

UGAREF O'MALLEY'S BUILDING, LLC

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

UGAREF O'MALLEY'S BUILDING, LLC

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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 O'Malley's Building, LLC (the "O'Malley's 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 O'Malley's 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 O'Malley's Entity and may not necessarily be indicative of the conditions that would have existed or the changes in its net position if the O'Malley's 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 O'Malley's 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 O'Malley's 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 O'Malley's Entity's control over financial reporting.

Trinity Accounting Group, P.C.

Athens, Georgia

August 31, 2016

UGAREF O'MALLEY'S BUILDING, LLC

Statements of Net Position

June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 641,736	\$ 725,057
Capital Lease Receivable, current portion	-	603,462
Total Current Assets	641,736	1,328,519
Noncurrent Assets		
Capital Lease Receivable, noncurrent portion	-	10,981,883
Total Noncurrent Assets	-	10,981,883
Total Assets	641,736	12,310,402
LIABILITIES		
Current Liabilities		
Accounts Payable to the University	2,293	-
Accrued Interest Payable	-	18,725
Advance Rent Receipts	-	3,000
Advance Lease Payment Receipts	-	107,653
Bonds Payable, current portion	-	615,000
Total Current Liabilities	2,293	744,378
Noncurrent Liabilities		
Bonds Payable, noncurrent portion	-	9,610,000
Premium on Bonds Payable	-	123,230
Total Noncurrent Liabilities	-	9,733,230
Total Liabilities	2,293	10,477,608
NET POSITION		
Unrestricted	639,443	1,832,794
Total Net Position	\$ 639,443	\$ 1,832,794

See independent auditors' report and notes to financial statements.

UGAREF O'MALLEY'S BUILDING, LLC

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Rental Income	\$ 12,000	\$ 36,000
Capital Lease Interest Income	233,514	723,915
Total Operating Revenues	245,514	759,915
Operating Expenses		
<i>Project Expenses</i>		
Insurance	1,505	-
Legal and Accounting	3,830	9,670
Management Fees	12,588	37,764
Other Expenses	50	50
Total Operating Expenses	17,973	47,484
Operating Income	227,541	712,431
Nonoperating Revenues (Expenses)		
Investment Income	90	96
Gain on Early Termination of Capital Lease	178,418	-
Loss on Extinguishment of Debt	(1,055,343)	-
Interest Expense, net	(148,458)	(455,920)
Total Nonoperating Revenues (Expenses)	(1,025,293)	(455,824)
Change in Net Position	(797,752)	256,607
Net Position		
Beginning of Year	1,832,794	1,576,187
Dividends Paid to Related Party	(395,599)	-
End of Year	\$ 639,443	\$ 1,832,794

See independent auditors' report and notes to financial statements.

UGAREF O'MALLEY'S BUILDING, LLC

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Receipts from Rental Income	\$ 9,000	\$ 36,000
Receipts of Principal on Capital Lease	148,197	570,802
Receipts of Interest on Capital Lease	174,762	721,035
Receipts for Payments Reimbursable by the University	-	47,710
Payments of Management Fees	(12,588)	(37,764)
Payments to Suppliers of Goods and Services	(5,385)	(9,720)
Payments Reimbursable by the University	-	(47,710)
Net Cash Provided by Operating Activities	313,986	1,280,353
Cash Flows from Investing Activities		
Investment Income	90	96
Net Cash Provided by Investing Activities	90	96
Cash Flows from Noncapital Financing Activities		
Dividends Paid to Related Party	(395,599)	-
Net Cash Used in Noncapital Financing Activities	(395,599)	-
Cash Flows from Capital and Related Financing Activities		
Proceeds from the University for Transfer of Assets	11,566,665	-
Interest Payments on Long-Term Debt	(4,091)	(473,941)
Principal Repayment on Bonds Payable	-	(600,000)
Payments on Bond Extinguishment	(11,564,372)	-
Net Cash Used in Capital and Related Financing Activities	(1,798)	(1,073,941)
Net Increase (Decrease) in Cash and Cash Equivalents	(83,321)	206,508
Cash and Cash Equivalents		
Beginning of Year	725,057	518,549
End of Year	\$ 641,736	\$ 725,057

See independent auditors' report and notes to financial statements.

UGAREF O'MALLEY'S BUILDING, LLC

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 227,541	\$ 712,431
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Receipts of Principal on Capital Lease	148,197	570,802
Changes in Assets and Liabilities		
Advance Rent Receipts Liabilities	(3,000)	-
Advance Lease Payment Receipts Liabilities	<u>(58,752)</u>	<u>(2,880)</u>
Net Cash Provided by Operating Activities	<u>\$ 313,986</u>	<u>\$ 1,280,353</u>

See independent auditors' report and notes to financial statements.

