

UGAREF FRATERNITY ROW, LLC

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

UGAREF FRATERNITY ROW, LLC

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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 Fraternity Row, LLC (the "Fraternity Row 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 Fraternity Row 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 Fraternity Row 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 FRATERNITY ROW, LLC
Consolidated Statements of Net Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 964,465	\$ 857,787
Capital Leases Receivable, current portion	241,661	226,089
Total Current Assets	1,206,126	1,083,876
Noncurrent Assets		
Capital Leases Receivable, noncurrent portion	10,460,497	10,702,158
Total Noncurrent Assets	10,460,497	10,702,158
Total Assets	11,666,623	11,786,034
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding	1,103,062	1,155,693
LIABILITIES		
Current Liabilities		
Accrued Interest Payable	18,952	19,182
Advance Rent Receipts	6,667	6,667
Advance Lease Payment Receipts	79,100	79,100
Bonds Payable, current portion	400,000	395,000
Total Current Liabilities	504,719	499,949
Noncurrent Liabilities		
Bonds Payable, noncurrent portion	11,420,000	11,820,000
Total Noncurrent Liabilities	11,420,000	11,820,000
Total Liabilities	11,924,719	12,319,949
NET POSITION		
Unrestricted	844,966	621,778
Total Net Position	\$ 844,966	\$ 621,778

See independent auditors' report and notes to financial statements.

UGAREF FRATERNITY ROW, LLC

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

Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Rental Income	\$ 80,000	\$ 80,240
Capital Lease Interest Income	723,105	792,922
Total Operating Revenues	803,105	873,162
Operating Expenses		
<i>Project Expenses</i>		
Legal and Accounting	5,937	6,854
Management Fees	48,000	48,000
Repair and Replacement Expenditures	-	72,049
Other Expenses	265	552
Total Operating Expenses	54,202	127,455
Operating Income	748,903	745,707
Nonoperating Revenues (Expenses)		
Investment Income	8,685	5,572
Interest Expense, net	(534,400)	(939,410)
Total Nonoperating Revenues (Expenses)	(525,715)	(933,838)
Change in Net Position	223,188	(188,131)
Net Position		
Beginning of Year	621,778	809,909
End of Year	\$ 844,966	\$ 621,778

See independent auditors' report and notes to financial statements.

UGAREF FRATERNITY ROW, LLC
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Receipts from Rental Income	\$ 80,000	\$ 80,240
Receipts of Principal on Capital Leases	227,349	199,458
Receipts of Interest on Capital Leases	721,845	784,841
Receipts for Payments Reimbursable by the University	51,160	49,791
Payments of Management Fees	(48,000)	(48,000)
Payments to Suppliers of Goods and Services	(6,202)	(79,455)
Payments Reimbursable by the University	(51,160)	(49,791)
Net Cash from Operating Activities	974,992	937,084
Cash Flows from Investing Activities		
Investment Income	8,685	5,572
Net Cash from Investing Activities	8,685	5,572
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Bonds	-	269,418
Payment of Bond Issuance Costs	-	(264,169)
Interest Payments on Long-Term Debt	(481,999)	(454,719)
Principal Repayment on Bonds Payable	(395,000)	(450,000)
Net Cash from Capital and Related Financing Activities	(876,999)	(899,470)
Net Change in Cash and Cash Equivalents	106,678	43,186
Cash and Cash Equivalents		
Beginning of Year	857,787	814,601
End of Year	\$ 964,465	\$ 857,787
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating Income	\$ 748,903	\$ 745,707
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities		
Receipts of Principal on Capital Leases	227,349	199,458
Changes in Assets and Liabilities		
Advance Lease Payment Receipts Liabilities	(1,260)	(8,081)
Net Cash from Operating Activities	\$ 974,992	\$ 937,084
Schedule of Noncash Investing, Capital and Related Financing Activity		
Bonds Payable Refunded through New Bond Issue and Related Cost of Issuance	\$ -	\$ 12,395,582

See independent auditors' report and notes to financial statements.

