

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

Financial Statements and Supplementary Information

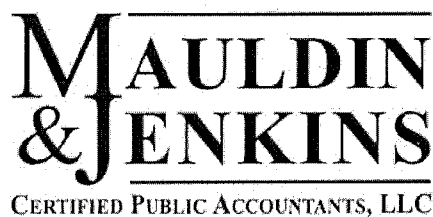
June 30, 2012

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

FINANCIAL REPORT
JUNE 30, 2012

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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, 2012, 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, 2012, 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 18, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 18, 2012

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 for the year ended June 30, 2012.

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 14-33 of this report.

Government-wide Financial Analysis

Summary of the Commission's Net Assets

June 30, 2012 and 2011

		<u>Governmental activities</u>	
		<u>2012</u>	<u>2011</u>
Assets:			
Current and other assets		\$ 1,510,521,442	\$ 1,647,671,750
Capital assets		4,376,289	935,557
Total assets		<u>1,514,897,731</u>	<u>1,648,607,307</u>
Liabilities:			
Long-term liabilities		9,946,547	13,805,936
Other liabilities		55,724,659	72,331,585
Total liabilities		<u>65,671,206</u>	<u>86,137,521</u>
Net assets:			
Invested in capital assets		4,376,289	935,557
Restricted		1,444,850,236	1,556,284,229
Unrestricted		-	5,250,000
Total net assets		<u>\$ 1,449,226,525</u>	<u>\$ 1,562,469,786</u>

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, 2012 were \$1.45 billion. The Restricted Net Assets consists of five categories for restricted purposes. The largest restricted net asset is "Restricted for Construction for other State departments" totaling \$1.4 billion. Included in the "Restricted for Construction for other State departments" is \$497 million representing "Construction in Progress - held for other State departments." This amount represents funds held on behalf of using agencies for on-going building projects being managed by the Commission. The balance of the "Restricted for Construction for other State departments" includes \$898 million which 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 \$137 million due primarily to bond proceeds and cash supplements received from the State of Georgia for \$849 million and \$7.9 million in investment income, offset by construction being completed in the amount of \$952 million and transferred to using agencies primarily Board of Regents, local Boards of Education, and the Technical College System of Georgia. The decrease in assets coupled with a decrease in the liabilities, primarily the accounts payable liability, caused a decrease in net assets of \$113 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Changes in the Commission's Net Assets

Years ended June 30, 2012 and 2011

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 848,716,448	\$ 717,925,541
Build America Bonds Subsidy payment	17,936,013	11,353,993
General revenues:		
Intergovernmental revenue	80,181,492	36,581,561
Unrestricted investment earnings	7,924,480	15,232,480
Reduction in arbitrage rebate estimate	3,835,664	667,988
Other Revenue	545,036	6,886,068
Total revenues	<u>959,139,133</u>	<u>788,647,631</u>
Expenses:		
Board of Education	258,758,978	173,892,282
Board of Regents	258,125,509	328,539,956
Department of Agriculture	22,357,661	1,641,150
Department of Behavioral Health and Developmental Disabilities	10,713,659	9,986,123
Department of Community Affairs	—	162,923
Department of Community Health	—	715,228
Department of Corrections	28,551,874	69,994,212
Department of Defense	4,849,767	3,907,458
Department of Economic Development	3,237,789	3,302,718
Department of Juvenile Justice	14,218,650	14,648,905
Department of Labor	15,995,927	19,696,348
Department of Natural Resources	16,929,271	42,141,907
Department of Public Health	600,884	—
Department of Public Safety	10,711,379	3,402,909
Department of Revenue	10,680,351	12,502,596
Department of Transportation	98,133,660	52,800,949
Department of Veteran Services	1,424,964	1,607,519
Georgia Agricultural Exposition Authority	98,791	450,901
Georgia Aviation Authority	112,185	—
Georgia Building Authority	3,773,857	5,845,170
Georgia Bureau of Investigation	3,469,479	4,995,377
Georgia Environmental Facilities Authority	35,416,569	34,828,800
Georgia Forestry Commission	8,977,832	3,963,423
Georgia Ports Authority	4,213,000	1,200,000
Jekyll Island Authority	26,465,716	19,069,549
State Accounting Office	197,641	567,500
Technical College System of Georgia	113,890,966	150,592,298
General administration	14,519,171	13,960,989
Intergovernmental expenses to the State of Georgia for:		
State bond issuance expenses	1,646,787	3,526,122
Build America Bonds Subsidy Payment to OST	16,456,398	11,353,993
Funds sent to Escrow Deposit Agent for refunding of GO Bonds	83,173,363	35,193,450
Arbitrage rebate expenses	1,459,776	5,946,602
Unspent cash appropriations returned to agencies	3,220,540	892,406
Total expenses	<u>1,072,382,394</u>	<u>1,031,329,763</u>
Change in net assets	(113,243,261)	(242,682,132)
Net assets, beginning of year	<u>1,562,469,786</u>	<u>1,805,151,918</u>
Net assets, end of year	<u>\$ 1,449,226,525</u>	<u>\$ 1,562,469,786</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues for the Commission consist of receipts from four major categories.