UGAREF O'MALLEY'S BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 1 – Organization

UGAREF O'Malley's Building, LLC (the "O'Malley's Entity") is a single-member limited liability company created in 2008 by the UGA Real Estate Foundation, Inc. (the "Real Estate Foundation"). The purpose of the O'Malley's Entity includes the construction, financing and leasing of an education 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"). Beginning in July 2009 the facility was complete and under lease with the Board of Regents. In October 2015 title to the education facility and underlying land was transferred to the University and the associated capital lease was terminated.

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 O'Malley's 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 O'Malley's 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 O'Malley's Entity's assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

UGAREF O'MALLEY'S BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

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 O'Malley's 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 O'Malley's 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 O'Malley's 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 O'Malley's 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.

Cash and Cash Equivalents

The O'Malley's Entity considers all short-term investments with an original maturity of three months or less to be cash equivalents. 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 ("the Board of Trustees") has designated certain cash balances to fund future obligations. As of June 30, 2016 and 2015, the cash amounts include \$0 and \$88,700, respectively, reserved for debt service, and \$0 and \$386,599, respectively, reserved for future repairs and replacement of real property.

UGAREF O'MALLEY'S BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies (Continued)

Capital Lease Receivable

The O'Malley's 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 O'Malley's 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 O'Malley's Entity had no capital assets.

Bonds Payable

The O'Malley's 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 related premium. The bond premium is amortized to interest expense using the effective interest method.

Net Position

As of June 30, 2016 and 2015, the O'Malley's Entity's net position of \$639,443 and \$1,832,794, 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. Advance lease payment receipts represent both the interest and principal components of capital lease payments received but not yet earned.

UGAREF O'MALLEY'S BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies (Continued)

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 O'Malley's 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.

Income Taxes

As a single-member limited liability company, the O'Malley's Entity is disregarded for income tax purposes. The O'Malley's 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 O'Malley's Entity.

Note 3 – Deposits and Investments

A. Deposits

At June 30, 2016 and 2015, the bank value of the O'Malley's 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 O'Malley's Entity's deposits may not be recovered. The O'Malley's Entity has no deposit policy for custodial credit risk.

The O'Malley's 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 O'Malley's Entity from time to time may have amounts on deposit in excess of the insured limits.

UGAREF O'MALLEY'S BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 3 – Deposits and Investments (Continued)

B. Investments

The O'Malley's 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 O'Malley's Entity held investments of \$641,736 and \$726,977, respectively.

The O'Malley's 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	<u>Investment Maturity</u>	
<u>Investment Type</u>	<u>Total</u>	<u>Less Than 1 Year</u>
Debt Securities		
Repurchase Agreements	\$ 641,736	\$ 641,736
Total Investments	<u>\$ 641,736</u>	<u>\$ 641,736</u>

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

The O'Malley's 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	<u>Investment Maturity</u>	
<u>Investment Type</u>	<u>Total</u>	<u>Less Than 1 Year</u>
Debt Securities		
Repurchase Agreements	\$ 726,977	\$ 726,977
Total Investments	<u>\$ 726,977</u>	<u>\$ 726,977</u>

Repurchase agreements are included in cash and cash equivalents on the statements 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 O'Malley's 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 O'Malley's Entity will not be able to recover the value of the investment. The O'Malley's Entity does not have a formal policy for managing custodial credit risk for investments.

UGAREF O'MALLEY'S BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

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 O'Malley's 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 O'Malley's 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 – Capital Lease Receivable

The O'Malley's Entity entered into a 20-year capital lease agreement (1 year lease with 19 annual renewals with the final renewal period ending on June 30, 2028) with the Board of Regents to occupy the O'Malley's Entity's facility effective in 2009. Lease payments were due monthly. In October 2015 title to the education facility and underlying land was transferred to the University and the related lease receivable and bond debt were repaid.

As of June 30, 2016 and 2015, capital lease receivables are \$0 and \$11,585,345, respectively. These amounts include future minimum lease payments to be received of \$0 and \$16,793,868 as of June 30, 2016 and 2015, respectively, of which \$0 and \$5,208,523, respectively, is unearned interest.

Note 5 – Long-Term Debt

\$15,705,000 Bond Issue

In 2009, the Development Authority of the Unified Government of Athens-Clarke County, Georgia (the "Development Authority") issued Educational Facilities Revenue Bonds (UGAREF O'Malley's Building, LLC Project), Series 2009, (the "O'Malley's Bonds") and entered into an agreement (the "O'Malley's Loan Agreement") to loan \$15,705,000 to the O'Malley's Entity. Payment of principal and interest under the O'Malley's Bonds was secured by certain real property constituting an education facility and underlying land, and by the O'Malley's Entity's interest in certain rents and leases derived from this facility. The O'Malley's Entity used the proceeds of this loan to fund construction of the education facility, which was placed in service in July 2009. Title to the education facility and underlying land was transferred to the University in October 2015 and the capital lease associated with the project was terminated.

