

**GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
(A Nonprofit Organization)**

FINANCIAL REPORT

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Georgia Southern University
Housing Foundation, Inc. and Subsidiaries

We have audited the accompanying financial statements of the Georgia Southern University Housing Foundation, Inc. and Subsidiaries (the Foundation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Georgia Southern University Housing Foundation, Inc. and Subsidiaries, as of June 30, 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was made for the purpose of forming an opinion on the financial statements of the Georgia Southern University Housing Foundation, Inc. and Subsidiaries as a whole. The accompanying information listed as supplementary data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Foundation. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Reddick, Riggs and Hunter, P. C.

Statesboro, Georgia

August 31, 2018

**GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES**
Statement of Financial Position
June 30, 2018

<u>ASSETS</u>		
Cash		\$ 2,288,634
Restricted cash		31,879,724
Accrued interest receivable		32,000
Receivables		
Other		504
Investments		5,997,280
Prepaid expenses		73,197
Net investment in direct financing leases		221,965,117
Property, plant and equipment, net of accumulated depreciation		<u>1,620,000</u>
Total Assets		<u><u>\$ 263,856,456</u></u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities		
Accounts payable		\$ 6,904
Accrued interest payable		3,914,867
Other liabilities		10,558
Due to Georgia Southern University		2,596,400
Deferred repairs & maintenance		566,562
Deferred gains on capital leases		75,231
Bonds payable		<u>226,075,508</u>
Total liabilities		<u>233,246,030</u>
Net Assets		
Net assets without donor restrictions		<u>30,610,426</u>
Total net assets		<u>30,610,426</u>
Total Liabilities and Net Assets		<u><u>\$ 263,856,456</u></u>

The Notes to Financial Statements are an integral part of these statements.

GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
Statement of Activities
For the Year Ended June 30, 2018

REVENUES, GAINS AND OTHER SUPPORT

Capital lease income	
Gain on capital leases	\$ 34,026
Lease interest	9,715,629
Replacement Reserve income	1,619,796
Interest and dividends, net of investment expenses of \$8,935	334,694
Realized gains (losses) on investments	154,223
Unrealized gains (losses) on investments	98,578
Rental income	529,449
Other revenues	5,601
Gain (loss) on lease modification	<u>70,054</u>
Total revenues, gains and support	<u>12,562,050</u>

OPERATING EXPENSES

Dues and fees	60,443
Insurance	9,579
Interest expense	
Interest on bonds	8,961,978
Amortization of original issue discount	16,212
Accretion of original issue premium	(913,709)
Amortization of cost of issuance	197,813
Professional services	329,635
Rental expenses	343,951
Repair and replacement expenses	2,036,401
Other administrative expenses	4,161
Other expense	11,895
Gift / Transfer to Georgia Southern University	625,851
Impairment of long-lived asset	198,692
Gain (loss) on refunding of debt	<u>1,105,699</u>
Total expenses	<u>12,988,601</u>

CHANGE IN NET ASSETS BEFORE ACQUISITION INCOME (426,551)

Contribution from Acquisition 5,760,575

CHANGE IN NET ASSETS 5,334,024

NET ASSETS, beginning of year 25,276,402

NET ASSETS, end of year \$ 30,610,426

The Notes to Financial Statements are an integral part of these statements.

GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
Statement of Functional Expenses
For the Year Ended June 30, 2018

	<u>Program Activities</u>	<u>Supporting Activities</u>	
	<u>Student Facilities</u>	<u>Management and General</u>	<u>Total Expenses</u>
Dues and fees	19,983	40,460	60,443
Insurance	-	9,579	9,579
Interest expense			
Interest on bonds	8,961,978	-	8,961,978
Amortization of original issue discount	16,212	-	16,212
Accretion of original issue premium	(913,709)	-	(913,709)
Amortization of cost of issuance	197,813	-	197,813
Professional services	193,976	135,659	329,635
Rental expenses	343,951	-	343,951
Repair and replacement expenses	2,036,401	-	2,036,401
Other administrative expenses	4,161	-	4,161
Other expense	11,895	-	11,895
Gift / Transfer to Georgia Southern University	625,851	-	625,851
Impairment of long-lived asset	198,692	-	198,692
Gain (loss) on refunding of debt	<u>1,105,699</u>	<u>-</u>	<u>1,105,699</u>
Total expenses	<u>\$ 12,802,903</u>	<u>\$ 185,698</u>	<u>\$ 12,988,601</u>

The Notes to Financial Statements are an integral part of these statements.

GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
Statement of Cash Flows
For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Lease interest received	\$ 9,145,973
Replacement reserve income received	1,619,796
Cash paid to suppliers	(3,877,744)
Interest paid (net of amount capitalized)	(11,687,895)
Interest and investment income	431,426
Other income received	<u>534,546</u>
Net cash provided (used) by operating activities	<u>(3,833,898)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(298,208)
Proceeds from termination of DSR Repurchase agreement	1,213,000
Principal payments on net investments in direct financing leases	9,572,311
Contributed assets on acquisition	<u>5,691,297</u>
Net cash provided by investing activities	<u>16,178,400</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Payment of bond issuance costs	(609,133)
Proceeds from issuance of long-term debt	56,965,485
Principal payments on bond obligations	(70,740,000)
Payment of amounts due to Georgia Southern University	<u>(1,032,799)</u>
Net cash used by financing activities	<u>(15,416,447)</u>

NET DECREASE IN CASH AND EQUIVALENTS (3,071,945)

CASH AND EQUIVALENTS, beginning of year 37,240,303

CASH AND EQUIVALENTS, end of year \$ 34,168,358

The Notes to Financial Statements are an integral part of these statements.

GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
Statement of Cash Flows
For the Year Ended June 30, 2018

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Change in net assets acquisition income	<u>\$ (426,551)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Amortization of bond issuance costs	197,813
Amortization of bond premium (discount)	(897,497)
Realized gains on investments	(154,223)
Unrealized gains on investments	(98,578)
Loss (Gain) on lease modification	(70,054)
Decrease (increase) in operating assets:	
Interest income receivable	96,732
Other receivables	(504)
Prepaid expenses	11,166
Increase (decrease) in operating liabilities:	
Accounts payable	(1,271,556)
Accrued interest	(900,601)
Other liabilities	566,562
Unearned revenue	(569,656)
Deferred gain on capital lease	(34,026)
Other liabilities	<u>(282,925)</u>
Total adjustments	<u>(3,407,347)</u>
Net cash provided (used) by operating activities	<u><u>\$ (3,833,898)</u></u>

Supplemental Disclosure of Cash Flow Information

Noncash investing and financing activities:	
Contribution of property to Georgia Southern University	<u>\$ (240,000)</u>
Net noncash contributions on acquisition	<u><u>\$ 69,278</u></u>

The Notes to Financial Statements are an integral part of these statements.

GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
Notes to Financial Statements
June 30, 2018

Note 1. Organization

Georgia Southern University Housing Foundation, Inc. and Subsidiaries (the Foundation) is an independent nonprofit organization located in Statesboro, Georgia whose purpose is to acquire, construct or improve student housing and other student facilities. The construction projects completed include acquisition, construction and/or renovation of seven housing facilities, containing approximately 4,540 beds, as well construction or improvements to other student facilities, including student recreation facilities, various athletic facilities, dining facilities, and continuing education facilities located on land owned by Georgia Southern University (the University).

Note 2. Significant Accounting Policies

A summary of the Foundation's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting:

The Foundation utilizes the accrual method of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred. The financial statements include the financial position and activities of the Georgia Southern University Housing Foundation, Inc. as well as its subsidiaries.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with a maturity date of three months or less to be cash equivalents.

Investments:

Investments are reported at fair value based on the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 investments are investments for which fair value is derived from quoted prices in active markets for identical assets the Foundation has the ability to access at the measurement date. Level 2 investments are investments for which fair value is derived from other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 3 investments are investments for which fair value is derived from significant unobservable inputs.

All investments in debt and equity securities with a readily determinable market value are reported at fair value with gains and losses included in the consolidated statements of activities based on quotations obtained from national securities exchanges. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by external investment managers. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in estimating the fair value of the alternative investments. The estimated fair values may differ significantly from the values that would have been used had ready markets for these securities existed.

