

UGAREF PAC PARKING DECK, LLC

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

UGAREF PAC PARKING DECK, LLC

Contents

	<u>Page</u>
Report of Independent Auditors	1
Financial Statements for the Years Ended June 30, 2016 and 2015:	
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16



Focus
Vision
Discipline

The Terraces
1550 Timothy Road, Suite 203
Athens, GA 30606
(706) 546-1422 p
(706) 548-0032 f

Mailing
Post Office Box 1983
Athens, GA 30603
www.trinityaccountinggroup.com
info@trinityaccountinggroup.com

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 PAC Parking Deck, LLC (the "PAC 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 PAC 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 PAC Entity and may not necessarily be indicative of the conditions that would have existed or the changes in its net position if the PAC 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 PAC 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 PAC 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 PAC Entity’s control over financial reporting.

Trinity Accounting Group, P.C.

Athens, Georgia

August 31, 2016

UGAREF PAC PARKING DECK, LLC

Statements of Net Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 822,755	\$ 730,346
Capital Leases Receivable, current portion	348,693	330,569
Total Current Assets	<u>1,171,448</u>	<u>1,060,915</u>
Noncurrent Assets		
Capital Leases Receivable, noncurrent portion	15,001,052	15,349,745
Total Noncurrent Assets	<u>15,001,052</u>	<u>15,349,745</u>
Total Assets	<u>16,172,500</u>	<u>16,410,660</u>
LIABILITIES		
Current Liabilities		
Accrued Interest Payable	27,549	28,208
Advance Rent Receipts	6,667	6,667
Advance Lease Payment Receipts	96,800	96,800
Bonds Payable, current portion	405,000	395,000
Total Current Liabilities	<u>536,016</u>	<u>526,675</u>
Noncurrent Liabilities		
Bonds Payable, noncurrent portion	14,775,000	15,180,000
Discount on Bonds Payable	(77,062)	(82,766)
Total Noncurrent Liabilities	<u>14,697,938</u>	<u>15,097,234</u>
Total Liabilities	<u>15,233,954</u>	<u>15,623,909</u>
NET POSITION		
Unrestricted	938,546	786,751
Total Net Position	<u>\$ 938,546</u>	<u>\$ 786,751</u>

See independent auditors' report and notes to financial statements.

UGAREF PAC PARKING DECK, LLC

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Rental Income	\$ 80,004	\$ 80,004
Capital Lease Interest Income	831,030	848,211
Total Operating Revenues	<u>911,034</u>	<u>928,215</u>
Operating Expenses		
<i>Project Expenses</i>		
Legal and Accounting	5,750	8,532
Management Fees	57,000	57,000
Repair and Replacement Expenditures	9,500	-
Other Expenses	49	50
Total Operating Expenses	<u>72,299</u>	<u>65,582</u>
Operating Income	<u>838,735</u>	<u>862,633</u>
Nonoperating Revenues (Expenses)		
Investment Income	2,574	96
Interest Expense, net	<u>(689,514)</u>	<u>(704,634)</u>
Total Nonoperating Revenues (Expenses)	<u>(686,940)</u>	<u>(704,538)</u>
Change in Net Position	151,795	158,095
Net Position		
Beginning of Year	<u>786,751</u>	<u>628,656</u>
End of Year	<u>\$ 938,546</u>	<u>\$ 786,751</u>

See independent auditors' report and notes to financial statements.

