KENNESAW STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2012

KENNESAW STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED FINANCIAL REPORT
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MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Kennesaw State University Foundation, Inc.
Kennesaw, Georgia

We have audited the accompanying consolidated statements of financial position of **Kennesaw State University Foundation, Inc.** (a nonprofit organization) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kennesaw State University Foundation, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 11, 2012

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KENNESAW STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2012 AND 2011

ASSETS	2012	2011
Cash	$ 10,247,074	$ 7,493,013
Unconditional promises to give, net of allowance for doubtful accounts 2012 $26,823; 2011 $29,167	1,900,368	1,694,430
Rents receivable, net of allowance accounts 2012 $64,529; 2011 $2,503	255,670	219,556
Accounts receivable - other	212,461	454,265
Accounts receivable - related party	399,857	235,968
Notes receivable - related party	149,559	87,500
Prepaid expenses	244,927	429,006
Other assets	20,537	12,559
Investments	30,100,889	32,023,805
Net investments in direct financing leases	172,717,904	162,654,178
Donated art	1,873,711	1,861,711
Property and equipment, net	137,335,287	123,079,749
Debt issuance costs, net	10,385,053	10,288,302
Assets limited as to use	42,867,277	43,668,791
Total assets	$ 408,710,574	$ 384,202,833

LIABILITIES AND NET ASSETS	2012	2011
Liabilities		
Accounts payable	$ 494,696	$ 914,704
Accounts payable - related party	2,386,944	1,437,863
Construction payable	-	43,402
Security deposits payable	47,995	47,442
Accrued expenses	939,935	1,027,437
Accrued interest	8,582,804	8,069,930
Lines of credit and notes payable	6,145,634	6,791,154
Bonds payable	361,575,983	338,735,165
Annuity obligation	123,824	128,616
Deferred revenue	595,736	148,058
Total liabilities	380,893,551	357,343,771
Net assets		
Unrestricted	(4,929,719)	(6,057,332)
Temporarily restricted	8,257,534	8,820,467
Permanently restricted	24,489,208	24,095,927
Total net assets	27,817,023	26,859,062
Total liabilities and net assets	$ 408,710,574	$ 384,202,833

See Notes to Consolidated Financial Statements.

KENNESAW STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions, special events and athletics	$ 348,417	$ 4,093,057	$ 487,211	$ 4,928,685
Investment income	317,713	637,862	-	955,575
Net realized and unrealized gain (loss) on investments	(909,261)	(911,481)	-	(1,820,742)
Donated services	133,957	-	-	133,957
Management fee income	926,850	-	-	926,850
Leasing income	35,775,584	-	-	35,775,584
Total revenues	36,593,260	3,819,438	487,211	40,899,909
Net assets released from restrictions:				
Satisfaction of program restrictions	4,382,371	(4,382,371)	-	-
Total revenues and other support	40,975,631	(562,933)	487,211	40,899,909
EXPENSES				
Program services:				
Scholarships & awards	896,122	-	-	896,122
Academic programs and dean support	1,963,973	-	-	1,963,973
Other university support	2,088,060	-	-	2,088,060
Athletics	505,363	-	-	505,363
Special events & programs	185,645	-	-	185,645
Total program services	5,639,163	-	-	5,639,163
Supporting services:				
Management and general	2,302,786	-	-	2,302,786
Fund raising	224,506	-	-	224,506
Rental operations	10,082,298	-	-	10,082,298
Depreciation	5,606,592	-	-	5,606,592
Amortization	674,347	-	-	674,347
Debt service	15,412,256	-	-	15,412,256
Total supporting services	34,302,785	-	-	34,302,785
Total expenses and losses	39,941,948	-	-	39,941,948
NON-OPERATING INCOME				
Legal settlement income	-	-	-	-
CHANGE IN NET ASSETS	1,033,683	(562,933)	487,211	957,961
NET ASSETS, BEGINNING	(6,057,332)	8,820,467	24,095,927	26,859,062
CHANGE IN DONOR INTENT	93,930	-	(93,930)	-
NET ASSETS, ENDING	$ (4,929,719)	$ 8,257,534	$ 24,489,208	$ 27,817,023

See Notes to Consolidated Financial Statements.

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 243,613	$ 1,710,757	$ 1,168,416	$ 3,122,786
751,633	612,494	-	1,364,127
1,833,638	2,833,340	-	4,666,978
396,375	-	-	396,375
164,491	-	-	164,491
33,853,290	-	-	33,853,290
37,243,040	5,156,591	1,168,416	43,568,047
9,225,600	(9,225,600)	-	-
46,468,640	(4,069,009)	1,168,416	43,568,047
1,181,130	-	-	1,181,130
6,945,561	-	-	6,945,561
2,275,572	-	-	2,275,572
499,351	-	-	499,351
460,451	-	-	460,451
11,362,065	-	-	11,362,065
2,326,973	-	-	2,326,973
298,055	-	-	298,055
10,438,110	-	-	10,438,110
5,797,946	-	-	5,797,946
707,299	-	-	707,299
15,284,913	-	-	15,284,913
34,853,296	-	-	34,853,296
46,215,361	-	-	46,215,361
3,683,155	-	-	3,683,155
3,936,434	(4,069,009)	1,168,416	1,035,841
(9,993,766)	12,889,476	22,927,511	25,823,221
-	-	-	-
$ (6,057,332)	$ 8,820,467	$ 24,095,927	$ 26,859,062

KENNESAW STATE UNIVERSITY
FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 957,961	$ 1,035,841
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	5,606,592	5,797,946
Amortization expense	674,347	707,299
Amortization of bond premiums and original issue discount	(274,289)	(253,399)
Contributions restricted for long-term investment	(487,211)	(1,168,416)
Contributions for donated art	(12,000)	(8,061)
Net realized and unrealized (gain) loss on investments	1,820,742	(4,666,978)
(Increase) decrease in:		
Unconditional promises to give	(205,938)	1,631,573
Accounts receivable - related party	(163,889)	(9,883)
Notes receivable - related party	(62,059)	(30,000)
Other receivables	205,690	(315,501)
Prepaid expenses	184,079	(38,198)
Other assets	(7,978)	469
Increase (decrease) in:		
Accounts payable	(420,008)	176,435
Accounts payable - related party	949,081	(2,764,223)
Security deposits payable	553	(12,350)
Accrued expenses	(87,502)	818,521
Accrued interest	512,874	1,398,778
Annuity Obligation	(4,792)	(35,232)
Deferred revenue	447,678	30,237
Net cash provided by operating activities	9,633,931	2,294,858
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant, property and equipment	(28,100,845)	(9,267,236)
Net sales of investments	102,174	1,009,364
Payments of capital interest	(1,868,413)	(1,013,338)
Net cash used in investing activities	(29,867,084)	(9,271,210)

See Notes to Consolidated Financial Statements.

