

SAVANNAH STATE UNIVERSITY

Financial Report (Unaudited)



For the Year Ended
June 30, 2010

Savannah State University

Savannah, Georgia

Earl G. Yarbrough, Sr., Ph.D.
President

Edward B. Jolley, Jr.
Vice President, Business and Financial Affairs

SAVANNAH STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FY 2010

Table of Contents

Management’s Discussion and Analysis	1
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets.....	10
Statement of Cash Flows	12
Note 1. Summary of Significant Accounting Policies	14
Note 2. Deposits and Investments.....	19
Note 3. Accounts Receivable.....	22
Note 4. Inventories.....	22
Note 5. Notes/Loans Receivable.....	22
Note 6. Capital Assets.....	23
Note 7. Deferred Revenue.....	24
Note 8. Long-Term Liabilities	24
Note 9. Significant Commitments.....	24
Note 10. Lease Obligations.....	24
Note 11. Retirement Plans	26
Note 12. Risk Management.....	30
Note 13. Contingencies	31
Note 14. Post-Employment Benefits Other Than Pension Benefits	31
Note 15. Natural Classifications with Functional Classifications	33
Note 16. Component Units	Error! Bookmark not defined.

SAVANNAH STATE UNIVERSITY

Management's Discussion and Analysis

Introduction

Savannah State University is one of the 35 institutions of higher education of the University System of Georgia. Chartered by the State of Georgia in 1890, as a department of the State University for the education and training of Negro students, Savannah State University now serves a diverse student population as a senior university of the University System of Georgia. The University serves a primarily African-American student population, enriched by a diversity of traditional and nontraditional students from other countries, cultures, and races.

Savannah State University, located in a coastal, urban, port city setting, serves residential and commuter students from diverse educational, geographical, and racial backgrounds. In a beautiful and unique setting of a live oak forest next to a salt marsh estuary, the University is well situated for the study of commercial, technological, environmental and urban issues.

The University's mission is to graduate students prepared to perform at higher levels of economic productivity, social responsibility, and excellence in their chosen fields of endeavor in a changing global community; this mission is consistent with the core missions of the University System of Georgia and the senior universities in the System. The educational goal is realized through program offerings in the College of Business Administration, the College of Liberal Arts and Social Sciences, and the College of Sciences and Technology, which lead to baccalaureate and master degrees. This wide range of educational opportunities attracts a highly qualified faculty and a student body of more than 3,000 students each year. The institution continues to grow as shown by the comparison numbers that follow.

	<u>Faculty</u>	<u>Students (Headcount)</u>	<u>Students (FTE)</u>
FY2010	180	3,820	3,587
FY2009	154	3,453	3,238
FY2008	136	3,169	2,950

Overview of the Financial Statements and Financial Analysis

Savannah State University is proud to present its financial statements for fiscal year 2010. 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 2010 and FY 2009.

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 Savannah 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, 2010</u>	<u>June 30, 2009</u>
Assets:		
Current Assets	\$13,922,771	\$10,299,690
Capital Assets, net	116,042,030	117,804,061
Other Assets	4,533,483	4,086,979
Total Assets	<u>134,498,284</u>	<u>132,190,730</u>
Liabilities:		
Current Liabilities	4,288,492	5,290,558
Noncurrent Liabilities	54,461,537	54,067,540
Total Liabilities	<u>58,750,029</u>	<u>59,358,098</u>
Net Assets:		
Invested in Capital Assets, net of debt	61,939,332	64,235,126
Restricted - nonexpendable	3,728,944	3,240,577
Restricted - expendable	927,615	1,058,761
Capital Projects	0	0
Unrestricted	9,152,364	4,298,168
Total Net Assets	<u>\$75,748,255</u>	<u>\$72,832,632</u>

The total assets of the institution increased by \$2,307,554 . A review of the Statement of Net Assets will reveal that the increase was primarily due to an increase of \$3,623,081 in the category of Current Assets. Both cash and accounts receivable increased in current assets due to a major increase in enrollment, particularly summer enrollment that occurred at the end of the fiscal year, and the timing of capital lease payments due to be paid in the first part of fiscal year 2011.

