

UGAREF CCRC BUILDING, LLC

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2021 and 2020

And Report of Independent Auditor

UGAREF CCRC BUILDING, LLC
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR.....1-2

FINANCIAL STATEMENTS

Statements of Net Position.....3
Statements of Revenues, Expenses, and Changes in Net Position.....4
Statements of Cash Flows.....5
Notes to the Financial Statements.....6-16

Report of Independent Auditor

To the Board of Trustees
UGA Real Estate Foundation, Inc.
Athens, Georgia

We have audited the accompanying financial statements of the UGAREF CCRC Building, LLC (the “CCRC Entity”), which comprise the statements of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the CCRC Entity’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the UGAREF CCRC Building, LLC as of June 30, 2021 and 2020, 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 Supplementary 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.

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

Augusta, Georgia
September 17, 2021

UGAREF CCRC BUILDING, LLC
STATEMENTS OF NET POSITION

JUNE 30, 2021 and 2020

	2021	2020
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 71,370	\$ 4,616,505
Capital Lease Receivable, current portion	-	1,455,784
Total Current Assets	<u>71,370</u>	<u>6,072,289</u>
Noncurrent Assets		
Capital Lease Receivable, noncurrent portion	-	22,601,175
Total Noncurrent Assets	<u>-</u>	<u>22,601,175</u>
Total Assets	<u>71,370</u>	<u>28,673,464</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding, net	<u>-</u>	<u>854,975</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	750	3,456
Accrued Interest Payable	-	39,752
Advance Rent Receipts	-	28,333
Advance Lease Payment Receipts	-	196,067
Bonds Payable, current portion	-	1,370,000
Total Current Liabilities	<u>750</u>	<u>1,637,608</u>
Noncurrent Liabilities		
Bonds Payable, noncurrent portion	-	21,615,000
Premium on Bonds Payable, net	-	284,425
Total Noncurrent Liabilities	<u>-</u>	<u>21,899,425</u>
Total Liabilities	<u>750</u>	<u>23,537,033</u>
NET POSITION		
Unrestricted	<u>70,620</u>	<u>5,991,406</u>
Total Net Position	<u>\$ 70,620</u>	<u>\$ 5,991,406</u>

UGAREF CCRC BUILDING, LLC**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION***YEARS ENDED JUNE 30, 2021 and 2020*

	2021	2020
Operating Revenues		
Rental Income	\$ 325,833	\$ 340,000
Capital Lease Interest Income	860,711	951,694
Total Operating Revenues	1,186,544	1,291,694
Operating Expenses		
Project Expenses		
Legal and Accounting	5,583	9,206
Management Fees	30,000	30,000
Other Expenses	66	50
Total Operating Expenses	35,649	39,256
Operating Income	1,150,895	1,252,438
Non-operating Revenues (Expenses)		
Investment Income	23,988	103,653
Loss on Disposal of Assets	(5,155,015)	-
Loss on Extinguishment of Debt	(1,021,290)	-
Interest Expense, net	(919,364)	(1,003,512)
Total Non-operating Revenues (Expenses)	(7,071,681)	(899,859)
Change in Net Position	(5,920,786)	352,579
Net Position		
Beginning of Year	5,991,406	5,638,827
End of Year	<u>\$ 70,620</u>	<u>\$ 5,991,406</u>

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

UGAREF CCRC BUILDING, LLC
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Receipts from rental income	\$ 297,500	\$ 340,000
Receipts of principal on capital lease	1,274,858	1,405,584
Receipts of interest on capital lease	783,842	947,217
Receipts for payments reimbursable by the University	99,036	77,863
Payments of management fees	(30,000)	(30,000)
Payments to suppliers of goods and services	(8,355)	(5,800)
Payments reimbursable by the University	(99,036)	(77,863)
Net Cash Flows from Operating Activities	<u>2,317,845</u>	<u>2,657,001</u>
Cash Flows from Investing Activities		
Investment income	23,988	103,653
Net Cash Flows from Investing Activities	<u>23,988</u>	<u>103,653</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from the University for transfer of assets	17,507,889	-
Interest payments on long-term debt	(931,025)	(978,263)
Principal repayment on bonds payable	(1,370,000)	(1,320,000)
Payments on bond extinguishment	(22,093,832)	-
Net Cash Flows from Capital and Related Financing Activities	<u>(6,886,968)</u>	<u>(2,298,263)</u>
Net Change in Cash and Cash Equivalents	(4,545,135)	462,391
Cash and Cash Equivalents		
Beginning of year	4,616,505	4,154,114
End of year	<u>\$ 71,370</u>	<u>\$ 4,616,505</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities		
Operating income	\$ 1,150,895	\$ 1,252,438
Adjustments to reconcile operating income to net cash flows from operating activities		
Receipts of principal on capital lease	1,274,858	1,405,584
Changes in assets and liabilities		
Accounts payable	(2,706)	3,456
Advance rent receipts liabilities	(28,333)	-
Advance lease payment receipts liabilities	(76,869)	(4,477)
Net Cash Flows from Operating Activities	<u>\$ 2,317,845</u>	<u>\$ 2,657,001</u>

