

**CLAYTON STATE UNIVERSITY  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**With Accountants' Audit Report Thereon**



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Clayton State University Foundation, Inc.

We have audited the accompanying financial statements of Clayton State University Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**


Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clayton State University Foundation, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

  
Morrow, Georgia  
October 22, 2015

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2015 AND 2014

	2015	2014
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash	\$ 2,825,212	\$ 1,087,673
Restricted cash	6,254,711	5,785,076
Short term investments	693,995	810,550
Bateman student loan	126,177	84,365
Pledges receivable	307,959	175,643
Prepaid conference expenses	34,929	32,409
Bond issuance costs	2,117,569	2,209,784
Investment in direct financing lease	61,544,145	62,400,188
Long-term investments	<u>5,805,729</u>	<u>5,725,903</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 79,710,426</u></b>	<b><u>\$ 78,311,591</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 2,808	9,850
Accrued expenses	23,000	17,254
Accrued interest	1,643,056	1,649,112
Bonds payable	<u>69,585,279</u>	<u>69,933,580</u>
<b>TOTAL LIABILITIES</b>	<b>71,254,143</b>	<b>71,609,796</b>
<b>NET ASSETS</b>		
Unrestricted net assets	1,234,065	55,156
Temporarily restricted net assets	4,156,853	3,726,042
Permanently restricted net assets	<u>3,065,365</u>	<u>2,920,597</u>
<b>TOTAL NET ASSETS</b>	<b><u>8,456,283</u></b>	<b><u>6,701,795</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 79,710,426</u></b>	<b><u>\$ 78,311,591</u></b>

*The accompanying notes are an integral part of these financial statements.*

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS, AND OTHER SUPPORT		
Interest revenue	\$ 2,579,119	\$ 2,589,742
Rental revenue	1,097,009	808,256
Contributions	703,397	640,274
In-kind revenue	116,289	87,501
Other revenue	-	46,782
Net assets released from restriction	<u>56,031</u>	<u>406,545</u>
 TOTAL UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORTS	 4,551,845	 4,579,100
 EXPENSES		
Program service		
Interest expense	3,305,310	3,523,885
Scholarships	323,778	224,879
In-kind expenses	116,289	87,501
Grants and honorariums	101,879	41,236
Amortization	98,914	98,914
Travel and meetings	50,633	53,967
Insurance	41,149	72,836
Student honors and recognition	23,617	25,425
Eminent scholar	19,000	19,000
Other	9,566	7,742
Advancement	<u>1,027</u>	<u>2,582</u>
 Total program service	 <u>4,091,162</u>	 <u>4,157,967</u>
 Supporting services		
Supplies and services	326,152	339,235
Professional services	163,589	267,637
Events	<u>131,302</u>	<u>104,827</u>
 Total supporting services	 <u>621,043</u>	 <u>711,699</u>
 TOTAL EXPENSES	 <u>4,712,205</u>	 <u>4,869,666</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 \$ <u>(160,360)</u>	 \$ <u>(290,566)</u>

*The accompanying notes are an integral part of these financial statements.*

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES – Continued  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	\$ 294,143	\$ 305,664
Dividends and interest revenue	86,533	61,115
Net unrealized gain on investments	64,545	226,352
Net realized gain on investments	41,621	406,129
Net assets released from restriction	<u>(56,031)</u>	<u>(406,545)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>430,811</u>	<u>592,715</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>144,768</u>	<u>162,673</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	<u>144,768</u>	<u>162,673</u>
CHANGE IN NET ASSETS BEFORE EXTRAORDINARY ITEM	415,219	464,822
INSURANCE PROCEEDS FROM HAIL DAMAGE	805,810	-
SETTLEMENT PROCEEDS	<u>533,459</u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	1,754,488	464,822
NET ASSETS AT BEGINNING OF YEARS	<u>6,701,795</u>	<u>6,236,973</u>
NET ASSETS AT END OF YEARS	<u>\$ 8,456,283</u>	<u>\$ 6,701,795</u>

