

GEORGIA STATE UNIVERSITY

Financial Report

For the Year Ended
June 30, 2007

Georgia State University

Atlanta, Georgia

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GEORGIA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FY 2007

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GEORGIA STATE UNIVERSITY

Management's Discussion and Analysis

Introduction

Georgia State University is one of the 35 institutions of higher education of the University System of Georgia. The University, located in Atlanta, Georgia, was founded in 1913. The University offers baccalaureate, masters and doctoral degrees in a wide variety of subjects. This wide range of educational opportunities attracts a highly qualified faculty and a student body of more than 25,000 students each year. The comparison numbers follow:

	<u>Faculty</u>	<u>Students (Headcount)</u>	<u>Students (FTE)</u>
FY2007	864	26,135	22,748
FY2006	934	25,967	22,635
FY2005	1,055	27,261	23,242

Overview of the Financial Statements and Financial Analysis

Georgia State University is proud to present its financial statements for fiscal year 2007. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year. Comparative data is provided for FY 2007 and FY 2006.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Georgia State University. The Statement of Net Assets presents end-of-year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities). The difference between current and non-current assets will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors.

Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major

categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Statement of Net Assets, Condensed

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Assets:		
Current Assets	\$163,413,445	\$135,410,372
Capital Assets, net	328,827,899	317,722,929
Other Assets	6,518,372	6,664,256
Total Assets	<u>498,759,716</u>	<u>459,797,557</u>
Liabilities:		
Current Liabilities	52,840,699	47,036,085
Noncurrent Liabilities	45,547,700	43,763,091
Total Liabilities	<u>98,388,399</u>	<u>90,799,176</u>
Net Assets:		
Invested in Capital Assets, net of debt	284,921,124	275,556,140
Restricted - nonexpendable	49,957	45,959
Restricted - expendable	10,976,247	16,596,237
Capital Projects	1,763,282	598,193
Unrestricted	102,660,707	76,201,852
Total Net Assets	<u><u>\$400,371,317</u></u>	<u><u>\$368,998,381</u></u>

The total assets of the institution increased by \$38,962,159. A review of the Statement of Net Assets will reveal that the increase was primarily due to an increase of \$11,104,970 in the category of Capital Assets, net. The balance of the increase is mainly in cash and cash equivalents and receivable categories.

The total liabilities for the year increased by \$7,589,223. The combination of the increase in total assets of \$38,962,159 and the increase in total liabilities of \$7,589,223 yields an increase in total net assets of \$31,372,936. The increase in total net assets is primarily in the category of Unrestricted Net Assets in the amount of \$26,458,855.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution. Generally speaking operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. For example state appropriations are non-operating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses and Changes in Net Assets, Condensed

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating Revenues	\$237,916,539	\$229,787,148
Operating Expenses	425,057,948	430,023,087
Operating Loss	(187,141,409)	(200,235,939)
Nonoperating Revenues and Expenses	210,827,321	203,118,200
Income (Loss) Before other revenues, expenses, gains or losses	23,685,912	2,882,261
Other revenues, expenses, gains or losses	7,687,024	25,120,269
Increase in Net Assets	31,372,936	28,002,530
Net Assets at beginning of year, as originally reported	368,998,381	340,995,851
Prior Year Adjustments		
Net Assets at beginning of year, restated	368,998,381	340,995,851
Net Assets at End of Year	<u>\$400,371,317</u>	<u>\$368,998,381</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

Revenue by Source
For the Years Ended June 30, 2007 and June 30, 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating Revenue		
Tuition and Fees	\$111,233,207	\$117,012,954
Grants and Contracts	76,812,343	73,223,811
Sales and Services	13,632,930	6,011,417
Auxiliary	32,312,724	29,968,560
Other	3,925,335	3,570,406
Total Operating Revenue	<u>237,916,539</u>	<u>229,787,148</u>
Nonoperating Revenue		
State Appropriations	200,710,980	194,839,880
Grants and Contracts	6,736,565	5,881,413
Gifts	79,187	154,487
Investment Income	7,468,797	5,267,441
Other	(1,052,420)	(119,658)
Total Nonoperating Revenue	<u>213,943,109</u>	<u>206,023,563</u>
Capital Gifts and Grants		
State	7,530,520	11,379,003
Other Capital Gifts and Grants	156,504	13,741,266
Total Capital Gifts and Grants	<u>7,687,024</u>	<u>25,120,269</u>
Total Revenues	<u>\$459,546,672</u>	<u>\$460,930,980</u>

Expenses (By Functional Classification)
For the Years Ended June 30, 2007 and June 30, 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating Expenses		
Instruction	\$147,644,503	\$142,183,784
Research	64,411,421	65,664,011
Public Service	22,132,658	22,760,795
Academic Support	47,576,942	47,247,251
Student Services	22,525,634	22,896,039
Institutional Support	45,898,767	41,779,918
Plant Operations and Maintenance	34,325,981	38,199,853
Scholarships and Fellowships	14,537,933	25,501,289
Auxiliary Enterprises	26,004,109	23,790,147
Total Operating Expenses	<u>425,057,948</u>	<u>430,023,087</u>
Nonoperating Expenses		
Interest Expense (Capital Assets)	3,115,788	2,905,363
Total Expenses	<u>\$428,173,736</u>	<u>\$432,928,450</u>

Operating revenues increased by \$8,129,391 in fiscal 2007 primarily due to an increase in Sales and Services.

Nonoperating revenues and expenses increased by \$7,709,121 for the year primarily due to an increase of \$5,871,100 in State Appropriations.

The compensation and employee benefits category increased by \$8,347,430 and primarily affected the Instruction, Academic Support and Public Service categories.

Utilities decreased by (\$504,128) during the past year.

In fiscal 2007, a change was made to the reporting of scholarships and waivers. See Note 1, Scholarship Allowances for further detail.

Statement of Cash Flows

The final statement presented by Georgia State University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Cash Flows for the Years Ended June 30, 2007 and 2006, Condensed

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash Provided (used) By:		
Operating Activities	(\$172,295,428)	(\$177,052,109)
Non-capital Financing Activities	209,811,643	203,349,677
Capital and Related Financing Activities	(29,214,867)	(19,104,889)
Investing Activities	7,464,241	5,267,413
Net Change in Cash	<u>15,765,589</u>	<u>12,460,092</u>
Cash, Beginning of Year	<u>118,991,853</u>	<u>106,531,761</u>
Cash, End of Year	<u><u>\$134,757,442</u></u>	<u><u>\$118,991,853</u></u>

Capital Assets

There were no major changes in capital funding in 2007. In fiscal year 2006, the State Legislature approved funding for the Science Teaching Laboratory Building, and this remains the University's top capital priority. The 213,000 gross square foot building is projected to cost

a total of \$77 million. The University will receive State funding of \$40.2 million and the remainder is to be funded through non-state sources. Additionally, the Board of Regents, in Spring 2005, added our proposal for a 330,000 square foot Humanities Building to its Major Capital Funding List. Of the total \$77.5 million estimated cost to construct the building, the University has requested \$57.5 million, and the remainder is to be funded through non-state sources. The only new item of funding the University received in Fiscal Year 2007 was a minor capital project of approximately \$4.8 million to renovate the roof and the exhaust stacks on the Natural Science Center Building.

For additional information concerning Capital Assets, see Notes 1, 6, 8, and 9 in the notes to the financial statements.

Long Term Debt and Liabilities

Georgia State University had Long-Term Debt and Liabilities of \$54,873,199 of which \$9,325,499 was reflected as current liability at June 30, 2007.

For additional information concerning Long-Term Debt and Liabilities, see notes 1 and 8 in the Notes to the Financial Statements.

