KENNESAW STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2018

KENNESAW STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of **Kennesaw State University Foundation, Inc.** (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated financial statements.

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

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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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Atlanta, Georgia
August 31, 2018

KENNESAW STATE UNIVERSITY
FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
Cash	**$ 17,918,782**	$ 21,866,638
Unconditional promises to give, net	**9,394,723**	4,846,966
Rents receivable, net of allowance accounts 2018 $183,800; 2017 $69,540	**170,756**	158,088
Accounts receivable - other	**129,703**	15,488
Accounts receivable - related party	**346,542**	349,255
Prepaid expenses	**217,638**	215,906
Other assets	**8,700**	9,458
Investments	**63,185,446**	51,155,950
Net investments in direct financing leases	**229,012,891**	236,293,075
Donated art	**553,650**	553,650
Property and equipment, net	**86,660,243**	93,390,199
Assets limited as to use	**53,669,323**	49,890,104
Total assets	**$ 461,268,397**	$ 458,744,777
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	**$ 837,251**	$ 1,149,650
Accounts payable - related party	**1,599,219**	1,874,127
Security deposits payable	**29,678**	36,469
Accrued expenses	**735,422**	1,519,506
Accrued interest	**7,901,099**	7,800,583
Bonds payable, net	**375,096,063**	384,333,171
Annuity obligation	**91,723**	126,136
Deferred revenue	**1,068,340**	1,288,440
Total liabilities	**387,358,795**	398,128,082
Net assets		
Unrestricted	**11,163,357**	7,099,094
Temporarily restricted	**23,557,184**	17,129,008
Permanently restricted	**39,189,061**	36,388,593
Total net assets	**73,909,602**	60,616,695
Total liabilities and net assets	**$ 461,268,397**	$ 458,744,777

See Notes to Consolidated Financial Statements.

KENNESAW STATE UNIVERSITY
FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions and special events	$ 108,562	$ 8,081,276	$ 2,479,300	$ 10,669,138
Investment income	969,345	863,073	-	1,832,418
Net realized and unrealized gain (loss) on investments	(182,187)	2,188,085	-	2,005,898
Donated services	90,091	-	-	90,091
Management fee income	518,047	-	-	518,047
Loss on extinguishment of bond debt	(4,795,955)	-	-	(4,795,955)
Change in value of split interest agreements	-	16,980	-	16,980
Leasing income	44,447,576	-	-	44,447,576
Total revenues	41,155,479	11,149,414	2,479,300	54,784,193
Net assets released from restrictions:				
Satisfaction of program restrictions	4,410,723	(4,410,723)	-	-
Total revenues and other support	45,566,202	6,738,691	2,479,300	54,784,193
EXPENSES				
Program services:				
Scholarships & awards	1,717,943	-	-	1,717,943
Academic programs and dean support	1,646,471	-	-	1,646,471
Other university support	1,200,104	-	-	1,200,104
Housing support	1,568,600	-	-	1,568,600
Special events & programs	964,640	-	-	964,640
Community support	-	-	-	-
Campus facilities:				
Rental operations	13,019,283	-	-	13,019,283
Depreciation	5,117,855	-	-	5,117,855
Debt service	14,203,670	-	-	14,203,670
Total campus facilities	32,340,808	-	-	32,340,808
Total program services	39,438,566	-	-	39,438,566
Supporting services:				
Management and general	1,849,602	-	-	1,849,602
Fundraising	203,118	-	-	203,118
Total supporting services	2,052,720	-	-	2,052,720
Total expenses and losses	41,491,286	-	-	41,491,286
Excess of assets acquired over liabilities assumed in acquisition of The Polytechnic Foundation, Inc.	-	-	-	-
CHANGE IN NET ASSETS	4,074,916	6,738,691	2,479,300	13,292,907
NET ASSETS, BEGINNING	7,099,094	17,129,008	36,388,593	60,616,695
CHANGE IN DONOR INTENT	(10,653)	(310,515)	321,168	-
NET ASSETS, ENDING	$ 11,163,357	$ 23,557,184	$ 39,189,061	$ 73,909,602

See Notes to Consolidated Financial Statements.

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 124,538	$ 3,094,384	$ 940,155	$ 4,159,077
668,165	668,410	-	1,336,575
(38,543)	2,653,763	-	2,615,220
93,125	-	-	93,125
532,957	-	-	532,957
(3,324,141)	-	-	(3,324,141)
-	(98,457)	-	(98,457)
41,124,292	-	-	41,124,292
39,180,393	6,318,100	940,155	46,438,648
4,917,541	(4,917,541)	-	-
44,097,934	1,400,559	940,155	46,438,648
1,264,427	-	-	1,264,427
1,492,823	-	-	1,492,823
842,588	-	-	842,588
1,847,825	-	-	1,847,825
1,508,478	-	-	1,508,478
1,092,752	-	-	1,092,752
13,155,406	-	-	13,155,406
5,114,391	-	-	5,114,391
15,401,201	-	-	15,401,201
33,670,998	-	-	33,670,998
41,719,891	-	-	41,719,891
2,492,440	-	-	2,492,440
126,883	-	-	126,883
2,619,323	-	-	2,619,323
44,339,214	-	-	44,339,214
3,140,701	2,938,979	3,868,932	9,948,612
2,899,421	4,339,538	4,809,087	12,048,046
4,327,853	10,931,290	33,309,506	48,568,649
(128,180)	1,858,180	(1,730,000)	-
$ 7,099,094	$ 17,129,008	$ 36,388,593	$ 60,616,695

