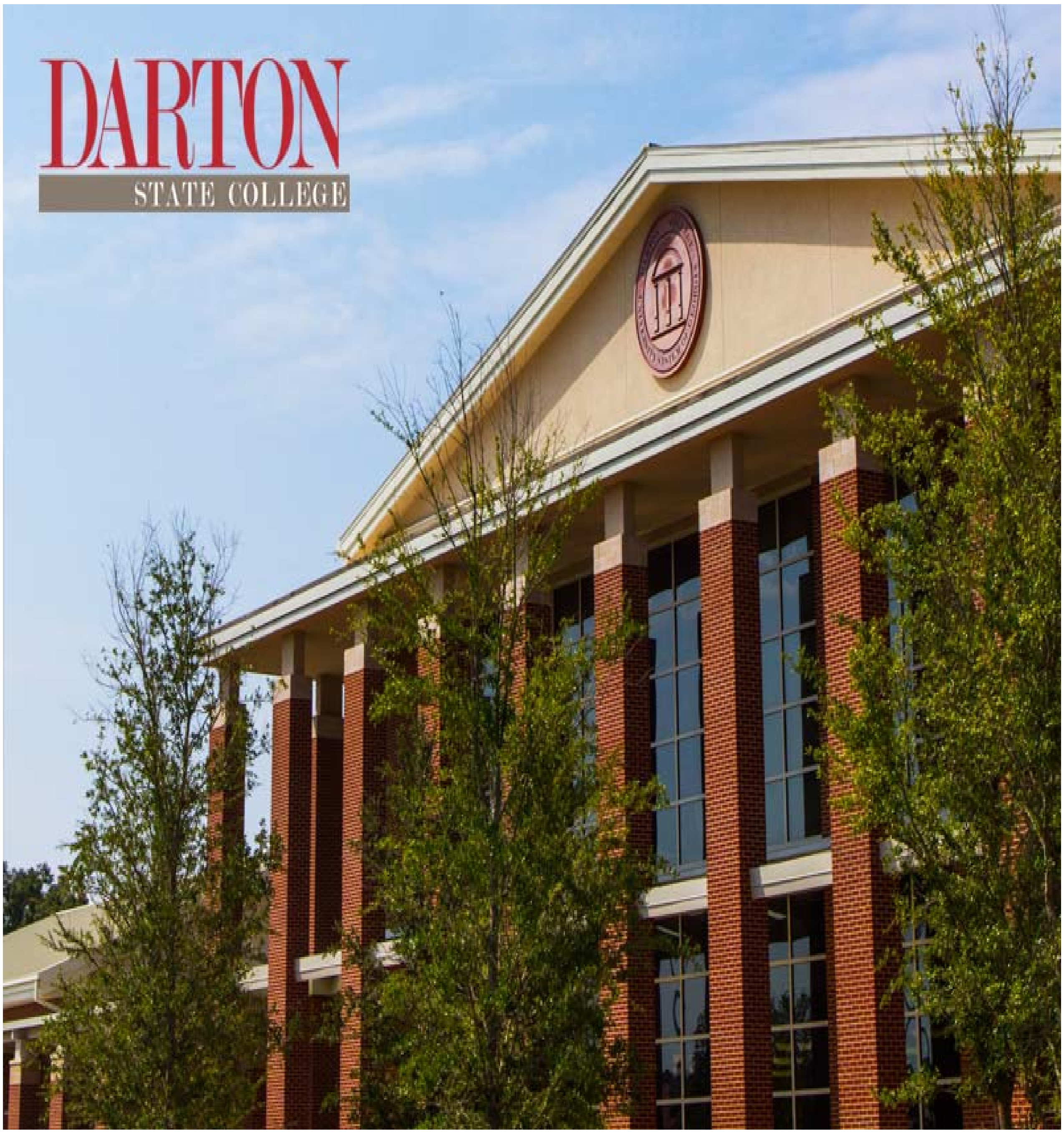
DARTON STATE COLLEGE
Albany, Georgia
Full Disclosure Management Report
Fiscal Year Ended June 30, 2016



DARTON STATE COLLEGE

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SECTION I

FINANCIAL

DEPARTMENT OF AUDITS AND ACCOUNTS

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September 7, 2016

Honorable Nathan Deal, Governor
Members of the General Assembly of Georgia
Members of the State Board of Regents of the
University System of Georgia
and
Dr. Richard Carvajal, Interim President
Darton State College

Ladies and Gentlemen:

This Management Report contains information pertinent to the Darton State College's compliance with the requirements of the Southern Association of Colleges and Schools Commission on Colleges (COC) Core Requirement 2.11.1 (Financial resources) as of and for the year ended June 30, 2016. Additionally, we audited Darton State College's Federal Student Aid programs for the year ended June 30, 2016 to meet the requirements of COC Comprehensive Standard 3.10.2. Included in this report is a section on findings and other items for any matters that came to our attention during our engagement, including results of our audit of the Federal Student Aid programs. The other information contained in this report is the representation of management. Accordingly, we do not express an opinion or any form of assurance on it.

Additionally, we have performed certain procedures at Darton State College to support our audits of the basic financial statements of the State of Georgia presented in the *State of Georgia Comprehensive Annual Financial Report* and the issuance of a *State of Georgia Single Audit Report* pursuant to the Single Audit Act Amendments, as of and for the year ended June 30, 2016.

This report is intended solely for the information and use of the management of Darton State College, members of the Board of Regents of the University System of Georgia and the Southern Association of Colleges and Schools - Commission on Colleges and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Greg S. Griffin
State Auditor

GSG:kt

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SELECTED FINANCIAL INFORMATION

DARTON STATE COLLEGE
STATEMENT OF NET POSITION - (GAAP BASIS)
JUNE 30, 2016

EXHIBIT "A"

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	8,560,634
Accounts Receivable, Net		
Federal Financial Assistance		303,097
Other		1,242,321
Due from Affiliated Organizations		14,653
Inventories		4,000
Total Current Assets		10,124,705
Noncurrent Assets		
Due from USO - Capital Liability Reserve Fund		294,059
Capital Assets, Net		71,454,294
Total Noncurrent Assets		71,748,353
Total Assets		81,873,058
Deferred Outflows of Resources		
Deferred Loss on Defined Benefit Pension Plans		2,369,905
LIABILITIES		
Current Liabilities		
Accounts Payable		274,092
Salaries Payable		118,625
Benefits Payable		55,259
Deposits		227,850
Advances (Including Tuition and Fees)		1,886,298
Deposits Held for Other Organizations		1,250,175
Lease Purchase Obligations		615,897
Compensated Absences		611,854
Total Current Liabilities		5,040,050
Noncurrent Liabilities		
Lease Purchase Obligations		41,847,506
Compensated Absences		460,564
Net Pension Liability		18,149,127
Total Noncurrent Liabilities		60,457,197
Total Liabilities		65,497,247
Deferred Inflows of Resources		
Deferred Gain on Debt Refunding		1,205,548
Deferred Gain on Defined Benefit Pension Plans		2,587,783
Deferred Contributions Received in Advance of Timing		200,000
Total Deferred Inflows of Resources		3,993,331
NET POSITION		
Net Investment in Capital Assets		27,785,344
Unrestricted		-13,032,959
Total Net Position	$	14,752,385

