UGAREF CCRC BUILDING, LLC

Financial Statements
for the Years Ended
June 30, 2016 and 2015

UGAREF CCRC BUILDING, LLC

Contents

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Report of Independent Auditors

Board of Trustees of the UGA Real Estate Foundation, Inc.:

Report on Financial Statements

We have audited the accompanying statements of net position of UGAREF CCRC Building, LLC (the "CCRC Entity"), an affiliated organization of UGA Real Estate Foundation, Inc. as of June 30, 2016 and 2015 and the related statements of revenues, expenses and changes in net position, statements of cash flows, and the notes to the financial statements for the years then ended, which collectively comprise the CCRC Entity's basic financial statements as listed in the table of contents.

The accompanying financial statements have been prepared from the separate records maintained by the CCRC Entity and may not necessarily be indicative of the conditions that would have existed or the changes in its net position if the CCRC Entity had been operated as an unaffiliated organization.

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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CCRC Entity as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplemental Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2016 on our consideration of the CCRC Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 CCRC Entity's control over financial reporting.

Trinity Accounting Group, P.C.

Athens, Georgia

August 31, 2016

UGAREF CCRC BUILDING, LLC

Statements of Net Position

June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 2,978,894	$ 2,209,955
Capital Lease Receivable, current portion	1,249,091	765,695
Total Current Assets	4,227,985	2,975,650
Noncurrent Assets		
Capital Lease Receivable, noncurrent portion	28,104,384	29,353,475
Total Noncurrent Assets	28,104,384	29,353,475
Total Assets	32,332,369	32,329,125
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refundings	1,129,483	1,198,109
LIABILITIES		
Current Liabilities		
Accounts Payable	40,852	-
Accrued Interest Payable	45,316	47,291
Advance Rent Receipts	28,333	3,333
Advance Lease Payment Receipts	196,067	260,856
Bonds Payable, current portion	1,215,000	1,185,000
Total Current Liabilities	1,525,568	1,496,480
Noncurrent Liabilities		
Bonds Payable, noncurrent portion	26,840,000	28,055,000
Premium on Bonds Payable	465,174	515,940
Total Noncurrent Liabilities	27,305,174	28,570,940
Total Liabilities	28,830,742	30,067,420
NET POSITION		
Unrestricted	4,631,110	3,459,814
Total Net Position	$ 4,631,110	$ 3,459,814

See independent auditors' report and notes to financial statements.

UGAREF CCRC BUILDING, LLC

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Rental Income	$ 40,000	$ 40,000
Capital Lease Interest Income	2,164,576	2,222,850
Total Operating Revenues	2,204,576	2,262,850
Operating Expenses		
Project Expenses		
Legal and Accounting	62,326	5,842
Management Fees	240,000	240,000
Other Expenses	50	51
Total Operating Expenses	302,376	245,893
Operating Income	1,902,200	2,016,957
Nonoperating Revenues (Expenses)		
Investment Income	7,608	217
Interest Expense, net	(1,134,111)	(1,170,294)
Total Nonoperating Revenues (Expenses)	(1,126,503)	(1,170,077)
Change in Net Position	**775,697**	**846,880**
Net Position		
Beginning of Year	3,459,814	2,612,934
Captial Received from Related Party	395,599	-
End of Year	$ 4,631,110	$ 3,459,814

See independent auditors' report and notes to financial statements.

