



VALDOSTA STATE UNIVERSITY



ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

(Including Independent Auditor's Report)

Valdosta, Georgia

A Regional University of the University System of Georgia

VALDOSTA STATE UNIVERSITY

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SECTION I
FINANCIAL



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

November 9, 2012

Honorable Nathan Deal, Governor
Members of the General Assembly of Georgia
Members of the Board of Regents of the
University System of Georgia
and
Honorable William J. McKinney, President
Valdosta State University

INDEPENDENT AUDITOR'S COMBINED REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Ladies and Gentlemen:

We have audited the accompanying basic financial statements (Exhibits A through D) of Valdosta State University, a unit of the University System of Georgia, which is an organizational unit of the State of Georgia, as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Valdosta State University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 opinion.

In accordance with section 50-6-1(c) of the Official Code of Georgia Annotated, Greg S. Griffin was appointed State Auditor on July 1, 2012. During the year under review, Mr. Griffin served as the State Accounting Officer. As the State Accounting Officer, Mr. Griffin was responsible for the State's accounting and financial reporting practices.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Valdosta State University as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements of Valdosta State University are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of the State of Georgia that is attributable to the transactions of Valdosta State University. They do not purport to, and do not, present fairly the financial position of the State of Georgia as of June 30, 2012, the changes in its financial position or its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i through v 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 consists of inquires 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 an opinion on the basic financial statements of Valdosta State University taken as a whole. The accompanying supplementary information (Schedules 1 through 6) 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting or 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 taken as a whole.

Respectfully,



Greg S. Griffin
State Auditor

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REQUIRED SUPPLEMENTARY INFORMATION

VALDOSTA STATE UNIVERSITY

Management's Discussion and Analysis

Introduction

Valdosta State University is one of the 35 institutions of higher education of the University System of Georgia. The University, located in Valdosta, Georgia, was founded in 1906. The University offers nationally accredited programs in Art, Business, Music, Nursing, Speech Language Pathology, School Psychology and Teacher Education as well as baccalaureate and master's degrees in a wide variety of other subjects. This wide range of educational opportunities attracts a highly qualified faculty and a student body of more than 13,000 students each year. The institution continues to grow as shown by the comparison numbers that follow.

	<u>Faculty</u>	<u>Students (Headcount)</u>	<u>Students (FTE)</u>
Fiscal Year 2012	569	13,089	11,903
Fiscal Year 2011	576	12,898	11,846
Fiscal Year 2010	549	12,391	11,853

Overview of the Financial Statements and Financial Analysis

Valdosta State University is proud to present its financial statements for fiscal year 2012. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year. Comparative data is provided for fiscal year 2012 and fiscal year 2011.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Valdosta State University. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities). The difference between current and noncurrent assets will be discussed in the Notes to the Financial Statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors.

Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Statement of Net Assets, Condensed

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets		
Current Assets	\$ 34,244,410	\$ 34,315,204
Capital Assets, Net	327,718,574	323,574,865
Other Assets	<u>12,746,073</u>	<u>12,823,351</u>
Total Assets	\$ <u>374,709,057</u>	\$ <u>370,713,420</u>
Liabilities		
Current Liabilities	\$ 17,633,027	\$ 13,682,895
Noncurrent Liabilities	<u>212,794,134</u>	<u>216,321,251</u>
Total Liabilities	\$ <u>230,427,161</u>	\$ <u>230,004,146</u>
Net Assets		
Invested in Capital Assets, Net of Debt	\$ 113,488,324	\$ 106,759,759
Restricted - Nonexpendable	2,658,741	2,700,858
Restricted - Expendable	3,409,843	3,547,278
Unrestricted	<u>24,724,988</u>	<u>27,701,379</u>
Total Net Assets	\$ <u><u>144,281,896</u></u>	\$ <u><u>140,709,274</u></u>

The total assets increased by \$3,995,637. A review of the Statement of Net Assets will reveal that the increase was primarily due to an increase of \$4,143,709 in the category of Capital Assets, Net. The balance of the increase is mainly in receivable categories.

The total liabilities increased for the year by \$423,015. The combination of the increase in total assets of \$3,995,637 and the increase in total liabilities of \$423,015 yields an increase in total net assets of \$3,572,622. The increase in total net assets is primarily in the category of Invested in Capital Assets, Net of Debt, in the amount of \$6,728,565.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution. Generally speaking operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Revenues	\$ 106,440,088	\$ 101,500,325
Operating Expenses	<u>164,183,751</u>	<u>160,612,416</u>
Operating Loss	\$ -57,743,663	\$ -59,112,091
Nonoperating Revenues and Expenses	<u>58,745,116</u>	<u>63,362,317</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	\$ 1,001,453	\$ 4,250,226
Other Revenues, Expenses, Gains or Losses	<u>2,571,169</u>	<u>4,770,113</u>
Increase (Decrease) in Net Assets	\$ 3,572,622	\$ 9,020,339
Net Assets at Beginning of Year	<u>140,709,274</u>	<u>131,688,935</u>
Net Assets at End of Year	<u>\$ 144,281,896</u>	<u>\$ 140,709,274</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses and Changes in Net Assets are as follows:

Revenue by Source
For the Years Ended June 30, 2012 and June 30, 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Revenue		
Tuition and Fees	\$ 58,328,153	\$ 54,456,368
Grants and Contracts	3,051,098	2,861,607
Sales and Services of Educational Departments	1,285,996	1,089,482
Auxiliary	42,977,061	42,383,803
Other	<u>797,780</u>	<u>709,065</u>
Total Operating Revenue	<u>\$ 106,440,088</u>	<u>\$ 101,500,325</u>
Nonoperating Revenue		
State Appropriations	\$ 43,356,576	\$ 45,398,704
Grants and Contracts	23,332,996	25,714,119
Gifts	1,287,510	469,131
Investment Income	90,722	1,152,936
Other	<u>1,663</u>	<u>112,782</u>
Total Nonoperating Revenue	<u>\$ 68,069,467</u>	<u>\$ 72,847,672</u>
Capital Grants and Gifts		
State	\$ 2,418,839	\$ 2,549,147
Other	<u>152,330</u>	<u>3,286,415</u>
Total Capital Grants and Gifts	<u>\$ 2,571,169</u>	<u>\$ 5,835,562</u>
Total Revenues	<u>\$ 177,080,724</u>	<u>\$ 180,183,559</u>

Expenses (By Functional Classification)
For the Years Ended June 30, 2012 and June 30, 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Expenses		
Instruction	\$ 54,012,196	\$ 53,641,882
Research	530,627	667,732
Public Service	1,959,154	1,550,037
Academic Support	12,186,987	12,279,142
Student Services	12,155,952	13,376,197
Institutional Support	15,695,921	15,356,636
Plant Operations and Maintenance	15,970,084	14,648,461
Scholarships and Fellowships	12,741,201	13,068,915
Auxiliary Enterprises	<u>38,931,629</u>	<u>36,023,414</u>
Total Operating Expenses	\$ 164,183,751	\$ 160,612,416
Nonoperating Expenses		
Interest Expense (Capital Assets)	9,324,351	9,485,355
Special Item		
Loss on Demolition of Building	<u> </u>	<u>1,065,449</u>
Total Expenses	<u>\$ 173,508,102</u>	<u>\$ 171,163,220</u>

Operating revenues increased by \$4,939,763 in fiscal year 2012. Tuition and Fees included an 7% increase and smaller increases were realized in Auxiliary and the other areas.

The Auxiliary revenue increase of \$593,258 is a result of an increase in commissions earned on food service related to the change of vendors as well as a small rate increase in housing charges as approved by the University System of Georgia Board of Regents and outlined in bond documents, offset by a 9.4% decrease in Bookstore Sales, which is primarily attributed to the implementation of a textbook rental program.

Nonoperating revenues decreased by \$4,778,205 for the year primarily due to a decrease in State Appropriations.