DARTON STATE COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - (GAAP BASIS)
YEAR ENDED JUNE 30, 2016

EXHIBIT "B"

OPERATING REVENUES		
Student Tuition and Fees (Net)	$	10,833,855
Grants and Contracts		
Federal		39,294
State		1,684,630
Other		358,983
Sales and Services		33,627
Auxiliary Enterprises		
Residence Halls		2,897,599
Bookstore		194,490
Food Services		1,466,808
Parking/Transportation		30,247
Health Services		186,797
Intercollegiate Athletics		1,183,402
Other Organizations		189,856
Other Operating Revenues		159,901
Total Operating Revenues		19,259,489
OPERATING EXPENSES		
Salaries		
Faculty		9,842,748
Staff		9,603,156
Employee Benefits		5,889,702
Other Personal Services		173,555
Travel		233,653
Scholarships and Fellowships		7,448,027
Utilities		1,400,725
Supplies and Other Services		9,809,335
Depreciation		3,410,304
Total Operating Expenses		47,811,205
Operating Income (Loss)		-28,551,716
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		15,752,915
Grants and Contracts		
Federal		12,913,424
Gifts		92,974
Investment Income (Endowments, Auxiliary and Other)		3,109
Interest Expense (Capital Assets)		-2,184,830
Net Nonoperating Revenues		26,577,592
Loss Before Other Revenues, Expenses, Gains, or Losses		-1,974,124
Capital Grants and Gifts		
State		84,398
Other		100,000
Total Other Revenues, Expenses, Gains or Losses		184,398
Decrease in Net Position		-1,789,726
Net Position - Beginning of Year		16,542,111
Net Position - End of Year	$	14,752,385

DARTON STATE COLLEGE
STATEMENT OF CASH FLOWS - (GAAP BASIS)
YEAR ENDED JUNE 30, 2016

EXHIBIT "C"

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments from Customers	$ 16,104,749
Grants and Contracts (Exchange)	2,789,168
Payments to Suppliers	-18,008,405
Payments to Employees	-19,500,737
Payments for Scholarships and Fellowships	-7,448,027
Net Cash Used by Operating Activities	-26,063,252
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	15,752,915
Agency Funds Transactions	424,751
Gifts and Grants Received for Other than Capital Purposes	13,383,157
Other Noncapital Financing Receipts	12,979
Net Cash Flows Provided by Noncapital Financing Activities	29,573,802
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants and Gifts Received	84,398
Purchases of Capital Assets	-859,370
Principal Paid on Capital Debt and Leases	-607,245
Interest Paid on Capital Debt and Leases	-2,235,236
Net Cash Used by Capital and Related Financing Activities	-3,617,453
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	3,109
Net Decrease in Cash	-103,794
Cash and Cash Equivalents - Beginning of Year	8,664,428
Cash and Cash Equivalents - End of Year	$ 8,560,634
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	$ -28,551,716
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	3,410,304
Change in Assets and Liabilities:	
Receivables, Net	2,252,515
Inventories	12,750
Accounts Payable	-1,826,263
Salaries Payable	41,725
Deposits	-24,750
Advances (Including Tuition and Fees)	-916,310
Compensated Absences	137,094
Net Pension Liability	2,324,684
Change in Deferred Inflows/Outflows of Resources:	
Deferred Inflows of Resources	-2,928,953
Deferred Outflows of Resources	5,668
Net Cash Used by Operating Activities	$ -26,063,252
NONCASH ACTIVITY	
Recognition of Capital Financing Activities Advances and Deferred Inflows	$ 100,000
Amortization of Deferred Gain of Capital Debt Refunded	$ 50,406

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

As defined by Official Code of Georgia Annotated (O.C.G.A) § 20-3-50, Darton State College (the Institution) is part of the University System of Georgia (USG), an organizational unit of the State of Georgia (the State) under the governance of the Board of Regents (Board). The Board has constitutional authority to govern, control and manage the USG. The Board is composed of 19 members, one member from each congressional district in the State and five additional members from the state-at-large, appointed by the Governor and confirmed by the Senate. Members of the Board serve a seven year term and members may be reappointed to subsequent terms by a sitting governor.

The Institution does not have the right to sue/be sued without recourse to the State. The Institution's property is the property of the State and subject to all the limitations and restrictions imposed upon other property of the State by the Constitution and laws of the State. In addition, the Institution is not legally separate from the State. Accordingly, the Institution is included within the State's basic financial statements as part of the primary government as defined in section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

The accompanying basic financial statements are intended to supplement the State's Comprehensive Annual Financial Report (CAFR) by presenting the financial position and changes in financial position and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of the Institution. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2016, 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.

The accompanying basic financial statements should be read in conjunction with the State's CAFR. The State's CAFR as of and for the year ended June 30, 2016 has not been issued as of the release of this report. The most recent State of Georgia CAFR can be obtained through the State Accounting Office, 200 Piedmont Avenue, Suite 1604 (West Tower), Atlanta, Georgia 30334 or found at https://sao.georgia.gov/comprehensive-annual-financial-reports.

BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PREPARATION

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 Institution's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position and cash flows.

The Institution's business-type activities financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenues in the fiscal year in which eligibility requirements imposed by the provider have been met. All significant intra-Institution transactions have been eliminated.

NEW ACCOUNTING PRONOUNCEMENTS

For fiscal year 2016, the Institution adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The adoption of this Statement does not have a significant impact on the Institution's financial statements.

For fiscal year 2016, the Institution adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The adoption of this Statement does not have a significant impact on the Institution's financial statements.

For fiscal year 2016, the Institution adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of this Statement does not have a significant impact on the Institution's financial statements.

For fiscal year 2016, the Institution adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The adoption of this Statement does not have a significant impact on the Institution's financial statements.

DUE FROM USO - CAPITAL LIABILITY RESERVE FUND

The Capital Liability Reserve Fund (Fund) was established by the Board of Regents to protect the fiscal integrity of the USG to maintain the strongest possible credit ratings associated with Public Private Venture (PPV) projects and to ensure that the Board of Regents can effectively support its long-term capital lease obligations. The Fund is financed by all USG institutions participating in the PPV program. The Fund serves as a pooled reserve that is managed by the University System Office. The Fund shall only be used to address significant shortfalls and only insofar as a requesting USG institution is unable to make the required PPV capital lease payment to the designated cooperative organization. The Fund will continue as long as the USG has rental obligations under the PPV program. At the conclusion of the Institution's participation in the program, funds will be returned to the Institution. The balance included on the Institution's Statement of Net Position represents the Institution's contribution to the Fund.

NET POSITION

The Institution's net position is classified as follows:

Net Investment in Capital Assets: This represents the Institution's total investment in capital assets, net of accumulated amortization/depreciation and reduced by outstanding debt obligations related to those capital assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of capital assets or related debt are included in Net Investment in Capital Assets. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in Net Investment in Capital Assets.