The total liabilities for the year decreased by (\$608,069), primarily due to a decrease in the amount of interest payable which had to be accrued at the end of the prior fiscal year on a capital lease. The combination of the increase in total assets of \$2,307,554 and the decrease in total liabilities of (\$608,069) yields an increase in total net assets of \$2,915,623 . The increase in total net assets is primarily in the category of Unrestricted Net Assets, representing the cash available to pay lease obligations and the increase in accounts receivable.

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, 2010</u>	<u>June 30, 2009</u>
Operating Revenues	\$37,931,054	\$30,340,497
Operating Expenses	<u>67,485,604</u>	<u>63,560,440</u>
Operating Loss	(29,554,550)	(33,219,943)
Nonoperating Revenues and Expenses	<u>31,672,208</u>	<u>27,271,851</u>
Income (Loss) Before other revenues, expenses, gains or losses	2,117,658	(5,948,092)
Other revenues, expenses, gains or losses	<u>797,965</u>	<u>14,508,115</u>
Increase in Net Assets	2,915,623	8,560,023
Net Assets at beginning of year, as originally reported	72,832,632	64,272,609
Prior Year Adjustments	<u>0</u>	<u>0</u>
Net Assets at beginning of year, restated	<u>72,832,632</u>	<u>64,272,609</u>
Net Assets at End of Year	<u>\$75,748,255</u>	<u>\$72,832,632</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year in the amount of \$2,915,623. While operating revenues increased approximately \$7.5 million or 25%, the University was able to hold the operating expenses increase to \$3.9 million or 6% in order to meet the continuing budget crisis. It should be noted that even though our service population of students was increasing, the University struggled to become more efficient while continuing to meet the needs of a growing campus. A large portion of the operating expense reduction came from furloughs and power savings due to contract negotiations.

The reduction in State Appropriations was partially offset by Federal Stabilization Funds in fiscal year 2010. However, of the \$4.4 million increase in non-operating revenues, \$4.8 million resulted directly from an increase in Federal Grants and Contracts non-operating revenue.

As compared to prior year's loss, the \$2 million in net income before capital grants and gifts resulted primarily from increased operating revenues due to enrollment, operating expense savings from both furloughs and power cost reductions, and increased federal grants and contracts in non-operating revenues.

Revenue by Source
For the Years Ended June 30, 2010 and June 30, 2009

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Operating Revenue		
Tuition and Fees	\$8,442,505	\$6,244,937
Federal Appropriations	0	0
Grants and Contracts	9,431,043	7,923,152
Sales and Services	210,562	161,135
Auxiliary	19,689,971	15,936,003
Other	156,973	75,270
Total Operating Revenue	<u>37,931,054</u>	<u>30,340,497</u>
Nonoperating Revenue		
State Appropriations	15,502,685	18,894,240
Federal Stimulus - Stabilization Funds	3,105,050	190,831
Grants and Contracts	13,843,720	8,879,787
Gifts	1,125,052	1,901,386
Investment Income	366,553	471,186
Other	81,441	(713,243)
Total Nonoperating Revenue	<u>34,024,501</u>	<u>29,624,187</u>
Capital Gifts and Grants		
State	797,965	14,508,115
Other Capital Gifts and Grants	0	0
Total Capital Gifts and Grants	<u>797,965</u>	<u>14,508,115</u>
Total Revenues	<u><u>\$72,753,520</u></u>	<u><u>\$74,472,799</u></u>

Expenses (By Functional Classification)
For the Years Ended June 30, 2010 and June 30, 2009

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Operating Expenses		
Instruction	\$15,331,616	\$14,753,388
Research	1,235,076	1,242,096
Public Service	2,376,890	1,971,089
Academic Support	5,863,845	6,042,208
Student Services	3,847,226	3,475,483
Institutional Support	7,453,390	8,805,641
Plant Operations and Maintenance	8,650,437	9,526,057
Scholarships and Fellowships	5,414,090	2,413,488
Auxiliary Enterprises	17,313,034	15,330,990
Unallocated Expenses	0	0
Patient Care (MCG only)	0	0
Total Operating Expenses	<u>67,485,604</u>	<u>63,560,440</u>
Nonoperating Expenses		
Interest Expense (Capital Assets)	2,352,293	2,352,336
Total Expenses	<u><u>\$69,837,897</u></u>	<u><u>\$65,912,776</u></u>

Operating revenues increased by \$7,590,557 or 25% in fiscal 2010 due primarily to enrollment and a related increase in federal operating grants and contracts.