UGAREF PAC PARKING DECK, LLC

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Receipts from Rental Income	\$ 80,004	\$ 80,004
Receipts of Principal on Capital Leases	332,042	314,785
Receipts of Interest on Capital Leases	829,557	846,815
Receipts for Payments Reimbursable by the University	26,079	24,194
Payments of Management Fees	(57,000)	(57,000)
Payments to Suppliers of Goods and Services	(15,299)	(8,582)
Payments Reimbursable by the University	(26,079)	(24,194)
Net Cash Provided by Operating Activities	1,169,304	1,176,022
Cash Flows from Investing Activities		
Investment Income	2,574	96
Net Cash Provided by Investing Activities	2,574	96
Cash Flows from Capital and Related Financing Activities		
Interest Payments on Long-Term Debt	(684,469)	(699,418)
Principal Repayment on Bonds Payable	(395,000)	(375,000)
Net Cash Used in Capital and Related Financing Activities	(1,079,469)	(1,074,418)
Net Increase in Cash and Cash Equivalents	92,409	101,700
Cash and Cash Equivalents		
Beginning of Year	730,346	628,646
End of Year	\$ 822,755	\$ 730,346
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 838,735	\$ 862,633
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities		
Receipts of Principal on Capital Leases	332,042	314,785
Changes in Assets and Liabilities		
Advance Lease Payment Receipts Liabilities	(1,473)	(1,396)
Net Cash Provided by Operating Activities	\$ 1,169,304	\$ 1,176,022

See independent auditors' report and notes to financial statements.

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 1 – Organization

UGAREF PAC Parking Deck, LLC (the “PAC 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 PAC Entity includes the construction, financing and leasing of two parking decks 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 August and November 2009, the parking decks have 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 PAC 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 PAC 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 PAC Entity’s assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

UGAREF PAC PARKING DECK, 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 PAC 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 PAC 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 PAC 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 PAC 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.

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The PAC 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 \$88,849 and \$89,332, respectively, reserved for debt service, and \$671,493 and \$560,989, 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 PAC 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 Leases Receivable

The PAC 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 PAC 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 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. As of June 30, 2016 and 2015, the PAC Entity had no capital assets.

Bonds Payable

The PAC 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 minus related discount. The bond discount is amortized to interest expense using the effective interest method.

Net Position

As of June 30, 2016 and 2015, the PAC Entity's net position of \$938,546 and \$786,751, respectively, is unrestricted. Unrestricted net position is not subject to donor or other stipulations imposed by outside sources.

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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 PAC 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 PAC Entity is disregarded for income tax purposes. The PAC 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 PAC Entity.

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 3 – Deposits and Investments

A. Deposits

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

The PAC 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 PAC Entity from time to time may have amounts on deposit in excess of the insured limits.

B. Investments

The PAC 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 PAC Entity held investments of \$822,755 and \$730,346, respectively.

The PAC 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	\$ 156,259	\$ 156,259
Investment Pools		
Board of Regents Short-term Fund	666,496	
Total Investments	\$ 822,755	

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>.

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 3 – Deposits and Investments (Continued)

B. Investments (Continued)

The PAC 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	Investment Maturity	
	Total	Less Than 1 Year
Debt Securities		
Repurchase Agreements	\$ 730,346	\$ 730,346
Total Investments	\$ 730,346	\$ 730,346

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 PAC 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 PAC Entity will not be able to recover the value of the investment. The PAC 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 PAC 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 PAC 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.

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

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 PAC 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.

The table below summarizes the valuation of the PAC 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 Investments	Fair Value Measurement	
	Total	Level 2
Fixed Income		
Investment Pool		
Board of Regents Short-term Fund	\$ 666,496	\$ 666,496
Total Investments, Recurring Basis	\$ 666,496	\$ 666,496

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

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 5 – Capital Leases Receivable

The PAC Entity entered into two 30-year capital lease agreements (1 year leases with 29 annual renewals with the final renewal periods ending on June 30, 2039) with the Board of Regents in order to occupy the PAC Entity's facilities effective in 2010. 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, 2016 and 2015, capital lease receivables are \$15,349,745 and \$15,680,314, respectively. These amounts include future minimum lease payments to be received of \$26,716,800 and \$27,878,399 as of June 30, 2016 and 2015, respectively, of which \$11,367,055 and \$12,198,085, respectively, is unearned interest.