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in endowment	**487,211**	1,168,416
Payments on lines of credit and notes payable	**(645,520)**	(46,998,526)
Proceeds from bond issuance	**30,140,107**	65,462,586
Bond redemption	**(7,025,000)**	(6,530,000)
Debt issuance costs	**(771,098)**	(2,318,865)
Net proceeds (disbursements) from funds held by Trustee	**801,514**	(9,673,329)
Net cash provided by financing activities	**22,987,214**	1,110,282
Net increase (decrease) in cash	**2,754,061**	(5,866,070)
Cash at beginning of year	**7,493,013**	13,359,083
Cash at end of year	**$ 10,247,074**	$ 7,493,013
SUPPLEMENTAL DATA FOR FINANCING ACTIVITIES		
Interest paid (excluding capitalized interest)	**$ 14,795,737**	$ 13,838,560

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities:

Kennesaw State University Foundation, Inc. (the "Foundation") is a nonprofit foundation exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). Kennesaw State University Foundation's Mission is to be an advocate for Kennesaw State University (the "University") and to receive, invest, account for, and allocate private gifts and contributions in support of the University, a related party, in Cobb County, Georgia. The Foundation provides student housing, parking, and leases administrative, dining, classroom, and athletic space to the University. The Foundation also operates hospitality space.

Significant accounting policies:

Basis of presentation:

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Foundation presents its financial statements in accordance with the Financial Accounting Standards Board's (FASB's) *Not-For-Profit* presentation and disclosure guidance. Under this guidance, the Foundation is required to report information regarding its financial position and activities according to three categories of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are not subject to donor-imposed restrictions. Temporarily restricted net assets are subject to donor-imposed restrictions that may be met either by the actions of the Foundation or the passage of time. Permanently restricted net assets are permanently subject to donor imposed restrictions.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Basis of consolidation:

The consolidated financial statements of Kennesaw State University Foundation, Inc. includes the accounts of Kennesaw State University Foundation, Inc., Kennesaw State University Real Estate Foundation, LLC, KSU Center Real Estate Foundation, LLC, KSU Central Parking Deck Real Estate Foundation, LLC, KSU Chastain Pointe Real Estate Foundation, LLC, KSU Dining Hall Real Estate Foundation, LLC (Dining Hall and Bowen Building), KSU Houses Real Estate Foundation, LLC, KSU Parking Decks Real Estate Foundation, LLC (North, East, and West Decks), KSU Place Real Estate Foundation, LLC (KSU Place I and II), KSU Sports and Recreation Facilities Foundation, LLC, KSU Sports and Recreation Park Real Estate Foundation, LLC, KSU Town Point Real Estate Foundation, LLC, KSU UP Real Estate Foundation, LLC (University Place), KSU Village I Real Estate Foundation, LLC (University Village and Village Centre), KSU Village II Real Estate Foundation, LLC (University Village Suites), KSU University II Real Estate Foundation, LLC (University Place II), KSUF Housing Management, LLC, Kennesaw Hospitality, LLC (Best Western), and Kennesaw State Properties, LLC. Intercompany accounts and all significant intercompany transactions have been eliminated.

Contributions:

Contributions received, including unconditional promises to give, are recognized as revenues in the period received at their estimated fair value less an appropriate allowance for uncollectible amounts. Conditional promises to give are recognized when the conditions are substantially met. Pledges receivable over more than one year are recorded at their discounted present value. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. The allowance for doubtful pledges is based on specifically identified amounts that the Foundation believes to be uncollectible.

An additional allowance is recorded based on certain percentages of aged pledged receivables, which are determined based on historical experience and management's assessment of the general financial conditions affecting the Foundation's donor base. If actual collections experience changes, revisions to the allowance may be required.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Revenue recognition:

Rental income is recorded under the straight line method over the lease terms. Rental agreements are generally year-to-year. Deferred revenue represents rent received for future periods. An allowance is recorded based on historical experience and management's assessment of specific accounts.

Advertising costs:

Advertising costs are charged to income as they are incurred. Advertising costs amounted to $416,437 and $263,023 at June 30, 2012 and 2011, respectively.

Split interest agreements:

The Foundation is the beneficiary of an annuity. The Foundation's interest in split interest agreements is reported as a contribution in the year received at its net present value.

Donor imposed restrictions:

The Foundation recognizes the expiration of donor-imposed restrictions in the period in which the restrictions expire.

Temporarily restricted accounting:

Endowment and other income along with private gifts which have donor stipulations that limit their use are recorded as revenue under temporarily restricted net assets and released from restrictions when a stipulated time restriction ends or purpose restriction expires. The related expenses are recorded under unrestricted net assets. Reclassifications of beginning restricted balances may change due to superseded pledge agreements signed subsequent to year end or clarifications with donors. These changes are reflected as transfers on the consolidated statement of activities.

Endowment accounting:

Permanent endowment funds are subject to the restrictions of the gift instruments which require that the principal be invested in perpetuity. Unless explicitly stated in the gift instrument, accumulated realized and unrealized gains of the permanent endowment funds have been classified as temporarily restricted net assets. See Note 16 for discussion on endowment accounting.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Change in donor intent:

During the year ended June 30, 2012, the Foundation obtained a change in donor intent regarding contributions previously recorded totaling $93,930, resulting in transfers from permanently restricted net assets to unrestricted net assets. The contributions were then given back to the donor and recorded as an expense in unrestricted net assets in the accompanying 2012 consolidated statement of activities.

Donated services:

Donated services are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. Donated service expense, which primarily represents salaries, benefits, and rents paid by the University on behalf of the Foundation, is reflected under supporting services as management and general expense in the accompanying statement. Donated services totaled $133,957 and $396,375 for the years ended June 30, 2012 and 2011, respectively.

Investments:

Investments are recorded at fair value. Donated investments are recorded at fair value on the date received. Realized and unrealized gains and losses on the portfolio are recognized as income or loss.

Donated art:

Donated art is recorded at fair market value on the date received.

Equipment under direct-financing and operating leases:

The Foundation leases real estate to Kennesaw State University, a related party. The leases are accounted for as direct financing-type leases. The present value of the minimum lease payments is recorded as an asset and is amortized as payments are received. The difference between gross minimum lease payments and the present value of the gross minimum lease payments is recorded as unearned income and is amortized as payments are received.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Rental property and equipment:

Property and equipment are stated at cost. Substantially all property is held for leasing. Depreciation is computed on the straight-line method over the estimated useful lives of the property and equipment. For property constructed on leased land, the estimated useful life represents the terms of the land lease.

Maintenance and repairs of equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in the statement of activities.