The compensation and employee benefits category increased by \$1,759,717 and primarily affected the Operation and Maintenance of Plant, Public Service, and Institutional Support categories. The increase in this category reflects a wellness benefit for employees as well as an increase in the cost of health insurance.

Utilities decreased by \$54,577 during the past year. Decreases in natural gas, fuel oil and telecommunications expenses were offset by an increase in electricity costs. The primary category affected was Institutional Support.

Statement of Cash Flows

The final statement presented by the Valdosta State University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and

spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

Cash Flows for the Years Ended June 30, 2012 and June 30, 2011, Condensed

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Cash Provided (Used) By:		
Operating Activities	\$ -38,742,889	\$ -41,867,066
Noncapital Financing Activities	68,244,963	69,401,291
Capital and Related Financing Activities	-27,875,931	-20,958,964
Investing Activities	<u>212,589</u>	<u>239,916</u>
Net Change in Cash	\$ 1,838,732	\$ 6,815,177
Cash, Beginning of Year	<u>25,948,312</u>	<u>19,133,135</u>
Cash, End of Year	<u>\$ 27,787,044</u>	<u>\$ 25,948,312</u>

Capital Assets

The University had several significant capital asset additions for buildings in fiscal year 2012. Renovations to the Langdale Residence Hall were completed, as was construction of the Psychology Building and the Bailey Science Center addition. Valdosta State University also completed two major re-roofing projects for Odum Library and the Education Center in fiscal year 2012.

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

Long-Term Liabilities

Valdosta State University had Long-Term Liabilities of \$217,549,444 which \$5,348,282 was reflected as current liability at June 30, 2012.

For additional information concerning Long-Term Liabilities, see Notes 1 and 8 in the Notes to the Financial Statements.

Economic Outlook

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. The University's overall financial position is strong. The University anticipates the current fiscal year will be much like last and will maintain a close watch over resources to maintain the University's ability to react to unknown internal and external issues.

William J. McKinney, President
Valdosta State University

BASIC FINANCIAL STATEMENTS

VALDOSTA STATE UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT "A"

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 27,760,789
Accounts Receivable, Net (Note 3)	
Receivables - Federal Financial Assistance	709,542
Receivables - Other	3,300,100
Inventories (Note 4)	2,299,463
Prepaid Items	174,516
	34,244,410
Total Current Assets	\$ 34,244,410
Noncurrent Assets	
Noncurrent Cash	\$ 26,255
Investments (Externally Restricted)	5,617,802
Investments	7,027,983
Notes Receivable, Net	74,033
Capital Assets, Net (Note 6)	327,718,574
	340,464,647
Total Noncurrent Assets	\$ 340,464,647
Total Assets	\$ 374,709,057

LIABILITIES

Current Liabilities	
Accounts Payable	\$ 3,128,675
Salaries Payable	174,965
Contracts Payable	676,006
Deposits	911,925
Deferred Revenue (Note 7)	6,310,662
Other Liabilities	-28,229
Deposits Held for Other Organizations	1,110,741
Lease Purchase Obligations	3,392,679
Compensated Absences	1,955,603
	17,633,027
Total Current Liabilities	\$ 17,633,027
Noncurrent Liabilities	
Lease Purchase Obligations	\$ 210,837,571
Deferred Revenue	592,972
Compensated Absences	1,363,591
	212,794,134
Total Noncurrent Liabilities	\$ 212,794,134
Total Liabilities	\$ 230,427,161

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 113,488,324
Restricted for:	
Nonexpendable	2,658,741
Expendable	3,409,843
Unrestricted	24,724,988
	144,281,896
Total Net Assets	\$ 144,281,896

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

VALDOSTA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

EXHIBIT "B"

OPERATING REVENUES

Student Tuition and Fees (Net of Allowance for Doubtful Accounts)	\$	76,030,494
Less: Scholarship Allowances		-17,702,341
Grants and Contracts		
Federal		1,566,839
State		732,471
Other		751,788
Sales and Services		1,285,996
Rents and Royalties		6,895
Auxiliary Enterprises		
Residence Halls		11,816,964
Bookstore		7,840,369
Food Services		12,689,169
Parking/Transportation		3,613,396
Health Services		3,025,118
Intercollegiate Athletics		3,355,453
Other Organizations		636,592
Other Operating Revenues		<u>790,885</u>
 Total Operating Revenues	 \$	 <u>106,440,088</u>

OPERATING EXPENSES

Salaries		
Faculty	\$	36,271,268
Staff		34,833,669
Employee Benefits		21,539,691
Other Personal Services		454,564
Travel		1,042,624
Scholarships and Fellowships		14,565,473
Utilities		5,965,116
Supplies and Other Services		34,464,994
Depreciation		<u>15,046,352</u>
 Total Operating Expenses	 \$	 <u>164,183,751</u>
 Operating Income (Loss)	 \$	 <u>-57,743,663</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	\$	43,356,576
Grants and Contracts		
Federal		23,121,008
State		56,391
Other		155,597
Gifts		1,287,510
Investment Income		90,722
Interest Expense		-9,324,351
Other Nonoperating Revenues		<u>1,663</u>
 Net Nonoperating Revenues	 \$	 <u>58,745,116</u>
 Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	 \$	 <u>1,001,453</u>

Capital Grants and Gifts		
State	\$	2,418,839
Other		<u>152,330</u>

Total Other Revenues, Expenses, Gains or Losses	\$	<u>2,571,169</u>
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Increase (Decrease) in Net Assets	\$	3,572,622
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Net Assets - Beginning of Year		<u>140,709,274</u>
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Net Assets - End of Year	\$	<u><u>144,281,896</u></u>
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The notes to the financial statements are an integral part of this statement.

VALDOSTA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

EXHIBIT "C"

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 58,283,703
Grants and Contracts (Exchange)	3,509,071
Sales and Services	1,285,996
Payments to Suppliers	-63,932,622
Payments to Employees	-72,419,717
Payments for Scholarships and Fellowships	-14,565,473
Loans Issued to Students and Employees	-47,135
Auxiliary Enterprise Charges:	
Residence Halls	11,767,876
Bookstore	7,910,618
Food Services	15,024,551
Parking/Transportation	3,708,087
Health Services	3,133,620
Intercollegiate Athletics	3,401,791
Other Organizations	634,462
Other Receipts (Payments)	<u>3,562,283</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>-38,742,889</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	\$ 43,356,576
Agency Funds Transactions	142,680
Gifts and Grants Received for Other than Capital Purposes	<u>24,745,707</u>
Net Cash Flows Provided (Used) by Noncapital Financing Activities	\$ <u>68,244,963</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants and Gifts Received	\$ 2,418,839
Proceeds from Sale of Capital Assets	1,211,890
Purchases of Capital Assets	-19,199,873
Principal Paid on Capital Debt and Leases	-2,982,436
Interest Paid on Capital Debt and Leases	<u>-9,324,351</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>-27,875,931</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	\$ 35,084
Interest on Investments	<u>177,505</u>
Net Cash Provided (Used) by Investing Activities	\$ <u>212,589</u>
Net Increase (Decrease) in Cash	\$ 1,838,732
Cash and Cash Equivalents - Beginning of Year	<u>25,948,312</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>27,787,044</u></u>

VALDOSTA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

EXHIBIT "C"

RECONCILIATION OF OPERATING LOSS TO NET CASH

PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ -57,743,663
Adjustments to Reconcile Operating Income (loss) to Net Cash	
Provided (Used) by Operating Activities	
Depreciation	15,046,352
Change in Assets and Liabilities:	
Receivables, Net	-324,034
Inventories	145,429
Prepaid Items	590,877
Notes Receivable, Net	-47,135
Accounts Payable	-2,508,987
Deferred Revenue	6,159,341
Other Liabilities	-47,454
Compensated Absences	<u>-13,615</u>
 Net Cash Provided (Used) by Operating Activities	 <u>\$ -38,742,889</u>

NONCASH ACTIVITY

Fixed Assets Acquired by Incurring Capital Lease Obligations	\$ 397,280
Change in Fair Value of Investments Recognized as a Component of Interest Income	<u>\$ -86,783</u>
Gift of Capital Assets Reducing Proceeds of Capital Grants and Gifts	<u>\$ -152,330</u>

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

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Valdosta State University serves the state and national communities by providing its students with academic instruction that advances fundamental knowledge, and by disseminating knowledge to the people of Georgia and throughout the country.

