

FINAL COPY

GEORGIA COLLEGE & STATE UNIVERSITY

Financial Report

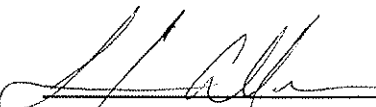
For the Year Ended
June 30, 2014

Georgia College & State University

Milledgeville, Georgia



President



Interim Vice President for Finance
and Administration

GEORGIA COLLEGE & STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FY 2014

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GEORGIA COLLEGE & STATE UNIVERSITY

Management's Discussion and Analysis

Introduction

Georgia College & State University is one of the 31 institutions of higher education of the University System of Georgia. The University, located in Milledgeville, Georgia, was founded in 1889 as Georgia Normal & Industrial College. It later became Georgia State College for Women (GSCW). In 1969 it became Georgia College and was re-established as a co-educational institution. In 1995 the Board of Regents of the University System of Georgia granted Georgia College university status, a new mission, and a new name, "Georgia College & State University."

As the State's designated public liberal arts university, Georgia College & State University is committed to combining the educational experiences typical of esteemed private liberal arts colleges with the affordability of public higher education. Georgia College & State University is a residential learning community that emphasizes undergraduate education and offers selected graduate programs. In addition, beginning with the 2012 Maymester, Georgia College & State University began offering a doctoral program in Nursing called "Doctor of Nursing Practice (DNP)." The faculty is dedicated to challenging students and fostering excellence in the classroom and beyond. Georgia College & State University seeks to endow its graduates with a passion for achievement, a lifelong curiosity, and exuberance for living.

The University offers baccalaureate and master's degrees in a wide variety of subjects, including the Arts and Sciences, Business, Education and Health Sciences, as well as Pre-Professional studies. This wide range of educational opportunities attracts a highly qualified faculty and a student body of more than 6,000 students each year. The institution continues to grow as shown by the comparison numbers that follow.

	Faculty	Students (Headcount)	Students (FTE)
Fiscal Year 2014	341	6,551	6,185
Fiscal Year 2013	341	6,444	6,063
Fiscal Year 2012	305	6,636	6,193

Overview of the Financial Statements and Financial Analysis

Georgia College & State University is pleased to present its financial statements for fiscal year 2014. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; 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 fiscal year 2014 and fiscal year 2013.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The Statement of Net Position is a point-of-time financial statement. The Statement of Net Position presents a fiscal snapshot of Georgia College & State University. The Statement of Net Position presents end-of-year data concerning assets (current and non-current) plus deferred outflows, and liabilities (current and non-current) plus deferred inflows, and net position (assets plus deferred outflows minus liabilities plus deferred inflows). The differences between current and non-current assets are discussed in the Notes to the Financial Statements.

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

Finally, the Statement of Net Position provides a picture of the net position (assets minus liabilities) and their availability for expenditure by the institution. Net position is divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant and equipment owned by the institution. The next category is restricted, which is divided into two categories, non-expendable and expendable.

The corpus of non-expendable, restricted resources is available only for investment purposes. Expendable, restricted resources 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. Unrestricted resources are available to the institution for any lawful purpose.

Statement of Net Position, Condensed

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Assets:		
Current Assets	\$ 25,238,026	\$ 24,119,146
Capital Assets, Net	175,141,372	175,428,895
Other Assets	13,480,767	11,489,234
Total Assets	<u>213,860,165</u>	<u>211,037,275</u>
Deferred Outflows of Resources		
Liabilities:		
Current Liabilities	12,405,540	11,720,943
Non-Current Liabilities	128,952,086	139,495,058
Total Liabilities	<u>141,357,626</u>	<u>151,216,001</u>
Deferred Inflows of Resources	4,714,546	
Net Position:		
Net Investment in Capital Assets	48,165,631	42,357,681
Restricted		
Nonexpendable	3,843,361	3,581,838
Expendable	5,370,170	5,091,736
Unrestricted	<u>10,408,831</u>	<u>8,790,019</u>
Total Net Position	<u>\$ 67,787,993</u>	<u>\$ 59,821,274</u>

Total assets and deferred outflows of resources increased by \$2,822,890, which was primarily due to an increase of \$1,118,880 in the category of Current Assets and an increase of \$1,991,533 in the category of Other Assets. The balance of the increase is mainly in the cash and cash equivalents, receivables, and investments categories.

Total liabilities and deferred inflows of resources decreased for the year by \$5,143,829. The combination of the increase in total assets and deferred outflows of resources of \$2,822,890 and the decrease in total liabilities and deferred inflows of resources yields an increase in net position of \$7,966,719. The increase in net position is primarily in the category of Net Investment in Capital Assets, in the amount of \$5,807,950.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. 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, 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 Position, Condensed

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating Revenues	\$ 80,650,320	\$ 76,123,240
Operating Expenses	<u>115,345,402</u>	<u>113,475,137</u>
Operating Loss	(34,695,082)	(37,351,897)
Nonoperating Revenues and Expenses	<u>33,010,161</u>	<u>30,683,021</u>
Income (Loss) Before other Revenues, Expenses, Gains or Losses	(1,684,921)	(6,668,876)
Other Revenues, Expenses, Gains or Losses	<u>9,651,640</u>	<u>546,015</u>
Increase in Net Assets	7,966,719	(6,122,861)
Net Position at Beginning of Year, as originally reported	<u>59,821,274</u>	<u>65,944,135</u>
Net Position at End of Year	<u>\$ 67,787,993</u>	<u>\$ 59,821,274</u>

The Statement of Revenues, Expenses and Changes in Net Position reflect a positive year, which is represented by an increase in net position at the end of the year. Some highlights of the information presented on this statement are as follows:

Revenue by Source
For the Years Ended June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating Revenues		
Tuition and Fees	\$ 50,812,722	\$ 48,336,371
Grants and Contracts	531,735	361,402
Sales and Services	1,774,767	1,629,651
Auxiliary	27,154,958	25,303,564
Other	376,138	492,252
Total Operating Revenues	<u>80,650,320</u>	<u>76,123,240</u>
Nonoperating Revenues		
State Appropriations	29,005,791	27,229,767
Grants and Contracts	8,251,046	8,002,731
Gifts	2,223,769	1,426,205
Investment Income	1,024,071	587,334
Other	330,995	51,842
Total Nonoperating Revenues	<u>40,835,672</u>	<u>37,297,879</u>
Capital Gifts and Grants		
State	9,210,474	264,370
Other Capital Gifts and Grants	441,166	281,645
Total Capital Gifts and Grants	<u>9,651,640</u>	<u>546,015</u>
Total Revenues	<u>\$ 131,137,632</u>	<u>\$ 113,967,134</u>

Expenses (By Functional Classification)
For the Years Ended June 30, 2014 and June 30, 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating Expenses		
Instruction	\$ 39,567,166	\$ 38,121,426
Research	569,504	368,075
Public Service	834,233	624,071
Academic Support	13,084,917	11,791,658
Student Services	7,510,195	8,254,065
Institutional Support	14,162,260	13,470,215
Plant Operations and Maintenance	13,606,585	14,458,505
Scholarships and Fellowships	2,008,231	2,040,472
Auxiliary Enterprises	24,002,311	24,346,650
Total Operating Expenses	115,345,402	113,475,137
Nonoperating Expenses		
Interest Expense (Capital Assets)	7,825,511	6,614,858
Total Expenses	<u>\$ 123,170,913</u>	<u>\$ 120,089,995</u>

Operating revenues increased by \$4,527,080 in fiscal year 2014. Tuition and Fees included a 5% increase, Operating Grants and Contracts had a 47% increase, Sales and Services had a 9% increase, and Auxiliaries had a 7% increase. The only Operating revenues that had a decrease was in Other Operating revenues, which decreased by 24%.

The Auxiliary revenue increase of \$1,851,394 is primarily due to an increase of 10% in Residence Halls revenue, a result of the housing rate increase for fiscal year 2014, the changing environment of residential life on the University's campus and our residence halls being at full capacity for the fiscal year 2014.

Non-operating revenues increased by \$3,537,793 for the year primarily due to an increase in: State Appropriations, non-capital Gifts, and Investment Income (which was primarily an increase in Unrealized Gains, or the write-up to fair market value of Investments).

The compensation and employee benefits category increased by \$1,510,084 and primarily affected the Academic Support and Auxiliaries categories. The increase generally reflects the addition of eight new professional academic advisors to our Academic Support staff and also salary increases for a few upper-level academic administrators. Also, as is usually the case, there were increases in fiscal year 2014 in the health insurance and retirement plans employer-portion of expenses for employees of the institution.

Utilities expenses increased by \$323,413 during the past year, an 8% increase over the prior year. The nominal increase was primarily associated with the increased energy costs that were experienced during the very cold winter of fiscal year 2014 and mostly affected the Plant Operations and Maintenance category.

Statement of Cash Flows

The final statement presented by the Georgia College & 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 Position.

Cash Flows for the Years Ended June 30, 2014 and 2013, Condensed

	June 30, 2014	June 30, 2013
Cash Provided (used) By:		
Operating Activities	\$ (26,991,762)	\$ (27,456,989)
Non-capital Financing Activities	38,146,806	37,207,582
Capital and Related Financing Activities	(10,505,693)	(10,924,669)
Investing Activities	119,235	5,936
Net Change in Cash	768,586	(1,168,140)
Cash, Beginning of Year	20,878,138	22,046,278
Cash, End of Year	\$ 21,646,724	\$ 20,878,138

Capital Assets

The University had one significant capital asset addition for facilities in fiscal year 2014. Georgia College & State University completed major renovations to the historic Ennis Hall in fiscal year 2014. Approximately \$9 million of this project was funded by the Georgia State Financing and Investment Commission (GSFIC). Other projects funded by the GSFIC included approximately \$2.1 million in non-capitalized repairs and renovations and equipment. Projected funding by GSFIC for fiscal year 2015 is expected to be less than in fiscal year 2014 due upcoming projects' magnitude and scope not being as large as it was for Ennis Hall.

For additional information concerning Capital Assets, see Notes 1, 6, 8, and 10 in the Notes to the Financial Statements.

Long Term Liabilities

Georgia College & State University had Long-Term Liabilities of \$132,762,808 of which \$3,810,722 was reflected as current liability at June 30, 2014.

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

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, and the University continues to operate effectively within budgetary parameters and constraints. Even with a relatively flat funded year, the University was able to generate a good increase in Net Position. 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.

 _____, President
Georgia College & State University

Statement of Net Position

GEORGIA COLLEGE & STATE UNIVERSITY STATEMENT OF NET POSITION June 30, 2014

ASSETS

Current Assets

Cash and Cash Equivalents	\$	21,268,681
Short-term Investments		
Accounts Receivable, net (Note 3)		
Receivables - Federal Financial Assistance		484,225
Receivables - State General Appropriations		
Margin Allocation Funds		
Receivables - Other		2,526,783
Due From Affiliated Organizations		190,006
Inventories (Note 4)		48,595
Prepaid Items		719,736
Other Assets		
Total Current Assets		<u>25,238,026</u>

Non-Current Assets

Noncurrent Cash	\$	378,043
Short-term Investments		
Investments (Externally Restricted)		5,229,684
Due from Affiliated Organizations		2,455,764
Due from USO - Capital Liability Reserve Fund		1,084,672
Investments		2,001,207
Notes Receivable, net		2,331,397
Capital Assets, net (Note 6)		<u>175,141,372</u>
Total Non-Current Assets		<u>188,622,139</u>
TOTAL ASSETS		<u>213,860,165</u>

DEFERRED OUTFLOWS OF RESOURCES

LIABILITIES

Current Liabilities

Accounts Payable	\$	3,874,053
Salaries Payable		183,903
Benefits Payable		
Contracts Payable		532,215
Deposits		322,536
Advances (Including Tuition and Fees) (Note 7)		1,612,332
Other Liabilities		935,541
Deposits Held for Other Organizations		1,132,352
Lease Purchase Obligations		1,940,893
Compensated Absences		1,869,829
Due to Affiliated Organizations		<u>1,886</u>
Total Current Liabilities		<u>12,405,540</u>