*The accompanying notes are an integral part of these financial statements.*

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,754,488	\$ 464,822
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Unrealized gain on investments	(64,545)	(226,352)
Realized gain on sale of investments	(41,621)	(406,129)
Amortization	98,914	98,914
In-kind donations	(116,289)	(87,501)
Non-cash expense related to in-kind donations	116,289	87,501
Changes in operating assets and liabilities		
Increase in pledges receivable	(132,316)	(39,267)
(Increase) Decrease in Bateman student loan	(41,812)	61,482
(Increase) Decrease in prepaid expenses	(2,520)	25,155
Decrease in investment in direct financing lease	856,043	1,168,299
Decrease in accounts payable	(7,042)	(5,161)
Increase (Decrease) in accrued expenses	5,746	(829)
Decrease in accrued interest	(6,056)	(4,782)
Decrease in due to related party	<u>-</u>	<u>(152,260)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,419,279	983,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	397,918	308,647
Purchases of investments	(255,023)	(457,458)
Improvements in direct financing lease	<u>-</u>	<u>(46,981)</u>
NET CASH USED IN INVESTING ACTIVITIES	142,895	(195,792)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds	<u>(355,000)</u>	<u>(225,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(355,000)</u>	<u>(225,000)</u>
NET CHANGE IN CASH	2,207,174	563,100
CASH BEGINNING OF YEARS	<u>6,872,749</u>	<u>6,309,649</u>
CASH AT END OF YEARS	\$ <u>9,079,923</u>	\$ <u>6,872,749</u>
SUPPLEMENTARY DISCLOSURE:		
Cash paid for interest	\$ <u>3,311,366</u>	\$ <u>3,528,667</u>

*The accompanying notes are an integral part of these financial statements.*

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

**1. ORGANIZATION**

Clayton State University Foundation, Inc. (the "Foundation") was incorporated under the laws of the State of Georgia on September 24, 1974, for the purpose of providing scholarships and other assistance for the advancement of students, staff and Clayton State University.

The Foundation is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Resources for the Foundation's activities are primarily provided by contributions and investment income.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

**Basis of accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The Foundation classifies its net assets and revenues and expenses, gains and losses 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 not subject to donor imposed restrictions

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are reported.

**Cash and cash equivalents**

For purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three month or less to be cash equivalents. For the years ended June 30, 2015 and 2014, the Foundation had no cash equivalents.

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Use of estimates**

Management of the Foundation makes estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with GAAP. Actual results could differ from these estimates.

**3. PLEDGES RECEIVABLE**

Unconditional promises to give at June 30, 2015 and 2014 are as follows:

Expected to be collected in:	2015	2014
Less than one year	\$ 236,959	\$ 95,643
More than one year	<u>71,000</u>	<u>80,000</u>
Total	<u>\$ 307,959</u>	<u>\$ 175,643</u>

Management believes that all receivables are collectible, therefore an allowance has not been calculated.

**4. INVESTMENTS**

Investments at June 30, 2015 are recorded at fair value and are comprised of the following:

	Cost	Fair Value
Short-term investments:		
Board of Regents pooled investment funds	\$ 673,237	\$ 693,995
Long-term investments:		
Board of Regents pooled investment funds	4,831,722	5,481,229
Long-term investments:		
Real estate	<u>324,500</u>	<u>324,500</u>
	<u>\$ 5,829,459</u>	<u>\$ 6,499,724</u>



CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**4. INVESTMENTS – Continued**

Investments at June 30, 2014 are recorded at fair value and are comprised of the following:

	Cost	Fair Value
Short-term investments:		
Board of Regents pooled investment funds	\$ 786,750	\$ 810,550
Long-term investments:		
Board of Regents pooled investment funds	4,706,326	5,401,403
Long-term investments:		
Real estate	<u>324,500</u>	<u>324,500</u>
	<u>\$ 5,817,576</u>	<u>\$ 6,536,453</u>

Investment fees for the years ended June 30, 2015 and 2014 totaled \$12,385 and \$11,170, respectively, and are netted with the unrealized gains in the accompanying Statements of Activities.

**5. FAIR VALUE MEASUREMENTS**

During the year ended June 30, 2009, the Foundation adopted the provisions of Accounting Standards Codifications 820 (“ASC 820”), Fair Value Measurements, for financial assets and liabilities. Under ASC 820, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Unobservable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Inputs are unobservable inputs for the asset that are supported by little or no market activity and that are significant to the fair value of the underlying asset.

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**5. FAIR VALUE MEASUREMENTS – Continued**

The following table summarized the Foundation’s financial instruments measured at fair value on a recurring basis in accordance with ASC 820 as of June 30, 2015:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Board of Regents Pooled				
Investment Funds				
Diversified fund	\$ 4,747,486	\$ 4,747,486	\$ -	\$ -
Balanced income	733,743	733,743	-	-
Short term	693,995	693,995	-	-
Commercial real estate	<u>324,500</u>	<u>-</u>	<u>324,500</u>	<u>-</u>
	<u>\$ 6,499,724</u>	<u>\$ 6,175,224</u>	<u>\$ 324,500</u>	<u>\$ -</u>

The commercial real estate’s value is based on the appraisal that was conducted as of June 30, 2012.

The following table summarized the Foundation’s financial instruments measured at fair value on a recurring basis in accordance with ASC 820 as of June 30, 2014:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Board of Regents Pooled				
Investment Funds				
Diversified fund	\$ 4,680,030	\$ 4,680,030	\$ -	\$ -
Balanced income	721,373	721,373	-	-
Short term	810,550	810,550	-	-
Commercial real estate	<u>324,500</u>	<u>-</u>	<u>324,500</u>	<u>-</u>
	<u>\$ 6,536,453</u>	<u>\$ 6,211,953</u>	<u>\$ 324,500</u>	<u>\$ -</u>

The commercial real estate’s value is based on the appraisal that was conducted as of June 30, 2012.