- Capital grants and contributions, which consist primarily of revenue from the State of Georgia from the sale of State General Obligation Bonds for capital project construction and from cash supplements and appropriations by the State, provided \$849 million during fiscal year 2012, as compared to \$718 million in fiscal year 2011.
- Build America Bonds Subsidy payments from the US Treasury for several ARRA-authorized bonds, including State General Obligation Bonds which were designated as Build America Bonds, Recovery Zone Economic Development Bonds, and Qualified School Construction Bonds, totaled \$17.9 million in 2012, as compared to \$11.4 million in 2011. Interest subsidy payments are received semi-annually for each issue of designated bonds and these payments are amended into the Sinking Fund to offset State appropriation requirements for General Obligation bonds in the subsequent fiscal year.
- General intergovernmental revenue, which consists primarily of revenue from the premium received by the State of Georgia from the sale of State General Obligation Bonds for capital project construction, totaled \$80.2 million in 2012, as compared to \$36.6 million in 2011. This increase was due to an increase in the issuance premium on the State's bonds, which was used to prepay State General Obligation Bonds.
- Unrestricted investment earnings decreased \$7 million from the prior year due to the average yield of the portfolio decreasing from 0.45 to 0.38. During the year some investments were also purchased at a premium, which also attributed to this decrease.

Expenses by the Commission include \$952 million in construction costs incurred for completed projects which were transferred to the using department or agency within the State during fiscal year 2012. In the prior year \$960 million 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 a decrease from the prior year of \$163 thousand. Administrative expenditures for the General Fund for the current year were \$14.5 million, which were comparable to the \$14 million in 2011. These expenditures include personal services costs, contractor fees, and other administrative costs of operations.

The Capital Projects Fund had a decrease in fund balance from the prior year of \$108 million. Expenditures by the Capital Projects Fund for capital construction costs for other departments or agencies of the State totaled \$943 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 \$1.02 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 Technical College System of Georgia.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

The Commission adopts an annual operating budget for the administrative expenses of the Commission. The budget as originally adopted of \$17.0 million was not significantly amended during the year. Actual expenditures for Administration were \$839 thousand less than budgeted and the Project Management expenditures were less than the amount budgeted by \$922 thousand. 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 Commission continued to reduce expenditures and conserve earnings in light of the State's budgetary stress and the unfavorable interest rate environment. The overall variance of final budget to actual expenditures was \$2.4 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, 2012

Assets	Governmental Activities
Cash	\$ 158,603
Interest earning deposit account	42,391,253
Cash held by Office of State Treasurer for investment settlements	95,570,076
Intergovernmental receivables	253,151
Investments	875,085,701
Construction in progress – held for other State departments	497,062,658
Capital assets, non-depreciable	4,276,124
Capital assets, net of accumulated depreciation	100,165
Total assets	<u>1,514,897,731</u>
Liabilities	
Outstanding checks for which investments will be transferred upon check clearance	4,014,107
Accounts payable	40,042,963
Accrued liabilities	5,589
Retainage payable	11,662,000
Long-term liabilities:	
Due within one year	4,585,454
Due in more than one year	5,361,093
Total liabilities	<u>65,671,206</u>
Net Assets	
Invested in capital assets	4,376,289
Restricted for:	
Construction for other State departments	1,395,468,959
Escrow deposit	1,398,478
Construction with Build America Bonds Interest	278,097
Interest subsidy payment	1,479,615
GSFIC administration	46,225,087
Total net assets	<u>\$ 1,449,226,525</u>