The Auxiliary revenue increase of \$3,753,968 is a direct result of the changing environment of residential life on the University's campus and increased enrollment. While residential capacity has expanded the last few years at the University (approximately 1,400 beds in the last two fiscal years), Savannah State is experiencing increased enrollment of students who choose to live on campus. University Village and University Commons (which are both under Capital Lease) provided rentals of \$3,633,033 and \$3,332,198, respectively, for fiscal year 2010 to Savannah State University. Although all auxiliary revenues increased, Residence Halls revenue increased approximately \$1.7 million or 21%, Food Services increased approximately \$700 thousand or 15%, and Intercollegiate Athletics increased approximately \$680 thousand or 33%.

Non-operating revenues increased by \$4,400,357 for the year primarily due to an increase of \$4,857,269 or 55% in non-operating federal grants and contracts.

The compensation and employee benefits category increased by \$933,116 and primarily reflected increases in academic and institutional support. Institutional research reported an increase of twenty-six faculty members from the previous year that was needed to support the increased enrollment. Although no merit increases were given this fiscal year and six furlough days were utilized to reduce the cost of employees to the University, increased enrollment and restructuring of some areas supported a slight increase in employment levels.

Overall, operating expenses only increased \$3,925,164 or approximately 6%, due primarily to the increase in Scholarships and Fellowships in the amount of \$3,161,616, which represented a 78% increase over the prior year. Of this increase, \$2.7 million was related to an increase in Pell due directly to federal government action.

Utilities increased by \$32,061 during the past year. Although enrollment increased and put larger demands on the infrastructure, a significant cost savings was recognized through contractual changes that allowed the University to take advantage of off-peak pricing for electricity costs.

Statement of Cash Flows

The final statement presented by the Savannah 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, 2010 and 2009, Condensed

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash Provided (used) By:		
Operating Activities	(\$27,111,815)	(\$25,347,213)
Non-capital Financing Activities	33,663,142	30,021,408
Capital and Related Financing Activities	(4,902,033)	(3,459,273)
Investing Activities	78,229	24,608
Net Change in Cash	<u>1,727,523</u>	<u>1,239,530</u>
Cash, Beginning of Year	<u>6,643,283</u>	<u>5,403,753</u>
Cash, End of Year	<u><u>\$8,370,806</u></u>	<u><u>\$6,643,283</u></u>

Capital Assets

The University had no significant capital asset additions for facilities in fiscal year 2010. However, there was \$1,943.168 in Construction in Progress at fiscal year-end of which \$930,988 was related to the new Student Center & Stadium GEFA project (pending funding), \$485,585 was related to the Camilla Hall Renovation, \$298,232 for a lift station at the new Social Sciences building, and \$228,363 was related to a boat that is under construction for the Marine Sciences program.

Savannah State University completed \$640,110 in Building Improvements, with \$433,876 in the new Social Sciences building and \$206,234 to complete the Powell Hall Renovation. \$316,394 was expended to create the new Entrance Façade at the main gate. Of the \$768,102 spent on equipment, the University purchased the following: \$333,870 on lab equipment including a Beckman Coulter multisizer, catalysts, aquariums, and condensers; \$158,178 on information technology equipment, including large servers; \$59,907 on an air conditioning chiller for Drew Griffin Hall (GSFIC funded); \$33,612 on four Polaris 2010 windshields; \$20,673 on a mobile filing cabinet system; \$18,971 on a 2009 Chevrolet Impala; and the remaining \$142,891 on various smaller pieces of equipment.

Georgia State Financing and Investment Commission (GSFIC) funded two capital projects, including the \$433,876 for the new Social Sciences building previously mentioned and \$203,854 towards the lift station project. Projected funding by GSFIC for FY2011 will likely be approximate, including financing for certain expendable items.

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

Savannah State University had Long-Term Debt and Liabilities of \$55,619,571 of which \$1,158,034 was reflected as current liability at June 30, 2010.

For additional information concerning Long-Term Debt and 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. Even with a relatively flat funded year, the University was able to generate a modest increase in Net Assets, primarily through Federal Grants and Contracts. 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.

