# GEORGIA STATE UNIVERSITY FOUNDATION, INC.

## Consolidated Financial Statements

## For the Years Ended June 30, 2010 and 2009

## (With Independent Auditors' Report)

# Georgia State University Foundation, Inc.

## Table of Contents

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

# INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Georgia State University Foundation, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated statements of financial position of Georgia State University Foundation, Inc (the "Foundation") as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2010 and 2009, and 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.

Cherry, Bekaert & Holland, L.L.P.

Atlanta, Georgia
September 17, 2010

## Georgia State University Foundation, Inc.

## Consolidated Statements of Financial Position

## June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 5,181,752 | $ 9,596,232 |
| Investments (Note 3) | 136,667,646 | 105,897,245 |
| Pledges receivable, net (Note 5) | 12,646,281 | 3,573,333 |
| Investment in direct financing leases, net (Note 6) | 161,698,571 | 164,731,097 |
| Restricted assets (Note 7) | 35,003,060 | 34,500,247 |
| Cash surrender value of life insurance (Note 8) | 901,899 | 875,653 |
| Other assets (Note 9) | 1,951,121 | 7,159,428 |
| Deferred costs (Note 10) | 6,422,109 | 6,682,336 |
| Property and equipment (Note 11) | 53,406,652 | 61,276,753 |
| Investments held for affiliates (Note 13) | 6,158,694 | 5,638,161 |
| Total Assets | $ 420,037,785 | $ 399,930,485 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable and other liabilities (Note 12) | $ 6,047,067 | $ 5,864,820 |
| Obligation under leases (Note 14) | 4,692,700 | 7,584,559 |
| Bonds payable - net (Note 15) | 257,012,586 | 260,422,176 |
| Investments held for affiliates (Note 13) | 6,158,694 | 5,638,161 |
| Total Liabilities | 273,911,047 | 279,509,716 |
| **Net Assets** | | |
| Unrestricted | 23,997,593 | 21,254,915 |
| Temporarily restricted | 47,007,466 | 42,193,916 |
| Permanently restricted | 75,121,679 | 56,971,938 |
| Total Net Assets | 146,126,738 | 120,420,769 |
| Total Liabilities and Net Assets | $ 420,037,785 | $ 399,930,485 |

See accompanying notes to consolidated financial statements

# Georgia State University Foundation, Inc.

## Consolidated Statements of Activities

## Year Ended June 30, 2010
## (With Comparative Totals for 2009)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2010 | Total 2009 |
|---|---|---|---|---|---|
| **Revenues, gains (losses) and other support** | | | | | |
| Contributions | $ 293,928 | $ 7,751,506 | $ 12,649,475 | $ 20,694,909 | $ 9,872,866 |
| Rental income | 7,923,061 | 240,000 | - | 8,163,061 | 10,001,499 |
| Income from investment in direct financing leases | 12,308,225 | - | - | 12,308,225 | 11,915,184 |
| Interest and dividend income | 846,149 | 1,613,333 | - | 2,459,482 | 3,561,459 |
| Realized gains real estate | 3,813,942 | - | - | 3,813,942 | - |
| Realized losses on investments | (8,477) | (600,315) | - | (608,792) | (2,120,361) |
| Unrealized gains (losses) on investments | 1,907,918 | 2,437,837 | 7,796,464 | 12,142,219 | (22,569,944) |
| Other income | 245,592 | 127,790 | - | 373,382 | 1,255,044 |
| Total revenues and gains | 27,330,338 | 11,570,151 | 20,445,939 | 59,346,428 | 11,915,747 |
| Net assets released from restrictions | 9,052,799 | (6,756,601) | (2,296,198) | - | - |
| Total revenues, gains and other support | 36,383,137 | 4,813,550 | 18,149,741 | 59,346,428 | 11,915,747 |
| **Expenses** | | | | | |
| Program services | | | | | |
| Capital projects, equipment and repairs | 22,784,413 | - | - | 22,784,413 | 21,462,901 |
| Operations | 3,002,030 | - | - | 3,002,030 | 2,891,141 |
| Faculty and Staff | 2,284,512 | - | - | 2,284,512 | 2,294,350 |
| Scholarships and awards | 2,704,750 | - | - | 2,704,750 | 2,321,197 |
| Total program service | 30,775,705 | - | - | 30,775,705 | 28,969,589 |
| Management and general | 1,513,161 | - | - | 1,513,161 | 1,843,481 |
| Fundraising | 1,351,593 | - | - | 1,351,593 | 1,377,862 |
| Total expenses | 33,640,459 | - | - | 33,640,459 | 32,190,932 |
| Excess of (Deficiency in) revenues over expenses | 2,742,678 | 4,813,550 | 18,149,741 | 25,705,969 | (20,275,185) |
| Loss on bond refinancing | - | - | - | - | (1,312,463) |
| Gain on interest rate swap termination | - | - | - | - | 1,515,379 |
| Change in net assets | 2,742,678 | 4,813,550 | 18,149,741 | 25,705,969 | (20,072,269) |
| Net assets, beginning of year | 21,254,915 | 42,193,916 | 56,971,938 | 120,420,769 | 140,493,038 |
| Net assets, end of year | $ 23,997,593 | $ 47,007,466 | $ 75,121,679 | $ 146,126,738 | $ 120,420,769 |

See accompanying notes to consolidated financial statements

# Georgia State University Foundation, Inc.

## Consolidated Statements of Activities

## Year Ended June 30, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Revenues, gains (losses) and other support** | | | | |
| Contributions | $ 1,577,133 | $ 7,089,709 | $ 1,206,024 | $ 9,872,866 |
| Rental income | 9,761,499 | 240,000 | - | 10,001,499 |
| Income from investment in direct financing leases | 11,915,184 | - | - | 11,915,184 |
| Interest and dividend income | 1,273,925 | 2,287,534 | - | 3,561,459 |
| Realized losses on investments | (351,294) | (1,769,067) | - | (2,120,361) |
| Unrealized losses on investments | (1,630,781) | (4,855,658) | (16,083,505) | (22,569,944) |
| Other income | 744,175 | 441,558 | 69,311 | 1,255,044 |
| Total revenues and gains (losses) | 23,289,841 | 3,434,076 | (14,808,170) | 11,915,747 |
| Net assets released from restrictions | 8,823,768 | (6,425,189) | (2,398,579) | - |
| Total revenues, gains (losses) and other support | 32,113,609 | (2,991,113) | (17,206,749) | 11,915,747 |
| **Expenses** | | | | |
| Program Expense | | | | |
| Capital Projects, equipment and repairs | 21,462,901 | - | - | 21,462,901 |
| Operations | 2,891,141 | - | - | 2,891,141 |
| Faculty and staff | 2,294,350 | - | - | 2,294,350 |
| Scholarships and awards | 2,321,197 | - | - | 2,321,197 |
| Total Program Services | 28,969,589 | - | - | 28,969,589 |
| Management and General | 1,843,481 | - | - | 1,843,481 |
| Fundraising | 1,377,862 | - | - | 1,377,862 |
| Total expenses | 32,190,932 | - | - | 32,190,932 |
| Deficiency in revenues over expenses | (77,323) | (2,991,113) | (17,206,749) | (20,275,185) |
| Loss on bond refinancing | (1,312,463) | - | - | (1,312,463) |
| Gain on interest rate swap termination | 1,515,379 | - | - | 1,515,379 |
| Change in net assets | 125,593 | (2,991,113) | (17,206,749) | (20,072,269) |
| Net assets, beginning of year | 21,129,322 | 45,185,029 | 74,178,687 | 140,493,038 |
| Net assets, end of year | $ 21,254,915 | $ 42,193,916 | $ 56,971,938 | $ 120,420,769 |