Debt issuance costs:

Debt issuance costs, comprised principally of underwriting, legal, and printing fees, are recorded as deferred charges and amortized over the term of the debt using the effective interest method.

Bond premiums and discounts:

Bond premiums are presented as an increase of the face amount of bonds payable. Bond discounts are presented as a decrease of the face amount of bonds payable. Both are amortized over the term of the debt using the effective interest method.

Use of estimates:

The Foundation prepares its consolidated financial statements in accordance with generally accepted accounting principles, which require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the consolidated financial statements, as well as the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Fair value of financial instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and temporary investments - The carrying amount approximates fair value because of the short-term maturity of these instruments.

Investments - Investments are carried at fair value based on quoted market prices for those or similar investments.

Bond proceeds restricted for construction, debt service, and reserves - Funds held by the trustee are carried at fair value based on quoted market prices for those or similar investments.

Operating funds held by trustee - Funds held by the trustee are carried at fair value based on quoted market prices for those or similar investments.

Bonds payable - Fair value, as disclosed in Note 9, is the price that would be paid to transfer the liability in an orderly transaction between market participants.

Other receivables and payables - The carrying amount approximates fair value because of the short-term maturity of these instruments. The derivative financial instruments are valued at the net present value of future cash flows attributable to the difference between the contractual variable and fixed rates in the agreements.

The Foundation follows FASB's fair value measurements and disclosure guidance, which provides a framework for measuring fair value under generally accepted accounting principles. This guidance applies to all financial instruments that are being measured and reported on a fair value basis.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Fair value of financial instruments: (Continued)

As defined in the FASB issued guidance, fair value is 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 determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the assets or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for market transactions involving identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions.

Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Fair value of financial instruments: (Continued)

If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of these instruments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

For the fiscal years ended June 30, 2012 and 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers.

Reclassifications:

Certain reclassifications of prior year amounts have been made to conform with the current year presentation. These reclassifications had no effect on the Foundation's previously reported net assets or change in net assets during the period involved.

NOTE 2. CONCENTRATION OF CREDIT RISK

Cash is maintained at multiple financial institutions and, as a result, credit exposure to any one institution is limited. The Federal Deposit Insurance Corporation (FDIC) secures accounts in insured institutions up to $250,000 per depositor.

At times, the balance of the Foundation's accounts may exceed the federally insured limits. As of June 30, 2012 and 2011, the Foundation's uninsured cash balances totaled $13,914,465 and $10,017,768, respectively. The Foundation has not experienced any losses on its cash and believes it is not exposed to any significant credit risk on cash.

NOTE 3. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2012 and 2011 consisted of the following unconditional promises to give:

	2012	2011
Unrestricted pledges	$ 3,986	$ 7,375
Restricted pledges to future periods	1,525,263	1,146,744
Endowment pledges	546,186	694,798
Unconditional promises to give before discount and allowance for uncollectible pledges	2,075,435	1,848,917
Less unamortized discount	148,244	125,320
Subtotal	1,927,191	1,723,597
Less allowance for uncollectible pledges	26,823	29,167
	$ 1,900,368	$ 1,694,430
Amount due in:		
Less than one year	$ 1,010,253	$ 1,314,642
One to three years	980,590	477,850
More than three years	84,592	56,425
Total	$ 2,075,435	$ 1,848,917

Discount rate used was 5 percent as a risk-free interest rate.

During 2010, the Foundation received a conditional pledge whereby if the Foundation spends independently fundraised and matched funds for the agreed upon purpose to the donor's approval, the donor pledges to contribute not less than $1,000,000 by bequest at his death through his will. At June 30, 2012, the Foundation has not recorded this conditional contribution.

NOTE 4. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 4,013,732	$ -	$ -	$ 4,013,732
Government and agency securities	2,149,782	762,580	-	2,912,362
Corporate bonds	1,371,451	-	-	1,371,451
Equity securities:				
Large cap value	2,492,695	-	-	2,492,695
Large cap growth	2,535,415	-	-	2,535,415
Mid cap growth	1,235,112	-	-	1,235,112
Small cap	1,387,342	-	-	1,387,342
International equities	3,663	-	-	3,663
Total equity securities	7,654,227	-	-	7,654,227
Mutual funds:				
Bond funds	2,869,407	-	-	2,869,407
Equity funds	3,949,733	-	-	3,949,733
Commodities	1,416,508	-	-	1,416,508
Global balanced funds:		-	-	
Bond funds	641,939	-	-	641,939
Equity funds	4,162,616	-	-	4,162,616
Commodities	1,108,914	-	-	1,108,914
Total mutual funds	14,149,117	-	-	14,149,117
Total investments at fair value	$ 29,338,309	$ 762,580	$ -	$ 30,100,889

NOTE 4. INVESTMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy described in Note 1, the Foundation's investments at fair value as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 1,829,031	$ -	$ -	$ 1,829,031
Government and agency securities	2,214,462	640,773	-	2,855,235
Corporate bonds	1,342,444	-	-	1,342,444
Equity securities:				
Large cap value	2,447,562	-	-	2,447,562
Large cap core	2,273,376	-	-	2,273,376
Large cap growth	2,518,808	-	-	2,518,808
Mid cap growth	1,341,863	-	-	1,341,863
Small cap	1,354,074	-	-	1,354,074
International equities	3,748,710	-	-	3,748,710
Total equity securities	13,684,393	-	-	13,684,393
Mutual funds:				
Bond funds	2,927,666	-	-	2,927,666
Equity funds	1,613,964	-	-	1,613,964
Commodities	1,593,090	-	-	1,593,090
Global balanced funds:				
Bond funds	645,555	-	-	645,555
Equity funds	4,512,184	-	-	4,512,184
Commodities	1,020,243	-	-	1,020,243
Total mutual funds	12,312,702	-	-	12,312,702
Total investments at fair value	$ 31,383,032	$ 640,773	$ -	$ 32,023,805

All of the Foundation's investments are measured using Level 1 inputs (as described in Note 1) except asset-backed government and agency securities. The markets for those securities are less active, and their fair value is measured using third party pricing services for market transactions involving identical or similar securities; thus, they are measured using Level 2 inputs.

Investment expenses incurred totaled $152,275 and $159,194 for the years ended June 30, 2012 and 2011, respectively.

NOTE 5. INVESTMENT IN DIRECT FINANCING LEASES

The Foundation's leasing operations consist of leasing real estate to Kennesaw State University under direct financing-type leases expiring in various years through 2040.