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 1 – Organization

UGAREF Fraternity Row, LLC (the “Fraternity Row 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 Fraternity Row Entity includes the construction, financing and leasing of four fraternity houses 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 2009, all four houses have been completed 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 (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 Fraternity Row 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 Fraternity Row 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 Fraternity Row Entity’s assets, liabilities, deferred inflows/outflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated 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 Fraternity Row 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 Fraternity Row 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 Fraternity Row 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 Fraternity Row 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 Fraternity Row 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 \$71,236 and \$71,281, respectively, reserved for debt service, and \$647,951 and \$567,951, respectively, reserved for future repairs and replacement of real property.

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated 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 Fraternity Row 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 Fraternity Row 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 Fraternity Row 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, 2018 and 2017, the Fraternity Row 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 Fraternity Row 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 Fraternity Row Entity does not have any item that qualifies for reporting in this category.

For the years ended June 30, 2018 and 2017, the Fraternity Row Entity recognized interest expense related to the deferred loss on refunding of \$52,631 and \$15,351, respectively, resulting in deferred loss accumulated amortization of \$67,982 and \$15,351, respectively.

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 2 – Summary of Significant Accounting Policies (Continued)

Bonds Payable

The Fraternity Row Entity records the net proceeds of taxable bond financing as a liability upon issuance. Bond proceeds consist of the par value of the bonds. The bonds were issued at par value resulting in no premium or discount.

Net Position

As of June 30, 2018 and 2017, the Fraternity Row Entity's net position of \$844,966 and \$621,778, 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 Fraternity Row 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 Fraternity Row Entity is disregarded for income tax purposes. The Fraternity Row 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 FRATERNITY ROW, LLC

Notes to Consolidated 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 Fraternity Row 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 Fraternity Row Entity's deposits may not be recovered. The Fraternity Row Entity has no deposit policy for custodial credit risk.

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

B. Investments

The Fraternity Row 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 Fraternity Row Entity held investments of \$964,465 and \$857,787, respectively.

The Fraternity Row 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.

June 30, 2018	Investment Maturity	
Investment Type	Total	Less Than 1 Year
Debt Securities		
Repurchase Agreements	\$ 300,825	\$ 300,825
Investment Pools		
Board of Regents Short-term Fund	663,640	
Total Investments	\$ 964,465	

June 30, 2017	Investment Maturity	
Investment Type	Total	Less Than 1 Year
Debt Securities		
Repurchase Agreements	\$ 282,384	\$ 282,384
Investment Pools		
Board of Regents Short-term Fund	575,403	
Total Investments	\$ 857,787	

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated 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 Fraternity Row 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 Fraternity Row Entity will not be able to recover the value of the investment. The Fraternity Row 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 Fraternity Row 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 Fraternity Row 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 Fraternity Row Entity, to the extent that it holds such investments, does not adjust the quoted price for these investments.

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated 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 tables below summarize the valuation of the Fraternity Row Entity's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and 2017, based on the level of input utilized to measure fair value.

Measurement at fair value on a recurring basis:

June 30, 2018 Investments	Fair Value Measurement	
	Total	Level 2
Fixed Income Investment Pool		
Board of Regents Short-term Fund	\$ 663,640	\$ 663,640
Total Investments, Recurring Basis	<u>\$ 663,640</u>	<u>\$ 663,640</u>

June 30, 2017 Investments	Fair Value Measurement	
	Total	Level 2
Fixed Income Investment Pool		
Board of Regents Short-term Fund	\$ 575,403	\$ 575,403
Total Investments, Recurring Basis	<u>\$ 575,403</u>	<u>\$ 575,403</u>

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

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 5 – Capital Leases Receivable

The Fraternity Row Entity entered into four 30-year capital lease agreements (1 year leases with 29 annual renewals) with the Board of Regents to occupy the Fraternity Row Entity's facilities effective in Fiscal 2010. Reflecting the savings of the advanced bond refunding on March 15, 2017, a First Amendment to Rental Agreement was executed for each lease reducing the capital lease payments effective March 1, 2017. The final renewal periods end June 30, 2039. 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, 2018 and 2017, capital leases receivable are \$10,702,158 and \$10,928,247, respectively. These amounts include future minimum lease payments to be received of \$19,933,074 and \$20,882,268 as of June 30, 2018 and 2017, respectively, of which \$9,230,916 and \$9,954,021, respectively, is unearned interest.