Non-Current Liabilities

Lease Purchase Obligations	\$	128,136,378
Advances (Including Tuition and Fees)		-
Compensated Absences		<u>815,708</u>
Total Non-Current Liabilities		<u>128,952,086</u>
TOTAL LIABILITIES		<u>141,357,626</u>

DEFERRED INFLOWS OF RESOURCES

Other deferred inflows		<u>4,714,546</u>
TOTAL DEFERRED INFLOWS OF RESOURCES		<u>4,714,546</u>

NET POSITION

Net Investment in Capital Assets	\$	48,165,631
Restricted for		
Nonexpendable		3,843,361
Expendable		5,370,170
Unrestricted		<u>10,408,831</u>
TOTAL NET POSITION	<u>\$</u>	<u>67,787,993</u>

Statement of Revenues, Expenses and Changes in Net Position

GEORGIA COLLEGE & STATE UNIVERSITY
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION
For the Year Ended June 30, 2014

REVENUES

Operating Revenues

Student Tuition and Fees (net of allowance for doubtful accounts)	\$	57,471,880
Less: Scholarship Allowances		(6,659,158)

Grants and Contracts

Federal	443,848
State	22,525
Other	65,362

Sales and Services	1,774,767
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Rents and Royalties	33,927
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Auxiliary Enterprises

Residence Halls	13,734,672
Bookstore	809,369
Food Services	7,163,043
Parking/Transportation	1,315,774
Health Services	1,252,183
Intercollegiate Athletics	2,578,584
Other Organizations	301,333

Other Operating Revenues	342,211
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Total Operating Revenues	80,650,320
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EXPENSES

Operating Expenses

Salaries:

Faculty	\$	26,152,719
Staff		27,825,132

Employee Benefits	16,525,975
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Other Personal Services	258,812
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Travel	1,105,802
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Scholarships and Fellowships	2,825,832
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Utilities	3,962,786
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Supplies and Other Services	29,087,947
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Depreciation	7,600,397
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Total Operating Expenses	115,345,402
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Operating Income (loss)	(34,695,082)
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Statement of Revenues, Expenses and Changes in Net Position, Continued

GEORGIA COLLEGE & STATE UNIVERSITY
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION
For the Year Ended June 30, 2014

NONOPERATING REVENUES (EXPENSES)

State Appropriations	\$ 29,005,791
Grants and Contracts	
Federal	6,815,133
State	39,635
Other	1,396,278
Gifts	2,223,769
Investment Income (endowments, auxiliary and other)	1,024,071
Interest Expense (capital assets)	(7,825,511)
Other Nonoperating Revenues (Expenses)	330,995
Net Nonoperating Revenues	<u>33,010,161</u>
Income (Loss) Before Other Revenues, Expenses,	
Gains, or Losses	<u>(1,684,921)</u>
Capital Grants and Gifts	
State	9,210,474
Other	441,166
Total Other Revenues, Expenses, Gains or Losses	<u>9,651,640</u>
Increase (Decrease) in Net Position	<u>7,966,719</u>

NET POSITION

Net Position-Beginning of Year, As Originally Reported	<u>59,821,274</u>
Net Position-End of Year	<u>\$ 67,787,993</u>

Statement of Cash Flows

GEORGIA COLLEGE & STATE UNIVERSITY STATEMENT OF CASH FLOWS For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 50,430,684
Federal Appropriations	
Grants and Contracts (Exchange)	582,211
Sales and Services	1,813,495
Payments to Suppliers	(50,747,196)
Payments to Employees	(53,540,466)
Payments for Scholarships and Fellowships	(2,825,832)
Loans Issued to Students and Employees	(588,113)
Collection of Loans to Students and Employees	347,219
Auxiliary Enterprise Charges:	
Residence Halls	13,724,219
Bookstore	785,046
Food Services	7,160,044
Parking/Transportation	1,340,468
Health Services	1,252,083
Intercollegiate Athletics	2,586,916
Other Organizations	309,719
Other Receipts (Payments)	377,741
Net Cash Provided (used) by Operating Activities	(26,991,762)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State Appropriations	\$ 29,005,791
Agency Funds Transactions	(182,794)
Gifts and Grants Received for Other Than Capital Purposes	8,940,832
Other Nonoperating Receipts (Expenses)	382,977
Net Cash Flows Provided by Non-capital Financing Activities	38,146,806

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Gifts and Grants Received	\$ 37,500
Purchases of Capital Assets	(2,035,117)
Principal Paid on Capital Debt and Leases	(1,668,623)
Interest Paid on Capital Debt and Leases	(6,839,453)
Net Cash used by Capital and Related Financing Activities	(10,505,693)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	\$ 3,285,532
Interest on Investments	197,810
Purchase of Investments	(3,364,107)
Net Cash Provided (used) by Investing Activities	119,235
Net Increase/Decrease in Cash	768,586
Cash and Cash Equivalents - Beginning of year	20,878,138
Cash and Cash Equivalents - End of Year	\$ 21,646,724

Statement of Cash Flows, Continued

GEORGIA COLLEGE & STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

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

Operating Income (loss)	\$ (34,695,082)
Adjustments to Reconcile Net Income (loss) to Net Cash Provided (used) by Operating Activities	.
Depreciation	7,600,397
Change in Assets and Liabilities:	
Receivables, net	(79,067)
Inventories	7,928
Other Assets	11,136
Prepaid Items	(66,649)
Notes Receivable, Net	(111,058)
Accounts Payable	543,767
Salaries Payable	35,700
Advances (Including Tuition and Fees)	(191,915)
Other Liabilities	(157,684)
Compensated Absences	110,765
Net Cash Provided (used) by Operating Activities	<u>\$ (26,991,762)</u>

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

Change in fair value of investments recognized as a component of interest income	<u>\$ 826,261</u>
Gift of capital assets reducing proceeds of capital gifts and grants	<u>\$ (9,614,140)</u>

GEORGIA COLLEGE & STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Georgia College & 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 College & State University is one of thirty-one (31) 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 College & 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 College & State University does not have authority to retain unexpended State appropriations (surplus) for any given fiscal year. Accordingly, Georgia College & 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.

