

SAVANNAH STATE UNIVERSITY



Financial Report

For the Year Ended
June 30, 2014

Savannah State University

Savannah, Georgia

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SAVANNAH STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FY 2014



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SAVANNAH STATE UNIVERSITY

Management's Discussion and Analysis

Introduction

Savannah State University is one of the 31 institutions of higher education of the University System of Georgia. Chartered by the State of Georgia in 1890, Savannah State University has been an important part of higher education for 123 years. As the oldest public HBCU in Georgia and the oldest institution of higher learning in the historic city of Savannah, SSU has served this community with distinction while meeting the educational needs of an increasingly diverse student population. The University's campus is by far the most picturesque in the state of Georgia. The moss-laden sweeping oak trees, expansive marsh and historic architecture create a resplendent yet tranquil atmosphere. Beneath the beauty and splendor is a vibrant residential campus bursting at the seams with the vim and vigor of quality collegiate life: relevant academic majors, engaging lectures, cutting-edge research, quality student-faculty engagement and a nurturing environment.

Savannah State University develops productive members of a global society through high quality instruction, scholarship, research, service, and community involvement. The University offers baccalaureate and masters' degrees in a wide variety of subjects. This broad range of educational opportunities attracts a highly qualified faculty and a student body of more than 4,500 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>
Fiscal Year 2014	210	4,775	4,563
Fiscal Year 2013	182	4,582	4,334
Fiscal Year 2012	163	4,552	4,275

Overview of the Financial Statements and Financial Analysis

Savannah 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 Savannah 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	\$ 14,387,338	\$ 14,613,404
Capital Assets, Net	153,148,227	157,654,471
Other Assets	7,861,424	6,198,012
Total Assets	<u>175,396,989</u>	<u>178,465,887</u>
Deferred Outflows of Resources	-	-
Liabilities:		
Current Liabilities	7,354,442	5,959,545
Non-Current Liabilities	107,095,748	108,822,406
Total Liabilities	<u>114,450,190</u>	<u>114,781,951</u>
Deferred Inflows of Resources	-	-
Net Position:		
Net Investment in Capital Assets	45,273,738	48,166,663
Restricted		
Nonexpendable	5,199,866	5,141,861
Expendable	1,202,737	1,144,802
Unrestricted	9,270,458	9,230,610
Total Net Position	<u>\$ 60,946,799</u>	<u>\$ 63,683,936</u>

Total assets and deferred outflows of resources decreased by (\$3,068,898) which was due to a decrease of (\$4,506,244) in the category of Capital Assets, Net. The consumption of assets follows the institutional philosophy to use available resources to acquire and improve all areas of the institution to better serve the instruction, research and public service missions of the institution.

Total liabilities and deferred inflows of resources decreased for the year by (\$331,761). The combination of the decrease in total assets and deferred outflows of resources of

(\$3,068,898) and the decrease in total liabilities and deferred inflows of resources yields (\$331,761) a decrease in net position of (\$2,737,137). The decrease in net position is in the category of Net Investment in Capital Assets, in the amount of (\$2,892,925).

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	\$ 54,312,395	\$ 51,442,110
Operating Expenses	<u>89,572,601</u>	<u>86,634,358</u>
Operating Loss	(35,260,206)	(35,192,248)
Nonoperating Revenues and Expenses	<u>32,523,069</u>	<u>28,968,601</u>
Income (Loss) Before other Revenues, Expenses, Gains or Losses	(2,737,137)	(6,223,647)
Other Revenues, Expenses, Gains or Losses	<u>-</u>	<u>-</u>
Increase in Net Assets	(2,737,137)	(6,223,647)
Net Position at Beginning of Year, as originally reported	63,683,936	69,907,583
Prior Year Adjustments	<u>-</u>	<u>-</u>
Net Position at Beginning of Year, Restated	<u>63,683,936</u>	<u>69,907,583</u>
Net Position at End of Year	<u>\$ 60,946,799</u>	<u>\$ 63,683,936</u>