Following is a summary of the components of the Foundation's net investment in direct financing-type leases at June 30, 2012 and 2011:

	2012	2011
Total minimum lease payments to be received	$ 328,348,837	$ 335,689,981
Less unearned income	155,630,933	173,035,803
Net investment	$ 172,717,904	$ 162,654,178

Minimum lease payments to be received as of June 30, 2012 for each of the next five years are:

June 30,	
2013	$ 14,354,044
2014	14,399,345
2015	14,489,588
2016	14,588,525
2017	14,703,852
Thereafter	255,813,483
	$ 328,348,837

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2012 and 2011, consists of the following:

	Life	2012	2011
Land	-	$ 4,693,897	$ 5,217,148
Construction in progress	-	21,745,534	6,440
Buildings and land improvements	10-39.5	139,256,127	141,675,193
Furniture, fixtures and equipment	5	7,983,423	7,687,929
Computer software	3	30,200	30,200
Tenant improvements	7	79,440	-
		173,788,621	154,616,910
Less accumulated depreciation		36,453,334	31,537,161
		$ 137,335,287	$ 123,079,749

NOTE 6. PROPERTY AND EQUIPMENT (Continued)

Property consists of student housing, University facilities, classroom and office space, athletic facilities, hospitality, dining facilities, and retail space.

The student housing is rented on a year to year basis with terms primarily beginning in August.

KSU Center, primarily a University facility, has three leases at June 30, 2012. The Foundation leases space to a related party, as well as a third party, on a year to year lease. The Foundation leases space to an additional third party which expires in August 2013.

Chastain Pointe, primarily an office park, has twenty two leases at June 30, 2012. The Foundation leases space to two related parties on various year to year leases. The Foundation leases space to nine third parties which expire at various times through 2018.

Town Point, primarily an office park, leases space to a related party on a year to year basis.

University Village contains some retail space leased to a third party on a year to year basis. The lease expires in 2018.

At June 30, 2012, future minimum lease payments receivable under the noncancelable KSU Center, Chastain Pointe, Town Point, and University Village operating leases described in the preceding paragraphs are due as follows:

Years ending June 30,		
2013	$	382,221
2014		290,561
2015		244,004
2016		200,733
2017		113,107
Thereafter		36,993
	$	1,267,619

NOTE 7. ASSETS LIMITED AS TO USE

The financing of the purchase of various facilities including student housing, parking decks and residential housing is subject to the terms of Trusts Indentures between the Development Authority of Cobb County and Trustees. Under the provisions of the Trust Indentures, Debt Service Reserve Funds will be used to pay principal of, premium, if any, and interest on the bonds if sufficient funds are on deposit with the Trustees on the date such payment is due. The Trust Indentures also provide for other funds, including the Repair and Replacement Funds and the Surplus Funds. Pursuant to the Agreements, the Borrower has agreed to deliver the gross revenues attributable to the project to the Trustees for deposit in the Revenue Funds, as applicable, from which the operating expenses of the project, debt service of the bonds, and other amounts will be paid.

Bond Funds were established to be used as sinking funds to pay the principal of, premium, if any, and interest on the bonds.

NOTE 7. ASSETS LIMITED AS TO USE (Continued)

If on any interest payment date there should be insufficient funds within an account in the bond funds to pay interest, principal or premium due on the respective series of bonds, there shall be transferred to the respective account in the bond funds from the related account in the debt service reserve funds such amounts as are necessary to pay the interest, principal, and premium due on the related series of bonds.

Project Funds were established to maintain bond proceeds which will be used to fund construction. At project completion, any excess in this fund can only be used to repay debt or for additional capital projects.

Capitalized Interest Funds were established to pay interest on the bonds until the account is depleted.

Special Reserve Funds were established under the provisions of the Trust Indentures and will be used to pay principal of, premium, if any, and interest on the bonds if sufficient funds are not on deposit with the Trustee on the date such payment is due.

A summary of the assets limited as to use held by the Trustee under the Trust Indenture as of June 30, 2012 and 2011 is as follows:

	2012	2011
Revenue Funds	$ 23,443	$ 709,981
Special Reserve Funds	914,596	900,943
Debt Service Funds	14,933,270	13,986,368
Surplus Funds	2,666,106	2,223,322
Bond Funds	15,073,996	12,627,313
Project Funds	5,104,388	9,791,947
R&R Funds	2,594,199	1,864,364
Capitalized Interest Funds	1,557,279	1,564,553
	$ 42,867,277	$ 43,668,791

NOTE 8. LINES OF CREDIT AND NOTES PAYABLE

During the year ended June 30, 2012, the Foundation entered into two unsecured term notes with a bank to re-finance a note that matured during the current year. The notes accrue interest at the 30 day LIBOR plus 2.5%, with interest payments due monthly. The notes mature June 2017 and January 2015, respectively, with the entire principal balances and remaining interest balances due upon maturity. The balances on the notes were $1,390,000 and $2,713,578, respectively, at June 30, 2012.

NOTE 8. LINES OF CREDIT AND NOTES PAYABLE (Continued)

During the year ended June 30, 2012, the Foundation entered into a term note with a bank to re-finance a note that matured during the current year. The note accrues interest at the 30 day LIBOR plus 2.5%, with interest payments due monthly. The note matures January 2015, with the entire principal balance and remaining interest balance due at that time. The note is collateralized by buildings and land. The balance on the note was $2,042,056 at June 30, 2012.

During the year ended June 30, 2012, the Foundation entered into an unsecured line of credit of $2,500,000, with a financial institution. The line of credit bears interest at the 30 day LIBOR plus 1.75% and matures February 2013. A 50 basis point fee is charged on the unused capacity. The line of credit balance was $- at June 30, 2012.

Scheduled maturities on lines of credit and notes payable are as follows:

Years ending June 30,		
2013	$	928,315
2014		928,315
2015		3,733,004
2016		278,000
2017		278,000
	$	6,145,634

NOTE 9. BONDS PAYABLE

Series 2008 KSU Center Bonds Payable:

During the year ended June 30, 2009, the Development Authority of Cobb County issued Educational Facility Revenue Refunding bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2008 bonds were issued to refund the KSU 1998 Series Bonds. The forward purchase agreement and swap agreement were terminated with the refunding.

The bonds were issued in the aggregate principal amount of $10,495,000. A portion of the Series 2008 bonds will mature each year, with the final maturity date on November 1, 2018, subject to mandatory and optional redemption provisions. The bonds bear interest, payable semiannually, at rates, set at issuance, ranging from 4.00% to 5.00%.

The terms of the bonds require the Foundation to set rates and charges for the University Facilities, such that the debt service coverage ratio, calculated at the end of each fiscal year, will not be less than 1.0.