See accompanying notes to consolidated financial statements

# Georgia State University Foundation, Inc.

## Consolidated Statements of Cash Flows

## Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ 25,705,969 | $ (20,072,269) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Contributions restricted for long-term investment | (5,371,040) | (2,473,432) |
| Depreciation and amortization | 2,366,413 | 3,057,518 |
| Gain on interest rate swap termination | - | (1,515,379) |
| Loss on bond refinancing | - | 1,312,463 |
| Gain on sale of property | (3,385,951) | - |
| Gain on capital lease termination | (427,991) | - |
| Amortization of deferred revenue | (564,399) | (127,883) |
| Amortization of bond premium | (442,528) | (360,043) |
| Amortization of bond discount | 57,938 | 7,709 |
| Unrealized (gains) losses on investments | (12,142,219) | 22,569,944 |
| (Increase) decrease in pledges receivable | (9,072,948) | 3,253,691 |
| Increase in other assets | (1,521,341) | (130,999) |
| Increase (decrease) in accounts payables and other liabilities | 746,646 | (869,596) |
| Net cash (used in) provided by operating activities | (4,051,451) | 4,651,724 |
| **Cash Flows from Investing Activities:** | | |
| Purchases of property and equipment | (23,060) | (3,099,718) |
| Purchase of land held for sale | - | (6,703,402) |
| Proceeds from sale of land | 13,750,000 | - |
| Principal payments received on direct financing leases | 3,032,526 | 2,912,018 |
| Purchases of investments | (91,254,631) | (87,567,498) |
| Sales of investments | 72,626,449 | 95,643,258 |
| Increase in restricted assets | (502,813) | (4,694,797) |
| Net cash used in investing activities | (2,371,529) | (3,510,139) |
| **Cash Flows from Financing Activities:** | | |
| Proceeds from contributions restricted for long-term investment | 5,371,040 | 2,473,432 |
| Payments on capital lease obligations | (337,540) | (6,333,618) |
| Proceeds from capital lease obligations | - | 4,918,150 |
| Payment to terminate interest rate swap | - | (3,018,000) |
| Payments for bond issuance costs | - | (2,692,745) |
| Payments on line of credit | - | (8,612,859) |
| Proceeds from line of credit | - | 8,612,859 |
| Payments on revenue bonds payable | (3,025,000) | (60,065,000) |
| Proceeds from issuance of bonds | - | 72,126,763 |
| Net cash provided by financing activities | 2,008,500 | 7,408,982 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (4,414,480) | 8,550,567 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 9,596,232 | 1,045,665 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 5,181,752 | $ 9,596,232 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid during the year for interest | $ 11,158,804 | $ 15,100,627 |

See accompanying notes to consolidated financial statements

## Note 1 – Organization

### Organization

The Georgia State University Foundation, Inc. (the "Foundation") was incorporated in the State of Georgia in 1958 as a non-profit corporation and a 501(c)(3) tax exempt organization. The Foundation serves as the official fund-raising and fund-management organization for Georgia State University (the "University"), and is committed to supporting and assisting the University in achieving its goals and objectives through soliciting and managing private gifts, and collaborating and advising on activities for the benefit and advancement of the University.

In 1992, the Foundation formed the Georgia State University Building Foundation (the "Building Foundation") as a non-profit corporation. The Building Foundation was formed to purchase a building in downtown Atlanta, Georgia, in order to lease office and classroom facilities to the University and Foundation as its primary tenants. The Foundation appoints the Board of Directors of the Building Foundation.

During the fiscal year 2001, the Foundation formed the University Lofts, LLC (the "Lofts"), with the Foundation as the sole member. The Lofts were created for the building of a student housing facility for the University.

During the fiscal year 2003, the Foundation formed Piedmont/Ellis, LLC ("Piedmont/Ellis"), with the Foundation as the sole member. Piedmont/Ellis was created for the purpose of acquiring, developing, operating and managing certain real property for the purpose of building a student housing facility for the University.

During the fiscal year 2004, the Foundation formed Rialto Center, LLC, (the "Rialto") with the Foundation as the sole member. The Rialto was formed to purchase and renovate the Rialto Theater for benefit and use by the University.

During the fiscal year 2007, the Foundation formed Panther Place, LLC ("Panther Place"), with the Foundation as the sole member. Panther Place was formed for the purpose of purchasing the SunTrust building and related property in downtown Atlanta, Georgia to provide office and classroom facilities for the University and Foundation.

During the fiscal year 2009, the Foundation formed, as the sole member, Panther Fields, LLC ("Panther Fields") for the purpose of investing in the acquisition of real property to provide a practice football field and facility for the benefit and use by the University.

During the fiscal year 2009, the Foundation formed, as the sole member, Panther Lot, LLC ("Panther Lot") for the purpose of acquiring, developing, operating and managing real property for the benefit and use by the University.

During the fiscal year 2010, the Foundation formed, as the sole member, Panther Real Estate, LLC ("Panther Real Estate") for the purpose of acquiring, developing, operating and managing real property for the benefit and use by the University.

## Note 1 – Organization (continued)

### Cooperative Agreement

On October 23, 2008, the Foundation entered into a five year Memorandum of Understanding agreement with the University to operate as a Cooperative Organization under the guiding principles of the agreement.

### Income Tax Status

The Foundation qualifies as a tax-exempt organization, exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (the "Code") and accordingly, there is no provision for income taxes in the accompanying consolidated financial statements. The Foundation is classified as a public charity under sections 509(a)(1) and 170(b)(1)(A)(iv) of the Code, and therefore the Foundation is not classified as a private foundation nor a supporting organization. Contributions to the Foundation qualify for the charitable contribution deduction under section 170 of the Code, and bequests, legacies, devises, transfers, or gifts to the Foundation are deductible for federal estate and gift tax purposes if they meet the applicable provisions of sections 2005, 2106, and 2522 of the Code.

## Note 2 – Summary of Significant Accounting Policies

### Consolidated Financial Statements

The consolidated financial statements include the accounts of the Foundation, the Building Foundation, the Lofts, Piedmont/Ellis, the Rialto, Panther Place, Panther Fields, Panther Lot and Panther Real Estate (collectively referred to as, the Foundation). All of the financial activities and balances of these organizations are included in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

### Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Foundation is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

### Reclassification

Certain reclassifications were made to the 2009 balances to conform to the 2010 presentation.

### Income Taxes

The Foundation's policy is to record a liability for any tax position taken that is beneficial to the Foundation, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2010 and, accordingly, no liability has been accrued.

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

### Net Assets

The Foundation classifies net assets, revenues, and gains and losses on investments based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

> *Unrestricted net assets* – Net assets that are not restricted by the donor. These assets are used to support the operations of the Foundation and are at the discretion of the Foundation's Board of Trustees.
>
> *Temporarily restricted net assets* – Net assets from contributions and other inflows of assets limited by donor-imposed restrictions as to periods of time or specified purposes. Temporarily restricted net assets are released from restrictions when the related time period lapses or the restricted purpose is met. Expenditures that relate to the fulfillment of the temporary restriction are shown as a reduction in temporarily restricted revenue as net assets released from restrictions.
>
> *Permanently restricted net assets* – Net assets from contributions and other inflows of assets limited by donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Permanently restricted net assets are invested in perpetuity subject to periodic allocations made for spending specified by donor stipulations and applicable state law.

Unrealized and realized gains and losses, and dividends and interest from investing activities may be included in any of these net asset classifications depending on donor-imposed restrictions and the Foundation's interpretation of relevant state law.

### Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### Fair Values of Financial Instruments

The carrying value of financial instruments such as cash and cash equivalents, other receivables, due to/from related organizations, accounts payable and accruals approximate fair value because of the terms and relative short maturity of the financial instruments. The Foundation believes the carrying values of its financial instruments are reasonable estimates of their values, unless otherwise noted.

**Note 2 – Summary of Significant Accounting Policies (continued)**

In determining fair value, the Foundation uses various valuation approaches. The fair value hierarchy for inputs used in measuring fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is classified in one of the following three levels based on the inputs:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristic particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for securities categorized in level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for discloser purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Foundation's own assumptions are set to reflect those that the market participants would use in pricing the asset or liability at the measurement date. The Foundation uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

**Revenue Recognition**

Revenue from exchange transactions, investment activities, rental and property management activities, management fees, royalties, other fees and charges, and other non-contribution related revenue are recognized as earned.