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**6. RESTRICTED NET ASSETS**

There are donor restrictions on the Foundation's net assets. At June 30, 2015, the Foundation's net assets were restricted temporarily and permanently for the following purposes:

Temporarily Restricted Net Assets:

Restricted for scholarships	\$ 2,109,579
Restricted for various other	1,632,194
Restricted for salary supplements	<u>415,080</u>

Total temporarily restricted net assets	<u>\$ 4,156,853</u>
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Permanently Restricted Net Assets:

Corpus restricted by donors	<u>\$ 3,065,365</u>
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Permanently restricted net assets include \$527,620 for the Charles S Conklin II trust.

At June 30, 2014, the Foundation's net assets were restricted temporarily and permanently for the following purposes:

Temporarily Restricted Net Assets:

Restricted for scholarships	\$ 1,816,259
Restricted for various other	1,494,704
Restricted for salary supplements	<u>415,080</u>

Total temporarily restricted net assets	<u>\$ 3,726,042</u>
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Permanently Restricted Net Assets:

Corpus restricted by donors	<u>\$ 2,920,597</u>
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Permanently restricted net assets include \$526,377 for the Charles S Conklin II trust.

**7. RELATED PARTY TRANSACTIONS**

The Foundation is the single member of CSU Foundation Real Estate I, LLC ("CSUFRE1"). CSUFRE1 constructed a student housing and a student activity center at Clayton State University.

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**7. RELATED PARTY TRANSACTIONS – Continued**

Clayton State University provides free of charge the personnel to administer the Foundation and the facility to house the Foundation's records. The value of these contributed services and goods are not readily determinable and therefore have not been recorded in the financial statements.

The Foundation is the single member of CSU Foundation Real Estate II, LLC ("CSUFRE2"). CSUFRE2 purchased student housing for use by Clayton State University.

**8. BONDS PAYABLE**

**Series 2007 Revenue Bonds**

On August 15, 2007, the Foundation through its subsidiary CSUFRE1 issued Series 2007 revenue bonds in the face value amount of \$42,450,000. The proceeds of the Series 2007 Bonds will be applied to (a) finance or refinance the costs of the acquisition, construction and equipping of student housing comprised of approximately 451 beds and related amenities and a student activity center (collectively, the "Project") located on the campus of Clayton State University ("CSU"); (b) fund capitalized interest on the Series 2007 Bonds, (c) pay the premium for a debt service reserve surety bond to be issued by XL Capital Assurance Inc. (the "Bond Insurer"); and (d) pay costs of issuance of the Series 2007 Bonds, including a municipal bond insurance policy to be issued by the Bond Insurer.

CSUFRE1 has entered into ground leases for the student activities center and the student housing with Clayton State University ("CSU"). CSUFRE1 shall cause CSU to pay Rents under the Rental Agreement as follows: CSU shall pay the amount needed for Debt Service (less any amounts available in the Capitalized Interest Account, the Bond Fund or the Debt Service Reserve Fund to pay Debt Service) directly to the Trustee for deposit in the Bond Fund. CSUFRE1 shall cause CSU to pay the amount needed for the Replacement Requirement directly to the Trustee for deposit in the Replacement Fund. CSUFRE1 shall cause CSU to pay the remainder of the Rents to CSUFRE1, and CSUFRE1 shall use such moneys to pay (i) the fees and expenses of the Foundation, (ii) the Board of Regents' fee, (iii) the Trustee's fee, (iv) fees of the Rating Agencies and (v) any other amounts owed by CSUFRE1 with respect to the Project.

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**8. BONDS PAYABLE – Continued**

Annual maturities for the bonds are set forth below:

<u>Year ending</u>	<u>Future Debt Service Required</u>	
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 340,000	\$ 1,942,618
2017	410,000	1,922,118
2018	490,000	1,901,293
2019	565,000	1,877,986
2020	650,000	1,850,686
thereafter	<u>38,495,000</u>	<u>21,733,862</u>
Total	<u>\$ 40,950,000</u>	<u>\$ 31,228,563</u>

Interest is payable semi-annually on January 1<sup>st</sup> and July 1<sup>st</sup> of each year. The bonds have interest rates that vary with their principal maturity. All bonds are callable by *CSUFRE1* without penalty prior to their scheduled maturity date under certain conditions. Management believes that it has complied with all bond covenants as of June 30, 2015 and 2014.