Reporting Entity

Valdosta State University is one of thirty-five (35) State supported member institutions of higher education in Georgia which comprise the University System of Georgia, an organizational unit of the State of Georgia. The accompanying financial statements reflect the operations of Valdosta State University as a separate reporting entity.

The Board of Regents has constitutional authority to govern, control and manage the University System of Georgia. This authority includes but is not limited to the power to designate management, the ability to significantly influence operations, the authority to control institutions' budgets, the power to determine allotments of State funds to member institutions and the authority to prescribe accounting systems and administrative policies for member institutions. Valdosta State University does not have authority to retain unexpended State appropriations (surplus) for any given fiscal year. Accordingly, Valdosta State University is considered an organizational unit of the Board of Regents of the University System of Georgia reporting entity for financial reporting purposes because of the significance of its legal, operational, and financial relationships with the Board of Regents as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

Legally separate, tax exempt Affiliated Organizations whose activities primarily support units of the University System of Georgia, which are organizational units of the State of Georgia, are considered potential Component Units of the State. See Note 16 for additional information.

Financial Statement Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the GASB and are presented as required by these standards to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Generally Accepted Accounting Principles (GAAP) requires that the reporting of summer school revenues and expenses be between fiscal years rather than one fiscal year. For fiscal year 2012, the calculation used to determine this split was based on the academic calendar of days taught. For consistency and transparency, this will be the basis used for this calculation by Valdosta State University.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting, except as noted in the preceding paragraph. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-University transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

Cash and Cash Equivalents consist of petty cash, demand deposits and time deposits in authorized financial institutions, and cash management pools that have the general characteristics of demand deposit accounts.

Investments

Investments include financial instruments with terms in excess of 13 months, certain other securities for the production of revenue, land, and other real estate held as investments by endowments. The University accounts for its investments at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets. The Board of Regents Diversified Fund and the Georgia Extended Asset Pool are included under Investments.

Accounts Receivable

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Georgia. Accounts receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Consumable supplies are carried at cost and are charged out to departments on the first-in, first-out ("FIFO") basis. Resale Inventories are valued at cost using the "first in, first out" (FIFO) basis.

Noncurrent Cash and Investments

Cash and investments that are externally restricted and cannot be used to pay current liabilities are classified as noncurrent assets in the Statement of Net Assets.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that exceed \$100,000 and/or significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation, which also includes amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, and copyrights, as well as software is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 25 years for infrastructure and land improvements, 10 years for library books, and 3 to 20 years for equipment. Residual values will generally be 10% of historical costs for infrastructure, buildings and building improvements, and facilities and other improvements.

To obtain the total picture of plant additions in the University System, it is necessary to look at the activities of the Georgia State Financing and Investment Commission (GSFIC) - an organization that is external to the System. GSFIC issues bonds for and on behalf of the State of Georgia, pursuant to powers granted to it in the Constitution of the State of Georgia and the Act creating the GSFIC. The bonds so issued constitute direct and general obligations of the State of Georgia, to the payment of which the full faith, credit and taxing power of the State are pledged.

For projects managed by GSFIC, the GSFIC retains construction in progress on its books throughout the construction period and transfers the entire project to the University when complete. For projects managed by the University, the University retains construction in progress on its books and is reimbursed by GSFIC. For the year ended June 30, 2012, GSFIC did not transfer any capital additions to Valdosta State University.

Deposits

Deposits represent good faith deposits from students to reserve housing assignments in a University residence hall.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses and Changes in Net Assets. Valdosta State University had accrued liability for compensated absences in the amount of \$3,332,810 as of July 1, 2011. For fiscal year 2012, \$2,416,833 was earned in compensated absences and employees were paid \$2,430,449 for a net decrease of \$13,616. The ending balance as of June 30, 2012, in accrued liability for compensated absences was \$3,319,194.

Noncurrent Liabilities

Noncurrent liabilities include (1) liabilities that will not be paid within the next fiscal year; (2) capital lease obligations with contractual maturities greater than one year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The term "debt obligations" as used in this definition does not include debt of the GSFIC as discussed previously in Note 1 - Capital Assets section.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University may accumulate as much of the annual net income of an institutional fund as is prudent under the standard established by Code Section 44-15-7 of Annotated Code of Georgia.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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Expendable Restricted Net Assets include the following:

Restricted - E&G and Other Organized Activities	\$	2,200,090
Institutional Loans		350,902
Term Endowments		750,254
Quasi-Endowments		<u>108,597</u>
 Total Restricted Expendable	 \$	 <u><u>3,409,843</u></u>

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for those purposes, except for unexpended state appropriations (surplus) of \$184,607.06. Unexpended state appropriations must be refunded to the Board of Regents of the University System of Georgia, University System Office for remittance to the Office of the State Treasurer. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Unrestricted Net Assets includes the following items which are quasi-restricted by management.

R & R Reserve	\$	3,109
Reserve for Encumbrances		14,554,232
Reserve for Inventory		93,620
Other Unrestricted		<u>10,074,027</u>
 Total Unrestricted Net Assets	 \$	 <u><u>24,724,988</u></u>

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

Income Taxes

Valdosta State University, as a political subdivision of the State of Georgia, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Classification of Revenues and Expenses

The Statement of Revenues, Expenses and Changes in Net Assets classify fiscal year activity as operating and nonoperating according to the following criteria:

Operating Revenues: Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) certain Federal, state and local grants and contracts, and (3) sales and services.

Nonoperating Revenues: Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenue by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Operating Expenses: Operating expense includes activities that have the characteristics of exchange transactions.

Nonoperating Expenses: Nonoperating expense includes activities that have the characteristics of nonexchange transactions, such as capital financing costs and costs related to investment activity.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported at gross with a contra revenue account of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded contra revenue for scholarship allowances.

During fiscal year 2012, Valdosta State University changed its method of accounting for summer school revenues and expenses to more accurately reflect periodic results of operations between fiscal years. Beginning net assets were not restated due to lack of materiality and time and effort considerations. Therefore, the effects of the change are prospectively applied reflecting a net decrease of revenues of approximately \$2,531,866 in fiscal year 2012.

Note 2: Deposits and Investments

Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be recovered. Funds belonging to the State of Georgia (and thus the University) cannot be placed in a depository paying interest longer than ten days without the depository providing a surety bond to the State. In lieu of a surety bond, the depository may pledge as collateral any one or more of the following securities as enumerated in the Official Code of Georgia Annotated Section 50-17-59:

1. Bonds, bills, notes, certificates of indebtedness, or other direct obligations of the United States or of the State of Georgia.
2. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.
3. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.
4. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia.

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5. Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest and debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association and the Federal National Mortgage Association.
6. Guarantee or insurance of accounts provided by the Federal Deposit Insurance Corporation.

The Treasurer of the Board of Regents is responsible for all details relative to furnishing the required depository protection for all units of the University System of Georgia.

At June 30, 2012, the carrying value of deposits was \$27,758,644 and the bank balance was \$30,965,685. Of the University's deposits, \$30,965,685 were uninsured. Of these uninsured deposits, \$30,965,685 were collateralized with securities held by the financial institution's trust department or agent but not in the University's name.