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, 2012**

Functions/Programs	Expenses	Program revenue Capital grants and contributions	Net (expense) revenue and changes in net assets Total governmental activities
Governmental activities:			
Board of Education	\$ 258,758,978	\$ 263,186,085	\$ 4,427,107
Board of Regents	258,125,509	223,464,391	(34,661,118)
Department of Agriculture	22,357,661	2,500,000	(19,857,661)
Department of Behavioral Health and Developmental Disabilities	10,713,659	4,100,000	(6,613,659)
Department of Community Affairs	—	500,626	500,626
Department of Community Health	—	19,998	19,998
Department of Corrections	28,551,874	26,722,544	(1,829,330)
Department of Defense	4,849,767	4,335,845	(513,922)
Department of Economic Development	3,237,789	1,265,000	(1,972,789)
Department of Juvenile Justice	14,218,650	10,839,846	(3,378,804)
Department of Labor	15,995,927	8,939,357	(7,056,570)
Department of Natural Resources	16,929,271	11,155,545	(5,773,726)
Department of Public Health	600,884	500,000	(100,884)
Department of Public Safety	10,711,379	9,567,440	(1,143,939)
Department of Revenue	10,680,351	10,506,997	(173,354)
Department of Transportation	98,133,660	109,474,099	11,340,439
Department of Veteran Services	1,424,964	497,250	(927,714)
Georgia Agricultural Exposition Authority	98,791	1,089,000	990,209
Georgia Aviation Authority	112,185	180,000	67,815
Georgia Building Authority	3,773,857	125,110	(3,648,747)
Georgia Bureau of Investigation	3,469,479	2,062,798	(1,406,681)
Georgia Environmental Finance Authority	35,416,569	35,207,478	(209,091)
Georgia Forestry Commission	8,977,832	6,713,396	(2,264,436)
Georgia Ports Authority	4,213,000	27,633,633	23,420,633
Georgia State Financing and Investment Commission	—	6,249	6,249
Jekyll Island Authority	26,465,716	—	(26,465,716)
Soil and Water Conservation Commission	—	6,214,837	6,214,837
State Accounting Office	197,641	—	(197,641)
Technical College System of Georgia	113,890,966	81,908,924	(31,982,042)
General Administration	14,519,171	—	(14,519,171)
Intergovernmental expenses to the State of Georgia for:			
State bond issuance expenses	1,646,787	—	(1,646,787)
Build America Bonds subsidy payment to the Office of State Treasurer	16,456,398	17,936,013	1,479,615
Escrow deposit to refund State general obligation bonds	83,173,363	—	(83,173,363)
Arbitrage rebate expenses	1,459,776	—	(1,459,776)
Unspent cash appropriations returned to agencies	3,220,540	—	(3,220,540)
Total governmental activities	\$ 1,072,382,394	\$ 866,652,461	\$ (205,729,933)
General revenues:			
Intergovernmental revenue			80,181,492
Unrestricted investment earnings			7,924,480
Reduction in arbitrage rebate estimates			3,835,664
Other revenue			545,036
Total general revenues			92,486,672
Changes in net assets			(113,243,261)
Net assets – beginning			1,562,469,786
Net assets – ending			\$ 1,449,226,525

See accompanying notes to financial statements.