**Series 2011 Revenue Bonds**

On June 29, 2011, the Foundation through its subsidiary *CSUFRE2* issued Series 2011 revenue bonds in the face value amount of \$28,925,000. The proceeds of the Series 2011 Bonds will be applied to (a) finance or reimburse in whole or in part the cost of the acquisition, improvement and installation of certain land, buildings, structures, equipment and related real and personal property to be used as student housing facilities known as “Clayton Station Apartments” containing 221 units with approximately 854 beds and related site amenities, including surface parking (the “Acquired Project”), located adjacent to the campus of Clayton State University (“CSU”), a unit of the University System of Georgia; (b) fund capitalized interest on the Series 2011 Bonds; (c) fund a debt service reserve fund; and (d) pay costs of issuance of the Series 2011 Bonds.

*CSUFRE2* has entered into a ground lease for the student housing with the Board of Regents of the University System of Georgia (“Board of Regents”). *CSUFRE2* shall cause the Board of Regents to pay Rents under the Rental Agreement. *CSUFRE2* shall use the Rents as follows: (1) *CSUFRE2* shall pay the amount needed for the semiannual Debt Service Requirement in accordance with the rent schedule directly to the Trustee for deposit in the Bond Fund and (2) *CSUFRE2* shall pay the amount needed for the semiannual Replacement Requirement in accordance with the rent schedule directly to the Trustee for deposit in the Replacement Fund. The *CSUFRE2* shall use the remainder of the Rents to pay

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**8. BONDS PAYABLE – Continued**

(i) the fees of the Foundation, (ii) the Board of Regents' fee, (iii) the Trustee's fee, (iv) fees of the Rating Agencies and (v) any other amounts owed by CSUFRE2 with respect to the Project.

Annual maturities for the bonds are set forth below:

<u>Year ending</u>	<u>Future Debt Service Required</u>	
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 200,000	\$ 1,324,744
2017	460,000	1,318,744
2018	515,000	1,304,944
2019	560,000	1,289,494
2020	625,000	1,272,694
thereafter	<u>26,490,000</u>	<u>18,179,212</u>
Total	<u>\$ 28,850,000</u>	<u>\$ 24,689,832</u>

Interest is payable semi-annually on December 20<sup>th</sup> and June 20<sup>th</sup> of each year. The bonds have interest rates that vary with their principal maturity. All bonds are callable by the CSUFRE2 without penalty prior to their scheduled maturity date under certain conditions. Management believes that it has complied with all bond covenants as of June 30, 2015 and 2014.

**9. LEASING ARRANGEMENTS**

**Series 2007 Student Housing**

In connection with the Series 2007 Bonds, the Foundation entered into the following leasing arrangements:

*Ground Lease*

The Foundation leases land on the CSU campus from the Board of Regents on which to construct new Student Housing under a lease dated August 15, 2007 for a nominal amount. The ground lease is for a construction term commencing upon execution of the lease and continuing until the first day of the month after issuance of a certificate of occupancy, followed by a primary term for a period of 29 years. The certificate of occupancy was issued in August 2008 and the primary term commenced on September 1, 2008. Use of the land and building reverts back to the Board of Regents at the end of the lease term.

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**9. LEASING ARRANGEMENTS – Continued**

*Facility Rental*

The organization entered into a Rental Agreement with the Board of Regents on August 15, 2007, pursuant to which the Board of Regents agreed to lease the Student Housing from the Foundation. The initial term of the Rental Agreement commenced on the first day of the first month after the issuance of the certificate of occupancy and ended on June 30, 2009. The Board of Regents has the option to renew the Rental Agreement following the initial term on a year-to-year basis for twenty-nine (29) consecutive years. In the event of such annual renewals; the Board of Regents will pay a fixed annual rent. The certificate of Occupancy was issued in August 2008 and the initial terms commenced on September 1, 2008. At June 30, 2015, the Board of Regents has exercised its renewal option for the period from July 1, 2015 through June 30, 2016.

The lease is included in the Foundation's balance sheet as an Investment in Direct Financing Lease based on the costs to construct the building. The balance of the minimum lease payments and the unearned income decrease by the straight-line method over the life of the lease. The components of the net investment in the direct financing lease as of June 30 are as follows:

Minimum lease payment receivable	\$ 43,830,370
Less unearned income	<u>(23,871,273)</u>
Net investment in direct financing lease	<u>\$ 19,959,097</u>

**Series 2007 Student Activities Center**

In connection with the Series 2007 Bonds, the Foundation entered into the following leasing arrangements:

*Ground Lease*

The Foundation leases land on the CSU campus from the Board of Regents on which to construct new Student Activities Center under a lease dated August 15, 2007 for a nominal amount. The ground lease is for a construction term commencing upon execution of the lease and continuing until the first day of the month after issuance of a certificate of occupancy, followed by a primary term for a period of 29 years. The certificate of occupancy was issued in August 2008 and the primary term commenced on September 1, 2008. Use of the land and building reverts back to the Board of Regents at the end of the lease term.

