# GEORGIA STATE UNIVERSITY FOUNDATION, INC.

## Consolidated Financial Statements

## For the Years Ended June 30, 2008 and 2007

## (With Independent Auditors' Report)

**GEORGIA STATE UNIVERSITY FOUNDATION, INC.**

Consolidated Financial Statements
June 30, 2008 and 2007

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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 statement of financial position of Georgia State University Foundation, Inc (the "Foundation") as of June 30, 2008, and the related consolidated statements of activities and cash flows for the year 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 audit. The financial statements of the Foundation as of June 30, 2007, were audited by other auditors whose report dated August 31, 2007, expressed an unqualified opinion on those consolidated financial statements.

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 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 audit provides 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, 2008 and changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

September 29, 2008
Atlanta, Georgia

**Georgia State University Foundation, Inc.**

Consolidated Statements of Financial Position
June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 1,045,665 | $ 232,459 |
| Investments (Note 2) | 136,542,949 | 149,917,529 |
| Pledges receivable, net (Note 3) | 6,827,024 | 9,468,429 |
| Investment in direct financing leases, net (Note 4) | 167,643,115 | 35,575,642 |
| Restricted assets (Note 5) | 29,826,142 | 43,254,542 |
| Cash surrender value of life insurance (Note 6) | 761,158 | 716,054 |
| Other assets (Note 7) | 418,829 | 281,966 |
| Deferred costs (Note 8) | 5,767,237 | 5,956,765 |
| Property and equipment (Note 9) | 60,769,373 | 187,933,855 |
| Investments held for affiliates (Note 10) | 6,739,125 | 7,004,433 |
| Total Assets | $ 416,340,617 | $ 440,341,674 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable and other liabilities (Note 11) | 6,862,302 | 21,574,259 |
| Obligation under leases (Note 12) | 9,000,026 | 9,722,456 |
| Bonds payable (Note 13) | 243,075,000 | 244,690,000 |
| Unamortized bond premium | 5,637,747 | 5,984,710 |
| Interest rate swap liability (Note 14) | 4,533,379 | - |
| Investments held for affiliates (Note 10) | 6,739,125 | 7,004,433 |
| Total Liabilities | 275,847,579 | 288,975,858 |
| **Net assets** | | |
| Unrestricted (Note 4) | 21,129,322 | 23,219,535 |
| Temporarily restricted | 45,185,029 | 49,443,877 |
| Permanently restricted | 74,178,687 | 78,702,404 |
| Total Net Assets | 140,493,038 | 151,365,816 |
| Total Liabilities and Net Assets | $ 416,340,617 | $ 440,341,674 |

See accompanying notes to consolidated financial statements

## Georgia State University Foundation, Inc.

Consolidated Statement of Activities
Year Ended June 30, 2008
(With Comparative Totals for 2007)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2008 | Total 2007 |
|---|---|---|---|---|---|
| **Revenues, gains and other support** | | | | | |
| Contributions | $ 335,653 | $ 7,787,460 | $ 1,532,421 | $ 9,655,534 | $ 11,848,758 |
| Rental income | 9,801,167 | - | - | 9,801,167 | 6,757,531 |
| Income from investment in direct financing leases | 9,118,525 | - | - | 9,118,525 | 3,578,180 |
| Interest and dividend income | 2,883,749 | 3,367,895 | - | 6,251,644 | 5,379,136 |
| Realized gains (losses) on investments | (1,752,911) | 5,231,201 | - | 3,478,290 | 2,537,313 |
| Unrealized gains (losses) on investments | 289,488 | (8,808,090) | (3,867,586) | (12,386,188) | 9,024,459 |
| Other income | - | - | - | - | 81,111 |
| Total revenues and gains | 20,675,671 | 7,578,466 | (2,335,165) | 25,918,972 | 39,206,488 |
| Net assets released from restrictions | 14,025,866 | (11,837,314) | (2,188,552) | - | - |
| Total revenues, gains and other support | 34,701,537 | (4,258,848) | (4,523,717) | 25,918,972 | 39,206,488 |
| **Expenses** | | | | | |
| General and departmental | 26,918,513 | - | - | 26,918,513 | 12,458,107 |
| Payment to Board of Regents | - | - | - | - | 11,725,245 |
| Faculty and staff | 2,934,125 | - | - | 2,934,125 | 2,211,716 |
| Scholarships and awards | 2,405,733 | - | - | 2,405,733 | 2,056,693 |
| Total expenses | 32,258,371 | - | - | 32,258,371 | 28,451,761 |
| Excess (deficiency) of revenues over expenses | 2,443,166 | (4,258,848) | (4,523,717) | (6,339,399) | 10,754,727 |
| Change in valuation of interest rate swap | (4,533,379) | - | - | (4,533,379) | - |
| Change in net assets | (2,090,213) | (4,258,848) | (4,523,717) | (10,872,778) | 10,754,727 |
| Net assets, beginning of year | 23,219,535 | 49,443,877 | 78,702,404 | 151,365,816 | 140,501,279 |
| Prior period adjustment to net assets (Note 4) | - | - | - | - | 109,810 |
| Net assets, adjusted beginning of year | 23,219,535 | 49,443,877 | 78,702,404 | 151,365,816 | 140,611,089 |
| Net assets, end of year | $ 21,129,322 | $ 45,185,029 | $ 74,178,687 | $ 140,493,038 | $ 151,365,816 |