NOTE 9. BONDS PAYABLE (Continued)

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Series 2008 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (November 1st)		2008 Bonds
2013	$	1,025,000
2014		1,070,000
2015		1,115,000
2016		1,165,000
2017		1,220,000
Thereafter		2,035,000
	$	7,630,000

Series 2004 Bonds Payable:

During the year ended June 30, 2005, the Development Authority of Cobb County issued revenue bonds and loaned the proceeds to Kennesaw State University Foundation. The Series 2004A, B, C, and D housing and facilities bonds were issued to finance the cost of construction of 132 beds of new student housing, a portion of the purchase and renovation of the property known as "Chastain Pointe," and refunding of the 2003A bond series, including payment of swap termination fees. The Series 2004 University Facilities Bonds were issued to finance a portion of the purchase and renovation of the property known as "Chastain Pointe" and refund $3,919,200 of the 2003B bond series, including payment of swap termination fees. The Series 2004 Parking Bonds were issued to finance or refinance certain parking facilities and refund a portion of the 2003A and 2003B bond series, including payment of swap termination fees. The obligations of the Foundation under the bond documents are nonrecourse obligations.

The bonds were issued in the aggregate principal amount of $155,060,000. The bonds consist of six series, the "Student Housing Senior Series 2004A" in the amount of $49,715,000, the "University Facilities Taxable Senior Series 2004B" in the amount of $8,050,000, the "Student Housing Subordinate Series 2004C" in the amount of $18,240,000, the "Student Housing Subordinate Series 2004D" in the amount of $34,275,000, the "Series 2004 University Facilities Lease Revenue Bonds" in the amount of $8,400,000, and the "Series 2004 Parking Bonds" in the amount of $36,380,000. The Series 2004A, 2004C, and 2004D bonds will mature on July 15, 2036, subject to mandatory and optional redemption provisions. The Series 2004B bonds will mature on July 15, 2014, subject to mandatory and optional redemption provisions. The Series 2004 University Facilities Bonds will mature on July 15, 2028, subject to mandatory and optional redemption provisions. The Series 2004 Parking Bonds will mature on July 15, 2029, subject to mandatory and optional redemption provisions. The bonds bear interest, payable semiannually on January 15th and July 15th, commencing January 15, 2005, at a fixed interest rate set at issuance. Interest will accrue at the fixed rate until converted to another fixed rate in accordance with the terms of the Indenture. The applicable interest rates ranged from 2.00% to 5.00%.

NOTE 9. BONDS PAYABLE (Continued)

The terms of the bonds require the Foundation to set rates and charges for the Housing and University Facilities (2004A, B, C and D bonds), such that the debt service coverage ratio, calculated at the end of each fiscal year will not be less than 2.25 with respect to senior indebtedness, 1.5 with respect to senior indebtedness plus subordinated indebtedness, and 1.2 with respect to senior indebtedness plus subordinated indebtedness plus junior subordinated indebtedness.

The terms of the 2004 Parking bonds require the Foundation to set rates and charges for the parking facilities to protect against failure to pay scheduled principal and interest payments when due and payable.

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Series 2004 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	2004A, C and D Bonds	2004B Bonds	2004 University Facilities Bonds
2013	$ 1,140,000	$ 960,000	$ 305,000
2014	1,180,000	1,000,000	315,000
2015	1,225,000	1,050,000	330,000
2016	2,375,000	-	340,000
2017	2,495,000	-	355,000
Thereafter	87,675,000	-	5,095,000
	$ 96,090,000	$ 3,010,000	$ 6,740,000

Redemption Date (July 15,)	2004 Parking Bonds	**Totals**
2013	$ 1,305,000	$ **3,710,000**
2014	1,340,000	**3,835,000**
2015	1,380,000	**3,985,000**
2016	1,425,000	**4,140,000**
2017	1,490,000	**4,340,000**
Thereafter	21,635,000	**114,405,000**
	$ 28,575,000	$ **134,415,000**

NOTE 9. BONDS PAYABLE (Continued)

Series 2006 Bonds Payable:

During the year ended June 30, 2007, the Development Authority of Cobb County issued revenue bonds and loaned the proceeds to Kennesaw State University Foundation. The Series 2006A and B bonds were issued to repay an interim loan incurred to finance the acquisition of an office building on approximately 6.3 acres, Town Point, the acquisition of approximately 7.2 acres of unimproved land for future development, to pay the cost of issuance of the 2006 bonds and to pay a portion of the premium for a surety bond. The bonds were issued in the aggregate principal amount of $15,055,000. The bonds consist of two series, the "Revenue Bonds 2006A" in the amount of $12,810,000, and the "Taxable Revenue Bonds 2006B" in the amount of $2,245,000. The Series 2006A, bonds will mature on July 15, 2031, subject to mandatory and optional redemption provisions. The Series 2006B bonds will mature on July 15, 2013, subject to mandatory and optional redemption provisions. The bonds bear interest, payable semiannually on January 15th and July 15th, commencing July 15, 2007, at a fixed interest rate set at issuance. Interest will accrue at the fixed rate until converted to another fixed rate in accordance with the terms of the Indenture. The applicable interest rates ranged from 4.00% to 5.34%.

The terms of the bonds require the Foundation to set rates and charges for the University Facilities, such that the debt service coverage ratio, calculated at the end of each fiscal year will not be less than 1.0 in each fiscal year while the rental agreements are in effect, 1.2 in each fiscal year while the rental agreements are not in effect.

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Series 2006 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Non-taxable 2006A Bonds	Taxable 2006B Bonds	**Totals**
2013	$ 55,000	$ 425,000	$ **480,000**
2014	475,000	-	**475,000**
2015	490,000	-	**490,000**
2016	510,000	-	**510,000**
2017	530,000	-	**530,000**
Thereafter	10,500,000	-	**10,500,000**
	$ 12,560,000	$ 425,000	$ **12,985,000**

NOTE 9. BONDS PAYABLE (Continued)

Series 2007 Parking Facilities Bonds Payable:

During the year ended June 30, 2008, the Development Authority of Cobb County issued revenue bonds and loaned the proceeds to Kennesaw State University Foundation. The Series 2007 parking facilities bonds were issued to finance the costs of acquisition, construction, and equipping of a parking deck containing approximately 2,500 parking spaces on land leased by KSU Central Parking Deck Real Estate Foundation, LLC, and to fund capitalized interest, debt service reserve, and pay a portion of the costs of issuance of the Series 2007 Parking Facilities Bonds.

The bonds were issued in the aggregate principal amount of $38,550,000. The Series 2007 parking facility bonds will mature on July 15, 2038, subject to mandatory and optional redemption provisions. The bonds bear interest, payable semiannually on January 15th and July 15th, at a fixed interest rate set at issuance. Interest will accrue at the fixed rate until converted to another fixed rate in accordance with the terms of the Indenture. The applicable interest rates ranged from 4.00% to 4.75%.

During 2009, $725,000 of the Series 2007 bonds referenced above meet the legal requirements for defeasance of the bond liability.