The Statement of Revenues, Expenses and Changes in Net Position reflect the decrease in Net Assets in the amount of (\$2,737,137), which is directly related to Capital Assets as previously noted. 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	\$ 12,705,861	\$ 12,316,374
Federal Appropriations	-	-
Grants and Contracts	9,492,562	10,551,630
Sales and Services	630,187	648,561
Auxiliary	31,270,375	27,709,322
Other	<u>213,410</u>	<u>216,223</u>
Total Operating Revenues	<u>54,312,395</u>	<u>51,442,110</u>
Nonoperating Revenues		
State Appropriations	18,655,084	17,256,227
Grants and Contracts	17,492,256	16,032,877
Gifts	1,095,812	667,089
Investment Income	808,387	470,748
Other	<u>117,244</u>	<u>(4,136)</u>
Total Nonoperating Revenues	<u>38,168,783</u>	<u>34,422,805</u>
Capital Gifts and Grants		
State	-	-
Other Capital Gifts and Grants	<u>-</u>	<u>-</u>
Total Capital Gifts and Grants	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 92,481,178</u>	<u>\$ 85,864,915</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	\$ 20,351,563	\$ 18,816,294
Research	1,823,266	1,913,101
Public Service	2,153,460	2,151,924
Academic Support	9,012,679	7,835,588
Student Services	5,502,055	5,132,626
Institutional Support	9,566,733	9,960,002
Plant Operations and Maintenance	10,616,769	11,645,835
Scholarships and Fellowships	3,389,672	2,844,950
Auxiliary Enterprises	<u>27,156,404</u>	<u>26,334,038</u>
Total Operating Expenses	89,572,601	86,634,358
Nonoperating Expenses		
Interest Expense (Capital Assets)	<u>5,645,714</u>	<u>5,454,204</u>
Total Expenses	<u>\$ 95,218,315</u>	<u>\$ 92,088,562</u>

Operating revenues increased by \$2,870,285 or 5.6% in fiscal year 2014. Although net Tuition and Fees contributed approximately \$400,000 to this increase, the bulk of these revenues were from Auxiliary enterprises.

The Auxiliary revenue increase of \$3,561,053 is a result of the changing environment of residential life on the University's campus. Savannah State University is experiencing increased enrollment of students who choose to live on campus. At the beginning of this fiscal year campus housing was at maximum and the University utilized campus housing at Armstrong Atlantic University through a contractual arrangement. Housing rental bed capacity and rents collected are included in the following schedule.

Housing Facility	Beds	Rents
Bostic	200	\$ 633,912
Bowen	200	663,064
Camilla Hubert	76	389,592
Freshman Living/Learning Center	306	1,484,212
University Village	660	3,699,191
University Commons	703	3,784,886
Tiger Point/Wright Hall	104	597,796
Tiger Place	171	863,683
Tiger Court	325	1,720,722
Armstrong State (Contracted)	50	156,654
	2,795	\$13,993,712

During the year, residential life did eliminate a convenience store which explains the decrease in Bookstore revenue from current year.

Nonoperating revenues increased by \$3,745,978 for the year primarily due to an increase in State Appropriations, in Federal Grants and Contracts, and in gifts and investment income.

Operating Expenses increased \$2,938,243 or 3.4% in fiscal year 2014. The compensation and employee benefits category increased by \$2,503,061 and primarily affected the Instruction. The increase reflects the addition of 28 faculty members, additions to staff to address strategic initiatives such as public safety and academic advising, as well as the increased cost of benefits for those additional employees and health insurance for all employees of the institution.

Utilities increased by \$80,481 during the past year. The increase was primarily associated with the increasing cost of resources and the fact that residential housing was at capacity fall of this academic year.

Statement of Cash Flows

The final statement presented by 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 Position.

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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash Provided (used) By:		
Operating Activities	\$ (28,320,769)	\$ (26,829,590)
Non-capital Financing Activities	37,648,034	33,948,385
Capital and Related Financing Activities	(9,695,590)	(8,260,451)
Investing Activities	<u>(621)</u>	<u>(16,695)</u>
Net Change in Cash	(368,946)	(1,158,351)
Cash, Beginning of Year	<u>9,851,556</u>	<u>11,009,907</u>
Cash, End of Year	<u>\$ 9,482,610</u>	<u>\$ 9,851,556</u>

Capital Assets

The University had two major capital asset renovations in fiscal year 2014. The Cafeteria renovation was completed and placed in service during the fiscal year at a cost of \$655,290. Additionally, the Wiley Wilcox swimming pool renovation was completed at total cost of \$219,547. Both of these projects were completed and removed from Construction in Progress during the fiscal year. Construction in Progress projects still to be completed consists of the Hubert C Roof Replacement, the Hubert D HVAC System, and the Kennedy Fine Arts Building addition.