Earl G. Yarbrough, Sr., Ph.D.
President

Savannah State University

Statement of Net Assets

**SAVANNAH STATE UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2010**

	<u>June 30, 2010</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$8,344,980.00
Short-term Investments	408,276.00
Accounts Receivable, net (note 3)	
Receivables - Federal Financial Assistance	2,204,859.00
Receivables - State General Appropriations Allotment	
Margin Allocation Funds	
Receivables - Other	2,696,967.00
Due From Component Units	
Inventories (note 4)	62,318.00
Prepaid Items	205,371.00
Other Assets	
Total Current Assets	<u>13,922,771.00</u>
Noncurrent Assets	
Noncurrent Cash	25,826.00
Short-term Investments	62,044.00
Investments (Externally Restricted)	
Due from Component Units	
Investments	3,641,074.00
Notes Receivable, net	804,539.00
Capital Assets, net (note 6)	<u>116,042,030.00</u>
Total Noncurrent Assets	<u>120,575,513.00</u>
TOTAL ASSETS	<u>134,498,284.00</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	1,252,973.00
Salaries Payable	37,947.00
Benefits Payable	
Contracts Payable	
Deposits	
Deferred Revenue (note 7)	568,650.00
Other Liabilities	267.00
Deposits Held for Other Organizations	1,270,621.00
Lease Purchase Obligations (current portion)	461,329.00
Compensated Absences (current portion)	696,705.00
US DOE Settlement (current portion)	
Due to Component Units	
Notes and Loans Payable (current portion)	
Total Current Liabilities	<u>4,288,492.00</u>
Noncurrent Liabilities	
Lease Purchase Obligations (noncurrent)	53,641,369.00
Deferred Revenue (noncurrent)	
Compensated Absences (noncurrent)	820,168.00
US DOE Settlement (noncurrent)	
Due to Component Units	
Notes and Loans Payable (noncurrent)	
Total Noncurrent Liabilities	<u>54,461,537.00</u>
TOTAL LIABILITIES	<u>58,750,029.00</u>
NET ASSETS	
Invested in Capital Assets, net of related debt	61,939,332.00
Restricted for	
Nonexpendable	3,728,944.00
Expendable	927,615.00
Capital Projects	
Unrestricted	<u>9,152,364.00</u>
TOTAL NET ASSETS	<u>\$75,748,255.00</u>

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

SAVANNAH STATE UNIVERSITY
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS
for the Year Ended June 30, 2010

	<u>June 30, 2010</u>
REVENUES	
Operating Revenues	
Student Tuition and Fees (net of allowance for doubtful accounts)	\$18,092,646.00
Less: Scholarship Allowances	(9,650,141.00)
Federal Appropriations	
Grants and Contracts	
Federal	8,942,676.00
Federal Stimulus	90,892.00
State	121,183.00
Other	276,292.00
Sales and Services	210,562.00
Rents and Royalties	50,155.00
Auxiliary Enterprises	
Residence Halls	9,975,351.00
Bookstore	325,831.00
Food Services	5,515,028.00
Parking/Transportation	547,453.00
Health Services	569,464.00
Intercollegiate Athletics	2,731,091.00
Other Organizations	25,753.00
Other Operating Revenues	106,818.00
Total Operating Revenues	<u>37,931,054.00</u>
EXPENSES	
Operating Expenses	
Salaries:	
Faculty	9,819,134.00
Staff	14,880,770.00
Employee Benefits	7,276,903.00
Other Personal Services	593,774.00
Travel	548,630.00
Scholarships and Fellowships	7,184,958.00
Utilities	3,836,370.00
Supplies and Other Services	17,819,998.00
Depreciation	5,525,067.00
Total Operating Expenses	<u>67,485,604.00</u>
Operating Income (loss)	<u>(29,554,550.00)</u>

The notes to the financial statements are an integral part of this statement.