Note 2. Significant Accounting Policies (continued)

Investments: (continued)

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated in the values of investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

Income Taxes:

The Foundation is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation adopted the income tax standard for uncertain tax positions on January 1, 2009. As a result of the implementation, the Foundation evaluated its tax positions and determined it has no uncertain tax positions as of June 30, 2018. The years ended June 30, 2015, 2016, 2017 and 2018 are open for potential review and adjustment by the Internal Revenue Service or the Georgia Department of Revenue under the statute of limitations. The organization has no unrelated business income that could produce tax liabilities under the Internal Revenue Code or the laws of the State of Georgia. Therefore, no tax liability has been reflected in the financial statements.

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.

Consolidation policy:

The accompanying consolidated financial statements include the accounts of the parent corporation and all of its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated in the consolidation.

Recent Accounting Pronouncements:

During the year ended June 30, 2018, the Foundation adopted the provisions of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The provisions of ASU 2016-14 reduces the number of classes of net assets from three to two, Net Assets with Donor Restrictions, and Net Assets without Donor Restrictions. Items previously treated as temporarily restricted due to legal covenant created by the Foundation's bonded debt do not meet the criteria of Net Assets with Donor Restrictions, and are therefore reflected in Net Assets without Donor Restrictions. The effects of the application of ASU 2016-14 have also been applied as of and for the year ended June 30, 2017, with beginning Net Assets recharacterized under the new criteria.

Others:

Management has evaluated subsequent events through August 31, 2018, the date the financial statements were available to be issued.

Note 3. Restricted Cash Balance Funds

Restricted cash balances as of June 30, 2018:

Repairs and Replacement	\$ 13,265,861
Principal	6,882,755
Interest	4,386,334
Debt service reserve	7,022,693
Other	<u>322,081</u>
Total	<u>\$ 31,879,724</u>

Note 4. Investments

A summary of the aggregate cost and fair value of investment securities as of June 30, 2018 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
BOR Investment Pools:		
Cash and equivalents	\$ 11,809	\$ 11,809
Money market funds	77,054	76,967
Equity securities	1,909,798	2,271,230
Mutual funds	<u>3,431,506</u>	<u>3,637,274</u>
Total	<u>\$ 5,430,167</u>	<u>\$ 5,997,280</u>

The Foundation's investment assets recorded at fair value have been categorized based upon a fair value hierarchy (See Note 2) as of June 30, 2018 as follows:

	<u>Level 1</u>	<u>Total</u>
BOR Investment Pools:		
Cash and equivalents	\$ 11,809	\$ 11,809
Money market funds	76,967	76,967
Equity securities	2,271,230	2,271,230
Mutual funds	<u>3,637,274</u>	<u>3,637,274</u>
Total	<u>\$ 5,997,280</u>	<u>\$ 5,997,280</u>

The Foundation has invested in various funds through the pooled investment program of the Board of Regents of the University System of Georgia managed through Suntrust through its Foundations and Endowments Specialty Practice. The Funds consisted of blended instruments, including large cap domestic equities, small cap domestic equities, mid cap domestic equities, international and emerging markets equity, real estate, high yield fixed income, global fixed income and alternative investments. The investment pool does not issue shares. Each participant enters the investment pool voluntarily and is allocated a pro rata share of each investment held by the pool, along with a pro rata share of the income each investment earns. The amounts presented are broken out by natural classification.

The fair value of the investment pool is determined daily. There are no unfunded commitments, lockout periods, or redemption terms as of June 30, 2018, respectively. The pooled funds are considered to mature within a year.

Note 5. Property, Plant and Equipment, net

The following is a summary of property, plant and equipment at cost, less accumulated depreciation:

Land	<u>\$ 1,620,000</u>
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Note 6. Lease Agreements

The Foundation's net investment in direct financing leases as of June 30, 2018 consisted of the following:

GSUHF1

Capital lease of student housing facilities (Southern Courtyard and Southern Pines) to Georgia Southern University, in the original amount of \$42,668,051, commencing in September, 2003, renewable annually up to 30 years \$ 25,984,784

GSUHF2

Capital lease of student housing facilities (Eagle Village) to Georgia Southern University, in the original amount of \$30,179,998, commencing in August, 2005, renewable annually up to 30 years 18,764,060

Capital lease of an athletic training facility to Georgia Southern University, in the original amount of \$694,056, commencing in August, 2005, renewable annually up to 30 years 421,611

Capital lease of the J I Clements Baseball Stadium to Georgia Southern University, in the original amount of \$2,230,350, commencing in August, 2005, renewable annually up to 30 years 1,355,771

Capital lease of the soccer and track stadium to Georgia Southern University, in the original amount of \$1,677,441, commencing in August, 2005, renewable annually up to 30 years 1,018,537

GSUHF3

Capital lease of the Recreational Activities Complex (RAC) to Georgia Southern University, in the original amount of \$40,264,057, commencing in August, 2006, modified in November, 2015, renewable up to 14 years 24,381,374

GSUHF4

Capital lease of student housing facilities (Centennial Place) to Georgia Southern University, in the original amount of \$56,096,073, commencing in August, 2009, renewable annually up to 30 years 46,366,032

Capital lease of student housing facilities (University Villas) to Georgia Southern University, in the original amount of \$13,385,741, commencing in August, 2008, renewable annually up to 29 years 11,656,079

GSUHF5

Capital lease of student housing facilities (Freedom's Landing) to Georgia Southern University, in the original amount of \$34,599,940, commencing in August, 2012, renewable annually up to 28 years 33,103,115

GSUHF6

Capital lease of student dining facilities (Dining Commons) to Georgia Southern University, in the original amount of \$18,321,141, commencing in August, 2013, renewable annually up to 29 years 17,218,086

Capital lease of student dining facilities (Lakeside Dining) to Georgia Southern University, in the original amount of \$7,851,917, commencing in August, 2013, renewable annually up to 29 years 7,446,143

AC

Capital lease of the Armstrong Center to the Armstrong campus of the newly consolidated Georgia Southern University, in the original amount of \$12,531,528, commencing in May, 2005, renewable annually up to 19 years 11,611,337

ASUSU

Capital lease of the Armstrong Student Union facility to Armstrong Campus of the newly consolidated Georgia Southern University, in the original amount of \$23,517,138, commencing in January, 2009, renewable annually up to 22 years 22,638,188

Total net investment in direct financing leases \$ 221,965,117

Note 6. Lease Agreements (continued)

A. Georgia Southern University Housing Foundation One, LLC

Georgia Southern University Housing Foundation One, LLC (*GSUHFI*) has a direct financing lease agreement with the Board of Regents of the University System of Georgia (the Board of Regents) for two student housing facilities, Southern Courtyard and Southern Pines. The lease began upon construction completion and the receipt of a certificate of occupancy, commencing September, 2003. The monthly lease payment amount is \$236,493. This amount will be utilized to maintain the housing facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. This lease is renewable annually up to 30 years.

GSUHFI is the lessee of the land upon which the housing facilities are located. This lease is payable to the Board of Regents at \$10 per year for a primary term of 27 years, subject to a 5 year extension. This lease commenced after the receipt of the certificate of occupancy.

The following is a summary of the components of *GSUHFI's* net investment in the direct financing lease at June 30, 2018:

Total minimum lease payments to be received	\$ 34,527,978
Unearned interest income	<u>(8,543,194)</u>
Net investment in direct financing lease	<u>\$ 25,984,784</u>

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

June 30, 2019	\$ 2,837,916
2020	2,837,916
2021	2,837,916
2022	2,837,916
2023	2,837,916
Thereafter	<u>20,338,398</u>
Total	<u>\$ 34,527,978</u>

B. Georgia Southern University Housing Foundation Two, LLC

Georgia Southern University Housing Foundation Two, LLC (*GSUHF2*) has four rental agreements with the Board of Regents for a student housing facility, Eagle Village, as well as a soccer and track stadium, the J I Clements baseball stadium, and an athletic training center. The leases began upon construction completion and the receipt of a certificate of occupancy in August, 2005. The monthly rental amounts vary each year. The student housing lease monthly income amounts vary from \$182,297 to \$192,682. The weight room lease monthly income amounts vary from \$4,091 to \$4,149. The soccer field lease monthly income amounts vary from \$9,892 to \$9,999. The baseball facilities lease monthly income amounts vary from \$13,140 to \$13,333. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. These leases are renewable annually up to 30 years.