Savannah State University also expended \$282,148 on instructional or lab equipment, \$182,846 on information technology, \$172,700 on library additions, \$152,000 on general equipment, \$74,290 on golf carts or ATV vehicles, \$34,974 on a flat boat for Marine Sciences, and \$22,645 for three used motor vehicles.

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

Long Term Liabilities

Savannah State University had Long-Term Liabilities of \$109,689,954 of which \$2,594,206 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. Even with a relatively flat funded year, the University was able to maintain sufficient liquidity to meet its debt and obligations. The decrease in Net Position is a direct result of depreciation expense and reflects the University's ability to utilize its resources to support its overall mission. The University anticipates the current fiscal year will be better than the last in that there is no more debt planned in the immediate future and current enrollment indications are that the University will continue the trend of the last decade and will exceed budget expectations. Savannah State University will continue to perform ratio analysis and maintain a close watch over resources to sustain the University's ability to react to unknown internal and external issues.

The strategic planning priorities at Savannah State University are:

- ***Academic Engagement and Achievement***
- ***Community and Economic Development***
- ***Global Education Experiences***
- ***Sustainability and Resources***
- ***Technological Competitiveness***

Savannah State University is positioned to move forward in supporting its campus environment, acquiring technology to advance educational purposes, and pursuing excellence and responsiveness. The University has a strong commitment to the teaching and learning environment, high quality education, public service, and scholarly and creative works. Savannah State University has a sound financial base and demonstrated financial stability, as well as adequate resources, to support the mission of the institution and the scope of its programs and services.

Cheryl Davenport Dozier, DSW, President
Savannah State University



Statement of Net Position
SAVANNAH STATE UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2014

ASSETS

Current Assets

Cash and Cash Equivalents	\$	9,442,601
Short-term Investments	\$	408,276
Accounts Receivable, net (Note 3)		
Receivables - Federal Financial Assistance	\$	1,546,917
Receivables - State General Appropriations		
Margin Allocation Funds		
Receivables - Other	\$	2,568,251
Due From Affiliated Organizations		
Inventories (Note 4)	\$	44,785
Prepaid Items	\$	376,508
Other Assets		
Total Current Assets		14,387,338

Non-Current Assets

Noncurrent Cash	\$	40,009
Short-term Investments		21,863
Investments (Externally Restricted)		6,055,395
Due from USO - Capital Liability Reserve Fund		844,039
Investments		
Notes Receivable, net		900,118
Capital Assets, net (Note 6)		153,148,227
Other Assets		
Total Non-Current Assets		161,009,651

TOTAL ASSETS		175,396,989
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Debt Refunding		-
Other Deferred Outflows		-
TOTAL DEFERRED OUTFLOWS OF RESOURCES		-

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

Statement of Net Position

**SAVANNAH STATE UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2014**

LIABILITIES

Current Liabilities

Accounts Payable	\$ 1,548,336
Salaries Payable	110,353
Benefits Payable	
Contracts Payable	
Deposits	
Advances (Including Tuition and Fees) (Note 7)	1,533,787
Other Liabilities	1,300
Deposits Held for Other Organizations	1,566,460
Lease Purchase Obligations	1,826,596
Compensated Absences	767,610
US DOE Settlement	
Due to Affiliated Organizations	
Notes and Loans Payable	
Total Current Liabilities	7,354,442

Non-Current Liabilities

Lease Purchase Obligations	\$ 106,047,893
Advances (Including Tuition and Fees)	
Compensated Absences	1,047,855
US DOE Settlement	
Due to Affiliated Organizations	
Notes and Loans Payable	
Other Noncurrent Liabilities	
Total Non-Current Liabilities	107,095,748