See accompanying notes to consolidated financial statements

## Georgia State University Foundation, Inc.

Consolidated Statement of Activities
Year Ended June 30, 2007

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Revenues, gains and other support** | | | | |
| Contributions | $ 544,521 | $ 7,108,623 | $ 4,195,614 | $ 11,848,758 |
| Rental income | 6,757,531 | - | - | 6,757,531 |
| Income from investment in direct financing leases | 3,578,180 | - | - | 3,578,180 |
| Interest and dividend income | 2,566,494 | 2,812,642 | - | 5,379,136 |
| Realized gains (losses) on investments | (30,653) | 2,567,966 | - | 2,537,313 |
| Unrealized gains (losses) on investments | (241,568) | (2,032,458) | 11,298,485 | 9,024,459 |
| Other income | 81,111 | - | - | 81,111 |
| Total revenues and gains | 13,255,616 | 10,456,773 | 15,494,099 | 39,206,488 |
| Net assets released from restrictions | 15,841,962 | (13,951,347) | (1,890,615) | - |
| Total revenues, gains and other support | 29,097,578 | (3,494,574) | 13,603,484 | 39,206,488 |
| **Expenses** | | | | |
| General and departmental | 12,458,107 | - | - | 12,458,107 |
| Payment to Board of Regents | 11,725,245 | - | - | 11,725,245 |
| Faculty and staff | 2,211,716 | - | - | 2,211,716 |
| Scholarship and awards | 2,056,693 | - | - | 2,056,693 |
| Total expenses | 28,451,761 | - | - | 28,451,761 |
| Change in net assets | 645,817 | (3,494,574) | 13,603,484 | 10,754,727 |
| Net assets, beginning of year | 22,463,908 | 52,938,451 | 65,098,920 | 140,501,279 |
| Prior period adjustment to net assets (Note 4) | 109,810 | - | - | 109,810 |
| Net assets, adjusted beginning of year | 22,573,718 | 52,938,451 | 65,098,920 | 140,611,089 |
| Net assets, end of year | $ 23,219,535 | $ 49,443,877 | $ 78,702,404 | $ 151,365,816 |