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

2017	\$ 1,161,600
2018	1,161,600
2019	1,161,600
2020	1,161,600
2021	1,161,600
2022 - 2026	5,808,000
2027 - 2031	5,808,000
2032 - 2036	5,808,000
2037 - 2039	3,484,800
Total Payments to be Received	26,716,800
Less Amounts Representing Interest	(11,367,055)
Total Leases Receivable	15,349,745
Less Current Portion	(348,693)
Noncurrent Leases Receivable	<u>\$ 15,001,052</u>

Note 6 – Long-Term Debt

\$17,655,000 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 PAC Parking Deck, LLC Project), Series 2009 (the "PAC Bonds") and entered into an agreement (the "PAC Loan Agreement") to loan \$17,655,000 to the PAC Entity. Payment of principal and interest under the PAC Bonds is secured by certain real property constituting two parking decks, and by the PAC Entity's interest in certain rents and leases derived from these facilities. The PAC Entity used the proceeds of this loan to fund construction of the parking decks. The Intramural Field parking deck was placed in service August 2009 and the Performing Arts Center parking deck was placed in service November 2009.

Borrowings under the PAC Loan Agreement bear 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 PAC Entity expensed all interest costs in connection with the PAC Loan Agreement. Principal payments are due annually on June 15 and continue through June 15, 2039. During the years ended June 30, 2016 and 2015, the PAC Entity made principal payments of \$395,000 and \$375,000, respectively.

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 6 – Long-Term Debt (Continued)

The bonds payable require the PAC Entity to meet certain covenants. At June 30, 2016 and 2015, the PAC 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	\$ 405,000	\$ 661,187
2018	425,000	644,988
2019	440,000	627,987
2020	460,000	610,388
2021	475,000	593,713
2022 - 2026	2,670,000	2,673,700
2027 - 2031	3,270,000	2,070,575
2032 - 2036	4,100,000	1,242,925
2037 - 2039	2,935,000	267,975
	\$ 15,180,000	\$ 9,393,438

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	\$ 15,575,000	\$ -	\$ (395,000)	\$ 15,180,000	\$ 405,000
Net Discount	(82,766)	-	5,704	(77,062)	-
Total Noncurrent Liabilities	\$ 15,492,234	\$ -	\$ (389,296)	\$ 15,102,938	\$ 405,000

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	\$ 15,950,000	\$ -	\$ (375,000)	\$ 15,575,000	\$ 395,000
Net Discount	(88,607)	-	5,841	(82,766)	-
Total Noncurrent Liabilities	\$ 15,861,393	\$ -	\$ (369,159)	\$ 15,492,234	\$ 395,000

UGAREF PAC PARKING DECK, LLC

Notes to Financial Statements

June 30, 2016 and 2015

Note 6 – Long-Term Debt (Continued)

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	\$ 676,329	\$ 691,362
Discount Amortization	5,704	5,841
Fees	7,481	7,431
Total Interest Cost	<u>\$ 689,514</u>	<u>\$ 704,634</u>

Note 7 – Related Party Transactions

The PAC Entity has leased the PAC Entity's facilities to the Board of Regents for monthly lease payments of \$103,467, which includes a repair and replacement component of \$6,667. During the years ended June 30, 2016 and 2015, capital lease interest income of \$831,030 and \$848,211, respectively, capital lease principal of \$330,569 and \$313,388, respectively, and rental income of \$80,004 and \$80,004, respectively, were recorded under these lease agreements. The lease agreements with the Board of Regents are the sole source of revenue for the PAC Entity, which constitutes a concentration of credit risk, and are renewable on an annual basis after inception for a period of 29 years without rent increases.

The lease agreements provide that certain amounts paid by the PAC Entity be reimbursed by the Board of Regents. During the years ended June 30, 2016 and 2015, these amounts were \$26,079 and \$24,194, respectively.

The PAC 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 PAC Entity signed an agreement with the Real Estate Foundation to pay for management services of \$4,750 per month, with periods to coincide with the lease. 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 PAC Entity paid \$57,000 to the Real Estate Foundation for services related to this agreement.

During Fiscal 2016, the PAC Entity paid \$9,500 to the University for repair projects on the parking decks.



Focus
Vision
Discipline

The Terraces
1550 Timothy Road, Suite 203
Athens, GA 30606
(706) 546-1422 p
(706) 548-0032 f

Mailing
Post Office Box 1983
Athens, GA 30603
www.trinityaccountinggroup.com
info@trinityaccountinggroup.com

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 PAC Parking Deck, LLC (the "PAC 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 PAC 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 PAC Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of PAC 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 PAC 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