TOTAL LIABILITIES	114,450,190
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DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Debt Refunding	-
Deferred Grants (<i>timing requirements not met</i>)	-
Deferred service concession arrangement receipts	-
Other deferred Inflows	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-

NET POSITION

Net Investment in Capital Assets	\$ 45,273,738
Restricted for	
Nonexpendable	5,199,866
Expendable	1,202,737
Unrestricted	9,270,458
TOTAL NET POSITION	\$ 60,946,799

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

Statement of Revenues, Expenses and Changes in Net Position

SAVANNAH 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)	\$	28,724,374
Less: Scholarship Allowances		(16,018,513) ▼
Federal Appropriations		
Grants and Contracts		
Federal		8,853,208
Federal Stimulus		113,618
State		160,245
Other		365,491
Sales and Services		630,187
Rents and Royalties		65,330
Auxiliary Enterprises		
Residence Halls		14,316,102
Bookstore		238,678
Food Services		10,622,130
Parking/Transportation		824,777
Health Services		662,794
Intercollegiate Athletics		4,570,746
Other Organizations		35,148
Other Operating Revenues		148,080
Total Operating Revenues		<u>54,312,395</u>

EXPENSES

Operating Expenses		
Salaries:		
Faculty	\$	13,346,504
Staff		18,959,967
Employee Benefits		10,224,598
Other Personal Services		384,266
Travel		1,177,327
Scholarships and Fellowships		6,274,498
Utilities		3,507,414
Supplies and Other Services		28,637,727
Depreciation		7,060,300 ▼
Total Operating Expenses		<u>89,572,601 ▼</u>
Operating Income (loss)		<u>(35,260,206)</u>

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

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

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

NONOPERATING REVENUES (EXPENSES)	
State Appropriations	\$ 18,655,084 ▲
Grants and Contracts	
Federal	17,492,256
Federal Stimulus	
State	
Other	
Gifts	1,095,812
Investment Income (endowments, auxiliary and other)	808,387
Interest Expense (capital assets)	(5,645,714)
Other Nonoperating Revenues (Expenses)	117,244
Net Nonoperating Revenues	<u>32,523,069</u>
Income (Loss) Before Other Revenues, Expenses,	
Gains, or Losses	<u>(2,737,137)</u>
Capital Grants and Gifts	
Federal	
State	▲
Other	
Special Item - Capital Asset Transfer	
Special Item - Bond Defeasance	
Total Other Revenues, Expenses, Gains or Losses	<u>-</u>
Increase (Decrease) in Net Position	<u>(2,737,137)</u>
 NET POSITION	
Net Position-Beginning of Year, As Originally Reported	63,683,936
Prior Year Adjustments	▲
Net Position-Beginning of Year, Restated	<u>63,683,936</u>
Net Position-End of Year	<u>\$ 60,946,799</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$	12,889,165
Federal Appropriations		
Grants and Contracts (Exchange)		9,355,656
Sales and Services		630,187
Payments to Suppliers		(43,918,313)
Payments to Employees		(32,102,350)
Payments for Scholarships and Fellowships		(6,274,498)
Loans Issued to Students and Employees		(14,614)
Collection of Loans to Students and Employees		
Auxiliary Enterprise Charges:		
Residence Halls		13,786,421
Bookstore		237,939
Food Services		10,595,285
Parking/Transportation		846,292
Health Services		652,605
Intercollegiate Athletics		4,601,210
Other Organizations		33,362
Other Receipts (Payments)		360,884
Net Cash Provided (used) by Operating Activities		(28,320,769)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State Appropriations	\$	18,655,084
Federal Stimulus - Stabilization Funds		
Agency Funds Transactions		404,882
Gifts and Grants Received for Other Than Capital Purposes		18,588,068
Principal Paid on Installment Debt		
Interest Paid on Installment Debt		
Other Nonoperating Receipts (Expenses)		
Negative Cash Balance Implicitly Financed		
Net Cash Flows Provided by Non-capital Financing Activities		37,648,034