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**9. LEASING ARRANGEMENTS – Continued**

*Facility Rental*

The Foundation entered into a Rental Agreement with the Board of Regents on August 15, 2007, pursuant to which the Board of Regents agreed to lease the Student Activities Center from the Foundation. The initial term of the Rental Agreement commenced on the first day of the first month after the issuance of the certificate of occupancy and ended on June 30, 2009. The Board of Regents has the option to renew the Rental Agreement following the initial term on a year-to-year basis for twenty-nine (29) consecutive years. In the event of such annual renewals; the Board of Regents will pay a fixed annual rent. The certificate of Occupancy was issued in August 2008 and the initial terms commenced on September 1, 2008. At June 30, 2015, the Board of Regents has exercised its renewal option for the period from July 1, 2015 through June 30, 2016.

The lease is included in the Foundation's balance sheet as an Investment in Direct Financing Lease based on the costs to construct the building. The balance of the minimum lease payments and the unearned income decrease by the straight-line method over the life of the lease. The components of the net investment in the direct financing lease as of June 30 are as follows:

Minimum lease payment receivable	\$ 35,155,594
Less unearned income	<u>(19,202,749)</u>
Net investment in direct financing lease	<u>\$ 15,952,845</u>

**Series 2011 Student Housing**

In connection with the Series 2011 Bonds, the Foundation entered into the following leasing arrangements:

*Ground Lease*

The Foundation leases land on the CSU campus from the Board of Regents on which to operate and maintain student housing facilities containing approximately 854 beds and site amenities under a lease dated June 29, 2011 for a nominal amount. The ground lease is for a term commencing on June 29, 2011 and will end on June 30, 2042, a primary term for a period of 31 years. Use of the land and building reverts back to the Board of Regents at the end of the lease term.



CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**9. LEASING ARRANGEMENTS – Continued**

*Facility Rental*

The Foundation entered into a Rental Agreement with the Board of Regents on June 29, 2011 pursuant to which the Board of Regents agreed to lease student housing facilities containing approximately 854 beds and site amenities from the Foundation. The initial term of the Rental Agreement commenced at 12:00 o'clock A.M., on June 29, 2011 and ended on June 30, 2011. The Board of Regents has the option to renew the Rental Agreement following the initial term on a year-to-year basis for thirty one (31) consecutive years. In the event of such annual renewals; the Board of Regents will pay a fixed annual rent. At June 30, 2015, the Board of Regents has exercised its renewal option for the period from July 1, 2015 through June 30, 2016.

The lease is included in the Foundation's balance sheet as an Investment in Direct Financing Lease based on the costs to purchase the building. The balance of the minimum lease payments and the unearned income decrease by the straight-line method over the life of the lease. The components of the net investment in the direct financing lease as of June 30 are as follows:

Minimum lease payment receivable	\$ 62,871,749
Less unearned income	<u>(37,239,546)</u>
Net investment in direct financing lease	<u>\$ 25,632,203</u>

During the current year there were no improvements made to this facility. The improvements were not completed during the current year, but will be amortized over the remaining life of the agreement once complete.

**10. ENDOWMENT FUNDS**

The Foundation has several endowment funds that have been setup with donor-imposed restriction and all are considered permanently restricted. These funds are invested into various asset classes to achieve the objectives of the funds. The funds are invested into the following asset types:

- A. The portfolio's equity allocation shall typically range between 40%-75%, with a target of 65%, and have the following characteristics:
  1. Broadly diversified among large, mid and small cap domestic, international, emerging market, and REIT equities;
  2. Exposure to both growth and value equity styles.

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**10. ENDOWMENT FUNDS – Continued**

- B. The portfolio's fixed income allocation shall typically range between 10%-40%, with a target of 20%, and have the following characteristics:
1. Allowable investments include investment grade domestic, high yield, dollar and non-dollar denominated global debt instruments;
  2. The portfolio will be well diversified as to issuer and maturity;
  3. No more than 10% of the portfolio will be held explicitly in non-investment grade bonds rated BB or lower;
  4. Maturities should generally be intermediate to longer term but may periodically emphasize shorter or longer maturities depending on yield curve differentials;
  5. The maximum duration of any individual issue shall not exceed thirty years at the time of purchase;
  6. The average duration of the portfolio shall not exceed ten years.
- C. The portfolio's alternative allocation shall typically range between 0%-35%, with a target of 15%. The following alternative asset classes are permitted investments:
1. Hedge Funds – the Foundation's investment approach to this asset class is to use multi-strategy, multi-manager fund of hedge funds, which will provide the best access to a highly diversified pool of hedge fund strategies and managers.
  2. Commodities –the return characteristics of this asset class are largely uncorrelated with stock and bond returns. Therefore, adding broad commodity exposure can improve diversification, lower the portfolio's risk profile and potentially boost return. Achieving this diversification has been made easier with the development of registered mutual funds that passively track a broad range of commodities. No more than 25% of this allocation will come from any one commodity category.
- D. Reserves for contingencies and stock and bond purchases are expected to comprise the balance of the fund:

CLAYTON STATE UNIVERSITY FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

**10. ENDOWMENT FUNDS – Continued**

1. Cash reserves should be invested at all times in appropriate overnight investment vehicles;
2. Overnight investments shall be limited to high quality institutional money market mutual funds rated A1, P1, or other high quality short term debt instruments rated at least AA+.