Unrestricted: Unrestricted represents 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 Institution, and may be used at the discretion of the Institution to meet current expenses for those purposes, except for unexpended state appropriations (surplus) in the amount of $5,676.45. Unexpended state appropriations must be refunded to the Office of the State Treasurer. Unrestricted Net Position also includes resources specifically designated by management, such as:

- Auxiliary Enterprises Operations – These resources are used for the continued operation of auxiliary enterprise activities, which are substantially self-supporting business operations conducted on campuses that provide services to students, faculty, and staff.

- Auxiliary Enterprises Renewals and Replacement (R&R) Reserve – These resources can be used for renewals and replacement of capitalizable assets related to auxiliary services. This R&R reserve can also be used for major renovations and rehabilitations auxiliary projects that do not meet the capitalization threshold.

SCHOLARSHIP ALLOWANCES

Scholarship allowances are the difference between the stated charge for goods and services provided by the Institution, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or non-governmental programs are recorded as either operating or non-operating revenues in the Institution's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Institution has recorded contra revenue for scholarship allowances. Sponsored and Unsponsored Scholarship Allowances totaled $6,029,144 for the year ending June 30, 2016.

NOTE 2: DEPOSITS

DEPOSITS

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Institution's deposits may not be recovered. Funds belonging to the State of Georgia (and thus the Institution) 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.

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, 2016, the carrying value of deposits was $8,550,534 and the bank balance was $9,880,632. Of the Institution's deposits, $9,630,632 were uninsured. Of these uninsured deposits, $9,630,632 were collateralized with securities held by the financial institution's trust department or agent in the Institution's name.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2016:

Student Tuition and Fees	$	1,056,982
Auxiliary Enterprises and Other Operating Activities		216,166
Federal Financial Assistance		303,097
Due from Affiliated Organizations		14,653
Other		875,950
		2,466,848
Less: Allowance for Doubtful Accounts		906,777
Net Accounts Receivable	$	1,560,071

NOTE 4: CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2016:

	Beginning Balance July 1, 2015	Capital Leases Recategorization	Additions	Reductions	Ending Balance June 30, 2016
Capital Assets, Not Being Depreciated:					
Land	$ 989,113				$ 989,113
Construction Work-In-Progress	435,395	$ 0	$ 84,398	$ 485,793	34,000
Total Capital Assets, Not Being Depreciated	1,424,508	0	84,398	485,793	1,023,113
Capital Assets, Being Depreciated:					
Building and Building Improvements	50,527,490	44,850,997	485,793	21,560	95,842,720
Facilities and Other Improvements	1,518,927	-1			1,518,926
Equipment	4,462,948	747,060	710,094	173,913	5,746,189
Capital Leases	45,598,056	-45,598,056			0
Library Collections	3,844,924		64,878	626	3,909,176
Total Assets Being Depreciated	105,952,345	0	1,260,765	196,099	107,017,011
Less: Accumulated Depreciation:					
Building and Building Improvements	18,340,158	6,027,895	2,784,124	16,294	27,135,883
Facilities and Other Improvements	1,350,695		3,119		1,353,814
Equipment	3,478,925	747,060	538,113	179,179	4,584,919
Capital Leases	6,774,955	-6,774,955			0
Library Collections	3,426,892		84,948	626	3,511,214
Total Accumulated Depreciation	33,371,625	0	3,410,304	196,099	36,585,830
Total Capital Assets, Being Depreciated, Net	72,580,720	0	-2,149,539	0	70,431,181
Capital Assets, Net	$ 74,005,228	$ 0	$ -2,065,141	$ 485,793	$ 71,454,294

A comparison of depreciation expense for the last three fiscal years is as follows:

Fiscal Year	Depreciation Expense
2016	$ 3,410,304
2015	$ 3,385,216
2014	$ 3,470,072

NOTE 5: ADVANCES (INCLUDING TUITION AND FEES)

Advances (Including Tuition and Fees) consisted of the following at June 30, 2016:

	Current Liabilities
Prepaid Tuition and Fees	$ 1,297,222
Research	581,036
Other - Advances	8,040
Total	$ 1,886,298

NOTE 6: LONG-TERM LIABILITIES

The Institution's Long-Term liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Current Portion
Leases					
Lease Obligations	$ 43,070,648	$ 0	$ 607,245	$ 42,463,403	$ 615,897
Other Liabilities					
Compensated Absences	935,324	747,510	610,416	1,072,418	611,854
Net Pension Liability	15,824,443	2,324,684		18,149,127	
Total	16,759,767	3,072,194	610,416	19,221,545	611,854
Total Long-Term Obligations	$ 59,830,415	$ 3,072,194	$ 1,217,661	$ 61,684,948	$ 1,227,751

NOTE 7: NET POSITION

Changes in Net Position for the year ended June 30, 2016 are as follows:

	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016
Net Investment in Capital Assets	$ 29,678,627	$ 1,517,021	$ 3,410,304	$ 27,785,344
Restricted Net Position	0	14,996,331	14,996,331	0
Unrestricted Net Position	-13,136,516	33,209,978	33,106,421	-13,032,959
Total Net Position	$ 16,542,111	$ 49,723,330	$ 51,513,056	$ 14,752,385

The amounts within each category at June 30, 2016 were as follows:

Net Investment in Capital Assets	$ 27,785,344
Unrestricted	
Auxiliary Operations	504,425
R & R Reserve	701,373
Reserve for Encumbrances	1,588,367
Reserve for Inventory	7,325
Other Unrestricted	-16,128,508
USO Reserve Fund	294,059
Total Unrestricted	-13,032,959
Total Net Position	$ 14,752,385

NOTE 8: LEASE OBLIGATIONS

The Institution 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 and equipment.

CAPITAL LEASES

Capital leases are generally payable in installments ranging from monthly to annually and have terms expiring in various years between 2040 and 2041. Expenditures for fiscal year 2016 were $2,946,508 of which $2,235,236 represented interest, $-50,406 represented amortization of the gain on debt refunding, and $154,433 represented executory costs. Total principal paid on capital leases was $607,245 for the fiscal year ended June 30, 2016. Interest rates range from 5.78 percent to 5.93 percent. The following is a summary of the carrying values of assets held under capital lease at June 30, 2016:

Description	Gross Amount	Accumulated Depreciation	Net Assets Held Under Capital Lease at June 30, 2016	Outstanding Balances per Lease Schedules at June 30, 2016
	(+)	(-)	(=)	
Equipment	$ 747,060	$ 747,060	$ 0	$ 0
Buildings - (PPV Only)	44,850,996	7,451,368	37,399,628	42,463,403
Total Assets Held Under Capital Lease at June 30, 2016	$ 45,598,056	$ 8,198,428	$ 37,399,628	$ 42,463,403

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.