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Gifts and Grants Received		
Proceeds from Sale of Capital Assets		
Purchases of Capital Assets		(2,436,555)
Principal Paid on Capital Debt and Leases		(1,613,321)
Interest Paid on Capital Debt and Leases		(5,645,714)
Net Cash used by Capital and Related Financing Activities		(9,695,590)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	\$	261,123
Interest on Investments		547,263
Purchase of Investments		(809,007)
Net Cash Provided (used) by Investing Activities		(621)
Net Increase/Decrease in Cash		(368,946)
Cash and Cash Equivalents - Beginning of year		9,851,556
Cash and Cash Equivalents - End of Year	\$	9,482,610

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

Statement of Cash Flows, Continued

**SAVANNAH 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)	\$ (35,260,207) ▼
Adjustments to Reconcile Net Income (loss) to Net Cash Provided (used) by Operating Activities	
Depreciation	7,060,300 ▼
Change in Assets and Liabilities:	
Receivables, net	(1,642,244)
Inventories	4,268
Other Assets	
Prepaid Items	95,474
Notes Receivable, Net	(14,358)
Accounts Payable	156,972
Advances (Including Tuition and Fees)	550,322
Other Liabilities	557,301
Compensated Absences	171,403 ▼
Change in deferred inflows/outflows of resources:	
Deferred inflows of Resources	-
Deferred outflows of Resources	-
Net Cash Provided (used) by Operating Activities	\$ (28,320,769)

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

Fixed assets acquired by incurring capital lease obligations	
Non-capital items acquired by incurring capital lease obligations	
Change in accounts receivable related to GSFIC gifts	
Change in receivable from State Agency affecting proceeds of capital debt	
Change in fair value of investments recognized as a component of interest income	\$ 261,123
Change in interest receivable affecting interest received	
Bond issuance costs reducing proceeds of long-term debt	
Special Item - Capital Asset Transfer	
Special Item - Bond Defeasance	
Change in accrued interest payable affecting interest paid	
Amortization of bond issuance costs reducing interest paid	
Interest on capital debt paid by State Agency on behalf of University	
Principal on capital debt paid by State Agency on behalf of University	
Gifts other than capital assets reducing proceeds of grants & gifts for other than capital purposes	
Gift reducing proceeds of Gifts and Grants received for other than capital purposes ▼	
Gift of capital assets reducing proceeds of capital gifts and grants ▼	

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

SAVANNAH STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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-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 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.

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

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 "first in, first out" (FIFO) 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 did not transfer any capital additions to Savannah 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.

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:

Federal Loans	\$	963,916
Institutional Loans		23,876
Term Endowments		<u>214,945</u>
 Total Restricted Expendable	 \$	 <u><u>1,202,737</u></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	\$	6,359,815
Reserve for Encumbrances		2,744,784
Reserve for Inventory		55,569
Other Unrestricted		<u>110,290</u>
 Total Unrestricted Net Position	 \$	 <u><u>9,270,458</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 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 \$1,790,042 is reported net of discounts and allowances of \$453,274.

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 \$9,911,509 and the bank balance was \$11,099,878 . Of the University's deposits, \$10,818,200 was uninsured. Of these uninsured deposits, \$0 were collateralized with securities held by the financial institution's trust department or agent in the University's name, \$10,818,200 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

At June 30, 2014, the carrying value of the University's investments was \$6,055,395 , which is materially the same as fair value. These investments were comprised entirely of funds invested in the Board of Regents and/or Office of the State Treasurer investment pools as follows:

Investment Pools	
Board of Regents	
Legal Fund	\$ 834,853
Total Return Fund	5,220,542
	<hr/>
Total Investment Pools	\$ 6,055,395
	<hr/> <hr/>

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 and Accounts – 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. The University does not have a formal policy for managing interest rate risk.

The Effective Duration of the Legal Fund is 3.20 years. Of the University's total investment of \$834,853 in the Legal Fund, \$25,553 is invested in debt securities.

The Effective Duration of the Total Return Fund is 5.25 years. Of the University's total investment of \$5,220,542 in the Total Return Fund, \$159,790 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, 2014:

Student Tuition and Fees	\$	1,737,839
Auxiliary Enterprises and Other Operating Activities		1,003,553
Federal Financial Assistance		1,546,917
Due from Affiliated Organizations		
Other		924,505
		<u>5,212,814</u>
Less: Allowance for Doubtful Accounts		<u>1,097,646</u>
Net Accounts Receivable	\$	<u>4,115,168</u>

Note 4. Inventories

Inventories consisted of the following at June 30, 2014:

Physical Plant	41,704	.
Other	<u>3,081</u>	.
Total	<u>\$ 44,785</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 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 was approximately \$0.