Component Units

In compliance with GASB Statement No. 39, Georgia State University has included the financial statements and notes for all required component units for FY2007. The Georgia State University Foundation, Inc. had endowment and other investments of \$130.7 million, bonds payable of \$250.7 million and long term capital leases of \$9.7 million as of June 30, 2007. The Georgia State University Research Foundation, Inc. had endowment and other investments of \$4.5 million and no long-term debt. Details are available in Note 1, Summary of Significant Accounting Policies and Note 16, Component Units.

Economic Outlook

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. The University's overall financial position is strong. The University anticipates the current fiscal year will be much like last and will maintain a close watch over resources to maintain the University's ability to react to unknown internal and external issues.

Carl V. Patton, President
Georgia State University

Statement of Net Assets

**GEORGIA STATE UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2007**

		Component Unit	Component Unit
	Georgia State University	Georgia State University Foundation, Inc.	Georgia State University Research Foundation, Inc.
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$133,851,699	\$24,537,320	\$5,937,628
Accounts Receivable, net (note 3)			
Receivables - Federal Financial Assistance	4,458,105		
Receivables - Other	16,035,009	167,083	5,860,843
Due From Component Units	5,095,568		
Pledges Receivable		6,306,977	
Due From Primary Government			73,912
Inventories (note 4)	146,718		
Prepaid items	3,826,346	114,883	4,236,085
Total Current Assets	<u>163,413,445</u>	<u>31,126,263</u>	<u>16,108,468</u>
Noncurrent Assets			
Noncurrent Cash	905,743	44,002,266	2,004,631
Investments (including Real Estate)	52,030	130,677,338	4,463,141
Notes Receivable, net	5,560,599		
Pledges Receivable		3,161,452	
Capital Assets, net (note 6)	328,827,899	223,631,470	5,024,806
Other Assets		7,446,113	
Total Noncurrent Assets	<u>335,346,271</u>	<u>408,918,639</u>	<u>11,492,578</u>
TO TAL ASSETS	<u>498,759,716</u>	<u>440,044,902</u>	<u>27,601,046</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	7,441,578	20,442,215	26,098
Salaries Payable	551,933		
Contracts Payable	1,265,073		
Deposits	692,515		
Deferred Revenue (note 7)	30,018,094		4,236,085
Other Liabilities	254,993		
Deposits Held for Other Organizations	3,217,102		
Due to Primary Government			5,095,568
Lease Purchase Obligations (current portion)	2,970,766	722,430	
Compensated Absences (current portion)	6,354,733		
Revenue/Mortgage Bonds Payable (current)		1,615,000	
Due to Component Units	73,912		
Total Current Liabilities	<u>52,840,699</u>	<u>22,779,645</u>	<u>9,357,751</u>
Noncurrent Liabilities			
Lease Purchase Obligations (noncurrent)	40,936,009	9,000,026	
Deferred Revenue (noncurrent)		837,532	
Compensated Absences (noncurrent)	4,611,691	33,520	
Revenue/Mortgage Bonds Payable (noncurrent)		249,059,710	
Liabilities under Split-Interest Agreements (noncurrent)		260,992	
Other Long-Term Liabilities		5,812,394	
Due to Component Units		773,294	
Total Noncurrent Liabilities	<u>45,547,700</u>	<u>265,777,468</u>	<u>0</u>
TO TAL LIABILITIES	<u>98,388,399</u>	<u>288,557,113</u>	<u>9,357,751</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	284,921,124	6,183,126	5,024,806
Restricted for			
Nonexpendable	49,957	78,702,404	2,000,000
Expendable	10,976,247	49,443,877	982,649
Capital Projects	1,763,282		
Unrestricted	102,660,707	17,158,382	10,235,840
TO TAL NET ASSETS	<u>\$400,371,317</u>	<u>\$151,487,789</u>	<u>\$18,243,295</u>

Statement of Revenues, Expenses and Changes in Net Assets

**GEORGIA STATE UNIVERSITY
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS
for the Year Ended June 30, 2007**

	<u>Georgia State University</u>	<u>Component Unit Georgia State University Foundation, Inc.</u>	<u>Component Unit Georgia State University Research Foundation, Inc.</u>
REVENUES			
Operating Revenues			
Student Tuition and Fees (net of allowance for doubtful accounts)	\$123,433,204	\$0	\$0
Less: Scholarship Allowances	(12,199,997)		
Gifts and Contributions		7,653,144	
Endowment Income (per spending plan)		3,221,449	
Grants and Contracts			
Federal	56,862,436		34,058,822
State	9,224,699		6,968,377
Other	10,725,208		12,395,098
Sales and Services	13,632,930		
Rents and Royalties	24,000	11,428,169	
Auxiliary Enterprises			
Residence Halls	15,233,375		
Bookstore	724,024		
Food Services	127,370		
Parking/Transportation	5,040,924		
Intercollegiate Athletics	7,711,642		
Other Organizations	3,475,389		
Other Operating Revenues	3,901,335	66,673	
Total Operating Revenues	<u>237,916,539</u>	<u>22,369,435</u>	<u>53,422,297</u>
EXPENSES			
Operating Expenses			
Salaries:			
Faculty	85,631,548		
Staff	139,975,005	1,909,300	
Employee Benefits	49,677,847	302,416	
Other Personal Services	15,044		
Travel	4,133,356	1,275,020	
Scholarships and Fellowships	18,468,351	2,056,693	
Utilities	9,917,350		
Supplies and Other Services	96,461,024	8,056,413	1,889,947
Depreciation	20,778,423	2,415,675	91,700
Payments to or on behalf of Georgia State University		12,158,055	50,924,581
Total Operating Expenses	<u>425,057,948</u>	<u>28,173,572</u>	<u>52,906,228</u>
Operating Income (loss)	<u>(187,141,409)</u>	<u>(5,804,137)</u>	<u>516,069</u>

Statement of Revenues, Expenses and Changes in Net Assets, Continued

GEORGIA STATE UNIVERSITY
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS
for the Year Ended June 30, 2007

	<u>Georgia State University</u>	<u>Component Unit Georgia State University Foundation, Inc.</u>	<u>Component Unit Georgia State University Research Foundation, Inc.</u>
NONOPERATING REVENUES (EXPENSES)			
State Appropriations	200,710,980		
Grants and Contracts			
State	35,114		
Other	6,701,451		
Gifts	79,187		
Investment Income (endowments, auxiliary and other)	7,468,797	13,719,459	1,343,645
Interest Expense (capital assets)	(3,115,788)	(1,124,425)	
Other Nonoperating Revenues	(1,052,420)		
Net Nonoperating Revenues	<u>210,827,321</u>	<u>12,595,034</u>	<u>1,343,645</u>
Income before other revenues, expenses, gains, or loss	23,685,912	6,790,897	1,859,714
Capital Grants and Gifts			
State	7,530,520		
Other	156,504		
Additions to permanent endowments		4,195,614	
Total Other Revenues	<u>7,687,024</u>	<u>4,195,614</u>	<u>0</u>
Increase in Net Assets	31,372,936	10,986,511	1,859,714
NET ASSETS			
Net Assets-beginning of year, as originally reported	368,998,381	144,670,934	16,383,581
Prior Year Adjustments	0	(4,169,656)	0
Net Assets-beginning of year, restated	<u>368,998,381</u>	<u>140,501,278</u>	<u>16,383,581</u>
Net Assets-End of Year	<u>\$400,371,317</u>	<u>\$151,487,789</u>	<u>\$18,243,295</u>

Statement of Cash Flows

GEORGIA STATE UNIVERSITY STATEMENT OF CASH FLOWS For the Year Ended June 30, 2007