See accompanying notes to consolidated financial statements

**Georgia State University Foundation, Inc.**

Consolidated Statements of Cash Flows
Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Changes in net assets | $ (10,872,778) | $ 10,754,727 |
| Adjustments to reconcile to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,651,116 | 1,697,578 |
| Amortization of deferred revenue | (120,235) | (111,756) |
| Amortization of bond premium | (346,963) | (346,963) |
| Unrealized gains(losses) on investments | 12,386,188 | (9,024,459) |
| Change in interest rate swap valuation | 4,533,379 | |
| Decrease in pledges receivable | 2,641,405 | 4,376,036 |
| Increase in other assets | (181,967) | (1,673,915) |
| (Decrease) increase in accounts payables and other liabilities | (14,591,721) | 9,685,751 |
| Net cash (used in) provided by operating activities | (3,901,576) | 15,356,999 |
| **Cash Flows from Investing Activities:** | | |
| Purchases of property and equipment | (997,307) | (127,575,461) |
| Additions to direct financing leases | (9,480,977) | |
| Principal payments received on direct financing leases | 3,113,704 | 1,078,020 |
| Purchases of investments | (82,708,955) | (46,723,409) |
| Sales of investments | 83,697,347 | 29,359,174 |
| Payments on subscriptions | - | - |
| Decrease in restricted assets | 13,428,400 | 72,228,367 |
| Net cash provided by (used in) investing activities | 7,052,212 | (71,633,309) |
| **Cash Flows from Financing Activities:** | | |
| Payments on capital lease obligations | (722,430) | (686,221) |
| Payments on revenue bonds payable | (1,615,000) | (1,550,000) |
| Proceeds from issuance of revenue | - | 58,385,000 |
| Net cash (used in) provided by financing activities | (2,337,430) | 56,148,779 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 813,206 | (127,531) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 232,459 | 359,990 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 1,045,665 | $ 232,459 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for interest | $ 11,293,000 | $ 9,529,443 |
| Transfer of constructed assets to investments in direct financing leases | $ 125,700,200 | |

See accompanying notes to consolidated financial statements

## Note 1 – Description of Organization and Summary of Significant Accounting Policies

### 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 Trustees of the Building Foundation.

During 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 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 fiscal year 2004, the Foundation formed Rialto Center, LLC, ("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's School of Music.

During 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.

### Cooperative Agreement

In November of 2004, 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.

### Consolidated Financial Statements

The consolidated financial statements include the accounts of the Foundation, the Building Foundation, the Lofts, Piedmont/Ellis, Rialto and Panther Place (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 accordance with FASB Statement ("SFAS") No. 117, *Financial Statements of Not-For-Profit Organizations*. 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.

### Income Taxes

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.

During the year ended June 30, 2008, the Foundation adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of Statement of Financial Accounting Standards 109,* ("FIN 48"). 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, 2008 and, accordingly, no liability has been accrued.

### 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.

**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.

**Use of Estimates**

The preparation of the consolidated 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 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.

**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.

**Cash and Cash Equivalents**

The Foundation's 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. Deposits in excess of the $100,000 insured by the Federal Deposit Insurance Corporation are exposed to loss in the event of nonperformance by the financial institution. The Foundation's cash deposits at financial institutions may exceed insured limits at various times during the year.

**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 SFAS No. 124,"*Accounting for Certain Investments Held by Not-for-Profit Organizations*." 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 as:

- 70% of spending for the prior year, adjusted for cumulative changes in inflation (as measured by the Consumer Price Index ("CPI")).
- Plus 30% of the Foundation's long-term spending rate (4.5% in 2008) applied to the endowment's fair value at the beginning of the year.

The formula calculated an endowment spending allocation rate of 3.8308% for the year ended June 30, 2008. To determine the spending allocation amount for an individual endowment, the current year spending allocation rate of 3.8308% is multiplied by the 12 month average fair value of the individual endowment. The total endowment spending allocation distributed for the years ended June 30, 2008 and 2007 was $3,703,391 and $3,221,449, respectively. To the extent that the endowment pool's total investment return is greater or less than the allocations made for spending, the fair value of each endowment increases or decreases accordingly.

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 intent of the Foundation to hold these cash equivalents for investment purposes and therefore has classified them as investments.

**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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges receivable is recorded at their net realizable value. An allowance for uncollectable pledges is estimated based on the Foundation's collection history, the type of contribution and other relevant factors. Pledges receivable to be received after one year is discounted using the risk free rate of return based on the yield of 10 year U.S. Treasury Notes.

**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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

**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.

**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, 2008 and 2007.

**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.

**Reclassifications**

Certain accounts have been reclassified in the 2007 consolidated financial statements to conform to the presentation of the 2008 consolidated financial statements.