June 30, 2012

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, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Intergovernmental revenue from bond proceeds and premiums	\$ —	\$ 884,230,342	\$ 884,230,342
Intergovernmental revenue from appropriations and cash supplements to projects	—	44,667,599	44,667,599
Intergovernmental revenue from interest subsidy	—	17,936,013	17,936,013
Investment income	—	7,924,480	7,924,480
Other revenue	545,036	—	545,036
Total revenues	545,036	954,758,434	955,303,470
Expenditures:			
Cost of construction and equipment:			
Board of Education	—	252,868,533	252,868,533
Board of Regents	—	258,315,684	258,315,684
Department of Agriculture	—	4,802,760	4,802,760
Department of Behavioral Health and Developmental Disabilities	—	10,646,746	10,646,746
Department of Corrections	—	25,501,330	25,501,330
Department of Defense	—	4,849,767	4,849,767
Department of Economic Development	—	3,335,706	3,335,706
Department of Juvenile Justice	—	14,218,650	14,218,650
Department of Labor	—	8,340,754	8,340,754
Department of Natural Resources	—	16,974,571	16,974,571
Department of Public Health	—	1,279,866	1,279,866
Department of Public Safety	—	12,579,253	12,579,253
Department of Revenue	—	10,680,351	10,680,351
Department of Transportation	—	106,513,413	106,513,413
Department of Veteran Services	—	1,424,964	1,424,964
Georgia Agricultural Exposition Authority	—	2,650,537	2,650,537
Georgia Aviation Authority	—	112,185	112,185
Georgia Building Authority	—	6,475,451	6,475,451
Georgia Bureau of Investigation	—	3,274,697	3,274,697
Georgia Environmental Finance Authority	—	35,416,569	35,416,569
Georgia Forestry Commission	—	9,632,241	9,632,241
Georgia Ports Authority	—	4,213,000	4,213,000
Georgia State Financing and Investment Commission	—	3,445,004	3,445,004
Jekyll Island Authority	—	26,440,106	26,440,106
Soil and Water Conservation Commission	—	1,533,197	1,533,197
State Accounting Office	—	197,641	197,641
Technical College System of Georgia	—	117,738,278	117,738,278
Total cost of construction and equipment	—	943,461,254	943,461,254

(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, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
General administration expenditures	\$ 14,538,623	\$ —	\$ 14,538,623
Intergovernmental expenditures to the State of Georgia for:			
State bond issuance expenditures	—	1,646,787	1,646,787
Arbitrage rebate expenditures	—	1,459,776	1,459,776
Build America Bonds Interest Subsidy Payment to the Office of State Treasurer	—	16,456,398	16,456,398
Escrow deposit to refund State general obligation bonds	—	83,173,363	83,173,363
Unspent cash appropriations returned to agencies	—	3,220,540	3,220,540
Total expenditures	14,538,623	1,049,418,118	1,063,956,741
(Deficiency) excess of revenues (under) over expenditures	(13,993,587)	(94,659,684)	(108,653,271)
Other financing sources (uses):			
Transfers in	13,830,787	—	13,830,787
Transfers out	—	(13,830,787)	(13,830,787)
Total other financing sources (uses)	13,830,787	(13,830,787)	—
Net change in fund balances	(162,800)	(108,490,471)	(108,653,271)
Fund balances, beginning of year	417,851	1,065,969,545	1,066,387,396
Fund balances, end of year	\$ 255,051	\$ 957,479,074	\$ 957,734,125
Amounts reported for governmental activities in the statement of activities are different because:			
Net change in fund balances – governmental funds			\$ (108,653,271)
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.			
Acquisition of capital assets			3,478,705
Depreciation expense			(37,973)
Accrual of disbursements for construction in progress – held for other State departments			940,016,250
Transfer of completed capital assets to the State of Georgia			(951,906,361)
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			3,835,664
Accrued vacation			23,725
Change in net assets of governmental activities			\$ (113,243,261)

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, 2012

	General Fund			Variance with final budget positive (negative)
	Budgeted amounts		Actual	
	Original	Final		
Expenditures:				
Financing and Investment	\$ 1,689,503	\$ 1,689,503	\$ 1,287,602	\$ 401,901
Administration	5,163,552	5,163,552	4,324,753	838,799
Project Management	8,707,407	8,868,377	7,946,173	922,204
Contracts	854,376	854,376	650,727	203,649
ADA Coordinator	549,747	549,747	535,068	14,679
Total expenditures	16,964,585	17,125,555	14,744,323	2,381,232
Transfers from other funds for payment of operating expenditures	16,964,585	17,125,555	13,830,787	(3,294,768)
Miscellaneous revenue	—	—	545,036	545,036
Excess (deficiency) of revenue over expenditures	\$ —	\$ —	(368,500)	\$ (368,500)
Reconciliation to GAAP Basis:				
To record effect of net change in unrecorded liabilities			205,700	
Net changes in fund balance GAAP Basis			\$ (162,800)	

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 (State of Georgia), 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, for projects managed by the Commission, are recorded as the construction goods and services are delivered and performed. Reimbursements of construction costs incurred by other State of Georgia Departments or Agencies are recorded as reimbursement requests are submitted to the Commission by the Department or Agency. Included in construction disbursements are 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.