	June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$111,751,702
Grants and Contracts (Exchange)	65,461,018
Sales and Services	13,632,930
Payments to Suppliers	(159,524,653)
Payments to Employees	(225,047,369)
Payments for Scholarships and Fellowships	(18,468,351)
Loans Issued to Students and Employees	(4,424,341)
Collection of Loans to Students and Employees	4,642,290
Auxiliary Enterprise Charges:	
Residence Halls	15,604,894
Bookstore	723,515
Food Services	143,522
Parking/Transportation	5,008,837
Intercollegiate Athletics	8,016,584
Other Organizations	3,999,974
Other Receipts (payments)	6,184,020
Net Cash Provided (used) by Operating Activities	<u>(172,295,428)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Appropriations	200,710,980
Agency Funds Transactions	(1,106,145)
Gifts and Grants Received for Other Than Capital Purposes	6,811,443
Other Nonoperating Receipts	3,395,365
Net Cash Flows Provided by Non-capital Financing Activities	<u>209,811,643</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants and Gifts Received	7,530,520
Proceeds from Sale of Capital Assets	3,329,051
Purchases of Capital Assets	(34,265,762)
Principal Paid on Capital Debt and Leases	(2,692,888)
Interest Paid on Capital Debt and Leases	(3,115,788)
Net Cash used by Capital and Related Financing Activities	<u>(29,214,867)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	7,464,241
Net Cash Provided (used) by Investing Activities	<u>7,464,241</u>
Net Increase/Decrease in Cash	15,765,589
Cash and Cash Equivalents - Beginning of year	118,991,853
Cash and Cash Equivalents - End of Year	<u>\$134,757,442</u>

Statement of Cash Flows, Continued

**GEORGIA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007**

June 30, 2007

**RECONCILIATION OF OPERATING LOSS TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (loss)	(\$187,141,409)
Adjustments to Reconcile Net Income (loss) to Net Cash Provided (used) by Operating Activities	
Depreciation	20,778,423
Change in Assets and Liabilities:	
Receivables, net	(12,294,495)
Inventories	(28,794)
Prepaid Items	18,295
Notes Receivable, Net	217,949
Accounts Payable	828,354
Deferred Revenue	4,787,879
Other Liabilities	(15,058)
Compensated Absences	553,428
	<hr/>
Net Cash Provided (used) by Operating Activities	(\$172,295,428)

**** NON-CASH INVESTING, NON-CAPITAL FINANCING, AND CAPITAL AND
RELATED FINANCING TRANSACTIONS**

Fixed assets acquired by incurring capital lease obligations	<u>\$539,564</u>
Change in fair value of investments recognized as a component of interest income	<u>\$4,556</u>
Gift of capital assets reducing proceeds of capital grants and gifts	<u>(\$156,504)</u>

GEORGIA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Georgia State University serves the state and national communities by providing its students with academic instruction that advances fundamental knowledge, and by disseminating knowledge to the people of Georgia and throughout the country.

Reporting Entity

Georgia State University is one of thirty-five (35) State supported member institutions of higher education in Georgia which comprise the University System of Georgia, an organizational unit of the State of Georgia. The accompanying financial statements reflect the operations of Georgia State University as a separate reporting entity.

The Board of Regents has constitutional authority to govern, control and manage the University System of Georgia. This authority includes but is not limited to the power to designate management, the ability to significantly influence operations, the authority to control institutions' budgets, the power to determine allotments of State funds to member institutions and the authority to prescribe accounting systems and administrative policies for member institutions. Georgia State University does not have authority to retain unexpended State appropriations (surplus) for any given fiscal year. Accordingly, Georgia State University is considered an organizational unit of the Board of Regents of the University System of Georgia reporting entity for financial reporting purposes because of the significance of its legal, operational, and financial relationships with the Board of Regents as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

The Board of Regents of the University System of Georgia (and thus Georgia State University) implemented GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units - an amendment of Statement No. 14*, in fiscal year 2004. This statement requires the inclusion of the financial statements for foundations and affiliated organizations that qualify as component units in the Annual Financial Report for the institution. These statements (Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets) are reported discretely in the University's report. For FY2007, Georgia State University is reporting the activity for the Georgia State University Foundation, Inc. and the Georgia State University Research Foundation, Inc.

See Note 16, Component Units, for Foundation notes.

Financial Statement Presentation

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and*

Analysis for Public Colleges and Universities. The State of Georgia implemented GASB Statement No. 34 as of and for the year ended June 30, 2002. As an organizational unit of the State of Georgia, the University was also required to adopt GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the GASB and are presented as required by these standards to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required.

Generally Accepted Accounting Principles (GAAP) requires that the reporting of summer school revenues and expenses be between fiscal years rather than in one fiscal year. Due to the lack of materiality, Institutions of the University System of Georgia will continue to report summer revenues and expenses in the year in which the predominant activity takes place.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting, except as noted in the preceding paragraph. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-University transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

Cash and Cash Equivalents consist of petty cash, demand deposits and time deposits in authorized financial institutions, and cash management pools that have the general characteristics of demand deposit accounts. This includes the State Investment Pool and the Board of Regents Short-Term Investment Pool.

Short-Term Investments

Short-Term Investments consist of investments of 90 days – 13 months. This would include certificates of deposits or other time restricted investments with original maturities of six months or more when purchased. Funds are not readily available and there is a penalty for early withdrawal.

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. The Board of Regents Legal Fund, the Board of Regents Balanced Income Fund, the Board of Regents Total Return Fund, the Board of Regents Diversified Fund, and the Georgia Extended Asset Pool are included under Investments.

Accounts Receivable

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Georgia. Accounts receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Consumable supplies and Resale Inventories are valued at cost using the average-cost basis.

Noncurrent Cash and Investments

Cash and investments that are externally restricted and cannot be used to pay current liabilities are classified as noncurrent assets in the Statement of Net Assets.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that exceed \$100,000 and/or significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 25 years for infrastructure and land improvements, 10 years for library books, and 3 to 20 years for equipment. Residual values will generally be 10% of historical costs for infrastructure, buildings and building improvements, and facilities and other improvements.

To obtain the total picture of plant additions in the University System, it is necessary to look at the activities of the Georgia State Financing and Investment Commission (GSFIC) – an organization that is external to the System. GSFIC issues bonds for and on behalf of the State of Georgia, pursuant to powers granted to it in the Constitution of the State of Georgia and the Act creating the GSFIC. The bonds so issued constitute direct and general obligations of the State of Georgia, to the payment of which the full faith, credit and taxing power of the State are pledged.

For projects managed by GSFIC, the GSFIC retains construction in progress on its books throughout the construction period and transfers the entire project to the University when complete. For projects managed by the University, the University retains construction in progress on its books and is reimbursed by GSFIC. For the year ended June 30, 2007, GSFIC did not transfer any capital additions to Georgia State University.

Deposits

Deposits represent good faith deposits from students to reserve housing assignments in a University residence hall.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses, and Changes in Net Assets. Georgia State University had accrued liability for compensated absences in the amount of \$10,412,996 as of July 1, 2006. For FY2007, \$8,046,619 was earned in compensated absences and employees were paid \$7,493,191, for a net increase of \$553,428. The ending balance as of June 30, 2007 in accrued liability for compensated absences was \$10,966,424.

Noncurrent Liabilities

Noncurrent liabilities include (1) liabilities that will not be paid within the next fiscal year; (2) capital lease obligations with contractual maturities greater than one year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The term "debt obligations" as used in this definition does not include debt of the GSFIC as discussed previously in Note 1 – Capital Assets section.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University may accumulate as much of the annual net income of an institutional fund as is prudent under the standard established by Code Section 44-15-7 of Annotated Code of Georgia.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Expendable Restricted Net Assets include the following:

	<u>June 30, 2007</u>
Restricted - E&G and Other Organized Activities	\$4,441,678
Federal Loans	6,406,594
Institutional Loans	<u>127,975</u>
Total Restricted Expendable	<u><u>\$10,976,247</u></u>

Restricted net assets – expendable – Capital Projects: This represents resources for which the University is legally or contractually obligated to spend resources for capital projects in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for those purposes, except for unexpended state appropriations (surplus). Unexpended state appropriations must be refunded to the Board of Regents of the University System of Georgia, University System Office for remittance to the office of Treasury and Fiscal Services. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Unrestricted Net Assets includes the following items which are quasi-restricted by management.

