547,209</u>	<u>\$ 46,797,209</u>

The funds held in "Checking Accounts" includes \$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.

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, 2021, the Foundations' deposits decreased by \$1,829 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 \$76,875 as of June 30, 2021.

**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, 2021, investments held by UGAF included fixed-income mutual funds in the amount of \$6,544,679.

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

*JUNE 30, 2021*

**Note 3—Deposits and investments (continued)**

**B. Investments (continued)**

The Foundations' investments at June 30, 2021, 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>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>
<b><u>Debt Securities</u></b>					
U.S. Treasuries	\$ 5,006,819	\$ 756,166	\$ 2,486,761	\$ 1,148,662	\$ 615,230
Corporate Debt	6,604,095	900,271	3,183,917	1,822,399	697,508
Municipal Debt	100,929	5,100	10,382	43,436	42,011
Repurchase Agreements	14,871,342	14,871,342	-	-	-
Repurchase Agreements Held by Trustee	5,765,025	-	-	-	5,765,025
	<u>32,348,210</u>	<u>\$ 16,532,879</u>	<u>\$ 5,681,060</u>	<u>\$ 3,014,497</u>	<u>\$ 7,119,774</u>
<b><u>Other Investments</u></b>					
Equity Mutual Funds - Domestic	23,836,137				
Equity Mutual Funds - International	6,722,304				
Commodity Futures ETF	2,964,216				
Equity Securities - Domestic	134,424				
Managed Futures / Hedge Funds	952,892				
Mutual Funds Held by UGAF	6,544,679				
Board of Regents Short-term Fund	<u>7,913,112</u>				
Total Investments	<u>\$ 81,415,974</u>				

Repurchase agreements of \$7,384,000 held by the Research Foundation are included in Cash and Cash Equivalents on the statement of net position. Repurchase agreements held by the Real Estate Foundation of \$7,487,341 and the Board of Regents Short-term Fund are included in Cash and Cash Equivalents on the statement of net position. Real Estate Foundation repurchase agreements held by the trustee of \$5,765,025 are included in Bond Proceeds Restricted for Construction 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, 2021, \$32,482,634 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, 2021

**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, 2021, are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

<u>Quality Ratings</u>	<u>Total</u>	<u>Rated Investments</u>			
		<u>U.S. Agencies</u>	<u>Corporate and Municipal Bonds</u>	<u>Mutual Funds and Commodity Futures ETF</u>	<u>Repurchase Agreements</u>
<b>Moody's</b>					
Aaa	\$ 8,725,093	\$ 2,626,174	\$ 333,894	\$ -	\$ 5,765,025
Aa1	112,613	-	112,613	-	-
Aa3	688,671	-	688,671	-	-
A1	673,541	-	673,541	-	-
A2	2,457,571	-	2,457,571	-	-
A3	191,830	-	191,830	-	-
Baa1	1,145,708	-	1,145,708	-	-
Baa2	599,441	-	599,441	-	-
Baa3	160,215	-	160,215	-	-
<b>Standard &amp; Poor's</b>					
A-	268,636	-	268,636	-	-
BBB+	39,357	-	39,357	-	-
BBB	33,547	-	33,547	-	-
<b>Morningstar</b>					
5-Star	7,062,320	-	-	7,062,320	-
4-Star	14,781,768	-	-	14,781,768	-
3-Star	8,075,888	-	-	8,075,888	-
2-Star	2,418,388	-	-	2,418,388	-
1-Star	652,273	-	-	652,273	-
<b>Unrated</b>	21,948,041	-	-	7,076,699	14,871,342
	70,034,901	<u>\$ 2,626,174</u>	<u>\$ 6,705,024</u>	<u>\$ 40,067,336</u>	<u>\$ 20,636,367</u>
<b>Exempt Investments</b>					
U. S. Treasuries	2,380,645				
Equity Securities - Domestic	134,424				
Managed Futures/Hedge Funds	952,892				
Board of Regents Short-term Fund	7,913,112				
Total Investments	<u>\$ 81,415,974</u>				

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### 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, 2021, investments and repurchase agreement-underlying securities in a single issuer where those investments are 5% or more of total investments were as follows:

Federal Home Loan Mortgage Corporation	17%
Federal Home Loan Bank	6%

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

#### Foreign Currency Risk

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

### Note 4—Other investments – cost method

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



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

*JUNE 30, 2021*

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**Note 4—Other investments – cost method (continued)**

During fiscal year 2021, the Research Foundation made total contributions of \$83,214.

