

**GEORGIA STATE FINANCING
AND INVESTMENT COMMISSION**
(A Component Unit of the State of Georgia)

Financial Statements and Supplementary Information

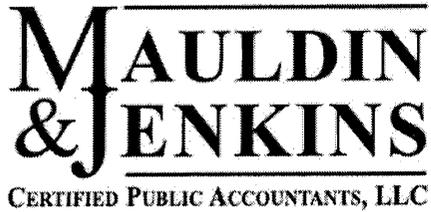
June 30, 2010

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
(A Component Unit of the State of Georgia)

FINANCIAL REPORT
JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

The Members

Georgia State Financing and Investment Commission

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Georgia State Financing and Investment Commission** (the "Commission"), a component unit of the State of Georgia, as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Georgia State Financing and Investment Commission as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2010 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The supplementary information included in Schedule 1 – Schedule of Expenditures of Administration is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 17, 2010

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION

(A Component Unit of the State of Georgia)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of the financial performance of the Georgia State Financing and Investment Commission (the "Commission") is intended to provide the readers of these financial statements with an overview of the Commission's financial activities as of and for the year ended June 30, 2010.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are considered governmental funds.

Governmental funds are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the financial statements can be found on pages 14-31 of this report.

Government-wide Financial Analysis

Summary of the Commission's Net Assets

June 30, 2010 and 2009

	Governmental activities	
	2010	2009
Assets:		
Current and other assets	\$ 1,896,995,429	\$ 2,273,487,603
Capital assets	68,878	98,044
Total assets	1,897,064,307	2,273,585,647
Liabilities:		
Long-term liabilities	14,497,438	26,014,098
Other liabilities	77,414,951	162,546,045
Total liabilities	91,912,389	188,560,143
Net assets:		
Invested in capital assets	68,878	98,044
Restricted for construction for other State departments	1,724,527,249	1,981,621,547
Unrestricted	80,555,791	103,305,913
Total net assets	\$ 1,805,151,918	\$ 2,085,025,504

The net assets of a governmental entity may serve as an indicator of the entity's financial position. The Commission's net assets at June 30, 2010 were approximately \$1.8 billion. A total of approximately \$454 million included in "Restricted for construction for other State departments" represents "Construction in Progress—held for other governmental entities." This amount represents on-going building projects being performed for other State of Georgia Departments or Agencies. The remainder of net assets "Restricted for construction for other State departments" represents amounts received from the State of Georgia (the "State") to be spent on future construction projects. All construction, once completed, will be transferred to the user State Department or Agency. Current and other assets decreased by approximately \$376 million due primarily to bond proceeds and cash supplements received from the State of Georgia for approximately \$842 million and approximately \$33 million in investment income, offset by construction being completed in the amount of approximately \$1.09 billion and transferred primarily to the Board of Regents, local Boards of Education, and the Department of Transportation. The decrease in assets coupled with a decrease in the liabilities, primarily the accounts payable and the arbitrage rebate liability, caused a decrease in net assets of approximately \$280 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Changes in the Commission's Net Assets

Years ended June 30, 2010 and 2009

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 841,780,675	\$ 1,519,150,375
General revenues:		
Intergovernmental revenue	25,205,709	87,795,636
Unrestricted investment earnings	33,226,228	79,298,354
Reduction in arbitrage rebate estimate	8,608,240	27,798,148
Miscellaneous	493,224	191,975
Total revenues	<u>909,314,076</u>	<u>1,714,234,488</u>
Expenses:		
Board of Education	255,386,360	341,534,071
Board of Regents	303,318,692	397,730,187
Department of Agriculture	1,476,091	860,889
Department of Behavioral Health and Developmental Disabilities	13,982,839	—
Department of Community Health	42,936	—
Department of Corrections	18,994,291	21,745,485
Department of Defense	2,751,996	1,205,129
Department of Economic Development	3,686,581	27,954,593
Department of Human Resources	—	33,016,282
Department of Juvenile Justice	6,490,257	12,475,860
Department of Labor	160,751	666,620
Department of Natural Resources	21,866,908	10,285,428
Department of Public Safety	21,112	1,248,980
Department of Revenue	12,248,935	10,648,370
Technical College System of Georgia	97,489,388	53,594,065
Department of Transportation	196,047,899	227,561,119
Department of Veteran Services	1,324,089	1,039,238
Georgia Agricultural Exposition Authority	590,816	564,971
Georgia Building Authority	97,216,847	13,736,342
Georgia Bureau of Investigation	759,867	33,579
Georgia Environmental Facilities Authority	46,472,872	82,650,089
Georgia Forestry Commission	4,743,141	2,256,085
Georgia Ports Authority	6,970,398	12,860,249
Herty Foundation	—	3,745
Jekyll Island Authority	3,020,210	189,930
Soil and Water Conservation Commission	955,086	—
General administration	14,668,026	13,989,172
Funds sent to Escrow Deposit Agent for refunding of GO Bonds	35,179,431	26,631,183
Intergovernmental expenses to the State of Georgia for:		
Purchase of general obligation bonds	35,408,794	91,380,466
Bond issuance expenses	5,002,649	1,576,914
Unspent cash appropriations returned to agencies and OTFS	2,910,400	3,385,797
	<u>1,189,187,662</u>	<u>1,390,824,838</u>
Change in net assets	(279,873,586)	323,409,650
Net assets, beginning of year	<u>2,085,025,504</u>	<u>1,761,615,854</u>
Net assets, end of year	<u>\$ 1,805,151,918</u>	<u>\$ 2,085,025,504</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues for the Commission consist of receipts from three major categories. The capital grants and contributions, which consist primarily of revenue from the State of Georgia from their sale of General Obligation Bonds for capital project construction and from cash supplements and appropriations by the State, provided \$842 million during fiscal year 2010, as compared to \$1.52 billion in fiscal year 2009. General intergovernmental revenue, which consisted primarily of undesignated revenue from the State of Georgia from their sale of General Obligation Bonds for capital project construction, totaled \$25.2 million in 2010, as compared to \$87.8 million in 2009. This decrease was due to a decrease in the issuance premium on the State's bonds due to a lower amount of bonds being issued. Additionally, interest income on investments decreased \$46 million from the prior year due to the average yield of the portfolio decreasing from 1.29 to 0.76. During the year some investments were also purchased at a premium, which also attributed to this decrease. The pooled investments are marked to market at year end.