	<u>June 30, 2007</u>
R & R Reserve	\$18,027,348
Reserve for Encumbrances	28,553,041
Reserve for Inventory	114,540
Other Unrestricted	<u>55,965,778</u>
Total Unrestricted Net Assets	<u><u>\$102,660,707</u></u>

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

Income Taxes

Georgia State University, as a political subdivision of the State of Georgia, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Classification of Revenues

The University has classified its revenues as either operating or non-operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of sponsored and unsponsored scholarships, (2) sales and services of auxiliary enterprises, net of sponsored and unsponsored scholarships, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported at gross with a contra revenue account of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded contra revenue for scholarship allowances.

Certain discounts to tuition and fees are granted by the University in order to reflect revenue at the University's published rate structure. In prior year financial statements, these discounts were reported within the Scholarship Allowances line item. In fiscal 2007, it was determined that these types of discounts are more properly reported within the Tuition and Fees category, consistent with the NACUBO Advisory Report 2000-5: "Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education". Because of this difference in reporting tuition and fee waivers in fiscal 2007, comparison with prior year financial statements at the Net Tuition and Fees level will result in a better gauge of the year over year change in revenue.

Note 2. Deposits and Investments

A. Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be recovered. Funds belonging to the State of Georgia (and thus the University) cannot be placed in a depository paying interest longer than ten days without the depository providing a surety bond to the State. In lieu of a surety bond, the depository may pledge as collateral any one or more of the following securities as enumerated in the Official Code of Georgia Annotated Section 50-17-59:

1. Bonds, bills, notes, certificates of indebtedness, or other direct obligations of the United States or of the State of Georgia.
2. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.
3. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.
4. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia.
5. Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest and debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association and the Federal National Mortgage Association.
6. Guarantee or insurance of accounts provided by the Federal Deposit Insurance Corporation.

The Treasurer of the Board of Regents is responsible for all details relative to furnishing the required depository protection for all units of the University System of Georgia.

At June 30, 2007, the carrying value of deposits was \$29,010,435 and the bank balance was \$33,042,056. Of the University's deposits, \$32,912,545 were uninsured and uncollateralized.

B. Investments

At June 30, 2007, the carrying value of the University's investments was \$105,760,549, which is materially the same as fair value. These investments were comprised entirely of funds invested in the Board of Regents and Office of Treasury and Fiscal Services investment pools as follows:

Investment Pools	
Board of Regents	
Total Return Fund	\$52,030
Sub Total	<u>52,030</u>
Office of Treasury and Fiscal Services	
Georgia Fund 1	105,708,519
Sub Total	<u>105,708,519</u>
Total Investment Pools	<u><u>\$105,760,549</u></u>

The Board of Regents Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. Participation in the Board of Regents Investment Pool is voluntary. The Board of Regents Investment Pool is not rated. Additional information on the Board of Regents Investment Pool is disclosed in the audited Financial Statements of the Board of Regents of the University System of Georgia – Administrative Central Office (oversight unit). This audit can be obtained from the Georgia Department of Audits – Education Audit Division or on their web site at <http://www.audits.state.ga.us/internet/searchRpts.html>.

The Georgia Fund 1 Investment Pool, managed by the Office of Treasury and Fiscal Services, is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. This investment is valued at the pool’s share price, \$1.00 per share. The Georgia Fund 1 Investment Pool is an AAAM rated investment pool by Standard and Poor’s. The Weighted Average Maturity of the Fund is 15 days.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The University’s policy for managing interest rate risk is to comply with University policy and applicable Federal and State laws. The University’s policy for managing interest rate risk for Endowment Funds is that the average maturity of the fixed income portfolio shall not exceed ten years and for Operating Funds the average maturity of the fixed income portfolio shall not exceed two years.

The Weighted Average Maturity of the Total Return Fund is 9.35 years. Of the University’s total investment of \$52,030 in the Total Return Fund, \$14,771 is invested in debt securities.

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy for managing credit quality risk.

The Georgia Fund 1 investment is rated AAA by Standard and Poor’s. As previously stated, the BOR Total Return Fund investment is not rated.

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2007:

	<u>June 30, 2007</u>
Student Tuition and Fees	\$4,477,218
Auxiliary Enterprises and Other Operating Activities	1,319,725
Federal Financial Assistance	4,458,105
Georgia State Financing and Investment Commission	948,527
Due from Component Units	5,095,568
Other	<u>13,573,708</u>
	29,872,851
Less Allowance for Doubtful Accounts	<u>4,284,169</u>
Net Accounts Receivable	<u><u>\$25,588,682</u></u>

Note 4. Inventories

Inventories consisted of the following at June 30, 2007:

	<u>June 30, 2007</u>
Physical Plant	\$124,729
Other	<u>21,989</u>
Total	<u><u>\$146,718</u></u>

Note 5. Notes/Loans Receivable

The Federal Perkins Loan Program (the Program) comprises substantially all of the loans receivable at June 30, 2007. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The Federal government reimburses the University for amounts cancelled under these provisions. As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2007 the allowance for uncollectible loans was approximately \$295,471.

Note 6. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2007:

	Beginning Balances 7/1/2006	Additions	Reductions	Ending Balance 6/30/2007
Capital Assets, Not Being Depreciated:				
Land	\$42,411,854	\$0	\$0	\$42,411,854
Capitalized Collections	151,538	24,545		176,083
Construction Work-in-Progress	17,512,303	20,603,412	2,188,435	35,927,280
Total Capital Assets Not Being Depreciated	60,075,695	20,627,957	2,188,435	78,515,217
Capital Assets, Being Depreciated:				
Infrastructure	6,561,381	2,698,276		9,259,657
Building and Building Improvements	330,489,206	3,243,381	2,315,640	331,416,947
Facilities and Other Improvements	1,463,019			1,463,019
Equipment	63,024,784	5,898,190	4,193,326	64,729,648
Capital Leases	1,688,735	539,564	670,566	1,557,733
Library Collections	92,149,814	4,843,263	217,966	96,775,111
Total Assets Being Depreciated	495,376,939	17,222,674	7,397,498	505,202,115
Less: Accumulated Depreciation				
Infrastructure	992,226	373,256		1,365,482
Buildings	126,337,296	9,695,969	1	136,033,264
Facilities and Other improvements	827,665	66,679		894,344
Equipment	42,549,544	5,369,981	3,093,514	44,826,011
Capital Leases	499,723	198,578	307,214	391,087
Library Collections	66,523,251	5,073,960	217,966	71,379,245
Total Accumulated Depreciation	237,729,705	20,778,423	3,618,695	254,889,433
Total Capital Assets, Being Depreciated, Net	257,647,234	(3,555,749)	3,778,803	250,312,682
Capital Assets, net	\$317,722,929	\$17,072,208	\$5,967,238	\$328,827,899

Note 7. Deferred Revenue

Deferred revenue consisted of the following at June 30, 2007:

	<u>June 30, 2007</u>
Prepaid Tuition and Fees	\$21,344,284
Research	4,932,342
Other Deferred Revenue	3,741,468
	<hr/>
Totals	<u>\$30,018,094</u>

Note 8. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2007</u>	<u>Current Portion</u>
Leases					
Lease Obligations	\$42,166,789	\$4,432,874	\$2,692,888	\$43,906,775	\$2,970,766
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Other Liabilities					
Compensated Absences	10,412,996	8,046,619	7,493,191	10,966,424	6,354,733
Total	10,412,996	8,046,619	7,493,191	10,966,424	6,354,733
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Long Term Obligations	<u>\$52,579,785</u>	<u>\$12,479,493</u>	<u>\$10,186,079</u>	<u>\$54,873,199</u>	<u>\$9,325,499</u>

Note 9. Significant Commitments

The University had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$24,875,771 as of June 30, 2007. This amount is not reflected in the accompanying basic financial statements.