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

**SAVANNAH STATE UNIVERSITY
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS
for the Year Ended June 30, 2010**

	<u>June 30, 2010</u>
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	15,502,685.00 ▼
Federal Stimulus - Stabilization Funds	3,105,050.00
Grants and Contracts	
Federal	13,737,056.00
Federal Stimulus	81,443.00
State	25,221.00
Other	
Gifts	1,125,052.00
Investment Income (endowments, auxiliary and other)	366,553.00
Interest Expense (capital assets)	(2,352,293.00)
Other Nonoperating Revenues	81,441.00
Net Nonoperating Revenues	<u>31,672,208.00</u>
Income before other revenues, expenses, gains, or loss	<u>2,117,658.00</u>
Capital Grants and Gifts	
Federal	
State	797,965.00 ▼
Other	
Special Item - Capital Asset Transfer	
Special Item - Bond Defeasance	
Total Other Revenues	<u>797,965.00</u>
Increase in Net Assets	<u>2,915,623.00</u>
NET ASSETS	
Net Assets-beginning of year, as originally reported	72,832,632.00
Prior Year Adjustments	▼
Net Assets-beginning of year, restated	<u>72,832,632.00</u>
Net Assets-End of Year	<u><u>\$75,748,255.00</u></u>

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

**SAVANNAH STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2010**

	<u>June 30, 2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$8,027,694
Federal Appropriations	
Grants and Contracts (Exchange)	9,066,787
Sales and Services	210,562
Payments to Suppliers	(29,904,312)
Payments to Employees	(24,700,988)
Payments for Scholarships and Fellowships	(7,184,958)
Loans Issued to Students and Employees	33,306
Collection of Loans to Students and Employees	
Auxiliary Enterprise Charges:	
Residence Halls	8,363,905
Bookstore	325,831
Food Services	5,573,817
Parking/Transportation	482,484
Health Services	552,520
Intercollegiate Athletics	2,685,513
Other Organizations	25,175
Other Receipts (payments)	(669,151)
Net Cash Provided (used) by Operating Activities	<u>(27,111,815)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Appropriations	15,502,685
Federal Stimulus - Stabilization Funds	3,105,050
Agency Funds Transactions	86,636
Gifts and Grants Received for Other Than Capital Purposes	14,968,771
Principal Paid on Installment Debt	
Interest Paid on Installment Debt	
Other Nonoperating Receipts	
Net Cash Flows Provided by Non-capital Financing Activities	<u>33,663,142</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Gifts and Grants Received	364,090
Proceeds from Sale of Capital Assets	0
Purchases of Capital Assets	(3,447,593)
Principal Paid on Capital Debt and Leases	533,763
Interest Paid on Capital Debt and Leases	(2,352,293)
Net Cash used by Capital and Related Financing Activities	<u>(4,902,033)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	191,941
Interest on Investments	57,179
Purchase of Investments	(170,891)
Net Cash Provided (used) by Investing Activities	<u>78,229</u>
Net Increase/Decrease in Cash	1,727,523
Cash and Cash Equivalents - Beginning of year	<u>6,643,283</u>
Cash and Cash Equivalents - End of Year	<u><u>\$8,370,806</u></u>

The notes to the financial statements are an integral part of this statement.

SAVANNAH STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Savannah 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

Savannah 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 Savannah 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. Savannah State University does not have authority to retain unexpended State appropriations (surplus) for any given fiscal year. Accordingly, Savannah 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.

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

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.

New Accounting Pronouncements

In fiscal year 2010, Savannah State University adopted the Governmental Accounting and Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*. The provisions of this Statement generally required retroactive reporting for intangible assets

acquired after June 30, 1980, with the exception of those intangible assets that have indefinite useful lives and those that are considered internally generated.

In addition, Savannah State University adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The provisions of this Statement impact disclosure regarding derivative instruments entered into by the state and local governments. Derivative disclosures, if any, will be identified in Note 2.

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

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 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 are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis. 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, 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 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, 2010, GSFIC did not transfer any capital additions to Savannah State University.

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. Savannah State University had accrued liability for compensated absences in the amount of \$1,361,078 as of 7-1-2009. For FY2010, \$956,601 was earned in compensated absences and employees were paid \$800,806 , for a net increase of \$155,795 . The ending balance as of 6-30-2010 in accrued liability for compensated absences was \$1,516,873 .

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, 2010</u>
Restricted - E&G and Other Organized Activities	
Federal Loans	902,285
Institutional Loans	25,330
Term Endowments	
Quasi-Endowments	
Health Insurance Reserve (USO only)	
Total Restricted Expendable	<u><u>\$927,615</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, 2010</u>
R & R Reserve	\$3,370,140
Reserve for Encumbrances	5,035,515
Reserve for Inventory	47,673
Other Unrestricted	699,036
Total Unrestricted Net Assets	<u><u>\$9,152,364</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

Savannah 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 Assets classify fiscal year activity as operating and non-operating according to the following criteria:

Operating Revenues: 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 revenues: 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 Expenses: 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 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 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, 731,091 is reported on the Auxiliary SRECNA, net of discounts and allowances of \$475,144, as reported in the Scholarship allowance calculation worksheet.