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

### Cash and Cash Equivalents

The Foundation' management considers cash and cash equivalents to include demand deposits, money market accounts and other assets of high liquidity except those amounts designated and classified as investments. In July 2010 the Federal Deposit Insurance Corporation ("FDIC") permanently increased coverage to $250,000 for substantially all depository accounts. Additionally, through December 31, 2010, deposits held in non-interest bearing transaction accounts will be fully insured, regardless of the amount in the account, at all FDIC institutions currently participating in the transaction account guarantee program. The Foundation's cash deposits at financial institutions may exceed insured limits at various times during the year. At June 30, 2010, the Foundation had $4,931,752 which exceeded these insured amounts.

### Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of investments. Management recognizes this risk as a cost of doing business and manages risk through the investment policy objectives and asset allocation strategy as adopted by the Foundation.

### Investments

The Foundation recognizes its investment transactions in accordance with GAAP. Therefore, 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.

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 investment 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.

The Foundation's Board of Trustees approved investment policy defines the asset allocation for the operating and endowment investment pools, and also the spending allocation from the endowment investment pool. With the exception of certain restricted contributions that are separately invested, all restricted endowment contributions are invested on a pooled accounting basis.

Based on the interpretation of donor-imposed restrictions and applicable state law, the endowment investment pool total investment return including appreciation, depreciation, income, expenses and fees is allocated to each endowment based on the ratio of that endowment's investment balance to the total endowment investment pool. The approved endowment spending allocation is defined in greater detail in Note 4.

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

The Foundation has ownership of certain cash equivalents that are not in the possession of the Foundation but are held, along with other investment securities, by outside investment managers. Although these cash equivalents are readily available, it is the intent of the Foundation to hold these cash equivalents for investment purposes and therefore has classified them as investments.

**Cost of Services**

The cost of services render by the Development Division of the University for fundraising activities are borne both by the Foundation and the University. The portion of the costs borne by the University is not included in the Foundation's financial statements, as these costs would have been incurred by the University even if the Foundation did not exist. In addition, due to the insignificance of certain cost of services rendered to the Foundation by the accounting and certain other departments of the University, such amounts are not charged to the Foundation or included in the Foundation's financial statements.

**Administrative Fees**

Administrative fees are utilized to cover operating cost of the Foundation, assist with development activities and provide additional funds to the University. The fees include 1% of the fair value of endowments annually, plus the net income earned from the non-endowed investment portfolio.

**Contributions**

Contributions are recorded in accordance with GAAP. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

**Pledges Receivable**

Unconditional promises to give (pledges receivable) are recognized as revenue and asset in the period the promise is received. Pledges receivable are recorded at their net realizable value. Pledges expected to be collected in future years are discounted based on the present value of the estimated future cash flows. The discounts on those amounts are computed using estimated risk-free interest rates. An allowance for uncollectable pledges is estimated based on the Foundation's collection history and is netted against the gross pledges receivable.

**Contributed Goods and Services**

Contributions of securities, land, buildings and other nonmonetary assets which can be objectively measured are recorded at their fair value at the date of contribution. Certain nonmonetary assets such as art objects, equipment and books that are donor designated for the direct use by the University or one of its departments are not included in the consolidated financial statements. Donated services of volunteers have not been recorded in the consolidated financial statements since they do not meet the recognition criteria established in GAAP.

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

**Split Interest Agreements**
The Foundation's split-interest agreements consist primarily of irrevocable charitable remainder trusts and charitable gift annuities.

*Charitable remainder trusts* – Remainder trusts consist of assets donated to the Foundation and held by the Foundation as the sole or one of the remaindermen of the trusts. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded as a temporarily restricted contribution in the period the trust is established.

The Foundation's assets held in trust are determined by multiplying the Foundation's remainder interest in the trust by the fair value of the assets held in each trust. Earnings from the underlying investments of each trust corpus and the trust corpus are used to pay certain periodic payments to beneficiaries under the terms of each trust agreement. The corpus of each trust may be invaded in cases where investment earnings are not sufficient to make the required periodic payments.

If the corpus of the trust is invaded to the extent that it is depleted, the Foundation has no further financial obligation to the donors, beneficiaries or other remaindermen, if any. Upon the death of the beneficiaries, any remaining corpus of the trust reverts to the Foundation and/or the other charitable remaindermen, if any, as specified in each trust agreement. A corresponding liability, based upon actuarial tables, is recorded to reflect the present value of the future periodic payments due to the beneficiaries in the consolidated statements of financial position.

*Charitable gift annuities* – Gift annuities consist of assets donated to the Foundation through an agreement under which the Foundation is obligated to pay annuitants periodic fixed amounts for the remainder of their lives. The Foundation invests the assets in investments that 1) provide interest and dividend income, as well as gains or losses, and 2) are used to meet the required payments. The assets received are recognized at fair value when received along with an annuity payment liability, based upon actuarial tables, which represents the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The amount by which the fair value of the assets received exceeds the present value of the periodic payment liability at the time of the gifts is recorded as either unrestricted or temporarily restricted contribution revenue in accordance with the intent expressed by the contributors in the gift annuity agreements. The original contribution and the investment earnings may not be sufficient to make the required periodic payments. If these amounts are not sufficient, the Foundation has a continuing financial commitment to each annuitant until their death.

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

### Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 45 years. Equipment, betterments or renewals in excess of $5,000 are capitalized. Normal repairs and maintenance costs are expensed as incurred.

### Impairment of Long-lived Assets

The Foundation reviews the carrying value of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets to be held and used may not be recoverable. Management does not believe there are any indications of impairment of any long-lived property and equipment at June 30, 2010.

### Reclassification of Donor Intent

At times the Foundation receives requests by donors or their designees to change the use for which the donor's original gift was intended. These donor requests are reviewed by the Foundation for approval, and if approved, may result in the reclassification of net assets between unrestricted, temporarily restricted, or permanently restricted net assets.

## Note 3 - Investments

A summary of the aggregate cost and fair value of investment securities as of June 30, 2010 and 2009 (exclusive of securities held in agency accounts) and realized and unrealized gains and losses are as follows:

| | June 30, 2010 | | June 30, 2009 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Money market funds | $ 43,622,981 | $ 43,623,125 | $ 33,905,538 | $ 33,905,538 |
| Equities and equity funds | 60,739,738 | 56,566,416 | 61,663,082 | 48,676,391 |
| Fixed income securities and funds | 31,805,412 | 32,498,178 | 19,601,621 | 19,124,056 |
| Real estate investment trust funds | 3,417,299 | 3,979,927 | 5,454,569 | 4,191,260 |
| Total | $ 139,585,430 | $ 136,667,646 | $ 120,624,810 | $ 105,897,245 |

| | Realized Gains/(Losses) | Unrealized Gains/(Losses) | Realized Gains/(Losses) | Unrealized Gains/(Losses) |
|---|---|---|---|---|
| Equities and equity funds | $ (2,046,074) | $ 9,243,693 | $ (1,429,042) | $ (19,568,290) |
| Fixed income securities and funds | 1,478,187 | 1,072,587 | (635,265) | (122,423) |
| Real estate investment trust funds | (40,905) | 1,825,939 | (56,054) | (2,879,231) |
| Total | $ (608,792) | $ 12,142,219 | $ (2,120,361) | $ (22,569,944) |