The following capital lease schedule lists the pertinent information for each lease including the building name, lessor, total principal amount, lease term, lease begin date, lease end date, and remaining long-term debt as of June 30, 2016:

CAPITAL LEASE SCHEDULE

Description	Lessor (1)	Original Principal	Lease Term	Begin Date	End Date	Outstanding Principal Balance at June 30, 2016
Darton Student Center	USG Foundation	$ 21,468,642	30 years	7/2010	6/2040	$ 19,899,129
Darton Commons	Darton Boosters Inc.	10,697,505	30 years	12/2010	6/2041	10,014,984
Darton Village South	Darton Boosters Inc.	12,684,849	30 years	7/2011	6/2041	12,549,290
Total Leases		$ 44,850,996				$ 42,463,403

(1) These capital leases are with related entities.

OPERATING LEASES

The Institution's non-cancellable operating leases having remaining terms of more than one year expire in various fiscal years from 2016 through 2020. All agreements are cancellable if the State of Georgia does not provide adequate funding, but that is 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.

Facilities and equipment rented through operating leases are not recorded as assets on the balance sheet. Operating lease expenditures totaled $113,652 for the fiscal year ended June 30, 2016.

The Institution has entered into an operating lease with the Darton State College Foundation, a related party, whereby the Institution leases a small house from the Foundation to locate the Childcare Resource and Referral office. This lease is a year to year operating lease with a cost of $24,000 annually.

FUTURE COMMITMENTS

Future commitments for capital leases (which here and on the Statement of Net Position includes other installment purchase agreements) and for noncancellable operating leases having remaining terms in excess of one year as of June 30, 2016, were as follows:

	Capital Leases	Operating Leases
Year Ending June 30:		
2017	$ 3,248,841	$ 88,659
2018	3,311,374	78,428
2019	3,368,754	60,579
2020	3,418,154	12,474
2021	3,474,724	
2022 - 2026	17,591,049	
2027 - 2031	17,783,530	
2032 - 2036	18,039,778	
2047 - 2051	15,730,798	
Total Minimum Lease Payments	85,967,002	$ 240,140
Less: Interest	37,838,653	
Less: Executory Costs	5,664,946	
Principal Outstanding	$ 42,463,403	

NOTE 9: RETIREMENT PLANS

The Institution participates in various retirement plans administered by the State of Georgia under two major retirement systems: Teachers' Retirement System of Georgia (TRS) and Employees' Retirement System of Georgia (ERS). 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 administrative offices.

In addition to the retirement plans administered by TRS and ERS, USG administers the Regents Retirement Plan as an optional retirement plan.

The significant retirement plans that the Institution 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.

A. Defined Benefit Plans:

Teachers Retirement System of Georgia and Employees' Retirement System of Georgia

Summary of Significant Accounting Policies

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Retirement System of Georgia (TRS) and Employees' Retirement System (ERS), additions to/deductions for TRS's and ERS's fiduciary net position have been determined on the same basis as they are reported by TRS and ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Teachers Retirement System

Plan description: All teachers of the Institution as defined in §47-3-60 of the *Official Code of Georgia Annotated* (O.C.G.A.) are provided a pension through the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the *O.C.G.A.* assigns the authority to establish and amend the benefit provisions to the State Legislature. TRS issues a publicly available financial report that can be obtained at www.trsga.com/publications.

Benefits provided: TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee 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. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

Contributions: Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6.00% of their annual pay during fiscal year 2016. The Institution's contractually required contribution rate for the year ended June 30, 2016 was 14.27% of annual Institution payroll. Institution contributions to TRS were $1,745,357 for the year ended June 30, 2016. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

General Information about the Employees' Retirement System

Plan description: ERS is a cost-sharing multiple-employer defined benefit pension plan 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. Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. ERS issues a publicly available financial report that can be obtained at www.ers.ga.gov/formspubs/formspubs.

Benefits provided: The ERS Plan supports three benefit tiers: Old Plan, New Plan, and Georgia State Employees' Pension and Savings Plan (GSEPS). Employees under the old plan started membership prior to July 1, 1982 and are subject to 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 modified plan provisions. Effective January 1, 2009, new state employees and rehired state employees who did not retain membership rights under the Old or New Plans are members of GSEPS. ERS members hired prior to January 1, 2009 also have the option to irrevocably change their membership to GSEPS. Under the old plan, the 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 the monthly average of the member's highest 24 consecutive calendar months, multiplied by the number of years of creditable service, multiplied by the applicable benefit factor. Annually, postretirement cost-of-living adjustments may also 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.

Contributions: Member contributions under the old plan are 4% of annual compensation, up to $4,200, plus 6% of annual compensation in excess of $4,200. Under the old plan, the state pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these state contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25% of annual compensation. The Institution's contractually required contribution rate, actuarially determined annually, for the year ended June 30, 2016 was 24.72% of annual covered payroll for old and new plan members and 21.69% for GSEPS members. The Institution's contributions to ERS totaled $12,360 for the year ended June 30, 2016. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Institution reported a liability for its proportionate share of the net pension liability for TRS and ERS. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The Institution's proportion of the net pension liability was based on contributions to TRS and ERS during the fiscal year ended June 30, 2015. At June 30 2015, the Institution's TRS proportion was 0.118729%, which was a decrease of 0.006527% from its proportion measured as of June 30, 2014. At June 30, 2015, the Institution's ERS proportion was 0.001822%, which was an increase of 0.001822% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Institution recognized pension expense of $1,130,393 for TRS and $28,723 for ERS. At June 30, 2016, the Institution reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	TRS		ERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 158,982		$ 590
Net difference between projected and actual earnings on pension plan investments		1,524,672		5,326
Changes in proportion and differences between Institution contributions and proportionate share of contributions	$ 561,179	898,213	$ 51,009	
Institution contributions subsequent to the measurement date	1,745,357		12,360	
Total	$ 2,306,536	$ 2,581,867	$ 63,369	$ 5,916

Institution contributions subsequent to the measurement date of $1,745,357 for TRS and $12,360 for ERS are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	TRS	ERS
2017	$ -794,658	$ 31,239
2018	$ -794,658	$ 14,432
2019	$ -794,659	$ -2,374
2020	$ 413,629	$ 1,796
2021	$ -50,342	

Actuarial assumptions: The total pension liability as of June 30, 2015 was determined by an actuarial valuation as of June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers Retirement System:

Inflation	3.00%
Salary increases	3.75 – 7.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females set back two years for males and set back three years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 – June 30, 2009.

Employees' Retirement System

Inflation	3.00%
Salary increases	5.45 – 9.25%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for the periods after service retirement, for dependent beneficiaries, and for deaths in active service, and the RP-2000 Disabled Mortality Table set back eleven years for males for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 – June 30, 2009.

The long-term expected rate of return on TRS and ERS pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00%	3.00%
Domestic large equities	39.70%	6.50%
Domestic mid equities	3.70%	10.00%
Domestic small equities	1.60%	13.00%
International developed market equities	18.90%	6.50%
International emerging market equities	6.10%	11.00%
Total	100.00%	

* Rates shown are net of the 3.00% assumed rate of inflation

Discount rate: The discount rate used to measure the total TRS and ERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and State of Georgia contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the TRS and ERS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Institution's proportionate share of the net pension liability to changes in the discount rate: The following presents the Institution's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Institution's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Teachers' Retirement System:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
Institution's proportionate share of the net pension liability	$ 31,061,056	$ 18,075,311	$ 7,371,968

Employees' Retirement System:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
Institution's proportionate share of the net pension liability	$ 104,637	$ 73,816	$ 47,540

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS and ERS financial reports which are publically available at www.trsga.com/publications and www.ers.ga.gov/formspubs/formspubs, respectively.

