

**GEORGIA HIGHER EDUCATION  
FACILITIES AUTHORITY**  
(A Component Unit of the State of Georgia)

**Financial Statements**

**June 30, 2014**

**GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY**  
(A Component Unit of the State of Georgia)

**FINANCIAL REPORT**  
**JUNE 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

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**The Members**  
**Georgia Higher Education**  
**Facilities Authority**  
**Atlanta, Georgia**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the **Georgia Higher Education Facilities Authority** (the "Authority"), a component unit of the State of Georgia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion 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 from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Georgia Higher Education Facilities Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 5, the Georgia Higher Education Facilities Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of July 1, 2013. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 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.

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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2014 on our consideration of the Authority'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* in considering the Authority's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia  
September 17, 2014

**GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY**  
**(A Component Unit of the State of Georgia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Management's discussion and analysis of the financial performance of the Georgia Higher Education Facilities Authority (the "Authority") is intended to provide the readers of these financial statements with an overview of the Authority's financial activities for the year ended June 30, 2014.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements.

**Financial Statements**

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

The *statement of revenues, expenses, and changes in net position* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position 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 basic financial statements can be found on pages 7-9 of this report.

**Notes to the Financial Statements**

The Notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The Notes to the financial statements can be found on pages 10-16 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Financial Analysis

#### Summary of the Authority's Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013 (as restated)</u>
Assets:		
Current and other assets	\$ 282,730,173	\$ 286,988,309
Total assets	<u>282,730,173</u>	<u>286,988,309</u>
Liabilities:		
Long-term liabilities	275,400,633	279,864,199
Other liabilities	<u>5,147,938</u>	<u>4,834,848</u>
Total liabilities	<u>280,548,571</u>	<u>284,699,047</u>
Net position:		
Unrestricted	<u>2,181,602</u>	<u>2,289,262</u>
Total net position	<u>\$ 2,181,602</u>	<u>\$ 2,289,262</u>

The net position of a governmental entity may serve as an indicator of the entity's financial position. The Authority's net position at June 30, 2014 was \$2.2 million as compared to June 30, 2013 when it was \$2.3 million. The Authority was created by the State legislature in 2006 and began operations in fiscal year 2008. The Authority's purpose is to finance eligible construction, renovation, improvement, rehabilitation or restoration projects for the Board of Regents and the Technical College System of Georgia through the issuance of revenue bonds.

During fiscal year 2014, the Authority did not issue any revenue bonds. The legislation that created the Authority limited the amount of outstanding principal that could be outstanding at any one point in time to \$300 million. During its 2012 session, the General Assembly of Georgia approved legislation which was signed into law by the Governor to increase the amount of outstanding debt that the Authority can have outstanding at any point in time by \$200 million to \$500 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Summary of Changes in the Authority's Net Position

Years ended June 30, 2014 and 2013

	2014	2013 (as restated)
Operating Revenues:		
Financing income on notes receivable from:		
USG Real Estate Foundation I, LLC	\$ 5,548,160	\$ 5,575,611
USG Real Estate Foundation II, LLC	5,056,636	5,105,875
USG Real Estate Foundation III, LLC	4,264,522	4,330,223
Total operating revenues	14,869,318	15,011,709
Operating Expenses:		
Interest on bonds payable	14,869,318	15,011,709
Bond insurance	25,474	25,598
Amortization	71,435	71,010
Other services and charges	11,367	8,509
Total operating expenses	14,977,594	15,116,826
Interest income	616	817
Change in net position	(107,660)	(104,300)
Net position, beginning of year, as restated	2,289,262	2,393,562
Net position, end of year	\$ 2,181,602	\$ 2,289,262

As noted previously, the fiscal year 2014 activity did not include any issuance of revenue bonds. The majority of net position is attributed to prepaid bond insurance and the discount or premium on bonds payable. These assets will be amortized over the life of the bonds.

### **Budgetary Highlights**

The Authority adopted a management budget for its administrative functions. Budgetary expenses for fiscal year 2014 were \$15,500 while actual expenses for administration (classified as other services and charges) were \$11,367.

