

**CLAYTON STATE UNIVERSITY
FOUNDATION, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

With Independent Auditor's Report Thereon

INDEPENDENT AUDITOR'S 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, 2018 and 2017, 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

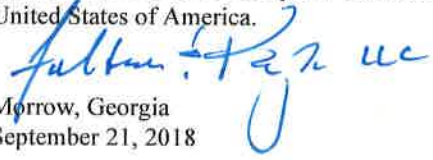
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2018 and 2017, 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
September 21, 2018

CLAYTON STATE UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
ASSETS		
Cash	\$ 2,843,703	\$ 2,112,951
Restricted cash	5,078,325	5,707,417
Short term investments	456,391	534,556
Investments held on behalf of related party	1,659,940	1,600,937
Bateman student loan	66,310	55,021
Pledges receivable	826,467	519,646
Accounts receivable	-	177,103
Prepaid conference expenses	10,226	35,122
Property and equipment, net	7,643,429	7,260,558
Investment in direct financing lease	56,435,768	58,186,398
Long-term investments	<u>8,600,551</u>	<u>6,823,229</u>
TOTAL ASSETS	<u>\$ 83,621,110</u>	<u>\$ 83,012,938</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 169,853	141,868
Accrued expenses	16,567	4,000
Accrued interest	1,530,670	1,613,531
Due to related party	1,659,940	1,600,937
Notes payable	4,140,902	4,351,073
Bonds payable	<u>64,805,725</u>	<u>66,255,538</u>
TOTAL LIABILITIES	72,323,657	73,966,947
NET ASSETS (DEFICIT)		
Unrestricted net (deficit) assets	1,146,429	301,862
Temporarily restricted net assets	6,468,608	5,205,719
Permanently restricted net assets	<u>3,682,416</u>	<u>3,538,410</u>
TOTAL NET ASSETS	<u>11,297,453</u>	<u>9,045,991</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 83,621,110</u>	<u>\$ 83,012,938</u>

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, 2018 AND 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS, AND OTHER SUPPORT		
Interest revenue	\$ 2,940,794	\$ 2,770,739
In-kind revenue	2,009,946	105,886
Rental revenue	753,713	1,043,765
Contributions	495,370	207,830
Other revenue	84,190	135,741
Net assets released from restriction	<u>1,123,838</u>	<u>798,138</u>
 TOTAL UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORTS	 7,407,851	 5,062,099
 EXPENSES		
Program service		
Interest expense	3,222,826	3,619,373
In-kind expenses	754,946	105,886
Scholarships	668,431	309,963
Travel and meetings	454,479	152,842
Depreciation	233,529	389,215
Other	99,128	67,795
Insurance	82,250	55,700
Grants and honorariums	59,800	34,203
Student honors and recognition	30,304	34,804
Eminent scholar	19,000	19,000
Advancement	<u>3,076</u>	<u>11,158</u>
 Total program service	 <u>5,627,769</u>	 <u>4,799,939</u>
 Supporting services		
Supplies and services	670,347	671,022
Professional services	170,014	285,892
Events	<u>85,154</u>	<u>89,115</u>
 Total supporting services	 <u>925,515</u>	 <u>1,046,029</u>
 TOTAL EXPENSES	 <u>6,553,284</u>	 <u>5,845,968</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 <u>\$ 854,567</u>	 <u>\$ (783,869)</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, 2018 AND 2017