A fair value is not estimated for the investment. At June 30, 2021, the Research Foundation recognized its share of losses incurred by the GRA Fund amounting to \$59,272. 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	\$	346,505
2015 commitment		498,388
	\$	<u>844,893</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, 2021

**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, 2021.

	Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
<b>Investments by Fair Value Level</b>				
<b>Equity Securities</b>				
Stocks (by sector)				
Health Care	\$ 134,424	\$ -	\$ -	\$ 134,424
Commodity Futures ETF	2,964,216	-	-	2,964,216
Mutual Funds				
Domestic	23,836,137	-	-	23,836,137
International	6,722,304	-	-	6,722,304
Total Equities	33,657,081	-	-	33,657,081
<b>Investment Pools</b>				
Board of Regents Short-term Fund	-	7,913,112	-	7,913,112
Total Investment Pools	-	7,913,112	-	7,913,112
<b>Fixed Income</b>				
U. S. Treasury	-	5,006,819	-	5,006,819
Bonds				
Corporate	-	6,604,095	-	6,604,095
Municipal	-	100,929	-	100,929
Mutual Funds Held by UGAF	6,544,679	-	-	6,544,679
Total Fixed Income	6,544,679	11,711,843	-	18,256,522
<b>Investments Measured at Net Asset Value <sup>(*)</sup></b>				
Multi-Strategy Hedge Funds	-	-	-	371,713
Business Development Company	-	-	-	581,179
Total Investments Measured at Net Asset Value <sup>(*)</sup>	-	-	-	952,892
<b>Total Investments, Recurring Basis</b>	<b>\$ 40,201,760</b>	<b>\$ 19,624,955</b>	<b>\$ -</b>	<b>\$ 60,779,607</b>

(\*) 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, 2021

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

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

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Funds <sup>(a)</sup>	\$ 371,713	\$ -	Quarterly	65 days
Business Development Company <sup>(b)</sup>	581,179	-	None	N/A
	<u>\$ 952,892</u>	<u>\$ -</u>		

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

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

**Note 6—Restricted and Real Estate Board designated assets**

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

Restricted for:	
Debt Service	\$ 7,971,458
Construction	33,117,399
Designated for:	
Future Repairs and Replacements of Real Property	<u>3,005,120</u>
Total Restricted and Designated	<u>\$ 44,093,977</u>

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

Operating Funds Held by Trustee	\$ 3,005,120
Bond Proceeds Restricted for Debt Service	<u>41,088,857</u>
Total Restricted and Designated	<u>\$ 44,093,977</u>

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

*JUNE 30, 2021*

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

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

	<u>Research Foundation</u>	<u>Real Estate Foundation</u>	<u>Total</u>
Designated for:			
Debt Service	\$ -	\$ 3,247,172	\$ 3,247,172
Future Repairs and Replacements of Real Property	-	8,591,274	8,591,274
General Operations of the Real Estate Foundation	-	400,000	400,000
Total Designated	-	12,238,446	12,238,446
Undesignated Cash and Cash Equivalents	15,367,300	3,236,984	18,604,284
Total Cash and Cash Equivalents	<u>\$ 15,367,300</u>	<u>\$ 15,475,430</u>	<u>\$ 30,842,730</u>

**Note 7—Capital leases receivable**

The Real Estate Foundation has entered into multiple 20 to 30-year capital lease agreements (1-year leases with annual renewals) with the Board of Regents to occupy the Real Estate Foundation's facilities. On June 26, 2020, the Real Estate Foundation and the Board of Regents amended certain lease agreements to defer lease payments from March 2020 through June 2020 (see Note 12). Interest income accrued on the capital leases receivable during the deferral was received during Fiscal 2021. The deferred payments are scheduled to be received in Fiscal 2022. The adjustment had no impact on the total payments to be received over the life of the leases. Lease payments are due monthly. At the end of the lease term, ownership of the leased facilities will be transferred to the Board of Regents.

As of June 30, 2021, net capital leases receivable was \$195,832,290. This amount includes future minimum lease payments to be received of \$285,760,473 of which \$89,928,183 is unearned interest. As of June 30, 2020, interest earned on capital leases receivables in excess of the payment amounts was \$2,680,514 and was recorded as a current receivable on the statements of net position. This amount was received in Fiscal 2021.