The terms of the bonds require the Foundation to set rates and charges for the parking facilities such that the debt service coverage ratio, calculated at the end of each fiscal year, will not be less than 1.0 in each fiscal year while the rental agreements are in effect.

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Series 2007 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Parking Facilities 2007 Bonds
2013	$ 740,000
2014	770,000
2015	800,000
2016	830,000
2017	865,000
Thereafter	31,770,000
	$ 35,775,000

NOTE 9. BONDS PAYABLE (Continued)

Series 2007 Student Housing Bonds Payable:

During the year ended June 30, 2008, the Development Authority of Cobb County issued student housing revenue bonds and loaned the proceeds to Kennesaw State University Foundation. The Series 2007A, B, and C bonds were issued to finance the acquisition, construction, renovation, furnishing and equipping of student housing to be located on the campus of Kennesaw State University on land leased by Village II Real Estate Foundation, LLC, funding a debt service reserve, funding capitalized interest on the Series 2007 bonds, and pay all or a portion of the costs of issuing the Series 2007 bonds.

The bonds were issued in the aggregate principal amount of $53,320,000. The Series 2007A, B and C, bonds will mature on July 15, 2038, subject to mandatory and optional redemption provisions. The bonds bear interest, payable semiannually on January 15th and July 15th, at a fixed interest rate set at issuance. Interest will accrue at the fixed rate until converted to another fixed rate in accordance with the terms of the Indenture. The applicable interest rates ranged from 3.50% to 5.25%.

The terms of the bonds require the Foundation to set rates and charges for the housing such that the debt service coverage ratio, calculated at the end of each fiscal year will not be less than 1.0 in each fiscal year while the supplemental agreements are in effect, and at the beginning of the fifth year, 1.2 in each fiscal year while the supplemental agreements are not in effect. If the Foundation is between 1.0 and 1.2 during the first five years of the supplemental agreement, the Foundation must make available with unrestricted cash or investments to suffice a 1.2 calculation. At June 30, 2012, the Foundation had available $302,227 of unrestricted cash and investments to suffice the 1.2 calculation. At June 30, 2011, the Foundation had available $514,735 of unrestricted cash and investments to suffice the 1.2 calculation.

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Series 2007 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Housing 2007A, B, and C Bonds
2013	$ 965,000
2014	1,005,000
2015	1,045,000
2016	1,085,000
2017	1,130,000
Thereafter	45,405,000
	$ 50,635,000

NOTE 9. BONDS PAYABLE (Continued)

Series 2008 Dining Hall Bonds Payable:

During the year ended June 30, 2009, the Development Authority of Cobb County issued Dining Hall Lease Revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2008 bonds were issued to finance the construction of the KSU Dining Hall facility project and to purchase additional University facilities.

The bonds were issued in the aggregate principal amount of $21,955,000. The Series 2008 bonds will mature on July 15, 2039, subject to mandatory and optional redemption provisions. The bonds bear interest, payable semiannually on January 15th and July 15th, at rates, set at issuance, ranging from 4.00% to 5.75%.

The terms of the bonds require the Foundation to set rates and charges for the Dining Hall, such that the debt service coverage ratio, calculated at the end of each fiscal year, will not be less than 1.0.

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Series 2008 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	2008 Bonds
2013	$ 365,000
2014	380,000
2015	395,000
2016	410,000
2017	430,000
Thereafter	19,510,000
	$ 21,490,000

Series 2010 Sports Stadium and Recreation Park Bonds Payable:

During the year ended June 30, 2011, the Development Authority of Cobb County issued Sports and Recreation Lease Revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2010A, B, and C facilities bonds were issued to finance the purchase of land, and the cost of construction for the sports stadium and recreation park.

The bonds were issued in the aggregate principal amount of $66,830,000. The bonds consist of three series, the "University Facilities Series 2010A" in the amount of $43,790,000, the "University Facilities Taxable Series 2010B" in the amount of $5,255,000, and the "Recovery Zone Facility Series 2010C" in the amount of $17,785,000. The Series 2010A and 2010C bonds will mature on July 15, 2040, subject to mandatory and optional redemption provisions. The Series 2010B bonds will mature on July 15, 2020, subject to mandatory and optional redemption provisions. The bonds bear interest, payable semiannually on January 15th and July 15th, at rates, set at issuance, ranging from 4.00% to 5.125%.

NOTE 9. BONDS PAYABLE (Continued)

The terms of the bonds require the Foundation to set rates and charges for the Sports and Recreation Park, such that the debt service coverage ratio, calculated at the end of each fiscal year will not be less than 1.0.

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Series 2010 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)		Facilities 2010A, B, and C Bonds
2013	$	210,000
2014		290,000
2015		350,000
2016		455,000
2017		575,000
Thereafter		64,950,000
	$	66,830,000

Series 2011 Student Housing Bonds Payable:

During the year ended June 30, 2012, the Development Authority of Cobb County issued revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2011 bonds were issued to finance the construction of the 2011 Housing project.

The bonds were issued in the aggregate principal amount of $30,215,000. The Series 2011 bonds will mature on July 15, 2041, subject to mandatory and optional redemption provisions. The bonds bear interest, payable semiannually on January 15th and July 15th, at rates, set at issuance, ranging from 3.00% to 5.00%.

The terms of the bonds require the Foundation to set rates and charges for the 2011 Housing project, such that the debt service coverage ratio, calculated at the end of each fiscal year, will not be less than 1.0.

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Series 2011 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)		2011 Bonds
2013	$	-
2014		-
2015		595,000
2016		610,000
2017		630,000
Thereafter		28,380,000
	$	30,215,000

NOTE 9. BONDS PAYABLE (Continued)

Summary:

A summary of the components of bonds payable at June 30, 2012 and 2011 is as follows:

	2012	2011
Series 2004 bonds payable	$ 134,415,000	$ 138,005,000
Series 2006 bonds payable	12,985,000	13,445,000
Series 2007 parking/housing bonds payable	86,410,000	88,050,000
Series 2008 bonds payable	29,120,000	30,455,000
Series 2010 bonds payable	66,830,000	66,830,000
Series 2011 bonds payable	30,215,000	-
Unamortized original issue premium, net	1,600,983	1,950,165
	$ 361,575,983	$ 338,735,165

Bond interest expense incurred totaled $15,217,100 and $15,050,136 for the years ended June 30, 2012 and 2011, respectively. Interest totaling $1,868,413 and $1,013,338 was capitalized during the years ended June 30, 2012 and 2011, respectively.

The fair value of the bonds at June 30, 2012 and 2011 was $401,354,114 and $333,698,183, respectively.