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 construction in progress and 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.

Fund Equity:

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance – Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- **Nonspendable** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- **Restricted** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Commission through the adoption of a board resolution. Only the Commission may modify or rescind the commitment.
- **Assigned** – Fund balances are reported as assigned when amounts are constrained by the Commission's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the Commission has authorized the Commission's Director of Construction Division and the Commission's Director of Financing and Investment Division to assign fund balances.
- **Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The Commission reports positive unassigned fund balance only in the General Fund.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Commission's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Commission's policy to use fund balance in the following order: Committed, Assigned, and then Unassigned.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets - Net assets represent the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the Commission has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net assets are reported as unrestricted.

The Commission applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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, 2012, the State sold the following general obligation bonds, from which it gave proceeds to the Commission:

<u>Bond series</u>	<u>Face amount</u>
2011A	\$ 39,105,000
2011B	28,000,000
2011C	412,510,000
2011D	77,000,000
2011H	38,800,000
2011I	208,200,000
Good faith received for 2012A/B/C	7,400,000
Less: Good faith received in the prior year	(5,566,150)
Bond premiums and accrued interest received	78,781,492
Total intergovernmental revenue received from bond proceeds	<u>\$ 884,230,342</u>

NOTE 3. DEPOSITS AND INVESTMENTS

Demand deposit cash accounts for the Commission have a book value of \$158,603. Negotiable orders of withdrawal cash accounts for the Commission have a book value of \$42,391,253 and are presented as an interest earning deposit account. Investments, with a carrying value of \$875,085,701, are included in an arbitrage portfolio managed by the Georgia Office of State Treasurer (OST). Investments are stated at fair value based on quoted market prices. The arbitrage portfolio also includes cash of \$95,570,076 held for investment settlements. The arbitrage portfolio is reported in the financial statements as follows:

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

<u>Account</u>	<u>Balance</u>
Cash held by OST for investment settlements	\$ 95,570,076
Investments	875,085,701
Total	<u>\$ 970,655,777</u>

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, 2012, the Commission had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Government Agency Obligations	1.00 years effective duration	\$ 875,085,701
Total		<u>\$ 875,085,701</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, 2012 was as follows:

Asset category	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Non-Depreciable				
Construction in Progress	\$ 831,120	\$ 3,445,004	\$ -	\$ 4,276,124
Depreciable				
Cost:				
Equipment	244,980	33,701	-	278,681
Accumulated depreciation:				
Equipment	140,543	37,973	-	178,516
Total net capital assets	<u>\$ 935,557</u>	<u>\$ 3,440,732</u>	<u>\$ -</u>	<u>\$ 4,376,289</u>

Depreciation expense of \$37,973 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, 2012, was as follows:

Liabilities	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amount due within one year
Due to the State for					
Arbitrage rebate liability	\$ 12,688,808	\$ 245,256	\$ 4,080,920	\$ 8,853,144	\$ 3,775,639
Accrued vacation	1,117,128	803,662	827,387	1,093,403	809,815
 Total	 \$ 13,805,936	 \$ 1,048,918	 \$ 4,908,307	 \$ 9,946,547	 \$ 4,585,454

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

NOTE 6. INTERFUND BALANCES AND 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, 2012, the Capital Projects Fund transferred \$13,830,787 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.

On November 20, 1997, the Board created the Supplemental Retirement Benefit Plan of ERS (SRBP-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:

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). Members of the GSEPS plan may also participate in the GSEPS 401(k) defined contribution component described below. ERS members hired prior to January 1, 2009 also have the option to irrevocably 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.

Employer contributions required for fiscal year 2012 were based on the June 30, 2009 actuarial valuation as follows:

Old Plan *	11.63%
New Plan	11.63%
GSEPS	7.42%

* 6.88% 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.