UGAREF CCRC BUILDING, LLC

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Receipts from Rental Income	$ 65,000	$ 40,000
Receipts of Principal on Capital Lease	806,451	712,103
Receipts of Interest on Capital Lease	2,059,031	2,218,168
Receipts for Payments Reimbursable by the University	48,334	46,979
Payments of Management Fees	(240,000)	(240,000)
Payments to Suppliers of Goods and Services	(24,524)	(5,893)
Payments Reimbursable by the University	(48,334)	(46,979)
Net Cash Provided by Operating Activities	2,665,958	2,724,378
Cash Flows from Investing Activities		
Investment Income	7,608	217
Net Cash Provided by Investing Activities	7,608	217
Cash Flows from Noncapital Financing Activities		
Capital Received from Related Party	395,599	-
Net Cash Provided by Noncapital Financing Activities	395,599	-
Cash Flows from Capital and Related Financing Activities		
Interest Payments on Long-Term Debt	(1,115,226)	(1,155,973)
Principal Repayment on Bonds Payable	(1,185,000)	(1,140,000)
Net Cash Used in Capital and Related Financing Activities	(2,300,226)	(2,295,973)
Net Increase in Cash and Cash Equivalents	**768,939**	**428,622**
Cash and Cash Equivalents		
Beginning of Year	2,209,955	1,781,333
End of Year	$ 2,978,894	$ 2,209,955
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$ 1,902,200	$ 2,016,957
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Receipts of Principal on Capital Lease	806,451	712,103
Changes in Assets and Liabilities		
Accounts Payable	37,852	-
Advance Rent Receipts Liabilities	25,000	-
Advance Lease Payment Receipts Liabilities	(105,545)	(4,682)
Net Cash Provided by Operating Activities	$ 2,665,958	$ 2,724,378

See independent auditors' report and notes to financial statements.

UGAREF CCRC BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 1 – Organization

UGAREF CCRC Building, LLC (the "CCRC Entity") is a single-member limited liability company created in 2002 by the UGA Real Estate Foundation, Inc. (the "Real Estate Foundation"). The purpose of the CCRC Entity includes the construction, financing and leasing of a research facility in Athens, Georgia to benefit the University of Georgia (the "University"), which is governed by the Board of Regents of the University System of Georgia (the "Board of Regents"). Since September 2003, the facility has been complete and under lease with the Board of Regents.

The Real Estate Foundation 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 for the purpose of managing and improving various real estate assets for the benefit of the University and may also provide support to the Board of Regents and colleges and universities of the University System of Georgia.

The Real Estate Foundation's sole member is the University of Georgia Research Foundation, Inc. (the "Research Foundation"). The Real Estate Foundation operates under a cooperative organization agreement with the Board of Regents.

The Research Foundation was incorporated under the laws of the state of Georgia as a nonprofit corporation in 1978 and qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The Research Foundation is a cooperative organization serving the University and is organized to fulfill broad scientific, literary, educational and charitable purposes and operates to enhance the three-pronged mission of the University of teaching, research, and public service. The Research Foundation contributes heavily 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, development, education, or other programs in the various University colleges, schools, departments, and other units of the University.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The CCRC Entity's 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 Statements of Governmental Accounting Standards ("SGAS") are issued by GASB. The information included within the accompanying financial statements may not necessarily be indicative of the conditions that would have existed or the changes in its net position if the CCRC Entity had been operated as an organization not affiliated with the Real Estate Foundation.

The financial statement presentation provides a comprehensive, entity-wide perspective of the CCRC Entity's assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

Note 2 – Summary of Significant Accounting Policies (Continued)

Reporting Entity

In accordance with the criteria in SGAS No. 61, *The Financial Reporting Entity,* the Research Foundation is a legally separate, tax exempt organization whose activities primarily support the University, a unit of the University System of Georgia (an organization unit of the state of Georgia). The Research Foundation is considered an affiliated organization of the University and due to its financial significance, the Research Foundation's financial activities are included in the University and University System of Georgia's reports. The State Accounting Office determined component units of the state of Georgia, as required by SGAS No. 61, should not be assessed in relation to their significance to the University. Accordingly, the Research Foundation qualifies for treatment as a component unit of the state of Georgia.

The Real Estate Foundation qualifies as a component unit of the Research Foundation. The statements of the Real Estate Foundation are reported discretely in the Research Foundation's financial statements. The Real Estate Foundation is the sole member of a number of limited liability companies, including the CCRC Entity, which effectively carry out the operations of the Real Estate Foundation. Therefore, the Real Estate Foundation and all its limited liability companies are shown using a blended presentation; that is, the activity of the CCRC Entity is shown in the same column with the activity of the Real Estate Foundation and all its other limited liability companies. SGAS No. 35, *Basic Financial Statements and Managements' Discussion and Analysis for Public Colleges and Universities,* requires a presentation of Management's Discussion and Analysis ("MD&A"). The MD&A is considered to be required supplemental information. MD&A related to the CCRC Entity is presented with and precedes the financial statements of the Real Estate Foundation.

