9-1-2017

# Substantive Change Prospectus Section 9. Financial Support- Final Narrative

Georgia Southern University

***9. FINANCIAL SUPPORT***

*Provide a business plan that includes **all** of the following:*

*a. a description of the financial transaction and the effect that the transaction has on the net assets of all the institutions involved. In addition, specifically provide details regarding each of the following: (1) liabilities, (2) transfer of assets, (3) future contractual obligations, (4) existing contracts, (5) charitable contributions generated or involved with the transaction, and (6) any other significant factor that will impact financial or physical resources.*

*b. a description of financial resources to support the change, including a budget for the first year*

*c. projected revenues and expenditures and cash flow*

*d. the amount of resources going to institutions or organizations for contractual or support services*

*e. the operational, management, and physical resources available for the change.*

*Provide contingency plans in case required resources do not materialize.*

***As part of the prospectus, the institution is required to submit financial audit reports and management letters for the two most recent fiscal years, and include its most recent financial aid audit.** The most recent year is defined as the fiscal year ending immediately prior to the submission of this prospectus. In instances of consolidations, mergers, change of ownership, or acquisitions, the other participating institution or entity is also required to provide the audits as described above. In addition, the institution is required to include a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year.*

*Include a copy of the institution's Pre-Acquisition Application submitted to the U.S. Department of Education, if appropriate for the change, and all documents/correspondence from the institution to the USDOE and from the USDOE to the institution as pertain to the reporting of this change.*

The financial resources of the new Georgia Southern University will be substantially greater and more comprehensive, than either institution's before consolidation, positioning the consolidated institution to achieve higher levels of efficiency and effectiveness in its offering of high-quality and productive undergraduate, graduate, and continuing education programming. The combined financial resources of the two institutions and the efficiencies and savings gained from administrative consolidation will yield a strong financial position to accommodate continued enrollment growth and academic development of the consolidated university. As the Georgia economy continues to recover, the consolidated university will have significant and expanded opportunities to redirect consolidation savings to its academic improvement priorities. The financial infrastructure for the consolidated institution will continue to operate efficiently and employ austerity measures along with conservative stewardship of resources that have been in place for the separate institutions. The consolidated institution is expected to have the capital resources to move the new institution to even greater levels of achievement.

Both Georgia Southern University (GaSou) and Armstrong State University (Armstrong) maintain comprehensive networks of internal controls to ensure compliance with federal, state, and local requirements. Procedures are in place to assess risk, deter non-compliance, and detect violations at the earliest opportunity. Key institutional components involved in controlling institutional finances and monitoring compliance include the University System of Georgia Board of Regents and the University System of Georgia Internal Audit function, as well as university auditors. The *BOR Policy Manual, Section 7* (***Appendix 9.1***) and the *BOR Business Procedures Manual* (***Appendix 9.2****)* mandate these functions. Therefore, such functions will remain in place for the consolidated institution.

### Financial Resources to Support the Change

The consolidation is expected to have no substantive impact on the total financial resources available to support the new institution. The University System's chancellor has indicated the savings that will result from institutional consolidation will be retained by GaSou for redirection within the institution to meet pressing needs, to expand academic programs, and to better serve student and state needs.

Both universities are in sound financial condition, operating with balanced annual operating budgets and sufficient reserves for covering expense excesses when necessary. For the past six years during significant economic downturn across the nation and state, both institutions have successfully instituted austerity measures, including withholding annual salary increases, defunding noncritical personnel positions, delaying hiring for vacant positions, and cutting back operating expenses. State appropriation reductions during that period have also been offset by tuition increases, special fees, and sustainable enrollment at both institutions. Improvements in the state's economy in the last two fiscal years have helped turn annual state appropriation budget cuts into modest state appropriation increases for university operations, although state appropriation funding has not returned to its peak levels of FY 2009. Although fiscal restraints appear to be lessening, the "new normal" established over the past six years for conservative and strategic stewardship of scarce financial resources remains a key factor justifying institutional consolidation. Reallocation of administrative savings from consolidation provides resources for responding to institutional and state needs for educational program expansion when new state funding is not available to support such improvements.