	2018	2017
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	\$ 1,833,162	\$ 1,078,633
Net realized gain (loss) on investments	299,767	(18,120)
Dividends and interest revenue	157,386	130,234
Net unrealized gain on investments	86,412	580,436
Net assets released from restriction	<u>(1,123,838)</u>	<u>(798,138)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>1,252,889</u>	<u>973,045</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>144,006</u>	<u>205,577</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	<u>144,006</u>	<u>205,577</u>
TOTAL CHANGE IN NET ASSETS	2,251,462	394,753
NET ASSETS AT BEGINNING OF YEARS	<u>9,045,991</u>	<u>8,651,238</u>
NET ASSETS AT END OF YEARS	<u>\$ 11,297,453</u>	<u>\$ 9,045,991</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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,251,462	\$ 394,753
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Unrealized gain on investments	(86,412)	(580,436)
Realized (gain) loss on sale of investments	(299,767)	18,120
Amortization of debit issuance costs and bond premium/discount	(87,367)	109,815
In-kind donations	(2,009,946)	(105,886)
Non-cash expense related to in-kind donations	754,946	105,886
Depreciation	233,529	389,215
Changes in operating assets and liabilities		
Increase in pledges receivable	(306,821)	(138,943)
Decrease (Increase) in accounts receivable	177,103	(177,103)
(Increase) Decrease in Bateman student loan	(11,289)	76,095
Decrease in prepaid expenses	24,896	3,795
Decrease in investment in direct financing lease	1,750,630	1,577,954
Increase in accounts payable	27,985	112,695
Increase (Decrease) in accrued expenses	12,567	(9,025)
Decrease in accrued interest	<u>(82,861)</u>	<u>(17,150)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,348,655	1,759,785
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	153,715	127,786
Purchases of investments	(211,693)	(267,292)
Purchase of fixed assets	<u>(616,400)</u>	<u>(4,245,042)</u>
NET CASH USED IN INVESTING ACTIVITIES	(674,378)	(4,384,548)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bonds, net	39,363,455	-
Principal payments on bonds and note payable	<u>(40,936,072)</u>	<u>(923,546)</u>
NET CASH (USED IN) FINANCING ACTIVITIES	<u>(1,572,617)</u>	<u>(923,546)</u>
NET CHANGE IN CASH	101,660	(3,548,309)
CASH BEGINNING OF YEARS	<u>7,820,368</u>	<u>11,368,677</u>
CASH AT END OF YEARS	<u>\$ 7,922,028</u>	<u>\$ 7,820,368</u>
SUPPLEMENTARY DISCLOSURE:		
Cash paid for interest	<u>\$ 3,254,789</u>	<u>\$ 3,526,708</u>

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

CLAYTON STATE UNIVERSITY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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.

Permanently restricted net assets – net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all of the revenue earned on the related investments for general or specific purposes.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2018 and 2017, the Foundation had no cash equivalents.

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.

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") whereby only unrelated business income, as defined by Section 512(a)(1) of the IRC is subject to federal income tax. The Foundation is also a nonprivate foundation under 509(a)(1) of the IRC. The Foundation had no income from unrelated activities and has no income taxes due as of June 30, 2018.

The Foundation's application of ASC 740 regarding uncertain tax positions had no effect on its financial position as management believes the Foundation has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit tax status. The Foundation would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. The Foundation is no longer subject to examination by federal, state or local tax authorities for periods before 2015.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform them to the current year's presentation.

Subsequent events

Subsequent events have been evaluated through September 21, 2018, which is the date the financial statements were available to be issued.

3. PLEDGES RECEIVABLE

Unconditional promises to give at June 30, 2018 and 2017 are as follows:

Expected to be collected in:	2018	2017
Less than one year	\$ 503,361	\$ 273,495
More than one year	<u>323,106</u>	<u>246,151</u>
Total	<u>\$ 826,467</u>	<u>\$ 519,646</u>

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

3. PLEDGES RECEIVABLE – Continued

Management believes that all receivables are collectible, therefore an allowance has not been calculated. At June 30, 2018 and 2017 the discount on the long-term pledges receivable was \$14,561 and \$15,849, respectively.

4. PROPERTY AND EQUIPMENT

Property and Equipment at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Improvements	\$ 8,266,173	\$ 5,838,227
Accumulated depreciation	<u>(622,744)</u>	<u>(389,215)</u>
	7,643,429	5,449,012
Construction in progress	<u>-</u>	<u>1,811,546</u>
Property and equipment, net	<u>\$ 7,643,429</u>	<u>\$ 7,260,558</u>

5. INVESTMENTS

Investments at June 30, 2018 are recorded at fair value and are comprised of the following:

	Cost	Fair Value
Short-term investments:		
Board of Regents pooled investment funds	\$ 342,864	\$ 456,391
Long-term investments:		
Board of Regents pooled investment funds	5,779,237	7,021,051
Long-term investments:		
Real estate	<u>1,579,500</u>	<u>1,579,500</u>
	<u>\$ 7,701,601</u>	<u>\$ 9,056,942</u>