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

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

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 was completed and under lease with the Board of Regents. In June 2021, the research facility 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 (the “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 Code. The Research Foundation 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 to the research function of the University by securing research contracts, grants, and awards from individuals, institutions, private organizations, and government agencies for the performance of sponsored research in the various 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.

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

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 organizational 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 shown using a blended presentation 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 Management's 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.

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

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, 2021 and 2020, the cash amounts include \$0 and \$878,671, respectively, reserved for debt service and \$0 and \$3,394,599, 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 in accordance with the payment schedule and terms included in the capital lease agreement. 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, 2021 and 2020, the CCRC Entity had no capital assets.

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

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.

Advance Lease Payment Receipts

The CCRC Entity receives lease payments in advance of the scheduled due dates and terms of the capital lease agreement which may include principal and interest related to the capital lease receivable. The advance lease payments are applied to the related capital lease receivable and interest income in accordance with the capital lease agreement payment schedule and terms, regardless of when the cash payment is received from the lessee.

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, 2021 and 2020, the CCRC Entity's net position of \$70,620 and \$5,991,406, 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.

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

Note 2—Summary of significant accounting policies (continued)

Operating and Non-operating Revenues and Expenses

The financial statements distinguish between operating and non-operating 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 non-operating revenues. Interest and financing costs are reported as non-operating 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 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 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.

Note 3—Deposits and investments

A. Deposits

At June 30, 2021 and 2020, 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.

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

Note 3—Deposits and investments (continued)

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, 2021 and 2020, the CCRC Entity held investments of \$71,370 and \$4,616,505, respectively.

The CCRC Entity's investments as of June 30, 2021 and 2020, are presented below. All investments are presented by investment type and debt securities are presented by maturity.

June 30, 2021 Investment Type	Total	Investment Maturity
		Less Than 1 Year
Debt Securities		
Repurchase Agreements	\$ 71,370	\$ 71,370
Total Investments	\$ 71,370	

June 30, 2020 Investment Type	Total	Investment Maturity
		Less Than 1 Year
Debt Securities		
Repurchase Agreements	\$ 1,338,296	\$ 1,338,296
Investment Pools		
Board of Regents Short-term Fund	3,278,209	
Total Investments	\$ 4,616,505	

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 website at <http://www.audits.ga.gov>.

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

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.

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

Note 4—Fair value measurements of assets and liabilities (continued)

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 CCRC Entity's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2020, based on the level of input utilized to measure fair value.

Measurement at fair value on a recurring basis:

June 30, 2020 Investments - Recurring Basis	Fair Value Measurement	
	Total	Level 2
Fixed Income		
Investment Pool		
Board of Regents Short-term Fund	\$ 3,278,209	\$ 3,278,209
Total Investments - Recurring Basis	\$ 3,278,209	\$ 3,278,209

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 Fiscal 2004. Lease payments were due monthly. In June 2021, the CCRC Entity's research facility was transferred to the University and the related lease receivable and bond debt were repaid.

As of June 30, 2021 and 2020, capital lease receivables are \$0 and \$24,056,959, respectively. These amounts include future minimum lease payments to be received of \$0 and \$30,586,400 as of June 30, 2021 and 2020, respectively, of which \$0 and \$6,529,441, respectively, is unearned interest.

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

Note 6—Long-term debt

The CCRC Entity entered into a loan agreement with the Development Authority of the Unified Government of Athens-Clarke County, Georgia (the "Development Authority") to borrow bond proceeds to fund construction of a research facility that was placed in service in September 2003.

\$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 was 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. In June 2021, the CCRC Entity's facility was transferred to the University and the capital lease associated with the facility was terminated.