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, 2010, the carrying value of deposits was \$8,378,390 and the bank balance was \$9,524,590. Of the University's deposits, \$9,190,480 were uninsured. Of these uninsured deposits, \$9,190,480 was collateralized with securities held by the financial institution's trust department or agent in the University's name.

B. Investments

At June 30, 2010, the carrying value of the University's investments was \$3,641,074 , which is materially the same as fair value. These investments were comprised entirely of funds invested in the Board of Regents investment pool as follows:

Investment Pools	
Board of Regents	
Short-Term Fund	
Legal Fund	527,474
Balanced Income Fund	
Total Return Fund	3,113,600
Diversified Fund	
Sub Total	<u>3,641,074</u>
Total Investment Pools	<u>\$3,641,074</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>.

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 does not have a formal policy for managing interest rate risk.

The Effective Duration of the Legal Fund is 2.95 years. Of the University/College’s total investment of \$527,474 in the Legal Fund, \$527,474 is invested in debt securities.

The Effective Duration of the Total Return Fund is 2.60 years. Of the University/College’s total investment of \$3,113,600 in the Total Return Fund, \$583,825 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.

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2010:

	<u>June 30, 2010</u>
Student Tuition and Fees	\$956,761
Auxiliary Enterprises and Other Operating Activities	633,293
Federal Financial Assistance	2,204,859
Georgia State Financing and Investment Commission	108,007
Other	<u>1,851,371</u>
	5,754,291
Less Allowance for Doubtful Accounts	<u>852,465</u>
Net Accounts Receivable	<u><u>\$4,901,826</u></u>

Note 4. Inventories

Inventories consisted of the following at June 30, 2010:

	<u>June 30, 2010</u>
Physical Plant	2,673
Other	<u>59,645</u>
Total	<u><u>\$62,318</u></u>

Note 5. Notes/Loans Receivable

The Federal Perkins Loan Program (the Program) comprises substantially all of the loans receivable at June 30, 2010. 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, 2010 the allowance for uncollectible loans was \$0.

Note 6. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2010:

	(Restated) Beginning Balances 7/1/2009	Additions	Reductions	Ending Balance 6/30/2010
Capital Assets, Not Being Depreciated:				
Land	\$575,975			\$575,975
Capitalized Collections	0			0
Construction Work-in-Progress	0	1,943,168		1,943,168
Total Capital Assets Not Being Depreciated	575,975	1,943,168	0	2,519,143
Capital Assets, Being Depreciated/Amortized:				
Infrastructure	0			0
Building and Building Improvements	88,070,016	640,110		88,710,126
Facilities and Other Improvements	2,520,259	316,394		2,836,653
Equipment	4,592,180	768,102	194,814	5,165,468
Capital Leases	53,816,031			53,816,031
Library Collections	7,304,290	213,694	10,034	7,507,950
Capitalized Collections	55,285			55,285
Water, Timber, and Mineral Rights and Easements	0			0
Patents, Trademarks, and Copyrights	0			0
Software	0			0
Total Assets Being Depreciated/Amortized	156,358,060	1,938,300	204,848	158,091,512
Less: Accumulated Depreciation/Amortization				
Infrastructure	0			0
Buildings	26,956,119	2,381,102		29,337,221
Facilities and Other improvements	1,564,111	97,634		1,661,745
Equipment	2,218,798	580,759	76,382	2,723,175
Capital Leases	2,508,621	2,195,534		4,704,155
Library Collections	5,871,003	268,656	10,034	6,129,625
Capitalized Collections	11,323	1,382		12,705
Water, Timber, and Mineral Rights and Easements	0			0
Patents, Trademarks, and Copyrights	0			0
Software	0			0
Total Accumulated Depreciation/Amortization	39,129,974	5,525,067	86,416	44,568,625
Total Capital Assets, Being Depreciated/Amortized, Net	117,228,086	(3,586,767)	118,432	113,522,887
Capital Assets, net	\$117,804,061	(\$1,643,599)	\$118,432	\$116,042,030