The two principal revenue sources for education and general operations at GaSou and Armstrong are state appropriations and student tuition and fees. Tables 1 and 2 present the changes that have occurred in those revenue streams year-end actuals from FY 2012 through FY 2017 for both institutions, along with the projected budget for FY 2018. At GaSou, state appropriations increased 31 percent from FY 2012 to FY 2017, reflecting the slow but steady increase in the economy from the downturn of previous years. Additionally, a return of modest salary merit increases in recent budget years resulted in higher state appropriations. The 24 percent increase in state appropriations at Armstrong resulted from similar positive changes in the economy as well as the reinstitution of merit salary increases.

**Table 1. Trends in E&G State Appropriation Funding.**

| Fiscal Year | GaSou (Millions) | Armstrong (Millions) |
|---|---|---|
| 2012 | 72.8 | 26.1 |
| 2013 | 76.0 | 26.7 |
| 2014 | 81.4 | 28.8 |
| 2015 | 85.8 | 29.6 |
| 2016 | 91.6 | 29.9 |
| 2017 | 95.0 | 32.3 |
| Five Year % Change (actuals) | 30.5% | 23.8% |
| 2018 (budget) | 100.1 | 33.1 |

As Table 2 documents, tuition and fee year-end actual revenues at GaSou and Armstrong increased substantially from FY 2012 to FY 2017. Tuition and fee revenues became a larger source of institutional support vital for offsetting the loss of state appropriation funds during the recession. Trends in state appropriations and tuition and fee revenues at both institutions over the past six years reflect slow but steady enrollment growth. Tuition rates at both institutions have increased moderately over the past six years and fee revenues have remained flat as the University System of Georgia Board of Regents have strived to contain the increasing cost of education.

**Table 2. Trends in E&G Tuition & Fee Revenues.**

| Fiscal Year | GaSou (Millions) | Armstrong (Millions) |
|---|---|---|
| 2012 | 102.2 | 32.3 |
| 2013 | 106.6 | 29.9 |
| 2014 | 108.0 | 30.4 |
| 2015 | 111.2 | 32.0 |
| 2016 | 114.2 | 35.9 |
| 2017 | 117.4 | 36.1 |
| Five Year % Change (actuals) | 14.9% | 11.8% |
| 2018 (budget) | 107.1 | 32.6 |

Annual grants and contracts generate a modest revenue stream for GaSou and Armstrong and will continue in the consolidated university. As Table 3 reveals, grant and contract revenues have declined marginally at both universities in recent years and are expected to total $62.8 million in FY 2018 for the consolidated university. The regional synergy generated from the consolidation of the two institutions is expected to boost these revenues in future years.

**Table 3. Trends in Grants and Contracts Revenues.**

| Fiscal Year | GaSou (Millions) | Armstrong (Millions) |
|---|---|---|
| 2012 | 37.6 | 20.5 |
| 2013 | 46.8 | 18.3 |
| 2014 | 48.1 | 18.6 |
| 2015 | 49.1 | 16.0 |
| 2016 | 46.1 | 15.9 |
| 2017 | 44.7 | 16.1 |
| Five Year % Change (actuals) | 18.9% | -21.5% |
| 2018 (budget) | 47.1 | 15.7 |

A full suite of auxiliary services will be in place at the consolidated institution, including bookstore operations and technology purchasing, student dining and campus catering, student housing, parking, transportation, card services, copy services, health services, and vending. In addition, a broad array of student programs and activities will also be available at the consolidated institution, such as intercollegiate athletics, student recreation, sports clubs, intramural athletics services, registered student organizations, and Greek life organizations.

Tables 4 and 5 show healthy trends in the growth of auxiliary services and student athletics/activities revenues at GaSou. Auxiliary gross revenue declines at Armstrong in recent years are due to outsourcing of student housing to a third party contractor for the purpose providing affordable student housing, reducing the overall USG debt obligations and leveraging economies of scale in management of housing facilities. The student and facility benefits of housing third party contracts, combined with other of self-operated auxiliary services and expanded athletic and student activities opportunities are expected to provide excellent student services and student opportunities which will have a positive effect on revenues.