Expenses by the Commission include \$1.1 billion in construction costs incurred for completed projects which were given to the using department or agency within the State during fiscal year 2010. In the prior year \$1.25 billion of projects were completed and transferred.

Analysis of the Commission's Funds

The net change in fund balance for the Commission's General Fund was an increase from the prior year of \$396 thousand. Administrative expenditures for the General Fund for the current year were \$14.3 million, which were comparable to the \$14.0 million in 2009. These expenditures include personnel costs, contractor fees, and other administrative costs of operations.

The Capital Projects Fund had a decrease in fund balance from the prior year of \$194.9 million. Expenditures by the Capital Projects Fund for capital construction costs for other department or agencies of the State totaled \$999 million. As previously discussed, these amounts are accrued as construction in progress – held for other State departments in the government-wide statements, but are recorded as expenditures in the fund statements. These expenditures compare to \$1.23 billion in the prior year. The majority of the expenditures for the current year include projects for the Board of Regents, local Boards of Education, and the Department of Transportation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

The Commission adopts an annual budget for the administrative expenditures of the Commission. The budget as originally adopted of \$17.2 million was not significantly amended during the year. Actual expenditures for Administration were \$813 thousand less than budgeted and the Project Management expenditures were less than the amount budgeted by \$1.4 million. The majority of these differences come from budgeted personnel positions in both programs remaining vacant throughout the year. The Commission also used less outside consultants and relied more on staff resulting in lower cost contracts and per diem cost. The State's economic position required the reduction of expenditures without amending budgets to reflect this change. The Commission reduced its regular operating budget categories as well as other budget areas to comply with this requirement. The overall variance of final budget to actual expenditures was \$3.0 million.

Requests for Information

The financial statements are designed to provide a general overview of the Commission's finances. Questions concerning any of the information provided should be addressed to the Executive Secretary, Georgia State Financing and Investment Commission, 270 Washington Street, 2nd Floor, Atlanta, Georgia 30334.

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
(A Component Unit of the State of Georgia)
Statement of Net Assets
June 30, 2010

Assets	Governmental Activities
Interest earning deposit account	\$ 34,405,288
Cash held by OTFS for investment settlements	114,491,192
Intergovernmental receivables	193,306
Investments	1,293,816,323
Construction in progress – held for other State departments	454,089,320
Capital assets, net of accumulated depreciation	68,878
Total assets	1,897,064,307
Liabilities	
Outstanding checks for which investments will be transferred upon check clearance	4,958,305
Accounts payable	46,679,307
Accrued liabilities	10,257
Intergovernmental payable	800
Retainage payable	25,766,282
Long-term liabilities:	
Due within one year	6,650,215
Due in more than one year	7,847,223
Total liabilities	91,912,389
Net Assets	
Invested in capital assets	68,878
Restricted for construction for other State departments	1,724,527,249
Unrestricted	80,555,791
Total net assets	\$ 1,805,151,918

See accompanying notes to financial statements.