NOTE 10. SPLIT-INTEREST AGREEMENTS

During 2002, the Foundation received a charitable gift of stock in exchange for the Foundation's promise to pay a fixed amount for a specified period of time to the donor. The stock received is included in investments at a fair value of $389,908 and $437,871 at June 30, 2012 and 2011, respectively. The annuity obligation is $123,824 and $128,616 at June 30, 2012 and 2011, respectively. The present value of the annuity liability was calculated using a 5.6% discount rate.

NOTE 11. LEASE COMMITMENTS

The Foundation entered into four ground leases in August 2001 with the Board of Regents of the University System of Georgia for the purpose of erecting, operating, and maintaining a student housing facility (University Place), two parking decks, and an expansion of one parking deck. The primary term of the student housing facility ground lease is thirty years and the primary term of the three parking deck leases is twenty-five years. The Foundation agreed to pay the Board of Regents of the University System of Georgia the sum of one dollar per year in advance upon execution of three of the leases. The Foundation agreed to pay the Board of Regents of the University System of Georgia the sum of $197,600 per year for the North Deck ground lease.

The Foundation entered into a ground lease in October 2003 with the Board of Regents of the University System of Georgia for the purpose of erecting, operating, and maintaining a student housing facility (University Village). The primary term of the student housing facility ground lease was twenty five years. The Foundation entered into an amendment agreement in June 2010 with the Board of Regents of the University System of Georgia to extend the lease maturity terms of the original lease by an additional five years and eight months, extending the lease life to over thirty years. In the amendment agreement, the Foundation agreed to pay the lessor the sum of twenty thousand dollars per year.

The Foundation entered into a ground lease in October of 2007 with the Board of Regents of the University System of Georgia for the purposes of erecting, operating and maintaining student housing. The term of the lease is thirty years. The Foundation agreed to pay the lessor the sum of ten dollars per year in advance upon execution of the lease.

The Foundation entered into a ground lease in November of 2007 with the Board of Regents of the University System of Georgia for the purpose of erecting, operating and maintaining a parking deck (Central Parking Deck). The term of the lease is thirty years. The Foundation agreed to pay the lessor the sum of ten dollars per year in advance upon execution of the lease.

The Foundation entered into a ground lease in November of 2008 with the Board of Regents of the University System of Georgia for the purpose of erecting, operating and maintaining a dining hall. The term of the lease is thirty years. The Foundation agreed to pay the lessor the sum of ten dollars per year in advance upon execution of the lease.

Title to the improvements vest with the Lessee until the end of the primary term, unless sooner terminated pursuant to the terms of the lease. The Foundation agreed to convey right, title, and interests and surrender possession of the premises and improvements at the expiration of the primary term or such date of earlier termination pursuant to the provisions of the lease.

NOTE 11. LEASE COMMITMENTS (Continued)

At June 30, 2012, future minimum lease payments payable under the noncancelable operating leases described in the preceding paragraphs are due as follows:

Years ending June 30,	Totals
2013	$ 217,600
2014	217,600
2015	217,600
2016	217,600
2017	217,600
Thereafter	2,751,200
	$ 3,839,200

NOTE 12. DEFERRED COMPENSATION PLAN

The Foundation has non-qualified deferred compensation arrangements whereby an obligation has been recorded, and the majority of the funds were set aside for future payout under these arrangements. At June 30, 2012 and 2011, the obligation was $738,884 and $699,000, respectively, and recorded in accrued expenses on the statements of financial position.

NOTE 13. MANAGEMENT AGREEMENT

On June 30, 2004, the Foundation entered into a management agreement with a third party for the management of Chastain Pointe. The agreement provides for the payment of 3% of gross monthly collections. The Foundation has an accounts payable balance of $3,017 and $4,169 related to this management fee at June 30, 2012 and 2011. Management fee expense related to this agreement amounted to $41,715 and $60,461 at June 30, 2012 and 2011, respectively.

On December 20, 2005, the Foundation entered into a management agreement with a third party for the management of Town Point. The agreement provides for a monthly payment of $3,578. Management fee expense related to this agreement amounted to $42,936 for both the years ended June 30, 2012 and June 30, 2011.

On November 5, 2008, the Foundation entered into a management agreement with a third party for the management of the Best Western hotel purchased by a wholly owned subsidiary. The agreement provides for a monthly payment of 5% of the hotel's gross monthly revenues plus $500 for monthly financial statement reporting. Management fee expense related to this agreement amounted to $52,034 and $49,537 for the years ended June 30, 2012 and 2011, respectively.

NOTE 14. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets available for University support consist of the following at June 30:

	2012	2011
Departmental use		
Cash	$ 5,023,129	$ 3,815,026
Unconditional promises to give	1,387,888	1,062,614
Accounts receivable – related party	122,018	-
Investments	2,546,677	4,472,659
Accounts payable and accrued expenses	(698,354)	(401,216)
Gift annuity payable	(123,824)	(128,616)
	$ 8,257,534	$ 8,820,467

Permanently restricted net assets which earnings are used for University support consist of the following at June 30:

	2012	2011
Perpetuity and income restrictions		
Cash	$ 8,555	$ 47,423
Unconditional promises to give	512,480	628,528
Investments	22,430,666	22,201,608
Donated art	841,000	841,000
Loan for under water endowments	696,507	400,940
Accounts payable and accrued expenses	-	(23,572)
	$ 24,489,208	$ 24,095,927

NOTE 15. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2012 and 2011 by incurring expenses satisfying the restricted purposes specified by donors as follows:

Purpose restrictions accomplished:

	2012	2011
Scholarships and awards	$ 889,922	$ 1,049,949
Athletic programs	207,837	250,731
Academic programs	1,722,822	6,565,265
Special events and programs	88,814	314,784
Other	1,472,976	1,044,871
	$ 4,382,371	$ 9,225,600

NOTE 16. ENDOWMENT

Interpretation of Relevant Law

In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, the Board of Trustees of the Foundation, as authorized by the UPMIFA, has relied upon the actions, reports, information, advice, and counsel taken or provided by its duly constituted committees and the duly appointed officers of the Foundation and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor directions to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the Foundation classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified for accounting and financial statement purposes in accordance with requirements of the Financial Accounting Standards Board and the law.

Funds with Deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $696,507 and $400,940 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the historic dollar value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of benchmark indexes of similar assets classes while assuming a moderate level of investment risk. The following are benchmark indexes: Russell 1000, Russell Mid Cap Growth, Russell 2000, BC Gov/Credit-Int, CG Wld Gov Bond, MSCI EAFE, MSCI Emerging Mkts, DJ Global Moderate Portfolio, GS Commity, and NAREIT. The Foundation expects its endowment funds, over a full market cycle (5 to 7 years), to provide an average rate of return of approximately 8.2 percent annually. Actual returns in any given year may vary from this amount.