Student Activity and Athletic fee revenue have declined at Armstrong in recent years due to slight decreases in enrollment and the implementation of a military friendly policy to waive mandatory fees for active military service students. Revenues began to rise in 2017 as enrollment began to recover as a result of effective enrollment management planning. It is expected that the combined efforts of intensive enrollment management and expanded academic program opportunities in the combined institution will have a positive effect on consolidated student enrollment.

**Table 4. Trends in Auxiliary Services Revenues.**

| Fiscal Year | GaSou (Millions) | Armstrong (Millions) |
|---|---|---|
| 2012 | 71.2 | 19.5 |
| 2013 | 76.8 | 19.2 |
| 2014 | 82.6 | 17.8 |
| 2015 | 86.0 | 17.2 |
| 2016 | 89.4 | 13.6 |
| 2017 | 90.8 | 14.0 |
| Five Year % Change (actuals) | 27.5% | -28.2% |
| 2018 (budget) | 77.7 | 13.5 |

**Table 5. Trends in Athletics & Student Activities Revenues.**

| Fiscal Year | GaSou (Millions) | Armstrong (Millions) |
|---|---|---|
| 2012 | 20.0 | 4.8 |
| 2013 | 19.8 | 3.9 |
| 2014 | 23.8 | 3.7 |
| 2015 | 26.7 | 4.0 |
| 2016 | 28.9 | 4.1 |
| 2017 | 29.5 | 4.1 |
| Five Year % Change (actuals) | 47.5% | -14.6% |
| 2018 (budget) | 29.3 | 2.5 |

According to Georgia law O.C.G.A. 36-81-3 (***Appendix 9.3***), all units of local government, including state offices such as the Board of Regents and the 29 institutions under its legal authority, must adopt and operate under an annual balanced budget. The separate BOR-approved budgets for both universities and the separate federal financial aid budgets will remain in effect until July 1, 2018. Financially, the institution will merge the two accounting systems into the consolidated accounting system beginning July 1, 2018, with the first completely consolidated budget. Subsequently, the consolidated institution will undergo its first statewide audit as a consolidated institution in FY 2019.

**First Year Budget Projected Revenues, Expenditures, and Cash Flow**

The effective date of the proposed consolidation on January 1, 2018 will fall in the middle of the University System of Georgia's current fiscal year 2018, which runs from July 1, 2017, through June 30, 2018. Although many aspects of the consolidation will go into effect at that time, each of the partner institutions must complete its FY 2018 financials separately and stand for a state audit thereafter. Although a substantial amount of coordination and collaboration has been underway over the past eight months, the first half of the first year of consolidation will be handled financially as though the partner institutions were independent. The two sets of financial statements will be combined for presentation purposes at the end of the fiscal year. Budgetary adjustments will be made in both sets of expenditure accounts to accommodate any new administrative structure that will be implemented in January 2018. In addition, budget management oversight will be coordinated centrally under the chief business officer to serve other needs of the consolidated operation as well. Fiscal year 2019, which begins July 1, 2018, will be the first fiscal year that the USG Board of Regents and the Department of Education establish single operating accounts for the consolidated institution.

The proposed consolidation will occur when both institutions are midway through the current fiscal year; therefore the first-year budget for the consolidated institution requires reasoned estimation. The budget presented in the following tables illustrates the combining of revenues, expenditures and net cash flows approved for both the partner institutions in FY 2018 and the projected budget for the new GaSou in FY 2019, conservatively projected. As Tables 6 and 7 show, the budgets are balanced, as required by BOR policy, for both fiscal years and stable.