As of June 30, 2018, lease payments are receivable as follows:

2019	\$ 949,194
2020	949,194
2021	949,194
2022	949,194
2023	949,194
2024 - 2028	4,745,970
2029 - 2033	4,745,970
2034 - 2038	4,745,970
2039	949,194
Total Payments to be Received	19,933,074
Less Amounts Representing Interest	(9,230,916)
Total Leases Receivable	10,702,158
Less Current Portion	(241,661)
Noncurrent Leases Receivable	<u>\$ 10,460,497</u>

Note 6 – Long-Term Debt

\$12,505,000 Bond Issue

In 2009, the Housing Authority of the City of Athens, Georgia (the "Housing Authority") issued Revenue Bonds (UGAREF Fraternity Row, LLC Project), Taxable Series 2009 (the "2009 Fraternity Row Bonds") and entered into an agreement (the "2009 Fraternity Row Loan Agreement") to loan \$12,505,000 to the Fraternity Row Entity. Payment of principal and interest under the 2009 Fraternity Row Bonds was secured by certain real property constituting four fraternity houses, and by the Fraternity Row Entity's interest in certain rents and leases derived from these facilities. The Fraternity Row Entity used the proceeds of this loan to fund construction of the houses which were placed in service in August 2009.

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 6 – Long-Term Debt (Continued)

\$12,505,000 Bond Issue (Continued)

Borrowings under the 2009 Fraternity Row Loan Agreement bore interest payable semiannually on December 15 and June 15 at fixed rates ranging from 1.25% to 6.30% depending on the schedule of bond maturities. During the year ended June 30, 2017, the Fraternity Row Entity expensed all interest in connection with the 2009 Fraternity Row Loan Agreement. The 2009 Fraternity Row Bonds principal balance of \$11,070,000 was fully defeased on March 15, 2017 (see the *\$12,665,000 Bond Issue* below).

\$12,665,000 Bond Issue

On March 15, 2017, the Housing Authority issued \$12,665,000 in Revenue Refunding Bonds (UGAREF Fraternity Row, LLC Project), Taxable Series 2017 (the "2017 Fraternity Row Bonds") with interest rates ranging from 1.05% to 4.45% and entered into an agreement (the "2017 Fraternity Row Loan Agreement") with the Fraternity Row Entity to advance refund \$11,070,000 of outstanding 2009 Fraternity Row Bonds with interest rates ranging from 4.4% to 6.3%. Payment of principal and interest under the 2017 Fraternity Row Bonds is secured by certain real property constituting four fraternity houses and by Fraternity Row Entity's interest in certain rents and leases derived from these facilities.

The net proceeds of \$12,351,882 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to fund all future debt service payments on the refunded 2009 Fraternity Row Bonds. As a result, \$11,070,000 of outstanding 2009 Fraternity Row Bonds were considered to be defeased and the liability for those bonds was removed from the statement of net position for the year ended June 30, 2017.

The advance refunding resulted in a loss, which consisted of the difference between the reacquisition price and the net carrying amount of the old debt, of \$1,171,044. This difference, reported in the accompanying statements of net position as a deferred outflow of resources, is being charged to operations as interest expense through June 15, 2039, using the straight-line method. The Fraternity Row Entity completed the advance refunding to reduce its total debt service payments through 2039 by \$1,343,929 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$891,220 at an effective interest rate of 4.099%.

Borrowings under the 2017 Fraternity Row Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 1.05% to 4.45% depending on the schedule of bond maturities. During the years ended June 30, 2018 and 2017, the Fraternity Row Entity expensed all interest in connection with the 2017 Fraternity Row Loan Agreement. Principal payments are due annually on June 15 and continue through June 15, 2039. During the years ended June 30, 2018 and 2017, the Fraternity Row Entity made principal payments of \$395,000 and \$450,000, respectively.