KENNESAW STATE UNIVERSITY
FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 13,292,907**	$ 12,048,046
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Gain on acquisition of net assets of nonprofit organization	**-**	(9,948,612)
Depreciation expense	**5,117,855**	5,114,391
Amortization expense	**1,514,881**	1,565,336
Amortization of bond premiums and original issue discount	**(2,070,455)**	(1,562,104)
Contributions restricted for long-term investment	**(2,479,300)**	(940,155)
Transfer of donated art to University	**-**	1,343,061
Transfer of property and equipment to University	**238,023**	2,935,038
Net realized and unrealized (gain) on investments	**(2,005,898)**	(2,615,220)
(Increase) decrease in:		
Unconditional promises to give	**(4,547,757)**	(354,646)
Accounts receivable - related party	**2,713**	426,806
Notes receivable - related party	**-**	18,750
Other receivables	**(126,883)**	24,573
Prepaid expenses	**(1,732)**	42,078
Other assets	**758**	1,572
Increase (decrease) in:		
Accounts payable	**(312,399)**	179,303
Accounts payable - related party	**(274,908)**	(493,073)
Security deposits payable	**(6,791)**	(62,522)
Accrued expenses	**(784,084)**	38,620
Accrued interest	**100,516**	(857,689)
Annuity obligation	**(34,413)**	78,307
Deferred revenue	**(220,100)**	416,048
Net cash provided by operating activities	**7,402,933**	7,397,908
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal received on net investments in direct financing leases	**8,983,854**	7,717,993
Purchase of property and equipment	**(329,592)**	(1,446,341)
Net purchase of investments	**(10,023,598)**	2,446,653
Net cash received in acquisition of nonprofit organization	**-**	1,013,990
Net cash (used in) provided by investing activities	**(1,369,336)**	9,732,295

See Notes to Consolidated Financial Statements.

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in endowment	**2,479,300**	940,155
Proceeds from bond issuance	**47,421,969**	50,330,132
Bond redemption	**(55,340,000)**	(63,765,000)
Debt issuance costs	**(763,503)**	(777,740)
Net change in funds held by Trustee	**(3,779,219)**	3,363,740
Net cash (used in) financing activities	**(9,981,453)**	(9,908,713)
Net (decrease) increase in cash	**(3,947,856)**	7,221,490
Cash at beginning of year	**21,866,638**	14,645,148
Cash at end of year	**$ 17,918,782**	$ 21,866,638
SUPPLEMENTAL DATA FOR INVESTING AND FINANCING ACTIVITIES		
Interest paid (excluding capitalized interest)	**$ 16,139,405**	$ 17,241,925
Building removed from investment in direct financing lease	**$ 238,023**	$ 1,502,224
Building converted from operating lease to direct financing lease	**$ 1,941,693**	$ -
ACQUISITION OF NONPROFIT ORGANIZATION		
Net assets acquired (liabilities assumed)		
Pledges receivable, net	**$ -**	$ 148,617
Accounts receivable - related party	**-**	225,427
Investments	**-**	5,907,902
Restricted assets	**-**	4,466,000
Property and equipment	**-**	1,105,780
Net investment in direct financing leases	**-**	21,954,445
Accounts payable	**-**	(732,494)
Accrued interest payable	**-**	(235,973)
Liability of annuity obligation	**-**	(4,053)
Bonds payable, net	**-**	(23,901,029)
	-	8,934,622
Net cash received from acquired nonprofit organization	**-**	1,013,990
	$ -	$ 9,948,612

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, 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 (Austin Residence Complex Phase I), 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 (Austin Residence Complex Phase II, or “ARC II”), KSUF Housing Management, LLC, Kennesaw Hospitality, LLC (Kennesaw Inn), Kennesaw State Properties, LLC, KSU SRAC Real Estate Foundation, LLC (Student Recreation and Activities Center), 3305 Busbee Real Estate Foundation, LLC, KSU Marietta-Hudson Road Real Estate Foundation, LLC, KSU Cobb Parkway Real Estate Foundation, LLC, SPSU Student Housing I, LLC, and KSU Special Events, LLC. Intercompany accounts and all significant intercompany transactions have been eliminated.

Acquisition:

On April 1, 2017, the Foundation acquired net assets of The Polytechnic Foundation of KSU, Inc., f/k/a Southern Polytechnic State University Foundation, Inc. a similar nonprofit organization. The Polytechnic Foundation, Inc. had three wholly-owned subsidiaries, SPSU Student Housing I, LLC, SPSU Real Estate, LLC, and SPSU Hudson Road Real Estate, LLC.

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.

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

Significant accounting policies: (Continued)

Contributions: (Continued)

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.

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 $31,871 and $98,810 for the years ended June 30, 2018 and 2017, respectively.

Split-interest agreements:

The Foundation is the beneficiary of two annuities. 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.

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

Significant accounting policies: (Continued)

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.

Change in donor intent:

During the year ended June 30, 2018, the Foundation obtained a change in donor intent regarding contributions previously recorded totaling $321,168, resulting in transfers from temporarily restricted net assets to permanently restricted net assets in the amount of $310,515, and from unrestricted net assets to permanently restricted net assets in the amount of $10,653.

During the year ended June 30, 2017 the Foundation obtained a change in donor intent regarding contributions previously recorded totaling $1,858,180, resulting in transfers from permanently restricted net assets to temporarily restricted net assets in the amount of $1,730,000, and from unrestricted net assets to temporarily restricted net assets in the amount of $128,180.