### Table 6: Education and General Funds

| Category | FY2018 Original Budget GaSou | Armstrong | Total | GaSou Projected Budget FY2019 |
|---|---|---|---|---|
| Revenues: | | | | |
| State Appropriations | 100,134,484 | 33,102,332 | 133,236,816 | 135,901,552 |
| Tuition | 107,152,881 | 32,578,723 | 139,731,604 | 142,526,236 |
| Other General Revenue | 16,215,558 | 4,914,300 | 21,129,858 | 21,129,858 |
| Indirect Cost Recovery | 600,000 | 485,000 | 1,085,000 | 1,085,000 |
| Technology Fee | 4,750,000 | 950,000 | 5,700,000 | 5,700,000 |
| Sponsored | 47,162,094 | 15,745,000 | 62,907,094 | 62,907,094 |
| Departmental Sales & Svc. | 6,408,598 | 515,000 | 6,923,598 | 6,923,598 |
| Total Revenues | 282,423,615 | 88,290,355 | 370,713,970 | 376,173,338 |
| Expenditures: | | | | |
| Instruction | 119,003,266 | 37,280,975 | 156,284,241 | 159,284,241 |
| Research | 10,583,785 | 0 | 10,583,785 | 10,583,785 |
| Public Service | 1,008,155 | 199,884 | 1,208,039 | 1,208,039 |
| Academic Support | 35,675,084 | 7,890,432 | 43,565,516 | 43,565,516 |
| Student Services | 17,801,394 | 5,566,088 | 23,367,482 | 25,367,482 |
| Institutional Support | 37,486,315 | 14,326,476 | 51,812,791 | 52,212,791 |
| OMP | 31,096,817 | 9,891,500 | 40,988,317 | 40,988,317 |
| Scholarships | 29,768,799 | 13,135,000 | 42,903,799 | 42,963,167 |
| Total Expenditures | 282,423,615 | 88,290,355 | 370,713,970 | 376,173,338 |
| | | | | |
| Net Cash Flow | 0 | 0 | 0 | 0 |

## Table 7: Auxiliary, Student Activity, and Capital Funds

| Category | FY2018 Original Budget GaSou | Armstrong | Total | GaSou Projected Budget FY2019 |
|---|---|---|---|---|
| Revenues: | | | | |
| Auxiliary-Housing | 32,832,377 | 3,500,000 | 36,332,377 | 36,332,377 |
| Auxiliary-Food Services | 23,436,000 | 3,650,000 | 27,086,000 | 27,086,000 |
| Auxiliary-Stores & Shops | 12,060,000 | 290,000 | 12,350,000 | 12,350,000 |
| Auxiliary-Health Services | 5,063,889 | 290,000 | 5,353,889 | 5,353,889 |
| Auxiliary-Transport & Parking | 4,347,500 | 420,000 | 4,767,500 | 4,767,500 |
| Auxiliary-Other Organizations | 0 | 2,732,383 | 2,732,383 | 2,732,383 |
| Athletics | 17,907,835 | 2,512,500 | 20,420,335 | 20,420,335 |
| Student Activities | 11,471,476 | 1,350,078 | 12,821,554 | 12,821,554 |
| Capital | 85,000 | | 85,000 | 85,000 |
| Total Revenues | 107,204,077 | 14,744,961 | 121,949,038 | 121,949,038 |
| Expenditures: | | | | |
| Auxiliary-Housing | 32,832,377 | 3,500,000 | 36,332,377 | 36,332,377 |
| Auxiliary-Food Services | 23,436,000 | 3,650,000 | 27,086,000 | 27,086,000 |
| Auxiliary-Stores & Shops | 12,060,000 | 290,000 | 12,350,000 | 12,350,000 |
| Auxiliary-Health Services | 5,063,889 | 290,000 | 5,353,889 | 5,353,889 |
| Auxiliary-Transport & Parking | 4,347,500 | 420,000 | 4,767,500 | 4,767,500 |
| Auxiliary-Other Organizations | 0 | 2,732,383 | 2,732,383 | 2,732,383 |
| Athletics | 17,907,835 | 2,512,500 | 20,420,335 | 20,420,335 |
| Student Activities | 11,471,476 | 1,350,078 | 12,821,554 | 12,821,554 |
| Capital | 85,000 | | 85,000 | 85,000 |
| | | | 0 | 0 |
| Total Expenditures | 107,204,077 | 14,744,961 | 121,949,038 | 121,949,038 |
| | | | | |
| Net Cash Flow | 0 | 0 | 0 | 0 |

The FY 2018 budgets assume that the enrollment projections for each university will be met and that enrollment headcounts will increase in FY 2019. This anticipated enrollment growth will result in increased tuition and fee revenue in FY 2019.