Complete financial statements of the Real Estate Foundation may be obtained at the Real Estate Foundation's administrative office. The address is as follows:

UGA Real Estate Foundation, Inc.
c/o Controller's Office
324 Business Services Building
456 E. Broad Street
Athens, GA 30602

Basis of Accounting

The CCRC Entity's financial statements have been presented using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents
The CCRC Entity considers 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. All other short-term investments, which consist of money markets, certificates of deposit, and non-participating repurchase agreements, are carried at cost. Balances may at times exceed federally insured limits.

The Board of Trustees of the Real Estate Foundation has designated certain cash balances to fund future obligations. As of June 30, 2016 and 2015, the cash amounts include $799,381 and $785,831, respectively, reserved for debt service, and $2,034,599 and $1,274,000, respectively, reserved for future repairs and replacement of real property.

Investments
In accordance with SGAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* the CCRC Entity is 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.

Capital Lease Receivable
The CCRC Entity 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 CCRC Entity focuses on the following aspects: a) transfer of ownership of the asset to the lessee at the end of the lease term; b) existence of a bargain purchase option held by the lessee; c) whether the lease term is for the major part of the economic life of the asset; and d) whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease term. If one or more of the conditions are met, the lease is generally classified as a capital lease. The initial recording of the capital lease receivable is made on the day the real property is placed in service, with a corresponding entry to remove the capital asset using the lesser of the net present value of the lease payments or the fair value of the leased property. Capital leases are amortized over the term of the lease using the effective interest rate – the implicit rate that exactly discounts estimated future cash receipts through the expected life of the lease. Lease payments are allocated between the principal and interest components. Capital lease receivables 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. As of June 30, 2016 and 2015, the CCRC Entity had no capital assets.

Note 2 – Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In accordance with SGAS No. 65, *Items Previously Reported as Assets and Liabilities* , the statements of net position report 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 CCRC Entity’s deferred loss on refunding qualifies for reporting in this category. The deferred loss on refunding 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 statements 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 CCRC Entity does not have any item that qualifies for reporting in this category.

For each of the years ended June 30, 2016 and 2015, the CCRC Entity recognized interest expense related to the deferred loss on refunding of $68,627 resulting in deferred loss accumulated amortization of $311,680 and $243,053, respectively.

Bonds Payable

The CCRC Entity records the net proceeds of tax-exempt bond financing as a liability upon issuance. Bond proceeds consist of the par value of the bonds issued plus premiums. Bond premiums are amortized to interest expense using the effective interest method.

Net Position

As of June 30, 2016 and 2015, the CCRC Entity’s net position of $4,631,110 and $3,459,814, respectively, is unrestricted. Unrestricted net position is not subject to donor or other stipulations imposed by outside sources.

Revenue Recognition

Rental income is recognized when earned and collectability of the associated receivable is reasonably assured. Rental income consists of the repair and replacement portion of the total capital lease payment and is recognized on a monthly basis in accordance with the related lease agreement. Advance rent receipts represent rental payments received but not yet earned.

Capital lease interest income is recorded per the related capital lease amortization schedule simultaneously with the rental income described above. During the years ended June 30, 2016 and 2015, amounts are offset by a rebate to the University related to savings realized by the CCRC Entity due to advanced refunding of bonds payable. Advance lease payment receipts represent both the interest and principal components of capital lease payments received but not yet earned.

Operating and Nonoperating Revenues and Expenses

The financial statements distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with maintaining and leasing real property – the CCRC Entity’s principal activity. Nonexchange revenues, including investment income from sources other than capital leases, and net unrealized and realized gains and losses on investments are reported as nonoperating revenues. Interest and financing costs are reported as nonoperating expenses. Operating expenses are all expenses incurred to maintain and lease real property, other than financing costs.

Note 2 – Summary of Significant Accounting Policies (Continued)

Income Taxes
As a single-member limited liability company, the CCRC Entity is disregarded for income tax purposes. The CCRC Entity's operations are included in the U.S. Federal tax return of the Real Estate Foundation which is a nonprofit organization exempt from tax 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. The Internal Revenue Service has determined that the Real Estate Foundation is not a private foundation under Section 509(a) of the Code.