## Note 3 – Investments (continued)

The investment return and allocation of the endowment investment pools as of June 30, 2010 and 2009 are summarized below:

| | June 30, 2010 | | June 30, 2009 | |
|---|---|---|---|---|
| | Endowment Pool | Operating Pool | Endowment Pool | Operating Pool |
| Dividends and interest income | $ 1,860,928 | $ 273,126 | $ 2,477,320 | $ 386,092 |
| Net realized gains (losses) | (600,035) | (858,040) | (1,768,562) | (383,910) |
| Net unrealized gains (losses) | 9,902,011 | 1,907,918 | (20,767,591) | (1,484,163) |
| Investment management fees | (266,923) | (98,617) | (213,419) | (124,997) |
| Total investment return | 10,895,981 | 1,224,387 | (20,272,252) | (1,606,978) |
| Administrative fees | (812,646) | (1,224,292) | (726,141) | 1,606,978 |
| Endowment spending allocation | (3,461,214) | 3,461,214 | (3,369,972) | 3,369,972 |
| Net investment return after fees and allocations | $ 6,622,121 | $ 3,461,309 | $ (24,368,365) | $ 3,369,972 |

The following table summarizes the fair value measurements of certain investments that calculate net asset value per share (or its equivalent) as of June 30, 2010:

| Description | Fair Value | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Equity - multi-strategy hedge funds (a) | $ 9,228,601 | | quarterly, annually | 60 days |
| Limited partnerships - private equity (b) | 4,482,086 | $ 8,186,083 | | |
| Real estate (REIT) funds © | 74,900 | 215,770 | | |
| Total | $ 13,785,587 | $ 8,401,853 | | |

(a) This category employs a fund of hedge funds portfolio construction. This category invests in multiple strategy hedge funds to add diversification and reduce volatility of the portfolio. The fund of fund managers allocate across a broad range of hedge fund categories including long/short, event driven and arbitrage strategies that provide low correlation to other asset classes in the portfolio. The fair values of the investments in this category have been estimated using net asset value per share of the investments.

**Note 3 – Investments (continued)**

(b) This category includes several private equity funds that employ a fund of funds approach that invests both domestic and international in venture capital, buyouts, mezzanine, secondary markets and other areas within private equity. These investments are less liquid and, generally, cannot be redeemed with the funds through normal redemption procedures. Instead, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2010, it is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Company's ownership interest in partner' capital. Therefore, the fair values of the investments in this category have been estimated using recent observable transaction information for similar investments.

(c) This category includes a real estate funds that invests primarily in U.S. commercial real estate. The fair values of the investment in this category have been estimated using the net asset value of the Company's ownership interest in partners' capital. These investments are less liquid and, generally, cannot be redeemed with the funds through normal redemption procedures. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

The Foundation's investment assets recorded at fair value have been categorized based upon a fair value hierarchy (See Note 2). The following tables summarize the valuation of the Foundation's financial assets and liabilities measured at fair value as of June 30, 2010 and 2009:

**Fair Value Measurements at June 30, 2010:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments: | | | | |
| Money Market Funds | $ 800,000 | $ 42,823,125 | $ - | $ 43,623,125 |
| Fixed income securities | - | 32,498,178 | - | 32,498,178 |
| Equity securities | 244,645 | 42,611,082 | 9,228,601 | 52,084,328 |
| Limited partnerships | - | - | 4,482,086 | 4,482,086 |
| REIT's | - | 3,905,029 | 74,900 | 3,979,929 |
| | $ 1,044,645 | $ 121,837,414 | $ 13,785,587 | $ 136,667,646 |

**Fair Value Measurements at June 30, 2009:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments: | | | | |
| Money Market Funds | $ - | $ 33,905,538 | $ - | $ 33,905,538 |
| Fixed income securities | - | 10,940,607 | 8,183,449 | 19,124,056 |
| Equity securities | 624,721 | 35,649,491 | 8,906,100 | 45,180,312 |
| Limited partnerships | - | - | 3,496,079 | 3,496,079 |
| REIT's | - | 4,081,030 | 110,230 | 4,191,260 |
| | $ 624,721 | $ 84,576,666 | $ 20,695,858 | $ 105,897,245 |

**Note 3 – Investments (continued)**

The following summarizes the activities in the Level 3 category of investments for the year ended June 30, 2010:

| Description | Beginning Balance | Realized or unrealized gains (losses) | Purchases and Sales | Ending Balance |
|---|---|---|---|---|
| Fixed Income | $ 8,183,449 | $ 111,010 | $ (8,294,459) | $ - |
| Equity Securities | 8,906,100 | 797,201 | (474,700) | 9,228,601 |
| Limited Partnerships | 3,496,079 | 227,334 | 758,673 | 4,482,086 |
| REIT's | 110,230 | (35,330) | - | 74,900 |
| Total Level 3 investments | $ 20,695,858 | $ 1,100,215 | $ (8,010,486) | $ 13,785,587 |

The following summarizes the activities in the Level 3 category of investments for the year ended June 30, 2009:

| Description | Beginning Balance | Realized or unrealized gains (losses) | Purchases and Sales | Ending Balance |
|---|---|---|---|---|
| Fixed Income | $ 16,333,729 | $ (8,151,744) | $ 1,464 | $ 8,183,449 |
| Equity Securities | 9,340,609 | (434,509) | - | 8,906,100 |
| Limited Partnerships | 3,877,944 | (969,402) | 587,537 | 3,496,079 |
| REIT's | 177,107 | (66,877) | - | 110,230 |
| Total Level 3 investments | $ 29,729,389 | $ (9,622,532) | $ 589,001 | $ 20,695,858 |

**Split Interest Agreements**

The Foundation administers and is the beneficiary of certain charitable remainder trusts and charitable gift annuities. Investments held in these split interest agreements are invested in equities and bonds and reported at fair value. Changes in the value of split interest agreements are included as a component of unrealized gains (losses) on investments in the consolidated statements of activities. The value of the split interest agreements as of June 30, 2010 and 2009 were $493,563 and $2,246,340 respectively.

**Business Student Trust Fund**

During 1972, a trust fund was established to allow business students regularly enrolled at the University to gain practical experience in the fields of investment analysis and management, fund management and related areas. An initial contribution of $5,000 and supplemental contributions of $15,000 were made from unrestricted resources of the Foundation for this purpose. No further contributions to this trust are required. If this trust was terminated, any funds remaining after payment of all debts would be returned to the Foundation to be used for educational purposes. The value of the trust fund as of June 30, 2010 and 2009 were $ 244,645 and $223,648 respectively.

## Note 4 – Endowments

The Foundation's endowment consists of approximately 300 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Trustees of the Foundation has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act (UPMIFA) of 2008 as requiring the assets of an endowment fund be donor restricted until allocated for spending, unless otherwise specifically stated in the gift instrument.

The Board believes this interpretation is consistent with long established Board approved investment and spending policy which is specifically referenced in the Foundation's endowed gift instrument. In accordance with the investment policy and UPMIFA, with the exception of certain restricted assets that are separately invested, all restricted endowment assets are invested in the endowment pool on a pooled basis until allocated for spending.

As a result of this interpretation, the Foundation classifies permanently restricted net assets as assets that, under the terms of the gift instrument, are permanent endowments not wholly expendable by the Foundation on a current basis until a portion is allocated for spending. Permanently restricted assets are invested in perpetuity in the endowment investment pool subject to periodic spending allocations where a portion of the donor-restricted endowment fund in permanently restricted nets assets is allocated and classified as temporarily restricted net assets available for spending.

The endowment investment pool also includes donor-restricted funds classified as temporarily restricted net assets, not specifically designated as permanently restricted endowment funds but they are restricted and designated for a particular college or unit of Georgia State University. From time to time the Foundation will approve requests from a college or unit to invest a portion of these funds in the endowment investment pool. These funds are designated as quasi endowments or funds functioning as endowments. The Foundation classifies these funds and the related investment return and spending allocation as temporarily restricted net assets. There are no unrestricted net assets invested in the endowment investment pool.

Based on the interpretation of the investment policy and UPMIFA, the total return of the endowment investment pool including appreciation/inflation, depreciation/deflation, income, expenses and fees shall be allocated to each endowment based on the ratio of that endowment's investment balance to the total endowment pool and included as part of the endowment net asset classification.