B. Defined Contribution Plan

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 all exempt full and partial benefit eligible employees, 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 (VALIC, 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

The Institution 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 2016, the employer contribution was 9.24% for the participating employee's earnable compensation. Employees contribute 6% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and non-forfeitable at all times.

The Institution and the covered employees made the required contributions of $338,570 (9.24%) and $219,851 (6%), respectively.

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

NOTE 10: RISK MANAGEMENT

The USG offers its employees and retirees under the age of 65 access to four different healthcare plan options. For the USG's Plan Year 2016, the following healthcare plan options were available:

- BlueChoice HMO
- Comprehensive Care
- Consumer Choice HSA
- Kaiser Permanente HMO

The Institution, participating employees and retirees pay premiums to the healthcare plan options to access benefits coverage. The respective health 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 USG share the risk of loss for claims associated with the self-insured plans; including the BlueChoice HMO, Comprehensive Care, and Consumer Choice HSA Plan.

Retirees age 65 and older participate in a secondary healthcare coverage for Medicare-eligible retirees and dependents provided through a retiree healthcare exchange option. The USG makes contributions to a health reimbursement account, which can be used by the retiree to pay premiums and out-of-pocket healthcare-related expenses.

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 to serve as the claims administrator for the self-insured healthcare plans. In addition to the self-insured healthcare plan options offered to the employees of the USG, fully insured HMO healthcare plan are also offered to System employees.

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. The Institution, 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 11: 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 the Institution expects such amounts, if any, to be immaterial to its overall financial position.

Litigation, claims and assessments filed against the Institution (an organizational unit 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, 2016.

NOTE 12: 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 Institution 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.

As of June 30, 2016, there were 122 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2016, the Institution recognized as incurred $516,346 of expenditures, which was net of $145,023 of participant contributions.

NOTE 13: SUBSEQUENT EVENTS

On November 10, 2015, the University System of Georgia voted to consolidate Albany State University and Darton State College. The consolidation is expected to occur during fiscal year 2017. The newly formed Institution will retain the name of Albany State University.

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SUPPLEMENTARY INFORMATION

DARTON STATE COLLEGE
BALANCE SHEET (STATUTORY BASIS)
BUDGET FUND
JUNE 30, 2016

ASSETS		
Cash and Cash Equivalents	$	3,276,834.84
Accounts Receivable		
Federal Financial Assistance		303,097.41
Other		1,743,080.00
Inventories		3,999.95
Total Assets	$	5,327,012.20
LIABILITIES AND FUND EQUITY		
Liabilities		
Accrued Payroll	$	102,810.05
Encumbrances Payable		1,543,130.39
Accounts Payable		43,416.16
Deferred Revenue		1,587,736.08
Total Liabilities		3,277,092.68
Fund Balances		
Reserved		
Department Sales and Services		44,804.78
Indirect Cost Recoveries		280,104.17
Technology Fees		634,449.03
Uncollectible Accounts Receivable		762,660.92
Tuition Carry-Over		314,899.27
Inventories		7,324.90
Unreserved		
Surplus		5,676.45
Total Fund Balances		2,049,919.52
Total Liabilities and Fund Balances	$	5,327,012.20

Statutory Basis financial information was prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework.

DARTON STATE COLLEGE
SUMMARY BUDGET COMPARISON AND SURPLUS ANALYSIS REPORT (STATUTORY BASIS)
BUDGET FUND
YEAR ENDED JUNE 30, 2016

SCHEDULE "2"

	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES			
State Appropriation			
State General Funds	$ 15,753,305.00	$ 15,753,305.00	$ 0.00
Other Funds	37,480,944.00	30,561,922.41	-6,919,021.59
Total Revenues	53,234,249.00	46,315,227.41	-6,919,021.59
CARRY-OVER FROM PRIOR YEARS			
Transfers from Reserved Fund Balance	0.00	968,373.39	968,373.39
Total Funds Available	53,234,249.00	47,283,600.80	-5,950,648.20
EXPENDITURES			
Teaching	53,234,249.00	45,729,000.68	7,505,248.32
Excess of Funds Available over Expenditures	$ 0.00	1,554,600.12	$ 1,554,600.12
FUND BALANCE JULY 1			
Reserved		1,656,788.41	
Unreserved		389.60	
ADJUSTMENTS			
Prior Year Receivables/Revenues		-193,095.62	
Unreserved Fund Balance (Surplus) Returned to Board of Regents - University System Office Year Ended June 30, 2015		-389.60	
Prior Year Reserved Fund Balance Included in Funds Available		-968,373.39	
FUND BALANCE JUNE 30		$ 2,049,919.52	

SUMMARY OF FUND BALANCE

Reserved	
Department Sales and Services	$ 44,804.78
Indirect Cost Recoveries	280,104.17
Technology Fees	634,449.03
Uncollectible Accounts Receivable	762,660.92
Tuition Carry-Over	314,899.27
Inventories	7,324.90
Total Reserved	2,044,243.07
Unreserved	
Surplus	5,676.45
Total Fund Balance	$ 2,049,919.52

Statutory Basis financial information was prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework.

DARTON STATE COLLEGE
STATEMENT OF FUNDS AVAILABLE AND EXPENDITURES COMPARED TO BUDGET BY PROGRAM AND FUNDING SOURCE
(STATUTORY BASIS) BUDGET FUND
YEAR ENDED JUNE 30, 2016

	Original Appropriation	Amended Appropriation	Final Budget	Current Year Revenues
Teaching				
State Appropriation				
State General Funds	$ 15,339,508.00	$ 15,339,508.00	$ 15,753,305.00	$ 15,753,305.00
Other Funds	37,377,780.00	37,377,780.00	37,480,944.00	30,561,922.41
Total Operating Activity	$ 52,717,288.00	$ 52,717,288.00	$ 53,234,249.00	$ 46,315,227.41

Statutory Basis financial information was prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework.

Funds Available Compared to Budget				Expenditures Compared to Budget		Excess of Funds
Prior Year Carry-Over	Adjustments and Program Transfers	Total Funds Available	Variance Negative	Actual	Variance Positive	Available Over Expenditures
$ 0.00	$ 0.00	$ 15,753,305.00	$ 0.00	$ 15,753,276.55	$ 28.45	$ 28.45
968,373.39	0.00	31,530,295.80	-5,950,648.20	29,975,724.13	7,505,219.87	1,554,571.67
$ 968,373.39	$ 0.00	$ 47,283,600.80	$ -5,950,648.20	$ 45,729,000.68	$ 7,505,248.32	$ 1,554,600.12

DARTON STATE COLLEGE
STATEMENT OF CHANGES TO FUND BALANCE BY PROGRAM AND FUNDING SOURCE
(STATUTORY BASIS) BUDGET FUND
YEAR ENDED JUNE 30, 2016

	Beginning Fund Balance July 1	Fund Balance Carried Over from Prior Period as Funds Available	Return of Fiscal Year 2015 Surplus	Prior Period Adjustments
Teaching				
State Appropriation				
State General Funds	$ 156.01	$ 0.00	$ -156.01	$ 0.00
Other Funds	968,606.98	-968,373.39	-233.59	-193,095.62
Total Teaching	968,762.99	-968,373.39	-389.60	-193,095.62
Prior Year Reserves				
Not Available for Expenditure				
Inventories	12,972.90	0.00	0.00	0.00
Uncollectible Accounts Receivable	675,442.12	0.00	0.00	0.00
Budget Unit Totals	$ 1,657,178.01	$ -968,373.39	$ -389.60	$ -193,095.62

Statutory Basis financial information was prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework.