GSUHF2 is the lessee of the land upon which the facilities are located. This lease is payable to the Board of Regents at \$10 per year for a primary term of 25 years, subject to a 5 year extension. This lease commenced after the receipt of the certificate of occupancy.

Note 6. Lease Agreements (continued)

B. Georgia Southern University Housing Foundation Two, LLC (continued)

The following is a summary of the components of *GSUHF2's* net investment in the direct financing leases at June 30, 2018:

	<u>Eagle Village</u>	<u>Athletic Training Center</u>	<u>J I Clements Baseball Stadium</u>	<u>Soccer and Track Stadium</u>	<u>Total 2018</u>
Total minimum lease payments to be received	\$ 27,792,766	\$ 548,373	\$ 1,763,832	\$ 1,325,042	\$ 31,430,013
Unfunded replacement reserve	(2,875,318)	-	-	-	(2,875,318)
Unearned interest income	<u>(6,153,388)</u>	<u>(126,762)</u>	<u>(408,061)</u>	<u>(306,505)</u>	<u>(6,994,716)</u>
Net investment in direct financing lease	<u>\$ 18,764,060</u>	<u>\$ 421,611</u>	<u>\$ 1,355,771</u>	<u>\$ 1,018,537</u>	<u>\$ 21,559,979</u>

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

	<u>Eagle Village</u>	<u>Athletic Training Center</u>	<u>J I Clements Baseball Stadium</u>	<u>Soccer and Track Stadium</u>	<u>Total</u>
June 30, 2019	\$ 2,295,228	\$ 49,584	\$ 159,288	\$ 119,484	\$ 2,623,584
2020	2,291,856	49,584	159,312	118,496	2,619,248
2021	2,295,792	49,512	159,060	119,496	2,623,860
2022	2,296,512	49,356	158,544	119,328	2,623,740
2023	2,294,004	49,128	157,776	118,968	2,619,876
Thereafter	<u>16,319,374</u>	<u>301,209</u>	<u>969,852</u>	<u>729,270</u>	<u>18,319,705</u>
Total	<u>\$ 27,792,766</u>	<u>\$ 548,373</u>	<u>\$ 1,763,832</u>	<u>\$ 1,325,042</u>	<u>\$ 31,430,013</u>

C. Georgia Southern University Housing Foundation Three, LLC

Georgia Southern University Housing Foundation Three, LLC (*GSUHF3*) has a rental agreement with the Board of Regents for the Recreation Athletic Center, including outdoor amenities. The lease began upon construction completion and the receipt of a certificate of occupancy, commencing in August, 2006. The lease monthly income amounts varied from \$74,448 to \$266,095. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund.

Upon the issuance of refunding bonds as described at Note 7.C. in November, 2015, Georgia Southern University Housing Foundation Three, LLC (*GSUHF3*) modified the rental agreement to pass-through the economic benefit of the refunding to the Board of Regents. The monthly rental income amounts vary each year. The modified lease monthly income amounts vary from \$246,292 to \$235,253. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. This lease is renewable annually up to 14 years.

Note 6. Lease Agreements (continued)

C. Georgia Southern University Housing Foundation Three, LLC (continued)

GSUHF3 is the lessee of the land upon which the additional facilities are located. This lease is payable to the Board of Regents at \$10 per year for a primary term of 25 years, subject to a 5 year extension. This lease commenced after the receipt of the certificate of occupancy. As additional consideration for the leasing of the existing Recreation Athletic Center for the term of the lease, the lessee paid to the lessor the sum of \$4,500,000, which was being amortized over the life of the lease. Upon modification of the lease as noted above, the ground lease was modified, and the remaining prepaid rent was recognized in the year ended June 30, 2016.

The net present value capital lease calculations of the original lease resulted in the net present value exceeding the costs by \$6,625,678. This difference was being amortized over the life of the lease and is recognized annually as a gain on capital lease. The lease payments were determined in advance of the start of the project, therefore, the actual costs to complete the projects differed from the net present values. Upon modification of the lease, the remaining unamortized gain was recognized in the year ended June 30, 2016.

The following is a summary of the components of *GSUHF3's* net investment in the direct financing lease at June 30, 2018:

Total minimum lease payments to be received	\$ 33,164,428
Unfunded replacement reserve	(3,993,562)
Unearned interest income	<u>(4,789,492)</u>
Net investment in direct financing lease	<u>\$ 24,381,374</u>

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

June 30, 2019	\$ 2,712,188
2020	2,718,448
2021	2,726,468
2022	2,741,955
2023	2,743,267
Thereafter	<u>19,522,102</u>
Total	<u>\$ 33,164,428</u>

D. Georgia Southern University Housing Foundation Four, LLC

Georgia Southern University Housing Foundation Four, LLC (*GSUHF4*) has two rental agreements with the Board of Regents for student housing facilities, University Villas (originally known as Campus Courtyard) and Centennial Place. The leases began upon acquisition/construction completion and the receipt of a certificate of occupancy, with the University Villas lease commencing August, 2008, and the Centennial Place lease commencing August, 2009. The monthly rental amounts vary each year. The original University Villas lease monthly income amounts vary from \$41,573 to \$130,110. The original Centennial Place lease monthly income amounts vary from \$211,312 to \$370,066. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. The University Villas lease is renewable annually up to 29 years, while the Centennial Place lease is renewable up to 30 years.

Note 6. Lease Agreements (continued)

D. Georgia Southern University Housing Foundation Four, LLC (continued)

Upon the issuance of refunding bonds as described at Note 7.D. in August, 2017, Georgia Southern University Housing Foundation Four, LLC (*GSUHF4*) modified the rental agreement to pass-through the economic benefit of the refunding to the Board of Regents. The University Villas lease monthly income amounts vary from \$89,066 to \$112,558. The Centennial Place lease monthly income amounts vary from \$273,689 to \$305,335. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. This lease is renewable annually up to 14 years. The lease modification resulted in a gain of \$1,495,130 and represents the change in the carrying amount of the capital lease receivable as a result of the lease modification.

GSUHF4 is the lessee of the land upon which the additional facilities are located. This lease is payable to the Board of Regents at \$10 per year for a primary term of 30 years, subject to a 5 year extension. This lease commenced after the receipt of the certificate of occupancy.

The net present value capital lease calculations of this project resulted in the net present value exceeded the costs by \$6,819,148. This difference was being amortized over the life of the lease and was recognized annually as a gain on capital lease. The lease payments were determined in advance of the start of the project, therefore, the actual costs to complete the projects differed from the net present values. Upon modification of the lease, the remaining unamortized gain was recognized in the year ended June 30, 2018.

The following is a summary of the components of *GSUHF4's* net investment in the direct financing leases at June 30, 2018:

	<u>Centennial Place</u>	<u>University Villas</u>	<u>Total 2018</u>
Total minimum lease payments to be received	\$ 70,870,057	\$ 24,382,598	\$ 95,252,655
Unfunded replacement reserve	(6,816,496)	(8,276,495)	(15,092,991)
Unearned interest income	<u>(17,687,529)</u>	<u>(4,450,024)</u>	<u>(22,137,553)</u>
Net investment in direct financing lease	<u>\$ 46,366,032</u>	<u>\$ 11,656,079</u>	<u>\$ 58,022,111</u>

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

	<u>Centennial Place</u>	<u>University Villas</u>	<u>Total</u>
June 30, 2019	\$ 3,409,921	\$ 1,097,076	\$ 4,506,997
2020	3,464,815	1,122,196	4,587,011
2021	3,473,928	1,132,114	4,606,042
2022	3,480,330	1,141,582	4,621,912
2023	3,488,028	1,151,609	4,639,637
Thereafter	<u>53,553,035</u>	<u>18,738,021</u>	<u>72,291,056</u>
Total	<u>\$ 70,870,057</u>	<u>\$ 24,382,598</u>	<u>\$ 95,252,655</u>

Note 6. Lease Agreements (continued)

E. Georgia Southern University Housing Foundation Five, LLC

Georgia Southern University Housing Foundation Five, LLC (*GSUHF5*) has a rental agreement with the Board of Regents for student housing facilities, Freedom's Landing (originally known as Campus Club), including amenities to include a pool and surface parking. The lease began upon renovation completion and the receipt of a certificate of occupancy, commencing in August, 2012. The monthly rental income amounts vary each year. The lease monthly income amounts vary from \$205,245 to \$325,099. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. This lease is renewable annually up to 30 years.