As of June 30, 2021, lease payments are receivable as follows:

2022	\$ 21,980,665
2023	17,492,032
2024	17,469,432
2025	17,455,940
2026	17,431,600
2027 - 2031	86,727,892
2032 - 2036	70,945,190
2037 - 2041	32,108,593
2042 - 2044	4,149,129
Total Payments to be Received	285,760,473
Less Amounts Representing Interest	(89,928,183)
Total Leases Receivable	195,832,290
Less Current Portion	(12,673,029)
Noncurrent Leases Receivable	<u>\$ 183,159,261</u>

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

*JUNE 30, 2021*

**Note 8—Capital assets**

Capital assets consisted of the following:

	<b>Balance at June 30, 2020</b>	<b>Additions</b>	<b>Disposals and Reclasses</b>	<b>Balance at June 30, 2021</b>
Capital assets not being depreciated				
Land	\$ 26,856,022	\$ -	\$ -	\$ 26,856,022
Construction in-progress	36,226	14,951,395	-	14,987,621
Easement	1,835,296	-	-	1,835,296
Total capital assets not being depreciated	28,727,544	14,951,395	-	43,678,939
Capital assets being depreciated				
Furniture and equipment	197,392	-	-	197,392
Less accumulated depreciation	(197,392)	-	-	(197,392)
Library repository building	1,142,307	-	-	1,142,307
Less accumulated depreciation	(1,142,307)	-	-	(1,142,307)
Other buildings and improvements	3,179,498	-	-	3,179,498
Less accumulated depreciation	(1,690,751)	(114,323)	-	(1,805,074)
Total capital assets being depreciated, net	1,488,747	(114,323)	-	1,374,424
Capital assets - net	<u>\$ 30,216,291</u>	<u>\$ 14,837,072</u>	<u>\$ -</u>	<u>\$ 45,053,363</u>

**Note 9—Long-term debt**

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

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

*JUNE 30, 2021*

**Note 9—Long-term debt (continued)**

At June 30, 2021, 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.

<b>Revenue Bonds</b>	<b>Original Issue Amount</b>	<b>Interest Rates</b>	<b>Maturing Through Year</b>	<b>Outstanding Balance 2021</b>
Bolton Entity, Series 2013	\$ 24,400,000	3.00% - 5.00%	2044	\$ 17,585,000
Central Precinct Entity, Series 2016	54,025,000	2.00% - 5.00%	2038	44,660,000
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	59,065,000
EC Housing Phase II Entity, Series 2017	44,630,000	3.00% - 5.00%	2040	38,705,000
Fraternity Row Entity, Series 2017	12,665,000	1.05% - 4.45%	2039	10,595,000
PAC Entity, Series 2017	15,215,000	2.00% - 5.00%	2039	13,100,000
Rutherford Entity, Series 2012	21,910,000	2.00% - 5.00%	2033	10,560,000
				<u>\$ 233,240,000</u>

***New revenue bonds***

***Central Housing I Entity***

On December 9, 2020, the Housing Authority issued Revenue Bonds (UGAREF Central Precinct Housing Phase I, LLC Project), Tax-Exempt Series 2020 (the "Central Housing I Entity Bonds") and entered into an agreement (the "Central Housing I Entity Loan Agreement") to loan \$38,970,000 to the Central Housing I Entity. The Central Housing I Entity is using the proceeds of this loan to fund construction of a residence hall. The facility is reported as construction in progress as of June 30, 2021.

***Defeasance and refunding of revenue bonds***

***CCRC Entity***

On June 15, 2021, the Development Authority entered into an agreement with the CCRC Entity to early extinguish \$21,615,000 of outstanding 2011 CCRC Entity Bonds with interest rates ranging from 3.25% to 5.25% pursuant to the transfer of the CCRC Entity's research facility to the University.

A portion of the proceeds received from the University in the net amount of \$17,475,364 (after payment of \$32,525 in extinguishment costs) plus an additional \$4,585,943 of CCRC Entity residual funds were transferred into an irrevocable trust with an escrow agent and used to purchase U.S. government securities. Those securities are to provide for all future debt service payments on the extinguished portion of the 2011 CCRC Entity Bonds. As a result, \$21,615,000 of outstanding 2011 CCRC Entity Bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position for the year ended June 30, 2021. The related \$789,208 of 2011 CCRC Entity Bond deferred loss on refunding has been removed from the statement of net position for the year ended June 30, 2021.