**Future Adoption of New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* This statement redefines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). This statement provides guidance on how to measure fair value, when required, under existing accounting standards. This statement also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels ("Level 1, 2, and 3"). The provisions of this statement are effective for the Foundation's year ending June 30, 2009. The Foundation is currently evaluating the impact of this new standard on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115.* The objective of this statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported net income caused by measuring related assets and liabilities differently. This statement permits entities to choose, at specified election dates, to measure eligible items at fair value (i.e., the fair value option). The fair value option: (a) may be applied instrument by instrument, with certain exceptions; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. The provisions of this statement are effective for the Foundation's year ending June 30, 2009. The Foundation is currently evaluating the impact of this new standard on its consolidated financial statements.

On August 6, 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The guidance is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. This FSP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA. This FSP also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The provisions of this FSP are effective for the Foundation's year ending June 30, 2009. The Foundation is currently evaluating the impact of this new standard on its consolidated financial statements.

## Note 2 - Investments

A summary of the aggregate cost and fair value of investment securities as of June 30, 2008 and 2007 (exclusive of securities held in agency accounts) and realized and unrealized gains and losses for the years then are as follows:

| | June 30, 2008 | | June 30, 2007 | |
|---|---|---|---|---|
| | Cost | Fair | Cost | Fair |
| Money market funds | $ 23,711,782 | $ 23,711,782 | $ 9,670,834 | $ 9,670,834 |
| Equities and equity funds | 64,349,345 | 70,825,752 | 54,052,486 | 72,499,622 |
| Fixed income securities and funds | 37,191,485 | 36,644,994 | 63,679,928 | 62,755,503 |
| Real estate investment trust funds | 3,744,498 | 5,360,421 | 2,606,523 | 4,991,570 |
| Total | $ 128,997,110 | $ 136,542,949 | $ 130,009,771 | $ 149,917,529 |

| | Realized Gains/(Losses) | Unrealized Gains/(Losses) | Realized Gains/(Losses) | Unrealized Gains/(Losses) |
|---|---|---|---|---|
| Equities and equity funds | $ 5,203,628 | $ (11,995,006) | $ 1,299,800 | $ 9,452,342 |
| Fixed income securities and funds | (1,725,338) | 377,943 | (31,160) | 60,836 |
| Real estate investment trust funds | - | (769,125) | 1,268,673 | (488,719) |
| Total | $ 3,478,290 | $ (12,386,188) | $ 2,537,313 | $ 9,024,459 |

The investment return and allocation of the investment pools as of June 30, 2008 and 2007 are summarized below:

| | June 30, 2008 | | June 30, 2007 | |
|---|---|---|---|---|
| | Endowment Pool | Operating Pool | Endowment Pool | Operating Pool |
| Dividends and interest income | $ 3,671,155 | $ 1,215,411 | $ 3,085,041 | $ 1,787,676 |
| Net realized gains (losses) | 5,231,201 | (1,725,338) | 2,567,989 | (30,653) |
| Net unrealized gains (losses) | (12,675,676) | 289,488 | 9,124,933 | (241,568) |
| Investment management fees | (303,260) | (124,539) | (297,241) | (105,054) |
| Total investment return | (4,076,580) | (344,978) | 14,480,722 | 1,410,401 |
| Administrative fees | (967,282) | 344,978 | (964,711) | (1,410,401) |
| Endowment spending allocation | (3,703,391) | 3,703,391 | (3,221,449) | 3,221,449 |
| Net investment return after fees and allocations | $ (8,747,253) | $ 3,703,391 | $ 10,294,562 | $ 3,221,449 |

**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 statement of activities. The value of the split interest agreements as of June 30, 2008 and 2007 were $448,026 and $774,565 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, 2008 and 2007 were $322,185 and $368,076, respectively.

## Note 3 - Pledges Receivable

Pledges receivable at June 30, 2008 and 2007, consists of the following:

| | 2008 | 2007 |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $ 4,790,092 | $ 6,306,977 |
| One to five years | 2,030,169 | 3,147,174 |
| More than five years | 311,000 | 438,272 |
| Total unconditional promises to give | 7,131,261 | 9,892,423 |
| Less discounts to net present value discount (rate 3.98% in 2008, 5.03% in 2007) | (206,372) | (376,108) |
| Less allowance for uncollectable promises to give | (97,865) | (47,886) |
| Net pledges receivable | $ 6,827,024 | $ 9,468,429 |