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
(A Component Unit of the State of Georgia)
Statement of Activities
Year ended June 30, 2010

	Expenses	Program revenue Capital grants and contributions	Net (expense) revenue and changes in net assets Total governmental activities
Functions/Programs			
Governmental activities:			
Board of Education	\$ 255,386,360	\$ 118,990,000	\$ (136,396,360)
Board of Regents	303,318,692	360,478,171	57,159,479
Department of Agriculture	1,476,091	38,850,000	37,373,909
Department of Corrections	18,994,291	34,530,000	15,535,709
Department of Defense	2,751,996	1,715,000	(1,036,996)
Department of Economic Development	3,686,581	7,213,838	3,527,257
Department of Juvenile Justice	6,490,257	16,025,000	9,534,743
Department of Labor	160,751	1,186,664	1,025,913
Department of Natural Resources	21,866,908	20,000,000	(1,866,908)
Department of Public Safety	21,112	—	(21,112)
Department of Community Health	42,936	—	(42,936)
Department of Revenue	12,248,935	5,750,000	(6,498,935)
Department of Behavioral Health and Developmental Disabilities	13,982,839	—	(13,982,839)
Technical College System of Georgia	97,489,388	72,854,538	(24,634,850)
Department of Transportation	196,047,899	72,800,000	(123,247,899)
Department of Veteran Services	1,324,089	405,000	(919,089)
Georgia Agricultural Exposition Authority	590,816	—	(590,816)
Georgia Building Authority	97,216,847	9,100,400	(88,116,447)
Georgia Bureau of Investigation	759,867	1,300,000	540,133
Georgia Environmental Facilities Authority	46,472,872	45,000,000	(1,472,872)
Georgia Forestry Commission	4,743,141	3,500,000	(1,243,141)
Georgia Ports Authority	6,970,398	2,130,000	(4,840,398)
Georgia State Financing and Investment Commission	—	1,500,000	1,500,000
Jekyll Island Authority	3,020,210	25,000,000	21,979,790
Soil and Water Conservation Commission	955,086	3,452,064	2,496,978
General Administration	14,668,026	—	(14,668,026)
Intergovernmental expenses to the State of Georgia for:			
Purchase of State general obligation bonds	35,408,794	—	(35,408,794)
State bond issuance expenses	5,002,649	—	(5,002,649)
Escrow deposit to refund State general obligation bonds	35,179,431	—	(35,179,431)
Unspent cash appropriations returned to agencies	2,910,400	—	(2,910,400)
Total governmental activities	\$ 1,189,187,662	\$ 841,780,675	\$ (347,406,987)
General revenues:			
Intergovernmental revenue			25,205,709
Unrestricted investment earnings			33,226,228
Reduction in arbitrage rebate estimate			8,608,240
Other revenue			493,224
Total general revenues			67,533,401
Changes in net assets			(279,873,586)
Net assets — beginning			2,085,025,504
Net assets — ending			\$ 1,805,151,918

See accompanying notes to financial statements.

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION

(A Component Unit of the State of Georgia)

Balance Sheet

Governmental Funds

June 30, 2010

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Interest earning deposit account	—	34,405,288	\$ 34,405,288
Cash held by OTFS for investment settlements	—	114,491,192	114,491,192
Investments	—	1,293,816,323	1,293,816,323
Intergovernmental receivables	193,306	—	193,306
Total assets	\$ 193,306	\$ 1,442,712,803	\$ 1,442,906,109
Liabilities and Fund Balances			
Outstanding checks for which investments will be transferred upon check clearance	—	4,958,305	\$ 4,958,305
Accounts payable	149,618	46,529,689	46,679,307
Accrued liabilities	10,257	—	10,257
Intergovernmental payables	800	—	800
Retainage payable	—	25,766,282	25,766,282
Total liabilities	160,675	77,254,276	77,414,951
Fund balances	32,631	1,365,458,527	1,365,491,158
Total liabilities and fund balances	\$ 193,306	\$ 1,442,712,803	\$ 1,442,906,109

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Construction in progress – held for other State departments

Capital assets

Less accumulated depreciation

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds for the following:

Due to the State for arbitrage rebate liability

Accrued vacation

Net assets of governmental activities

454,089,320
175,552
(106,674)

(13,356,797)
(1,140,641)

\$ 1,805,151,918

See accompanying notes to financial statements.

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
(A Component Unit of the State of Georgia)
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year ended June 30, 2010

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Intergovernmental revenue from bond proceeds and premiums	\$ —	\$ 819,060,709	\$ 819,060,709
Intergovernmental revenue from appropriations and cash supplements to projects	—	47,925,675	47,925,675
Investment income	—	33,226,228	33,226,228
Other revenue	493,224	—	493,224
Total revenues	493,224	900,212,612	900,705,836
Expenditures:			
Cost of construction and equipment:			
Board of Education	—	224,423,532	224,423,532
Board of Regents	—	342,677,411	342,677,411
Department of Agriculture	—	3,348,082	3,348,082
Department of Corrections	—	33,008,688	33,008,688
Department of Defense	—	2,751,997	2,751,997
Department of Economic Development	—	3,691,308	3,691,308
Department of Juvenile Justice	—	6,490,257	6,490,257
Department of Labor	—	5,494,478	5,494,478
Department of Natural Resources	—	9,377,991	9,377,991
Department of Public Safety	—	797,671	797,671
Department of Community Health	—	34,883	34,883
Department of Revenue	—	12,248,935	12,248,935
Department of Behavioral Health and Developmental Disabilities	—	13,982,839	13,982,839
Technical College System of Georgia	—	125,206,675	125,206,675
Department of Transportation	—	136,851,107	136,851,107
Department of Veteran Services	—	1,324,089	1,324,089
Georgia Agricultural Exposition Authority	—	5,951,777	5,951,777
Georgia Building Authority	—	8,403,018	8,403,018
Georgia Bureau of Investigation	—	1,501,911	1,501,911
Georgia Environmental Facilities Authority	—	46,303,748	46,303,748
Georgia Forestry Commission	—	4,721,784	4,721,784
Georgia Ports Authority	—	6,970,398	6,970,398
Georgia State Financing and Investment Commission	—	63,041	63,041
Jekyll Island Authority	—	3,020,210	3,020,210
Soil and Water Conservation	—	547,317	547,317
Total cost of construction and equipment	—	999,193,147	999,193,147