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 rents paid by the University on behalf of the Foundation, is reflected under supporting services as management and general expense in the accompanying consolidated statement of activities. Donated services totaled $90,091 and $93,125 for the years ended June 30, 2018 and 2017, 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.

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

Significant accounting policies: (Continued)

Equipment under direct-financing:

The Foundation leases real estate to the University. 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.

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 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.

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 asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique.

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

Significant accounting policies: (Continued)

Fair value of financial instruments: (Continued)

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.

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, 2018 and 2017, 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.

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

Significant accounting policies: (Continued)

Income tax status:

The Foundation qualified as a tax-exempt organization as described in Internal Revenue Code Section 501(c)(3) and has been classified by the Internal Revenue Service as a publicly supported organization and not as a private foundation. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation follows the statutory requirements for its income tax accounting and generally avoids risks associated with potentially problematic tax positions that may be challenged upon examination. Management believes any liability resulting from taxing authorities imposing additional income taxes from activities deemed to be unrelated to the Foundation's tax-exempt status would not have a material effect on the Foundation's financial statements.

The Foundation files Form 990 in the U.S. federal jurisdiction and the State of Georgia.

The Foundation received income which is considered unrelated business income subject to federal and state income taxes. At June 30, 2018, the Foundation had net operating loss carryforwards of $339,569 available to offset future taxable income and expiring at various dates from 2033 – 2034.

New accounting pronouncements:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2019. The Foundation is assessing the impact the new guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities will require adoption of multiple changes to the non-profit reporting framework, presentation of net assets using two new classes, changes to the requirements of the statement of cash flows and enhanced disclosures around designations, liquidity, and functional expenses, among other requirements. The Organization is assessing the impact of the new standard on its financial statements.

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, 2018 and 2017, the Foundation's uninsured cash balances totaled $21,454,562 and $24,611,140, 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, 2018 and 2017 consisted of the following unconditional promises to give:

	2018	2017
Unrestricted pledges	**$ 4,750**	$ 101,531
Restricted pledges to future periods	**6,725,527**	2,302,301
Endowment pledges	**4,046,192**	3,430,585
Unconditional promises to give before discount and allowance for uncollectible pledges	**10,776,469**	5,834,417
Less unamortized discount	**1,195,084**	817,294
Subtotal	**9,581,385**	5,017,123
Less allowance for uncollectible pledges	**186,662**	170,157
	$ 9,394,723	$ 4,846,966
Amount due in:		
Less than one year	**$ 3,623,341**	$ 1,739,027
One to three years	**5,919,140**	2,395,390
More than three years	**1,233,988**	1,700,000
Total	**$ 10,776,469**	$ 5,834,417

For the years ending June 30, 2018 and 2017, the discount rate used was 5 percent.

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, 2018:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 3,864,128	$ -	$ -	$ 3,864,128
Government and agency securities	12,095,903	-	-	12,095,903
Corporate bonds	13,920,429	-	-	13,920,429
High yield bonds	551,158	-	-	551,158
Equity securities:				
Large cap value	2,247,738	-	-	2,247,738
Large cap growth	7,415,314	-	-	7,415,314
Mid cap	5,320,882	-	-	5,320,882
Small cap	3,674,990	-	-	3,674,990
International equities	4,531,978	-	-	4,531,978
Total equity securities	23,190,902	-	-	23,190,902
Mutual funds:				
Bond funds	1,055,322	-	-	1,055,322
Emerging markets	2,994,851	-	-	2,994,851
Specific strategy	3,851,534	-	-	3,851,534
Commodities	1,661,219	-	-	1,661,219
Total mutual funds	9,562,926	-	-	9,562,926
Total investments at fair value	$ 63,185,446	$ -	$ -	$ 63,185,446

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, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 2,594,868	$ -	$ -	$ 2,594,868
Government and agency securities	13,558,563	-	-	13,558,563
Corporate bonds	3,030,453	-	-	3,030,453
High yield bonds	544,219	-	-	544,219
Equity securities:				
Large cap value	1,916,094	-	-	1,916,094
Large cap growth	5,076,480	-	-	5,076,480
Mid cap	4,250,594	-	-	4,250,594
Small cap	3,308,672	-	-	3,308,672
International equities	3,655,710	-	-	3,655,710
Multi-strategy equity funds	-	3,567,504	-	3,567,504
Total equity securities	18,207,550	3,567,504	-	21,775,054
Mutual funds:				
Bond funds	983,900	-	-	983,900
Emerging markets	2,483,116	-	-	2,483,116
Specific strategy	2,965,747	-	-	2,965,747
Commodities	1,388,484	-	-	1,388,484
Multi-strategy bond funds	-	1,831,546	-	1,831,546
Total mutual funds	7,821,247	1,831,546	-	9,652,793
Total investments at fair value	$ 45,756,900	$ 5,399,050	$ -	$ 51,155,950

Investment expenses incurred totaled $132,962 and $113,481 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5. INVESTMENTS IN DIRECT-FINANCING LEASES

The Foundation's leasing operations consist of leasing real estate to the University under direct-financing type leases expiring in various years through 2042.

During the year ended June 30, 2018, the Foundation removed a building with a value of $238,023 from investments in direct financing leases. The Foundation gifted the building to the University.

During the year ended June 30, 2017, the Foundation removed a building with a value of $1,502,224 from investments in direct financing leases. The Foundation gifted the building to the University.