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 \$6,176,305. This difference has been recorded as a \$5,155,015 ordinary loss on early termination of capital lease and a \$1,021,290 ordinary loss on debt extinguishment during the year ended June 30, 2021. The CCRC Entity completed the early extinguishment in order to repay the 2011 CCRC Entity Bonds, to transfer the research facility to the University, and to reduce its total debt service payments on the 2011 CCRC Entity Bonds over the next 12 years by \$844,319. The resulting economic gain (difference between the present value of the extinguished debt and the cash amount transferred to escrow) is \$797,616 using an effective interest rate of .03%

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

JUNE 30, 2021

**Note 9—Long-term debt (continued)**

***Real Estate Foundation – Bonds Payable***

The bonds payable agreements require the Real Estate Foundation to meet certain covenants. At June 30, 2021, the Real Estate Foundation was not aware of any violations of the covenants.

Following is a summary as of June 30, 2021, 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:

	<b>Principal</b>	<b>Interest</b>
2022	\$ 9,390,000	\$ 8,481,795
2023	10,380,000	8,164,527
2024	10,715,000	7,805,829
2025	11,045,000	7,425,785
2026	11,395,000	7,048,780
2027 - 2031	63,460,000	28,412,635
2032 - 2036	60,995,000	15,900,954
2037 - 2041	33,370,000	6,807,755
2042 - 2046	11,375,000	2,724,750
2047 - 2051	9,125,000	1,237,250
2052	1,990,000	79,600
	<u>\$ 233,240,000</u>	<u>\$ 94,089,660</u>

Changes in long-term debt for the fiscal year ended June 30, 2021 are shown below:

	<b>Balance at June 30, 2020</b>	<b>Additions</b>	<b>Disposals and Reductions</b>	<b>Balance at June 30, 2021</b>	<b>Current Portion</b>
Bonds Payable	\$ 226,460,000	\$ 38,970,000	\$ (32,190,000)	\$ 233,240,000	\$ 9,390,000
Net Premium (Discount)	9,717,559	4,486,458	(1,297,939)	12,906,078	-
<b>Total Long-term Debt</b>	<u>\$ 236,177,559</u>	<u>\$ 43,456,458</u>	<u>\$ (33,487,939)</u>	<u>\$ 246,146,078</u>	<u>\$ 9,390,000</u>

A summary of the components of interest cost for the year ended June 30, 2021 is as follows:

	<b>Interest Expensed 2021</b>
Interest Cost	
Interest Expense	\$ 9,079,513
Amortization of Premiums, Discounts, and Deferred Loss	(129,311)
Cost of Issuance	631,612
Fees	268,565
<b>Total Interest Cost</b>	<u>\$ 9,850,379</u>

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

### Note 10—Line of credit

**\$25,000,000 Revolving Credit Agreement Fiscal 2019** – In November 2018, the Real Estate Foundation entered into a 25 million revolving credit agreement with a bank, for a five-year term to expire on November 30, 2023. Credit available under the revolving credit agreement is reduced by outstanding borrowings. As of June 30, 2021, amounts outstanding and issued under this agreement include borrowings of \$14,041,222, resulting in \$10,958,778 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day London Interbank Offered Rate plus 48.0 basis points (or 0.48%). At June 30, 2021, the rate applicable to the borrowings was 0.57%. 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, 2021, the Real Estate Foundation was not aware of any violations of the covenants.

### Note 11—Operating leases

The Real Estate Foundation is a lessee under an amended multiyear operating lease for University education facilities at Live Oak Square, Atlanta, Georgia, that expires on August 31, 2024, with escalating rents. The Real Estate Foundation recognizes rent for this agreement on a straight-line basis. A straight-line lease liability of \$568,707, as of June 30, 2021, is included in liabilities. For the year ended June 30, 2021, rent expense was \$1,039,957 and includes additional rents to cover operating expenses of the education facility.

The Real Estate Foundation is a lessee under a multiyear operating lease for University education facilities at Gwinnett Intellicenter, Duluth, Georgia, that expires on April 30, 2027, with escalating rents. The Real Estate Foundation recognizes rent for this agreement on a straight-line basis. A straight-line lease liability of \$1,113,781, as of June 30, 2021, is included in liabilities. For the year ended June 30, 2021, rent expense was \$1,543,709 and includes additional rents to cover operating expenses of the education facility.