Investments

At June 30, 2012, the carrying value of the University's investments were \$12,645,785, which is materially the same as fair value. These investments were comprised entirely of funds invested in the Board of Regents and/or Office of the State Treasurer investment pools as follows:

Investment Pools	
Board of Regents	
Diversified Fund	\$ 5,973,610
Office of the State Treasurer	
Georgia Extended Asset Pool	6,672,175
 Total Investments	 \$ 12,645,785

The Board of Regents Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. Participation in the Board of Regents Investment Pool is voluntary. The Board of Regents Investment Pool is not rated. Additional information on the Board of Regents Investment Pool is disclosed in the audited Financial Statements of the Board of Regents of the University System of Georgia - System Office (oversight unit). This audit can be obtained from the Georgia Department of Audits - Education Audit Division or on their web site at <http://www.audits.ga.gov>.

The Georgia Extended Asset Pool, managed by the Office of the State Treasurer, is not registered with the Securities and Exchange Commission as an investment company. Net Asset Value (NAV) is calculated daily to determine current share price, which was \$2.0 at June 30, 2012. The Georgia Extended Asset Pool is an AAAM rated investment pool by Standard and Poor's. The Weighted Average Maturity of the Fund is .33 years.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The University does not have a formal policy for managing interest rate risk.

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The Effective Duration of the Diversified Fund is 4.01 years. Of the University's total investment of \$5,973,610 in the Diversified Fund, \$1,816,038 is invested in debt securities.

Note 3: Accounts Receivable

Accounts receivable consisted of the following at June 30, 2012:

Student Tuition and Fees	\$	561,194
Auxiliary Enterprises and Other Operating Activities		551,980
Federal, State and Private Funds		709,542
Georgia State Financing and Investment Commission		1,107,325
Due from Affiliated Organizations		44,665
Other		<u>1,164,751</u>
	\$	4,139,457
Less Allowance for Doubtful Accounts		<u>129,815</u>
Net Accounts Receivable	\$	<u><u>4,009,642</u></u>

Note 4: Inventories

Inventories consisted of the following at June 30, 2012:

Bookstore	\$	2,205,842
Other		<u>93,621</u>
Total Inventories	\$	<u><u>2,299,463</u></u>

Note 5: Notes/Loans Receivable

At June 30, 2012, Notes/Loans Receivable were comprised of institutional loans, with no allowance for uncollectible loans.

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Note 6: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2012:

	Beginning Balance July 1, 2011	Additions	Reductions	Ending Balance June 30, 2012
Capital Assets, Not Being Depreciated:				
Land	\$ 3,688,752	\$ 2,020,567		\$ 5,709,319
Capitalized Collections	47,187	59,700		106,887
Construction Work-In-Progress	11,264,409	13,858,834	\$ 18,363,182	6,760,061
Total Capital Assets, Not Being Depreciated	\$ 15,000,348	\$ 15,939,101	\$ 18,363,182	\$ 12,576,267
Capital Assets, Being Depreciated:				
Building and Building Improvements	\$ 142,909,461	\$ 17,214,737		\$ 160,124,198
Facilities and Other Improvements	9,631,550	620,941		10,252,491
Equipment	19,127,731	2,037,833	\$ 1,177,107	19,988,457
Capital Leases	220,413,044	397,280	20,058	220,790,266
Library Collections	25,445,304	1,381,684	38,263	26,788,725
Total Assets Being Depreciated	\$ 417,527,090	\$ 21,652,475	\$ 1,235,428	\$ 437,944,137
Less: Accumulated Depreciation:				
Building and Building Improvements	\$ 48,457,477	\$ 4,275,249		\$ 52,732,726
Facilities and Other Improvements	4,512,244	354,415		4,866,659
Equipment	13,931,216	1,321,092	\$ 1,148,774	14,103,534
Capital Leases	22,318,733	7,955,468	10,058	30,264,143
Library Collections	19,732,903	1,140,128	38,263	20,834,768
Total Accumulated Depreciation	\$ 108,952,573	\$ 15,046,352	\$ 1,197,095	\$ 122,801,830
Total Capital Assets, Being Depreciated, Net	\$ 308,574,517	\$ 6,606,123	\$ 38,333	\$ 315,142,307
Capital Assets, Net	\$ 323,574,865	\$ 22,545,224	\$ 18,401,515	\$ 327,718,574

Note 7: Deferred Revenue

Deferred revenue consisted of the following at June 30, 2012:

Prepaid Tuition and Fees	\$	3,864,453
Other Deferred Revenue		2,446,209
Total Deferred Revenue	\$	6,310,662

Noncurrent deferred revenue was \$592,972 at June 30, 2012.

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Note 8: Long-Term Liabilities

Long-Term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance July 1, 2011	Additions	Reductions	Ending Balance June 30, 2012	Current Portion
Leases					
Lease Obligations	\$ 216,815,406	\$ 397,280	\$ 2,982,436	\$ 214,230,250	\$ 3,392,679
Other Liabilities					
Compensated Absences	3,332,810	2,416,833	2,430,449	3,319,194	1,955,603
Total Long-Term Obligations	\$ 220,148,216	\$ 2,814,113	\$ 5,412,885	\$ 217,549,444	\$ 5,348,282

Note 9: Significant Commitments

The University had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$3,610,506 as of June 30, 2012. This amount is not reflected in the accompanying basic financial statements.

Note 10: Lease Obligations

Valdosta State University is obligated under various operating leases for the use of real property (land, buildings, and office facilities) and equipment, and also is obligated under capital leases and installment purchase agreements for the acquisition of real property.

CAPITAL LEASES

Capital leases are generally payable in installments ranging from monthly to annually and have terms expiring in various years between 2013 and 2039. Expenditures for fiscal year 2012 were \$12.3 million of which \$9.3 million represented interest. Total principal paid on capital leases was \$3.0 million for the fiscal year ended June 30, 2012. Interest rates range from 4.15 percent to 8.00 percent. The following is a summary of the carrying values of assets held under capital lease at June 30, 2012:

Description	Gross Amount (+)	Accumulated Depreciation (-)	Net Assets Held Under Capital Lease at June 30, 2012 (=)	Outstanding Balances per Lease Schedules at June 30, 2012
Equipment	\$ 781,711	\$ -243,956	\$ 537,755	\$ 523,126
Buildings	220,008,555	-30,020,187	189,988,368	213,707,124
Total Assets Held Under Capital Lease at June 30, 2012	\$ 220,790,266	\$ -30,264,143	\$ 190,526,123	\$ 214,230,250

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Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

Valdosta State University had ten capital building leases with related entities in the current fiscal year. In fiscal year 2012, Valdosta State University entered into no new capital leases with related entities.

Valdosta State University has nine capital building leases with VSU Auxiliary Real Estate Foundation, LLC, as follows:

- Georgia and Reade residence halls (combined) for \$30,419,725 at an average coupon rate of 4.150% with an outstanding liability at June 30, 2012, of \$30,773,025;
- Student Union for \$60,747,911 at an average coupon rate of 4.514% with an outstanding liability at June 30, 2012, of \$58,747,758;
- Hopper residence hall with dining services, campus mail and office space for \$27,484,345 at an average coupon rate of 4.554% with an outstanding liability at June 30, 2012, of \$27,188,746;
- Student Health Center for \$12,221,729 at an average coupon rate of 4.649% with an outstanding liability at June 30, 2012, of \$11,923,126;
- Oak Street Parking Deck for \$24,869,880 at an average coupon rate of 4.649% with an outstanding liability at June 30, 2012, of \$24,822,187;
- Sustella Parking Deck for \$21,468,631, at an average coupon rate of 4.649% with an outstanding liability at June 30, 2012, of \$21,427,463;
- Patterson residence hall for \$10,399,786 at a varying interest rate with an outstanding liability at June 30, 2012, of \$9,724,135;
- Lowndes residence hall for \$7,116,694 at a varying interest rate with an outstanding liability at June 30, 2012, of \$6,749,398; and
- Centennial residence hall for \$19,285,471 at a varying interest rate with an outstanding liability at June 30, 2012, of \$16,912,795.