Legally separate, tax exempt Affiliated Organizations whose activities primarily support units of the University System of Georgia, which are organizational units of the State of Georgia, are considered potential Component Units of the State. See Note 16 for additional information.

Financial Statement Presentation

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 position, revenues, expenses, changes in net position and cash flows.

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. 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.

New Accounting Pronouncements

In fiscal year 2014, the University adopted the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this Statement clarify the use of deferred inflows of resources and deferred outflows of resources. Certain items, including those items which were previously reported as assets and liabilities, will now be reported as outflows of resources or inflows of resources. As a result of this implementation, the University changed the classification of certain assets to deferred outflows of resources and liabilities to deferred inflows of resources.

In fiscal year 2014, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Corrections – 2012, an amendment to GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting guidance by amending GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 10 was amended by removing the provision that limited fund based reporting of an entity's risk and financing activities to certain funds. GASB Statement No. 62 was amended by modifying guidance on (1) operating lease payments that vary from a straight-line basis, (2) purchases of a loan or a group of loans, and (3) recognition of servicing fees on mortgage loans that are sold when the stated service fee rate differs from a current (normal) servicing fee rate.

In fiscal year 2014, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and reporting requirements for state and local governments that extend or receive financial guarantees that are nonexchange transactions.

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, which includes 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

Investments include financial instruments with terms in excess of 13 months, certain other securities for the production of revenue, land, and other real estate held as investments by endowments. The University accounts for its investments at fair value. 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 Position. 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 whom reside 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

Georgia College & State University does not maintain an inventory for consumable supplies. 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 Position.

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, which also includes amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, and copyrights, as well as software, 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 generally are 10% of historical costs for infrastructure, buildings and building improvements, and facilities and other improvements.

To fully understand 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. These bonds 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, 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, 2014, GSFIC transferred capital additions valued at \$8,950,506 to Georgia College & State University.

Deposits

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

Advances

Advances 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. Advances 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 Position, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses and Changes in Net Position. Georgia College & State University had accrued liability for compensated absences in the amount of \$2,574,772 as of July 1, 2013.

For fiscal year 2014, \$2,002,368 was earned in compensated absences and employees were paid \$1,891,603, for a net increase of \$110,765. The ending balance as of June 30, 2014 in accrued liability for compensated absences was \$2,685,537.

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.

Service Concession Agreements

Service concession agreements are arrangements between a government (transferor, one of our institutions) and a third party (operator) in which **all** of the following criteria are met:

- a. The institution conveys to the operator the right and obligation to provide public services through the use and operation of a capital asset in exchange for **significant consideration**. Significant consideration could be in the form of up-front payments, installment payments, a new facility or improvements to existing facility.
- b. The operator collects and is compensated by fees from third parties.
- c. The institution has the ability to modify or approve what services the operator is required to provide, to whom services are provided, and prices or rates that can be charged for those services.
- d. The institution is entitled to significant residual interest in the service utility of the asset at the end of the arrangement.

At June 30, 2014, the University had no service concession agreements.

Net Position

The University's net position is classified as follows:

Net Investment in Capital Assets: 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 the net investment in capital assets. 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 – non-expendable includes 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 be either 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 – expendable includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Expendable Restricted include the following at June 30, 2014:

Restricted - E&G and Other Organized	
Activities	\$ 1,619,186
Federal Loans	2,681,943
Institutional Loans	<u>1,069,041</u>
Total Restricted Expendable	<u>\$ 5,370,170</u>

Restricted – 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: Unrestricted represents 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 the State Treasurer. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Unrestricted resources include the following items which are quasi-restricted by management at June 30, 2014:

R & R Reserve	\$ 16,898,792
Reserve for Encumbrances	9,642,041
Other Unrestricted	<u>(16,132,002)</u>
Total Unrestricted Net Position	<u>\$ 10,408,831</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 College & 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 and Expenses

The Statement of Revenues, Expenses and Changes in Net Position classify fiscal year activity as operating and non-operating according to the following criteria:

Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) certain federal, state and local grants and contracts, and (3) sales and services.

Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenue by GASB No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, such as state appropriations and investment income.

Operating Expenses: Operating expense includes activities that have the characteristics of exchange transactions.

Non-operating expense includes activities that have the characteristics of non-exchange transactions, such as capital financing costs and costs related to investment activity.

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 Position. 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 non-governmental programs are recorded as either operating or non-operating 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.

Auxiliary Intercollegiate Athletics revenue of \$2,578,584 is reported net of discounts and allowances of \$553,229.

Restatement of Prior Year Net Position

Georgia College & State University has a restatement of prior year Capital Assets, decreasing beginning Capital Leased assets by \$4,289,687. This decrease in Assets is offset by a decrease to beginning Capital Lease Liability of the same amount, \$4,289,687, which resulted in no overall effect to beginning net position. This restatement is due to a correction necessitated by a change in accounting principle that required adjustments to bring capital lease liabilities of the University and related asset values in line and consistent with the Georgia College & State University Foundation, Inc.'s asset values in accordance with GASB Statement No. 61.

Note 2. Deposits and Investments

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, 2014, the carrying value of deposits was \$21,628,759 and the bank balance was \$22,422,884. Of the University's deposits, \$22,055,367 were uninsured. Of these uninsured deposits, \$2,861,017 were collateralized with securities held by the financial institution's trust department or agent in the University's name, \$19,194,350 were collateralized with securities held by the financial institution, by its trust department or agency, but not in the University's name and \$0 were uncollateralized.

Investments

Georgia College & State University maintains an investment policy which fosters sound and prudent judgment in the management of assets to ensure safety of capital consistent with the fiduciary responsibility each institution has to the citizens of Georgia and which conforms to Board of Regents investment policy. All investments are consistent with donor intent, Board of Regents policy, and applicable federal and state laws.