Other Adjustments	Early Return Fiscal Year 2016 Surplus	Excess of Funds Available Over Expenditures	Ending Fund Balance June 30	Analysis of Ending Fund Balance Reserved	Surplus	Total
$ 5,648.00	$ 0.00	$ 28.45	$ 5,676.45	$ 0.00	$ 5,676.45	$ 5,676.45
-87,218.80	0.00	1,554,571.67	1,274,257.25	1,274,257.25	0.00	1,274,257.25
-81,570.80	0.00	1,554,600.12	1,279,933.70	1,274,257.25	5,676.45	1,279,933.70
-5,648.00	0.00	0.00	7,324.90	7,324.90	0.00	7,324.90
87,218.80	0.00	0.00	762,660.92	762,660.92	0.00	762,660.92
$ 0.00	$ 0.00	$ 1,554,600.12	$ 2,049,919.52	$ 2,044,243.07	$ 5,676.45	$ 2,049,919.52

Summary of Ending Fund Balance	Reserved	Surplus	Total
Reserved			
Department Sales and Services	$ 44,804.78		$ 44,804.78
Indirect Cost Recoveries	280,104.17		280,104.17
Technology Fees	634,449.03		634,449.03
Uncollectible Accounts Receivable	762,660.92		762,660.92
Tuition Carry-Over	314,899.27		314,899.27
Inventories	7,324.90		7,324.90
Unreserved			
Surplus		$ 5,676.45	5,676.45
Total Ending Fund Balance - June 30	$ 2,044,243.07	$ 5,676.45	$ 2,049,919.52

SECTION II

ENTITY'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

DARTON STATE COLLEGE
ENTITY'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA-570-14-02 Overpayment of Student Financial Assistance

Control Category: Eligibility
Internal Control Impact: Significant Deficiency
Compliance Impact: Nonmaterial Noncompliance
Federal Award Agency: U.S. Department of Education
CFDA Number and Title: 84.SFA – Student Financial Assistance Cluster

Finding Status: Unresolved

The Institution has changed leadership in the Financial Aid Office. The new leadership will review the processes and procedures relative to determining each student's financial aid eligibility and will make appropriate modifications for any weaknesses noted and will ensure that monitoring controls are in place. The College will also overhaul the Student Information System to ensure that awards and disbursements are aligned with Federal Regulations. Additionally, Darton State College has refunded the $2,722.00 to USDOE associated with this finding and are currently awaiting final resolution procedures from USDOE.

FA-570-14-03 Verification Process

Control Category: Special Tests and Provisions
Internal Control Impact: Significant Deficiency
Compliance Impact: Nonmaterial Noncompliance
Federal Award Agency: U.S. Department of Education
CFDA Number and Title: 84.SFA – Student Financial Assistance Cluster

Finding Status: Partially Resolved

Darton State College has developed formal procedures outlining the verification process. The Financial Aid Office has been restructured to ensure staff members are properly trained in reviewing all verification documents for accuracy and conflicting information. Darton has completed a statistical sample requested by USDOE reviewing a total of 341 verification files for the 2013-2014 award year. The College has refunded $9,608.00 to USDOE based on the results of this sample.

In addition, the College is awaiting a response from the U.S. Department of Education in regards to the resolution of this finding.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA-570-14-04 Return of Title IV Funds

Control Category: Special Tests and Provisions
Internal Control Impact: Significant Deficiency
Compliance Impact: Nonmaterial Noncompliance
Federal Award Agency: U.S. Department of Education
CFDA Number and Title: 84.SFA – Student Financial Assistance Cluster

Finding Status: Partially Resolved

Darton State College (DSC) has developed a report that compares a listing of students scheduled for R2T4 to their entries in banner (TSAAREV) to confirm that the return has been completed. This report is run weekly to ensure that Return of Title IV Funds (R2T4) calculations are appropriately and timely performed.

DSC has also developed a new purge process that will eliminate any future delays in R2T4 processing.

DSC has begun (started retroactively with Fall 2014 semester) to incorporate bookstore charges into institutional charges when calculating the amount needed for R2T4. This process began the Spring 2015 semester.

Additionally, DSC has completed a full file review of R2T4 for awarded year 2013-2014 as requested by USDOE. This review of 580 files resulted in a questioned cost of $71,184.00. A refund to USDOE for this amount has been made by the College.

FA 2015-001 Overpayment of Student Financial Assistance

Control Category: Eligibility
Internal Control Impact: Material Weakness
Compliance Impact: Material Noncompliance
Federal Award Agency: U.S. Department of Education
CFDA Number and Title: 84.SFA – Student Financial Assistance Cluster

Finding Status: Unresolved

The College has changed leadership in the Financial Aid Office. The new leadership will review the processes and procedures relative to determining each student's financial aid eligibility and will make appropriate modifications for any weaknesses noted and will ensure that monitoring controls are in place. The College will also overhaul the Student Information System to ensure that awards and disbursements are aligned with Federal Regulations.

SECTION III

FINDINGS, QUESTIONED COSTS AND OTHER ITEMS

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 weakness.

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

Internal control deficiencies identified during the course of this engagement that were considered to be significant deficiencies and/or material weaknesses are presented below:

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA 2016-001 Weaknesses in Logical Access IT General Controls

Compliance Requirement:	Activities Allowed or Unallowed Eligibility
Internal Control Impact:	Significant Deficiency
Compliance Impact:	N/A
Federal Awarding Agency:	U. S. Department of Education
Pass-Through Entity:	None
CFDA Number and Title:	84.SFA Student Financial Assistance Cluster Program
Questioned Cost:	None Identified

Description:
Institution policies and procedures were insufficient to provide adequate internal controls over logical access IT general controls.

Criteria:
Management of the Institution is responsible for designing and maintaining internal controls that provide reasonable assurance that transactions are properly processed and reported.

Condition:
Our review of the established internal control structure associated with significant financial applications at the Institution revealed design and operating effectiveness deficiencies in logical access controls intended to protect financial and student financial assistance information from unauthorized access, manipulation and corruption.

The details related to these deficiencies have been provided to Institution Management in accordance with Official Code of Georgia Annotated §50-6-9.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Cause:
In discussing these deficiencies with the Institution, management stated that the cause was directly related to ineffective policies and procedures to adequately monitor general security settings and user access to the financial application.