In May 2007, Georgia State University entered into a lease agreement with Panther Place, LLC, for a complex of buildings collectively known as "25 Park Place". The lease agreement commences the day after the lease agreement between Panther Place, LLC, and SunTrust Bank has been terminated but no later than May 31, 2012. After the termination of the SunTrust lease and the University's lease has commenced, the University will have the exclusive right, privilege, and option of renewing or extending the agreement at the expiration of the initial one year term on a year-to-year basis for consecutive one-year periods until June 30, 2037.

Note 10. Lease Obligations

Georgia State University is obligated under various operating leases for the use of real property (land, buildings, and office facilities) and equipment, and also is obligated under capital leases and installment purchase agreements for the acquisition of real property.

Capital Leases

Capital leases are generally payable in installments ranging from monthly to annually and have terms expiring in various years between 2008 and 2022. Expenditures for fiscal year 2007 were \$5.8 million of which \$3.1 million represented interest. Total principal paid on capital leases was \$2.7 million for the fiscal year ended June 30, 2007. Interest rates range up to 12 percent. The following is a summary of the carrying values of assets held under capital lease at June 30, 2007:

Infrastructure	\$3,000,058
Buildings	44,419,936
Equipment	<u>1,166,646</u>
Total Assets Held Under Capital Lease	<u><u>\$48,586,640</u></u>

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

Georgia State University has two capital leases associated with buildings. In July 2001, Georgia State University entered into a capital lease valued at \$34,650,000 with an effective interest rate of 6.985 percent with the Georgia State University Foundation (Foundation), whereby the University leases the Student Recreation Center for a twenty-year period that began July 2001 and expires June 2021. In March 2000, the University entered into a capital lease valued at \$14,038,328 with an effective interest rate of 6.985 percent with the Foundation, whereby the University leases the Alpharetta Center for a twenty-year period that began March 2000 and expires February 2020. The outstanding principal liability at June 30, 2007 on these capital leases is \$28,711,360 and \$10,946,828 respectively. Each year the monthly payments for both of these leases will increase by the greater of 2 percent or the CPI. Georgia State University had no new capital building leases with related entities in the current fiscal year.

Georgia State University also has various capital leases for equipment and software with an outstanding balance at June 30, 2007 in the amount of \$4,248,587.

Operating Leases

Georgia State University's noncancellable operating leases having remaining terms of more than one year expire in various fiscal years from 2008 through 2015. Certain operating leases provide for renewal options for periods from one to four years at their fair rental value at the time of renewal. All agreements are cancellable if the State of Georgia does not provide adequate funding, but that is considered a remote possibility. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Examples of property under operating leases are copiers and other small business equipment.

In addition to existing building office space leases from fiscal year 2006, in fiscal year 2007, Georgia State University entered into an operating lease agreement with Asian Realty Partners III, LP for Tower Place at 3348 Peachtree Road in Atlanta.

Future commitments for capital leases (which here and on the Statement of Net Assets include other installment purchase agreements) and for noncancellable operating leases having remaining terms in excess of one year as of June 30, 2007, were as follows:

		<u>Real Property and Equipment</u>	
		<u>Capital Leases</u>	<u>Operating Leases</u>
Year Ending June 30:	Year		
2008	1	\$6,064,927	\$5,509,443
2009	2	6,021,421	4,283,588
2010	3	6,531,301	3,658,153
2011	4	6,507,554	3,639,010
2012	5	6,102,989	3,554,010
2013 through 2017	6-10	30,463,016	2,745,632
2018 through 2022	11-15	<u>25,058,910</u>	
Total minimum lease payments		86,750,118	<u>\$23,389,836</u>
Less: Interest		<u>42,843,343</u>	
Principal Outstanding		<u>\$43,906,775</u>	

Georgia State University's FY2007 expense for rental of real property and equipment under operating leases was \$9,321,001 for buildings and \$107,949 for equipment.

Note 11. Retirement Plans

Teachers Retirement System of Georgia

Plan Description

Georgia State University participates in the Teachers Retirement System of Georgia (TRS), a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly. TRS provides retirement allowances and other benefits for plan participants. TRS provides service retirement, disability retirement, and survivor's benefits for its members in accordance with State statute. The Teachers Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the TRS offices or from the Georgia Department of Audits and Accounts.

Funding Policy

Employees of Georgia State University who are covered by TRS are required by State statute to contribute 5% of their gross earnings to TRS. Georgia State University makes monthly employer contributions to TRS at rates adopted by the TRS Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2007, the employer contribution rate was 9.28% for covered employees. Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>
2007	100%	\$9,727,493
2006	100%	\$9,434,148
2005	100%	\$9,403,542

Employees' Retirement System of Georgia

Plan Description

Georgia State University participates in the Employees' Retirement System of Georgia (ERS), a cost-sharing multiple-employer defined benefit pension plan established by the General Assembly of Georgia for the purpose of providing retirement allowances for employees of the State of Georgia.

The benefit structure of ERS is defined by State statute and was significantly modified on July 1, 1982. Unless elected otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. All other members are "new plan" members subject to the modified plan provisions.

Under both the old plan and new plan, members become vested after 10 years of creditable service. A member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60. Additionally, there are certain provisions allowing for retirement after 25 years of service regardless of age.

Retirement benefits paid to members are based upon a formula which considers the monthly average of the member's highest twenty-four consecutive calendar months of salary, the number of years of creditable service, and the member's age at retirement. Postretirement cost-of-living adjustments are also made to member's benefits. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension at reduced rates to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

In addition, the ERS Board of Trustees created the Supplemental Retirement Benefit Plan (SRBP) effective January 1, 1998. The SRBP was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of ERS. The purpose of SRBP is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC 415.

The ERS issues a financial report each fiscal year, which may be obtained through ERS.

Funding Policy

As established by State statute, all full-time employees of the State of Georgia and its political subdivisions, who are not members of other state retirement systems, are eligible to participate in the ERS. Both employer and employee contributions are established by State statute. The University's payroll for the year ended June 30, 2007, for employees covered by ERS was \$943,051. The University's total payroll for all employees was \$225,606,553.

For the year ended June 30, 2007 under the old plan, member contributions consist of 6.5% of annual compensation minus \$7. Of these member contributions, the employee pays the first 1.5% and the University pays the remainder on behalf of the employee.

Under the new plan, member contributions consist solely of 1.5% of annual compensation paid by employee. The University also is required to contribute at a specified percentage of active member payroll determined annually by actuarial valuation for both old and new plans. For the year ended June 30, 2007, the ERS employer contribution rate for the University amounted to 10.41% of covered payroll and included the amounts contributed on behalf of the employees under the old plan referred to above. Employer contributions are also made on amounts paid for accumulated leave to retiring employees.

Total contributions to the plan made during fiscal year 2007 amounted to \$115,317, of which \$100,794 was made by the University and \$14,523 was made by employees. These contributions met the requirements of the plan.

Actuarial and Trend Information

Actuarial and historical trend information is presented in the ERS June 30, 2007 financial report, which may be obtained through ERS.

Regents Retirement Plan

Plan Description

The Regents Retirement Plan, a single-employer defined contribution plan, is an optional retirement plan that was created/established by the Georgia General Assembly in O.C.G.A. 47-21-1 et.seq. and is administered by the Board of Regents of the University System of Georgia. O.C.G.A. 47-3-68(a) defines who may participate in the Regents Retirement Plan. An “eligible university system employee” is a faculty member or a principal administrator, as designated by the regulations of the Board of Regents. Under the Regents Retirement Plan, a plan participant may purchase annuity contracts from four approved vendors (AIG-VALIC, American Century, Fidelity, and TIAA-CREF) for the purpose of receiving retirement and death benefits. Benefits depend solely on amounts contributed to the plan plus investment earnings. Benefits are payable to participating employees or their beneficiaries in accordance with the terms of the annuity contracts.