Note 7. Deferred Revenue

Deferred revenue consisted of the following at June 30, 2010:

	<u>June 30, 2010</u>
Research	
Other Deferred Revenue	<u>568,650</u>
Totals	<u><u>\$568,650</u></u>

Note 8. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2010</u>	<u>Current Portion</u>
Leases					
Lease Obligations	\$53,568,935	\$0	(\$533,763)	\$54,102,698	\$461,329
Other Liabilities					
Compensated Absences	1,361,078	956,601	800,806	1,516,873	696,705
Notes and Loans	0			0	
Total	<u>1,361,078</u>	<u>956,601</u>	<u>800,806</u>	<u>1,516,873</u>	<u>696,705</u>
Total Long Term Obligations	<u><u>\$54,930,013</u></u>	<u><u>\$956,601</u></u>	<u><u>\$267,043</u></u>	<u><u>\$55,619,571</u></u>	<u><u>\$1,158,034</u></u>

Note 9. Significant Commitments

The University had no significant unearned, outstanding, construction or renovation contracts executed as of June 30, 2010.

Note 10. Lease Obligations

Savannah 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 2011 and 2033. Expenditures for fiscal year 2010 were \$2,352,293 for interest expense, of which a net of \$760,121 was funded by increasing the principal liability for the imputed interest on the University Commons capital lease. Total principal paid on the University Village lease was \$226,358. Therefore, a net of \$533,733 increase was incurred on the principal balance for both leases for the fiscal year ended June 30, 2010. Interest rates range from 4.486 percent to 4.655 percent. The following is a summary of the carrying values of assets held under capital lease at June 30, 2010:

Buildings	49,111,876
Total Assets Held Under Capital Lease	<u><u>\$49,111,876</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.

Savannah State University has two capital leases with SSU Foundation Real Estate Ventures, LLC, of which Savannah State University Foundation, Inc. is the sole member. In February 2008, Savannah State University entered into a capital lease of \$29,229,205 for University Village with the LLC. In August 2008, Savannah State University entered into a capital lease of \$24,586,826, for University Commons with the LLC.

The University leases a 660-bed housing facility, University Village, at an interest rate of 4.486 percent for a twenty-five-year period that began February 2008 and expires June 2032, with payments due the 15th of month each February, May, August, and November. The 13.768 acres of land on which these buildings are located is owned by the Board of Regents, and was leased to the LLC for \$10 per year, payable in advance upon commencement of a ground lease. The outstanding liability at June 30, 2010 on this capital lease is \$28,755,751.

The University leases a 742-bed housing facility, University Commons, at an interest rate of 4.655 percent for a twenty-five-year period that began August 2009 and expires June 2033, with payments due the 15th of month each February, May, August, and November. The 0.275 acre of land on which these buildings are located (also known as 4750 LaRoche Avenue) is part of the capital lease agreement. The outstanding liability at June 30, 2009 on this capital lease is \$25,346,947.

OPERATING LEASES

Savannah State University's noncancellable operating leases having remaining terms of more than one year expire in various fiscal years from 2010 through 2011. 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.

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, 2010, were as follows:

Year Ending June 30:	Year	Real Property and Equipment	
		Capital Leases	Operating Leases
2011	1	2,923,413	
2012	2	3,010,574	
2013	3	3,100,809	
2014	4	3,193,833	
2015	5	3,289,649	
2016 through 2020	6-10	17,981,197	
2021 through 2025	11-15	20,845,137	
2026 through 2030	16-20	24,165,227	
2031 through 2035	21-25	13,307,810	
2036 through 2040	26-30		
2041 through 2045	31-35		
2046 through 2050	36-40		
Total minimum lease payments		91,817,649	0
Less: Interest		37,714,951	
Less: Executory costs (if paid)			
Principal Outstanding		\$54,102,698	

Savannah State University has one major operating lease with IKON Office Solutions for copiers, which carries a monthly minimum lease payment of \$7,064, and is renewable each fiscal year for up to three fiscal year periods. Most business equipment is purchases and there are only a few other minor leases for small equipment, such as credit card machines, and these are generally cancellable with a 30-day notice.

Savannah State University's FY2010 expense for rental of real property and equipment under operating leases was \$122,662, with \$96,116 paid to IKON Office Solutions.

