

**UGAREF COVERDELL BUILDING, LLC**

**Financial Statements  
for the Years Ended  
June 30, 2018 and 2017**

# UGAREF COVERDELL BUILDING, LLC

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*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

Robert Bachman · Scott Saucier · Dustin David · Toby Smith

## **Report of Independent Auditors**

To Board of Trustees  
UGA Real Estate Foundation, Inc.:  
Athens, GA

### **Report on Financial Statements**

We have audited the accompanying statements of net position of UGAREF Coverdell Building, LLC (the "Coverdell Entity"), as of June 30, 2018 and 2017, 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 Coverdell 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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Coverdell Entity as of June 30, 2018 and 2017, 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.

*Trinity Accounting Group, P.C.*

Athens, Georgia

September 14, 2018

# UGAREF COVERDELL BUILDING, LLC

## Statements of Net Position

June 30, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,635,733	\$ 1,526,357
Capital Lease Receivable, current portion	-	563,703
<b>Total Current Assets</b>	1,635,733	2,090,060
<b>Noncurrent Assets</b>		
Capital Lease Receivable, noncurrent portion	-	17,348,805
<b>Total Noncurrent Assets</b>	-	17,348,805
<b>Total Assets</b>	1,635,733	19,438,865
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Refunding	-	1,359,189
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accrued Interest Payable	-	32,213
Advance Rent Receipts	-	4,167
Advance Lease Payment Receipts	-	137,000
Bonds Payable, current portion	-	710,000
<b>Total Current Liabilities</b>	-	883,380
<b>Noncurrent Liabilities</b>		
Bonds Payable, noncurrent portion	-	18,070,000
Premium on Bonds Payable	-	1,220,176
<b>Total Noncurrent Liabilities</b>	-	19,290,176
<b>Total Liabilities</b>	-	20,173,556
<b>NET POSITION</b>		
Unrestricted	1,635,733	624,498
<b>Total Net Position</b>	\$ 1,635,733	\$ 624,498

See independent auditors' report and notes to financial statements.

**UGAREF COVERDELL BUILDING, LLC**

**Statements of Revenues, Expenses, and Changes in Net Position**

**Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Rental Income	\$ 8,333	\$ 50,000
Capital Lease Interest Income	182,422	1,113,670
<b>Total Operating Revenues</b>	<b>190,755</b>	<b>1,163,670</b>
<b>Operating Expenses</b>		
<i>Project Expenses</i>		
Insurance	1,727	-
Legal and Accounting	18,413	5,991
Management Fees	14,866	89,196
Other Expenses	51	107
<b>Total Operating Expenses</b>	<b>35,057</b>	<b>95,294</b>
<b>Operating Income</b>	<b>155,698</b>	<b>1,068,376</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment Income	4,322	8,457
Gain on Early Termination of Capital Lease	3,346,108	-
Loss on Extinguishment of Debt	(2,358,684)	-
Interest Expense, net	(136,209)	(740,600)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>855,537</b>	<b>(732,143)</b>
<b>Change in Net Position</b>	<b>1,011,235</b>	<b>336,233</b>
<b>Net Position</b>		
Beginning of Year	624,498	288,265
End of Year	<b>\$ 1,635,733</b>	<b>\$ 624,498</b>

See independent auditors' report and notes to financial statements.