Investments at June 30, 2017 are recorded at fair value and are comprised of the following:

	Cost	Fair Value
Short-term investments:		
Board of Regents pooled investment funds	\$ 462,614	\$ 534,556
Long-term investments:		
Board of Regents pooled investment funds	5,345,658	6,498,729
Long-term investments:		
Real estate	<u>324,500</u>	<u>324,500</u>
	<u>\$ 6,132,772</u>	<u>\$ 7,357,785</u>

Investment fees for the years ended June 30, 2018 and 2017 totaled \$11,106 and \$10,802, respectively, and are netted with the unrealized gains in the accompanying Statements of Activities.

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

6. FAIR VALUE MEASUREMENTS

The Foundation has 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.

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, 2018:

	Total	Level 1	Level 2	Level 3
Board of Regents Pooled				
Investment Funds				
Diversified fund	\$ 6,219,649	\$ 6,219,649	\$ -	\$ -
Balanced income	801,402	801,402	-	-
Short term	456,391	456,391	-	-
Commercial real estate	<u>1,579,500</u>	<u>-</u>	<u>1,579,500</u>	<u>-</u>
	<u>\$ 9,056,942</u>	<u>\$ 7,477,442</u>	<u>\$ 1,579,500</u>	<u>\$ -</u>

A portion of the commercial real estate's value is based on the appraisal that was conducted as of June 30, 2012. The balance consists of real estate donated to the Foundation as of June 30, 2018.

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, 2017:

	Total	Level 1	Level 2	Level 3
Board of Regents Pooled				
Investment Funds				
Diversified fund	\$ 5,720,444	\$ 5,720,444	\$ -	\$ -
Balanced income	778,285	778,285	-	-
Short term	534,556	534,556	-	-
Commercial real estate	<u>324,500</u>	<u>-</u>	<u>324,500</u>	<u>-</u>
	<u>\$ 7,357,785</u>	<u>\$ 7,033,285</u>	<u>\$ 324,500</u>	<u>\$ -</u>

The commercial real estate's value was written down based on an appraisal that was conducted as of June 30, 2012.

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

7. RESTRICTED NET ASSETS

There are donor restrictions on the Foundation's net assets. At June 30, 2018, the Foundation's net assets were restricted temporarily and permanently for the following purposes:

Temporarily Restricted Net Assets:	
Restricted for scholarships	\$ 3,838,780
Restricted for various other	2,129,828
Restricted for salary supplements	<u>500,000</u>
Total temporarily restricted net assets	<u>\$ 6,468,608</u>
Permanently Restricted Net Assets:	
Corpus restricted by donors	<u>\$ 3,682,416</u>

Permanently restricted net assets include \$530,238 for the Charles S Conklin II trust.

At June 30, 2017, the Foundation's net assets were restricted temporarily and permanently for the following purposes:

Temporarily Restricted Net Assets:	
Restricted for scholarships	\$ 2,817,108
Restricted for various other	1,973,531
Restricted for salary supplements	<u>415,080</u>
Total temporarily restricted net assets	<u>\$ 5,205,719</u>
Permanently Restricted Net Assets:	
Corpus restricted by donors	<u>\$ 3,538,410</u>

Permanently restricted net assets include \$530,238 for the Charles S Conklin II trust.

8. RELATED PARTY TRANSACTIONS

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

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

8. RELATED PARTY TRANSACTIONS – Continued

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

The Foundation is the single member of CSU Foundation Real Estate III, LLC (“CSUFRE3”). CSUFRE3 is financing repairs to student housing in CSUFRE2

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.

During the current year, Clayton State University entrusted the Foundation with investments for the University’s benefit. These investments are not property of the Foundation, but are only being managed by the Foundation. The balance of these investments as of June 30, 2018 is \$1,659,940.

9. BONDS PAYABLE

Series 2017 Refunding Revenue Bonds

During the year ended June 30, 2018, the Foundation refunded the Series 2007 Revenue Bonds with the issue of the Series 2017 Refunding Revenue Bonds.