Note 6. Capital Assets

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

	Beginning Balances July 1, 2013	Additions	Reductions	Ending Balance June 30, 2014
Capital Assets, Not Being Depreciated:				
Land	\$ 975,219	\$ -	\$ -	\$ 975,219
Capitalized Collections	-			-
Construction Work-in-Progress	-	1,495,395	874,837	620,558
Total Capital Assets Not Being Depreciated	975,219	1,495,395	874,837	1,595,777
Capital Assets, Being Depreciated/Amortized:				
Infrastructure	-	-		-
Building and Building Improvements	88,197,496	655,290	18,650	88,834,136
Facilities and Other Improvements	4,216,653	219,547		4,436,200
Equipment	7,773,811	1,143,475	132,797	8,784,489
Capital Leases	110,333,789			110,333,789
Library Collections	8,073,176	184,348	11,648	8,245,876
Capitalized Collections	55,285			55,285
Total Capital Assets Being Depreciated/Amortized	218,650,210	2,202,660	163,095	220,689,775
Less: Accumulated Depreciation/Amortization				
Infrastructure	-	-	-	-
Buildings	34,782,987	2,140,078	18,650	36,904,415
Facilities and Other Improvements	2,024,513	143,913		2,168,426
Equipment	4,316,583	764,482	(136,365)	5,217,430
Capital Leases	14,048,313	3,777,719		17,826,032
Library Collections	6,781,711	232,726	11,648	7,002,789
Capitalized Collections	16,851	1,382		18,233
Total Accumulated Depreciation/Amortization	61,970,958	7,060,300	(106,067)	69,137,325
Total Capital Assets, Being Depreciated/Amortized, Net	156,679,252	(4,857,640)	269,162	151,552,450
Capital Assets, net	\$ 157,654,471	\$ (3,362,245)	\$ 1,143,999	\$ 153,148,227

Note 7. Advances (Including Tuition and Fees)

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

Prepaid Tuition and Fees	\$ 326,027
Other - Advances	1,207,760
Totals	\$ 1,533,787

There were no long term advances at June 30, 2014.

Note 8. Long Term Liabilities

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

	Beginning Balance July 1, 2013	Additions	Reductions	Ending Balance June 30, 2014	Current Portion
Leases					
Lease Purchase Obligations	\$ 109,487,810	\$ -	\$ 1,613,321	\$ 107,874,489	\$ 1,826,596
Other Liabilities					
Compensated Absences	1,644,062	1,208,772	1,037,369	1,815,465	767,610
Total	1,644,062	1,208,772	1,037,369	1,815,465	767,610
Total Long-Term Obligations	\$ 111,131,872	\$ 1,208,772	\$ 2,650,690	\$ 109,689,954	\$ 2,594,206

Note 9. Significant Commitments

The University had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$37,777 as of June 30, 2014. This amount is not reflected in the accompanying basic financial statements.

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 2014 and 2041. Expenditures for fiscal year 2014 were \$7.259 million of which \$5.646 million represented interest. Total principal paid on capital leases was \$1,613,321 for the fiscal year ended June 30, 2014. Interest rates range from 4.486 percent to 6.262 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
Buildings - (PPV)	110,333,789	17,826,032	92,507,757	107,874,489
Total Assets Held Under Capital Lease at June 30, 2014	\$ 110,333,789	\$ 17,826,032	\$ 92,507,757	\$ 107,874,489

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 the 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 the ground lease. The outstanding liability at June 30, 2014 on this capital lease is \$27,243,481.

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 the month each February, May, August, and November. The 0.275 acre of land on which these buildings are located (previously known as 4750 LaRoche Avenue) is part of the capital lease agreement. The outstanding liability at June 30, 2014 on this capital lease is \$24,320,744.