The Annual Required Contributions and Actual Employer Contributions, from the Commission to the Employees' Retirement System, totaled \$824,913, \$774,711, and \$806,669, and were charged to the General Fund during the years ended June 30, 2012, 2011, and 2010, 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, 2012, 2011, and 2010.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. RETIREMENT SYSTEMS (Continued)

Georgia Defined Contribution Plan:

Plan Description:

In addition to the ERS defined benefit pension described above, GSEPS members may also participate in the Peach State Reserves 401(k) defined contribution plan and receive an employer matching contribution. The 401(k) plan is administered by the ERS System and was established by the State of Georgia Employee Benefit Plan Council in accordance with State law and Section 401(k) of the Internal Revenue Code. The GSEPS segment of the 401(k) plan was established by State law effective January 1, 2009. Plan provisions and contribution requirements specific to GSEPS can be amended by State law. Other general 401(k) plan provisions can be amended by the ERS Board of Trustees as required by changes in Federal tax law or for administrative purposes. The State was not required to make significant contributions to the 401(k) plan prior to GSEPS because most members under other segments of the plan either were not State employees or were not eligible to receive an employer match on their contributions.

Benefits:

The GSEPS plan includes automatic enrollment in the 401(k) plan at a contribution rate of 1% of salary, along with a matching contribution from the State. The State will match 100% of the employee's initial 1% contribution. Employees can elect to contribute up to an additional 4% and the State will match 50% of the additional 4% of salary. Therefore, the State will match 3% against the employee's 5% total savings. Contributions greater than 5% do not receive any matching funds.

GSEPS employer contributions are subject to a vesting schedule, which determines eligibility to receive all or a portion of the employer contribution balance at the time of any distribution from the account after separation from all State service. Vesting is determined based on the following schedule.

Less than 1 year	None
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 or more years	100%

NOTES TO FINANCIAL STATEMENTS

NOTE 7. RETIREMENT SYSTEMS (Continued)

Georgia Defined Contribution Plan:

Benefits (Continued):

Employee contributions and earnings thereon are 100% vested at all times. The 401(k) plan also allows participants to roll over amounts from other qualified plans to their respective account in the 401(k) plan on approval of the 401(k) plan administrator. Such rollovers are 100% vested at the time of transfer. Participant contributions are invested according to the participant's investment election. If the participant does not make an election, investments are automatically defaulted to a Lifecycle fund based on the participant's date of birth.

The participants may receive the value of their vested accounts upon attaining age 59.5, qualifying financial hardship, or retirement or other termination of service (employer contribution balances are only eligible for distribution upon separation from service). Upon the death of a participant, his or her beneficiary shall be entitled to the vested value of his or her accounts. Distributions are made in installments or in a lump sum.

Contributions Required and Contributions Made:

In 2012, the Commission employer and employee GSEPS contributions were \$10,756 and \$ 26,583, respectively.

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 that administer the plans.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

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 (the 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. For members with fewer than five years of service as of January 1, 2012, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2012, pay approximately 25 percent of the cost of the health insurance coverage. In accordance with the Board resolution dated December 8, 2011, for members with fewer than five years of service as of January 1, 2012, the State provides a premium subsidy in retirement that ranges from 0% for fewer than 10 years of service to 75% (but no greater than the subsidy percentage offered to active employees) for 30 or more years of service. The subsidy for eligible dependents ranges from 0% to 55% (but no greater than the subsidy percentage offered to dependents of active employees minus 20%). No subsidy is available to Medicare eligible members not enrolled in a Medicare Advantage Option. The Board of Community Health sets all member premiums by resolution and in accordance with the law and applicable revenue and expense projections. Any subsidy policy adopted by the Board may be changed at any time by Board resolution and does not constitute a contract or promise of any amount of subsidy.

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, 2012, were as follows:

June 2011	22.667% of covered payroll for July 2011 coverage
July 2011 – November 2011	27.363% of covered payroll for August- December 2011 coverage
December 2011 – April 2012	34.063% of covered payroll for January- May 2012 coverage
May 2012 – June 2012	27.363% of covered payroll for June – July 2012 coverage

No additional contribution was required by the Board for fiscal year 2012 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, 2012, was \$2,242,488, which equaled the required contribution as described above for fiscal year 2012. The Commission's contribution to the health insurance plans for the fiscal years ended June 30, 2011 and 2010 were \$1,923,162 and \$1,609,041, respectively, which equaled the required contributions as described above for fiscal years 2011 and 2010.