On January 1, 2018, the Foundation through its subsidiary CSUFRE1 issued Series 2017 refunding revenue bonds in the face value amount of \$36,735,000. The proceeds of the Series 2017 Bonds were applied to (a) refund all or a portion of the outstanding Development Authority of Clayton County Student Housing and Activity Center Revenue Bonds, Series 2007; and (b) pay certain costs of issuing the Series 2017 Bonds.

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

9. 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>
2019	\$ 435,000	\$ 825,819
2020	1,000,000	1,480,894
2021	1,100,000	1,440,894
2022	1,205,000	1,396,894
2023	1,315,000	1,348,694
thereafter	<u>31,680,000</u>	<u>11,691,455</u>
	36,735,000	18,184,650
Bond premium	3,069,216	-
Issuance costs	<u>(1,951,257)</u>	-
Total	<u>\$ 37,852,959</u>	<u>\$ 18,184,650</u>

Interest is payable semi-annually on January 1st and July 1st 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, 2018 and 2017.

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 (i) the fees of

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

9. BONDS PAYABLE – Continued

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>
2019	\$ 560,000	\$ 1,289,494
2020	625,000	1,272,694
2021	690,000	1,252,381
2022	715,000	1,228,469
2023	740,000	1,203,444
thereafter	<u>24,345,000</u>	<u>14,494,918</u>
	27,675,000	20,741,400
Bond discount	(326,004)	-
Issuance costs	<u>(396,230)</u>	-
Total	<u>\$ 26,952,766</u>	<u>\$ 20,741,400</u>

Interest is payable semi-annually on December 20th and June 20th 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, 2018 and 2017.

10. NOTES PAYABLE

In April, 2016, CSUFRE3 entered into a note payable with SunTrust Bank in the amount of \$4,500,000 for repairs to student housing in CSUFRE2. The interest rate on the loan is at a fixed rate of 5.63%. Quarterly payments will be made through March 31, 2026, at which time a balloon payment of the outstanding balance will be due.

Aggregate maturities of notes payable are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 233,784	\$ 233,055
2020	246,621	220,218
2021	261,407	205,432
2022	276,438	190,401
2023	292,333	174,506
Thereafter	<u>2,914,799</u>	<u>390,848</u>
	4,225,382	1,414,460
Issuance costs	<u>(84,480)</u>	-
Total	<u>\$ 4,140,902</u>	<u>\$ 1,414,460</u>

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

11. LEASING ARRANGEMENTS

Series 2017 Student Housing

In connection with the Series 2007 Bonds, the Foundation entered into a leasing arrangement, which was amended with the issuance of the Series 2017 Refunding Revenue Bonds.

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 30 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.

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 thirty (30) 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, 2018, the Board of Regents has exercised its renewal option for the period from July 1, 2018 through June 30, 2019.

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	\$ 31,163,152
Less unearned income	<u>(12,460,742)</u>
Net investment in direct financing lease	<u>\$ 18,702,410</u>

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

11. LEASING ARRANGEMENTS – Continued

Series 2017 Student Activities Center

In connection with the Series 2007 Bonds, the Foundation entered into a leasing arrangement, which was amended with the issuance of the Series 2017 Refunding Revenue Bonds.

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 30 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.

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 thirty (30) 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, 2018, the Board of Regents has exercised its renewal option for the period from July 1, 2018 through June 30, 2019.

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	\$ 30,075,036
Less unearned income	<u>(15,239,305)</u>
Net investment in direct financing lease	<u>\$ 14,835,731</u>

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

11. LEASING ARRANGEMENTS – Continued

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.

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, 2018, the Board of Regents has exercised its renewal option for the period from July 1, 2018 through June 30, 2019.

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	\$ 52,176,930
Less unearned income	<u>(33,249,594)</u>
Net investment in direct financing lease	<u>\$ 18,927,336</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.

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

11. LEASING ARRANGEMENTS – Continued

Note Payable Student Housing Renovations

In connection with the note payable, the Foundation entered into the following leasing arrangements:

Ground Lease

The Foundation leases from the Board of Regents the project for Premises Improvements for the buildings Arbor Hall and Woodlands Hall. The ground lease is for a term commencing on April 8, 2016 and will end on June 30, 2026, a primary term for a period of 10 years. All title to the project reverts back to the Board of Regents at the end of the lease term.