The University's investments as of June 30, 2014 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

	Fair Value	Less Than 3 Months	4-12 Months	1-5 Years	6-10 Years	More Than 10 Years
Investment type						
Debt Securities						
U.S. Treasuries	\$ 153,907		\$ 10,181	\$ 42,448	\$ 101,278	
U.S. Agencies						
Explicitly Guaranteed						
Implicitly Guaranteed	15,308			15,308		
Bond Securities						
Certificates of Deposit						
Corporate Debt	101,419		4,778	55,630	41,011	
General Obligation Bonds						
Money Market Mutual Fund						
Municipal Obligation						
Mutual Bond Fund	148,703				148,703	
Repurchase Agreements						
	419,337	\$ -	\$ 14,959	\$ 113,386	\$ 290,992	\$ -
Other Investments						
Bond Exchange-Traded Funds (ETFs)	744,046					
Equity Mutual Funds - Domestic	1,979,000					
Equity Mutual Funds - International	545,348					
Equity Securities - Domestic	677,075					
Equity Securities - International	64,929					
Real Estate Investment Trusts	124,166					
Other - Commodities Market Funds	109,420					
Other - International Fixed						
Investment Pools						
Board of Regents						
Total Return Fund	2,567,570					
Office of the State Treasurer						
Georgia Fund 1						
Georgia Extended Asset Pool						
Georgia Extended Asset Pool						
Total Investments	\$ 7,230,891					

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 – System 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.ga.gov>.

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. Through a management agreement, the Georgia College & State University Foundation, Inc. manages the University's endowment funds. The Georgia College & State University Foundation's policy for managing interest rate risk as adopted by the Investment Committee on April 17, 2008, is:

Fixed Income:

1. Fixed Income investments shall be limited to government, government agency, and corporate instruments having minimum investment grade credit ratings of "Baa" by Moody's, "BBB" by Standard & Poor's, unless specifically approved as an exception by the Committee.
2. Except for government and agency issues, no more than ten (10) percent of the market value of the portfolio should be invested in any one issue, no more than twenty (20) percent of the market value in any one industry, unless specifically approved as an exception by the Committee.
3. The Asset Allocation guideline for Cash and Cash Equivalents is 5% to 15% of the investment portfolio and Fixed Income is 25% to 35% of the investment portfolio.

The Effective Duration of the Total Return Fund is 5.25 years. Of the University's total investment of \$2,567,570 in the Total Return Fund, \$78,588 is invested in debt securities.

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 University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Through a management agreement, the Georgia College & State University Foundation, Inc. manages the University's endowment funds. The University Foundation's policy for managing custodial credit risk, as adopted by the Georgia College & State University Foundation's Investment Committee on April 17, 2008, is:

1. The investment manager(s)'s performance shall be compared regularly with the performance of the appropriate equity or fixed income market indices, performance of peers, industry benchmarks and other reasonable peer performance guidelines.
 - a. Equity management will be expected to achieve at least average total rates of return, net of fees, over rolling three (3) year periods that equal or exceed the rates of return of the applicable indices.
 - b. Fixed income management will be expected to achieve at least average total rates of return, net of fees over rolling three (3) year periods that equal or exceed the Shearson Lehman (now Barclays) Government Corporate Bond Index.
2. The investment manager(s) can be responsible for custody of securities. If the investment manager does not generally offer custodial services, the (Investment) Committee shall name a custodian.
3. All transactions shall be entered into on the basis of best execution, which means best-realized net price.

At June 30, 2014, \$4,429,735 of the University's applicable investments were uninsured and held by the investment's counterparty's trust department or agent, but not in the University's name.

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Through a management agreement, the Georgia College & State University Foundation, Inc. manages the University's endowment funds. The University Foundation's policy for managing credit quality risk, as adopted by the Georgia College & State University Foundation's Investment Committee on April 17, 2008, is:

Equities:

1. Permissible equity investment vehicles shall be limited to common stock and preferred stock and American depository receipts.
2. The maximum equity target shall be defined and communicated to the investment manager in the form of an Asset Allocation Guideline. The equity target may be altered by providing a newly executed Asset Allocation Guideline to the investment manager if deemed appropriate by the Institution.
3. The portfolio shall be diversified among different industries, with a concentration in any single industry of not greater than twenty (20) percent and in any single company of not greater than five (5) percent, unless specifically approved as an exception.

Fixed Income:

1. Fixed Income investments shall be limited to government, government agency, and corporate instruments having minimum investment grade credit ratings of "Baa" by Moody's, "BBB" by Standard & Poor's, unless specifically approved as an exception by the Committee.
2. Except for government and agency issues, no more than ten (10) percent of the market value of the portfolio should be invested in any one issue, no more than twenty (20) percent of the market value in any one industry, unless specifically approved as an exception by the Committee.
3. The Asset Allocation guideline for Cash and Cash Equivalents is 5% to 15% of the investment portfolio and Fixed Income is 25% to 35% of the investment portfolio.

The investments subject to credit quality risk are reflected below:

	Fair Value	AAA	AA	A	BBB	Unrated
Related Debt Investments						
U. S. Treasuries	\$ 153,907	\$ 153,907				
U. S. Agency Securities	15,308	15,308				
Bond Securities						
Certificates of Deposit						
Corporate Bonds						
Corporate Debt	101,419		21,258	40,056	40,105	
General Obligation Bonds						
Money Market Mutual Fund						
Municipal Obligation						
Mutual Funds - Bonds	148,703	15,813		2,190	58,356	72,344
Repurchase Agreements						
	<u>\$ 419,337</u>	<u>\$ 185,028</u>	<u>\$ 21,258</u>	<u>\$ 42,246</u>	<u>\$ 98,461</u>	<u>\$ 72,344</u>

Concentration of Credit Risk

Georgia College & State University had no investments at June 30, 2014, that were subject to concentration of credit risk or foreign currency risk.

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2014:

Student Tuition and Fees	\$	120,865
Auxiliary Enterprises and Other Operating Activities		175,281
Federal Financial Assistance		484,225
Georgia State Financing and Investment Commission		733,708
Due from Affiliated Organizations		190,006
Other		1,564,507
		<u>3,268,592</u>
Less: Allowance for Doubtful Accounts		<u>67,578</u>
Net Accounts Receivable	\$	<u>3,201,014</u>

Note 4. Inventories

Inventories consisted of the following at June 30, 2014:

Bookstore	\$	3,747
Other		<u>44,848</u>
Total	\$	<u>48,595</u>

Note 5. Notes/Loans Receivable

The Federal Perkins Loan Program (the Program) comprises substantially all of the loans receivable at June 30, 2014. 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 not 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, 2014, the allowance for uncollectible loans is \$0.