### **Requests for Information**

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



**GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY**  
**(A Component Unit of the State of Georgia)**

Statement of Net Position  
June 30, 2014

**Assets**

Current assets:

Cash and cash equivalents	\$	244
Investment in Georgia Fund 1		512,225
Note receivable from USG Real Estate Foundation I, LLC, current portion		990,000
Note receivable from USG Real Estate Foundation II, LLC, current portion		1,770,000
Note receivable from USG Real Estate Foundation III, LLC, current portion		1,775,000
Interest receivable from USG Real Estate Foundation I, LLC		229,848
Interest receivable from USG Real Estate Foundation II, LLC		208,002
Interest receivable from USG Real Estate Foundation III, LLC		174,973
		174,973
Total current assets		5,660,292

Noncurrent assets:

Prepaid bond insurance		444,881
Note receivable from USG Real Estate Foundation I, LLC, noncurrent portion		96,350,000
Note receivable from USG Real Estate Foundation II, LLC, noncurrent portion		92,695,000
Note receivable from USG Real Estate Foundation III, LLC, noncurrent portion		87,580,000
		87,580,000
Total noncurrent assets		277,069,881

Total assets		282,730,173
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**Liabilities**

Current liabilities:

Accounts payable		115
Bonds payable, current portion		4,535,000
Accrued interest payable		612,823
		612,823
Total current liabilities		5,147,938

Noncurrent liabilities:

Bonds payable, noncurrent portion, net of unamortized premium/discount of \$1,224,367		275,400,633
		275,400,633
Total noncurrent liabilities		275,400,633

Total liabilities		280,548,571
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**Net Position**

Unrestricted		2,181,602
Total net position		\$ 2,181,602

**See accompanying notes to financial statements.**

**GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY**  
**(A Component Unit of the State of Georgia)**

Statement of Revenues, Expenses and Changes in Net Position  
Year ended June 30, 2014

Operating revenue	
Financing income on notes receivable from:	
USG Real Estate Foundation I, LLC	\$ 5,548,160
USG Real Estate Foundation II, LLC	5,056,636
USG Real Estate Foundation III, LLC	<u>4,264,522</u>
Total operating revenues	<u>14,869,318</u>
Operating expenses:	
Interest on bonds payable	14,869,318
Bond insurance	25,474
Amortization	71,435
Other services and charges	<u>11,367</u>
Total operating expenses	<u>14,977,594</u>
Operating loss	<u>(108,276)</u>
Non-operating income	
Interest income	<u>616</u>
Total non-operating income	<u>616</u>
Change in net position	(107,660)
Net position at beginning of year, as restated	<u>2,289,262</u>
Net position at end of year	<u><u>\$ 2,181,602</u></u>

**See accompanying notes to financial statements.**

**GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY**  
**(A Component Unit of the State of Georgia)**

Statement of Cash Flows  
Year ended June 30, 2014

Cash flows from operating activities:	
Financing income on direct financing lease	\$ 14,876,344
Interest paid on revenue bonds	(14,876,344)
Other operating cash payments	(11,251)
Net cash used by operating activities	<u>(11,251)</u>
Cash flows from investing activities:	
Interest Income	<u>616</u>
Net cash provided by investing activities	<u>616</u>
Net change in cash	(10,635)
Cash and cash equivalents at beginning of year	<u>523,104</u>
Cash and cash equivalents at end of year	<u>\$ 512,469</u>
Classified on Statement of Net Position as:	
Cash and cash equivalents	\$ 244
Investment in Georgia Fund 1	<u>512,225</u>
Cash and cash equivalents for cash flow statement	<u>\$ 512,469</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (108,276)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Amortization	71,435
Decrease in prepaid bond insurance	25,474
Increase in accounts payable	116
Net cash used by operating activities	<u>\$ (11,251)</u>

**See accompanying notes to financial statements.**

**GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY**  
**(A Component Unit of the State of Georgia)**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Reporting Entity:**

The Georgia Higher Education Facilities Authority (the "Authority") was created by legislation enacted by the 2006 General Assembly of Georgia and is a component unit of the State of Georgia.

Pursuant to the legislation establishing the Authority, the primary purpose of the Authority is to finance eligible construction, renovation, improvement, rehabilitation or restoration projects for the Board of Regents and the Technical College System of Georgia through the issuance of revenue bonds.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies.

