



## AIG UPDATE

AIG has provided the following information regarding participant assets:

VALIC underwrites, issues and guarantees our annuity products. VALIC is financially strong with \$3.4 billion in adjusted capital and surplus as of 6/30/08. VALIC's capital and surplus are completely separate from our ultimate parent, AIG.

1. **FIXED ANNUITY:** VALIC client assets in the guaranteed fixed investment options are protected by Texas state insurance regulations. The fixed options provide fixed rate earnings and a guarantee of principal. This guarantee is backed by the claims-paying ability of VALIC, which supports only the obligations of VALIC, not any obligations of AIG.
2. **VARIABLE ASSETS:** Client assets in the mutual funds or variable annuity account options are invested in mutual funds regulated by the SEC. A mutual fund's assets are owned by its shareholders and managed by a professional portfolio manager; thus, such funds are not affected by business actions involving AIG or AIG Retirement.
  - Further, since VALIC is domiciled in the State of Texas, Texas state law requires insurance company separate accounts to be held apart from the rest of the company assets. Therefore, the variable annuity separate account assets in these mutual funds are held for the exclusive benefit of the clients and their beneficiaries. This insulation provides safety for each client, and ensures that the account is not subject to claims from any person or entity other than a contract owner, plan participant or beneficiary.
  - The mutual fund and variable account options change in value each business day. Retirement investments are long-term investments, and fluctuating values means that when redeemed, the investments can be worth more or less than its original cost. This also means that client investment returns depend on the performance of the individual investments the client selected and not on the performance of AIG, or any of the AIG Retirement companies.

## GASB 52

### Summary of Statement No. 52

### ***Land and Other Real Estate Held as Investments by Endowments*** (Issued 11/07)

Accounting standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other post-employment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value.

This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. **It requires endowments to report their land and other real estate investments at fair value.** Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

### **How This Statement Will Improve Financial Reporting**

This Statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users' ability to meaningfully evaluate an entity's investment decisions and performance.

## Account Receivables

Thank you for promptly writing off uncollectible accounts under \$3,000. The total amount written off during FY 2008 was \$3.3 Million, more than double the amount written off in the previous year of \$1.5 Million.

## Congratulations

**Corlis Cummings**, Executive in Residence and Special Assistant to the President has been named Interim Vice President for Business & Operations, at Clayton State University. She has previously served in many roles including Interim Chancellor for the University System and Chief Operating Officer.

## Fond Farewell

After almost 27 years with the University System of Georgia, John Grovenstein, Associate Vice Chancellor for Life & Health Benefits, is retiring on September 30, 2008. Prior to joining the System office in 2008, John spent the earlier part of his career with Georgia Tech.



# Fiscal Affairs Newsletter

## General – The Budget Process

- ❖ **One of the Board of Regents' primary responsibilities is to manage the budget process** for the University System. This is a cyclical, year-round process.
- ❖ The budget process begins with the development and approval of a budget request for the next fiscal year in July and August. This request is sent to the Governor by Sept. 1, who then incorporates it into a recommendation on the total state budget sent to the General Assembly. The General Assembly debates the Governor's budget recommendation from January through March/April, passing a final state budget, which is then signed by the Governor. The Board of Regents formally approves the final budget in April/May.
- ❖ State appropriations to various state agencies occur at the beginning of the fiscal year, July 1. The regents allocate state funds to the institutions for the fiscal year at this time.

## Specific – Strategic Plan Drives Priorities

- ❖ **The goal of the Board of Regents through its mission of teaching, research, and service at its 35 degree-granting institutions is "Transforming the System, Changing Lives, Strengthening the State."**
- ❖ Driving planning for the University System and the budget needs for the 35 campuses is a philosophy **that all resources available to the System will be aligned with the Board of Regents' strategic priorities and state needs.**
- ❖ **These priorities and state needs have been identified and given focus through the Board of Regents' Strategic Plan. The Plan has six major goals:**
  1. Renew excellence in undergraduate education to meet students' 21st century needs.
  2. Create enrollment capacity in the University System to meet the needs of 100,000 additional students by 2020.
  3. Increase the USG's participation in research and economic development to the benefit of a global Georgia. Increase the numbers of health profession graduates and create a long-term, system-level academic plan for workforce development.
  4. Strengthen the USG's partnerships with the state's other education agencies, with a key focus on the Alliance of Education Agency Heads.
  5. Maintain affordability so that money is not a barrier to participation in the benefits of higher education by continuing a tradition of low tuition rates and by establishing a need-based financial aid program.
  6. Increase efficiency by working as a system to focus on business functions, developing a leadership culture, engaging in workforce process improvements and establishing accountability metrics.

## Setting the Stage for FY10

- ❖ While the USG's funding partners were strongly supportive of public higher education in the FY09 budget, the national and state economic outlook has created significant budget challenges for both the current and upcoming fiscal years.
- ❖ Prior to this worsening economic picture, **the Governor and General Assembly provided the largest state appropriation in the University System of Georgia's history: \$2.3 billion for FY09 – an increase of 7.7 percent over FY08 appropriations.**
- ❖ The University System's share of the total state budget now stands at 12.1 percent – the highest level in six years.
- ❖ **Also in FY09, the University System received \$271 million in bonds for needed facilities.** This funding helped the USG begin the transition to a new capital funding model.
- ❖ But state revenues declined 1.1 percent in FY08 and revenues were down almost 7 percent over projections in the first two months of FY09.
- ❖ Thus, at the Governor's request, the Board of Regents submitted a FY10 proposal that included a 6 percent reduction to the base budget and additional options to reduce the budget 8 and 10 percent (cumulative). The 6 percent reduction plan also applies to the FY09 budget.
- ❖ The USG reduction plans were developed with the philosophy that those activities that affect the least number of customers and are furthest from the core academic/research mission are reduced first, while activities that affect the largest number of constituents and central to the core mission are reduced last.
- ❖ The new Strategic Plan positions the USG well to meet these budget challenges. The plan focuses efforts on the System's core mission and creates the mechanisms to make changes in System and institutional policies and processes that promote efficiencies.
- ❖ For example, the consolidation of all institutional payroll operations into a Shared Services Center will prove to have long-term benefits, as well as a System-wide focus on controlling energy usage.
- ❖ As the USG responds to these budget challenges, decisions will protect students in the classroom, but also will target long-term structural changes in the way business is conducted, as dollars lost under these reductions will not be returned at a later date.
- ❖ However, structural changes should not compromise the quality of the education experience students expect and deserve.
- ❖ The challenge is to manage risks inherent in delivering the next educated generation of citizens and leaders. The largest challenge is to maintain academic quality for all who qualify academically. The alternative, which is to be avoided, is to limit access if the requisite resources cannot be secured to maintain quality.
- ❖ Thus, close attention must be paid to **Enrollment Growth. Fall 2007's enrollment of 270,022 students was a record high. USG enrollment has grown 31 percent from fall 2000 to fall 2007 – the equivalent of adding almost two UGA's.** Credit hours taken by students also are increasing: 4.4 percent from fall 2006 to fall 2007.