Effect or Potential Effect:
Failure to maintain adequate internal controls related to logical access increases the risk that misappropriation of assets, fraud, errors, irregularities and/or noncompliance with Federal regulations could occur.

Recommendation:
Management should review and enhance their policies and procedures to ensure the integrity and accuracy of the information used within the financial statements and as part of awarding financial assistance to students. Additionally, management should ensure proper segregation of duties as it relates to financial and student financial assistance processes.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. Darton will review relevant State, University System of Georgia and Institution policies and will continue to revise and develop procedures to provide adequate separation of duties and internal controls over logical access to financial applications. These procedures will be developed and applied to ensure all accounts are handled correctly to limit risk. User account permissions will be evaluated for the appropriate level of access across the Institution. User accounts will be monitored for recertification on a quarterly basis.

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FA 2016-002 Overpayment of Student Financial Assistance

Compliance Requirement:	Eligibility
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance
Federal Awarding Agency:	U. S. Department of Education
Pass-Through Entity:	None
CFDA Number and Title:	84.SFA Student Financial Assistance Cluster
Questioned Costs:	$7,588.00
Repeat of Prior Year Finding:	FA 2015-001 FA-570-14-02

Description:
The Institution's Student Financial Assistance Office improperly determined the financial need of eligible students.

Criteria:
Provisions included in 34 CFR 668 provide general provisions for administering Student Financial Assistance (SFA) programs and 34 CFR 675, 676, 685, and 690 provide eligibility and other related program requirements that are specific to the Federal Work-Study program, Federal Supplemental Educational Opportunity Grant (SEOG), Federal Direct Loan Program, and Federal Pell Grant Program, respectively.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Condition:
A sample of 60 financial assistance files was selected to determine if financial assistance was properly calculated and disbursed to eligible students. The following deficiencies were noted:

1. Four students in the sample received Direct Unsubsidized Student Loans before the Subsidized need-based loan limit was reached.

2. One student in the sample was awarded more financial aid than their cost of attendance budget.

3. One student was qualified to receive an additional $722.00 in Pell grant funds that were not disbursed.

4. One student in the sample was not in compliance with the Institution's published satisfactory academic progress (SAP) policies. Federal regulations (34 CFR 668.32 and 668.34) state that a student is eligible to receive financial assistance under Title IV programs if satisfactory academic progress is maintained. The student did not meet the quantitative requirement of satisfactory academic progress, which resulted in SFA over disbursements totaling $7,588.00.

Questioned Cost:
Questioned costs of $7,588.00, with likely questioned costs of $491,309.25, were identified for the students who received student financial assistance in excess of their eligible need.

Cause:
In discussing this condition with Darton State College officials, they stated that this deficiency occurred as a result of inadequate monitoring of processes related to SAP and student financial aid eligibility determinations.

Effect or Potential Effect:
The Institution was not in compliance with Federal regulations concerning awarding of SFA funds to students.

Recommendation:
The Institution should review its processes and procedures for determining each student's financial aid eligibility. Where vulnerable, the Institution should develop and/or modify its policies and procedures to ensure that correct amounts will be awarded to students in conformity with financial need requirements. Additionally, the Institution should develop and implement a monitoring process to ensure that controls are properly implemented. The Institution should also contact the U.S. Department of Education regarding resolution of this finding.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. The Institution has changed leadership in the Financial Aid Office. The new leadership will review the processes and procedures relative to determining each student's financial aid eligibility and will make appropriate modifications for any weaknesses noted and will ensure that monitoring controls are in place. The Institution will also overhaul the Student Information System to ensure that awards and disbursements are aligned with Federal Regulations. The Institution will contact the Department of Education as appropriate.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FA 2016-003 Return of Title IV Funds

Compliance Requirement:	Special Tests and Provisions
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance
Federal Awarding Agency:	U. S. Department of Education
Pass-Through Entity:	None
CFDA Number and Title:	84.SFA Student Financial Assistance Cluster
Questioned Costs:	$1,775.23
Repeat of Prior Year Finding:	FA-521-14-04

Description:
The Institution did not properly perform the refund process to ensure that unearned Title IV funds were returned in a timely manner.

Criteria:
The provisions in 34 CFR 668.22 provides requirements over the treatment of Title IV funds when a student withdraws. The Institution is required to determine the amount of Title IV grant that the student earned as of the student's withdrawal date when a recipient of a Title IV grant withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance. A refund must be returned to Title IV programs when the total amount of Title IV grant or loan assistance, or both, that the student earned is less than the amount of the Title IV grant or loan assistance that was disbursed to the student as of the withdrawal date.

Condition:
Twenty-five students who received Federal financial assistance for the Fall 2015 and Spring 2016 semesters and withdrew from the Institution were selected to determine if refunds were calculated and returned in the correct amount to the proper funding agency and/or student in a timely manner. Our examination revealed the following deficiencies:

1. The refund calculations for three students who withdrew during the Fall 2015 semester and one student who withdrew during Spring 2016 were calculated incorrectly due the use of inaccurate term start and scheduled end dates and/or the improper withdrawal dates. These students were requested to return $1,775.23 less than the required amount to various SFA programs.

2. The proration between the school and student portion of the refund was incorrect for four of the students who withdrew during the Fall 2015 semester and one of the students who withdrew during the Spring 2016 semester.

3. Funds were not returned to the appropriate grantor programs within the required time frame of 45 days for four of the withdrawn students tested.

Questioned Cost:
Questioned cost of $1,775.23, with likely questioned cost of $33,503.41, were identified for refunds calculated incorrectly.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Cause:
In discussing these deficiencies with management, they stated that the miscalculation of refund amounts occurred due to an update of the academic calendar arising after the financial aid calendar was approved and implemented. Additionally, internal procedural errors led to the untimely return of funds to the appropriate grantor programs or the inability to obtain documentation to support the timely return of funds to the appropriate grantor programs.

Effect or Potential Effect:
The Student Financial Assistance Office did not calculate the correct amount of refunds for the Title IV Federal program and did not apply the SFA refunds to the Title IV Federal programs in a timely manner.

Recommendation:
The Institution should develop and implement procedures to ensure that student financial aid refunds are properly calculated and that unearned funds are correctly returned to the appropriate accounts in a timely manner in accordance with the Higher Education Amendments 1998, Public Law 105-244. The Institution should also contact the U.S. Department of Education regarding resolution of this finding.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. We will ensure that academic calendars are finalized prior to the implementation of the financial aid calendar. In addition, we will ensure that all updates to the academic calendar are vetted through the Office of Financial Aid for consistency. Administrators will review all official withdrawals and perform a monthly quality assessment of R2T4 calculations to ensure all returns are completed accurately and returned to the proper Federal Program within the 45 days. We will also verify that the amount of awards sent back to the Department of Education are compliant with Federal regulations. The Office of Financial Aid, coupled with the Registrar's Office, has updated its policies and procedure for processing Title IV returns. System-generated reports are reviewed daily and at the end of the term to assess the need for R2T4 completion on each eligible student. Internal procedures for calculating R2T4s will be monitored and updated annually to ensure compliance. The Office of Financial Aid staff will engage in consultation with the Department of Education, as required, and consistently review the FSA Handbook for guidance on policy and procedural development.