Note 6. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2014:

	(Restated) Beginning Balances July 1, 2013	Additions	Reductions	Ending Balance June 30, 2014
Capital Assets, Not Being Depreciated:				
Land	\$ 1,417,860			\$ 1,417,860
Capitalized Collections	91,175			91,175
Construction Work-in-Progress	2,179,521	348,159	614,017	1,913,663
Total Capital Assets Not Being Depreciated	3,688,556	348,159	614,017	3,422,698
Capital Assets, Being Depreciated/Amortized:				
Infrastructure				
Building and Building Improvements	89,458,218	9,685,070		99,143,288
Facilities and Other Improvements	867,019			867,019
Equipment	13,671,680	1,890,233	425,222	15,136,691
Capital Leases	130,818,734		5,671	130,813,063
Library Collections	9,189,430	305,809	54,598	9,440,641
Capitalized Collections	156,300			156,300
Total Capital Assets Being Depreciated/Amortized	244,161,381	11,881,112	485,491	255,557,002
Less: Accumulated Depreciation/Amortization				
Infrastructure				
Buildings	38,239,226	2,059,366		40,298,592
Facilities and Other Improvements	780,537			780,537
Equipment	8,032,248	1,632,858	412,529	9,252,577
Capital Leases	22,404,097	3,549,117	5,671	25,947,543
Library Collections	7,184,496	354,686	54,598	7,484,584
Capitalized Collections	70,125	4,370		74,495
Total Accumulated Depreciation/Amortization	76,710,729	7,600,397	472,798	83,838,328
Total Capital Assets, Being Depreciated/Amortized, Net	167,450,652	4,280,715	12,693	171,718,674
Capital Assets, net	\$ 171,139,208	\$ 4,628,874	\$ 626,710	\$ 175,141,372

Note 7. Advances (Including Tuition and Fees)

Advances (Including Tuitions and Fees) consisted of the following at June 30, 2014:

	<u>June 30, 2014</u>
Prepaid Tuition and Fees	\$ 1,587,159
Other - Advances	<u>25,173</u>
Totals	<u>\$ 1,612,332</u>

Note 8. Long Term Liabilities

Long-Term liability activity for the year ended June 30, 2014 was as follows:

	<u>Balance July 1, 2013 (Restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2014</u>	<u>Current Portion</u>
Leases					
Lease Purchase Obligations	\$ 131,745,894		1,668,623	\$ 130,077,271	\$ 1,940,893
Other Liabilities					
Compensated Absences	<u>2,574,772</u>	<u>2,002,368</u>	<u>1,891,603</u>	<u>2,685,537</u>	<u>1,869,829</u>
Total Long-Term Obligations	<u>\$ 134,320,666</u>	<u>\$ 2,002,368</u>	<u>\$ 3,560,226</u>	<u>\$ 132,762,808</u>	<u>\$ 3,810,722</u>

Note 9. Significant Commitments

The University had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$3,200,055 as of June 30, 2014. This amount is not reflected in the accompanying basic financial statements.

Note 10. Lease Obligations

Georgia College & 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 2025 and 2041. Expenditures for fiscal year 2014 were \$8,500,237 of which \$6,831,614 represented interest and \$1,668,623 represented principal paid on capital leases. Interest rates range from 4.100% (percent) to 5.222% (percent.) The following is a summary of the carrying values of assets held under capital lease at June 30, 2014:

Description	Gross Amount	Less: Accumulated Depreciation	Net, Assets Held Under Capital Lease at June 30, 2014	Outstanding Balances per lease schedules at June 30, 2014
	(+)	(-)	(*)	
Land - (PPV)	735,481		735,481	570,172
Equipment	57,673	56,018	1,655	
Equipment - (PPV)	354,940	220,735	134,205	322,857
Buildings - (PPV)	129,258,240	25,350,972	103,907,268	123,642,144
Facilities and Improvements - (PPV)	1,142,211	319,819	822,392	715,989
Total Assets Held Under Capital Lease at June 30, 2014	<u>\$ 131,548,545</u>	<u>\$ 25,947,544</u>	<u>\$ 105,601,001</u>	<u>\$ 125,251,162</u>

(*) Of the total capital lease debt of \$130,077,271 only \$125,251,162 is associated with capitalized assets. The remaining \$4,826,109 is capital lease debt associated with assets that did not meet capitalization thresholds.

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 College & State University had three capital leases with related entities in the current fiscal year. In June 2007, Georgia College & State University entered into a capital lease of \$94,350,650 at 4.715% (percent) with the Georgia College & State University Foundation, Inc., a discretely presented affiliated organization, whereby the University leases Student **housing** for a twenty-seven year period that began June 15, 2007, and expires March 24, 2034. In February 2005, the University entered into a capital lease of \$6,382,006 at 4.100% (percent) with the Georgia College & State University Foundation, Inc., a discretely presented affiliated organization, whereby the University leases land and a building (**Student Activity Center**) for a twenty-year period that began February 1, 2005, and expires June 30, 2025. In addition, Georgia College & State University entered into a capital lease of \$1,595,164 at 4.100% (percent) with the Georgia College & State University Foundation, Inc., whereby the University leases a **Parking facility** for a twenty-one year period that began September 1, 2004, and expires June 30, 2025. The outstanding liability at June 30, 2014, on these capital leases is \$87,234,518 for Student housing, \$3,595,571 for the Student Activity Center and \$905,325 for the Parking facility.

Georgia College & State University also has two additional real property capital leases with an unrelated party. The University entered into a capital lease for the **Campus Theatre** for \$9,448,892 at varying interest rates from 4.000% (percent) to 6.250% (percent) with the USG Real Estate Foundation I, LLC and the Board of Regents for Georgia College & State University's use of the asset. This capital lease is for a 30 year period that began January 28, 2008. The University also entered into a capital lease for the **Student Wellness & Recreation Center** for \$29,443,514 at an interest rate of 5.186% (percent) with the USG Real Estate

Foundation I, LLC and the Board of Regents for Georgia College & State University's use of the asset.