# UGAREF COVERDELL BUILDING, LLC

## Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Receipts from Rental Income	\$ 4,166	\$ 50,000
Receipts of Principal on Capital Lease	45,905	533,034
Receipts of Interest on Capital Lease	91,095	1,110,966
Receipts for Payments Reimbursable by the University	-	17,076
Payments of Management Fees	(14,866)	(89,196)
Payments to Suppliers of Goods and Services	(20,191)	(6,098)
Payments Reimbursable by the University	-	(17,076)
<b>Net Cash from Operating Activities</b>	<b>106,109</b>	<b>1,598,706</b>
<b>Cash Flows from Investing Activities</b>		
Investment Income	4,322	8,457
<b>Net Cash from Investing Activities</b>	<b>4,322</b>	<b>8,457</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from the University for Transfer of Assets	21,167,039	-
Interest Payments on Long-Term Debt	(1,055)	(790,064)
Principal Repayment on Bonds Payable	-	(690,000)
Payments on Bond Extinguishment	(21,167,039)	-
<b>Net Cash from Capital and Related Financing Activities</b>	<b>(1,055)</b>	<b>(1,480,064)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>109,376</b>	<b>127,099</b>
<b>Cash and Cash Equivalents</b>		
<b>Beginning of Year</b>	1,526,357	1,399,258
<b>End of Year</b>	<b>\$ 1,635,733</b>	<b>\$ 1,526,357</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating Income	\$ 155,698	\$ 1,068,376
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities		
Receipts of Principal on Capital Lease	45,905	533,034
Changes in Assets and Liabilities		
Advance Rent Receipts Liabilities	(4,167)	-
Advance Lease Payment Receipts Liabilities	(91,327)	(2,704)
<b>Net Cash from Operating Activities</b>	<b>\$ 106,109</b>	<b>\$ 1,598,706</b>

See independent auditors' report and notes to financial statements.

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

June 30, 2018 and 2017

### Note 1 – Organization

UGAREF Coverdell Building, LLC (the "Coverdell 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 Coverdell Entity includes the construction, equipping, financing and leasing of a portion of a research facility (the "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 December 2005 the research facility was completed and under lease with the Board of Regents. In September 2017 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 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 Coverdell 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 Coverdell 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 Coverdell Entity's assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

June 30, 2018 and 2017

### 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 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 Coverdell 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 Coverdell 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 Coverdell 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 Coverdell 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 Coverdell 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, 2018 and 2017, the cash amounts include \$0 and \$478,593, respectively, reserved for debt service, and \$0 and \$826,550, respectively, reserved for future repairs and replacement of real property.

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

June 30, 2018 and 2017

### Note 2 – Summary of Significant Accounting Policies (Continued)

#### **Investments**

In accordance with SGAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Coverdell 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 Coverdell 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 Coverdell 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, 2018 and 2017, the Coverdell Entity had no capital assets.

#### **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 Coverdell 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 Coverdell Entity does not have any item that qualifies for reporting in this category.

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

June 30, 2018 and 2017

### Note 2 – Summary of Significant Accounting Policies (Continued)

#### ***Bonds Payable***

The Coverdell 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. The bond premium is amortized to interest expense using the effective interest method.

#### ***Net Position***

As of June 30, 2018 and 2017, the Coverdell Entity's net position of \$1,635,733 and \$624,498, 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.

#### ***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 Coverdell 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 Coverdell Entity is disregarded for income tax purposes. The Coverdell 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.

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

**June 30, 2018 and 2017**

### Note 3 – Deposits and Investments

#### A. Deposits

At June 30, 2018 and 2017, the bank value of the Coverdell 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 Coverdell Entity's deposits may not be recovered. The Coverdell Entity has no deposit policy for custodial credit risk.

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

#### B. Investments

The Coverdell 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, 2018 and 2017, the Coverdell Entity held investments of \$1,635,733 and \$1,526,357, respectively.

**The Coverdell Entity's investments as of June 30, 2018 and 2017, are presented below. All investments are presented by investment type and debt securities are presented by maturity.**

<b>June 30, 2018</b>	<b>Investment Maturity</b>	
<b>Investment Type</b>	<b>Total</b>	<b>Less Than 1 Year</b>
Debt Securities		
Repurchase Agreements	\$ 1,635,733	\$ 1,635,733
Total Investments	\$ 1,635,733	

<b>June 30, 2017</b>	<b>Investment Maturity</b>	
<b>Investment Type</b>	<b>Total</b>	<b>Less Than 1 Year</b>
Debt Securities		
Repurchase Agreements	\$ 689,404	\$ 689,404
Investment Pools		
Board of Regents Short-term Fund	836,953	
Total Investments	\$ 1,526,357	

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

June 30, 2018 and 2017

### Note 3 – Deposits and Investments (Continued)

#### B. Investments (Continued)

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>.