Following is a summary of the components of the Foundation's net investment in direct-financing type leases at June 30, 2018 and 2017:

	2018	2017
Total minimum lease payments to be received	**$ 367,986,351**	$ 383,631,605
Less unearned income	**138,973,460**	147,338,530
Net investment	**$ 229,012,891**	$ 236,293,075

Net minimum lease payments to be received as of June 30, 2018 are:

June 30,	
2019	$ 8,047,248
2020	8,443,685
2021	9,437,839
2022	9,904,890
2023	10,401,997
Thereafter	182,777,232
	$ 229,012,891

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 and 2017, consists of the following:

	Life	2018	2017
Land	-	$ 5,303,920	$ 5,709,677
Land improvements	-	122,425	75,603
Buildings and improvements	10-39.5	135,695,500	138,665,219
Furniture, fixtures and equipment	5	12,028,986	11,745,926
Computer software	3	82,581	82,581
		153,233,412	156,279,006
Less accumulated depreciation		66,573,169	62,888,807
		$ 86,660,243	$ 93,390,199

Property consists of student housing, University facilities, land held for future University development, classroom and office space, athletic facilities, hospitality facilities, 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, 2018. The Foundation leases space to a related party, as well as a third party, on a year to year lease.

Effective July 1, 2017, the Foundation entered into a master lease agreement for the entire Chastain Pointe property with the Board of Regents.

At June 30, 2018, future minimum lease payments receivable under the noncancelable KSU Center operating leases described in the preceding paragraphs are due as follows:

Years ending June 30,	
2019	$ 10,971

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 Trust 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 insufficient 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.

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.

A summary of the assets limited as to use held by the Trustee under the Trust Indenture as of June 30, 2018 and 2017 is as follows:

	2018	2017
Revenue Funds	**$ 610,981**	$ 1,912
Debt Service Funds	**16,609,575**	16,499,192
Surplus Funds	**4,988,682**	5,527,018
Bond Funds	**18,792,892**	17,959,180
Project Funds	**302,680**	753,122
R&R Funds	**12,364,513**	9,149,680
	$ 53,669,323	$ 49,890,104

NOTE 8. LINE OF CREDIT AND NOTES PAYABLE

During the year ended June 30, 2015, the Foundation elected to use its temporarily restricted funds to pay down a note with a bank. At the same time, the Foundation entered into an agreement with a bank to open a reducing revolver note for the purpose of maintaining liquidity after the prepayment of the existing term debt. The note bears interest at the 30 day LIBOR rate plus 2.25%. The note is unsecured and the revolving commitment will be reduced quarterly, based on a 32 month amortization schedule. The note bears unused commitment fees of .75% payable quarterly in arrears. The total commitment amount on this unsecured note is $1,350,000. At June 30, 2017, the revolving note did not have an outstanding balance. The note matured on October 27, 2017 and was not renewed by the Foundation.

During the year ended June 30, 2015, the Foundation elected to use its temporarily restricted funds to pay down a note with a bank. At the same time, the Foundation entered into another agreement with a bank to open a reducing revolver note for the purpose of maintaining liquidity after the prepayment of the existing term debt. The note bears interest at the 30 day LIBOR rate plus 2.10%. The note is secured by buildings and land, and the revolving commitment will be reduced quarterly, based on a 330 month amortization schedule. The note bears unused commitment fees of .75% payable quarterly in arrears. The total commitment amount on this secured note is $1,900,000. At June 30, 2017 the revolving note did not have an outstanding balance. The note matured on October 27, 2017 and was not renewed by the Foundation.

During the year ended June 30, 2015, the Foundation renewed an unsecured line of credit of $2,500,000. The line of credit bears interest at the 30 day LIBOR plus 1.75% and matured February 2016. During the year ended June 30, 2016, the Foundation renewed the unsecured line of credit under the same terms. The line of credit matured in February 2017 and the Foundation chose not to renew due to its current liquidity.

NOTE 9. BONDS PAYABLE

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 the year ended June 30, 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 lease the related facilities to the Board of Regents through year to year rental agreements that have multi-year renewal options, in amounts 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.

During the year ended June 30, 2017, the remaining $31,770,000 of the 2007 Revenue Bonds met the legal requirements for defeasance of the bond liability due to the issuance of the 2017 Series Bond. The partial defeasance resulted in a loss on extinguishment of debt of $1,314,165 that is included on the consolidated statement of activities for the year ending June 30, 2017. Therefore, neither the escrow cash nor the bonds payable for the above mentioned Series 2007 portion are included on the consolidated statement of financial position at June 30, 2017.

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.

NOTE 9. BONDS PAYABLE (Continued)

Series 2008 KSU Center Bonds Payable:

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 lease the related facilities to the Board of Regents through year to year rental agreements that have multi-year renewal options, in amounts 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 2008 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	2008 Bonds
2019	$ 755,000
	$ 755,000

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 lease the related facilities to the Board of Regents through year to year rental agreements that have multi-year renewal options, in amounts 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.

During the year ended June 30, 2017, $19,510,000 of the 2008 Revenue Bonds met the legal requirements for defeasance of the bond liability due to the issuance of the 2017 Series Bond. The defeasance resulted in a loss on extinguishment of debt of $2,009,976 that is included on the consolidated statement of activities for the year ending June 30, 2017. Therefore, neither the escrow cash nor the bonds payable for the above mentioned Series 2008 portion are included on the consolidated statement of financial position at June 30, 2017.