## Note 4 – Endowments (continued)

### Endowment Spending Policy

In accordance with UPMIFA the Foundation considers the following factors in making a determination to appropriate and allocate assets for spending or accumulate assets of an endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

According to the spending policy, the Foundation is not obliged to allocate for spending a stated percentage of its endowment assets in any given year. However, in order to achieve both reasonable stability in budgeting and a reasonable balance between near-term and distant programmatic priorities, the board has adopted the following spending policy:

The allocation for spending in any given fiscal year shall equal:

- 70% of spending for the prior year, adjusted for cumulative changes in inflation (as measured by CPI), plus
- 30% of Foundation's long-term spending rate (currently 4.5%) applied to the endowment's market value at the beginning of the year.

This amount is divided by the endowment market value at the beginning of the year to calculate the spending allocation rate, which was 3.9% for the year ended June 30, 2009. The current year spending allocation rate of 4.8% is applied to each individual endowment based on its average market value during the year.

The total endowment spending allocation distributed for the years ended June 30, 2010 and 2009 was $3,461,214 and $3,369,972, respectively. To the extent that the endowment investment pool's total return is greater or less than the allocations made for spending, the fair value of each endowment increases or decreases accordingly.

### Return Objectives and Risk Parameters

The Foundation's return objective is to preserve and if possible enhance the purchasing power of its endowment, net of cost and board-approved withdrawal, over a rolling five-year period. The goal is the pursuit of a time-weighted net return on endowment assets that equals, and if possible exceeds, inflation (as measured by CPI) plus the Foundation's long-term spending allocation rate, measured over rolling five-year periods.

## Note 4 – Endowments (continued)

The Foundation stands prepared to incur risks consistent with its pursuit of the return objective set forth above, subject to two overarching limits. Its endowment investment pool should be deployed in a manner that reduces to tolerable levels (defined as 25% or below) the probabilities that it will suffer (1) peak-to-trough declines in endowment purchasing power exceeding 30% or (2) a shortfall exceeding 3% in the Foundation's annualized endowment returns relative to those of an approved peer group measured over rolling 5 year periods.

**Endowment Net Asset Composition by Type of Fund as of June 30, 2010:**

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ - | $ 65,294,665 | $ 65,294,665 |
| Quasi-endowment funds | - | 18,365,220 | - | $ 18,365,220 |
| Total endowment net assets | $ - | $ 18,365,220 | $ 65,294,665 | $ 83,659,885 |

**Endowment Net Assets Composition by Type of Fund as of June 30, 2009:**

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ - | $ 54,423,358 | $ 54,423,358 |
| Quasi-endowment funds | - | 16,369,914 | - | 16,369,914 |
| Total endowment net assets | $ - | $ 16,369,914 | $ 54,423,358 | $ 70,793,272 |

## Note 4 – Endowments (continued)

**Endowment Related Activities by Type of Fund as of June 30, 2010:**

| | Donor-restricted Endowment Funds | Quasi-Endowment Funds | Total |
|---|---|---|---|
| Endowment net assets, July 1, 2009 | $ 54,423,358 | $ 16,369,914 | $ 70,793,272 |
| Net realized and unrealized gains | 7,796,464 | 2,286,935 | 10,083,399 |
| Contributions | 5,371,040 | 246,376 | 5,617,416 |
| Allocation of endowment assets for expenditure | (2,679,027) | (782,187) | (3,461,214) |
| Transfers to create board designated endowment | - | 100,000 | 100,000 |
| Transfers to comply with donor intent | 369,443 | 157,569 | 527,012 |
| Reclassification of donor intent | 13,387 | (13,387) | - |
| Endowment net assets, June 30, 2010 | $ 65,294,665 | $ 18,365,220 | $ 83,659,885 |

**Endowment Related Activities by Type of Fund as of June 30, 2009:**

| | Donor-restricted Endowment Funds | Quasi-Endowment Funds | Total |
|---|---|---|---|
| Endowment net assets, July 1, 2008 | $ 70,432,010 | $ 21,618,267 | $ 92,050,277 |
| Net realized and unrealized losses | (16,083,505) | (4,914,889) | (20,998,394) |
| Contributions | 2,473,432 | 238,415 | 2,711,847 |
| Allocation of endowment assets for expenditure | (2,592,827) | (777,145) | (3,369,972) |
| Transfers to comply with donor intent | 66,989 | 332,525 | 399,514 |
| Reclassification of donor intent | 127,259 | (127,259) | - |
| Endowment net assets, June 30, 2009 | $ 54,423,358 | $ 16,369,914 | $ 70,793,272 |

## Note 4 – Endowments (continued)

**Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)**

| | 2010 | 2009 |
|---|---|---|
| **Permanently Restricted Net Assets** | | |
| The Portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA | $ 65,294,665 | $ 54,423,358 |
| Total endowment funds classified as permanently restricted net assets | $ 65,294,665 | $ 54,423,358 |
| **Temporarily Restricted Net Assets** | | |
| Quasi-endowment funds | $ 18,365,220 | $ 16,369,914 |
| Total endowment funds classified as temporarily restricted net assets | $ 18,365,220 | $ 16,369,914 |

## Note 5 – Pledges Receivable

Pledges receivable at June 30, 2010 and 2009, consists of the following:

| | 2010 | 2009 |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $ 5,619,319 | $ 2,258,932 |
| One to five years | 7,482,964 | 1,303,793 |
| More than five years | 107,500 | 211,250 |
| Total unconditional promises to give | 13,209,783 | 3,773,975 |
| Less discounts to net present value discount (rate 2.95% in 2010, 3.52% in 2009) | (440,629) | (132,007) |
| Less allowance for uncollectable promises to give | (122,873) | (68,635) |
| Net pledges receivable | $ 12,646,281 | $ 3,573,333 |

The Foundation's pledges receivable record at fair value have been categorized based upon a fair value hierarchy (See Note 2). All valuations are classified as level 3 within the fair value hierarchy based on observable and unobservable inputs. The Foundation took into account historical and projected cash flow, collectability and default rates.

## Note 5 – Pledges Receivable (continued)

The following summarizes the activities in the level 3 pledges receivable measured at fair value for the year ended June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Beginning balance | $ 3,573,333 | $ 6,827,024 |
| New pledges | 13,948,522 | 1,201,564 |
| Pledges payments | (4,512,714) | (4,558,850) |
| Net fair valuation adjustment | (362,860) | 103,595 |
| Total level 3 pledges receivalbe | $ 12,646,281 | $ 3,573,333 |

## Note 6 – Net Investment in Direct Financing Leases

The components of the net investment in direct financing lease at June 30, 2010 and 2009 are as follows:

| | 2010 | 2009 |
|---|---|---|
| Future minimum lease receipts – Alpharetta | $ 13,063,890 | $ 14,283,225 |
| Future minimum lease receipts – Student Recreation Center | 36,891,936 | 40,002,460 |
| Future minimum lease receipts – Piedmont Ellis | 348,407,121 | 358,181,898 |
| Gross investment in direct financing leases | 398,362,947 | 412,467,583 |
| Less unearned interest income | (236,664,376) | (247,736,486) |
| Net investment in direct financing leases | $ 161,698,571 | $ 164,731,097 |

## Note 6 – Net Investment in Direct Financing Leases (continued)

Future minimum net amounts receivable under direct financing leases at June 30, 2010 are as follows:

| Year Ending June 30, | |
|---|---|
| 2011 | $ 14,437,700 |
| 2012 | 14,779,553 |
| 2013 | 15,140,317 |
| 2014 | 15,485,700 |
| 2015 | 15,856,176 |
| 2016-2020 | 83,590,019 |
| 2021-2025 | 64,402,404 |
| 2026-2030 | 61,521,211 |
| 2031-2035 | 62,388,669 |
| 2036-2039 | 50,761,198 |
| Gross investment in direct financing lease | 398,362,947 |
| Less unearned interest income | (236,664,376) |
| Net investment in direct financing leases | $ 161,698,571 |