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

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 6 – Long-Term Debt (Continued)

The following is a summary as of June 30, 2018, 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
2019	\$ 400,000	\$ 454,838
2020	405,000	447,637
2021	420,000	438,930
2022	425,000	428,430
2023	435,000	416,743
2024 - 2028	2,405,000	1,860,138
2029 - 2033	2,915,000	1,358,425
2034 - 2038	3,600,000	675,732
2039	815,000	36,267
	\$ 11,820,000	\$ 6,117,140

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

	Balance at June 30, 2017	Additions	Disposals & Reductions	Balance at June 30, 2018	Current Portion
Bonds Payable	\$ 12,215,000	\$ -	\$ (395,000)	\$ 11,820,000	\$ 400,000
Total Noncurrent Liabilities	\$ 12,215,000	\$ -	\$ (395,000)	\$ 11,820,000	\$ 400,000

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

	Balance at June 30, 2016	Additions	Disposals & Reductions	Balance at June 30, 2017	Current Portion
Bonds Payable	\$ 11,070,000	\$ 12,665,000	\$(11,520,000)	\$ 12,215,000	\$ 395,000
Net Discount	(59,296)	-	59,296	-	-
Total Noncurrent Liabilities	\$ 11,010,704	\$ 12,665,000	\$(11,460,704)	\$ 12,215,000	\$ 395,000

UGAREF FRATERNITY ROW, LLC

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 6 – Long-Term Debt (Continued)

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	\$ 460,137	\$ 608,828
Discount Amortization	-	3,062
Cost of Issuance	-	307,868
Deferred Loss Amortization	52,631	15,351
Fees	21,632	4,301
Total Interest Cost	<u>\$ 534,400</u>	<u>\$ 939,410</u>

Note 7 – Related Party Transactions

The Fraternity Row Entity has leased the Fraternity Row Entity's facilities to the Board of Regents. Through February 28, 2017, the monthly lease payments were \$90,781 which included a monthly repair and replacement component of \$6,667. Reflecting the savings of the advanced bond refunding on March 15, 2017, a First Amendment to Rental Agreement was executed for each lease changing the monthly lease payments to \$85,766, which includes a monthly repair and replacement component of \$6,667. During the years ended June 30, 2018 and 2017, capital lease interest income of \$723,105 and \$792,922, respectively, capital lease principal of \$226,089 and \$196,392, respectively, and rental income of \$80,000 and \$80,240, respectively, were recorded under these lease agreements. The lease agreements with the Board of Regents are the sole source of revenue for the Fraternity Row 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 Fraternity Row Entity be reimbursed by the Board of Regents. During the years ended June 30, 2018 and 2017, these amounts were \$51,160 and \$49,791, respectively.

The Fraternity Row 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 Fraternity Row Entity signed an agreement with the Real Estate Foundation to pay for management services of \$4,000 per month, with periods to coincide with the lease term. This agreement can be terminated by either party upon a 30 day written notice. During each of the years ended June 30, 2018 and 2017, the Fraternity Row Entity paid \$48,000 to the Real Estate Foundation for services related to this agreement.

During the year ended June 30, 2017, the Fraternity Row Entity paid \$72,049 to the University for repair projects on the four fraternity houses.



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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Robert Bachman · Scott Saucier · Dustin David · Toby Smith

Independent Auditors' Report on Supplementary Information

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

We have audited the consolidated financial statements of UGAREF Fraternity Row, LLC, as of and for the years ended June 30, 2018 and 2017 and our report thereon dated September 14, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I, II, and III is presented for purposes of additional analysis of the consolidated financial statements rather than to present financial position, results of operations, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, changes in financial position, and cash flows of the individual companies.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information in Schedules I, II, and III is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Trinity Accounting Group, P.C.