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FA 2016-004 Inadequate Control Procedures over Unofficial Withdrawals

Compliance Requirement:	Special Tests and Provisions
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance
Federal Awarding Agency:	U. S. Department of Education
Pass-Through Entity:	None
CFDA Number and Title:	84.SFA Student Financial Assistance Cluster
Questioned Costs:	$5,218.83

Description:
Unearned Title IV funds were not identified and returned for students who unofficially withdrew from the Institution.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Criteria:
The provisions in 34 CFR 668.22 provides requirements over the treatment of Title IV funds when a student withdraws. The Institution is required to determine the amount of Title IV grant that the student earned as of the student's withdrawal date when a recipient of a Title IV grant withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance. A refund must be returned to Title IV programs when the total amount of Title IV grant or loan assistance, or both, that the student earned is less than the amount of the Title IV grant or loan assistance that was disbursed to the student as of the withdrawal date.

Condition:
Twenty-five students who received Federal financial assistance for the Fall 2015 and Spring 2016 semesters and withdrew from the Institution but for whom no Return of Title IV calculation was performed were selected to determine if a refund should have been calculated. Our examination revealed that refund calculations were not performed for three of these students who unofficially withdrew during the Fall 2015 and Spring 2016 semesters.

Questioned Cost:
Questioned cost of $5,218.83, with likely questioned cost of $102,781.02, were identified for refunds calculated incorrectly.

Cause:
In discussing these deficiencies with management, they stated internal procedural errors led to the inaccurate calculation of dates for unofficially withdrawn students. Additionally, reporting errors led to the failure to return funds to the appropriate grantor programs in a timely manner.

Effect or Potential Effect:
The Office of Financial Aid did not calculate the correct amount of refunds for the Title IV Federal program.

Recommendation:
The Institution should implement policies and procedures to ensure that students who unofficially withdrew and received Title IV funds are identified and the required refund calculation is performed. The Institution should also contact the U.S. Department of Education regarding resolution of this finding.

Views of Responsible Officials and Corrective Action Plans:
We concur with this finding. Internal procedures have been updated to ensure that all unofficially withdrawn students have a calculated last date of attendance. Additionally, the student's documented last date of attendance will be used to determine Return of Title IV calculation amounts. The Office of Financial Aid and the Registrar will work together to ensure that each student's calculation meets Federal guidelines for compliance. The Office of Financial Aid staff will engage in consultation with the Department of Education, as required, and consistently review the FSA Handbook for guidance on policy and procedural development.

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FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA 2016-005 Failure to Reconcile the Federal Direct Loan Program

Compliance Requirement:	Special Tests and Provisions
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance
Federal Awarding Agency:	U. S. Department of Education
Pass-Through Entity:	None
CFDA Number and Title:	84.SFA Student Financial Assistance Cluster
Questioned Cost:	None Identified

Description:
The Institution did not perform the required monthly reconciliations for the Federal Direct Loan Program appropriately.

Criteria:
Provisions included in 34 CFR 685.102(b), 685.301, and 685.303 provide program requirements for the Federal Direct Loan program.

Condition:
Institution personnel perform a reconciliation of amounts reported in the student information system and the financial accounting system at the end of each month. However, monthly reconciliations of amounts disbursed by student per the Direct Loan Common Origination and Disbursement (COD) system and the student information system were not performed appropriately during the fiscal year. Student files rejected by the COD system due to errors were not addressed in a timely manner causing variances between the student information system and the COD system.

Questioned Cost:
N/A

Cause:
In discussing these deficiencies with management, they stated that due to turnover in the SFA Office, the Institution did not have monitoring controls in place to ensure that reconciliations were being accurately and timely completed between COD and the student information system.

Effect or Potential Effect:
The Institution was not in compliance with Federal regulations concerning the program requirements of the Federal Direct Loan program.

Recommendation:
The Institution should establish procedures and assign responsibility for the monthly and yearly reconciliation of the Federal Direct Loan program. The Institution's financial aid and business office should maintain their internal records in such a way that they can prepare for the monthly reconciliation. The Institution should establish a monitoring process to ensure the guidelines detained in the Federal Direct Loan School Guide are followed to ensure compliance with Federal Direct Loan requirements.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Views of Responsible Officials and Corrective Action Plans:

We concur with this finding. The Institution has changed leadership in the Office of Financial Aid. The organization chart and job responsibilities for the Office of Financial Aid is currently being revised. These revisions will include identifying a Loan Reconciliation Specialist (LRS). The LRS will be responsible for conducting and documenting a monthly reconciliation for all Federal loan programs between COD, Banner and PeopleSoft. The Office of Financial Aid staff will engage in training in regards to awarding, disbursing and reconciling the Federal Direct Loans. We will also engage in consultation with the Department of Education, as required, and consistently review the FSA Handbook for guidance on policy and procedural development.

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OTHER ITEMS (NOTED FOR MANAGEMENT'S CONSIDERATION)

Auxiliary Fund Deficit

Observation:

The Board of Regents Policy Manual Section 15 states that “Auxiliary Enterprises are operating on a self-supporting basis, where the combination of fees and other revenue is sufficient to meet costs.” The Institution’s Residence Halls, Food Services and Intercollegiate Athletics funds reported a loss and/or overall deficit during the year under review. The Residence Halls fund reported an overall net loss of $357,201 and is in a deficit of $1,862,570. The Food Services fund reported overall net income of $161,332 but is in a deficit of $180,263. The Intercollegiate Athletics fund reported an overall net loss of $195,660 and is in a deficit of $1,068,058. In addition, the Auxiliary Enterprise funds reported an overall net loss of $269,352 and is in a deficit of $766,434.

Recommendation:

The Institution should ensure that the revenue streams associated with the Auxiliary Enterprise funds are sufficient to pay all costs pertaining to the funds.

Views of Responsible Officials and Corrective Action Plans:

Management is aware of the deficits associated with the above stated auxiliary units; the Institution is currently working internally and with University System of Georgia personnel to develop and implement steps to prevent such occurrences in the future and developing a multi-year strategy to eliminate the deficits.

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OTHER ITEMS (NOTED FOR MANAGEMENT'S CONSIDERATION)

Untimely Enrollment Reporting

Observation:
Our testing of 40 students who withdrew during the Fall 2015 and Spring 2016 semesters revealed that none of the students' withdrawn enrollment statuses were not reported to the National Student Loan Data System (NSLDS) within the required 30 days or 60 days if a roster file was previously scheduled to be submitted. Additionally, 15 students' withdrawn enrollment statuses were never reported to NSLDS.

Recommendation:
The Institution should implement policies and procedures to ensure that all changes in student enrollment statuses are reported in a timely manner.

Views of Responsible Officials and Corrective Action Plans:
We concur with the finding. We acknowledge that unofficially and officially withdrawn students' enrollment statuses were not properly reported. We will implement procedures to ensure proper reporting of enrollment status for all students, including unofficially withdrawn students and implement a monitoring process to ensure controls are properly implemented.

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