GSUHF5 is the lessee of the land upon which the housing facilities are located. This lease is payable to the Board of Regents at \$10 per year for a primary term of 30 years, subject to a 5 year extension. This lease commenced after the receipt of the certificate of occupancy.

The following is a summary of the components of *GSUHF5's* net investment in the direct financing lease at June 30, 2018:

Total minimum lease payments to be received	\$ 83,408,845
Unfunded replacement reserve	(13,746,021)
Unearned interest income	<u>(36,559,709)</u>
Net investment in direct financing lease	<u>\$ 33,103,115</u>

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

June 30, 2019	\$ 3,402,805
2020	3,420,602
2021	3,437,240
2022	3,451,886
2023	3,469,552
Thereafter	<u>66,226,760</u>
Total	<u>\$ 83,408,845</u>

F. Georgia Southern University Housing Foundation Six, LLC

Georgia Southern University Housing Foundation Six, LLC (*GSUHF6*) has two rental agreements with the Board of Regents for student dining facilities, Dining Commons and Lakeside Dining. The leases began upon construction completion and the receipt of a certificate of occupancy, commencing August, 2013. The monthly rental amounts vary each year. The Dining Commons lease monthly income amounts vary from \$67,126 to \$123,027. The Lakeside Dining lease monthly income amounts vary from \$28,658 to \$55,892. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. These leases are renewable annually up to 30 years.

GSUHF6 is the lessee of the land upon which the dining facilities are located. This lease is payable to the Board of Regents at \$10 per year for a primary term of 30 years, subject to a 5 year extension. This lease commenced after the receipt of the certificate of occupancy.

Note 6. Lease Agreements (continued)

F. Georgia Southern University Housing Foundation Six, LLC (continued)

The following is a summary of the components of *GSUHF6*'s net investment in the direct financing leases at June 30, 2018:

	<u>Dining Commons</u>	<u>Lakeside Dining</u>	<u>Total 2018</u>
Total minimum lease payments to be received	\$ 32,685,553	\$ 14,510,394	\$ 47,195,947
Unfunded replacement reserve	(2,842,431)	(1,218,186)	(4,060,617)
Unearned interest income	<u>(12,625,036)</u>	<u>(5,846,065)</u>	<u>(18,471,101)</u>
Net investment in direct financing lease	<u>\$ 17,218,086</u>	<u>\$ 7,446,143</u>	<u>\$ 24,664,229</u>

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

	<u>Dining Commons</u>	<u>Lakeside Dining</u>	<u>Total</u>
June 30, 2019	\$ 1,280,711	\$ 560,442	\$ 1,841,153
2020	1,283,397	561,691	1,845,088
2021	1,290,701	565,584	1,856,285
2022	1,297,786	567,835	1,865,621
2023	1,303,862	570,407	1,874,269
Thereafter	<u>26,229,096</u>	<u>11,684,435</u>	<u>37,913,531</u>
Total	<u>\$ 32,685,553</u>	<u>\$ 14,510,394</u>	<u>\$ 47,195,947</u>

G. Armstrong Center, LLC

Armstrong Center, LLC (*AC*) has a rental agreement with the Board of Regents for professional and continuing education facilities, known as the Armstrong Center, for the Armstrong campus of the newly consolidated Georgia Southern University. The lease began in May, 2005 upon renovation completion and the receipt of a certificate of occupancy. The monthly rental income amounts vary each year. The lease monthly income amounts vary from \$37,227 to \$77,039. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. This lease is renewable annually up to 29 years.

AC is the lessee of the land upon which the housing facilities are located. This lease is payable to the Board of Regents at \$1 per year for a primary term of 29 years, subject to a 5 year extension. This lease commenced after the receipt of the certificate of occupancy.

The following is a summary of the components of *AC*'s net investment in the direct financing lease at June 30, 2018:

Total minimum lease payments to be received	\$ 18,260,076
Unfunded replacement reserve	(1,954,483)
Unearned interest income	<u>(4,694,256)</u>
Net investment in direct financing lease	<u>\$ 11,611,337</u>

G. *Armstrong Center, LLC (continued)*

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

June 30, 2019	\$ 1,056,002
2020	1,063,672
2021	1,061,016
2022	1,065,340
2023	1,061,646
Thereafter	<u>12,952,400</u>
Total	<u>\$ 18,260,076</u>

H. *ASU Student Union, LLC*

ASU Student Union, LLC (*ASUSU*) has a rental agreement with the Board of Regents for costs of acquiring, renovating, constructing and improving facilities to be used as a student union, food center and bookstore located on the Armstrong Campus of the newly consolidated Georgia Southern University. The lease began in January, 2009 upon completion of construction of the facility and the receipt of a certificate of occupancy. The monthly rental income amounts vary each year. The lease monthly income amounts vary from \$27,972 to \$132,627. These amounts will be utilized to maintain the facilities, and to pay the debt service on the bonds and any amounts required to be deposited to the Replacement Fund. This lease is renewable annually up to 29 years.

ASUSU is the lessee of the land upon which the housing facilities are located. This lease is payable to the Board of Regents at \$10 per year for a primary term of 29 years, subject to a 5 year extension. This lease commenced after the receipt of the certificate of occupancy.

The following is a summary of the components of *ASUSU*'s net investment in the direct financing lease at June 30, 2018:

Total minimum lease payments to be received	\$ 34,243,254
Unfunded replacement reserve	(1,216,915)
Unearned interest income	<u>(10,388,151)</u>
Net investment in direct financing lease	<u>\$ 22,638,188</u>

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

June 30, 2019	\$ 1,532,485
2020	1,561,750
2021	1,564,027
2022	1,548,953
2023	1,553,193
Thereafter	<u>26,482,846</u>
Total	<u>\$ 34,243,254</u>

I. *ASU Student Recreation Center, LLC*

ASU Student Recreation Center, LLC (*ASUSRC*) had a rental agreement with the Board of Regents for costs of constructing and equipping a student recreation center located on the University's campus. The lease began in May, 2005 upon completion of construction of the facility and the receipt of a certificate of occupancy. The monthly rental income amounts vary each year. The lease monthly income amounts varied from \$12,996 to \$22,618. *ASUSRC* is the lessee of the land upon which the student recreation center is located.

Upon the defeasance of the related debt as described at Note 7.D. in April, 2018, *ASUSRC* modified the rental agreement to pass-through the economic benefit of the defeasance to the Board of Regents. Upon modification, the Board of Regents prepaid the remaining balance, whereupon both the rental agreement and the ground lease were terminated. In conjunction with the termination, all rights, title and interest in the property and improvements were vested in the University. The lease modification resulted in a loss of \$1,425,076 and represents the change in the carrying amount of the capital lease receivable as a result of the lease modification and termination.

It is expected that in the subsequent period, *ASUSRC* will be legally dissolved.

J. *Operating Leases*

University Terrace, LLC (*UT*) has a rental agreement with the Board of Regents for student housing facilities. The lease commencement date for Phase I was May 26, 2006, with annual renewals through July 31, 2021. The monthly rent increases with each annual renewal, increasing from the initial rent of \$22,000 per month to \$34,275.28 over the course of the renewal periods. The lease commencement date for Phase II was May 26, 2006, with annual renewals through July 31, 2021. The monthly rent increases with each annual renewal, increasing from the initial rent of \$24,000 per month to \$36,302.14 over the course of the renewal periods.

ASU Cedar Grove, LLC (*ASUCG*) has a rental agreement with the Board of Regents for unimproved real property adjacent to the University campus. The lease commencement date was January 1, 2009 and is renewable annually, with monthly lease payments of \$1,000.