Note 11. Retirement Plans

Teachers Retirement System of Georgia

Plan Description

Savannah 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 Savannah State University who are covered by TRS are required by State statute to contribute 5.25% of their gross earnings to TRS. Savannah 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 2010, the employer contribution rate was 9.74% 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>
2010	100%	\$1,523,853
2009	100%	\$1,397,171
2008	100%	\$1,286,574

Employees’ Retirement System of Georgia

Plan Description

Savannah 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. Employees 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 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 and 30 years of service with no provisions 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, 2010, for employees covered by ERS was \$0. The University's total payroll for all employees was \$24,699,904.

For the year ended June 30, 2010 under the old plan, member contributions consist of 4% of annual compensation up to \$4,200 plus 6% of annual compensation in excess of \$4,200. Of these member contributions, the employee pays the first 1.25% and the University pays the remainder on behalf of the employee.

Under the new plan, member contributions consist solely of 1.25% 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, 2010, 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.

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>
2010	100%	\$0
2009	100%	\$5,361
2008	100%	\$10,566

Actuarial and Trend Information

Actuarial and historical trend information is presented in the ERS June 30, 2010 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

Savannah 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 2010, the employer contribution was 9.24% for 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.

Savannah State University and the covered employees made the required contributions of \$656,814 (9.24%) and \$382,754 (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

Savannah 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 2010 amounted to \$16,524, 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. Savannah 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, a fully insured HSA/High Deductible PPO healthcare plan and 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. Savannah 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.

Savannah State University is responsible for mold remediation at Camilla Hubert Hall. The University had recorded a liability and expense related to this pollution remediation in the amount of \$86,450 as of June 30, 2009. The liability was determined using the Expected Cash Flow Measurement Technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. There were no changes, the remediation occurred during the current fiscal year, and there are no expected recoveries that have reduced the liability. Pollution remediation liability activity in fiscal 2010 was as follows:

	Beginning Balance <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2010</u>	<u>Current Portion</u>
Pollution Remediation Obligations	\$86,450	\$0	\$86,450	\$0	\$0

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 Savannah State University expects such amounts, if any, to be immaterial to its overall financial position.

Litigation, claims and assessments filed against Savannah 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, 2010.

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 College 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 2009 and 2010 plan years, 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, 2010, there were 120 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2010, Savannah State University recognized as incurred \$680,063 of expenditures, which was net of \$358,908 of participant contributions.

Note 15. Natural Classifications with Functional Classifications

The University's operating expenses by functional classification for FY2010 are shown below:

Natural Classification	Functional Classification FY2010					
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support
Faculty	\$9,154,016	\$271,758	\$11,857	\$321,737	\$53,966	\$1,000
Staff	1,693,554	188,266	998,179	2,690,601	2,013,218	3,017,318
Benefits	2,724,520	102,765	221,165	775,568	573,565	1,624,938
Personal Services	78,326		16,914	6,112	33,178	415,524
Travel	86,906	31,401	35,414	117,934	64,557	88,209
Scholarships and Fellowships	348,175	336,358	156,207	113,535	19,025	
Utilities	70,689	3,219	9,752	4,739	22,704	119,359
Supplies and Other Services	1,101,268	273,968	922,563	1,410,903	1,051,329	1,998,905
Depreciation	74,162	27,341	4,839	422,716	15,684	188,137
Total Expenses	\$15,331,616	\$1,235,076	\$2,376,890	\$5,863,845	\$3,847,226	\$7,453,390

Natural Classification	Functional Classification FY2010				
	Plant Operations & Maintenance	Scholarships & Fellowships	Auxiliary Enterprises	Unallocated Expenses	Total Expenses
Faculty	\$4,800				\$9,819,134
Staff	1,899,506		2,380,128		14,880,770
Benefits	640,556		613,826		7,276,903
Personal Services	(196,692)		240,412		593,774
Travel	6,684		117,525		548,630
Scholarships and Fellowships		5,414,090	797,568		7,184,958
Utilities	1,733,180		1,872,728		3,836,370
Supplies and Other Services	2,635,855		8,425,207		17,819,998
Depreciation	1,926,548		2,865,640		5,525,067
Total Expenses	\$8,650,437	\$5,414,090	\$17,313,034	\$0	\$67,485,604