Athens, Georgia

September 14, 2018

UGAREF FRATERNITY ROW, LLC

Schedule I - Consolidating Statements of Net Position

June 30, 2018 and 2017

	CONSOLIDATED		UGAREF Fraternity Row, LLC		UGAREF Fraternity Row House #1, LLC		UGAREF Fraternity Row House #2, LLC		UGAREF Fraternity Row House #3, LLC		UGAREF Fraternity Row House #7, LLC	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
ASSETS												
Current Assets												
Cash and Cash Equivalents	\$ 964,465	\$ 857,787	\$ 275	\$ 272	\$ 273,485	\$ 243,441	\$ 272,135	\$ 242,092	\$ 273,485	\$ 243,440	\$ 145,085	\$ 128,542
Capital Leases Receivable, current portion	241,661	226,089	-	-	65,572	61,344	65,572	61,344	65,572	61,344	44,945	42,057
Total Current Assets	1,206,126	1,083,876	275	272	339,057	304,785	337,707	303,436	339,057	304,784	190,030	170,599
Noncurrent Assets												
Capital Leases Receivable, noncurrent portion	10,460,497	10,702,158	-	-	2,840,117	2,905,688	2,840,117	2,905,688	2,840,117	2,905,688	1,940,146	1,985,094
Total Noncurrent Assets	10,460,497	10,702,158	-	-	2,840,117	2,905,688	2,840,117	2,905,688	2,840,117	2,905,688	1,940,146	1,985,094
Total Assets	11,666,623	11,786,034	275	272	3,179,174	3,210,473	3,177,824	3,209,124	3,179,174	3,210,472	2,130,176	2,155,693
DEFERRED OUTFLOWS OF RESOURCES												
Deferred Loss on Refunding	1,103,062	1,155,693	-	-	300,816	315,169	300,816	315,169	300,816	315,169	200,614	210,186
LIABILITIES												
Current Liabilities												
Accrued Interest Payable	18,952	19,182	-	-	5,148	5,210	5,148	5,210	5,148	5,210	3,508	3,552
Advance Rent Receipts	6,667	6,667	-	-	1,811	1,811	1,811	1,811	1,811	1,811	1,234	1,234
Advance Lease Payment Receipts	79,100	79,100	-	-	21,485	21,485	21,485	21,485	21,485	21,485	14,645	14,645
Bonds Payable, current portion	400,000	395,000	-	-	108,646	107,288	108,646	107,288	108,646	107,288	74,062	73,136
Total Current Liabilities	504,719	499,949	-	-	137,090	135,794	137,090	135,794	137,090	135,794	93,449	92,567
Noncurrent Liabilities												
Bonds Payable, noncurrent portion	11,420,000	11,820,000	-	-	3,101,840	3,210,485	3,101,840	3,210,485	3,101,840	3,210,485	2,114,480	2,188,545
Total Noncurrent Liabilities	11,420,000	11,820,000	-	-	3,101,840	3,210,485	3,101,840	3,210,485	3,101,840	3,210,485	2,114,480	2,188,545
Total Liabilities	11,924,719	12,319,949	-	-	3,238,930	3,346,279	3,238,930	3,346,279	3,238,930	3,346,279	2,207,929	2,281,112
NET POSITION												
Unrestricted	844,966	621,778	275	272	241,060	179,363	239,710	178,014	241,060	179,362	122,861	84,767
Total Net Position	\$ 844,966	\$ 621,778	\$ 275	\$ 272	\$ 241,060	\$ 179,363	\$ 239,710	\$ 178,014	\$ 241,060	\$ 179,362	\$ 122,861	\$ 84,767

See independent auditors' report and notes to financial statements.

UGAREF FRATERNITY ROW, LLC

Schedule II - Consolidating Statements of Revenues, Expenses, and Changes in Net Position