(Continued)

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
(A Component Unit of the State of Georgia)
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year ended June 30, 2010

	General Fund	Capital Projects Fund	Total Governmental Funds
General administration expenditures	\$ 14,346,983	—	\$ 14,346,983
Intergovernmental expenditures to the State of Georgia for:			
Purchase of State general obligation bonds	—	35,408,794	35,408,794
State bond issuance expenditures	—	5,002,649	5,002,649
Arbitrage rebate expenditures	—	3,200,297	3,200,297
Escrow deposit to refund State general obligation bonds	—	35,179,431	35,179,431
Unspent cash appropriations returned to agencies	—	2,910,400	2,910,400
Total expenditures	14,346,983	1,080,894,718	1,095,241,701
(Deficiency) excess of revenues (under) over expenditures	(13,853,759)	(180,682,106)	(194,535,865)
Other financing sources (uses):			
Transfers in	14,250,000	—	14,250,000
Transfers out	—	(14,250,000)	(14,250,000)
Total other financing sources (uses)	14,250,000	(14,250,000)	—
Net change in fund balances	396,241	(194,932,106)	(194,535,865)
Fund balances (deficit), beginning of year	(363,610)	1,560,390,633	1,560,027,023
Fund balances, end of year	\$ 32,631	\$ 1,365,458,527	\$ 1,365,491,158
Amounts reported for governmental activities in the statement of activities are different because:			
Net change in fund balances – governmental funds	\$		\$ (194,535,865)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense for governmental activities.			
Depreciation expense			(29,166)
Accrual of disbursements for construction in progress – held for other State departments			999,193,147
Transfer of completed capital assets to the State of Georgia			(1,096,018,362)
Some expenses related to the following accrued items reported for governmental activities do not require the use of current financial resources and therefore are not reported as expenditures for governmental funds.			
Amounts due to the State for arbitrage rebate liability			11,808,536
Accrued vacation			(291,876)
Change in net assets of governmental activities			\$ (279,873,586)

See accompanying notes to financial statements.

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION

(A Component Unit of the State of Georgia)

Statement of Revenues, Expenditures, and Transfers – Budget to Actual

Non-GAAP Budget Basis

Year ended June 30, 2010

	General Fund				Variance with final budget positive (negative)
	Budgeted amounts		Actual	Actual	
	Original	Final			
Expenditures:					
Financing and Investment	\$ 1,737,949	\$ 1,737,949	\$	1,114,480	\$ 623,469
Administration	5,216,181	5,216,181		4,403,588	812,593
Project Management	8,843,523	8,885,713		7,470,083	1,415,630
Contracts	907,096	907,096		768,416	138,680
ADA Coordinator	543,914	543,914		506,267	37,647
Total expenditures	17,248,663	17,290,853		14,262,834	3,028,019
Transfers from other funds for payment of operating expenditures	17,248,663	17,290,853		14,250,000	(3,040,853)
Miscellaneous revenue	—	—		493,224	493,224
Excess of revenue over expenditures	—	—		480,390	\$ 480,390
Reconciliation to GAAP Basis:					
To record effect of net change in unrecorded liabilities				(84,149)	
Net changes in fund balance GAAP Basis				396,241	

See accompanying notes to financial statements.

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
(A Component Unit of the State of Georgia)
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The Georgia State Financing and Investment Commission (the "Commission") was created by legislation enacted by the 1973 General Assembly of Georgia and is a component unit of the State of Georgia.

The Act creating the Commission was made pursuant to an amendment to the Constitution of the State of Georgia (the "State") duly ratified at the General Election held on November 7, 1972. The purpose of the Act was to provide for the operations of the Commission; to receive the proceeds from the issuance of State of Georgia general obligation debt from the State; to provide the means for the proper application of the proceeds of such debt; and to establish the procedure for protecting the holders of such debt.

The Commission is specifically authorized to acquire and construct projects for the benefit of any department or agency of the State or to contract with any such department or agency for the construction or acquisition of capital outlay projects.

The Commission consists of two divisions:

The Construction Division is responsible for providing administrative and operational support for the entire Commission, in addition to being responsible for construction and construction-related matters for the Commission and certain other State departments and agencies.