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

Implementation of New Accounting Pronouncements
During the year ended June 30, 2016, the Real Estate Foundation implemented SGAS No. 72, *Fair Value Measurement and Application.* SGAS No. 72 requires disclosures be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The implementation of SGAS No. 72 did not result in a change to the beginning net position of the CCRC Entity.

Note 3 – Deposits and Investments

A. Deposits

At June 30, 2016 and 2015, the bank value of the CCRC Entity's deposits, consisting of cash held in interest bearing checking accounts at financial institutions and cash equivalents held by trustees, was $0 .

Custodial Credit Risk
The custodial credit risk for deposits is the risk that in the event of a bank failure, the CCRC Entity's deposits may not be recovered. The CCRC Entity has no deposit policy for custodial credit risk.

The CCRC Entity places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts. The CCRC Entity from time to time may have amounts on deposit in excess of the insured limits.

B. Investments

The CCRC Entity follows the Real Estate Foundation's investment policy which establishes objectives, specifies allowable investments, sets target investment mixes, and provides investment guidelines.

As of June 30, 2016 and 2015, the CCRC Entity held investments of $2,978,894 and $2,209,955, respectively.

Note 3 – Deposits and Investments (Continued)

B. Investments (Continued)

The CCRC Entity's investments as of June 30, 2016, are presented below. All investments are presented by investment type and debt securities are presented by maturity.

June 30, 2016 Investment Type	Total	Investment Maturity Less Than 1 Year
Debt Securities		
Repurchase Agreements	$ 961,868	$ 961,868
Investment Pools		
Board of Regents Short-term Fund	2,017,026	
Total Investments	$ 2,978,894	

Repurchase agreements and the Board of Regents Short-term Fund are included in cash and cash equivalents on the statements of net position.

The Board of Regents Investment Pool 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 web site at http://www.audits.ga.gov.

The CCRC Entity's investments as of June 30, 2015, are presented below. All investments are presented by investment type and debt securities are presented by maturity.

June 30, 2015 Investment Type	Total	Investment Maturity Less Than 1 Year
Debt Securities		
Repurchase Agreements	$ 2,209,955	$ 2,209,955
Total Investments	$ 2,209,955	$ 2,209,955

Repurchase agreements are included in cash and cash equivalents on the statements of net position.

Note 3 – Deposits and Investments (Continued)

B. Investments (Continued)

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 CCRC Entity's policy for managing interest rate risk is to invest primarily in short-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 CCRC Entity will not be able to recover the value of the investment. The CCRC Entity does not have a formal policy for managing custodial credit risk for investments.

Credit Quality Risk
Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The CCRC Entity's policy for managing credit quality risk is to invest primarily in U.S. treasury obligations or securities backed by the U.S. government.

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 CCRC Entity's policy for managing concentration of credit risk is to invest primarily in U.S. treasury obligations or securities backed by the U.S. government.

Note 4 – Fair Value Measurements of Assets and Liabilities

The Real Estate Foundation has adopted SGAS No. 72, *Fair Value Measurement 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. The CCRC Entity, to the extent that it holds such investments, does not adjust the quoted price for these investments.

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 investment 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.

Note 4 – Fair Value Measurements of Assets and Liabilities (Continued)

The table below summarizes the valuation of the CCRC Entity's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016, based on the level of input utilized to measure fair value.

Measurement at fair value on a recurring basis:

June 30, 2016	**Fair Value Measurement**	
Investments	**Total**	**Level 2**
Fixed Income		
Investment Pool		
Board of Regents Short-term Fund	$ 2,017,026	$ 2,017,026
Total Investments, Recurring Basis	$ 2,017,026	$ 2,017,026

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

Note 5 – Capital Lease Receivable

The CCRC Entity entered into a 30-year capital lease agreement (1 year lease with 29 annual renewals) with the Board of Regents to occupy the CCRC Entity's facility effective in 2003. Reflecting the savings of the advanced bond refunding on December 15, 2011, a Second Amendment to Rental Agreement was executed June 28, 2016, reducing the capital lease payments effective July 1, 2016. The final annual renewal period ends June 30, 2033. Lease payments are due monthly. At the end of the lease term, ownership of the leased facility will be transferred to the Board of Regents.