June 30, 2018 and 2017

	CONSOLIDATED		UGAREF Fraternity Row, LLC		UGAREF Fraternity Row House #1, LLC		UGAREF Fraternity Row House #2, LLC		UGAREF Fraternity Row House #3, LLC		UGAREF Fraternity Row House #7, LLC	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating Revenues												
Rental Income	\$ 80,000	\$ 80,240	\$ -	\$ 240	\$ 21,729	\$ 21,723	\$ 21,729	\$ 21,723	\$ 21,729	\$ 21,723	\$ 14,813	\$ 14,831
Capital Lease Interest Income	723,105	792,922	-	-	196,471	215,328	196,471	215,328	196,471	215,328	133,692	146,938
Total Operating Revenues	803,105	873,162	-	240	218,200	237,051	218,200	237,051	218,200	237,051	148,505	161,769
Operating Expenses												
<i>Project Expenses</i>												
Legal and Accounting	5,937	6,854	-	-	1,613	1,861	1,613	1,861	1,613	1,861	1,098	1,271
Management Fees	48,000	48,000	-	-	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Repair and Replacement Expenditures	-	72,049	-	-	-	18,012	-	18,012	-	18,012	-	18,013
Other Expenses	265	552	-	59	68	124	68	124	68	124	61	121
Total Operating Expenses	54,202	127,455	-	59	13,681	31,997	13,681	31,997	13,681	31,997	13,159	31,405
Operating Income	748,903	745,707	-	181	204,519	205,054	204,519	205,054	204,519	205,054	135,346	130,364
Nonoperating Revenues (Expenses)												
Investment Income	8,685	5,572	3	1	2,386	1,531	2,385	1,531	2,387	1,531	1,524	978
Interest Expense, net	(534,400)	(939,410)	-	-	(145,208)	(255,119)	(145,208)	(255,119)	(145,208)	(255,119)	(98,776)	(174,053)
Total Nonoperating Revenues (Expenses)	(525,715)	(933,838)	3	1	(142,822)	(253,588)	(142,823)	(253,588)	(142,821)	(253,588)	(97,252)	(173,075)
Change in Net Position	223,188	(188,131)	3	182	61,697	(48,534)	61,696	(48,534)	61,698	(48,534)	38,094	(42,711)
Net Position												
Beginning of Year	621,778	809,909	272	90	179,363	227,897	178,014	226,548	179,362	227,896	84,767	127,478
End of Year	\$ 844,966	\$ 621,778	\$ 275	\$ 272	\$ 241,060	\$ 179,363	\$ 239,710	\$ 178,014	\$ 241,060	\$ 179,362	\$ 122,861	\$ 84,767

See independent auditors' report and notes to financial statements.