The following is a reconciliation of the endowment funds for years ended June 30, 2015 and 2014:

Balance as of June 30, 2013	\$ 2,757,924
2014 Contributions	<u>162,673</u>
Balance as of June 30, 2014	2,920,597
2015 Contributions	<u>144,768</u>
Balance as of June 30, 2015	<u>\$ 3,065,365</u>

**11. FUNCTIONAL ALLOCATION OF EXPENSES**

The cost of providing the various programs and activities has been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**12. EXTRAORDINARY EVENTS**

During the year, there were two events that took place that are considered both unusual in nature and occur infrequently. The first event was both LLC I and LLC II received insurance proceeds in the amount of \$410,151 and \$395,659, respectfully, for hail damage to their buildings. The second event was LLC I receiving a settlement from the contractor of the student housing building, which netted \$533,459 in proceeds.

**13. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 22, 2015, which is the date the financial statements were available to be issued.



## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors  
Clayton State University Foundation, Inc.

Our report on our audit of the financial statements of Clayton State University Foundation, Inc. for the years ended June 30, 2015 and 2014 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the financial statements taken as a whole. The Combining Schedules of Financial Position and the Combining Schedules of Activities are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink, appearing to read "T. A. Kozak".

Morrow, Georgia  
October 22, 2015

Clayton State University Foundation, Inc.  
Combining Schedule of Financial Position  
June 30, 2015

	Foundation	Special funds	Real Estate I	Real Estate II	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 34,088	\$ 985,256	\$ 1,230,604	\$ 575,264	\$ 2,825,212
Restricted cash	-	-	3,233,890	3,020,821	6,254,711
Short-term investments	693,995	-	-	-	693,995
Bateman student loan	-	126,177	-	-	126,177
Pledges receivable	307,959	-	-	-	307,959
Accounts receivable - related party	(450,000)	450,000	-	-	-
Prepaid conference expenses	10,468	-	24,461	-	34,929
Bond issuance costs	-	-	1,671,809	445,760	2,117,569
Investment in direct financing lease	-	-	35,911,942	25,632,203	61,544,145
Long-term investments	5,801,729	4,000	-	-	5,805,729
<b>TOTAL ASSETS</b>	<b>\$ 6,398,239</b>	<b>\$ 1,565,433</b>	<b>\$ 42,072,706</b>	<b>\$ 29,674,048</b>	<b>\$ 79,710,426</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 1,085	\$ 1,723	\$ -	\$ -	\$ 2,808
Accrued expenses	-	23,000	-	-	23,000
Accrued interest	-	-	979,934	663,122	1,643,056
Bonds payable	-	-	41,102,035	28,483,244	69,585,279
<b>TOTAL LIABILITIES</b>	<b>1,085</b>	<b>24,723</b>	<b>42,081,969</b>	<b>29,146,366</b>	<b>71,254,143</b>
<b>NET ASSETS</b>					
Unrestricted net assets	658,219	57,427	(9,263)	527,682	1,234,065
Temporarily restricted net assets	2,673,570	1,483,283	-	-	4,156,853
Permanently restricted net assets	3,065,365	-	-	-	3,065,365
<b>TOTAL NET ASSETS</b>	<b>6,397,154</b>	<b>1,540,710</b>	<b>(9,263)</b>	<b>527,682</b>	<b>8,456,283</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,398,239</b>	<b>\$ 1,565,433</b>	<b>\$ 42,072,706</b>	<b>\$ 29,674,048</b>	<b>\$ 79,710,426</b>

*See auditors' report on supplementary information*

Clayton State University Foundation, Inc.  
Combining Schedule of Financial Position  
June 30, 2014