Savannah State University, through the Savannah State University Foundation, established SSU Community Development I, LLC, hereafter referred to as LLC-I, a Georgia limited liability company, in fiscal year 2010 for the purposes of borrowing \$36.475 million through a Savannah Economic Development Authority Revenue Bond, Series 2010. Proceeds of the Series 2010 Bonds will be used by LLC-I to finance in whole or in part the cost of (i) the purchase of land and its development for a sports and intramural complex to be conveyed for use by the University as athletic fields, (ii) the construction and furnishing of three new buildings and the renovation of an existing building, to be used as student housing facilities containing 683 beds and related amenities, (iii) the demolition of an existing building to create a site for one of the new student housing buildings, and (iv) renovations and improvements to existing buildings (collectively, the "Project") located on the campus of Savannah State. The land on which these buildings are located is owned by the Board of Regents, and was leased to the LLC-I for \$10 per year, payable in advance upon commencement of the ground lease. In July 2011, Savannah State University entered three capital leases with LLC-I for Tiger Point, Tiger Place, and Camilla Hubert housing facilities in the amounts of \$6,160,184, \$8,182,797, and \$4,821,572, respectively. The 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 the ground lease.

The University leases a 106-bed housing facility, Tiger Point, with LLC-I at an interest rate of 4.763 percent for a thirty-year period that began July 2011 and expires June 2041, with payments due on the 1st of the month each June and December. The outstanding liability at June 30, 2014 on this capital lease is \$6,127,404.

The University leases a 173-bed housing facility, Tiger Place, with LLC-I at an interest rate of 4.763 percent for a thirty-year period that began July 2011 and expires June 2041, with payments due on the 1st of the month each June and December. The outstanding liability at June 30, 2014 on this capital lease is \$8,131,909.

The University leases a 77-bed building that was restored as a housing facility, Camilla Hubert Hall, with LLC-I at an interest rate of 4.763 percent for a thirty-year period that began July 2011 and expires June 2041, with payments due on the 1st of the month each June and December. The outstanding liability at June 30, 2014 on this capital lease is \$4,797,036.

During fiscal year 2012 Adams Hall and Morgan Hall, nonresidential buildings, were renovated and the aforementioned Sports Complex was completed at a cost of \$6,706,586. The capital lease on these assets, however, did not begin until August, 2012, when the University took possession of a new 325-bed residential facility called Tiger Court. Tiger Court was not completed early fiscal year 2013 and the University took possession at that time. Since the renovated assets and the Sports Complex were received in 2012 they were recognized within the financial statements as a long term note payable rather than as a capital lease. This note payable to the Foundation was replaced by the lease when it was booked in fiscal year 2013.

The renovation of Adams Hall and Morgan Hall was included in the University's lease for Tiger Court. Tiger Court is a 327-bed housing facility leased with LLC-I at an interest rate of 5.847 percent for a thirty-year period that began December 2012 and expires June 2041, with payments due on the 1st of the month each June and December. The outstanding liability at June 30, 2014 on this capital lease is \$15,495,294.

The University leases a Sports and Intramural Complex with LLC-I at an interest rate of 6.262 percent for a thirty-year period that began December 2012 and expires June 2041, with payments due on the 1st of the month each June and December. The outstanding liability at June 30, 2014 on this capital lease is \$4,268,967.

The Georgia Higher Education Facilities Authority (GHEFA) issued \$94,210 million in revenue bonds associate with the USG Real Estate Foundation III, LLC, hereafter referred to as USGREF LLC, project. A portion of the proceeds of the Series 2010 Bonds were used to finance the acquisition, construction, and equipping of facilities in connection with the renovation of the existing University stadium and related improvements located on an approximately 1.373 acre site, including new bleachers with approximately 8,000 seats, restrooms, concessions, ticketing, locker room and elevators. A portion of the proceeds of the Series 2010 Bonds were used to finance the acquisition, construction, and equipping of an approximately 47,239 square foot student center located on approximately 0.746 acre site, including indoor and outdoor lounge spaces, food court, convenience store, meeting spaces, ballroom with stage, and other student and staff support spaces. The land on which these buildings are located is owned by the Board of Regents, and was leased for \$10 per year, payable in advance upon commencement of the ground lease.