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' (ERS), Judicial (JRS), and Legislative (LRS) Retirement Systems. Eligibility was amended to exclude GSEPS members of ERS effective January 1, 2009, and to exclude members of JRS and LRS hired on or after July 1, 2009. Pursuant to Title 47 of the OCGA, benefit provisions of the plan were established and can be amended by State statute.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

State Employees' Assurance Department – OPEB: (Continued)

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 ERS Board of Trustees establishes 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, 2012, contributions of ERS "old plan" members were 0.45% of earnable compensation, 0.22% of which was paid by the employer. Contributions of ERS "new plan" members and of members of the Judicial and Legislative Retirement Systems were 0.23% of earnable compensation.

The SEAD-OPEB annual required contribution was 0.61% of payroll for fiscal year 2012 based on the actuarial valuation as of June 30, 2009. The ERS Board of Trustees voted and approved that the contribution would be paid from existing assets of the Survivors Benefit Fund (SBF) instead of requiring payment by the employers. The contribution by SBF made on-behalf of the Commission for fiscal year 2012 was estimated to be \$39,348. There were no required employer contributions for the fiscal years ended June 30, 2011, and 2010.

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, 2012, the undisbursed balance remaining on these agreements approximated \$742,152,912.

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.

NOTES TO FINANCIAL STATEMENTS

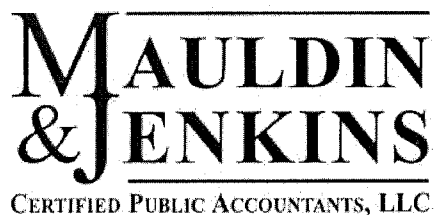
NOTE 10. RISK MANAGEMENT (Continued)

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, 2012.

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, 2012.

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.



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, 2012, which collectively comprise the Commission’s basic financial statements and have issued our report thereon dated September 18, 2012. 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

Management of the Commission is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses, as item 2012-1 to be a material weakness.

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*.

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Commission's response and, accordingly, we express no opinion on it.

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 18, 2012

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, 2012**

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 ☐ no

Significant deficiencies identified not considered
to be material weaknesses?

☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

There was not an audit of major federal award programs as of June 30, 2012 due to the Georgia State Financing and Investment Commission not receiving any federal awards for the year then ended June 30, 2012.

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, 2012

Section II – Financial Statement Findings and Responses

2012-1 Accounts Payable and Related Expenses/Expenditures

Criteria: Under generally accepted accounting principles for governments, ordinarily a liability and related expenditure should be recognized as soon as the goods or services are received, regardless of the timing of the related cash flows.

Condition: For construction payments, the Commission has historically recognized the liability and related expenditure when the goods or services are received and approvals have been provided. For the Commission's transactions in which it is reimbursing another state agency, this practice is appropriate as the approvals and request for reimbursement would trigger the recognition of the liability and expenditure for the Commission. However, for the Commission's transactions in which it is managing the construction project on behalf of another state agency, the recognition of the liability and related expenditure should occur when the good or service is provided.

Context/Cause: Due to the Commission's practice, an audit adjustment was required for the current year in order to record additional accounts payable and expenditures for the Capital Projects Fund in the amount of \$14,381,323.

Effects: Audit adjustments were needed to correctly report liabilities and expenditures.

Recommendation: We recommend that the Commission change its historical practice for accrual of fiscal year end expenditures to ensure that payments made subsequent to year-end, on projects it is managing, are reviewed to determine if a liability is required due to the goods or services being received.

Auditee's Response: We concur with the auditor's finding that the long-standing practice for recording liabilities for GSFIC-managed projects should be adjusted to reflect the recognition of the liability and related expenditure at the time the good or service is provided. GSFIC will implement procedures to properly recognize and record the liability and related expenditure for fiscal year end. It should be noted that the auditor has concurred that the timing of recording liabilities and expenditures for reimbursable projects will continue to be based upon the date of the agency's submittal of the invoice.

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, 2012

Personal services	\$ 11,371,749
Regular operating expenditures	601,483
Equipment	33,701
Computer charges	789,683
Real estate rents	998,296
Telecommunications	55,851
Contracts	687,860
	<hr/>
Total	<u><u>\$ 14,538,623</u></u>