NOTE 9. BONDS PAYABLE (Continued)

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%.

The terms of the bonds require the Foundation to lease the related facilities to the Board of Regents through year to year rental agreements that have multi-year renewal options, in amounts 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.

During the year ended June 30, 2018, $43,560,000 of the University Facilities Series 2010A bonds met the legal requirements for defeasance of the bond liability due to the issuance of the 2017 Series Refunding Bonds. The partial defeasance resulted in a loss on extinguishment of debt of $4,795,955 that is included on the consolidated statement of activities for the year ending June 30, 2018. Therefore, neither the escrow cash nor the bonds payable for the above mentioned Series 2010A portion are included on the consolidated statement of financial position at June 30, 2018.

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 2010B and C Bonds
2019	$ 865,000
2020	1,025,000
2021	1,265,000
2022	420,000
2023	475,000
Thereafter	16,625,000
	$ 20,675,000

NOTE 9. BONDS PAYABLE (Continued)

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 lease the related facilities to the Board of Regents through year to year rental agreements that have multi-year renewal options, in amounts 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 2011 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	2011 Bonds
2019	$ 670,000
2020	690,000
2021	725,000
2022	760,000
2023	800,000
Thereafter	24,085,000
	$ 27,730,000

NOTE 9. BONDS PAYABLE (Continued)

Series 2013 Student Recreation and Activities Center Bonds Payable:

During the year ended June 30, 2013, the Development Authority of Cobb County issued revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2013 bonds were issued to finance the construction of the 2013 Student Recreation and Activities Center project.

The bonds were issued in the aggregate principal amount of $43,290,000. The Series 2013 bonds will mature on July 15, 2042, 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 lease the related facilities to the Board of Regents through year to year rental agreements that have multi-year renewal options, in amounts 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 2013 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	2013 Bonds
2019	$ 1,030,000
2020	1,060,000
2021	1,095,000
2022	1,135,000
2023	1,180,000
Thereafter	35,820,000
	$ 41,320,000

Series 2013 Student Housing Refunding Bonds Payable:

During the year ended June 30, 2014, the Development Authority of Cobb County issued Student Housing Refunding Revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2013A and B bonds were issued to refund $6,285,000 of the 2004A Student Housing Senior Series and $27,205,000 of the 2004C Student Housing Subordinate Series.

The bonds were issued in the aggregate principal amount of $36,195,000. The bonds consist of two series, the “Student Housing Senior Series 2013A” in the amount of $28,935,000 and the “Student Housing Subordinate Series 2013B” in the amount of $7,260,000. The Series 2013A will mature on July 15, 2036, subject to mandatory and optional redemption provisions. The Series 2013B will mature on July 15, 2026, subject to mandatory and optional redemption provisions.

NOTE 9. BONDS PAYABLE (Continued)

The bonds bear interest, payable semiannually on January 15th and July 15th, at rates set at issuance ranging from 2.00% to 5.25%.

The terms of the bonds require the Foundation to 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 1.2.

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Housing Series 2013 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Housing 2013A and B Bonds
2019	$ 2,010,000
2020	2,090,000
2021	2,175,000
2022	2,275,000
2023	2,380,000
Thereafter	19,510,000
	$ 30,440,000

Series 2013 Housing Refunding Bonds Payable:

During the year ended June 30, 2013, the Development Authority of the City of Marietta issued Student Housing Facilities Refunding Revenue bonds and loaned the proceeds to the SPSU Student Housing I, LLC, a subsidiary of the Foundation. The Series 2013 bonds were issued to refund the SPSU 2003 Series bonds. The refund met the legal requirements for defeasance of the bond liability. The Foundation acquired these bonds during 2017 as a result of the acquisition of The Polytechnic Foundation disclosed in Note 18.

The bonds were issued in the aggregate principal amount of $27,130,000. The bonds consist of one series in the amount of $27,130,000. The Series 2013, will mature on July 15, 2029, subject to mandatory and optional redemption provisions.

The bonds bear interest, payable semiannually on June 15th and December 15th, at rates set at issuance ranging from 2.00% 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 2013 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (June 15,)	2013 Student Housing Refunding
2019	$ 1,620,000
2020	1,685,000
2021	1,750,000
2022	1,790,000
2023	1,840,000
Thereafter	11,055,000
	$ 19,740,000

Series 2014 Student Housing Refunding Bonds Payable:

During the year ended June 30, 2015, the Development Authority of Cobb County issued Student Housing Refunding Revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2014A, B and C bonds were issued to refund $21,455,000 of the 2004A Student Housing Senior Series, $9,005,000 of the 2004C Student Housing Subordinate Series, and $16,035,000 of the 2004D Student Housing Subordinate Series.

The bonds were issued in the aggregate principal amount of $46,540,000. The bonds consist of three series, the “Student Housing Senior Series 2014A” in the amount of $21,520,000, the “Student Housing Subordinate Series 2014B” in the amount of $9,220,000 and the “Student Housing Junior Subordinate Series 2014C” in the amount of $15,820,000. The Series 2014A will mature on July 15, 2036, subject to mandatory and optional redemption provisions. The Series 2014B will mature on July 15, 2036, subject to mandatory and optional redemption provisions. The Series 2014C will mature on July 15, 2036, subject to mandatory and option 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 Housing project, such that the debt service coverage ratio, calculated at the end of each fiscal year, will not be less than 1.2.