The University leases the 47,239 square foot student center and the 8,000-seat stadium with the USGREF LLC at an interest rate of 5.234 percent for a thirty-year period that began July 2011 and expires June 2041, with payments due on the 15th of the month each June and December. The outstanding liability at June 30, 2014 on this capital lease is \$17,489,654.

OPERATING LEASES

Savannah State University's non-cancellable operating leases having remaining terms of more than one year expire in various fiscal years from 2014 through 2015. 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

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	7,140,475	
2016	7,272,359	
2017	7,408,858	
2018	7,527,075	
2019	7,639,697	
2020 through 2024	39,965,962	
2025 through 2029	43,273,243	
2030 through 2034	38,336,482	
2035 through 2039	19,989,335	
2040 through 2044	7,424,422	
2045 through 2049	-	-
Total minimum lease payments	\$ 185,977,908	\$ -
Less: Interest	78,103,419	
Less: Executory costs (if paid)	-	
Principal Outstanding	<u>\$ 107,874,489</u>	

Savannah State University's fiscal year 2014 expense for rental of real property and equipment under operating leases was \$215,141.

Note 11. Retirement Plans

Savannah 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 Savannah 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, Savannah State University pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these Savannah 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. Savannah 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 Savannah 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 Savannah State University contributions by defined benefit plan for the years ending June 30, 2014, June 30, 2013, and June 30, 2012 (dollars in thousands):

	TRS	
	Required <u>Contribution</u>	Percent <u>Contributed</u>
2014	\$2,227,791	100%
2013	\$2,035,584	100%
2012	\$1,759,365	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

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 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.

Savannah State University and the covered employees made the required contributions of \$809,692 (9.24%) and \$525,456 (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

Savannah 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 \$50,856 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

Savannah 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. 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.

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 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, 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 239 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, Savannah State University recognized as incurred \$909,800 of expenditures, which was net of \$448,423 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	\$ 12,078,522	\$ 225,736	\$ 61,809	\$ 901,385	\$ 1,620	\$ 76,682
Staff	1,499,852	490,406	1,026,482	3,458,748	2,449,336	3,600,982
Benefits	3,659,577	130,644	241,503	1,117,630	745,739	2,321,855
Personal Services						384,266
Travel	182,195	23,891	41,625	248,736	113,184	246,774
Scholarships and Fellowships	258,069	557,891	152,457	90,193	35,987	
Utilities	52,857	243	3,865	(24,763)	265,814	58,666
Supplies and Other Services	2,502,419	311,224	615,883	2,854,643	1,243,333	2,722,362
Depreciation	118,072	83,231	9,836	366,107	647,042	155,146
Total Expenses	\$ 20,351,563	\$ 1,823,266	\$ 2,153,460	\$ 9,012,679	\$ 5,502,055	\$ 9,566,733

Natural Classification	Functional Classification					Total Expenses
	Fiscal Year 2014					
	Plant Operations & Maintenance	Scholarships & Fellowships	Auxiliary Enterprises	Unallocated Expenses	GRU Only Patient Care	
Faculty			\$ 750			\$ 13,346,504
Staff	2,664,049		3,770,112			18,959,967
Benefits	883,488		1,124,162			10,224,598
Personal Services	(208,880)		208,880			384,266
Travel	12,800		308,122			1,177,327
Scholarships and Fellowships		3,389,672	1,790,229			6,274,498
Utilities	1,432,114		1,718,618			3,507,414
Supplies and Other Services	3,970,518		14,417,345			28,637,727
Depreciation	1,862,680		3,818,186			7,060,300
Total Expenses	\$ 10,616,769	\$ 3,389,672	\$ 27,156,404	\$ -	\$ -	\$ 89,572,601

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, Savannah State University Foundation, Savannah State University Real Estate Foundation, Savannah State University Research Foundation, and Peachtree State Athletic Foundation are legally separate, tax-exempt organizations whose activities primarily support Savannah 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 should not be assessed in relation to their significance to Savannah State University, but instead based on their significance to the State of Georgia. Therefore, the financial statements of this affiliated organization are not included in these financial statements. Copies of the financial statements may be obtained from Savannah State University.