## Note 4 – Net Investment in Direct Financing Leases

During the year ended June 30, 2008 the Foundation determined that it had incorrectly classified three properties leased to the University as property and equipment instead of as direct financing leases. Those properties are the Alpharetta Campus, the Student Recreation Center and the Piedmont/Ellis facilities. The minimum lease payments from the University exceed 90% of the value of the Alpharetta Campus facilities. At the end of the lease terms of the Student Recreation Center and the Piedmont/Ellis facilities, the properties and the related titles will transfer to the University. The 2007 consolidated financial statements have therefore been restated to properly present these assets as net investments in direct financing leases. The effect of the restatement was an increase in unrestricted net assets as of June 30, 2006 of $109,810, decrease in the changes in net assets for the year ended June 30, 2007 of $231,783, decrease in property and equipment of $35,697,615, and an increase in net investment in direct financing leases of $35,575,642.

The net amount of the minimum lease payments receivable balance of $167,643,115 will be used by the Foundation to service the principal payments required for the Bonds Payable related to these facilities. Accordingly, interest income will be recognized as revenue in the year received.

The components of the net investment in direct financing lease at June 30, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Future minimum lease receipts – Alpharetta | $ 15,487,508 | $ 14,298,093 |
| Future minimum lease receipts – Student Recreation Center | 43,074,582 | 40,040,387 |
| Future minimum lease receipts – Piedmont Ellis | 367,518,022 | - |
| Gross investment in direct financing leases | 426,080,112 | 54,338,480 |
| Less unearned interest income | (258,436,997) | (18,762,838) |
| Net investment in direct financing leases | $ 167,643,115 | $ 35,575,642 |

Future minimum net amounts receivable under direct financing leases at June 30, 2008 are as follows:

| Year Ending June 30, | |
|---|---|
| 2009 | $ 13,612,529 |
| 2010 | 14,104,637 |
| 2011 | 14,437,700 |
| 2012 | 14,779,553 |
| 2013 | 15,140,317 |
| 2014-2018 | 81,023,036 |
| 2019-2023 | 73,900,287 |
| 2024-2028 | 61,234,055 |
| 2029-2033 | 62,006,081 |
| 2034-2038 | 63,056,521 |
| 2039 | 12,785,396 |
| Gross investment in direct financing lease | 426,080,112 |
| Less unearned interest income | (258,436,997) |
| Net investment in direct financing leases | $ 167,643,115 |

## Note 5 – 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:

| | 2008 | 2007 |
|---|---|---|
| Alpharetta Center | $ 603,976 | $ 593,752 |
| Student Recreation Center | 2,834,413 | 2,801,526 |
| Piedmont Ellis | 19,942,899 | 34,629,845 |
| Panther Place | 6,444,754 | 4,930,119 |
| Charitable trusts held by others | 100 | 299,320 |
| Total restricted assets | $ 29,826,142 | $ 43,254,562 |

## Note 6 – Cash Surrender Value

The Foundation is the owner and beneficiary of numerous insurance policies. As of June 30, 2008 the total face value of the policies was $3,631,246. 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, 2008 and 2007, were $761,158 and $716,054, respectively.

## Note 7 – Other Assets

Other assets as of June 30, 2008 and 2007 consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Accounts receivable | $ 323,968 | $ 167,083 |
| Prepaid expenses | 94,861 | 114,883 |
| Total other assets | $ 418,829 | $ 281,966 |

## Note 8 – Deferred Costs

Deferred costs include unamortized discount and bond issuance costs as of June 30, 2008 and 2007 consisting of:

| | 2008 | 2007 |
|---|---|---|
| Alpharetta Campus - original issuance cost | $ 26,285 | $ 28,828 |
| Student Recreation Center - orginal issuance cost | 186,438 | 204,336 |
| Piedmont Ellis - bond issuance costs | 3,978,057 | 4,119,290 |
| Panther Place - bond issuance costs | 1,576,457 | 1,604,311 |
| Total deferred costs | $ 5,767,237 | $ 5,956,765 |