Valdosta State University has one capital building lease with Valdosta State University Foundation, LLC, as follows:

- Athletic Field House for \$5,994,383 at an average coupon rate of 4.55% with an outstanding liability at June 30, 2012, of \$5,438,491.

Valdosta State University entered into fifty-nine new equipment capital leases, most of which are student fee funded printers and copiers, during fiscal year 2012 in the amount of \$397,280. The outstanding liability at June 30, 2012, on these new equipment leases is \$338,629. All of the new equipment leases are with third parties.

Valdosta State University also has various capital leases for equipment from prior fiscal years with an outstanding balance at June 30, 2012, in the amount of \$184,497.

OPERATING LEASES

Valdosta State University's noncancellable operating leases having remaining terms of more than one year expire in various fiscal years from 2012 through 2013. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancellable if the State of Georgia does not provide adequate funding, but that is

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considered a remote possibility. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Examples of property under operating leases are copiers and other small business equipment.

FUTURE COMMITMENTS

Future commitments for capital leases (which here and on the Statement of Net Assets include other installment purchase agreements) and for noncancellable operating leases having remaining terms in excess of one year as of June 30, 2012, were as follows:

	Real Property and Equipment	
	Capital Leases	Operating Leases
Year Ending June 30:		
2013	\$ 12,521,157	\$ 5,682
2014	12,667,275	
2015	12,802,020	
2016	12,935,628	
2017	13,065,724	
2018 - 2022	68,310,548	
2023 - 2027	72,893,018	
2028 - 2032	69,750,087	
2033 - 2037	62,056,517	
2038 - 2039	18,995,978	
Total Minimum Lease Payments	\$ 355,997,952	\$ 5,682
Less: Interest	141,767,702	
Principal Outstanding	\$ 214,230,250	

Valdosta State University's fiscal year 2012 expense for rental of real property and equipment under operating leases was \$13,082.

Note 11: Retirement Plans

Valdosta State University participates in various retirement plans administered by the State of Georgia under two major retirement systems: Employees' Retirement System of Georgia (ERS System) and Teachers Retirement System of Georgia. These two systems issue separate publicly available financial reports that include the applicable financial statements and required supplementary information. The reports may be obtained from the respective system offices. The significant retirement plans that Valdosta State University participates in are described below. More detailed information can be found in the plan agreements and related legislation. Each plan, including benefit and contribution provisions, was established and can be amended by State law.

Employees' Retirement System of Georgia

The ERS System is comprised of individual retirement systems and plans covering substantially all employees of the State of Georgia except for teachers and other employees covered by the Teachers Retirement System of Georgia. One of the ERS System plans, the Employees' Retirement System of Georgia (ERS), is a cost-sharing multiple-employer defined benefit pension plan that was established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees and has the powers and privileges of a corporation. ERS acts pursuant to statutory direction and guidelines, which may be amended prospectively for new hires but for existing members and beneficiaries may be amended in some aspects only subject to potential application of certain constitutional restraints against impairment of contract.

On November 20, 1997, the Board created the Supplemental Retirement Benefit Plan (SRBP-ERS) of ERS. SRBP-ERS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of ERS. The purpose of the SRBP-ERS is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC Section 415. Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in the SRBP-ERS whenever their benefits under ERS exceed the limitation on benefits imposed by IRC Section 415.

The benefit structure of ERS is established by the Board of Trustees under statutory guidelines. Unless the employee elects otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. Members hired on or after July 1, 1982 but prior to January 1, 2009 are "new plan" members subject to the modified plan provisions. Effective January 1, 2009, newly hired State employees, as well as rehired State employees who did not maintain eligibility for the "old" or "new" plan, are members of the Georgia State Employees' Pension and Savings Plan (GSEPS). ERS members hired prior to January 1, 2009, also have the option to 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.

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, Valdosta State University pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these Valdosta State University contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable

compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25% of annual compensation. Valdosta State University is required to contribute at a specified percentage of active member payroll established by the Board of Trustees determined annually in accordance with actuarial valuation and minimum funding standards as provided by law. These Valdosta State University 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.

Teachers Retirement System of Georgia

The Teachers Retirement System of Georgia (TRS) is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS.

On October 25, 1996, the Board created the Supplemental Retirement Benefit Plan of the Georgia Teachers Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, will be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

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EXHIBIT "D"

TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2012, were 5.53% of annual salary. Employer contributions required for fiscal year 2012 were 10.28% of annual salary as required by the June 30, 2009, actuarial valuation.

The following table summarizes the Valdosta State University contributions by defined benefit plan for the years ending June 30, 2012, June 30, 2011, and June 30, 2010 (dollars in thousands):

Fiscal Year	ERS		TRS	
	Required Contribution	Percentage Contributed	Required Contribution	Percentage Contributed
2012	\$ 16,816	100%	\$ 3,598,109	100%
2011	\$ 7,068	100%	\$ 3,568,464	100%
2010	\$ 6,840	100%	\$ 3,391,860	100%

Regents Retirement Plan

Plan Description

The Regents Retirement Plan, a single-employer defined contribution plan, is an optional retirement plan that was created/established by the Georgia General Assembly in O.C.G.A. 47-21-1 et.seq. and administered by the Board of Regents of the University System of Georgia. O.C.G.A. 47-3-68(a) defines who may participate in the Regents Retirement Plan. An "eligible university system employee" is a faculty member or a principal administrator, as designated by the regulations of the Board of Regents. Under the Regents Retirement Plan, a plan participant may purchase annuity contracts from four approved vendors (AIG-VALIC, American Century, Fidelity, and TIAA-CREF) for the purpose of receiving retirement and death benefits. Benefits depend solely on amounts contributed to the plan plus investment earnings. Benefits are payable to participating employees or their beneficiaries in accordance with the terms of the annuity contracts.

Funding Policy

Valdosta State University makes monthly employer contributions for the Regents Retirement Plan at rates adopted by the Teachers Retirement System of Georgia Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2012, the employer contribution was 9.24% for the participating employee's earnable compensation. Employees contribute 5% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and nonforfeitable at all times.

Valdosta State University and the covered employees made the required contributions of \$2,484,435 (9.24%) and \$1,344,394 (5%), respectively.

AIG-VALIC, American Century, Fidelity, and TIAA-CREF have separately issued financial reports which may be obtained through their respective corporate offices.

Georgia Defined Contribution Plan

Plan Description

Valdosta State University participates in the Georgia Defined Contribution Plan (GDCP) which is a single-employer defined contribution plan established by the General Assembly of Georgia for the purpose of providing retirement coverage for State employees who are temporary, seasonal, and part-time and are not members of a public retirement or pension system. GDCP is administered by the Board of Trustees of the Employees' Retirement System of Georgia.

Benefits

A member may retire and elect to receive periodic payments after attainment of age 65. The payment will be based upon mortality tables and interest assumptions to be adopted by the Board of Trustees. If a member has less than \$3,500 credited to his/her account, the Board of Trustees has the option of requiring a lump sum distribution to the member in lieu of making periodic payments. Upon the death of a member, a lump sum distribution equaling the amount credited to his/her account will be paid to the member's designated beneficiary. Benefit provisions are established by State statute.

Contributions

Member contributions are seven and one-half percent (7.5%) of gross salary. There are no employer contributions. Contribution rates are established by State statute. Earnings are credited to each member's account in a manner established by the Board of Trustees. Upon termination of employment, the amount of the member's account is refundable upon request by the member.

Total contributions made by employees during fiscal year 2012 amounted to \$158,970 which represents 7.5% of covered payroll. These contributions met the requirements of the plan.

The Georgia Defined Contribution Plan issues a financial report each fiscal year, which may be obtained from the ERS offices.