The Financing and Investment Division is responsible for the issuance of public debt, the investment and accounting for all proceeds derived from incurring public debt while proceeds are in process of being used for construction or from appropriations, and other financial advisory and general accounting duties.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements:

The Commission presents government-wide financial statements which are prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements (i.e. the statement of net assets and the statement of activities) do not provide information by fund, but present the governmental activities using a different basis of accounting. Significantly, the statement of net assets includes noncurrent assets and liabilities and the government-wide statement of activities reflects depreciation expense on the Commission's capital assets and changes in long-term liabilities. Net assets in the statement of net assets are distinguished between amounts invested in capital assets (net of any related debt), amounts that are restricted for use by third parties or outside requirements, and amounts that are unrestricted.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or benefit from the services provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and 3) interest income that is restricted for use on a particular function or segment. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

In addition to the government-wide financial statements, the Commission has prepared separate financial statements for its governmental funds. Governmental fund financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. The Commission reports the following major governmental funds:

General Fund:

To act as the operating fund and receive a portion of interest income on the Capital Projects Fund investments for payment of the administrative affairs of the Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements: (Continued)

Capital Projects Fund:

To act as the construction fund and receive proceeds from the sale of State of Georgia bonds, interest income on investments, appropriations, and cash supplements from State and local agencies as designated for Commission construction projects, and invest such proceeds until disbursed for authorized purposes. Disbursements from this fund are restricted to:

- Payment or reimbursement for land, construction, and equipment costs of each project.
- Payment of related bond issuance expense.
- Payment to the State of Georgia (primary government) for purchase and retirement of public debt.
- Payment to the General Fund for the administrative expenses of the Commission.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenses for construction on behalf of others are recorded when construction is complete and the project is contributed to the ultimate user department or agency.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are considered measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Interest income on investments is recorded as it is earned. Expenditures generally are recorded when a liability is incurred, as under usual accrual accounting. Construction disbursements are recorded as the construction goods and services are delivered and performed. Included in construction disbursements is the related retainage amounts that will be paid upon successful completion of the construction projects. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Grants are recognized as revenue when all eligibility requirements have been met.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. General overhead expenses are recorded in the general administration function within the governmental activities. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Accounting:

An operating budget is legally adopted each fiscal year for the General Fund. Budgets for capital projects are established and controlled by the respective State departments and agencies. Supplemental appropriations may be made during the fiscal year and the final budgetary amounts presented reflect all amendments as legally adopted.

Due to legal requirements, appropriations are budgeted on a basis that is not consistent with accounting principles generally accepted in the United States of America (GAAP). The major difference between the budget and GAAP is that expenditures are recorded when encumbered (budget) as opposed to when susceptible to accrual (GAAP). The actual results of operations on the budget basis are presented in the statement of revenues, expenditures, and transfers – budget to actual in order to provide a meaningful comparison of actual results with the budget.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in Progress – Held for Other State Departments:

Construction in progress represents on-going building projects being performed for other State of Georgia Departments or Agencies. Disbursements for these projects are capitalized in the government-wide statements and are not depreciated. Once the project is completed, it is transferred to the respective department or agency and the amount of the project is expensed in the Statement of Activities.

Capital Assets:

Capital assets, which include computer and other equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are expensed as incurred.

Capital assets used by the Commission are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Computer equipment	5
Other equipment	5

Compensated Absences:

It is the Commission's policy to permit employees to accumulate earned but unused vacation benefits, up to 360 hours, and sick pay benefits, up to 720 hours. No liability is reported for unpaid accumulated sick leave because the payment of the benefits is contingent upon any future illness of an employee. It is not expected that any unrecorded sick pay benefits will exceed a normal year's accumulation. Vacation pay is reported as an expense and a liability in the government-wide financial statements, but is not a liability in the fund statements as it was not due for payment in the current period.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retainage Payable:

A liability is recorded, as retainage payable, for amounts earned by contractors, through the end of the fiscal year for construction projects underway, but withheld by the Commission until completion and acceptance of the project.

Income Taxes:

The Commission is exempt from federal income taxes as an integral part of a state government. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Related Party Transactions:

During the normal course of business, the Commission provides services to various agencies and departments of the State of Georgia. The relationship with other parties is so pervasive that disclosure of the relationship alone is sufficient and significant transactions with the State are noted throughout the financial statements and the notes.

Economic Dependency:

The Commission provides services to other agencies, departments and authorities of the State of Georgia. Substantially all of the Commission's revenue is from other State of Georgia agencies, departments and authorities.

Management Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amount of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. REVENUE FROM THE PRIMARY GOVERNMENT OF PROCEEDS OF STATE OF GEORGIA BONDS

The Commission receives the proceeds from the issuance of all general obligation debt for the State of Georgia, as authorized by the General Assembly of Georgia.