Funding Policy

Georgia State University makes monthly employer contributions for the Regents Retirement Plan at rates adopted by the Teachers Retirement System of Georgia Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2007, the employer contribution was 9.66% for the first six months and 8.13% for the last six months of the participating employee's earnable compensation. Employees contribute 5% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and non-forfeitable at all times.

Georgia State University and the covered employees made the required contributions of \$7,286,675 (9.66% or 8.13%) and \$4,067,417 (5%), respectively.

AIG-VALIC, American Century, Fidelity, and TIAA-CREF have separately issued financial reports which may be obtained through their respective corporate offices.

Georgia Defined Contribution Plan

Plan Description

Georgia State University participates in the Georgia Defined Contribution Plan (GDGP) which is a single-employer defined contribution plan established by the General Assembly of Georgia for the purpose of providing retirement coverage for State employees who are temporary, seasonal, and part-time and are not members of a public retirement or pension system. GDGP is administered by the Board of Trustees of the Employees' Retirement System of Georgia.

Benefits

A member may retire and elect to receive periodic payments after attainment of age 65. The payment will be based upon mortality tables and interest assumptions to be adopted by the Board of Trustees. If a member has less than \$3,500 credited to his/her account, the Board of Trustees has the option of requiring a lump sum distribution to the member in lieu of making periodic payments. Upon the death of a member, a lump sum distribution equaling the amount credited to

his/her account will be paid to the member's designated beneficiary. Benefit provisions are established by State statute.

Contributions

Member contributions are seven and one-half percent (7.5%) of gross salary. There are no employer contributions. Contribution rates are established by State statute. Earnings are credited to each member's account in a manner established by the Board of Trustees. Upon termination of employment, the amount of the member's account is refundable upon request by the member.

Total contributions made by employees during fiscal year 2007 amounted to \$503,479 which represents 7.5% of covered payroll. These contributions met the requirements of the plan.

The Georgia Defined Contribution Plan issues a financial report each fiscal year, which may be obtained from the ERS offices.

Note 12. Risk Management

The University System of Georgia offers its employees and retirees access to two different self-insured healthcare plan options – a PPO/PPO Consumer healthcare plan, and an indemnity healthcare plan. Georgia State University and participating employees and retirees pay premiums to either of the self-insured healthcare plan options to access benefits coverage. The respective self-insured healthcare plan options are included in the financial statements of the Board of Regents of the University System of Georgia – University System Office. All units of the University System of Georgia share the risk of loss for claims associated with these plans. The reserves for these two plans are considered to be a self-sustaining risk fund. Both self-insured healthcare plan options provide a maximum lifetime benefit of \$2,000,000 per person. The Board of Regents has contracted with Blue Cross Blue Shield of Georgia, a wholly owned subsidiary of WellPoint, to serve as the claims administrator for the two self-insured healthcare plan products. In addition to the two different self-insured healthcare plan options offered to the employees of the University System of Georgia, two fully insured HMO healthcare plan options are also offered to System employees.

The Department of Administrative Services (DOAS) has the responsibility for the State of Georgia of making and carrying out decisions that will minimize the adverse effects of accidental losses that involve State government assets. The State believes it is more economical to manage its risks internally and set aside assets for claim settlement. Accordingly, DOAS processes claims for risk of loss to which the State is exposed, including general liability, property and casualty, workers' compensation, unemployment compensation, and law enforcement officers' indemnification. Limited amounts of commercial insurance are purchased applicable to property, employee and automobile liability, fidelity and certain other risks. Georgia State University, as an organizational unit of the Board of Regents of the University System of Georgia, is part of the State of Georgia reporting entity, and as such, is covered by the State of Georgia risk management program administered by DOAS. Premiums for the risk management program are charged to the various state organizations by DOAS to provide claims servicing and claims payment.

A self-insured program of professional liability for its employees was established by the Board of Regents of the University System of Georgia under powers authorized by the Official Code of Georgia Annotated Section 45-9-1. The program insures the employees to the extent that they are not immune from liability against personal liability for damages arising out of the performance of their duties or in any way connected therewith. The program is administered by DOAS as a Self-Insurance Fund.

Note 13. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. This could result in refunds to the grantor agency for any expenditures that are disallowed under grant terms. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although Georgia State University expects such amounts, if any, to be immaterial to its overall financial position.

Litigation, claims and assessments filed against Georgia State University (an organizational unit of the Board of Regents of the University System of Georgia), if any, are generally considered to be actions against the State of Georgia. Accordingly, significant litigation, claims and assessments pending against the State of Georgia are disclosed in the State of Georgia Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007.

Note 14. Post-Employment Benefits Other Than Pension Benefits

Pursuant to the general powers conferred by the Official Code of Georgia Annotated Section 20-3-31, the Board of Regents of the University System of Georgia has established group health and life insurance programs for regular employees of the University System of Georgia. It is the policy of the Board of Regents to permit employees of the University System of Georgia eligible for retirement or that become permanently and totally disabled to continue as members of the group health and life insurance programs. The policies of the Board of Regents of the University System of Georgia define and delineate who is eligible for these post-employment health and life insurance benefits. Organizational units of the Board of Regents of the University System of Georgia pay the employer portion for group insurance for affected individuals. With regard to life insurance, the employer covers the total cost for \$25,000 of basic life insurance. If an individual elects to have supplemental, and/or, dependent life insurance coverage, such costs are borne entirely by the employee.

As of June 30, 2007, there were 696 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2007, Georgia State University recognized as incurred \$4,401,257 of expenditures, which was net of \$1,697,964 of participant contributions.

Note 15. Natural Classifications with Functional Classifications

The University's operating expenses by functional classification for FY2007 are shown below:

Natural Classification	Functional Classification FY2007					
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support
Faculty	\$7,148,256	\$13,137,089	\$523,385	\$441,124	\$13,687	\$29,957
Staff	34,300,260	25,409,878	6,567,772	27,160,055	12,802,448	19,852,128
Benefits	23,553,462	4,911,680	1,499,849	6,656,373	3,236,315	6,293,035
Personal Services	(1,000)	1,000				15,044
Travel	1,775,731	1,043,039	229,406	582,884	221,660	213,315
Scholarships and Fellowships	1,498,118	949,059	985,239	5,298	103,500	513,033
Utilities	996,528	155,154	114,866		396,242	227,862
Supplies and Others Services	7,999,494	15,354,512	11,448,324	10,405,537	3,898,254	18,177,085
Depreciation	6,036,654	3,450,000	763,817	2,325,671	1,853,528	577,308
Total Expenses	\$47,644,503	\$64,411,421	\$22,132,658	\$47,576,942	\$22,525,634	\$45,898,767

Natural Classification	Functional Classification FY2007			
	Plant Operations & Maintenance	Scholarships & Fellowships	Auxiliary Enterprises	Total Expenses
Faculty	\$0	\$0	\$1,050	\$85,631,548
Staff	10,145,298		3,737,166	139,975,005
Benefits	2,830,922		696,211	49,677,847
Personal Services				15,044
Travel	35,893		31,428	4,133,356
Scholarships and Fellowships		14,414,104		18,468,351
Utilities	6,675,332		1,351,366	9,917,350
Supplies and Others Services	11,002,692	123,829	18,051,297	96,461,024
Depreciation	3,635,844		2,135,591	20,778,423
Total Expenses	\$34,325,981	\$14,537,933	\$26,004,109	\$425,057,948

Note 16. Component Units

Georgia State University Foundation, Inc.

Georgia State University Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of Georgia State University (University). The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 37-member board of the Foundation, of which 6 members are ex-officio, is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. The fiscal year of the Foundation is July 1 through June 30.