Note 12: Risk Management

The University System of Georgia offers its employees and retirees access to three different self-insured healthcare plan options. Effective January 1, 2012, The Blue Cross Blue Shield of Georgia PPO and HDHP plan names were changed to BCBS Open Access PPO and HAS/HDHP Open Access POS, respectively; both plans use the Blue Cross Blue Shield Open Access POS network. Also effective January 1, 2012, the Consumer Choice Option was eliminated and the Blue Cross Blue Shield of Georgia HMO and the Kaiser Permanente HMO were frozen for new enrollment for active employees only; the Senior Advantage Plan 65+ remained open for new enrollment.

Valdosta State University and participating employees and retirees pay premiums to either of the self-insured healthcare plan options to access benefits coverage. The respective self-insured healthcare plan options are included in the financial statements of the Board of Regents of the University System of Georgia - University System Office. All units of the University System of Georgia share the risk of loss for claims associated with these plans. The reserves for these plans are considered to be a self-sustaining risk fund. The Board of Regents has contracted with Blue Cross Blue Shield of Georgia, a wholly owned subsidiary of WellPoint, to serve as the claims administrator for the self-insured healthcare plan products. In addition to the self-insured healthcare plan options offered to the employees of the University System of Georgia, a fully insured HMO healthcare plan option is also offered to System employees through Kaiser.

The Department of Administrative Services (DOAS) has the responsibility for the State of Georgia of making and carrying out decisions that will minimize the adverse effects of accidental losses that involve State government assets. The State believes it is more economical to manage its risks internally and set aside assets for claim settlement. Accordingly, DOAS processes claims for risk of loss to which the State is exposed, including general liability, property and casualty, workers' compensation, unemployment compensation, and law enforcement officers' indemnification. Limited amounts of commercial insurance are purchased applicable to property, employee and automobile liability, fidelity and certain other risks. Valdosta State University, as an organizational unit of the Board of Regents of the University System of Georgia, is part of the State of Georgia reporting entity, and as such, is covered by the State of Georgia risk management program administered by DOAS. Premiums for the risk management program are charged to the various state organizations by DOAS to provide claims servicing and claims payment.

A self-insured program of professional liability for its employees was established by the Board of Regents of the University System of Georgia under powers authorized by the Official Code of Georgia Annotated Section 45-9-1. The program insures the employees to the extent that they are not immune from liability against personal liability for damages arising out of the performance of their duties or in any way connected therewith. The program is administered by DOAS as a Self-Insurance Fund.

Note 13: Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. This could result in refunds to the grantor agency for any expenditure disallowed under grant terms. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although Valdosta State University expects such amounts, if any, to be immaterial to its overall financial position.

Litigation, claims and assessments filed against Valdosta State University (an organizational unit of the Board of Regents of the University System of Georgia), if any, are generally considered to be actions against the State of Georgia. Accordingly, significant litigation, claims and assessments pending against the State of Georgia are disclosed in the State of Georgia Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

Note 14: Post-Employment Benefits Other Than Pension Benefits

Pursuant to the general powers conferred by the Official Code of Georgia Annotated Section 20-3-31, the Board of Regents of the University System of Georgia has established group health and life insurance programs for regular employees of the University System of Georgia. It is the policy of the Board of Regents to permit employees of the University System of Georgia eligible for retirement or that become permanently and totally disabled to continue as members of the group health and life insurance programs. The policies of the Board of Regents of the University System of Georgia define and delineate who is eligible for these post-employment health and life insurance benefits. Organizational units of the Board of Regents of the University System of Georgia pay the employer portion for group insurance for affected individuals. With regard to life insurance, the employer covers the total cost for \$25,000 of basic life insurance. If an individual elects to have supplemental, and/or, dependent life insurance coverage, such costs are borne entirely by the employee.

The Board of Regents Retiree Health Benefit Plan is a single employer defined benefit plan. Financial statements and required supplementary information for the Plan are included in the publicly available Consolidated Annual Financial Report of the University System of Georgia. The University

VALDOSTA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

EXHIBIT "D"

pays the employer portion of health insurance for its eligible retirees based on rates that are established annually by the Board of Regents for the upcoming plan year. For the 2012 plan year, the employer rate was between 70-75% of the total health insurance cost for eligible retirees and the retiree rate was between 25-30%.

As of June 30, 2012, there were 531 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2012, Valdosta State University recognized as incurred \$2,141,237 of expenditures, which was net of \$1,109,888 of participant contributions.

Note 15: Natural Classifications with Functional Classifications

The University's operating expenses by functional classification for fiscal year 2012 are shown below:

<u>Natural Classification</u>	Functional Classification				
	Instruction	Research	Public Service	Academic Support	Student Services
Salaries					
Faculty	\$ 34,914,042	\$ 156,547	\$ 108,958	\$ 1,033,106	\$ 9,333
Staff	4,604,826	156,858	1,018,035	5,307,189	5,300,351
Employee Benefits	9,928,751	45,478	243,321	1,519,447	1,291,879
Other Personal Services	2,350			37,190	
Travel	370,747	22,009	34,586	314,739	129,851
Scholarships and Fellowships	336,976	20,103	24,323		
Utilities	191,539		7,471	43,257	138,179
Supplies and Other Services	3,223,733	123,172	506,341	2,094,371	2,585,220
Depreciation	439,232	6,460	16,119	1,837,688	2,701,139
Total Operating Expenses	<u>\$ 54,012,196</u>	<u>\$ 530,627</u>	<u>\$ 1,959,154</u>	<u>\$ 12,186,987</u>	<u>\$ 12,155,952</u>

<u>Natural Classification</u>	Functional Classification				
	Institutional Support	Plant Operations and Maintenance	Scholarships and Fellowships	Auxiliary Enterprises	Total Operating Expenses
Salaries					
Faculty	\$ 40,731			\$ 8,551	\$ 36,271,268
Staff	6,772,356	\$ 5,730,004		5,944,050	34,833,669
Employee Benefits	4,839,300	1,980,204		1,691,311	21,539,691
Other Personal Services	414,024	-1,010,383		1,011,383	454,564
Travel	66,514	10,136		94,042	1,042,624
Scholarships and Fellowships			\$ 12,741,201	1,442,870	14,565,473
Utilities	119,498	5,289,913		175,259	5,965,116
Supplies and Other Services	3,083,677	541,832		22,306,648	34,464,994
Depreciation	359,821	3,428,378		6,257,515	15,046,352
Total Operating Expenses	<u>\$ 15,695,921</u>	<u>\$ 15,970,084</u>	<u>\$ 12,741,201</u>	<u>\$ 38,931,629</u>	<u>\$ 164,183,751</u>

Note 16: Affiliated Organizations

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, *The Reporting Entity* which became effective for the year ended June 30, 2004, Valdosta State University Foundation, and Valdosta State University Auxiliary Services Real Estate Foundation are legally separate tax exempt organizations whose activities primarily support Valdosta State University, a unit of the University System of Georgia (an organizational unit of the State of Georgia). The State Accounting Office determined Component Units of the State of Georgia, as required by GASB Statement No. 39 should not be assessed in relation to their significance to Valdosta State University, but instead based on their significance to the State of Georgia.

Valdosta State University Auxiliary Services Real Estate Foundation has been determined significant to the State of Georgia for the year ended June 30, 2012, and as such, is reported as a discretely presented component unit in the Comprehensive Annual Financial Report of the State of Georgia (CAFR). Significant discretely presented affiliated organizations issue separate audited financial statements that can be obtained from Valdosta State University.