**(b) Basis of Presentation:**

In accounting and reporting for its proprietary fund-type operations, the Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

The accrual basis of accounting and economic resources measurement focus is utilized by the Authority. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues and expenses associated with the Authority's central purpose of financing the eligible construction, renovation, improvement, rehabilitation or restoration projects for the Board of Regents and the Technical College System for the State of Georgia are considered to be operating revenues and expenses.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **(c) Note Receivable:**

The note receivable is the total of the principal payments from the USG Real Estate Foundation I, LLC, USG Real Estate Foundation II, LLC and USG Real Estate Foundation III, LLC under loan agreements between the parties.

#### **(d) Prepaid Bond Insurance:**

Prepaid bond insurance initially paid as a component of bond issuance costs and amortized over the term of the debt using the effective interest method.

#### **(e) Bond Discounts:**

Bond discounts are presented as a reduction of the face amount of bonds payable and amortized over the term of the debt using the effective interest method.

#### **(f) Bond Premiums:**

Bond premiums are presented as an addition of the face amount of bonds payable and amortized over the term of the debt using the effective interest method.

#### **(g) Related Party Transactions:**

During the normal course of business, the Authority provides services to the Board of Regents and Technical College System of Georgia and enters into loan and leasing arrangements with entities related to the Board of Regents and Technical College System of Georgia. The relationship with these entities is so pervasive that disclosure of the relationship alone is sufficient and significant transactions with the entities are noted throughout the financial statements and the notes.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(h) Economic Dependency:**

The Authority provides services to the Board of Regents and the Technical College System of Georgia. Substantially all of the Authority's revenues are from these entities.

#### **(i) 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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### **NOTE 2. DEPOSITS AND INVESTMENTS**

The bank balance of cash deposits at year end, which totaled \$244, was insured by FDIC insurance. The carrying amount of these deposits was \$244. Investments are carried at fair value. The investment in the Georgia Fund 1 represents the Authority's portion of a pooled investment account operated by the Office of the State Treasurer. The pool consists of U.S. treasury obligations, securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities, banker's acceptances, overnight and term repurchase agreements with highly rated counterparties, and collateralized bank accounts. The Georgia Fund 1 is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Accordingly, the investments in the Georgia Fund 1 are valued at amortized cost which translates into a stable \$1 share price. The investment in the Georgia Fund 1 was \$512,225 as of June 30, 2014.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

#### Credit risk:

State statutes authorize the Authority to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia. As of June 30, 2014, the Authority's investment in the Georgia Fund 1 was rated AA+ by Standard & Poor's.

At June 30, 2014, the Authority had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Georgia Fund 1	62 day weighted average	\$ 512,225
Total		<u>\$ 512,225</u>

#### Interest rate risk:

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. NOTES RECEIVABLE

On November 1, 2008, the Authority entered into a loan agreement with the USG Real Estate Foundation I, LLC, for several projects located on campuses across the State of Georgia with the Board of Regents of the University System of Georgia for \$99,855,000. The loan payments to be received by the Authority follow the same debt service requirements of the 2008 Bonds.

On July 23, 2009, the Authority entered into a loan agreement with the USG Real Estate Foundation II, LLC, for several projects located on campuses across the State of Georgia with the Board of Regents of the University System of Georgia for \$100,850,000. The loan payments to be received by the Authority follow the same debt service requirements of the 2009A Bonds.

On August 12, 2010, the Authority entered into a loan agreement with the USG Real Estate Foundation III, LLC, for several projects located on campuses across the State of Georgia with the Board of Regents of the University System of Georgia for \$94,210,000. The loan payments to be received by the Authority follow the same debt service requirements of the 2010A Bonds.

As of June 30, 2014, the estimated annual payments to be received under these notes receivable are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,535,000	\$ 14,707,744	\$ 19,242,744
2016	4,875,000	14,508,594	19,383,594
2017	5,245,000	14,294,944	19,539,944
2018	5,595,000	14,098,069	19,693,069
2019	5,980,000	13,881,669	19,861,669
2020-2024	37,185,000	64,574,406	101,759,406
2025-2029	49,380,000	54,143,100	103,523,100
2030-2034	64,750,000	39,369,219	104,119,219
2035-2039	85,230,000	19,515,906	104,745,906
2040-2041	18,385,000	1,266,600	19,651,600
Total	<u>\$ 281,160,000</u>	<u>\$ 250,360,250</u>	<u>\$ 531,520,250</u>



## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. LONG-TERM DEBT

The following is a summary of long-term debt activity for the year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Revenue bonds payable	\$ 285,375,000	\$ -	\$ (4,215,000)	\$ 281,160,000	\$ 4,535,000
Plus: Premium on bonds	1,830,628	-	(102,564)	1,728,064	-
Less: Discount on bonds	(3,126,429)	-	173,998	(2,952,431)	-
Total revenue bonds payable	<u>\$ 284,079,199</u>	<u>\$ -</u>	<u>\$ (4,143,566)</u>	<u>\$ 279,935,633</u>	<u>\$ 4,535,000</u>

**Revenue Bonds.** In November 1, 2008, the Authority issued revenue bonds, Series 2008, in the principal amount of \$99,855,000 with semi-annual installments due beginning June 15, 2009 through June 15, 2040 at an interest rate ranging from 4.00% to 6.25%. Proceeds were used to acquire, construct, and equip several projects on college campuses throughout the State. The bonds are secured solely by the related Security Deed and related Assignment of Contract Documents.

On July 23, 2009, the Authority issued revenue bonds, Series 2009A, in the principal amount of \$100,850,000 with semi-annual installments due beginning December 15, 2009 through June 15, 2039 at an interest rate ranging from 3.00% to 5.50%. Proceeds were used to acquire, construct, and equip several projects on college campuses throughout the State. The bonds are secured solely by the related Security Deed and related Assignment of Contract Documents.

On August 12, 2010, the Authority issued revenue bonds, Series 2010A, in the principal amount of \$94,210,000 with semi-annual installments due beginning December 15, 2010 through June 15, 2041 at an interest rate ranging from 3.00% to 5.00%. Proceeds were used to acquire, construct, and equip several projects on college campuses throughout the State. The bonds are secured solely by the related Security Deed and related Assignment of Contract Documents.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. LONG-TERM DEBT (Continued)

The Authority's debt service requirements to maturity on the revenue bonds are as follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,535,000	\$ 14,707,744	\$ 19,242,744
2016	4,875,000	14,508,594	19,383,594
2017	5,245,000	14,294,944	19,539,944
2018	5,595,000	14,098,069	19,693,069
2019	5,980,000	13,881,669	19,861,669
2020-2024	37,185,000	64,574,406	101,759,406
2025-2029	49,380,000	54,143,100	103,523,100
2030-2034	64,750,000	39,369,219	104,119,219
2035-2039	85,230,000	19,515,906	104,745,906
2040-2041	18,385,000	1,266,600	19,651,600
Total	<u>\$ 281,160,000</u>	<u>\$ 250,360,250</u>	<u>\$ 531,520,250</u>

### NOTE 5: CHANGE IN ACCOUNTING PRINCIPLE

In conjunction with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Authority is required to change its accounting treatment of debt issuance costs. The new standard requires that debt issuance costs, other than bond insurance, be recognized as an expense in the period incurred rather than capitalized and recognized as an expense (amortized) in a systematic and rational manner over the duration of the related debt as was the required treatment in prior reporting periods.

Therefore, in conjunction with the implementation of Statement No. 65, the following restatement was required to the beginning net position to properly recognize debt issuance costs as expenses in the periods in which they were incurred:

Net Position at beginning of year, as previously reported	\$ 6,033,149
Recognition of bond issuance costs in accordance with GASB 65	<u>(3,743,887)</u>
Net Position at beginning of year, as restated	<u>\$ 2,289,262</u>



**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**

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**The Members**  
**Georgia Higher Education**  
**Facilities Authority**  
**Atlanta, Georgia**

We have audited, 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, the financial statements of the Georgia Higher Education Facilities Authority (the "Authority"), a component unit of the State of Georgia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 17, 2014. Our report includes a reference to the implementation of a new accounting standard which modified the accounting of debt issuance costs.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
September 17, 2014

**GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY**  
**(A Component Unit of the State of Georgia)**

**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

\_\_\_\_\_ yes  X  no

Significant deficiencies identified?

\_\_\_\_\_ 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, 2014 due to the Georgia Higher Education Facilities Authority not receiving any federal awards for the year then ended June 30, 2014.