	Foundation	Special funds	Real Estate I	Real Estate II	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 31,799	\$ 680,599	\$ 202,490	\$ 172,785	\$ 1,087,673
Restricted cash	-	-	3,052,035	2,733,041	5,785,076
Short-term investments	810,550	-	-	-	810,550
Bateman student loan	7,898	76,467	-	-	84,365
Pledges receivable	175,643	-	-	-	175,643
Accounts receivable - related party	(450,000)	450,000	-	-	-
Prepaid conference expenses	8,732	-	23,677	-	32,409
Bond issuance costs	-	-	1,747,514	462,270	2,209,784
Investment in direct financing lease	-	-	36,590,948	25,809,240	62,400,188
Long-term investments	5,721,903	4,000	-	-	5,725,903
<b>TOTAL ASSETS</b>	<b>\$ 6,306,525</b>	<b>\$ 1,211,066</b>	<b>\$ 41,616,664</b>	<b>\$ 29,177,336</b>	<b>\$ 78,311,591</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 1,267	\$ 8,583	\$ -	\$ -	\$ 9,850
Accrued expenses	-	17,254	-	-	17,254
Accrued interest	-	-	985,990	663,122	1,649,112
Due to related party	-	-	-	-	-
Bonds payable	-	-	41,388,920	28,544,660	69,933,580
<b>TOTAL LIABILITIES</b>	<b>1,267</b>	<b>25,837</b>	<b>42,374,910</b>	<b>29,207,782</b>	<b>71,609,796</b>
<b>NET ASSETS</b>					
Unrestricted net assets	847,759	(3,911)	(758,246)	(30,446)	55,156
Temporarily restricted net assets	2,536,902	1,189,140	-	-	3,726,042
Permanently restricted net assets	2,920,597	-	-	-	2,920,597
<b>TOTAL NET ASSETS</b>	<b>6,305,258</b>	<b>1,185,229</b>	<b>(758,246)</b>	<b>(30,446)</b>	<b>6,701,795</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,306,525</b>	<b>\$ 1,211,066</b>	<b>\$ 41,616,664</b>	<b>\$ 29,177,336</b>	<b>\$ 78,311,591</b>

*See auditors' report on supplementary information*

Clayton State University Foundation, Inc.  
Combining Schedule of Activities  
June 30, 2015

	Foundation	Special funds	Real Estate I	Real Estate II	Total
<b>Change in unrestricted net assets</b>					
Revenues, gains, and other support					
Interest revenue	\$ 32,793	\$ -	\$ 1,549,488	\$ 996,838	\$ 2,579,119
Rental revenue	-	-	473,899	623,110	1,097,009
Contributions	27,217	676,180	-	-	703,397
In-kind revenue	116,289	-	-	-	116,289
Other revenue	-	-	-	-	-
Net assets released from restriction	56,031	-	-	-	56,031
<b>Total unrestricted revenues, gains, and other supports</b>	<b>232,330</b>	<b>676,180</b>	<b>2,023,387</b>	<b>1,619,948</b>	<b>4,551,845</b>
<b>Expenses</b>					
Program service					
Interest expense	-	-	1,979,816	1,325,494	3,305,310
Scholarships	82,999	240,779	-	-	323,778
In-kind expenses	116,289	-	-	-	116,289
Grants and honorariums	-	101,879	-	-	101,879
Amortization	-	-	68,820	30,094	98,914
Travel and meetings	6,716	43,917	-	-	50,633
Insurance	-	-	41,149	-	41,149
Student honors and recognition	1,596	22,021	-	-	23,617
Eminent scholar	-	19,000	-	-	19,000
Other	7,590	1,976	-	-	9,566
Advancement	-	1,027	-	-	1,027
<b>Total program service</b>	<b>215,190</b>	<b>430,599</b>	<b>2,089,785</b>	<b>1,355,588</b>	<b>4,091,162</b>
Supporting services					
Supplies and services	24,450	226,857	47,954	26,891	326,152
Professional services	44,924	113,390	5,275	-	163,589
Events	357	130,945	-	-	131,302
<b>Total supporting services</b>	<b>69,731</b>	<b>471,192</b>	<b>53,229</b>	<b>26,891</b>	<b>621,043</b>
<b>Total expenses</b>	<b>284,921</b>	<b>901,791</b>	<b>2,143,014</b>	<b>1,382,479</b>	<b>4,712,205</b>
<b>Change in unrestricted net assets before transfers</b>	<b>(52,591)</b>	<b>(225,611)</b>	<b>(119,627)</b>	<b>237,469</b>	<b>(160,360)</b>
Transfers	(136,949)	286,949	(75,000)	(75,000)	-
<b>Total change in unrestricted net assets</b>	<b>(189,540)</b>	<b>61,338</b>	<b>(194,627)</b>	<b>162,469</b>	<b>(160,360)</b>
<b>Changes in temporarily restricted net assets</b>					
Contributions	-	294,143	-	-	294,143
Dividends and interest income	86,533	-	-	-	86,533
Net unrealized gain on investments	64,545	-	-	-	64,545
Net realized gain on investments	41,621	-	-	-	41,621
Net assets released from restriction	(56,031)	-	-	-	(56,031)
<b>Change in temporarily restricted net assets</b>	<b>136,668</b>	<b>294,143</b>	<b>-</b>	<b>-</b>	<b>430,811</b>
<b>Change in permanently restricted net assets</b>					
Contributions	144,768	-	-	-	144,768
<b>Change in permanently restricted net assets</b>	<b>144,768</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>144,768</b>
<b>Change in net assets before extraordinary item</b>	<b>91,896</b>	<b>355,481</b>	<b>(194,627)</b>	<b>162,469</b>	<b>415,219</b>
Insurance proceeds from hail damage	-	-	410,151	395,659	805,810
Settlement proceeds	-	-	533,459	-	533,459
<b>Total change in net assets</b>	<b>91,896</b>	<b>355,481</b>	<b>748,983</b>	<b>558,128</b>	<b>1,754,488</b>
<b>Net assets at the beginning of the year</b>	<b>6,305,258</b>	<b>1,185,229</b>	<b>(758,246)</b>	<b>(30,446)</b>	<b>6,701,795</b>
<b>Net assets at the end of the year</b>	<b>\$ 6,397,154</b>	<b>\$ 1,540,710</b>	<b>\$ (9,263)</b>	<b>\$ 527,682</b>	<b>\$ 8,456,283</b>