NOTE 16. ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. At June 30, 2012 and 2011, the target assets allocations were as follows:

Global Balanced	20%
Large Cap Domestic Equity	24%
Mid Cap Domestic Growth Equity	4%
Small Cap Domestic	4%
Domestic Bonds	20%
Foreign Bonds	5%
International Equity	13%
Emerging Markets	5%
Commodities	5%
	100%

Spending Policy and How the Investment Objectives Related to Spending Policy

The Foundation had an endowment spending policy for the years ending June 30, 2012 and 2011 appropriating for distribution 1% to 4% calculated based on a sliding scale from of its endowment fund's fair value as of the calendar year-end of proceeding fiscal year in which the distribution is planned. The sliding scale was based on the balance of each endowment in relation to the corpus balance of each endowment. In addition, an appropriation and distribution of temporarily restricted scholarship funds totaling no more than $35,500 and $62,000 for the years ending June 30, 2012 and 2011, respectively, was approved to augment the distribution of the endowed scholarships. The Foundation's Board of Trustees review spending policies annually and approve distributions they deem to be prudent.

The Endowment Net Asset Composition by type of Fund as of June 30, 2012 is as follows:

Endowment Net Asset Composition by Type of Fund as of June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (696,507)	$ 1,360,598	$ 24,489,208	$ 25,153,299
Board-designated endowment funds	4,687,547	-	-	4,687,547
Total funds	$ 3,991,040	$ 1,360,598	$ 24,489,208	$ 29,840,846

NOTE 16. ENDOWMENT (Continued)

The Changes in Endowment Net Assets for the year ended June 30, 2012 are:

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 4,512,852	$ 2,857,461	$ 24,095,927	$ 31,466,240
Investment return:				
Investment income	120,015	612,630	-	732,645
Realized and unrealized gains (losses) below the permanent corpus	(295,566)	295,566	-	-
Net depreciation (realized and unrealized)	(227,893)	(1,176,182)	-	(1,404,075)
Total investment return	(403,444)	(267,986)	-	(671,430)
Contributions	-	12,908	487,211	500,119
Appropriation of endowment assets for expenditure	(212,298)	(1,241,785)	-	(1,454,083)
Net asset reclassification due to change in donor intent	93,930		(93,930)	-
Endowment net assets, end of year	$ 3,991,040	$ 1,360,598	$ 24,489,208	$ 29,840,846

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

	2012
Permanently Restricted Net Assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by UPMIFA	$ 24,489,208
Total endowment funds classified as permanently restricted net assets	$ 24,489,208
Temporarily Restricted Net Assets	
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	$ -
With purpose restrictions	1,360,598
Total endowment funds classified as temporarily restricted net assets	$ 1,360,598

NOTE 16. ENDOWMENT (Continued)

The Endowment Net Asset Composition by type of Fund as of June 30, 2011 is as follows:

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (400,940)	$ 2,857,461	$ 24,095,927	$ 26,552,448
Board-designated endowment funds	4,913,792	-	-	4,913,792
Total funds	$ 4,512,852	$ 2,857,461	$ 24,095,927	$ 31,466,240

The Changes in Endowment Net Assets for the year ended June 30, 2011 are:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,687,680	$ 640,694	$ 22,927,511	$ 26,256,885
Investment return:				
Investment income	118,347	582,148	-	700,495
Realized and unrealized gains below the permanent corpus	1,055,728	-	-	1,055,728
Net appreciation (realized and unrealized)	751,294	2,625,096	-	3,376,390
Total investment return	1,925,369	3,207,244	-	5,132,613
Contributions	-	3,000	1,168,416	1,171,416
Appropriation of endowment assets for expenditure	(100,197)	(993,477)	-	(1,093,674)
Endowment net assets, end of year	$ 4,512,852	$ 2,857,461	$ 24,095,927	$ 31,466,240

NOTE 16. ENDOWMENT (Continued)

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

	2011
Permanently Restricted Net Assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by UPMIFA	$ 24,095,927
Total endowment funds classified as permanently restricted net assets	$ 24,095,927
Temporarily Restricted Net Assets	
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	$ -
With purpose restrictions	2,857,461
Total endowment funds classified as temporarily restricted net assets	$ 2,857,461

NOTE 17. RELATED PARTY TRANSACTIONS

The Foundation has entered into an agreement with Kennesaw State University to manage the parking decks that are leased to the University.

The Foundation leases surface parking to the University. The Foundation has a receivable from the University of $158,060 at June 30, 2012 and 2011, respectively.

The Foundation has a receivable from the University for utility expenses in the amount of $4,761 and $20,052 at June 30, 2012 and 2011, respectively.

The Foundation has a receivable from the University for insurance premiums paid in the amount of $237,029 at June 30, 2012.

The Foundation has a note receivable from KSU Athletics in the amount of $75,000 at June 30, 2012, and a receivable for expenses paid on their behalf in the amount of $57,898 at June 30, 2011.

NOTE 17. RELATED PARTY TRANSACTIONS (Continued)

The Foundation has a $32,500 receivable-related party from Edge Connections at June 30, 2012 and 2011.

The Foundation has a receivable-related party from the University Research Foundation of $42,059 and $55,000 at year end June 30, 2012 and 2011, respectively.

The Foundation has $609,200 and $606,570 of surplus distributions included in the statement of activities in other university support, all of which is included in accounts payable – related party at June 30 2012 and 2011, respectively.

The Foundation has a payable to the University of $28,533 and $15,326, which consists of resident housing fees withheld at student housing application, for the years ending June 30 2012 and 2011, respectively.

The Foundation has outstanding balances due to the University of $1,214,189 and $395,001 at June 30, 2012 and 2011, respectively.

The Foundation acts as an agent on behalf of Kennesaw State University. The Foundation invests amounts previously gifted to the University on their behalf. At June 30, 2012 and 2011, the total balance recorded as an agency fund asset and liability is $378,481 and $409,971, respectively.

NOTE 18. LEGAL SETTLEMENT

During 2011, the Foundation was awarded a legal settlement of $3,683,155 in relation to a lawsuit that was filed in 2009 for construction defects in one of its constructed projects. The Foundation has included the legal settlement in non-operating income on the statement of activities for the year ended June 30, 2011.

NOTE 19. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events occurring through September 11, 2012, the date on which the financial statements were available to be issued.

On August 1, 2012, the Foundation entered into a services agreement with the Board of Regents of the University System of Georgia on behalf of Kennesaw State University for the purposes of operating and maintaining student housing. The original lease term, ending June 30, 2013, will automatically renew on an annual basis unless either party notifies the other of its desire to terminate the lease. The Foundation will set rates and charges for the housing project such that the debt service coverage ratio calculated at the end of each fiscal year will not be less than 1.0.