During the year ended June 30, 2007, the Foundation distributed \$12,158,055 to the University. A copy of the annual audited financial statements for the Foundation can be obtained from James F. Winters, III, Controller, Georgia State University Foundation, P.O. Box 3963, Atlanta, GA 30302-3963 or in person at One Park Place South, Atlanta, GA.

Prior Period Adjustment:

Beginning Net Assets for fiscal 2007 were adjusted for a prior period adjustment of (\$4,169,656), representing fiscal year 2006 interest earned on the proceeds from tax-exempt bonds. This amount was recorded as interest income; however, should have been netted against the capitalized interest expense in accordance with FASB Statement Number 62. The restatement resulted in the interest income, property and equipment, and net asset account balances for 2006 to be reduced by \$4,169,656.

Investments for Component Units:

Georgia State University Foundation holds endowment and other investments in the amount of \$130.7 million. The Foundation determines the spendable amounts for endowment funds using a total return formula and makes no spending allocations to restricted funds from the operating portfolio. Income from the operating portfolio is used to fund the Foundation's administrative activities pursuant to an unrestricted spending policy. The Trustees of the Foundation adopted an endowment spending policy that provides for the allocation of endowment funds at the rate of 70% of the previous year's allocation plus 30% of the current year's market values at a spending rate of 4.5% of the market value of the endowment funds. A 1% management fee is used to fund the Foundation's administrative activities. The balance of the return is applied to the value of the endowment funds.

Investments are comprised of the following amounts at June 30, 2007:

	<u>Cost</u>	<u>Fair Value</u>
Equity Securities	\$368,078	\$368,078
Mutual Funds	102,918,990	122,180,766
Venture Capital	4,660,218	2,921,154
Real Estate	<u>2,822,293</u>	<u>5,207,340</u>
 Total Investments	 <u><u>\$110,769,579</u></u>	 <u><u>\$130,677,338</u></u>

Capital Assets for Component Units:

Georgia State University Foundation, Inc. holds the following Capital Assets as of June 30, 2007:

	<u>June 30, 2007</u>
Capital Assets not being Depreciated:	
Land and other Assets	\$10,090,265
Construction in Progress	<u>125,700,200</u>
Total Capital Assets not being Depreciated	135,790,465
Capital Assets being Depreciated:	
Buildings and Improvements	<u>109,386,131</u>
Total Capital Assets being Depreciated	109,386,131
Less Total Accumulated Depreciation	<u>21,545,126</u>
Total Capital Assets being Depreciated, Net	<u>87,841,005</u>
Capital Assets, Net	<u><u>\$223,631,470</u></u>

Long-term Liabilities for Component Units:

Changes in long-term liabilities for Georgia State University Foundation, Inc. for the fiscal year ended June 30, 2007 are shown below:

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts due within One Year
Compensated Absences	\$19,101	\$14,419	\$0	\$33,520	\$0
Liabilities under split interest agreement	\$249,819	11,173		260,992	
Capital Lease Obligations	\$10,408,677		686,221	9,722,456	722,430
Revenue/Mortgage Bonds Payable	\$194,186,673	58,385,000	1,896,963	250,674,710	1,615,000
Other Long Term Liabilities	\$5,197,804	614,590		5,812,394	
Total Long Term Liabilities	\$210,062,074	\$59,025,182	\$2,583,184	\$266,504,072	\$2,337,430

Capital Lease Obligations

Alpharetta Campus Facilities Capital Lease

On September 23, 1998, \$10,600,000 of revenue bonds were issued by the Development Authority of Alpharetta, Georgia (the "Authority") for the purpose of financing the costs of acquiring, constructing and installing educational facilities located in the City of Alpharetta and are to be leased by the Foundation. The bonds are special limited obligation bonds payable by the Development Authority from lease payments made to it by the Foundation. The lease obligates the Foundation, on a limited recourse basis, to make lease payments sufficient to pay 83.5% of principal and interest on the bonds with the balance to be paid by the Authority. The Foundation in turn subleases the facilities to the Board of Regents of the University System of Georgia (Board of Regents) for the use of the University. The liability of the Foundation is limited to the interest of the Foundation in the project and the rents, profits, issues, products and proceeds thereof. The City of Alpharetta is obligated to make 100% of the principal and interest payments on the bonds to the extent rental payments derived from the project are insufficient for such purposes. The lease liability at June 30, 2007 was \$6,433,675.

Rialto Center Facilities Capital Lease

During 1994, the Foundation purchased and has since renovated facilities currently occupied by the University's School of Music. The project is being financed through contributions to the Foundation and through bonds issued by the Downtown Development Authority of the City of Atlanta (the "Authority"). The Foundation has entered into long term lease commitments with TUFF to provide for the debt service payments on the bonds and other bond financing related expenses. The Foundation in turn leases the facilities to the University through a series of one year renewable lease agreements. Title to the two office buildings will pass to the Foundation at the end of the lease period or the retirement of the bonds, whichever occurs first. During 2004, the 1994 bonds issued by the "Authority" were refunded to obtain savings in debt service and to obtain funds for improvements to the Rialto Theater. Accordingly, the "Authority" entered into a new loan agreement with TUFF and a new agreement with the Foundation as the guarantor of the bonds. The guarantee is expressly limited to the unrestricted income and unrestricted assets of the Foundation.

The terms of the long-term lease commitment between TUFF and the Foundation were modified to reflect the new interest rate of the bonds, the additional proceeds available for capital improvements, the additional bond financing related expenses and extension of the term of the lease through November 1, 2015. Pursuant to this transaction, the Foundation also formed Rialto

Center, LLC, a single member LLC with the Foundation as the sole member, for the purpose of holding the related capital lease. The lease liability at June 30, 2007 was \$3,288,781.

Annual debt service requirements to maturity for capital lease obligations are as follows:

		<u>Capital Leases</u>
Year ending June 30:		
2008	1	\$1,215,523
2009	2	1,214,618
2010	3	1,212,585
2011	4	1,209,232
2012	5	1,208,651
2013 through 2017	6-10	5,178,977
2018 through 2022	11-15	<u>1,424,043</u>
Total minimum lease payments		12,663,629
Less: Interest		<u>2,941,173</u>
Principal Outstanding		<u><u>\$9,722,456</u></u>

Revenue Bonds Payable:

Student Recreation Center Bonds

On October 15, 1998, \$33,430,000 of revenue bonds were issued by the Atlanta Development Authority (ADA) with the proceeds to be loaned to the Foundation for the purpose of financing the acquisition, construction, improvement and equipping of a student recreation center for the benefit of the University. The bonds are special limited obligation bonds of the ADA payable from funds received from the Foundation pursuant to a promissory note between the ADA and the Foundation. The Foundation leases the facilities to the Board of Regents for the use of the University. The Foundation's liability on the note is limited to its interest in the project and the rents and revenues from the project, including amounts received pursuant to the rental agreement with the Board of Regents. Payment of principal and interest on the bonds are insured by AMBAC Assurance Corporation. Principal payments are to be made annually to October 1, 2018. Interest is paid semi-annually also through 2018 at a rate specified in the revenue bonds ranging from 3.60% to 4.60%. The bond liability at June 30, 2007 was \$24,975,000.

Piedmont Ellis Bonds

On September 8, 2005, \$161,330,000 of tax-exempt and taxable revenue bonds were issued by the Atlanta Development Authority (ADA) on behalf of the Foundation with the proceeds to be used for the purpose of financing the acquisition, construction and equipping of certain land, buildings and personal property to be used as a student housing project. The project has approximately 1,984 beds, including community activity facilities, site amenities and parking for approximately 786 vehicles. There is a 22-month construction schedule for the project to be completed and open for occupancy in the fall semester of 2007. The real property upon which the project is located is owned by the Board of Regents and leased to the Foundation pursuant to a Ground Lease for a construction term of up to two years. Upon completion of the project, the Foundation will lease the facility to the Board of Regents on an annually-renewable basis for a

term of 33 years for the use and benefit of the University. Principal payments are to be made annually starting September 1, 2009 and ending September 1, 2036.