#### **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 Coverdell 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 Coverdell Entity will not be able to recover the value of the investment. The Coverdell 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 Coverdell 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 Coverdell 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 Coverdell Entity, to the extent that it holds such investments, does not adjust the quoted price for these investments.

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

June 30, 2018 and 2017

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

#### 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 Coverdell Entity's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017, based on the level of input utilized to measure fair value.

#### Measurement at fair value on a recurring basis:

June 30, 2017 Investments	Fair Value Measurement	
	Total	Level 2
Fixed Income Investment Pool		
Board of Regents Short-term Fund	\$ 836,953	\$ 836,953
Total Investments, Recurring Basis	<u>\$ 836,953</u>	<u>\$ 836,953</u>

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 Coverdell Entity entered into a 30-year capital lease agreement (1 year lease with 29 annual renewals) with the Board of Regents to occupy the Coverdell Entity's research facility effective in 2006. Reflecting the savings of the advanced bond refunding on May 16, 2013, a First Amendment to Rental Agreement was executed reducing the capital lease payments. Lease payments were due monthly. In September 2017 the Coverdell Entity's research facility was transferred to the University and the related lease receivable and bond debt were repaid.

As of June 30, 2018 and 2017, capital lease receivables are \$0 and \$17,912,508, respectively. These amounts include future minimum lease payments to be received of \$0 and \$29,592,000 as of June 30, 2018 and 2017, respectively, of which \$0 and \$11,679,492, respectively, is unearned interest.

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

June 30, 2018 and 2017

### Note 6 – Long-Term Debt

The Coverdell 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 a portion of a research facility that was placed in service in December 2005.

#### ***\$21,100,000 Bond Issue***

On May 16, 2013, the Development Authority issued \$21,100,000 in Revenue Refunding Bonds (UGAREF Coverdell Building, LLC Project), Series 2013 (the "2013 Coverdell Bonds") with interest rates ranging from 2.0% to 5.0% and entered into an agreement (the "2013 Coverdell Loan Agreement") with the Coverdell Entity to advance refund \$22,295,000 of outstanding 2004A Educational Facilities Revenue Bonds with interest rates ranging from 4.0% to 5.0%. Payment of principal and interest under the 2013 Coverdell Bonds was secured by certain real property constituting a portion of a research facility and by the Coverdell Entity's interest in certain rents and leases derived from this research facility. In September 2017 the Coverdell Entity's research facility was transferred to the University and the capital lease associated with the research facility was terminated.

Borrowings under the 2013 Coverdell Loan Agreement bore interest payable semiannually on December 15 and June 15. During the years ended June 30, 2018 and 2017, the Coverdell Entity expensed all interest costs in connection with the 2013 Coverdell Loan Agreement. Principal payments were due annually on December 15. During the years ended June 30, 2018 and 2017, the Coverdell Entity made principal payments of \$0 and \$690,000, respectively.

On September 6, 2017, the Development Authority entered into an agreement with the Coverdell Entity to early extinguish \$18,780,000 of outstanding 2013 Coverdell Bonds with interest rates ranging from 3.0% to 5.0% pursuant to the transfer of the Coverdell Entity's research facility to the University.

A portion of the proceeds received from the University in the net amount of \$21,135,165 (after payment of \$31,874 in extinguishment costs) was transferred from the Coverdell 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 2013 Coverdell Bonds. As a result, \$18,780,000 of outstanding 2013 Coverdell 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, 2018. The related \$1,344,684 of 2013 Coverdell Bond deferred loss on refunding has been removed from the statement of net position for the year ended June 30, 2018.

The early extinguishment resulted in a gain consisting of the difference between the reacquisition price and the net carrying amount of the extinguished debt of \$987,424. This difference has been recorded as a \$3,346,108 ordinary gain on early termination of capital lease offset by a \$2,358,684 ordinary loss on debt extinguishment during the year ended June 30, 2018. The Coverdell Entity completed the early extinguishment in order to repay the 2013 Coverdell Bonds, to transfer the research facility to the University, and to reduce its total debt service payments on the 2013 Coverdell Bonds over the next 17 years by \$3,179,314. The resulting economic gain (difference between the present value of the extinguished debt and the cash amount transferred to escrow) is \$1,348,712 using an effective interest rate of 1.816%.