See auditors' report on supplementary information

Clayton State University Foundation, Inc.  
Combining Schedule of Activities  
June 30, 2014

	Foundation	Special funds	Real Estate I	Real Estate II	Total
Change in unrestricted net assets					
Revenues, gains, and other support					
Interest revenue	\$ 45,064	\$ -	\$ 1,548,915	\$ 995,763	\$ 2,589,742
Rental revenue	-	-	474,241	334,015	808,256
Contributions	6,287	633,987	-	-	640,274
In-kind revenue	87,501	-	-	-	87,501
Other revenue	-	-	-	46,782	46,782
Net assets released from restriction	406,545	-	-	-	406,545
<b>Total unrestricted revenues, gains, and other supports</b>	<b>545,397</b>	<b>633,987</b>	<b>2,023,156</b>	<b>1,376,560</b>	<b>4,579,100</b>
Expenses					
Program service					
Interest expense	-	-	1,991,992	1,531,893	3,523,885
Scholarships	83,769	141,110	-	-	224,879
Amortization	-	-	68,820	30,094	98,914
In-kind expenses	87,501	-	-	-	87,501
Insurance	-	-	72,836	-	72,836
Travel and meetings	8,320	45,647	-	-	53,967
Grants and honorariums	-	41,236	-	-	41,236
Student honors and recognition	1,779	23,646	-	-	25,425
Eminent scholar	-	19,000	-	-	19,000
Other	6,777	965	-	-	7,742
Advancement	-	2,582	-	-	2,582
<b>Total program service</b>	<b>188,146</b>	<b>274,186</b>	<b>2,133,648</b>	<b>1,561,987</b>	<b>4,157,967</b>
Supporting services					
Supplies and services	31,825	261,577	23,905	21,928	339,235
Professional services	32,397	122,489	112,751	-	267,637
Events	2,852	101,975	-	-	104,827
<b>Total supporting services</b>	<b>67,074</b>	<b>486,041</b>	<b>136,656</b>	<b>21,928</b>	<b>711,699</b>
<b>Total expenses</b>	<b>255,220</b>	<b>760,227</b>	<b>2,270,304</b>	<b>1,583,915</b>	<b>4,869,666</b>
Change in unrestricted net assets before transfers	290,177	(126,240)	(247,148)	(207,355)	(290,566)
Transfers	79,708	45,292	(100,000)	(25,000)	-
<b>Total change in unrestricted net assets</b>	<b>369,885</b>	<b>(80,948)</b>	<b>(347,148)</b>	<b>(232,355)</b>	<b>(290,566)</b>
Changes in temporarily restricted net assets					
Net realized gain on investments	406,129	-	-	-	406,129
Contributions	-	305,664	-	-	305,664
Net unrealized (loss) gain on investments	226,352	-	-	-	226,352
Dividends and interest income	61,115	-	-	-	61,115
Net assets released from restriction	(406,545)	-	-	-	(406,545)
<b>Change in temporarily restricted net assets</b>	<b>287,051</b>	<b>305,664</b>	<b>-</b>	<b>-</b>	<b>592,715</b>
Change in permanently restricted net assets					
Contributions	162,673	-	-	-	162,673
<b>Change in permanently restricted net assets</b>	<b>162,673</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>162,673</b>
<b>Total change in net assets</b>	<b>819,609</b>	<b>224,716</b>	<b>(347,148)</b>	<b>(232,355)</b>	<b>464,822</b>
Net assets at the beginning of the year	5,485,649	960,513	(411,098)	201,909	6,236,973
<b>Net assets at the end of the year</b>	<b>\$ 6,305,258</b>	<b>\$ 1,185,229</b>	<b>\$ (758,246)</b>	<b>\$ (30,446)</b>	<b>\$ 6,701,795</b>

See auditors' report on supplementary information