Borrowings under the O'Malley's Loan Agreement bore interest payable semiannually on December 15 and June 15 at fixed rates ranging from 3% to 5% depending on the schedule of bond maturities. During the years ended June 30, 2016 and 2015, the O'Malley's Entity expensed all interest costs in connection with the O'Malley's Loan Agreement. Principal payments were due annually on June 15. During the years ended June 30, 2016 and 2015, the O'Malley's Entity made principal payments of \$0 and \$600,000, respectively.

On October 30, 2015, the Development Authority entered into an agreement with the O'Malley's Entity to early extinguish \$10,225,000 of outstanding O'Malley's Bonds with interest rates ranging from 3.0% to 5.0% pursuant to the transfer of the O'Malley's Entity's title to its education facility and underlying land to the University and the early termination of the capital lease agreement related to the project.

UGAREF O'MALLEY'S BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 5 – Long-Term Debt (Continued)

A portion of the proceeds received from the University in the net amount of \$11,535,546 (after payment of \$28,827 in extinguishment costs) was transferred from the O'Malley's Entity and deposited 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 O'Malley's Bonds. As a result, \$10,225,000 of outstanding O'Malley's 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, 2016.

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 \$1,055,343. This difference has been charged to operations as an ordinary loss on debt extinguishment during the year ended June 30, 2016. The O'Malley's Entity completed the early extinguishment in order to repay the O'Malley's Bonds, to transfer title to its education facility and underlying land to the University, and to reduce its total debt service payments on the O'Malley's Bonds over the next 13 years by \$1,919,173. The resulting economic gain (difference between the present value of the extinguished debt and the cash amount transferred to escrow) is \$1,387,425 using an effective interest rate of 1.034%.

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

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Disposals & Reductions</u>	<u>Balance at June 30, 2016</u>	<u>Current Portion</u>
Bonds Payable	\$ 10,225,000	\$ -	\$(10,225,000)	\$ -	\$ -
Net Premium	123,230	-	(123,230)	-	-
Total Noncurrent Liabilities	<u>\$ 10,348,230</u>	<u>\$ -</u>	<u>\$(10,348,230)</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Disposals & Reductions</u>	<u>Balance at June 30, 2015</u>	<u>Current Portion</u>
Bonds Payable	\$ 10,825,000	\$ -	\$ (600,000)	\$ 10,225,000	\$ 615,000
Net Premium	140,501	-	(17,271)	123,230	-
Total Noncurrent Liabilities	<u>\$ 10,965,501</u>	<u>\$ -</u>	<u>\$ (617,271)</u>	<u>\$ 10,348,230</u>	<u>\$ 615,000</u>

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

	<u>2016</u>	<u>2015</u>
Interest Expense	\$ 149,800	\$ 466,650
Premium Amortization	(5,433)	(17,271)
Fees	4,091	6,541
Total Interest Cost	<u>\$ 148,458</u>	<u>\$ 455,920</u>

UGAREF O'MALLEY'S BUILDING, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 6 – Related Party Transactions

The O'Malley's Entity leased the O'Malley's Entity's facility to the Board of Regents for monthly lease payments of \$110,653, which included a monthly repair and replacement component of \$3,000. During the years ended June 30, 2016 and 2015, capital lease interest income of \$233,514 and \$723,915, respectively, capital lease principal of \$197,098 and \$567,921, respectively, and rental income of \$12,000 and \$36,000, respectively, were recorded under this lease agreement. The lease agreement with the Board of Regents was the sole source of revenue for the O'Malley's Entity, which constituted a concentration of credit risk, and was renewable on an annual basis after inception for a period of 19 years without rent increases.

In October 2015 the O'Malley's Entity terminated the capital lease with the Board of Regents and transferred title to its education facility and underlying land to the University for \$11,566,665. After paying extinguishment costs and funding escrow balances to extinguish the related bond debt, the O'Malley's Entity recorded a net loss of \$876,925. The net loss consists of the loss from debt extinguishment of \$1,055,343, as discussed in Note 5, and the gain from the capital lease termination of \$178,418.

The lease agreement provided that certain amounts paid by the O'Malley's Entity be reimbursed by the Board of Regents. During the years ended June 30, 2016 and 2015, these amounts were \$0 and \$47,710, respectively.

The O'Malley's Entity signed an agreement with the Real Estate Foundation to pay for management services of \$3,147 per month, with periods to coincide with the lease. This agreement was terminated after the transfer of the O'Malley's Entity's title to the education facility and underlying land to the University. During the years ended June 30, 2016 and 2015, the O'Malley's Entity paid \$12,588 and \$37,764, respectively, to the Real Estate Foundation for services related to this agreement.

At June 30, 2016, the O'Malley's Entity owed the University \$2,293 for miscellaneous costs.

During the years ended June 30, 2016 and 2015, the O'Malley's Entity paid a dividend to the Real Estate Foundation in the amount of \$395,599 and \$0, respectively.



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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 O'Malley's Building, LLC (the "O'Malley's 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 O'Malley's 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 O'Malley's Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of O'Malley's 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 O'Malley's 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