The bonds payable require the Coverdell Entity to meet certain covenants. At June 30, 2018 and 2017, the Coverdell Entity was not aware of any violations of the covenants.

## UGAREF COVERDELL BUILDING, LLC

### Notes to Financial Statements

**June 30, 2018 and 2017**

#### Note 6 – Long-Term Debt (Continued)

Changes in long-term debt for the fiscal year ended June 30, 2018, are shown below:

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Disposals &amp; Reductions</u>	<u>Balance at June 30, 2018</u>	<u>Current Portion</u>
Bonds Payable	\$ 18,780,000	\$ -	\$(18,780,000)	\$ -	\$ -
Net Premium	1,220,176	-	(1,220,176)	-	-
Total Noncurrent Liabilities	<u>\$ 20,000,176</u>	<u>\$ -</u>	<u>\$(20,000,176)</u>	<u>\$ -</u>	<u>\$ -</u>

Changes in long-term debt for the fiscal year ended June 30, 2017, are shown below:

	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Disposals &amp; Reductions</u>	<u>Balance at June 30, 2017</u>	<u>Current Portion</u>
Bonds Payable	\$ 19,470,000	\$ -	\$ (690,000)	\$ 18,780,000	\$ 710,000
Net Premium	1,346,630	-	(126,454)	1,220,176	-
Total Noncurrent Liabilities	<u>\$ 20,816,630</u>	<u>\$ -</u>	<u>\$(816,454)</u>	<u>\$ 20,000,176</u>	<u>\$ 710,000</u>

A summary of total interest cost for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Interest Expense	\$ 143,638	\$ 782,601
Premium Amortization	(22,989)	(126,454)
Deferred Loss Amortization	14,504	77,853
Fees	1,056	6,600
Total Interest Cost	<u>\$ 136,209</u>	<u>\$ 740,600</u>

#### Note 7 – Related Party Transactions

The Coverdell Entity leased the Coverdell Entity's research facility to the Board of Regents for a monthly lease payment of \$141,167, which included a monthly repair and replacement component of \$4,167. During the years ended June 30, 2018 and 2017, capital lease interest income of \$182,422 and \$1,113,670, respectively, capital lease principal of \$91,578 and \$530,330, respectively, and rental income of \$8,333 and \$50,000, respectively, were recorded under this lease agreement. The lease agreement with the Board of Regents was the sole source of revenue for the Coverdell Entity, which constituted a concentration of credit risk, and was renewable on an annual basis until 2035 without rent increases.

# UGAREF COVERDELL BUILDING, LLC

## Notes to Financial Statements

June 30, 2018 and 2017

### Note 7 – Related Party Transactions (Continued)

In September 2017 the Coverdell Entity terminated the capital lease with the Board of Regents and transferred the Coverdell Entity's research facility to the University for \$21,167,039. After paying extinguishment costs and funding escrow balances to extinguish the related bond debt, the Coverdell Entity recorded a net gain of \$987,424. The net gain consists of the gain from the capital lease termination of \$3,346,108 offset by the loss on debt extinguishment of \$2,358,684 as discussed in Note 6.

The lease agreement provided that certain amounts paid by the Coverdell Entity be reimbursed by the Board of Regents. During the years ended June 30, 2018 and 2017, these amounts were \$0 and \$17,076, respectively.

The Coverdell Entity also leased air rights from the Board of Regents where it had constructed property above the lower floors on Board of Regents' land. The air rights lease was for a period of up to three years during construction and continued for 30 years after construction was complete for a base rental of \$10 per year. Under the air rights lease, the ownership of any building or structure constructed above the lower floors of the building passed to the Board of Regents at the end of the air rights lease.

The Coverdell Entity signed an agreement with the Real Estate Foundation to pay for management services of \$7,433 per month, with periods to coincide with the lease term. This agreement was terminated after the transfer of the Coverdell Entity's research facility to the University. During the years ended June 30, 2018 and 2017, the Coverdell Entity paid \$14,866 and \$89,196, respectively, to the Real Estate Foundation for services related to this agreement.