The following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2021, that have initial or remaining non-cancelable lease terms in excess of one year:

#### Years Ending June 30,

2022	\$ 2,744,766
2023	2,823,101
2024	2,903,734
2025	1,948,926
2026	1,794,900
2027	1,532,600
	<u>\$ 13,748,027</u>

### Note 12—Related party transactions

On July 23, 1991, the Research Foundation purchased a library storage facility and approximately four acres of land for approximately \$1.2 million and subsequently leased the 38,000 square-foot facility to the University. The lease is renewable annually, at the University's option, through June 30, 2025. The monthly rental for this lease agreement is \$6,275. The lease rental for the year ended June 30, 2021 was \$75,300. The library storage facility was being depreciated over 25 years and became fully depreciated during fiscal year 2016.



# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### **Note 12—Related party transactions (continued)**

The Research Foundation receives reimbursement from research sponsors for facilities and administrative (“F&A”) cost incurred. Of the total received, 78% is remitted to the University for reimbursement of F&A cost incurred by the University. Additionally, the Research Foundation remitted \$4,915,983 for the year ended June 30, 2021 to various departments of the University for F&A cost they incurred in the support of research.

In addition to the \$3,866,487 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 2021, \$9,073,498 of license and royalties revenue was distributed of which \$4,049,223 was paid to the University to support inventor’s research and departmental research programs, and the Plant Cultivar program.

The Real Estate Foundation leases real property to the Board of Regents under both operating and capital leases, including space subleased under operating leases to the Board of Regents. The Real Estate Foundation also has one-year licensing agreements with the Board of Regents which provides for the operation of parking lots by the Board of Regents on the Real Estate Foundation’s land located on Oconee Street in Athens, Georgia, in exchange for a fee adjusted at the end of the term to reflect actual costs incurred. For the year ended June 30, 2021, the amounts reported as Rental Income and Capital Lease Interest Income in the statement of revenues, expenses, and changes in net position consist of revenue earned through lease agreements. The lease agreements with the Board of Regents are the primary source of revenue for the Real Estate Foundation, which constitutes a concentration of credit risk.

Additionally, the lease agreements provide that certain amounts paid by the Real Estate Foundation be reimbursed by the Board of Regents. Amounts reimbursed are primarily insurance and property taxes. For the year ended June 30, 2021, the expenses which were paid by the Real Estate Foundation and reimbursed by the University are reported as Receipts for Payments Reimbursable by the University and Affiliates and Payments Reimbursable by the University and Affiliates in the statement of cash flows.

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

The Real Estate Foundation has entered into an administrative services agreement with the University whereby the University provides project management, accounting, and other administrative services, as well as provisions for office space, maintenance, and utilities to be provided by the University to the Real Estate Foundation. During the year ended June 30, 2021, the Real Estate Foundation paid \$383,118 to the University under the terms of that agreement. The administrative services agreement is renewable on an annual basis.

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

# UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### **Note 13—Significant funding sources**

For the fiscal year ended June 30, 2021, approximately \$147,000,000 (81%) of the Research Foundation's total federal expenditures and support were awarded by three (3) agencies of the United States government. Changes in governmental spending could have a significant impact on the operations of the Research Foundation.

### **Note 14—Commitments and contingencies**

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

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

The Georgia legislature passed legislation establishing the GRA Fund. The fund provides seed and early stage venture financing for businesses formed around intellectual property resulting from GRA universities. The Research Foundation committed a total of \$1,000,000 at \$200,000 per year for five years beginning in fiscal year 2009. During fiscal year 2021, \$7,983 was requested and transferred to the GRA Fund. As of June 30, 2021, the Research Foundation's remaining commitment is \$85,982. 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 2021, \$75,231 was requested and transferred to the GRA Fund. As of June 30, 2021, the Research Foundation's remaining commitment is \$328,154.

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

Annual commitments totaling approximately \$763,000 exist to support general operating costs of the Georgia Advanced Computing Resource Center, the Coverdell and Riverbend buildings, to provide access dues to research computing resources, and support for the Animal Health Research Center.

The Research Foundation established the Special Research Hiring Initiative in fiscal year 2014 and the President's Extraordinary Research Faculty Hiring Initiative in fiscal year 2015. The fiscal year 2021 commitment for these initiatives is budgeted at approximately \$275,000.

### **Note 15—Risks and uncertainties**

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Georgia Research Foundation, Inc. (the "Research Foundation"), an affiliate of the University of Georgia, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, as of and for the year ended June 30, 2021, 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 28, 2021.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Research Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Augusta, Georgia  
September 28, 2021