NOTE 9. BONDS PAYABLE (Continued)

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Housing Series 2014 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Housing 2014A, B and C Bonds
2019	$ 810,000
2020	855,000
2021	895,000
2022	940,000
2023	985,000
Thereafter	39,770,000
	$ 44,255,000

Series 2015 Student Housing Refunding Bonds Payable:

During the year ended June 30, 2015, the Development Authority of Cobb County issued Student Housing Refunding Revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2015A, B, and C bonds were issued under the 2004 Master Trust Indenture to refund $12,560,000 of the 2004D Student Housing Subordinate Series, $25,250,000 of the 2007A Student Housing Senior Series, $7,510,000 of the 2007B Student Housing Subordinate Series, and $14,860,000 of the 2007C Student Housing Junior Subordinate Series.

The bonds were issued in the aggregate principal amount of $59,790,000. The bonds consist of three series, the “Student Housing Senior Series 2015A” in the amount of $24,465,000, the “Student Housing Subordinate Series 2015B” in the amount of $8,145,000 and the “Student Housing Junior Subordinate Series 2015C” in the amount of $27,180,000. The Series 2015A, B and C 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 rates set at issuance ranging from 2.00% to 5.00%.

The terms of the bonds require the Foundation to 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 1.2.

NOTE 9. BONDS PAYABLE (Continued)

The Foundation shall exercise its option under the Loan Agreement and Indenture to have the Housing Series 2015 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Housing 2015A, B and C Bonds
2019	$ 1,270,000
2020	1,325,000
2021	1,390,000
2022	1,450,000
2023	1,520,000
Thereafter	50,330,000
	$ 57,285,000

Series 2015 Parking and University Facilities Revenue Bonds Payable:

During the year ended June 30, 2016, the Development Authority of Cobb County issued Parking and University Facilities Revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2015 bonds were issued to refund $23,125,000 of the 2004 Parking Series, $5,450,000 of the 2004 Facilities Series, and $11,030,000 of the 2006A Facilities Series.

The bonds were issued in the aggregate principal amount of $37,285,000. The bonds consist of one series in the amount of $37,285,000. The Series 2015 will mature on July 15, 2030, 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 Parking and Facilities project, 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 Parking and Facilities 2015 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Parking and Facilities 2015
2019	$ 2,430,000
2020	2,525,000
2021	2,640,000
2022	2,770,000
2023	2,900,000
Thereafter	19,185,000
	$ 32,450,000

Series 2017 Parking and Dining Hall Refunding Lease Revenue Bonds Payable:

During the year ended June 30, 2017, the Development Authority of Cobb County issued the Parking and Dining Hall Refunding Lease Revenue bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2017 bonds were issued to refund $31,770,000 of the 2007 Parking Series and $19,510,000 of the 2008 Dining Hall Series.

The bonds were issued in the aggregate principal amount of $46,085,000. The bonds consist of one series in the amount of $46,085,000. The Series 2017 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 2.00% to 5.00%.

The terms of the bonds require the Foundation to set rates and charges for the Parking and Dining Hall project, 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 Parking and Dining Hall 2017 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Parking and Dining Hall 2017
2019	$ 1,255,000
2020	1,320,000
2021	1,385,000
2022	1,455,000
2023	1,890,000
Thereafter	38,470,000
	$ 45,775,000

<u>Series 2017 Sports and Recreation Park Lease Revenue Refunding Bonds Payable:</u>

During the year ended June 30, 2018, the Development Authority of Cobb County issued the Sports and Recreation Park Lease Revenue Refunding bonds and loaned the proceeds to the Kennesaw State University Foundation. The Series 2017 bonds were issued to refund $43,560,000 of the University Facilities 2010A Series.

The bonds were issued in the aggregate principal amount of $42,580,000. The bonds consist of one series in the amount of $42,580,000. The Series 2017 will mature on July 15, 2040, 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 3.25% to 5.00%.

The terms of the bonds require the Foundation to set rates and charges for the Sports and Recreation Park project, 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 Sports and Recreation Park 2017 bonds redeemed in the principal amounts set forth in the following table:

Redemption Date (July 15,)	Sports and Recreation 2017
2019	$ -
2020	-
2021	-
2022	1,470,000
2023	1,505,000
Thereafter	39,605,000
	$ 42,580,000

Summary:

A summary of the components of bonds payable at June 30, 2018 and 2017 is as follows:

	2018	2017
Series 2008 bonds payable	**$ 755,000**	$ 2,035,000
Series 2010 bonds payable	**20,675,000**	64,950,000
Series 2011 bonds payable	**27,730,000**	28,380,000
Series 2013 bonds payable	**91,500,000**	95,985,000
Series 2014 bonds payable	**44,255,000**	45,030,000
Series 2015 bonds payable	**89,735,000**	93,300,000
Series 2017 bonds payable	**88,355,000**	46,085,000
Unamortized original issue premium, net	**17,689,584**	14,918,069
Unamortized bond issue costs, net	**(5,598,521)**	(6,349,898)
	$ 375,096,063	$ 384,333,171

Bond interest expense incurred totaled $14,057,609 and $15,286,950 for the years ended June 30, 2018 and 2017, respectively.

The fair value of the bonds at June 30, 2018 and 2017 was $402,287,826 and $419,836,214, 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. During 2017, the Foundation acquired a second split-interest agreement as a result of the acquisition of The Polytechnic Foundation disclosed in Note 18. The gifts received are included in investments at a fair value of $316,502 and $330,332 at June 30, 2018 and 2017, respectively. The annuity obligations are $91,723 and $126,136 at June 30, 2018 and 2017, respectively. The present value of the annuity liabilities were calculated using a 3.4% 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 (Austin Residence Complex Phase I), 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 $20,000 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.