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SUPPLEMENTARY INFORMATION

VALDOSTA STATE UNIVERSITY
BALANCE SHEET (NON-GAAP BASIS)
BUDGET FUND
JUNE 30, 2012

SCHEDULE "1"

<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 11,588,438.14
Investments	8,892,088.22
Accounts Receivable	
Federal Financial Assistance	515,159.16
Other	1,729,023.19
Prepaid Expenditures	121,247.18
Inventories	<u>93,986.70</u>
Total Assets	\$ <u><u>22,939,942.59</u></u>
 <u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accrued Payroll	\$ 145,598.80
Encumbrances Payable	13,914,880.49
Accounts Payable	293,043.80
Deferred Revenue	3,359,054.30
Other Liabilities	<u>-28,229.48</u>
Total Liabilities	\$ <u>17,684,347.91</u>
Fund Balances	
Reserved	
Department Sales and Services	\$ 518,778.82
Indirect Cost Recoveries	443,817.93
Technology Fees	134,566.57
Restricted/Sponsored Funds	2,186,560.92
Uncollectible Accounts Receivable	113,927.40
Tuition Carry-Over	1,579,716.36
Inventories	93,619.62
Unreserved	
Surplus	<u>184,607.06</u>
Total Fund Balances	\$ <u>5,255,594.68</u>
Total Liabilities and Fund Balances	\$ <u><u>22,939,942.59</u></u>

Actual amounts were prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a comprehensive basis of accounting other than generally accepted accounting principles.

VALDOSTA STATE UNIVERSITY
SUMMARY BUDGET COMPARISON AND SURPLUS ANALYSIS REPORT (NON-GAAP BASIS)
BUDGET FUND
YEAR ENDED JUNE 30, 2012

SCHEDULE "2"

	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
State Appropriation			
State General Funds	\$ 43,612,773.00	\$ 43,612,773.00	\$ 0.00
Other Funds	98,499,580.00	94,553,372.24	-3,946,207.76
Total Revenue	\$ 142,112,353.00	\$ 138,166,145.24	\$ -3,946,207.76
<u>ADJUSTMENTS AND PROGRAM TRANSFERS</u>	0.00	1,559,548.05	1,559,548.05
<u>CARRY-OVER FROM PRIOR YEARS</u>			
Transfers from Reserved Fund Balance	0.00	5,018,113.60	5,018,113.60
Total Funds Available	\$ 142,112,353.00	\$ 144,743,806.89	\$ 2,631,453.89
<u>EXPENDITURES</u>			
Teaching	\$ 142,112,353.00	\$ 139,877,341.52	\$ 2,235,011.48
Excess of Funds Available over Expenditures	\$ 0.00	\$ 4,866,465.37	\$ 4,866,465.37
<u>FUND BALANCE JULY 1</u>			
Reserved		5,296,213.33	
Unreserved		256,196.81	
<u>ADJUSTMENTS</u>			
Prior Year Payables/Expenditures		103,051.82	
Prior Year Receivables/Revenues		7,977.76	
Unreserved Fund Balance (Surplus) Returned to Board of Regents - University System Office Year Ended June 30, 2011		-256,196.81	
Prior Year Reserved Fund Balance Included in Funds Available		-5,018,113.60	
<u>FUND BALANCE JUNE 30</u>		\$ 5,255,594.68	
<u>SUMMARY OF FUND BALANCE</u>			
Reserved			
Department Sales and Services	\$	518,778.82	
Indirect Cost Recoveries		443,817.93	
Technology Fees		134,566.57	
Restricted/Sponsored Funds		2,186,560.92	
Uncollectible Accounts Receivable		113,927.40	
Tuition Carry-Over		1,579,716.36	
Inventories		93,619.62	
Total Reserved	\$	5,070,987.62	
Unreserved Surplus		184,607.06	
Total Fund Balance	\$	5,255,594.68	

Actual amounts were prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a comprehensive basis of accounting other than generally accepted accounting principles.

VALDOSTA STATE UNIVERSITY
 STATEMENT OF FUNDS AVAILABLE AND EXPENDITURES COMPARED TO BUDGET BY PROGRAM AND FUNDING SOURCE
 (NON-GAAP BASIS) BUDGET FUND
 YEAR ENDED JUNE 30, 2012

	<u>Original Appropriation</u>	<u>Amended Appropriation</u>	<u>Final Budget</u>	<u>Current Year Revenues</u>
Teaching				
State Appropriation				
State General Funds	\$ 44,502,830.00	\$ 44,502,830.00	\$ 43,612,773.00	\$ 43,612,773.00
Other Funds	<u>98,686,926.00</u>	<u>98,686,926.00</u>	<u>98,499,580.00</u>	<u>94,553,372.24</u>
Total Teaching	<u>\$ 143,189,756.00</u>	<u>\$ 143,189,756.00</u>	<u>\$ 142,112,353.00</u>	<u>\$ 138,166,145.24</u>

Actual amounts were prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Funds Available Compared to Budget				Expenditures Compared to Budget		Excess (Deficiency) of Funds Available Over/(Under) Expenditures
Prior Year Carry-Over	Adjustments and Program Transfers	Total Funds Available	Variance Positive (Negative)	Actual	Variance Positive (Negative)	
\$ 0.00	\$ 0.00	\$ 43,612,773.00	\$ 0.00	\$ 43,612,161.56	\$ 611.44	\$ 611.44
<u>5,018,113.60</u>	<u>1,559,548.05</u>	<u>101,131,033.89</u>	<u>2,631,453.89</u>	<u>96,265,179.96</u>	<u>2,234,400.04</u>	<u>4,865,853.93</u>
<u>\$ 5,018,113.60</u>	<u>\$ 1,559,548.05</u>	<u>\$ 144,743,806.89</u>	<u>\$ 2,631,453.89</u>	<u>\$ 139,877,341.52</u>	<u>\$ 2,235,011.48</u>	<u>\$ 4,866,465.37</u>

VALDOSTA STATE UNIVERSITY
STATEMENT OF CHANGES TO FUND BALANCE BY PROGRAM AND FUNDING SOURCE
(NON-GAAP BASIS) BUDGET FUND
YEAR ENDED JUNE 30, 2012

	Beginning Fund Balance/(Deficit) July 1	Fund Balance Carried Over from Prior Period as Funds Available	Return of Fiscal Year 2011 Surplus	Prior Period Adjustments
Teaching				
State Appropriation				
State General Funds	\$ 140,084.07	\$ 0.00	\$ -140,084.07	\$ 33,524.48
Other Funds	<u>5,134,226.34</u>	<u>-5,018,113.60</u>	<u>-116,112.74</u>	<u>77,505.10</u>
Total Teaching	\$ 5,274,310.41	\$ -5,018,113.60	\$ -256,196.81	\$ 111,029.58
Prior Year Reserves				
Not Available for Expenditure				
Inventories	172,150.09	0.00	0.00	0.00
Uncollectible Accounts Receivable	<u>105,949.64</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
 Budget Unit Totals	 <u>\$ 5,552,410.14</u>	 <u>\$ -5,018,113.60</u>	 <u>\$ -256,196.81</u>	 <u>\$ 111,029.58</u>

Actual amounts were prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Other Adjustments	Early Return Fiscal Year 2012 Surplus	Excess (Deficiency) of Funds Available Over/(Under) Expenditures	Ending Fund Balance/(Deficit) June 30	Analysis of Ending Fund Balance		
				Reserved	Surplus/(Deficit)	Total
\$ 78,530.47	\$ 0.00	\$ 611.44	\$ 112,666.39	\$ 0.00	\$ 112,666.39	\$ 112,666.39
<u>-7,977.76</u>	<u>0.00</u>	<u>4,865,853.93</u>	<u>4,935,381.27</u>	<u>4,863,440.60</u>	<u>71,940.67</u>	<u>4,935,381.27</u>
\$ 70,552.71	\$ 0.00	\$ 4,866,465.37	\$ 5,048,047.66	\$ 4,863,440.60	\$ 184,607.06	\$ 5,048,047.66
<u>-78,530.47</u>	<u>0.00</u>	<u>0.00</u>	<u>93,619.62</u>	<u>93,619.62</u>	<u>0.00</u>	<u>93,619.62</u>
<u>7,977.76</u>	<u>0.00</u>	<u>0.00</u>	<u>113,927.40</u>	<u>113,927.40</u>	<u>0.00</u>	<u>113,927.40</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 4,866,465.37</u>	<u>\$ 5,255,594.68</u>	<u>\$ 5,070,987.62</u>	<u>\$ 184,607.06</u>	<u>\$ 5,255,594.68</u>