This capital lease is for a 30 year period that began August 12, 2010. The outstanding liability at June 30, 2014, on these capital leases is \$9,347,286 and \$28,994,571 respectively. The University is responsible for operating costs such as repairs and utilities for these leased assets.

OPERATING LEASES

Georgia College & State University's non-cancellable operating leases having remaining terms of only one year and expire in fiscal year 2015, with the option to renew each fiscal year. Certain operating leases provide for renewal options for periods from one to three 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 fiscal year 2007, Georgia College & State University entered into a real property operating lease with the Georgia College & State University Foundation, Inc., a related party, for the Macon Graduate and Professional Programs from November 25, 2006, through November 29, 2009. The option to renew was exercised in November, 2009, and every year since then through fiscal year 2015 for annual rentals of \$313,836. The agreement does contain an option to renew or extend the Agreement at the expiration of the term on a year-to-year basis for three (3) consecutive years. Under this agreement, Georgia College & State University paid \$333,036 in fiscal year 2014.

Following are the Operating Leases held by the University during fiscal year 2014:

<u>Property Leased</u>	<u>Location</u>	<u>Lessor</u>	<u>Annual Lease</u>
Macon Graduate & Professional Programs Center	433 Cherry St Macon, GA	GCSU Foundation	\$333,036
McComb Building	115 S. Wilkinson St Milledgeville, GA	GCSU Foundation	\$ 34,560
Parking Lot	425 N. Clark St Milledgeville, GA	Wilkinson Colonial Properties	\$ 27,360
Storage	121 Blandy Rd NW Milledgeville, GA	Warehouse Solutions, LLC	\$ 13,395
Parking Lot	Tatnall St Milledgeville, GA	Norfolk Southern Corp	\$ 741
Depot Building Easement	Greene St Milledgeville, GA	Norfolk Southern Corp	\$ 240
Parking Lot	433 Cherry St Macon, GA	City of Macon	\$ 4,200

Parking Lot	141 Thomas St Milledgeville, GA	Wilkinson Hilltop Investment, LLC	\$ 14,400
University Communications Building	127 W. Hancock St Milledgeville, GA	Pendergast Properties	\$ 21,582

FUTURE COMMITMENTS

Future commitments for capital leases (which here and on the Statement of Net Position) include other installment purchase agreements) and for non-cancellable operating leases having remaining terms in excess of one year as of June 30, 2014, were as follows:

Year Ending June 30:	Real Property and Equipment	
	Capital Leases	Operating Leases
2015	\$ 8,675,983	\$ 450,715
2016	8,858,651	
2017	9,045,612	
2018	9,241,053	
2019	9,439,166	
2020 through 2024	50,385,302	
2025 through 2029	53,653,673	
2030 through 2034	56,772,401	
2035 through 2039	13,605,196	
2040 through 2044	3,735,376	
Total minimum lease payments	\$ 223,412,413	\$ 450,715
Less: Interest	93,335,142	
Principal Outstanding	<u>\$ 130,077,271</u>	

Georgia College & State University's fiscal year 2014 expense for rental of real property and equipment under operating leases was \$449,514 .

Note 11. Retirement Plans

Georgia College & State University participates in various retirement plans administered by the State of Georgia under two major retirement systems: Employees' Retirement System of Georgia (ERS System) and Teachers Retirement System of Georgia. These two systems issue separate publicly available financial reports that include the applicable financial statements and required supplementary information. The reports may be obtained from the respective system offices. The significant retirement plans that Georgia College & State University participates in are described below. More detailed information can be found in the plan agreements and related legislation. Each plan, including benefit and contribution provisions, was established and can be amended by State law.

Employees' Retirement System of Georgia

The ERS System is comprised of individual retirement systems and plans covering substantially all employees of the State of Georgia except for teachers and other employees covered by the Teachers Retirement System of Georgia. One of the ERS System plans, the Employees' Retirement System of Georgia (ERS), is a cost-sharing multiple-employer defined benefit pension plan that was established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees and has the powers and privileges of a corporation. ERS acts pursuant to statutory direction and guidelines, which may be amended prospectively for new hires but for existing members and beneficiaries may be amended in some aspects only subject to potential application of certain constitutional restraints against impairment of contract.

On November 20, 1997, the Board created the Supplemental Retirement Benefit Plan (SRBP-ERS) of ERS. SRBP-ERS 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 the SRBP-ERS is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC Section 415. Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in the SRBP-ERS whenever their benefits under ERS exceed the limitation on benefits imposed by IRC Section 415.

The benefit structure of ERS is established by the Board of Trustees under statutory guidelines. Unless the employee elects 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. Members hired on or after July 1, 1982 but prior to January 1, 2009 are "new plan" members subject to the modified plan provisions. Effective January 1, 2009, newly hired State employees, as well as rehired State employees who did not maintain eligibility for the "old" or "new" plan, are members of the Georgia State Employees' Pension and Savings Plan (GSEPS). ERS members hired prior to January 1, 2009 also have the option to change their membership to the GSEPS plan.

Under the old plan, new plan, and GSEPS, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon a formula adopted by the Board of Trustees for such purpose. The formula considers the monthly average of the member's highest 24 consecutive calendar months of salary, the number of years of creditable service, and the member's age at retirement. Post-retirement cost-of-living adjustments may be made to members' benefits provided the members were hired prior to July 1, 2009. 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.

Member contribution rates are set by law. Member contributions under the old plan are 4% of annual compensation up to \$4,200 plus 6% of annual compensation in excess of \$4,200. Under the old plan, Georgia College & State University pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these Georgia College & State University contributions are included in the members' accounts for refund purposes and are used in the

computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25% of annual compensation. Georgia College & State University is required to contribute at a specified percentage of active member payroll established by the Board of Trustees determined annually in accordance with actuarial valuation and minimum funding standards as provided by law. These Georgia College & State University contributions are not at any time refundable to the member or his/her beneficiary.

Employer contributions required for fiscal year 2014 were based on the June 30, 2011 actuarial valuation as follows:

Old Plan*	18.46%
New Plan	18.46%
GSEPS	15.18%

*13.71% exclusive of contributions paid by the employer on behalf of old plan members

Members become vested after 10 years of service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

Teachers Retirement System of Georgia

The Teachers Retirement System of Georgia (TRS) is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS.