Consistent with prior institutional consolidations within the University System of Georgia, the chancellor's staff initially charged President Hebert with identifying a sum of budget savings that, as a result of consolidation, could be redirected from duplicated administrative positions, duplicated back office operations, and other cost-reduction areas to primarily instruction, educational support, and research. Since then, efficiencies realized and identified in the consolidation process have placed the soon-to-be consolidated GaSou on track to achieve and even exceed that target.

As the universities implement the consolidation process in the second half of FY 2018, President Hebert's principal priorities to which he will redirect funds include one-time up-front consolidation expenses such as campus signage changes; necessary information technology expenditures to assure educational, administrative, and financial integration and connectivity; and laboratory upgrades.

After one-time up-front consolidation expenses are met, President Hebert's redirection priorities will shift to enhancements in GaSou's Complete College Georgia/Retention, Progression, and Graduation initiatives such as expanded advising, mentoring, and tutoring programs; increased funding to improve student success; resolution of faculty and staff salary equity issues; increased research support; and other pressing academic concerns.

The capital projects budget is submitted by the president and is categorized as major repair and renovation (MRR) funds under $1 million, small capital projects over $1 million, major capital projects over $5 million, and student fee-based public-private ventures. The University System of Georgia Board of Regents recently approved the following 2018 capital project funds for GaSou and Armstrong, which will provide physical resources to the new GaSou. Construction funds in the amount of $22 million are provided to Armstrong for construction of a Health Professions Academic Center, $4.9 million in planning and design funds are provided to GaSou for a Center for Engineering and Research facility, and $5 million in small capital funds are provided to GaSou for renovations to the Hanner Complex.

Both universities use the same Peoplesoft budgeting and accounting systems and have similar processes for complying with the state of Georgia's accounting and procurement policies. These systems are hosted by the USG Information Technology services.

**Support Available Through Public-Private Ventures**

Because the state of Georgia does not allow agencies of the state to directly borrow from third parties, most USG institutions have entered into arrangements with certain qualifying affiliated entities whereby the affiliated entity – usually a university foundation – actually borrows from third parties. The foundation typically purchases or constructs a capital asset for the university. When the asset is ready for use by the university, the university and the foundation normally enter into a one-year lease for the use of the asset. The lease between the university and the foundation contains a series of renewals that matches the maturity of the debt held by the foundation, which the university exercises annually. When the final payment of the last renewal period has been made, full title to the asset passes from the foundation to the university. These arrangements are known as "public-private ventures" (PPVs) within the USG.

While no lease arrangement is technically or legally for more than one year, for generally accepted accounting principles (GAAP), it is recognized that it would be extremely unlikely that a university would refuse to continue the renewals through the end of the debt payment period, both because of the nature of the relationship between a university and its foundation and because the asset often has been constructed on land that belongs to the university. As such, these one-year leases are recognized as debt/capital leases on the financial statements of each USG institution that utilizes this type of arrangement.

The USG Board of Regents requires a calculation annually for each PPV, called the "self- liquidating ratio," which is often called the project's "debt ratio." This is defined by the BOR as the project's net operating income before lease expense divided by the total lease payment. A ratio of 1.0 means that the operating income equals the lease expense, with no margin remaining. The BOR prefers to see a ratio that is greater than 1.0, indicating that the project is on sound financial footing.