Facility Rental

The Foundation entered into a Rental Agreement with the Board of Regents on April 8, 2016 pursuant to which the Board of Regents agreed to lease the Premises Improvements project from the Foundation. The initial term of the Rental Agreement commenced at 12:00 o'clock A.M., on May 1, 2016 and ended at 11:59 o'clock P.M. on June 30, 2016. The Board of Regents has the option to renew the Rental Agreement following the initial term on a year-to-year basis for fifteen (15) consecutive years. In the event of such annual renewals; the Board of Regents will pay a fixed annual rent. At June 30, 2018, the Board of Regents has exercised its renewal option for the period from July 1, 2018 through June 30, 2019.

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	\$ 6,143,779
Less unearned income	<u>(2,173,488)</u>
Net investment in direct financing lease	<u>\$ 3,970,291</u>

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

12. 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.

- 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.

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

12. ENDOWMENT FUNDS – Continued

1. 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:

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, 2018 and 2017:

Balance as of June 30, 2016	\$ 3,332,833
2017 Contributions	<u>205,577</u>
Balance as of June 30, 2017	3,538,410
2018 Contributions	<u>144,006</u>
Balance as of June 30, 2018	<u>\$ 3,682,416</u>

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

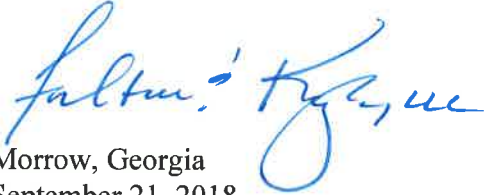
13. FUNCTIONAL ALLOCATION OF EXPENSES

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.

INDEPENDENT AUDITOR'S 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, 2018 and 2017 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.



Morrow, Georgia
September 21, 2018

Clayton State University Foundation, Inc.
Combining Schedule of Financial Position
June 30, 2018

	Foundation	Real Estate I	Real Estate II	Real Estate III	Total
ASSETS					
Cash and cash equivalents	\$ 2,197,687	\$ 153,445	\$ 339,729	\$ 152,842	\$ 2,843,703
Restricted cash	-	2,496,154	2,582,171	-	5,078,325
Short-term investments	456,391	-	-	-	456,391
Investments held on behalf of related party	1,659,940	-	-	-	1,659,940
Bateman student loan	66,310	-	-	-	66,310
Pledges receivable	826,467	-	-	-	826,467
Prepaid expenses	2,502	-	-	7,724	10,226
Property and equipment, net	-	-	7,643,429	-	7,643,429
Investment in direct financing lease	-	33,538,141	18,927,336	3,970,291	56,435,768
Long-term investments	8,600,551	-	-	-	8,600,551
TOTAL ASSETS	\$ 13,809,848	\$ 36,187,740	\$ 29,492,665	\$ 4,130,857	\$ 83,621,110
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 68,720	\$ -	\$ 44,527	\$ 56,606	\$ 169,853
Accrued expenses	16,567	-	-	-	16,567
Accrued interest	-	825,819	644,747	60,104	1,530,670
Due to related party	1,659,940	-	-	-	1,659,940
Notes payable	-	-	-	4,140,902	4,140,902
Bonds payable	-	37,852,959	26,952,766	-	64,805,725
TOTAL LIABILITIES	1,745,227	38,678,778	27,642,040	4,257,612	72,323,657
NET ASSETS (DEFICIT)					
Unrestricted net assets (deficit)	1,913,597	(2,491,038)	1,850,625	(126,755)	1,146,429
Temporarily restricted net assets	6,468,608	-	-	-	6,468,608
Permanently restricted net assets	3,682,416	-	-	-	3,682,416
TOTAL NET ASSETS (DEFICIT)	12,064,621	(2,491,038)	1,850,625	(126,755)	11,297,453
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 13,809,848	\$ 36,187,740	\$ 29,492,665	\$ 4,130,857	\$ 83,621,110

See auditor's report on supplementary information

Clayton State University Foundation, Inc.
Combining Schedule of Financial Position
June 30, 2017