During the fiscal year ended June 30, 2010 the State sold the following general obligation bonds, from which it gave proceeds to the Commission:

Bond series	Face amount
2009F	\$ 90,480,000
2009G	179,925,000
2009H	523,450,000
2009I	
Bond premiums and accrued interest received	25,205,709
Total intergovernmental revenue received from bond proceeds	\$ 819,060,709

NOTE 3. DEPOSITS AND INVESTMENTS

Negotiable orders of withdrawal cash accounts for the Commission have a book value of \$34,405,288 and are presented as an interest earning deposit account. Investments, with a carrying value of \$1,293,816,323, are included in an arbitrage portfolio managed by the Georgia Office of Treasury and Fiscal Services (OTFS). Investments are stated at fair value based on quoted market prices. The arbitrage portfolio also includes cash of \$114,491,192 held for investment settlements. The arbitrage portfolio is reported in the financial statements as follows:

Account	Balance
Cash held by OTFS for investment settlements	\$ 114,491,192
Investments	1,293,816,323
Total	\$ 1,408,307,515

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk:

The Commission is authorized under Georgia Code 50-17-27 to invest the bond proceeds it receives from the State and other proceeds in (i) general obligations of the United States or of subsidiary corporations of the United States government fully guaranteed by such government, (ii) obligations issued by the Federal Land Bank, Federal Home Loan Bank, Federal Intermediate Credit Bank, Bank for Cooperatives, Federal Farm Credit Banks, regulated by the Farm Credit Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, (iii) tax exempt obligations issued by any state, county, municipal corporation, district, or political subdivision, or civil division or public instrumentality of any such government or unit of such government, (iv) prime bankers' acceptances, (v) units of any unit investment trusts the assets of which are exclusively invested in obligations of the type described above, (vi) shares of any mutual fund the investments of which are limited to securities of the type describe above and distributions from which are treated for federal income tax purposes in the same manner as the interest on said obligations, provided that at the time of investment such obligations or the obligations held by any such unit investment trust or the obligations held or to be acquired by any such mutual fund are limited to obligations which are rated within one of the top two rating categories of any nationally recognized rating service or any rating service recognized by the commissioner of banking and finance, and no others.

At June 30, 2010, the Commission had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Government Agency Obligations	1.3 year effective duration	\$ 1,293,816,323
Total		<u>\$ 1,293,816,323</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk:

The Commission's Investment Policy is to ensure that bond proceeds are invested in a prudent and professional manner that will preserve principal, provide adequate liquidity, optimize earnings, meet IRS requirements relating to arbitrage and conform to all statutes governing the investment of bond proceeds. The Commission's investment policy limits investment maturities, as a means of managing its exposure to fair value losses arising from increasing interest rates, on the overall portfolio (including cash equivalents) to an effective duration of 1.5 years, and limits the effective duration of any individual asset category to be 5 years.

Custodial Credit Risk - Deposits:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

NOTE 4. CAPITAL ASSETS

The Commission's capital asset activity for the year ended June 30, 2010 was as follows:

<u>Asset category</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>
Cost:				
Equipment	\$ 175,552	\$ -	\$ -	\$ 175,552
Accumulated depreciation:				
Equipment	<u>77,508</u>	<u>29,166</u>	<u>-</u>	<u>106,674</u>
Total net capital assets	<u>\$ 98,044</u>	<u>\$ (29,166)</u>	<u>\$ -</u>	<u>\$ 68,878</u>

Depreciation expense of \$29,166 was charged to the general administration function.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LONG-TERM LIABILITIES

The Commission's long-term liability activity for the year ended June 30, 2010, was as follows:

Liabilities	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amount due within one year
Due to the State for Arbitrage rebate liability	\$ 25,165,333	\$ 3,714,998	\$ 15,523,534	\$13,356,797	\$ 5,927,135
Accrued vacation	848,765	829,929	538,053	1,140,641	723,080
Total	\$ 26,014,098	\$4,544,927	\$ 16,061,587	\$14,497,438	\$ 6,650,215

The Capital Project Fund pays the State for any arbitrage rebate liabilities and the General Fund liquidates the accrued vacation.

NOTE 6. INTERFUND TRANSFERS

Interfund transfers are made from the Capital Projects Fund to the General Fund for payment of the administrative affairs of the Commission. For the year ended June 30, 2010, the Capital Projects Fund transferred \$14,250,000 to the General Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. RETIREMENT SYSTEMS

Employees' Retirement System of Georgia:

Plan Description:

The Commission participates in various retirement plans administered by the Employees' Retirement System of Georgia (ERS System). Financial statements and required supplementary information for ERS may be obtained from the Employees' Retirement System of Georgia from the following address: Employees' Retirement System of Georgia, Two Northside 75, Atlanta, Georgia 30318. The plans are described below and 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.

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.

Benefits:

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. RETIREMENT SYSTEMS (Continued)

Employees' Retirement System of Georgia: (Continued)

Benefits: (Continued)

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. RETIREMENT SYSTEMS (Continued)

Employees' Retirement System of Georgia: (Continued)

Contributions Required and Contributions Made:

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, the Commission pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these Commission 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. The Commission 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 Commission contributions are not at any time refundable to the member or his/her beneficiary.