## Note 7 – Restricted Assets

Pursuant to the terms of various bonds payable and capital lease arrangements for the construction of long-lived assets and debt services requirements, the Foundation is required to maintain amounts on deposit with a trustee, including charitable trust held by others. Restricted assets primarily represent fixed income securities with varying maturity dates and cash equivalents and are related to the following facilities and other assets:

| | 2010 | 2009 |
|---|---|---|
| Alpharetta Center | $ 590,851 | $ 337,514 |
| Student Recreation Center | 2,826,443 | 2,828,003 |
| Piedmont Ellis | 19,499,349 | 18,192,571 |
| Panther Place | 12,086,317 | 11,285,155 |
| Charitable trusts held by others | 100 | 1,857,004 |
| Total restricted assets | $ 35,003,060 | $ 34,500,247 |

## Note 8 – Cash Surrender Value

The Foundation is the owner and beneficiary of numerous insurance policies. As of June 30, 2010 the total face value of the policies was $3,864,554. These policies were utilized to endow the Kenneth Black Chair of Insurance and the President's Excellence funds. Premiums on some of the policies are paid by the Foundation with the corresponding amounts received back from the donors as contributions. While the cash surrender value of the policies has been recorded in the Foundation's consolidated financial statements, the face value of the policies will be recognized upon receipt of the insurance proceeds. The cash surrender value of the policies as of June 30, 2010 and 2009, were $901,899 and $875,653, respectively.

## Note 9 – Other Assets

Other assets as of June 30, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Accounts receivable | $ 1,708,988 | $ 312,374 |
| Prepaid expenses | 242,133 | 143,652 |
| Property held for sale | - | 6,703,402 |
| Total other assets | $ 1,951,121 | $ 7,159,428 |

On October 27, 2008, Panther Fields purchased certain land at a purchase price of $6,600,000 for the purpose of constructing a football practice field for the University. On February 16, 2010 Panther Fields sold the property to the University. See Note 11 for the gain recognized in the statement of activities for the year ended June 30, 2010 related to this transaction.

## Note 10 – Deferred Costs

Deferred costs include unamortized bond issuance costs as of June 30, 2010 and 2009 consisting of:

| | 2010 | 2009 |
|---|---|---|
| Alpharetta Campus - bond issuance cost | $ 156,300 | $ 164,661 |
| Student Recreation Center - orginal issuance cost | 150,642 | 168,540 |
| Piedmont Ellis - bond issuance costs | 3,695,591 | 3,836,824 |
| Panther Place - bond issuance costs | 2,419,576 | 2,512,311 |
| Total deferred costs | $ 6,422,109 | $ 6,682,336 |

## Note 11 - Property and Equipment

Property and equipment as of June 30, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Land | $ 7,372,092 | $ 8,249,592 |
| Donated land held for investment | 6,400 | 6,400 |
| Building | 47,536,830 | 55,513,263 |
| Building improvements | 6,837,738 | 17,796,557 |
| Computer system | 1,087,614 | 1,064,554 |
| Property and equipment - at cost | 62,840,674 | 82,630,366 |
| Less accumulated depreciation | (9,434,022) | (21,353,613) |
| Property and equipment - net | $ 53,406,652 | $ 61,276,753 |

Depreciation expense for the years ended June 30, 2010 and 2009 was $2,014,637 and $2,592,337, respectively.

During the year ended June 30, 2010 the Foundation sold or transferred certain real property and buildings to the University. Realized Gains on these transactions are as follows:

| | 2010 |
|---|---|
| Rialto Properties | $ 427,991 |
| One Park Place | 3,253,054 |
| Panther Fields | 132,897 |
| Total realized gain on property transactions | $ 3,813,942 |

## Note 12 – Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Accounts payable and accrued expenses | $ 764,192 | $ 1,562,511 |
| Deferred revenue | 265,485 | 829,884 |
| Accrued interest on bonds payable | 4,576,034 | 3,175,333 |
| Split interest agreements obligations | 441,356 | 297,092 |
| Total accounts payable and other liabilities | $ 6,047,067 | $ 5,864,820 |

## Note 13 – Investments Held for Affiliates

**Georgia State University Research Foundation, Inc.**
During 1996, the Foundation entered into an agreement with the Georgia State University Research Foundation, Inc. (Research Foundation) to provide investment management services for the Research Foundation. The Foundation is to manage the Research Foundation's investments in a manner consistent with the Foundation's investment policies and procedures for which the Research Foundation pays the Foundation a fee. The Research Foundation’s investment balances under management as of June 30, 2010 and 2009 were $3,209,529 and $2,738,241, respectively.

During 2003, the Foundation entered into an additional agreement with the Research Foundation to separately manage a $2,000,000 endowment portfolio received by the Research Foundation from a government agency. Under the agreement, the Foundation provides investment management services for the separate portfolio to comply with the terms of the Research Foundation's agreement with the federal agency for which the separate portfolio is charged a fee. The Research Foundation’s investment balances under management related to this separate portfolio as of June 30, 2010 and 2009 were $2,278,143 and $2,320,918, respectively.

**Georgia State University Alumni Association**
During 1997, the Foundation entered into an agreement with the Georgia State University Alumni Association (Alumni Association) to manage investments of the Alumni Association, consistent with investment policies of the Alumni Association. The Alumni Association’s investment balances under management as of June 30, 2010 and 2009 were $671,022 and $579,002, respectively.

The total fair value of investment held for affiliates is reported as an asset and a liability in the consolidated statements of financial position. The balances as of June 30, 2010 and 2009 were $6,158,694 and $5,638,161.

## Note 14 – Obligations Under Leases

**Alpharetta Campus Facilities Lease**
On September 23, 1998, $10,600,000 of revenue bonds were issued by the Development Authority of Alpharetta, Georgia, (Development Authority) for the purpose of financing the costs of acquiring, constructing and installing educational facilities which are located in the City of Alpharetta and are leased by the Foundation. On May 12, 2009 the Series 1998 Bonds were refunded by a new lower fixed-rate bond issuance. The tax-exempt revenue bonds of $5,890,000 plus premium of $654,706 were issued by the Development Authority of Alpharetta, Georgia. Principal and interest payments schedule will remain in force as under the 1998 issuance. Interest payments will continue to be made semi-annually starting November 1, 2009 at a rate specified in the revenue bonds ranging from 3.0% to 5.0%.

## Note 14 – Obligations Under Leases (continued)

The lease obligates the Foundation, on a limited recourse basis, to make lease payments sufficient to pay 83.5% of principal and interest on the bonds with the balance to be paid by the Development Authority. The Foundation in turn subleased the facilities to the Board of Regents of the University System of Georgia (Board of Regents) for the use of the University. The liability of the Foundation is limited to the interest of the Foundation in the project and the rents, profits, issues, products and proceeds thereof. The City of Alpharetta is obligated to make 100% of the principal and interest payments on the bonds to the extent rental payments derived from the project are insufficient for such purposes. The Foundation has entered into a lease with the University on this property. As the lease is classified as a capital lease by the University the Foundation has recorded the asset as a net investment in direct financing lease on the consolidated statements of financial position.

The following is a schedule by year of the future minimum lease payments required under the Alpharetta Campus facilities lease as of June 30, 2010:

| Year Ending June 30, | |
|---|---|
| 2011 | $ 634,085 |
| 2012 | 633,375 |
| 2013 | 635,324 |
| 2014 | 632,373 |
| 2015 | 634,544 |
| 2016-2019 | 2,512,293 |
| Total minimum lease payments | 5,681,994 |
| Less amount representing interest | (989,294) |
| Present value of minimum lease payments | $ 4,692,700 |

Interest expense related to the capital lease obligation for Alpharetta for the years ended June 30, 2010 and 2009 totaled $204,116 and $256,811, respectively.