	Foundation	Real Estate I	Real Estate II	Real Estate III	Total
ASSETS					
Cash and cash equivalents	\$ 1,336,145	\$ 229,581	\$ 526,037	21,188	\$ 2,112,951
Restricted cash	-	2,982,359	2,725,058	-	5,707,417
Short-term investments	534,556	-	-	-	534,556
Investments held on behalf of related party	1,600,937	-	-	-	1,600,937
Bateman student loan	55,021	-	-	-	55,021
Pledges receivable	519,646	-	-	-	519,646
Accounts receivable	21,835	155,268	-	-	177,103
Prepaid expenses	1,882	25,919	-	7,321	35,122
Property and equipment, net	-	-	7,260,558	-	7,260,558
Investment in direct financing lease	-	34,374,874	19,529,864	4,281,660	58,186,398
Long-term investments	6,823,229	-	-	-	6,823,229
TOTAL ASSETS	\$ 10,893,251	\$ 37,768,001	\$ 30,041,517	\$ 4,310,169	\$ 83,012,938
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 9,097	\$ 127,288	\$ 5,483	\$ -	\$ 141,868
Accrued expenses	4,000	-	-	-	4,000
Accrued interest	-	961,059	652,472	-	1,613,531
Due to related party	1,600,937	-	-	-	1,600,937
Notes payable	-	-	-	4,351,073	4,351,073
Bonds payable	-	38,817,866	27,437,672	-	66,255,538
TOTAL LIABILITIES	1,614,034	39,906,213	28,095,627	4,351,073	73,966,947
NET ASSETS (DEFICIT)					
Unrestricted net assets (deficit)	535,088	(2,138,212)	1,945,890	(40,904)	301,862
Temporarily restricted net assets	5,205,719	-	-	-	5,205,719
Permanently restricted net assets	3,538,410	-	-	-	3,538,410
TOTAL NET ASSETS (DEFICIT)	9,279,217	(2,138,212)	1,945,890	(40,904)	9,045,991
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 10,893,251	\$ 37,768,001	\$ 30,041,517	\$ 4,310,169	\$ 83,012,938

See auditor's report on supplementary information

Clayton State University Foundation, Inc.
Combining Schedule of Activities
June 30, 2018

	Foundation	Real Estate I	Real Estate II	Real Estate III	Total
Change in unrestricted net assets					
Revenues, gains, and other support					
Interest revenue	\$ 70,276	\$ 1,682,713	\$ 1,017,291	\$ 170,514	\$ 2,940,794
In-kind revenue	2,009,946	-	-	-	2,009,946
Rental revenue	-	196,129	544,344	13,240	753,713
Contributions	495,370	-	-	-	495,370
Other revenue	51,295	32,895	-	-	84,190
Net assets released from restriction	1,123,838	-	-	-	1,123,838
Total unrestricted revenues, gains, and other supports	3,750,725	1,911,737	1,561,635	183,754	7,407,851
Expenses					
Program service					
Interest expense	-	1,646,572	1,319,586	256,668	3,222,826
In-kind expenses	754,946	-	-	-	754,946
Scholarships	668,431	-	-	-	668,431
Travel and meetings	454,479	-	-	-	454,479
Depreciation	-	-	233,529	-	233,529
Other	99,128	-	-	-	99,128
Insurance	-	69,412	-	12,838	82,250
Grants and honorariums	59,800	-	-	-	59,800
Student honors and recognition	30,304	-	-	-	30,304
Eminent scholar	19,000	-	-	-	19,000
Advancement	3,076	-	-	-	3,076
Total program service	2,089,164	1,715,984	1,553,115	269,506	5,627,769
Supporting services					
Supplies and services	382,084	266,379	21,785	99	670,347
Professional services	170,014	-	-	-	170,014
Events	85,154	-	-	-	85,154
Total supporting services	637,252	266,379	21,785	99	925,515
Total expenses	2,726,416	1,982,363	1,574,900	269,605	6,553,284
Change in unrestricted net assets before transfers	1,024,309	(70,626)	(13,265)	(85,851)	854,567
Transfers	364,200	(282,200)	(82,000)	-	-
Total change in unrestricted net assets	1,388,509	(352,826)	(95,265)	(85,851)	854,567
Changes in temporarily restricted net assets					
Contributions	1,833,162	-	-	-	1,833,162
Net realized gain on investments	299,767	-	-	-	299,767
Dividends and interest income	157,386	-	-	-	157,386
Net unrealized gain on investments	86,412	-	-	-	86,412
Net assets released from restriction	(1,123,838)	-	-	-	(1,123,838)
Change in temporarily restricted net assets	1,252,889	-	-	-	1,252,889
Change in permanently restricted net assets					
Contributions	144,006	-	-	-	144,006
Change in permanently restricted net assets	144,006	-	-	-	144,006
Total change in net assets	2,785,404	(352,826)	(95,265)	(85,851)	2,251,462
Net assets at the beginning of the year	9,279,217	(2,138,212)	1,945,890	(40,904)	9,045,991
Net assets at the end of the year	\$ 12,064,621	\$ (2,491,038)	\$ 1,850,625	\$ (126,755)	\$ 11,297,453