Interest is paid semi-annually through 2036 at a rate specified in the revenue bonds ranging from 3.875% to 5.0%. The principal outstanding on the bonds at June 30, 2007 was \$161,330,000 and the unamortized bond premium balance was \$5,984,710.

Panther Place Bonds

On May 31, 2007, \$58,385,000 of revenue bonds (tax-exempt of \$49,175,000 and taxable of \$9,210,000) were issued by the Atlanta Development Authority (ADA) on behalf of the Foundation with the proceeds used to finance the costs of acquiring land, buildings, improvements, machinery, fixtures, furnishings, equipment, and other real and personal property to be used for office space. SunTrust Bank, as tenant may remain in the building for up to five years. Upon expiration of the lease or early termination by SunTrust Bank, the Foundation will lease the property to the Board of Regents of the University System of Georgia on an annually renewable basis. Interest to bond holders is paid monthly by AMBAC Financial Services, LLC (AFS) in accordance with the terms of the interest rate swap agreement. The Foundation is to begin making semi-annual interest payments on January 1, 2008 at a rate of 4.289% on tax-exempt bonds and 5.409% on taxable bonds. The taxable bonds will be refinanced in the year 2012. Principal payments are to be made annually starting July 1, 2008 and ending July 2037. The bond liability at June 30, 2007 was \$58,385,000.

Annual debt service requirements to maturity for revenue bonds payable are as follows:

Year ending June 30:		Bonds Payable		
		Principal	Interest	Total
2008	1	\$1,615,000	\$11,457,887	\$13,072,887
2009	2	1,680,000	11,385,338	13,065,338
2010	3	3,210,000	11,253,066	14,463,066
2011	4	3,655,000	11,092,476	14,747,476
2012	5	12,900,000	10,878,877	23,778,877
2013 through 2017	6-10	29,625,000	48,654,999	78,279,999
2018 through 2022	11-15	34,755,000	40,916,429	75,671,429
2023 through 2027	16-20	38,140,000	32,459,073	70,599,073
2028 through 2032	21-25	48,915,000	21,760,144	70,675,144
2033 through 2037	26-30	62,335,000	8,149,836	70,484,836
2038 through 2042	31-35	7,860,000		7,860,000
		<u>244,690,000</u>	<u>208,008,125</u>	<u>452,698,125</u>
Bond Premium/(Discount)		<u>5,984,710</u>		<u>5,984,710</u>
Total Bonds Payable		<u><u>\$250,674,710</u></u>	<u><u>\$208,008,125</u></u>	<u><u>\$458,682,835</u></u>

Georgia State University Research Foundation, Inc.

Georgia State University Research Foundation, Inc. (Research Foundation) is a legally separate, tax-exempt component unit of Georgia State University (University) and was established to contribute to the scientific, literary, educational, and charitable functions of the University in securing gifts, contributions, and grants from individuals, private organizations, and public agencies, and in obtaining contracts with such individuals or entities for the performance of sponsored research, development, or other programs by the various colleges, schools, departments or other units of the University. Most of the research grants awarded to the Research Foundation are subcontracted to the University, which is responsible for the fiscal administration of the grants.

The ten member board of the Research Foundation is self-perpetuating and consists of faculty and administrators of the University. Because the resources held by the Research Foundation can only be used by or for the benefit of the University, the Research Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Research Foundation is considered a special-purpose government entity engaged only in business-type activities and is required to follow all applicable GASB pronouncements. The Research Foundation's fiscal year is July 1 through June 30.

During the year ended June 30, 2007, the Research Foundation paid to the University \$50,337,959 in grant revenue and \$586,622 for support of research activities. Complete financial statements for the Research Foundation can be obtained from the office of the Georgia State University Research Foundation, Inc., Alumni Hall, 30 Courtland Street, Suite 219, Atlanta, GA 30303.

Deposits and Investments for Component Units:

Deposits:

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Research Foundation's deposits may not be recovered. In lieu of a surety bond, the depository may pledge as collateral any one or more of the following securities as enumerated in the Official Code of Georgia Annotated Section 50-17-59:

1. Bonds, bills notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia.
2. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.
3. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.
4. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia.

5. Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary Authority of the United States government, which are fully guaranteed by the United States government, both as to principal and interest and debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.
6. Insurance of accounts provided by the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation.

At June 30, 2007, the Research Foundation's carrying amount of deposits was \$7,942,259 and the bank balance was \$8,585,047. Of the bank balance, \$100,000 was covered by FDIC insurance, and \$6,480,416 was collateralized by the State of Georgia pledging pool which thereby guarantees collateralization of any uninsured bank deposit balances. The remaining uncollateralized balance of \$2,004,631 consists of cash equivalents held by investment custodians.

Investments:

The Research Foundation's investments as of June 30, 2007 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

	Fair Value	Investment Maturity	
		Less Than 1 Year	1-5 Years
Investment type			
Debt Securities			
Mutual Bond Fund	\$657,022	\$0	\$657,022
	\$657,022	\$0	\$657,022
Other Investments			
Bond/Fixed Income Mutual Funds	720,614		
Equity Securities - Domestic	1,892,427		
Equity Securities - International	965,715		
Real Estate Investment Fund	227,363		
	\$4,463,141		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Research Foundation's policy for managing interest rate risk is divided between short-term and long-term investments. Short-term investments will have a maximum maturity of eighteen months to five years depending on the type of investment. Long-term investments are managed using a planning timeline of five years or more and overall risk measurements rather than specific maturity limits.

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Research Foundation's investment policies are consistent with the investment policies of Georgia State University Foundation, Inc. The Research Foundation does not have a formal policy related to credit quality risk of investments.

The investments subject to credit quality risk are reflected below:

	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Baaa</u>
Related Debt Investments					
Mutual Bond Fund	<u>\$657,022</u>	<u>\$528,443</u>	<u>\$33,048</u>	<u>\$50,591</u>	<u>\$44,940</u>
	<u>\$657,022</u>	<u>\$528,443</u>	<u>\$33,048</u>	<u>\$50,591</u>	<u>\$44,940</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Research Foundation will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Research Foundation does not have a formal policy for managing custodial credit risk for investments.

At June 30, 2007, \$4,463,141 of the Research Foundation's applicable investments were uninsured and held by the Research Foundation's counterparty in the Research Foundation's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Research Foundation's policy for managing concentration of credit risk is divided amongst investment type as follows:

Domestic equities	44%
International equities	7%
Bonds	16%
Real estate	11%
Alternative investments	22%

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Research Foundation's investments are not exposed to foreign currency risk as securities denominated in currencies other than the U.S. dollar are not permissible by the Research Foundation's investment policy.

Capital Assets for Component Units:

Georgia State University Research Foundation, Inc. had the following Capital Asset activity for the year ended June 30, 2007:

	Beginning Balances 7/1/2006	Additions	Reductions	Ending Balance 6/30/2007
Capital Assets, Not Being Depreciated:				
Land (and other assets)	\$1,643,991	\$0	\$1	\$1,643,990
Total Capital Assets Not Being Depreciated	1,643,991	0	1	1,643,990
Capital Assets, Being Depreciated:				
Building and Building Improvements	3,894,651		(52,559)	3,947,210
Facilities and Other Improvements	359,744		52,558	307,186
Total Assets Being Depreciated	4,254,395	0	(1)	4,254,396
Less: Accumulated Depreciation				
Infrastructure				0
Buildings	490,577	90,323	(14,813)	595,713
Facilities and Other improvements	291,303	1,377	14,813	277,867
Total Accumulated Depreciation	781,880	91,700	0	873,580
Total Capital Assets, Being Depreciated, Net	3,472,515	(91,700)	(1)	3,380,816
Capital Assets, net	\$5,116,506	(\$91,700)	\$0	\$5,024,806