For the fiscal year ended June 30, 2010, the ERS employer contribution rates, based on the June 30, 2007 actuarial valuation, for the Commission were 10.41% for new Plan employees, 6.54% for GSEPS employees, and 5.66% for old Plan employees.

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.

The Annual Required Contributions and Actual Employer Contributions, from the Commission to the Employees' Retirement System, totaled \$806,669, \$768,613, and \$682,512 and were charged to the General Fund during the years ended June 30, 2010, 2009, and 2008, respectively. The Commission made 100% of the required contributions for each year and had no net pension obligation at the end of the fiscal years ended June 30, 2010, 2009, and 2008.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. RETIREMENT SYSTEMS (Continued)

Georgia Defined Contribution Plan:

Plan Description:

Certain employees of the Commission participate in the Georgia Defined Contribution Plan ("GDCP"); a single-employer (the State of Georgia) defined contribution Plan established by the Georgia General Assembly for the purpose of providing retirement allowances for state employees who are not members of a public retirement or pension system. The ERS Board of Trustees administers the GDCP. The Commission's payroll for the year ended June 30, 2010, for employees covered by GDCP was \$31,888. Total payroll for all employees was \$7,921,657.

Benefits:

A member may retire and elect to receive periodic payments after attainment of age 65 and 10 years of creditable service. The payment will be based upon mortality tables and interest assumptions to be adopted by the Board. If a member has less than \$3,500 credit to their account, the Board has the option of requiring a lump sum distribution to the member. Upon the death of a member, a lump sum distribution equaling the amount credited to his or her account will be paid to the member's designated beneficiary.

Contributions Required and Contributions Made:

Member contributions are 7.5% of gross salary. There are no employer contributions. Earnings are to be credited to each member's account as adopted by the Board. Upon termination of employment, the amount of the member's account is refundable upon request by the member. Total contributions made by employees during 2010 amounted to \$2,392. These contributions represented 7.5% of covered payroll.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The Commission participates in two State of Georgia postemployment benefit plans, the Georgia State Employees Post-employment Health Benefit Fund (administered by the Department of Community Health) and the State Employees' Assurance Department – OPEB (administered by the ERS System). Separate financial reports that include the applicable financial statements and required supplementary information for these plans are publicly available and may be obtained from the respective system offices.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Retiree health benefits were previously funded through the Georgia Retiree Health Benefit Fund (GRHBF). In 2009, the General Assembly revisited the GRHBF and enacted legislation that, effective August 31, 2009, separated the GRHBF into two new funds: the Georgia School Personnel Post-employment Health Benefit Fund and the Georgia State Employees Post-employment Health Benefit Fund. The purpose of this change was to assure employers responsible for planning and funding future retiree health costs that their contributions will be dedicated to their respective retiree populations. Funds in the GRHBF were transferred to the Georgia State Employees Post-employment Health Benefit Fund or the Georgia School Personnel Post-employment Health Benefit Fund as described in the plan financial statements. The statute that created the GRHBF is repealed effective September 1, 2010.

Georgia State Employees Post-employment Health Benefit Fund:

The Georgia State Employees Post-employment Health Benefit Fund (State OPEB Fund) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that covers eligible former employees of State organizations (including technical colleges) and other entities authorized by law to contract with the Department of Community Health for inclusion in the plan. The State OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the health insurance plan for State employees. The Official Code of Georgia Annotated (OCGA) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board).

The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. On average, plan members pay approximately 25 percent of the cost of the health insurance coverage.

Participating employers are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected "pay-as-you-go" financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Georgia State Employees Post-employment Health Benefit Fund: (Continued)

The combined active and retiree contribution rates established by the Board for employers participating in the State OPEB Fund, the fiscal year ended June 30, 2010, were as follows:

July 2009	22.165% of covered payroll for August coverage
August 2009 – October 2009	16.581% of covered payroll for September- November coverage
November 2009 – June 2010	22.165% of covered payroll for December – July coverage

No additional contribution was required by the Board for fiscal year 2010 nor contributed to the State OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the State plan for other postemployment benefits and are subject to appropriation.

The Commission's contribution to the health insurance plans for the fiscal year ended June 30, 2010, was \$1,609,041, which equaled the required contribution as described above for fiscal year 2010. The Commission's contribution to the health insurance plans for the fiscal years ended June 30, 2009 and 2008 were \$965,140 and \$1,512,456, respectively, which equaled the required contributions as described above for fiscal years 2009 and 2008.

State Employees' Assurance Department – OPEB:

State Employees' Assurance Department – OPEB (SEAD-OPEB) is a cost-sharing multiple-employer defined benefit postemployment plan that was created in fiscal year 2007 by the Georgia General Assembly to provide term life insurance to retired and vested inactive members of Employees', Judicial (JRS), and Legislative (LRS) Retirement Systems, amended to exclude members of JRS and LRS hired on or after July 1, 2009. Pursuant to Title 47 of the OCGA, the authority to establish and amend the benefit provisions of the plan is assigned to the Boards of Trustees of the Employees' and Judicial Retirement Systems.