As of June 30, 2016 and 2015, capital lease receivables are $29,353,475 and $30,119,170, respectively. These amounts include future minimum lease payments to be received of $39,997,601 and $57,127,446 as of June 30, 2016 and 2015, respectively, of which $10,644,126 and $27,008,276, respectively, is unearned interest.

As of June 30, 2016, lease payments are receivable as follows:

2017	$ 2,352,800
2018	2,352,800
2019	2,352,800
2020	2,352,800
2021	2,352,800
2022 - 2026	11,764,000
2027 - 2031	11,764,000
2032 - 2033	4,705,601
Total Payments to be Received	39,997,601
Less Amounts Representing Interest	(10,644,126)
Total Lease Receivable	29,353,475
Less Current Portion	(1,249,091)
Noncurrent Lease Receivable	$ 28,104,384

Note 6 – Long-Term Debt

$39,155,000 Bond Issue

In 2002, the Development Authority of the Unified Government of Athens-Clarke County, Georgia (the “Development Authority”) issued $39,155,000 of Educational Facilities Revenue Bonds (UGAREF CCRC Building, LLC Project), Series 2002, (the “2002 CCRC Bonds”) and entered into an agreement (the “2002 CCRC Loan Agreement”) to loan $39,155,000 to the CCRC Entity. The CCRC Entity used the proceeds of this loan to fund construction of a research facility, which was placed in service in October 2003. The 2002 CCRC Bonds were redeemed in full on December 15, 2012.

On December 15, 2011, the Development Authority issued $32,580,000 in Revenue Refunding Bonds to advance refund $32,620,000 of outstanding 2002 CCRC Bonds (see the *$32,580,000 Bond Issue* below).

$32,580,000 Bond Issue

On December 15, 2011, the Development Authority issued $32,580,000 in Revenue Refunding Bonds (UGAREF CCRC Building, LLC Project), Series 2011 (the "2011 CCRC Bonds") with interest rates ranging from 2.0% to 5.25% and entered into an agreement (the "2011 CCRC Loan Agreement") with the CCRC Entity to advance refund $32,620,000 of outstanding 2002 Educational Facilities Revenue Bonds with interest rates ranging from 3.7% to 5.0%. Payment of principal and interest under the 2011 CCRC Bonds is secured by certain real property constituting a research facility and by the CCRC Entity’s interest in certain rents and leases derived from this facility.

The net proceeds of $32,899,567 plus an additional $1,245,143 of 2002 CCRC Bonds debt service reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent and funded all future debt service payments on the refunded 2002 CCRC Bonds. As a result, $32,620,000 of outstanding 2002 CCRC Bonds were considered to be defeased and the liability for those bonds was removed from the statement of net position during Fiscal 2012. The 2002 CCRC Bonds were redeemed in full on December 15, 2012.

The advance refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of $1,441,162. This difference, reported in the accompanying statements of net position as a deferred outflow of resources, is being charged to operations as interest expense through December 15, 2032, using the straight-line method. The CCRC Entity completed the advance refunding to reduce its total debt service payments through 2032 by $4,370,439 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,925,996 at an effective interest rate of 3.684%.

Borrowings under the 2011 CCRC Loan Agreement bear interest payable semiannually on December 15 and June 15. During the years ended June 30, 2016 and 2015, the CCRC Entity expensed all interest costs in connection with the 2011 CCRC Loan Agreement. Principal payments are due annually on December 15 and continue through December 15, 2032. During the years ended June 30, 2016 and 2015, the CCRC Entity made a principal payment of $1,185,000 and $1,140,000, respectively.

Note 6 – Long-Term Debt (Continued)

The bonds payable require the CCRC Entity to meet certain covenants. At June 30, 2016 and 2015, the CCRC Entity was not aware of any violations of the covenants.