Minimum lease payments to be received for each of the next five years and thereafter are as follows:

	<u>Phase I</u>	<u>Phase II</u>	<u>Total</u>
June 30, 2019	\$ 386,752	\$ 409,622	\$ 796,374
2020	398,354	421,911	820,265
2021	410,305	434,568	844,873
2022	<u>34,275</u>	<u>36,302</u>	<u>70,577</u>
Total	<u>1,229,686</u>	<u>1,302,403</u>	<u>2,532,089</u>

Note 7. Bond Obligations

Bonds payable as of June 30, 2018 consisted of the following:

GSUHF1	Student Housing Refunding Revenue Bonds, Series 2012; issued November 29, 2012 in the original amount of \$27,590,000; consisting of Serial Bonds, maturing annually through 2028, with stated interest rates varying from 2% to 5% over the bond term	\$ 21,595,000
GSUHF2	Refunding Revenue Bonds, Series 2013; dated March 14, 2013 in the original amount of \$27,800,000; consisting of \$23,970,000 Serial Bonds, maturing annually through 2028, and \$3,830,000 Term Bonds, due August 1, 2030, with stated interest rates varying from 2.00% to 5.00% over the obligation term	21,345,000
GSUHF3	Refunding Revenue Bonds, Series 2015; issued November 17, 2015 in the original amount of \$26,270,000; maturing annually through 2030, with stated interest rates varying from 3.00% to 5.00% over the obligation term	24,015,000
GSUHF4	Refunding Revenue Bonds, Series 2017; issued August 1, 2017 in the original amount of \$48,755,000; consisting of \$48,755,000 Serial Bonds, maturing annually through 2038, with stated interest rates varying from 3% to 5% over the obligation term	48,755,000
GSUHF5	Student Housing Lease Revenue Bonds, Series 2011; issued May 19, 2011 in the original amount of \$42,770,000; consisting of \$42,770,000 Serial Bonds, maturing annually through 2041, with stated interest rates varying from 2% to 5.125% over the obligation term	39,365,000
GSUHF6	Student Dining Revenue Bonds, Series 2012; issued August 22, 2012 in the original amount of \$27,280,000; consisting of \$10,270,000 Serial Bonds, maturing annually through 2028, \$3,870,000 Term I Bonds, due July 1, 2032, \$5,835,000 Term II Bonds, due July 1, 2037 and \$7,305,000 Term III Bonds, due July 1, 2042, with stated interest rates varying from 2% to 5% over the obligation term	25,095,000
Armstrong Center, LLC	Revenue Refunding Bonds, Series 2015; issued September 1, 2015 in the original amount of \$12,445,000; consisting of \$10,170,000 Serial Bonds, maturing annually through 2034, \$1,255,000 Term I Bonds, due December 1, 2027 and \$1,020,000 Term II Bonds, due December 1, 2033, with stated interest rates varying from 2% to 5% over the obligation term	11,555,000
ASU Student Union, LLC	Refunding Revenue Bonds, Series, 2016; issued October 1, 2016 in the original amount of \$22,030,000; consisting of \$15,050,000 Serial Bonds, maturing annually through 2034, \$2,660,000 Term I Bonds, due June 15, 2036 and \$4,320,000 Term II Bonds, due June 15, 2039, in interest rates varying from 3% to 5% over the obligation term	<u>21,345,000</u>
	Subtotal	213,070,000
	Plus: Unamortized bond premium	16,813,867
	Less: Unamortized bond discount	(297,927)
	Less: Unamortized bond issuance cost	<u>(3,510,432)</u>
	Total bond obligations	<u>\$ 226,075,508</u>

Note 7. Bond Obligations (continued)

A. \$27,590,000 Student Housing Refunding Revenue Bonds, Series 2012

On October 1, 2002 the Development Authority of Bulloch County issued \$38,180,000 of Student Housing Lease Revenue Bonds, Series 2002 on behalf of *GSUHF1* which were used for the construction of student housing facilities. During the fiscal year ended June 30, 2013, the Development Authority of Bulloch County issued \$27,590,000 of Student Housing Refunding Revenue Bonds, Series 2012, on behalf of *GSUHF1* which were used to retire the Series 2002 bonds. Principal payments on the refunding bonds are due annually on August 1, commencing August 1, 2013 with interest payments due semi-annually on February 1 and August 1, commencing February 1, 2013, in the amounts so as to enable the trustee, Branch Banking and Trust, to pay, on or before the dates due, the debt service on the bonds and any amounts required to be deposited to the Debt Service Reserve Fund and the Replacement Fund, both created pursuant to the provisions of the indenture. The bonds were secured by *GSUHF1's* interest in certain rents and leases derived from the facilities under a direct financing lease as described at Note 6.A.

B. \$27,800,000 Refunding Revenue Bonds, Series 2013

On May 3, 2004 the Development Authority of Bulloch County issued \$35,900,000 of Student Housing Lease Revenue Bonds, Series 2004 on behalf of *GSUHF2* which were used for the construction of student housing facilities, an athletic training facility, the J I Clements Baseball Stadium, and a soccer and track stadium. On March 14, 2013, the Development Authority of Bulloch County issued \$27,800,000 of Refunding Revenue Bonds, Series 2013, on behalf of *GSUHF2* which were used to defease the Series 2004 bonds, which were paid in full on August 1, 2014. Principal payments are due annually on August 1, commencing August 1, 2013, with interest payments due semi-annually on February 1 and August 1, commencing August 1, 2013, in the amounts so as to enable the trustee, Branch Banking and Trust, to pay, on or before the dates due, the debt service on the bonds and any amounts required to be deposited to the Debt Service Reserve Fund and the Replacement Fund, both created pursuant to the provisions of the indenture. The bonds are secured by *GSUHF2's* interest in certain rents and leases derived from the facilities under a direct financing lease as described at Note 6.B.

C. \$26,270,000 Refunding Revenue Bonds, Series 2015

On March 9, 2005, the Development Authority of Bulloch County issued \$40,540,000 of Student Housing Lease Revenue Bonds, Series 2005A (tax-exempt) and Series 2005B (non-exempt), on behalf of *GSUHF3* which were used for the construction of student recreation facilities. On November 17, 2015, the Development Authority of Bulloch County issued \$26,270,000 of Refunding Revenue Bonds, Series 2015, on behalf of *GSUHF3*, which were used to retire the Series 2005 bonds. Principal payments are due annually on August 1, commencing August 1, 2016, with interest payments due semi-annually on February 1 and August 1, commencing February 1, 2016, in the amounts so as to enable the trustee, Branch Banking and Trust, to pay, on or before the dates due, the debt service on the bonds and any amounts required to be deposited to the Replacement Fund, created pursuant to the provisions of the indenture. The bonds are secured by *GSUHF3's* interest in certain rents and leases derived from the facilities under a direct financing lease as described at Note 6.C.

Note 7. Bond Obligations (continued)

D. \$69,000,000 Student Housing Lease Revenue Bonds, Series 2008

On February 28, 2008, the Development Authority of Bulloch County issued \$69,000,000 of Student Housing Lease Revenue Bonds, Series 2008, on behalf of *GSUHF4* which were used for the acquisition of 472 beds of student housing and the construction of four new buildings to house 1,000 new beds of student housing. The project also included the design, development, and construction of approximately 8,700 square feet of retail space. Principal payments are due annually on July 1, commencing July 1, 2010 with interest payments due semi-annually on January 1 and July 1, commencing July 1, 2008, in the amounts so as to enable the trustee, Branch Banking and Trust, to pay, on or before the dates due, the debt service on the bonds and any amounts required to be deposited to the Debt Service Reserve Fund and the Replacement Fund, both created pursuant to the provisions of the indenture. The bonds are secured by *GSUHF4's* interest in certain rents and leases derived from the facilities under a direct financing lease as described at Note 6.D.