See auditor's report on supplementary information

Clayton State University Foundation, Inc.
Combining Schedule of Activities
June 30, 2017

	Foundation	Real Estate I	Real Estate II	Real Estate III	Total
Change in unrestricted net assets					
Revenues, gains, and other support					
Interest revenue	\$ 42,073	\$ 1,551,551	\$ 1,006,600	\$ 170,515	\$ 2,770,739
In-kind revenue	105,886	-	-	-	105,886
Rental revenue	-	483,020	550,745	10,000	1,043,765
Contributions	207,830	-	-	-	207,830
Other revenue	76,285	32,888	17,275	9,293	135,741
Net assets released from restriction	798,138	-	-	-	798,138
Total unrestricted revenues, gains, and other supports	1,230,212	2,067,459	1,574,620	189,808	5,062,099
Expenses					
Program service					
Interest expense	-	2,010,791	1,335,038	273,544	3,619,373
In-kind expenses	105,886	-	-	-	105,886
Scholarships	309,963	-	-	-	309,963
Travel and meetings	152,842	-	-	-	152,842
Depreciation	-	-	389,215	-	389,215
Other	67,795	-	-	-	67,795
Insurance	-	44,467	-	11,233	55,700
Grants and honorariums	34,203	-	-	-	34,203
Student honors and recognition	34,804	-	-	-	34,804
Eminent scholar	19,000	-	-	-	19,000
Advancement	11,158	-	-	-	11,158
Total program service	735,651	2,055,258	1,724,253	284,777	4,799,939
Supporting services					
Supplies and services	236,751	400,793	33,316	162	671,022
Professional services	278,286	-	5,118	2,488	285,892
Events	89,115	-	-	-	89,115
Total supporting services	604,152	400,793	38,434	2,650	1,046,029
Total expenses	1,339,803	2,456,051	1,762,687	287,427	5,845,968
Change in unrestricted net assets before transfers	(109,591)	(388,592)	(188,067)	(97,619)	(783,869)
Transfers	164,150	(207,050)	(4,337,050)	4,379,950	-
Total change in unrestricted net assets	54,559	(595,642)	(4,525,117)	4,282,331	(783,869)
Changes in temporarily restricted net assets					
Contributions	1,078,633	-	-	-	1,078,633
Net realized loss on investments	(18,120)	-	-	-	(18,120)
Dividends and interest income	130,234	-	-	-	130,234
Net unrealized gain on investments	580,436	-	-	-	580,436
Net assets released from restriction	(798,138)	-	-	-	(798,138)
Change in temporarily restricted net assets	973,045	-	-	-	973,045
Change in permanently restricted net assets					
Contributions	205,577	-	-	-	205,577
Change in permanently restricted net assets	205,577	-	-	-	205,577
Total change in net assets	1,233,181	(595,642)	(4,525,117)	4,282,331	394,753
Net assets at the beginning of the year	8,046,036	(1,542,570)	6,471,007	(4,323,235)	8,651,238
Net assets at the end of the year	\$ 9,279,217	\$ (2,138,212)	\$ 1,945,890	\$ (40,904)	\$ 9,045,991

See auditor's report on supplementary information