On October 25, 1996, the Board created the Supplemental Retirement Benefit Plan of the Georgia Teachers Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in

addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2014 were 6.00% of annual salary. Employer contributions required for fiscal year 2014 were 12.28% of annual salary as required by the June 30, 2011 actuarial valuation.

The following table summarizes the Georgia College & State University contributions by defined benefit plan for the years ending June 30, 2014, June 30, 2013, and June 30, 2012 (dollars in thousands):

	ERS		TRS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2014	\$44,958	100%	\$3,186,736	100%
2013	\$33,268	100%	\$2,871,179	100%
2012	\$16,582	100%	\$2,546,382	100%

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 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 all exempt full and partial benefit eligible employees, 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 (VALIC, 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 College & 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 2014, the employer contribution was 9.24% for the participating employee's earnable compensation. Employees contribute 6% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and non-forfeitable at all times.

Georgia College & State University and the covered employees made the required contributions of \$1,994,801 (9.24%) and \$1,295,325 (6%), respectively.

VALIC, 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 College & State University participates in the Georgia Defined Contribution Plan (GDCP) 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. GDCP 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 2014 amounted to \$71,387 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 four different healthcare plan options. For the University System of Georgia's Plan Year 2014, the following healthcare plan options were available:

- BlueChoice HMO
- Health Savings Account (HSA) Open Access POS
- Open Access Point-of-Service (POS)
- Kaiser Permanente HMO

Georgia College & State University and participating employees and retirees pay premiums to the healthcare plan options to access benefits coverage. The respective health 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 the self-insured plans; including the HSA Open Access POS, the Open Access POS and the BlueChoice HMO. The reserves for these plans are considered to be a self-sustaining risk fund. The Board of Regents has contracted with Blue Cross Blue Shield of Georgia to serve as the claims administrator for the self-insured healthcare plans. In addition to the self-insured healthcare plan options offered to the employees of the University System of Georgia, a fully insured HMO healthcare plan option is also offered to System employees through Kaiser Permanente.

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 College & 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 expenditure disallowed under grant terms. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although Georgia College & State University expects such amounts, if any, to be immaterial to its overall financial position.

Litigation, claims and assessments filed against Georgia College & 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, 2014.

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.

The Board of Regents Retiree Health Benefit Plan is a single-employer, defined benefit plan. Financial statements and required supplementary information for the Plan are included in the publicly available Consolidated Annual Financial Report of the University System of Georgia. The University pays the employer portion of health insurance for its eligible retirees based on rates that are established annually by the Board of Regents for the upcoming plan year. For the 2014 plan year, the employer rate was between 70-75% of the total health insurance cost for eligible retirees and the retiree rate was between 25-30%.

As of June 30, 2014, there were 285 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2014, Georgia College & State University recognized as incurred \$1,370,796 of expenditures, which was net of \$536,893 of participant contributions.

Note 15. Natural Classifications with Functional Classifications

The University's operating expenses by functional classification for fiscal year 2014 are shown below:

Natural Classification	Functional Classification Fiscal Year 2014					
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support
Faculty	\$ 23,423,126	\$ 153,637	\$ 39,257	\$ 2,284,410	\$ 112,107	\$ 82,938
Staff	3,384,147	161,611	407,284	4,904,207	3,503,496	6,289,895
Benefits	6,589,385	57,177	117,235	1,876,574	1,024,442	4,106,450
Personal Services	10,648		9,826	3,747	(6,242)	241,932
Travel	211,853	64,176	6,170	424,119	78,567	154,341
Scholarships and Fellowships	21,913					
Utilities	110,891	1,740	16,782	219,958	99,238	140,930
Supplies and Other Services	4,221,292	131,076	220,475	2,280,645	1,639,739	2,648,383
Depreciation	1,593,911	87	17,204	1,091,257	1,058,848	497,391
Total Expenses	<u>\$ 39,567,166</u>	<u>\$ 569,504</u>	<u>\$ 834,233</u>	<u>\$ 13,084,917</u>	<u>\$ 7,510,195</u>	<u>\$ 14,162,260</u>

Natural Classification	Functional Classification Fiscal Year 2014			
	Plant Operations & Maintenance	Scholarships & Fellowships	Auxiliary Enterprises	Total Expenses
Faculty			\$ 57,244	\$ 26,152,719
Staff	5,247,295		3,927,197	27,825,132
Benefits	1,807,868		946,844	16,525,975
Personal Services	(1,852,076)		1,850,977	258,812
Travel	41,506		125,070	1,105,802
Scholarships and Fellowships		2,008,231	795,688	2,825,832
Utilities	2,152,302		1,220,945	3,962,786
Supplies and Other Services	6,093,892		11,852,445	29,087,947
Depreciation	115,798		3,225,901	7,600,397
Total Expenses	<u>\$ 13,606,585</u>	<u>\$ 2,008,231</u>	<u>\$ 24,002,311</u>	<u>\$ 115,345,402</u>

Note 16. Affiliated Organizations

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, *The Reporting Entity* which became effective for the year ended June 30, 2004, Georgia College & State University Foundation, Inc. (Foundation) and Georgia College & State University Alumni Association, Inc. (Alumni Association) are legally separate, tax-exempt organizations whose activities primarily support Georgia College & State University, a unit of the University System of Georgia (an organizational unit of the State of Georgia). The State Accounting Office determined Component Units of the State of Georgia, as required by GASB Statement No. 39 and No. 61 should not be assessed in relation to their significance to Georgia College & State University, but instead be based on their significance to the State of Georgia.

Georgia College & State University Foundation, Inc. and Georgia College & State University Alumni Association, Inc. have been determined to be significant to the State of Georgia for the year ended June 30, 2014, and as such, are reported as discretely-presented component units in the Comprehensive Annual Financial Report of the State of Georgia (CAFR). Significant discretely-presented affiliated organizations issue separate audited financial statements that can be obtained from the following:

Foundation – Foundation Administrative Offices, Campus Box 96, Milledgeville, GA 31061

Alumni Association – Administrative Offices, Campus Box 96, Milledgeville, GA 31061