Borrowings under the 2011 CCRC Loan Agreement bore interest payable semiannually on December 15 and June 15. During the years ended June 30, 2021 and 2020, the CCRC Entity expensed all interest costs in connection with the 2011 CCRC Loan Agreement. Principal payments were due annually on December 15. During the years ended June 30, 2021 and 2020, the CCRC Entity made principal payments of \$1,370,000 and \$1,320,000, respectively.

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

A portion of the proceeds received from the University in the net amount of \$17,475,364 (after payment of \$32,525 in extinguishment costs) plus an additional \$3,967,995 from the CCRC Entity repair and replacement reserves and \$617,948 from the CCRC Entity debt service reserves was transferred from the CCRC 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 2011 CCRC Bonds. As a result, \$21,615,000 of outstanding 2011 CCRC Bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position as of June 30, 2021. The related \$789,208 of 2011 CCRC Bond deferred loss on refunding has been removed from the statement of net position for the year ended June 30, 2021.

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

UGAREF CCRC BUILDING, LLC
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

Note 6—Long-term debt (continued)

The bonds payable require the CCRC Entity to meet certain covenants. At June 30, 2021 and 2020, the CCRC Entity was not aware of any violations of the covenants.

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

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Disposals and Reductions</u>	<u>Balance at June 30, 2021</u>	<u>Current Portion</u>
Bonds Payable	\$ 22,985,000	\$ -	\$ (22,985,000)	\$ -	\$ -
Net Premium	284,425	-	(284,425)	-	-
Total Long-term Debt	<u>\$ 23,269,425</u>	<u>\$ -</u>	<u>\$ (23,269,425)</u>	<u>\$ -</u>	<u>\$ -</u>

Changes in long-term debt for the fiscal year ended June 30, 2020, are shown below:

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Disposals and Reductions</u>	<u>Balance at June 30, 2020</u>	<u>Current Portion</u>
Bonds Payable	\$ 24,305,000	\$ -	\$ (1,320,000)	\$ 22,985,000	\$ 1,370,000
Net Premium	326,153	-	(41,728)	284,425	-
Total Long-term Debt	<u>\$ 24,631,153</u>	<u>\$ -</u>	<u>\$ (1,361,728)</u>	<u>\$ 23,269,425</u>	<u>\$ 1,370,000</u>

A summary of total interest cost for the years ended June 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Interest Expense	\$ 886,898	\$ 972,200
Premium Amortization	(37,676)	(41,728)
Deferred Loss Amortization	65,767	68,627
Fees	4,375	4,413
Total Interest Cost	<u>\$ 919,364</u>	<u>\$ 1,003,512</u>

UGAREF CCRC BUILDING, LLC

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

Note 7—Related party transactions

The CCRC Entity leased the CCRC Entity's facility to the Board of Regents under a capital lease agreement. During the years ended June 30, 2021 and 2020, the amounts reported as Rental Income and Capital Lease Interest Income in the statements of revenues, expenses, and changes in net position consist of revenue earned through the lease agreement. The lease agreement with the Board of Regents was the sole source of revenue for the CCRC Entity, which constituted a concentration of credit risk, and was renewable on an annual basis through Fiscal 2033 without rent increases.

On June 15, 2021, the CCRC Entity terminated the capital lease with the Board of Regents and transferred the CCRC Entity's research facility to the University for \$17,507,889. After paying extinguishment costs and funding escrow balances to extinguish the related bond debt, the CCRC Entity recorded a loss of \$6,176,305. The loss consists of the loss from the capital lease termination of \$5,155,015 and the loss on debt extinguishment of \$1,021,290 as discussed in Note 6.

The lease agreement provided that certain amounts paid by the CCRC Entity be reimbursed by the Board of Regents. During the years ended June 30, 2021 and 2020, these amounts were \$99,036 and \$77,863, respectively.

The CCRC Entity also leased the use of land from the Board of Regents where it had constructed property on Board of Regents' land. This ground lease was for a period of up to 3 years during construction and continued for 30 years after construction was completed for a base rental of \$10 per year. Under the ground lease, the ownership of any building or structure constructed on the land passed 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 \$2,500 per month, with periods to coincide with the lease term. This agreement was terminated after the transfer of the CCRC Entity's facility to the University. During each of the years ended June 30, 2021 and 2020, the CCRC Entity paid \$30,000 to the Real Estate Foundation for services related to this agreement.