On August 1, 2017, the Development Authority of Bulloch County issued \$48,755,000 Refunding Revenue Bonds. The net proceeds of the refunding revenue bonds, as well as additional funds from the Series 2008 Debt Service Reserve were deposited into an escrow account pursuant to an Escrow Agreement dated August 1, 2017 and were used to pay the principal and interest of the Series 2008 bonds through the Redemption Date of July 1, 2018. As a result, \$60,180,000 of outstanding Series 2008 bonds were defeased and the liability for those bonds was removed from the statement of net position during the year ended June 30, 2018.

E. \$42,770,000 Student Housing Lease Revenue Bonds, Series 2011

On May 19, 2011 the Development Authority of Bulloch County issued \$42,770,000 of Student Housing Lease Revenue Bonds, Series 2011, on behalf of *GSUHF5* which were used for the acquisition of 276 units and 984 beds of student housing and amenities, including a swimming pool and surface parking. Principal payments are due annually on July 1, commencing July 1, 2014 with interest payments due semi-annually on January 1 and July 1, commencing July 1, 2011, in the amounts so as to enable the trustee, Branch Banking and Trust, to pay, on or before the dates due, the debt service on the bonds and any amounts required to be deposited to the Debt Service Reserve Fund and the Replacement Fund, both created pursuant to the provisions of the indenture. The bonds were secured by *GSUHF5's* interest in certain rents and leases derived from the facilities under a direct financing lease as described at Note 6.J.

F. \$27,280,000 Student Dining Revenue Bonds, Series 2012

On August 16, 2012 the Development Authority of Bulloch County issued \$27,280,000 of Student Dining Revenue Bonds, Series 2012, on behalf of *GSUHF6* which were used for the construction of replacements for the dining facilities currently known as "Dining Commons" and "Lakeside Dining Commons." Principal payments are due annually on July 1, commencing July 1, 2014 with interest payments due semi-annually on January 1 and July 1, commencing January 1, 2013, in the amounts so as to enable the trustee, Branch Banking and Trust, to pay, on or before the dates due, the debt service on the bonds and any amounts required to be deposited to the Debt Service Reserve Fund and the Replacement Fund, both created pursuant to the provisions of the indenture. The bonds are secured by *GSUHF6's* interest in certain rents and leases derived from the facilities under a direct financing lease as described at Note 6.F.

Note 7. Bond Obligations (continued)

G. \$12,445,000 Refunding Revenue Bonds, Series 2015

In 2005, the Savannah Economic Development Authority issued \$15,380,000 Revenue Bonds, Series 2005A and \$1,000,000 Taxable Revenue Bonds, Series 2005B on behalf of AC which were used to finance the costs of acquiring, renovating, constructing and equipping professional and continuing education facilities to be located adjacent to the Armstrong campus of the newly consolidated Georgia Southern University. On September 1, 2015, the Savannah Economic Development Authority issued \$12,445,000 in Refunding Revenue Bonds, Series 2015, on behalf of AC. The net proceeds of the bonds were deposited into an escrow fund pursuant to an Escrow Agreement dated September 1, 2015 and were used to pay the principal and interest on the Series 2005A bonds through and including the Redemption Date of December 1, 2018. As a result, \$13,155,000 of outstanding Series 2005A Bonds were defeased and the liability for these bonds was removed from the statement of net position.

Principal payments on the Series 2015 bonds are due annually on December 1, commencing December 1, 2016 with interest payments due semi-annually on December 1 and June 1, commencing December 1, 2015, in the amounts so as to enable the trustee, US Bank, to pay, on or before the dates due, the debt service on the bonds and any amounts required to be deposited to the Debt Service Reserve Fund and the Replacement Fund, both created pursuant to the provisions of the indenture. The bonds are secured by AC's interest in certain rents and leases derived from the facilities under a direct financing lease as described at Note 6.G.

H. \$22,030,000 Refunding Revenue Bonds, Series 2016

In 2009, the Savannah Economic Development Authority issued \$24,260,000 Revenue Bonds, Series 2009 on behalf of ASUSU which were used to finance the costs of acquiring, renovating, constructing and improving facilities to be used as a student union, food center and bookstore located on the Armstrong campus of the newly consolidated Georgia Southern University. On October 1, 2016, the Savannah Economic Development Authority issued \$22,030,000 in Refunding Revenue Bonds, Series 2016, on behalf of ASUSU. The net proceeds of the bonds were deposited into an escrow fund pursuant to an Escrow Agreement dated October 1, 2016 and were used to pay the principal and interest on the Series 2009 bonds through and including the Redemption Date of June 15, 2018. As a result, \$23,395,000 of outstanding Series 2009 Bonds were defeased and the liability for these bonds was removed from the statement of net position.

Principal payments on the Series 2016 bonds are due annually on June 15, commencing June 15, 2017 with interest payments due semi-annually on December 15 and June 15, commencing December 15, 2016, in the amounts so as to enable the trustee, US Bank, to pay, on or before the dates due, the debt service on the bonds and any amounts required to be deposited to the Replacement Fund, created pursuant to the provisions of the indenture. The bonds are secured by ASUSU's interest in certain rents and leases derived from the facilities under a direct financing lease as described at Note 6.I.

Note 7. Bond Obligations (continued)

I. \$3,410,000 Refunding Revenue Bonds, Series 2015

In 2005, the Savannah Economic Development Authority issued \$4,365,000 Revenue Bonds, Series 2005C on behalf of *ASUSRC* which were used to finance the costs of constructing and equipping a student recreation center on the Armstrong campus of the newly consolidated Georgia Southern University. On September 1, 2015, the Savannah Economic Development Authority issued \$3,410,000 in Refunding Revenue Bonds, Series 2015, on behalf of *ASUSU*. The net proceeds of the bonds were deposited into an escrow fund pursuant to an Escrow Agreement dated September 1, 2015 and were used to pay the principal and interest on the Series 2005C bonds through and including the Redemption Date of December 1, 2015. As a result, \$3,505,000 of outstanding Series 2005C Bonds were defeased and the liability for these bonds was removed from the statement of net position.

On April 30, 2018, *ASUSRC* deposited funds from the Debt Service Reserve Account and Replacement Reserve required by the Series 2015 bonds, as well as the final payment under the University's lease, and certain other funds into an escrow fund pursuant to an Escrow Agreement dated April 1, 2018. The funds will be used to pay the principal and interest on the Series 2015 bonds through and including the Redemption Date of December 1, 2025. As a result, \$3,115,000 of outstanding Series 2015 Bonds were defeased and the liability for these bonds was removed from the statement of net position. The defeasance resulted in a loss of \$5,794, which was recognized by *ASUSRC* in the fiscal year ended June 30, 2018.

J. Maturities of Debt

Approximate maturities of the bonds are as follows:

		Student Facility Revenue Bonds								
		Series 2012	Series 2013	Series 2015	Series 2008	Series 2011	Series 2012	Series 2015	Series 2016	Total
		GSUHF1	GSUHF2	GSUHF3	GSUHF4	GSUHF5	GSUHF6	AC	ASUSU	
June 30,	2019	\$ 1,360,000	\$ 1,375,000	\$ 1,395,000	\$ 1,300,000	\$ 935,000	\$ 595,000	\$ 460,000	\$ 565,000	\$ 7,985,000
	2020	1,425,000	1,415,000	1,450,000	1,410,000	965,000	615,000	480,000	615,000	8,375,000
	2021	1,495,000	1,445,000	1,520,000	1,535,000	1,000,000	635,000	490,000	640,000	8,760,000
	2022	1,570,000	1,475,000	1,595,000	1,610,000	1,055,000	665,000	510,000	655,000	9,135,000
	2023	1,645,000	1,515,000	1,665,000	1,685,000	1,105,000	700,000	525,000	690,000	9,530,000
Thereafter	14,100,000	14,120,000	16,390,000	41,215,000	34,305,000	21,885,000	9,090,000	18,180,000	169,285,000	
Total		<u>\$ 21,595,000</u>	<u>\$ 21,345,000</u>	<u>\$ 24,015,000</u>	<u>\$ 48,755,000</u>	<u>\$ 39,365,000</u>	<u>\$ 25,095,000</u>	<u>\$ 11,555,000</u>	<u>\$ 21,345,000</u>	<u>\$ 213,070,000</u>

Note 8. Uninsured Cash Balances

The Foundation maintains operating cash balances at local financial institutions which were insured by the Federal Deposit Insurance Corporation up to \$250,000 as of the fiscal year end. Amounts in excess of insured limits were approximately \$606,306 at June 30, 2018.