## Note 9 - Property and Equipment

Property and equipment as of June 30, 2008 and 2007 consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Land | $ 7,221,500 | $ 7,221,500 |
| Donated land held for investment | 6,400 | 6,400 |
| Building | 53,632,433 | 53,632,433 |
| Building improvements | 17,688,965 | 17,673,012 |
| Construction in progress | - | 125,700,199 |
| Computer system | 981,352 | - |
| Property and equipment - at cost | 79,530,650 | 204,233,544 |
| Less accumulated depreciation | (18,761,277) | (16,299,689) |
| Property and equipment - net | $ 60,769,373 | $ 187,933,855 |

Depreciation expense for the years ended June 30, 2008 and 2007 was $2,461,588 and $1,545,588, respectively. For the Piedmont/Ellis property, the construction in progress cost as of June 30, 2007 was reclassified to investment in direct financing lease during the year ended June 30, 2008 once the facility was completed and placed in service.

## Note 10 – 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. (the "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, 2008 and 2007, were $3,459,711 and $3,596,703, 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, 2008 and 2007 were $2,543,690 and $2,634,436, respectively.

**Georgia State University Alumni Association**
During 1997, the Foundation entered into an agreement with the Georgia State University Alumni Association (the "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, 2008 and 2007 were $735,724 and $773,294, 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.

## Note 11 – Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2008 and 2007 consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Accounts payable and accrued expenses | $ 1,210,310 | $ 17,334,407 |
| Deferred revenue | 957,767 | 837,532 |
| Accrued interest on bonds payable | 4,441,866 | 3,141,328 |
| Split interest agreements obligations | 252,360 | 260,992 |
| Total accounts payable and other liabilities | $ 6,862,303 | $ 21,574,259 |

## Note 12 – 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, (the "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. The bonds are special limited obligation bonds payable by the Development Authority from lease payments made to it by the Foundation.

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 (the “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.

### Rialto Center Facilities Lease

During 1994, the Foundation purchased and has since 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 (the "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 leases the facilities to the University through a series of one year renewable lease agreements. At the end of the lease period or the retirement of the bonds, whichever occurs first, the title to the two office buildings will pass to the Foundation, and therefore the Foundation has 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.

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 is expressly limited to the unrestricted income and unrestricted assets of the Foundation. The terms of the long-term lease commitment between TUFF and the Foundation were modified to reflect the new interest rate of the bonds, the additional proceeds available for capital improvements, the additional bond financing related expenses and the extension of the term of the lease through November 1, 2015.

The following is a schedule by years of future minimum lease payments required under the Alpharetta Campus and the Rialto Center facilities leases together with their present value as of June 30, 2008:

| Year Ending June 30, | |
|---|---|
| 2009 | $ 1,214,618 |
| 2010 | 1,212,585 |
| 2011 | 1,209,232 |
| 2012 | 1,208,651 |
| 2013 | 1,210,863 |
| 2014-2018 | 4,700,743 |
| 2019 | 691,415 |
| Total minimum lease payments | 11,448,107 |
| Less amount representing interest | (2,448,081) |
| Present value of minimum lease payments | $ 9,000,026 |

Interest expense related to the capital lease obligation for Alpharetta for the years ended June 30, 2008 and 2007 totaled $281,064 and $323,333, respectively.

Interest expense related to the TUFF lease obligation for Rialto for the years ended June 30, 2008 and 2007 totaled $212,029 and $231,538, respectively.

**Rialto Ground Lease**

Pursuant to the lease agreement between the Foundation and TUFF, the lease payments include the cost of an underlying ground lease on the Rialto Theater property. At the end of the lease term, TUFF will transfer all interests in the ground lease to the Foundation. The Foundation has the option to renew the ground lease with the owner through December 31, 2045, once the Authority bond obligations are satisfied.

Future minimum lease payments under the ground lease as of June 30, 2008, are as follows:

| Year Ending June 30, | |
|---|---|
| 2009 | $ 69,410 |
| 2010 | 69,410 |
| 2011 | 69,410 |
| 2012 | 69,410 |
| 2013 | 69,410 |
| 2014-2016 | 167,741 |
| Total | $ 514,791 |

**Operating Leases (Foundation as Lessor)**

***Rialto Lease***
A rental agreement was entered into in September 1995 and amended December 2002 between the Foundation, landlord, and the Board of Regents for and on the behalf of the University , tenant, for certain space in the performing arts buildings known as the Rialto Complex. The lease expired on June 30, 2008; however it was renegotiated for three (3) one-year renewal periods. Annual increase is determined by the change in CPI comparing April of the preceding year to April of the current year. However, annual increase cannot exceed 5% or fall below 3%.