NOTE 11. LEASE COMMITMENTS (Continued)

The Foundation entered into a ground lease in August of 2011 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 March of 2013 with the Board of Regents of the University System of Georgia for the purpose of erecting, operating and maintaining a student recreation activity center. 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.

At June 30, 2018, future minimum lease payments payable under the noncancelable operating leases described in the preceding paragraphs are due as follows:

Years ending June 30,	Totals
2019	$ 217,600
2020	217,600
2021	217,600
2022	217,600
2023	217,600
Thereafter	1,445,600
	$ 2,533,600

NOTE 12. DEFERRED COMPENSATION PLAN

The Foundation has non-qualified deferred compensation arrangements whereby an obligation has been recorded. At June 30, 2018 and 2017, the obligation was $75,000 and recorded in accrued expenses on the consolidated statements of financial position.

NOTE 13. MANAGEMENT AGREEMENT

On February 28, 2014, the Foundation entered into a management agreement with a third party for the management of Chastain Pointe. The agreement provides for a monthly payment of $3,000. Management fee expense related to this agreement amounted to $36,000 at June 30, 2018 and 2017.

NOTE 13. MANAGEMENT AGREEMENT (Continued)

In December 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 $3,908. Management fee expense related to this agreement amounted to $46,896 for the years ended June 30, 2018 and 2017.

In November, 2016, the Foundation entered into a management agreement with a third party to manage the property. The agreement provides for a monthly payment of 3.5% of the hotel's gross monthly revenues (with a minimum $3,500) plus $500 for monthly financial statement reporting. Management fee expense related to these agreements amounted to $50,017 and $69,925 for the years ended June 30, 2018 and 2017, respectively.

NOTE 14. RESTRICTIONS ON NET ASSETS

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

	2018	2017
Departmental use		
Cash	**$ 9,431,430**	$ 7,058,341
Unconditional promises to give	**5,986,002**	1,959,286
Accounts receivable	**-**	17,292
Due from unrestricted fund	**-**	1,304,740
Investments	**8,568,853**	7,081,253
Accounts payable and accrued expenses	**(19,486)**	(5,455)
Accounts payable – related party	**(317,892)**	(160,313)
Gift annuity payable	**(91,723)**	(126,136)
	$ 23,557,184	$ 17,129,008

NOTE 14. RESTRICTIONS ON NET ASSETS (Continued)

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

	2018	2017
Perpetuity and income restrictions		
Cash	**$ 43,792**	$ 392,002
Unconditional promises to give	**3,405,349**	2,823,631
Investments	**35,668,546**	33,049,268
Loan for under water endowments	**71,374**	123,692
	$ 39,189,061	$ 36,388,593

NOTE 15. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2018 and 2017 by incurring expenses satisfying the restricted purposes specified by donors as follows:

Purpose restrictions accomplished:

	2018	2017
Scholarships and awards	**$ 1,598,215**	$ 1,204,927
Academic programs	**1,563,110**	898,908
Special events and programs	**506,121**	1,140,345
Other university support	**743,277**	580,609
Community support	**-**	1,092,752
	$ 4,410,723	$ 4,917,541

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.

NOTE 16. ENDOWMENT (Continued)

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 $70,774 and $123,092 as of June 30, 2018 and 2017, 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 Top 200 Index, Russell Mid Cap Index, Russell 2000 Index, MSCI EAFE Index (Net), MSCI Emerging Markets Index (Net), Barclays Aggregate Bond Index, Barclays Global High Yield Index, Citigroup WGBI ex USD, FTSE NAREIT all REIT Index and Dow Jones Commodity Index. The Foundation's target rate of the return 6.75% annually. Actual returns in any given year may vary from this amount.

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.

NOTE 16. ENDOWMENT (Continued)

At June 30, 2018 and 2017, the target assets allocations were as follows:

	2018	2017
Large Cap Domestic Equity	**21%**	21%
Mid Cap Domestic Growth Equity	**10%**	10%
Small Cap Domestic	**5%**	5%
Domestic Bonds	**24%**	24%
Foreign Bonds	**3%**	3%
High Yield Bonds	**4%**	4%
International Equity	**10%**	10%
Emerging Markets	**7%**	7%
Commodities	**6%**	6%
Real Estate	**5%**	5%
Specific Strategy	**5%**	5%
	100%	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, 2018 and 2017 appropriating for distribution 0% to 3.25%, calculated based on a sliding scale of its endowment fund's fair value as of the calendar year-end of preceding 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. The Foundation's Board of Trustees review spending policies annually and approve distributions they deem to be prudent. Subsequent to year end, the Foundation increased its spending policy to 4%.