Note 9. Gain on Capital Leases

For *GSUHF2*, the gain on the capital lease was recognized based on the difference between the calculated net present value lease payments and the actual costs of the project. The gain is being amortized and recognized over the life of the lease. The total gain, net of certain additional project costs after inception of the lease, was \$155,651. The remaining deferral was \$75,231 at June 30, 2018.

Note 10. Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets as of the June 30, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at year end	\$ 40,198,142
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-based restrictions:	
Items contractually restricted by debt covenants	<u>(31,879,724)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,320,436</u>

Note 11. Remediation Expenses

The two housing facilities constructed with the proceeds from *GSUHFI's* bond issue required some unexpected repairs. For one of the housing facilities, a mold problem was discovered, and the costs to repair the damage to the facility were \$1,941,164, recognized during the two fiscal years ending June 30, 2009 and 2008. Claims were filed by the Foundation's attorneys against the developer during a prior fiscal year. The court's initial ruling was to put the parties involved in mediation. The case was not resolved as a result of mediation and is now in arbitration. Any amount expected to be recovered cannot be estimated at this time.

For the other housing facility, a mold problem was also discovered in May, 2009, and the costs to repair the damage to the facility were \$4,909,400, which were paid by the University. Claims were filed by the Foundation's attorneys against the developer during a prior fiscal year. The court's initial ruling was to put the parties involved in mediation. The case was not resolved as a result of mediation and is now in arbitration. Any amount expected to be recovered cannot be estimated at this time.

A repayment plan has been established for the remaining amount payable to the University in the amount of \$2,596,400, as follows:

June 30, 2019	\$ 355,000
2020	355,000
2021	355,000
2022	355,000
2023	355,000
Thereafter	<u>821,400</u>
Total	<u>\$ 2,596,400</u>

Note 12. Covenants

The bond documents contain various covenants pertaining to funding of temporarily restricted cash accounts.

Note 13. Change in Entity

On January 11, 2017, the University System of Georgia Board of Regents voted to consolidate Armstrong State University and Georgia Southern University. The consolidated university was named Georgia Southern University and is led by the current president of Georgia Southern University. Pursuant to this consolidation, the board of directors of the Georgia Southern Housing Foundation, Inc. and the Armstrong Educational Properties Foundation, Inc. agreed to combine their respective foundations and all subsidiaries on January 1, 2018. Under the criteria of FASB 958-805-55, it has been determined that the consolidation is an acquisition of the Armstrong Educational Properties Foundation, Inc by the Georgia Southern University Housing Foundation, Inc. Accordingly, the acquired assets and liabilities of the Armstrong Educational Properties Foundation, Inc. and its subsidiaries have been recorded at their approximate fair market value as of the acquisition date. The net excess of the fair value of net assets over consideration in the acquisition of the acquired entity has been recognized in the statement of activities as "Contribution from Acquisition."

SUPPLEMENTARY INFORMATION

GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
Consolidating Statements of Financial Position
June 30, 2018

	Georgia Southern University Housing Foundation, Inc.	Georgia Southern University Housing Foundation One, LLC	Georgia Southern University Housing Foundation Two, LLC	Georgia Southern University Housing Foundation Three, LLC	Georgia Southern University Housing Foundation Four, LLC	Georgia Southern University Housing Foundation Five, LLC	Georgia Southern University Housing Foundation Six, LLC
ASSETS							
Cash	\$ 854,058	\$ 186,203	\$ 246,832	\$ 108,284	\$ 109,977	\$ 108,016	\$ 54,875
Restricted cash	-	6,889,931	5,265,752	4,049,970	6,004,003	4,622,802	2,490,507
Accrued interest receivable	-	32,000	-	-	-	-	-
Other	504	-	-	-	-	-	-
Due from other related parties	2,093,175	-	-	-	-	-	-
Investments	5,997,280	-	-	-	-	-	-
Prepaid expenses	1,533	1,416	2,282	2,145	3,349	3,831	1,316
Investment in subsidiary	2,245,871	-	-	-	-	-	-
Net investment in direct financing leases	-	25,984,784	21,559,978	24,381,375	58,022,112	33,103,115	24,664,228
Property, plant and equipment, net of accumulated depreciation	290,000	-	-	-	-	-	-
Total Assets	<u>\$ 11,482,421</u>	<u>\$ 33,094,334</u>	<u>\$ 27,074,844</u>	<u>\$ 28,541,774</u>	<u>\$ 64,139,441</u>	<u>\$ 37,837,764</u>	<u>\$ 27,210,926</u>
LIABILITIES AND NET ASSETS							
Liabilities							
Accounts payable	\$ 1,681	\$ 5,223	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued interest payable	-	409,686	326,413	421,008	1,205,875	953,042	524,318
Due to Georgia Southern University	-	2,596,400	-	-	-	-	-
Due to related parties	-	-	2,093,175	-	-	-	-
Deferred repairs & maintenance	-	312,928	253,634	-	-	-	-
Deferred gains on capital leases	-	-	75,231	-	-	-	-
Bonds payable	-	23,403,094	22,059,616	25,535,352	56,052,298	38,594,078	25,293,659
Total liabilities	<u>1,681</u>	<u>26,727,331</u>	<u>24,808,069</u>	<u>25,956,360</u>	<u>57,258,173</u>	<u>39,547,120</u>	<u>25,817,977</u>
Net Assets							
Net assets without donor restrictions	11,480,740	6,367,003	2,266,775	2,585,414	6,881,268	(1,709,356)	1,392,949
Total net assets	<u>11,480,740</u>	<u>6,367,003</u>	<u>2,266,775</u>	<u>2,585,414</u>	<u>6,881,268</u>	<u>(1,709,356)</u>	<u>1,392,949</u>
Total Liabilities and Net Assets	<u>\$ 11,482,421</u>	<u>\$ 33,094,334</u>	<u>\$ 27,074,844</u>	<u>\$ 28,541,774</u>	<u>\$ 64,139,441</u>	<u>\$ 37,837,764</u>	<u>\$ 27,210,926</u>

GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
Consolidating Statements of Financial Position
June 30, 2018

	<u>Armstrong Center, LLC</u>	<u>ASU Student Union, LLC</u>	<u>University Terrace, LLC</u>	<u>ASU Cedar Grove, LLC</u>	<u>ASU Student Recreation Center, LLC</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS							
Cash	\$ 252,248	\$ 203,613	\$ 130,976	\$ 33,552	\$ -	\$ -	\$ 2,288,634
Restricted cash	2,231,138	325,621	-	-	-	-	31,879,724
Accrued interest receivable	-	-	-	-	-	-	32,000
Other	-	-	-	-	-	-	504
Due from other related parties	-	-	-	-	-	(2,093,175)	-
Investments	-	-	-	-	-	-	5,997,280
Prepaid expenses	-	-	57,325	-	-	-	73,197
Investment in subsidiary	-	-	-	-	-	(2,245,871)	-
Net investment in direct financing leases	11,611,337	22,638,188	-	-	-	-	221,965,117
Property, plant and equipment, net of accumulated depreciation	-	-	-	1,330,000	-	-	1,620,000
Total Assets	<u>\$ 14,094,723</u>	<u>\$ 23,167,422</u>	<u>\$ 188,301</u>	<u>\$ 1,363,552</u>	<u>\$ -</u>	<u>\$ (4,339,046)</u>	<u>\$ 263,856,456</u>
LIABILITIES AND NET ASSETS							
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,904
Accrued interest payable	39,170	35,355	-	-	-	-	3,914,867
Other liabilities	10,558	-	-	-	-	-	10,558
Due to Georgia Southern University	-	-	-	-	-	-	2,596,400
Due to related parties	-	-	-	-	-	(2,093,175)	-
Deferred repairs & maintenance	-	-	-	-	-	-	566,562
Deferred gains on capital leases	-	-	-	-	-	-	75,231
Bonds payable	12,009,726	23,127,685	-	-	-	-	226,075,508
Total liabilities	<u>12,059,454</u>	<u>23,163,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,093,175)</u>	<u>233,246,030</u>
Net Assets							
Net assets without donor restrictions	2,035,269	4,382	188,301	1,363,552	-	(2,245,871)	30,610,426
Total net assets	<u>2,035,269</u>	<u>4,382</u>	<u>188,301</u>	<u>1,363,552</u>	<u>-</u>	<u>(2,245,871)</u>	<u>30,610,426</u>
Total Liabilities and Net Assets	<u>\$ 14,094,723</u>	<u>\$ 23,167,422</u>	<u>\$ 188,301</u>	<u>\$ 1,363,552</u>	<u>\$ -</u>	<u>\$ (4,339,046)</u>	<u>\$ 263,856,456</u>

**GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES**

Consolidating Statements of Activities

For the Year Ended June 30, 2018

	Georgia Southern University Housing Foundation, Inc.	Georgia Southern University Housing Foundation One, LLC	Georgia Southern University Housing Foundation Two, LLC	Georgia Southern University Housing Foundation Three, LLC	Georgia Southern University Housing Foundation Four, LLC	Georgia Southern University Housing Foundation Five, LLC	Georgia Southern University Housing Foundation Six, LLC
REVENUES, GAINS AND OTHER SUPPORT							
Fee income	\$ 429,135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease income							
Gain on capital leases	-	-	6,226	-	27,800	-	-
Lease interest	-	1,311,391	1,100,858	774,862	2,150,300	2,488,280	1,263,228
Replacement Reserve income	-	-	195,120	273,198	561,533	411,232	114,514
Interest and dividends, net of investment expenses	120,330	78,698	11,868	27,122	56,288	731	4,013
Realized gains (losses) on investments	154,223	-	-	-	-	-	-
Unrealized gains (losses) on investments	98,578	-	-	-	-	-	-
Rental income	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	601	-
Gain (loss) on lease modification	-	-	-	-	1,495,130	-	-
	<u>802,266</u>	<u>1,390,089</u>	<u>1,314,072</u>	<u>1,075,182</u>	<u>4,291,051</u>	<u>2,900,844</u>	<u>1,381,755</u>
Total revenues, gains and other support							
EXPENSES							
Dues and fees	2,243	3,593	3,620	10,748	19,126	12,108	8,949
Foundation fees	-	34,778	15,000	15,606	130,477	119,405	56,275
Insurance	9,579	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-
Interest on bonds	-	988,646	787,804	1,014,886	2,504,033	1,906,083	1,048,635
Amortization of original issue discount	-	-	-	6,741	-	9,471	-
Accretion of original issue premium	-	(222,535)	(85,179)	(164,823)	(332,475)	-	(34,431)
Amortization of cost of issuance	-	44,690	26,038	31,386	29,615	24,170	26,153
Professional services	175,483	66,983	6,900	1,400	10,926	4,100	4,650
Rental expenses	-	-	-	-	-	-	-
Repair and replacement expenses	-	542,405	-	27,476	675,162	783,283	-
Other administrative expenses	2,947	-	-	-	30	-	-
Other expense	-	-	-	-	-	-	-
Gift / Transfer to Georgia Southern University	427,100	-	198,751	-	-	-	-
Impairment of long-lived asset	198,692	-	-	-	-	-	-
Gain (loss) on refunding of debt	-	-	-	-	1,099,905	-	-
	<u>816,044</u>	<u>1,458,560</u>	<u>952,934</u>	<u>943,420</u>	<u>4,136,799</u>	<u>2,858,620</u>	<u>1,110,231</u>
Total expenses							
CHANGE IN NET ASSETS BEFORE ACQUISITION INCOME	(13,778)	(68,471)	361,138	131,762	154,252	42,224	271,524
Contribution from acquisition	<u>1,059,123</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	1,045,345	(68,471)	361,138	131,762	154,252	42,224	271,524
NET ASSETS, beginning of year	9,676,695	5,935,474	2,010,137	2,453,652	6,727,016	(1,751,580)	1,121,425
CAPITAL CONTRIBUTIONS (DISTRIBUTIONS)	<u>758,700</u>	<u>500,000</u>	<u>(104,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ 11,480,740</u>	<u>\$ 6,367,003</u>	<u>\$ 2,266,775</u>	<u>\$ 2,585,414</u>	<u>\$ 6,881,268</u>	<u>\$ (1,709,356)</u>	<u>\$ 1,392,949</u>

GEORGIA SOUTHERN UNIVERSITY
HOUSING FOUNDATION, INC. AND SUBSIDIARIES
Consolidating Statements of Activities
For the Year Ended June 30, 2018

	<u>Armstrong Center, LLC</u>	<u>ASU Student Union, LLC</u>	<u>University Terrace, LLC</u>	<u>ASU Cedar Grove, LLC</u>	<u>ASU Student Recreation Center, LLC</u>	<u>Eliminating Entries</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT							
Fee income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (429,135)	\$ -
Capital lease income							
Gain on capital leases	-	-	-	-	-	-	34,026
Lease interest	198,631	428,079	-	-	-	-	9,715,629
Replacement Reserve income	43,599	20,600	-	-	-	-	1,619,796
Interest and dividends, net of investment expenses	29,686	2,910	124	19	2,905	-	334,694
Realized gains (losses) on investments	-	-	-	-	-	-	154,223
Unrealized gains (losses) on investments	-	-	-	-	-	-	98,578
Rental income	75,863	-	387,530	6,000	60,056	-	529,449
Other revenues	-	-	-	-	5,000	-	5,601
Gain (loss) on lease modification	-	-	-	-	(1,425,076)	-	70,054
	<u>347,779</u>	<u>451,589</u>	<u>387,654</u>	<u>6,019</u>	<u>(1,357,115)</u>	<u>(429,135)</u>	<u>12,562,050</u>
EXPENSES							
Dues and fees	-	-	-	-	56	-	60,443
Foundation fees	15,625	41,969	-	-	-	(429,135)	-
Insurance	-	-	-	-	-	-	9,579
Interest expense							
Interest on bonds	235,006	431,494	-	-	45,391	-	8,961,978
Amortization of original issue discount	-	-	-	-	-	-	16,212
Accretion of original issue premium	(21,305)	(50,274)	-	-	(2,687)	-	(913,709)
Amortization of cost of issuance	7,932	7,829	-	-	-	-	197,813
Professional services	17,897	30,291	-	-	11,005	-	329,635
Rental expenses	-	-	343,951	-	-	-	343,951
Repair and replacement expenses	8,075	-	-	-	-	-	2,036,401
Other administrative expenses	236	237	237	237	237	-	4,161
Other expense	8,770	-	-	3,125	-	-	11,895
Gift / Transfer to Georgia Southern University	-	-	-	-	-	-	625,851
Impairment of long-lived asset	-	-	-	-	-	-	198,692
Gain (loss) on refunding of debt	-	-	-	-	5,794	-	1,105,699
	<u>272,236</u>	<u>461,546</u>	<u>344,188</u>	<u>3,362</u>	<u>59,796</u>	<u>(429,135)</u>	<u>12,988,601</u>
CHANGE IN NET ASSETS BEFORE ACQUISITION INCOME	75,543	(9,957)	43,466	2,657	(1,416,911)	-	(426,551)
Contribution from acquisition	<u>2,385,626</u>	<u>183,139</u>	<u>204,335</u>	<u>1,360,895</u>	<u>567,457</u>	<u>-</u>	<u>5,760,575</u>
CHANGE IN NET ASSETS	2,461,169	173,182	247,801	1,363,552	(849,454)	-	5,334,024
NET ASSETS, beginning of year	-	-	-	-	-	(896,417)	25,276,402
CAPITAL CONTRIBUTIONS (DISTRIBUTIONS)	<u>(425,900)</u>	<u>(168,800)</u>	<u>(59,500)</u>	<u>-</u>	<u>849,454</u>	<u>(1,349,454)</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ 2,035,269</u>	<u>\$ 4,382</u>	<u>\$ 188,301</u>	<u>\$ 1,363,552</u>	<u>\$ -</u>	<u>\$ (2,245,871)</u>	<u>\$ 30,610,426</u>