Summary of Ending Fund Balance

Reserved			
Department Sales and Services	\$	518,778.82	\$ 518,778.82
Indirect Cost Recoveries		443,817.93	443,817.93
Technology Fees		134,566.57	134,566.57
Restricted/Sponsored Funds		2,186,560.92	2,186,560.92
Uncollectible Accounts Receivable		113,927.40	113,927.40
Tuition Carry-Over		1,579,716.36	1,579,716.36
Inventories		93,619.62	93,619.62
Unreserved			
Surplus			\$ 184,607.06
			<u>184,607.06</u>
Total Ending Fund Balance - June 30	\$	5,070,987.62	\$ 5,255,594.68

VALDOSTA STATE UNIVERSITY
BUDGET TO GAAP RECONCILIATION
JUNE 30, 2012

SCHEDULE "5"

Total Fund Balances - Budget Fund - Non-GAAP Basis (Schedule "1")	\$	5,255,594.68
Amounts reported for Business-Type Activities in the Statement of Net Assets are different because:		
Capital Assets used in Business-Type Activities are not reported in the Budget Fund.		327,718,574.00
Uncollectible accounts receivable are reported as an asset and reserved fund balance in the Budget Fund and as a contra-asset account on the Statement of Net Assets.		-27,991.96
Non-mandatory transfers from a non-Budget Fund into a Budget Fund.		-1,559,548.05
Changes in the Fair Market Value of Investments are recognized on the Statement of Net Assets, but are not reported in the Budget Fund.		-33,352.06
Agency Fund activities are not reported as a component of the Budget Fund.		
Assets	\$ 3,199,495.98	
Liabilities	-3,199,495.98	
Total Net Effect of Agency Fund Activity		0.00
Auxiliary Enterprises Fund activities are not reported as a component of the Budget Fund.		
Assets	\$ 10,269,085.40	
Liabilities	-3,822,067.38	
Total Net Effect of Auxiliary Enterprises Fund Activity		6,447,018.02
Endowment Fund activities are not reported as a component of the Budget Fund.		
Assets	\$ 3,517,592.30	
Liabilities	0.00	
Total Net Effect of Endowment Fund Activity		3,517,592.30
Loan Fund activities are not reported as a component of the Budget Fund.		
Assets	\$ 350,901.50	
Liabilities	0.00	
Total Net Effect of Loan Fund Activity		350,901.50
Student Activities Fund activities are not reported as a component of the Budget Fund.		
Assets	\$ 8,065,379.17	
Liabilities	-245,929.80	
Total Net Effect of Student Activity Fund Activity		7,819,449.37
The budgetary basis of accounting implemented by the State of Georgia recognizes expenditures when encumbered. The following adjustments were made to eliminate this activity for reporting on the Statement of Net Assets.		
Payables reported in the Budget Fund that are based on encumbrances are eliminated for GAAP reporting.	\$ 13,914,880.49	
Prepaid items reported in the Budget Fund that are based on encumbrances are eliminated for GAAP reporting.	-22,845.50	
Accounts Receivable items reported in the Budget Fund that are based on encumbrances are eliminated for GAAP reporting.	-236,810.00	
Inventory items reported in the Budget Fund that are based on encumbrances are eliminated for GAAP reporting.	-366.45	
Payables for goods and services provided in the current fiscal year reported in the Budget Fund as encumbrances payable are reported as accounts payable for GAAP reporting.	-635,750.34	
Total Net Effect of Encumbrance Activity		13,019,108.20
Certain Liabilities are not due and payable in the current period and therefore are not reported as liabilities in the Budget Fund.		
Capital Leases Payable	\$ -214,230,250.00	
Compensated Absences Payable	-3,319,194.00	
Contracts Payable	-676,006.00	
Total Liabilities		-218,225,450.00
Net Assets of Business-Type Activities (Exhibit "A")	\$	<u>144,281,896.00</u>

The supplementary information presented on Schedules 1, 2, 3 and 4 was prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information was derived from, and relates directly to, the same information used to prepare the financial statements. However, the budgetary statutes and regulations of the State of Georgia require reporting of certain information that is not in accordance with generally accepted accounting principles. Presented on this schedule is a reconciliation of the fund balance of the Budget Fund, as reported on Schedule 1, to Net Assets of business-type activities, as reported on Exhibit A.

VALDOSTA STATE UNIVERSITY
 RECONCILIATION OF SALARIES AND TRAVEL
 YEAR ENDED JUNE 30, 2012

SCHEDULE "6"

	SALARIES	TRAVEL
Totals per Annual Supplement	\$ 72,509,499	\$ 1,042,624
Accruals		
June 30, 2012	174,965	
June 30, 2011	-1,548,774	
Compensated Absences		
June 30, 2012	3,083,320	
June 30, 2011	-3,095,968	
Adjustments		
Shared Services on Jointly Staffed Personnel		
Abraham Baldwin Agricultural College		
Mock, Ashley	2,150	
Morgan, Brenda	-2,261	
Rivers, Jewell	2,476	
Williams, Amy	4,629	
Armstrong Atlantic State University		
Barrett, Laura	1,077	
Clayton State University		
Reffel, Julia	-5,490	
Coastal College of Georgia		
Aguado, David	-1,723	
Mortier, Jane	4,306	
Waters, Laura	2,153	
Columbus State University		
Williamson, Lowell	-606	
Georgia Institute of Technology		
Hansard, Larry	4,952	
South Georgia College		
Bowe, Anne	-2,099	
Brumfield, Adam	-2,099	
Halter, Julie	-2,261	
Nelson, David	-1,130	
Padilla-Hernandez, Remigia	-5,598	
Smith, Daniel	-7,347	
Stelzer, Jeri	-3,014	
Stevens, Terri	4,306	
Ward, Charles	4,058	
University of Georgia Libraries		
Miller, Mary	2,476	
Payroll Error Correction	-17,060	
	\$ 71,104,937	\$ 1,042,624

SECTION II

CURRENT YEAR FINDINGS AND QUESTIONED COSTS

VALDOSTA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

COMMUNICATION OF INTERNAL CONTROL DEFICIENCIES

The auditor is required to communicate to management and those charged with governance control deficiencies identified during the course of the financial statement audit that, in the auditor's judgment, constitute significant deficiencies or material weaknesses.

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 misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 Valdosta State University'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.

EMPLOYEE COMPENSATION

Inadequate Controls over Employee Compensation

Significant Deficiency

Finding Control Number: FS-551-12-01

Condition: The accounting procedures of the University were insufficient to provide adequate controls over employee compensation.

Criteria: The University's management is responsible for designing and maintaining policies and procedures to ensure that financial activity is properly processed and reflected on the University's financial records.

Questioned Cost: N/A

Information: The following deficiencies were noted during our review of activities performed by the Human Resource Department:

1. Two employees had not properly elected to enroll in a retirement program and therefore no deductions had been made to contribute to a retirement program.
2. One employee continued to accrue sick and vacation time while on unpaid leave.
3. One individual received a direct deposit payment for salary who was not officially hired by the University.

VALDOSTA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

EMPLOYEE COMPENSATION

Inadequate Controls over Employee Compensation

Significant Deficiency

Finding Control Number: FS-551-12-01

4. One employee received four months salary while on unpaid leave during fiscal years 2011 and 2012.
5. Several errors were noted in the payment of benefit premiums for those employees who were on unpaid leave.

Cause: These deficiencies were the result of management's failure to ensure that internal controls over the employee compensation process were established, implemented and functioning.

Effect: This could result in errors in financial reporting and increases the risk of material misstatement in the financial statements, including misstatements due to fraud.

Recommendation: The University should review the accounting controls and procedures in place and design and implement procedures relative to the accounting functions in the human resources department to ensure that financial activity is properly processed and reflected on the University's accounting records.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.