***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%.

***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 13). 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.
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***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.

## Note 13 – Bonds payable

**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

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, 2008 and 2007 totaled $1,085,059 and $1,249,947, 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 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. There was a 22-month construction schedule for the project which was completed and opened for occupancy for the fall semester of 2007. 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 year ended June 30, 2008 totaled $7,762,468.

The interest capitalized for the year ended June 30, 2007 as part of the construction costs was $4,780,432, which represents interest expense incurred of $7,762,468 offset by interest earned on unspent bond proceeds of $2,982,036. No interest was capitalized during the year ended June 30, 2008 as construction was substantially completed as of June 30, 2007.

**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. 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 (See Note 12).

The Foundation began making semi-annual interest payments on January 1, 2008 at a rate of 4.289% on tax-exempt bonds and 5.409% on taxable bonds. Interest expense for the years ended June 30, 2008 and 2007 totaled $3,186,562 and $221,441, respectively.

Future maturities of the Student Recreation Center, Piedmont/Ellis and Panther Place revenue bonds at June 30, 2008 and 2007 are as follows:

| Year ending June 30, | Tax-Exempt | Taxable | 2008 Total | 2007 Total |
|---|---|---|---|---|
| 2008 | $ - | $ - | $ - | $ 1,615,000 |
| 2009 | 11,515,000 | - | 11,515,000 | 1,680,000 |
| 2010 | 11,590,000 | 1,455,000 | 13,045,000 | 3,210,000 |
| 2011 | 11,665,000 | 1,710,000 | 13,375,000 | 3,655,000 |
| 2012 | 13,600,000 | 205,000 | 13,805,000 | 4,140,000 |
| 2013 | 14,105,000 | 8,760,000 | 22,865,000 | 13,330,000 |
| 2014-2018 | 28,585,000 | - | 28,585,000 | 32,905,000 |
| 2019-2023 | 27,515,000 | - | 27,515,000 | 33,780,000 |
| 2024-2028 | 31,680,000 | - | 31,680,000 | 40,105,000 |
| 2029-2033 | 40,440,000 | - | 40,440,000 | 51,375,000 |
| 2034-2038 | 40,250,000 | - | 40,250,000 | 58,895,000 |
| Total | $ 230,945,000 | $ 12,130,000 | $ 243,075,000 | $ 244,690,000 |

**Note 14 - Interest Rate Swap Agreement**

On May 29, 2007, the Foundation entered into an interest rate swap agreement related to the Panther Place revenue bond issue utilized to purchase the SunTrust building. The Foundation has accounted for the interest rate swap agreement in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

By using a derivative financial instrument to hedge exposure to a change in interest rates, the financing is exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the additional funds, which creates repayment risk for the financing. The financing policy also requires that all derivative contracts be governed by an International Swaps and Derivatives Association Master Agreement. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates.

The bond financing was constructed with an interest rate swap contract to convert the variable rate bonds into a synthetic fixed rate debt at the time the debt was offered, with the intent to reduce borrowing costs. Interest rate swaps used with the issuance of tax-exempt debt must be recorded as assets or liabilities in the statements of financial position, depending on whether the swap is in a gain or a loss position, at fair value. Unrealized gains or losses for a given period must be reflected in the earnings for that period. In volatile environments, this can result in large differences from one period to the next.

The swap provider, Ambac Financial Services, calculated the fair value in accordance with generally accepted accounting principles in the United States of America using a proprietary valuation model, which they developed and had tested by external auditors. The model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value. All rates used in valuation are mid-market levels (mid-way between bid and ask) or are model based mid-market levels when mid-market levels are not available. The fair value provided takes certain factors into consideration, including the liquidity of the swap market and the uniqueness of the deal structure. The fair value of the interest rate swap agreement is recognized in the accompanying consolidated statement of financial position at $4,533,379 at June 30, 2008, and changes in fair value are reported as a change in net assets.