Contributions by plan members are established by the Boards of Trustees, up to the maximum allowed by statute (not to exceed 0.5% of earnable compensation). The Boards of Trustees of the Employees' and Judicial Retirement Systems establish employer contribution rates, such rates which, when added to members' contributions, shall not exceed 1% of earnable compensation. For the fiscal year ended June 30, 2010, contributions of ERS "old plan" members were 0.45% of earnable compensation, 0.22% of which was paid by the employer.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

State Employees' Assurance Department – OPEB: (Continued)

Contributions of ERS "new plan" members and of members of the Judicial and Legislative Retirement Systems were 0.23% of earnable compensation. There were no employer annual required contributions (ARC), nor actual contributions, for the fiscal years ended June 30, 2010, 2009 and 2008 for the Commission.

NOTE 9. COMMITMENTS

The Commission has entered into agreements with various State departments and agencies for the expenditure of bond sale proceeds and cash supplements to acquire and construct capital projects. At June 30, 2010, the undisbursed balance remaining on these agreements approximated \$1,342,733,900.

NOTE 10. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and injuries to employees. The State of Georgia utilizes self-insurance programs established by individual agreement, statute or administrative action to provide property insurance covering fire and extended coverage and automobile insurance and to pay losses that might occur from such causes; liability insurance for employees against personal liability for damages arising out of performance of their duties; survivors' benefits for eligible members of the Employees' Retirement System; consolidating processing of unemployment compensation claims against state agencies and the payment of sums due to the Department of Labor; and workers' compensation statutes of the State of Georgia. These self-insurance funds are accounted for as internal service funds of the State of Georgia where assets are set aside for claim settlements. The majority of the risk management programs are funded by assessments charged to participating organizations. A limited amount of commercial insurance is purchased by the self-insurance funds applicable to property, employee and automobile liability, fidelity and certain other risks to limit the exposure to catastrophic losses. Otherwise, the risk management programs service all claims against the state for injuries and property damage. Financial information relative to self-insurance funds is presented in the financial reports of the Department of Administrative Services and the Employees' Retirement System for the year ended June 30, 2010.

NOTES TO FINANCIAL STATEMENTS

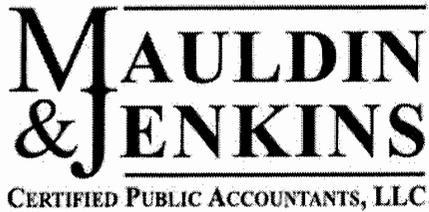
NOTE 10. RISK MANAGEMENT (Continued)

For its employee health insurance coverage, the Commission is a participant in the State of Georgia's Health Benefit Plan (the "Plan"), a public entity risk pool operated by the state for the benefit of employees of the State of Georgia, county governments and local education agencies located within the state. The Plan is funded by participants covered in the Plan, by employers' contributions paid by the various units of government participating in the Plan, and appropriations by the General Assembly of Georgia. The State Personnel Board, Merit System of Personnel Administration, which administers the Plan, has contracted with Blue Cross Blue Shield of Georgia to process claims in accordance with the Plan as established by the State Personnel Board. Financial information relative to the Plan is presented in the financial report of the State Personnel Board, Merit System of Personnel Administration for the year ended June 30, 2010.

NOTE 11. CONTINGENCIES

The Commission is subject to various legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, if any, will not materially affect the financial position or results of operations of the Commission.

Additionally, the Commission is involved in legal proceedings in which it may receive a settlement in relation to past construction projects. No amount has been recorded in anticipation of any possible settlement receipts.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**The Members
Georgia State Financing and
Investment Commission**

We have audited the financial statements of the governmental activities and each major fund of the Georgia State Financing and Investment Commission – (the "Commission"), a component unit of the State of Georgia, as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Georgia State Financing and Investment Commission, management, others within the organization, the Georgia Department of Audits, and the Georgia State Accounting Office, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 17, 2010

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
(A Component Unit of the State of Georgia)

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	_____ yes __X__ no
Significant deficiencies identified not considered to be material weaknesses?	_____ yes __X__ none reported
Noncompliance material to financial statements noted?	_____ yes __X__ no

Federal Awards

There was not an audit of major federal award programs as of June 30, 2010 due to the Georgia State Financing and Investment Commission not receiving any federal awards for the year then ended June 30, 2010.

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
(A Component Unit of the State of Georgia)
General Fund
Schedule of Expenditures of Administration
(GAAP Basis)
Year ended June 30, 2010

Personal services	\$ 10,941,028
Regular operating expenditures	655,300
Computer charges	434,112
Real estate rents	985,090
Telecommunications	49,553
Contracts	<u>1,281,900</u>
Total	<u><u>\$ 14,346,983</u></u>