UGAREF FRATERNITY ROW, LLC

Schedule III - Consolidating Statements of Cash Flows

June 30, 2018 and 2017

	CONSOLIDATED		UGAREF Fraternity Row, LLC		UGAREF Fraternity Row House #1, LLC		UGAREF Fraternity Row House #2, LLC		UGAREF Fraternity Row House #3, LLC		UGAREF Fraternity Row House #7, LLC	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cash Flows from Operating Activities												
Receipts from Rental Income	\$ 80,000	\$ 80,240	\$ -	\$ 240	\$ 21,729	\$ 21,724	\$ 21,729	\$ 21,724	\$ 21,729	\$ 21,724	\$ 14,813	\$ 14,828
Receipts of Principal on Capital Leases	227,349	199,458	-	-	61,685	54,137	61,685	54,137	61,685	54,137	42,294	37,047
Receipts of Interest on Capital Leases	721,845	784,841	-	-	196,129	213,147	196,129	213,147	196,129	213,147	133,458	145,400
Receipts for Payments Reimbursable by the University	51,160	49,791	-	-	13,431	13,059	13,431	13,059	13,431	13,059	10,867	10,614
Payments of Management Fees	(48,000)	(48,000)	-	-	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)
Payments to Suppliers of Goods and Services	(6,202)	(79,455)	-	(59)	(1,681)	(19,997)	(1,681)	(19,997)	(1,681)	(19,997)	(1,159)	(19,405)
Payments Reimbursable by the University	(51,160)	(49,791)	-	-	(13,431)	(13,059)	(13,431)	(13,059)	(13,431)	(13,059)	(10,867)	(10,614)
Net Cash from Operating Activities	<u>974,992</u>	<u>937,084</u>	<u>-</u>	<u>181</u>	<u>265,862</u>	<u>257,011</u>	<u>265,862</u>	<u>257,011</u>	<u>265,862</u>	<u>257,011</u>	<u>177,406</u>	<u>165,870</u>
Cash Flows from Investing Activities												
Investment Income	8,685	5,572	3	1	2,386	1,531	2,385	1,531	2,387	1,531	1,524	978
Net Cash from Investing Activities	<u>8,685</u>	<u>5,572</u>	<u>3</u>	<u>1</u>	<u>2,386</u>	<u>1,531</u>	<u>2,385</u>	<u>1,531</u>	<u>2,387</u>	<u>1,531</u>	<u>1,524</u>	<u>978</u>
Cash Flows from Capital and Related Financing Activities												
Proceeds from Sale of Bonds	-	269,418	-	-	-	73,178	-	73,178	-	73,178	-	49,884
Payment of Bond Issuance Costs	-	(264,169)	-	-	-	(71,752)	-	(71,752)	-	(71,752)	-	(48,913)
Interest Payments on Long-Term Debt	(481,999)	(454,719)	-	-	(130,917)	(123,470)	(130,917)	(123,470)	(130,917)	(123,470)	(89,248)	(84,309)
Principal Repayment on Bonds Payable	(395,000)	(450,000)	-	-	(107,287)	(122,228)	(107,287)	(122,228)	(107,287)	(122,228)	(73,139)	(83,316)
Net Cash from Capital and Related Financing Activities	<u>(876,999)</u>	<u>(899,470)</u>	<u>-</u>	<u>-</u>	<u>(238,204)</u>	<u>(244,272)</u>	<u>(238,204)</u>	<u>(244,272)</u>	<u>(238,204)</u>	<u>(244,272)</u>	<u>(162,387)</u>	<u>(166,654)</u>
Net Change in Cash and Cash Equivalents	106,678	43,186	3	182	30,044	14,270	30,043	14,270	30,045	14,270	16,543	194
Cash and Cash Equivalents												
Beginning of Year	<u>857,787</u>	<u>814,601</u>	<u>272</u>	<u>90</u>	<u>243,441</u>	<u>229,171</u>	<u>242,092</u>	<u>227,822</u>	<u>243,440</u>	<u>229,170</u>	<u>128,542</u>	<u>128,348</u>
End of Year	<u>\$ 964,465</u>	<u>\$ 857,787</u>	<u>\$ 275</u>	<u>\$ 272</u>	<u>\$ 273,485</u>	<u>\$ 243,441</u>	<u>\$ 272,135</u>	<u>\$ 242,092</u>	<u>\$ 273,485</u>	<u>\$ 243,440</u>	<u>\$ 145,085</u>	<u>\$ 128,542</u>
Reconciliation of Operating Income to Net Cash from Operating Activities												
Operating Income	\$ 748,903	\$ 745,707	\$ -	\$ 181	\$ 204,519	\$ 205,054	\$ 204,519	\$ 205,054	\$ 204,519	\$ 205,054	\$ 135,346	\$ 130,364
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities												
Receipts of Principal on Capital Leases	227,349	199,458	-	-	61,685	54,137	61,685	54,137	61,685	54,137	42,294	37,047
Changes in Assets and Liabilities												
Advance Rent Receipts Liabilities	-	-	-	-	-	1	-	1	-	1	-	(3)
Advance Lease Payment Receipts Liabilities	(1,260)	(8,081)	-	-	(342)	(2,181)	(342)	(2,181)	(342)	(2,181)	(234)	(1,538)
Net Cash from Operating Activities	<u>\$ 974,992</u>	<u>\$ 937,084</u>	<u>\$ -</u>	<u>\$ 181</u>	<u>\$ 265,862</u>	<u>\$ 257,011</u>	<u>\$ 265,862</u>	<u>\$ 257,011</u>	<u>\$ 265,862</u>	<u>\$ 257,011</u>	<u>\$ 177,406</u>	<u>\$ 165,870</u>
Schedule of Noncash Investing, Capital and Related Financing Activity												
Bonds Payable Refunded through New Bond Issue and Related Cost of Issuance	\$ -	\$ 12,395,582	\$ -	\$ -	\$ -	\$ 3,366,822	\$ -	\$ 3,366,822	\$ -	\$ 3,366,822	\$ -	\$ 2,295,116

See independent auditors' report and notes to financial statements.