**Rialto Center Facilities Lease**

During 1994, the Foundation purchased and renovated facilities currently occupied by the University's School of Music. The project included the purchase and renovation of two existing office buildings. The Foundation also entered into a long term land lease for the renovation and use of an existing performing arts theater, the Rialto Theater. The project was financed through contributions to the Foundation and through bonds issued by the Downtown Development Authority of the City of Atlanta (Authority), the proceeds of which were loaned to The University Financing Foundation (TUFF). The Foundation has entered into long term lease commitments with TUFF to provide for the debt service payments on the bonds and other bond financing related expenses. The Foundation then leased the facilities to the University through a series of one year renewable lease agreements. The Foundation had classified this lease as a capital lease and has recorded it as an asset under property and equipment in the consolidated statements of financial position. Interest expense related to the TUFF lease obligation for Rialto for the years ended June 30, 2010 and 2009 totaled $58,839 and $191,166, respectively.

## Note 14 – Obligations Under Leases (continued)

During 2004, the 1994 bonds issued by the Authority were refunded to obtain savings in debt service and to obtain funds for improvements to the Rialto Theater. Accordingly, the Authority entered into a new loan agreement with TUFF and a new agreement with the Foundation as the guarantor of the bonds. The guarantee was expressly limited to the unrestricted income and unrestricted assets of the Foundation. On December 1, 2009 the Foundation assigned all of its rights under the lease agreement (the Amended and Restated Lease Agreement dated July 1, 1994) (the “Lease”) with TUFF Rialto LLC to the University. This assignment terminated the leasehold interest of the Rialto Center, LLC in the Rialto Center, the Haas-Howell Building and the Standard Building. The Foundation then derecognized the costs, accumulated depreciation and capital lease obligation related to the termination of this lease and recognized a gain on the transactions. See Note 11 for the gain recognized in the statement of activities for the year ended June 30, 2010 related to this transaction. The University, as new tenant under the Lease, then defeased the remaining principal on the bonds and became fee simple owner of the Haas-Howell Building and the Standard Building.

### Rialto Ground Lease

On December 1, 2009 TUFF transferred its interest in the Rialto Theater ground lease to the Foundation. The Foundation will continue to sub-lease the Rialto Theater facility to the University.

Future minimum lease payments under the ground lease as of June 30, 2010, are as follows:

| Year Ending June 30, | |
|---|---|
| 2011 | 79,304 |
| 2012 | 79,304 |
| 2013 | 79,304 |
| 2014 | 79,304 |
| 2015 | 79,304 |
| 2016-2020 | 396,520 |
| 2021-2025 | 396,520 |
| 2026-2030 | 396,520 |
| 2031-2035 | 396,520 |
| 2036-2040 | 396,520 |
| 2041-2045 | 396,520 |
| 2046 | 39,653 |
| Total | $ 2,815,293 |

## Note 14 – Obligations Under Leases (continued)

### Operating Leases (Foundation as Lessor)

**Lofts Lease**

A rental agreement was entered into in January 2005 between the Foundation, landlord, and the Board of Regents for and on the behalf of the University, tenant, for student housing known as the University Lofts. The lease is renewable annually through fiscal year 2033 and ends in September 2032.

**One Park Place Lease**

A rental agreement was entered into in December 1991 and amended December 2002 between the Foundation, landlord, and the Board of Regents for and on the behalf of the University, tenant, for educational facilities known as One Park Place. The lease is renewable through fiscal year 2012. Annual increases are determined by the change in CPI comparing March of the preceding year to March of the current year. However, annual increase cannot exceed 5% or fall below 3% (See Note 21). On August 24, 2009, the Foundation sold One Park Place to the University and terminated the lease. See Note 11 for the gain recognized in the statement of activities for the year ended June 30, 2010 related to this transaction.

**Panther Place Lease**

On May 31, 2007, the Foundation purchased certain land, buildings and fixtures owned by SunTrust Bank, Inc. for $52 million using proceeds of revenue bonds (See Note 16). On the same day, the Foundation entered into a lease agreement with SunTrust Bank, Inc for a five-year period with annual basic rental income of $3,000,000 for the first year and a 2% increase each year thereafter.

**Brookwood Lease**

In the year ended June 30, 2005, the Foundation entered into a lease with a third party for office space for the benefit and use of the University's Executive MBA Program. The lease is renewable annually through June 30, 2010. The University reimburses the Foundation on a monthly basis in an amount equal to the monthly rent payment.

**Bestway Copy Center Lease**

A rental agreement was entered into in July 2000 for a period of five (5) years. After the lease expired in June 2005, it was converted to a month-to-month lease through June, 2010. On August 24, 2010 the lease was terminated when the building was sold.

**Pawn Shop Lease**

A month to month lease with a hold over tenant was included in the Panther Lot purchase transaction. A new short-term lease was executed with this tenant for July 1, 2009 through October 31, 2009. From November 1, 2009 to June 30, 2010 the tenant was on a month to month lease.

## Note 15 – Bonds Payable

Bonds payable at June 30, 2010 and 2009 consisted of the following:

| Series | Original Principal Issued | Interest Rates | Balance June 30, 2010 | Balance June 30, 2009 |
|---|---|---|---|---|
| **Student Receation Center Bonds** - Limited obligation variable rate revenue bonds, principal payments are to be made annually until October 1, 2018. Interest is paid semi annually through 2018. | $ 33,430,000 | 3.60% - 4.60% | $ 19,925,000 | $ 21,680,000 |
| **Piedmont Ellis Revenue Bonds** - Tax-exempt and taxable variable rate revenue bonds, principal payments are to be made annually starting September 1, 2009 and ending September 1, 2036. Interest is paid semi annually through 2036. | 161,330,000 | 3.875% - 5.0% | 160,060,000 | 161,330,000 |
| **Panther Place Revenue Bonds** -Revenue bonds on $73,235,000 (tax –exempt $60,215,000 and taxable $13,020,000) net of discount of $1,654,917 Principal payments are to be made annually starting July 1, 2013 and ending July 1, 2037. Interest is to be paid semi-annually starting July 1, 2009. | 73,325,000 | 4.00% - 6.150% | 73,235,000 | 73,235,000 |
| Subtotal | | | 253,220,000 | 256,245,000 |
| Plus unamortized bond premium | | | 5,381,856 | 5,824,384 |
| Less unamortized bond discount | | | (1,589,270) | (1,647,208) |
| Total | | | $ 257,012,586 | $ 260,422,176 |

**Student Recreation Center**

On October 15, 1998, $33,430,000 of revenue bonds were issued by the Atlanta Development Authority ("ADA") with the proceeds loaned to the Foundation for the purpose of financing the acquisition, construction, improvement and equipping of a student recreation center for the benefit of the University. The bonds are special limited obligation bonds of the ADA, payable from funds received from the Foundation pursuant to a promissory note between the ADA and the Foundation. The Foundation leases the facilities to the Board of Regents for the use of the University.

## Note 15 – Bonds payable (continued)

The Foundation's liability on the note is limited to its interest in the project and the rents and revenues from the project, including amounts received pursuant to the rental agreement with the Board of Regents. Payment of principal and interest on the bonds are insured by AMBAC Assurance Corporation. Principal payments are to be made annually until October 1, 2018. Interest is paid semi-annually through 2018 at a rate specified in the revenue bonds ranging from 3.60% to 4.60%. Interest expense for the year ended June 30, 2010 and 2009 totaled $942,004 and $1,015,585, respectively.

**Piedmont/Ellis**

On September 8, 2005, a total of $161,330,000 revenue bonds (tax-exempt $158,410,000 and taxable $2,920,000) were issued at a premium of $6,620,809 by the ADA on behalf of the Foundation with the proceeds used for the purpose of financing the acquisition, construction and equipping of certain land, buildings and personal property to be used as a student housing project. The project has 1,994 beds, including community activity facilities, site amenities and parking for 786 vehicles. The real property upon which the project is located is owned by the Board of Regents and leased to the Foundation pursuant to a Ground Lease. After construction was completed, the Foundation leased the facility to the Board of Regents on an annually-renewable basis for a term of 33 years for the use and benefit of the University. Moody's Investors Services Inc. has assigned the series 2005 Bonds the rating of "Aaa" based upon the issuance of the policy by the Bond Insurer. Principal payments are to be made annually starting September 1, 2009 and ending September 1, 2036. Interest is paid semi- annually through 2036 at a rate specified in the revenue bonds ranging from 3.875% to 5.0%. Interest expense for the years ended June 30, 2010 and 2009 was $7,713,784 and 7,762,468.