The Endowment Net Asset Composition by type of Fund as of June 30, 2018 is as follows:

	Endowment Net Asset Composition by Type of Fund as of June 30, 2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	**$ (71,374)**	**$ 8,740,457**	**$ 35,783,710**	**$ 44,452,793**
Total funds	**$ (71,374)**	**$ 8,740,457**	**$ 35,783,710**	**$ 44,452,793**

NOTE 16. ENDOWMENT (Continued)

The Changes in Endowment Net Assets for the year ended June 30, 2018 are:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (123,692)	$ 7,110,462	$ 33,564,962	$ 40,551,732
Investment return:				
Investment income	-	856,432	-	856,432
Realized and unrealized gains (losses) below the permanent corpus	52,318	(52,318)	-	-
Net appreciation (realized and unrealized)	-	2,221,300	-	2,221,300
Total investment return	52,318	3,025,414	-	3,077,732
Contributions	-	51,459	1,897,580	1,949,039
Appropriation of endowment assets for expenditure	-	(1,458,003)	-	(1,458,003)
Net asset reclassification due to change in donor intent	-	11,125	321,168	332,293
Endowment net assets, end of year	$ (71,374)	$ 8,740,457	$ 35,783,710	$ 44,452,793

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

	2018
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	$ 35,783,710
Total endowment funds classified as permanently restricted net assets	$ 35,783,710
Temporarily Restricted Net Assets	
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	$ -
With purpose restrictions	8,740,457
Total endowment funds classified as temporarily restricted net assets	$ 8,740,457

NOTE 16. ENDOWMENT (Continued)

The Endowment Net Asset Composition by type of Fund as of June 30, 2017 is as follows:

	Endowment Net Asset Composition by Type of Fund as of June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (123,692)	$ 7,110,462	$ 33,564,962	$ 40,551,732
Total funds	$ (123,692)	$ 7,110,462	$ 33,564,962	$ 40,551,732

The Changes in Endowment Net Assets for the year ended June 30, 2017 are:

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (238,319)	$ 3,571,568	$ 29,731,512	$ 33,064,761
Investment return:				
Investment income	-	662,328	-	662,328
Realized and unrealized gains (losses) below the permanent corpus	114,627	(114,627)	-	-
Net appreciation (realized and unrealized)	-	2,743,566	-	2,743,566
Total investment return	114,627	3,291,267	-	3,405,894
Contributions	-	64,223	853,517	917,740
Acquired assets	-	1,513,322	3,868,933	5,382,255
Appropriation of endowment assets for expenditure	-	(1,204,044)	-	(1,204,044)
Net asset reclassification due to change in donor intent	-	(125,874)	(889,000)	(1,014,874)
Endowment net assets, end of year	$ (123,692)	$ 7,110,462	$ 33,564,962	$ 40,551,732

NOTE 16. ENDOWMENT (Continued)

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

	2017
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	$ 33,564,962
Total endowment funds classified as permanently restricted net assets	$ 33,564,962
Temporarily Restricted Net Assets	
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	$ -
With purpose restrictions	7,110,462
Total endowment funds classified as temporarily restricted net assets	$ 7,110,462

NOTE 17. RELATED PARTY TRANSACTIONS

The Foundation entered into an operating agreement with the University to manage its Austin Residential Complex Phase II. Total fees paid to the Foundation under this agreement were $172,990 and $186,554 for the years ended June 30, 2018 and 2017, respectively.

The Foundation entered into an agreement with the University to manage its Sports Park. Total fees paid to the Foundation under this agreement was $186,996 and $187,693 for June 30, 2018 and 2017, respectively. The Foundation also has a sublease agreement with the University for its use of the Sports Park. Total fees paid to the University under this agreement were $186,996 and $187,693 for June 30, 2018 and 2017, respectively.

Amounts included in accounts payable related party due to the KSU Alumni Association were $ - and $16,086 at June 30, 2018 and 2017, respectively.

The Foundation has an accrued payable to a related party of $16,845 and $241,405 at June 30, 2018 and 2017, respectively, in accordance with a separation agreement.

NOTE 17. RELATED PARTY TRANSACTIONS (Continued)

The Foundation has $980,000 of expense reimbursement for housing included in the consolidated statement of activities in other university support as of June 30, 2018 and 2017.

The Foundation acts as an agent on behalf of Kennesaw State University and invests amounts previously gifted to the University. At June 30, 2017, the total balance recorded as an agency fund asset and liability is $418,772. During the year ended June 30, 2017, these funds were returned to the University.

At June 30, 2018 and 2017, amounts due from the University are as follows:

	2018	2017
ARC II Initiative	**$ 83,325**	$ 83,325
ARC II Operations	**127,231**	55,523
Utility Expense North Deck	**1,794**	5,776
Sports Park Events	**65,736**	16,723
Insurance Reimbursements	**23,331**	33,972
Operating Accounts Receivable	**16,237**	17,292
Marietta Housing Operations	**28,888**	136,644
	$ 346,542	$ 349,255

At June 30, 2018 and 2017, amounts due to the University are as follows:

	2018	2017
Housing MOU	**$ 980,000**	$ 980,000
Resident Housing Fee Payable	**10,450**	9,300
Operating Accounts Payable	**418,636**	285,059
Allocation of payroll to Housing	**161,433**	267,192
Scholarships payable	**28,700**	-
	$ 1,599,219	$ 1,541,551

NOTE 18. ACQUISITION OF THE POLYTECHNIC FOUNDATION, INC.

As described in Note 1, on April 1, 2017, the Foundation acquired the net assets of The Polytechnic Foundation, Inc. (“TPF”). No consideration was exchanged in the transaction. Under FASB’s guidance for not-for-profit mergers and acquisitions, the transaction qualified as an acquisition of TPF by the Foundation. Therefore, the fair values of the assets acquired and the liabilities assumed were recorded as of April 1, 2017 and the excess of assets over liabilities of $9,948,612 was recorded as non-operating revenue on the statement of activities.

NOTE 19. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events occurring through August 31, 2018, the date on which the financial statements were available to be issued.