## Georgia State University Foundation, Inc.

Notes to Consolidated Financial Statements
Years Ended June 30, 2008 and 2007

**Note 15 - Summary of Net Assets**

Net assets as of June 30, 2008 and 2007, were available for the following purposes:

| | 2008 | 2007 |
|---|---|---|
| Unrestricted Net Assets: | | |
| General | $ 8,890,302 | $ 7,498,559 |
| Investment in land and buildings | 12,239,020 | 15,720,976 |
| Total unrestricted net assets | 21,129,322 | 23,219,535 |
| Temporarily Restricted Net Assets: | | |
| Academic support | 3,088,772 | 2,527,749 |
| Scholarships | 5,298,524 | 5,029,691 |
| Program support | 6,230,181 | 6,000,140 |
| Pledge receivables | 3,057,774 | 5,436,720 |
| Program and activities | 5,035,534 | 6,427,641 |
| Charitable trust - deferred gifts | 533,793 | 513,573 |
| Student investment portfolio | 322,185 | 368,076 |
| Quasi-endowment funds | 21,618,267 | 23,140,287 |
| Total temporarily restricted net assets | 45,185,029 | 49,443,877 |
| Permanently Restricted Net Assets: | | |
| Pledge recievables | 3,746,676 | 3,998,380 |
| Scholarships | 19,754,640 | 20,550,515 |
| Program support | 50,677,370 | 54,153,509 |
| Total permanently restricted net assets | 74,178,687 | 78,702,404 |
| Total Net Assets | $ 140,493,038 | $ 151,365,816 |

## Note 16 - Net Assets Released from Restrictions

Net assets were released from restrictions for the years ended June 30, 2008 and 2007 for the following purposes:

| | 2008 | 2007 |
|---|---|---|
| Management fees | $ 967,282 | $ 964,711 |
| Real estate projects | 3,250,000 | 7,870,245 |
| General and departmental expenses | 5,545,457 | 3,595,745 |
| Faculty and staff expenses | 2,253,117 | 1,709,439 |
| Scholarships and awards | 2,010,010 | 1,701,822 |
| Total net assets released from restrictions | $ 14,025,866 | $ 15,841,962 |

## Note 17 - Commitments and Contingencies

**Panther Place**

On May 31, 2007, $58,385,000 of variable rate insured revenue bonds were issued by the ADA. Because of the bond rating agency down grade of Ambac Financial Services ("Ambac"), the revenue bonds remarketing agent was unable to remarket the revenue bonds. In February 2008, $24,175,000 of the bonds became bank bonds, with JP Morgan Chase Bank as the liquidity provider. The remainder of the tax-exempt bonds of $25,000,000 became bank bonds in May 2008. Pursuant to the Standby Bond Purchase Agreement with JP Morgan Chase Bank, a mandatory redemption clause goes into effect at the time they become purchase bonds with the bank. On August 25, 2008, $2,415,000 was drawn down from the Debt Service Reserve fund held by the trustee to cover the first mandatory principal installment. On July 30, 2008, all of the bonds became bank bonds held by JP Morgan Chase Bank.

The next mandatory redemption date is November 28, 2008 in the amount of $2,500,000. Management anticipates that the Foundation will have all of these bonds refunded with a new fixed rate uninsured bond issue prior to November 28, 2008.

**Real Estate**

The Foundation has committed approximately $10,000,000 to purchase property that will be used for the benefit of the University with the intent to sell the property to the University at a future date.

**Investment Commitments**

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, 2008 and 2007 totaled $9,490,194 and $5,812,394 respectively.

## Note 18 – Subsequent Events

On September 29, 2008 the Foundation received notice from Wachovia Bank, of its decision to initiate the termination of the Common Fund for Short term Investments (the 'Short Term Fund'), to stop accepting deposits, to establish procedures for an orderly liquidation and distribution of the fund's assets.  The Short Term Fund has distributed approximately 32% of its balances to date and anticipates that liquidity will rise to 57% by December 31, 2008, based solely on maturing securities in the Short Term Fund.  The Foundation had investments in the Short Term Fund of $16,704,719 at June 30, 2008 and $15,250,236 at September 29, 2008.

Management of the Foundation believes as the Foundation does not utilize these funds for operating cash needs the limitation on the liquidity of the Short Term Fund is not anticipated to cause any cash flow limitations on the Foundation's current operations.

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