**Panther Place**

On May 31, 2007, $58,385,000 of revenue bonds (tax-exempt $49,175,000 and taxable $9,210,000) were issued by the ADA on behalf of the Foundation with the proceeds used to finance the costs of acquiring land, buildings, improvements, machinery, fixtures, furnishings, equipment and other real and personal property to be used for office space. SunTrust Banks, Inc. as the seller and the current tenant may remain in the building for up to five years (See Note 14). Upon expiration of the lease or early termination by SunTrust Banks, Inc. the Foundation will lease the property to the Board of Regents on an annually renewable basis. The Foundation began making semi-annual swap interest payments on January 1, 2008 at a rate of 4.289% on tax-exempt bonds and 5.409% on taxable bonds.

During the year ended June 30, 2008, all of the tax-exempt revenue bonds became bank bonds held by JP Morgan Chase Bank as the liquidity provider. During the year ended June 30, 2009, the taxable revenue bonds likewise became bank bonds.

Pursuant to the Standby Bond Purchase Agreement with JP Morgan Chase Bank, a mandatory redemption clause with accelerated principal payments went into effect on July 30, 2008. During the year ended June 30, 2009, to provide the funding to make the accelerated principal payments, make certain deposits into the Debt Service Reserve Fund and to fund other short term financing needs Panther Place entered in to a line of credit agreement with SunTrust Bank, NA for up to $12,500,000. Interest accrued on the unpaid balance of the line of credit at a rate equal to the LIBOR rate plus 1.40% per annum.

## Note 15 – Bonds Payable (continued)

On May 29, 2009 the outstanding balance of the bank bonds of $47,630,000 and the line of credit of $8,612,859 were refunded by a new fixed-rate bond issuance. Revenue bonds on $73,235,000 (tax–exempt $60,215,000 and taxable $13,020,000) net of discount of $1,654,917 were issued by the ADA (Atlanta Development Authority) on behalf of the Foundation. Moody's Investors Services, Inc. has assigned the Series 2009 Bonds the rating of A2 based upon the issuance of the policy by the Bond Insurer. Principal payments are to be made annually starting July 1, 2013 and ending July 1, 2037. Interest is to be paid semi-annually starting July 1, 2009 at a rate specified in the revenue bonds ranging from 4.00% to 6.15%.

Interest expense net of swap interest receipts from Ambac (see Note 16) for the years ended June 30, 2010 and 2009 totaled $3,547,437 and $4,236,576, respectively.

Future maturities of the Student Recreation Center, Piedmont/Ellis and Panther Place revenue bonds at June 30, 2010 are as follows:

| Year ending June 30, | Tax-Exempt | Taxable | 2010 Total |
|---|---|---|---|
| 2011 | $ 1,830,000 | $ 1,580,000 | $ 3,410,000 |
| 2012 | 3,765,000 | 70,000 | 3,835,000 |
| 2013 | 4,270,000 | - | 4,270,000 |
| 2014 | 4,660,000 | 1,595,000 | 6,255,000 |
| 2015 | 5,160,000 | 1,650,000 | 6,810,000 |
| 2016-2020 | 30,665,000 | 9,525,000 | 40,190,000 |
| 2021-2025 | 39,385,000 | 250,000 | 39,635,000 |
| 202-2030 | 50,125,000 | - | 50,125,000 |
| 2031-2035 | 63,700,000 | - | 63,700,000 |
| 2036-2038 | 34,990,000 | - | 34,990,000 |
| Total | $ 238,550,000 | $ 14,670,000 | $ 253,220,000 |

## Note 16 - Interest Rate Swap Agreement

On May 29, 2009 the Interest Rate Swap Agreement with Ambac was terminated in full and the value of the swap on termination date was paid with proceeds from the bond refunding (see Note 15). A realized gain on the termination of the interest rate swap of $1,515,379 was recognized during the year ended June 30, 2009.

## Note 17 – Summary of Net Assets

Net assets as of June 30, 2010 and 2009, were available for the following purposes:

| | 2010 | 2009 |
|---|---|---|
| Unrestricted Net Assets: | | |
| General | $ 15,961,941 | $ 13,253,913 |
| Investment in land and buildings | 8,035,652 | 8,001,002 |
| Total unrestricted net assets | 23,997,593 | 21,254,915 |
| Temporarily Restricted Net Assets: | | |
| Academic support | 6,021,285 | 3,731,631 |
| Scholarships | 4,347,623 | 5,137,174 |
| Program support | 7,807,509 | 6,136,844 |
| Pledge receivables | 2,811,806 | 1,007,869 |
| Program and activities | 7,357,171 | 7,637,588 |
| Charitable trust - deferred gifts | 52,207 | 1,949,248 |
| Student investment portfolio | 244,645 | 223,648 |
| Funds functioning as endowments | 18,365,220 | 16,369,914 |
| Total temporarily restricted net assets | 47,007,466 | 42,193,916 |
| Permanently Restricted Net Assets: | | |
| Endowment - pledge recievables | 9,827,014 | 2,548,580 |
| Endowment - Scholarships | 18,944,864 | 15,481,534 |
| Endowment - Program support | 46,349,801 | 38,941,824 |
| Total permanently restricted net assets | 75,121,679 | 56,971,938 |
| Total Net Assets | $ 146,126,738 | $ 120,420,769 |

## Note 18 – Net Assets Released from Restrictions

Net assets were released from restrictions for the years ended June 30, 2010 and 2009 for the following purposes:

| | 2010 | 2009 |
|---|---|---|
| Management fees | $ 812,582 | $ 726,142 |
| Real estate projects | - | 778,421 |
| General and departmental expenses | 250,909 | - |
| Program Service - General and departmental | 3,124,021 | 3,051,363 |
| Program Service - Fundraising expenses | 69,675 | 83,670 |
| Program Service - Faculty and staff expenses | 2,284,512 | 2,294,350 |
| Program Service - Scholarships and awards | 2,511,100 | 1,889,822 |
| Total net assets released from restrictions | $ 9,052,799 | $ 8,823,768 |

## Note 19 – Commitments and Contingencies

The Foundation has future commitments with various limited partnership agreements with investment managers of real estate investment trusts and venture capital funds for the endowment portfolio. Payments under the various partnership agreements are made over a period of years based on specified capital calls by the respective partnerships. The purpose of these agreements is to provide endowment funds and nonprofit organizations the opportunity to invest in private limited partnerships, which in turn, make venture capital investments primarily in emerging growth companies, international private equity investments and in equity securities, warrants or other options that are generally not actively traded at the time of investment with the objective of obtaining long-term growth of capital. Capital calls are drawn from other liquid assets of the endowment investment pool as part of the asset allocation process. Investment commitments for the years ended June 30, 2010 and 2009 totaled $8,401,853 and $9,245,436, respectively.

## Note 20 – Subsequent Events

On July 2, 2010, the Foundation sold certain land and building to the Board of Regents for $2,100,000, which is approximately $800,000 less than the carrying value as of June 30, 2010.

On August 16, 2010, the Foundation purchased certain land and buildings from 175 Piedmont Avenue Holdings, LLC for $19,000,000 and the simultaneously sold the property on the same day to the Board of Regents for approximately the same price.

The Foundation has evaluated subsequent events through September 17, 2010, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued. As of this date, there were no additional material subsequent events requiring adjustment to or disclosure in the consolidated financial statements for the year ended June 30, 2010.

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