The following is a summary as of June 30, 2016, of principal and interest payments for the face value of the bonds payable due during each of the next five years ending June 30 and every five years thereafter:

	Principal	Interest
2017	$ 1,215,000	$ 1,075,425
2018	1,250,000	1,044,525
2019	1,285,000	1,009,712
2020	1,320,000	973,850
2021	1,370,000	926,650
2022 - 2026	7,810,000	3,667,800
2027 - 2031	9,440,000	2,023,056
2032 - 2033	4,365,000	221,557
	$ 28,055,000	$ 10,942,575

Changes in long-term debt for the fiscal year ended June 30, 2016, are shown below:

	Balance at June 30, 2015	Additions	Disposals & Reductions	Balance at June 30, 2016	Current Portion
Bonds Payable	$ 29,240,000	$ -	$ (1,185,000)	$ 28,055,000	$ 1,215,000
Net Premium	515,940	-	(50,766)	465,174	-
Total Noncurrent Liabilities	$ 29,755,940	$ -	$ (1,235,766)	$ 28,520,174	$ 1,215,000

Changes in long-term debt for the fiscal year ended June 30, 2015, are shown below:

	Balance at June 30, 2014	Additions	Disposals & Reductions	Balance at June 30, 2015	Current Portion
Bonds Payable	$ 30,380,000	$ -	$ (1,140,000)	$ 29,240,000	$ 1,185,000
Net Premium	568,822	-	(52,882)	515,940	-
Total Noncurrent Liabilities	$ 30,948,822	$ -	$ (1,192,882)	$ 29,755,940	$ 1,185,000

Note 6 – Long-Term Debt (Continued)

A summary of total interest cost for the years ended June 30, 2016 and 2015, is as follows:

	2016	2015
Interest Expense	$ 1,109,300	$ 1,150,649
Premium Amortization	(50,766)	(52,882)
Deferred Loss Amortization	68,627	68,627
Fees	6,950	3,900
Total Interest Cost	$ 1,134,111	$ 1,170,294

Note 7 – Related Party Transactions

The CCRC Entity has leased the CCRC Entity's facility to the Board of Regents. Through June 30, 2016, the monthly lease payment was $264,189, which included a monthly repair and replacement component of $3,333. During the years ended June 30, 2016 and 2015, capital lease interest income of $2,164,576 and $2,222,850, respectively, capital lease principal of $765,695 and $707,421, respectively, and rental income of $40,000 and $40,000, respectively, were recorded under this lease agreement. Reflecting the savings of the advanced bond refunding on December 15, 2011, a Second Amendment to Rental Agreement was executed June 28, 2016, changing the monthly lease payment to $224,400, which includes a monthly repair and replacement component of $28,333, effective July 1, 2016. The lease agreement with the Board of Regents is the sole source of revenue for the CCRC Entity, which constitutes a concentration of credit risk, and is renewable on an annual basis until 2033 without rent increases.

The lease agreement provides that certain amounts paid by the CCRC Entity be reimbursed by the Board of Regents. During the years ended June 30, 2016 and 2015, these amounts were $48,334 and $46,979, respectively.

The CCRC Entity also leases the use of land from the Board of Regents where it has constructed property on Board of Regents' land. This ground lease is for a period of up to 3 years during construction and continues for 30 years after construction is complete for a base rental of $10 per year. Under the ground lease, 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 CCRC Entity signed an agreement with the Real Estate Foundation to pay for management services of $20,000 per month, with periods to coincide with the lease term. This agreement can be terminated by either party upon a 30 day written notice. During each of the years ended June 30, 2016 and 2015, the CCRC Entity paid $240,000 to the Real Estate Foundation for services related to this agreement.

During the year ended June 30, 2016, the CCRC Entity received a capital contribution from the Real Estate Foundation in the amount of $395,599 that was reserved for future repairs and replacement of real property.

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT 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 Board of Trustees
UGA Real Estate 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 UGAREF CCRC Building, LLC (the "CCRC Entity"), an affiliated organization of UGA Real Estate Foundation, Inc. as of and for the years ended June 30, 2016 and 2015 and have issued our report thereon dated August 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CCRC Entity'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CCRC Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of CCRC Entity's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CCRC Entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Trinity Accounting Group, P.C.

Athens, Georgia
August 31, 2016