The debt and capital leases for GaSou and Armstrong are detailed as follows:

GaSou has twelve capital leases with the GaSou Housing Foundation, Inc. and 2 capital leases with the GaSou Athletic Foundation, Inc. The combined 14 capital leases have terms expiring in various years between 2030 and 2043. Expenditures for capital leases for fiscal year 2017 were $18.6 million, of which $11.6 million represented interest and $7 million was applied to the repayment of principal. Interest rates range from 3.06 percent to 7.45 percent and averaged about 5.9 percent. The GaSou Housing Foundation Inc. is a discretely presented component unit of GaSou. The self-liquidating PPV ratio is 1.13.

The total PPV debt burden for GaSou is 5.14 percent for FY2017.

Armstrong has three capital leases with the Educational Properties Foundation, Inc. that have terms expiring in various years between 2034 and 2039. Expenditures for capital leases for fiscal year 2017 were $2.5 million, of which $1.6 million represented interest and $0.9 million was applied to the repayment of principal. Interest rates range from 3.11 percent to 3.65 percent and averaged about 3.4 percent. The self-liquidating PPV ratio is 1.00.

The total PPV debt burden for Armstrong is 2.53 percent for FY2017.

### Resources for Contractual or Support Services

Contractual and support services are an important delivery strategy for both GaSou and Armstrong and will continue to be important in the consolidated institution. Resources for contractual or support services that are out-sourced are listed in Table 8.

## Table 8. Out-sourced Contractual or Support Services.

| Name | Amount (2017) | Description | GaSou | Armstrong | New GaSou |
|---|---|---|---|---|---|
| Follett | | Management Of Bookstore | | X | |
| Sodexo | | Dining Services Management | | X | |
| Waste Pro | $ 60,557.00 | Waste Removal | | X | |
| GCA | $ 1,004,541.00 | Custodial Services Management | | X | |
| St Simons Transit | $ 126,985.00 | Athletics Bus Transportation | | X | |
| PRI Productions | $ 42,453.00 | Spring Commencement Ceremony Production | | X | |
| Allgoods | $ 12,020.00 | Pest Control Services | | X | |
| Rawls/Morris Distrib | | Snack Vending Services | | X | |
| Aacrao | $ 94,810.00 | Ellucian Implementation Services | | X | X |
| Blackbaud | $ 54,206.00 | Donation Tracking Software Support And Training | | X | |
| Blackboard | $ 130,171.00 | Card Services Support | X | X | X |
| Campus Guard | $ 20,400.00 | Annual PCI Support And Scan | X | X | X |
| Cappex | $ 18,000.00 | Enrollment Transfer Outreach Services | | X | |
| Carneige Communications | $ 53,911.00 | Marketing Services | | X | |
| Chandley Communications | $ 270,244.00 | Marketing Services | | X | |
| Hobsons | $ 21,238.00 | Enrollment Services | X | X | X |
| Liberty County Solid Waste | $ 792.00 | Waste Removal Liberty Campus | | X | X |
| Loomis | $ 3,914.00 | Armoured Car Courier Service | | X | X |
| T2 Systems Inc | $ 21,941.00 | Parking Software Subscription | | X | |
| Siemens | $ 243,605.00 | HVAC Automated System Support And Maintenance | | X | |
| MKC Corporation | $ 11,651.00 | Chemical Waste Removal | | X | X |
| Unifirst | $ 50,165.00 | Uniform Rental And Safety Rug Rental | | X | |
| Williams & Fudge | $ 18,498.00 | Collection Services | X | X | X |
| Brent & Susann Smith | $ 25,668.69 | Streets & Parking Lot Sweeps | x | | X |
| Tradebe Treatment & Recycling, Llc | $ 25,830.40 | Hazardous Waste Collection & Disposal | x | | X |
| Carousel Industries Of North America, Inc. | $ 29,845.81 | Avaya Support Services Agreement Classic Care | x | | X |
| Champion Fire Protection | $ 29,855.00 | Fire Sprinkler, Fire Pump Inspection, Testing, Maintenance And Repair | x | | X |
| Red B Power Company | $ 30,000.00 | Electrical Maintenance & Repair | x | | X |
| Statesboro Golf Carts, Llc | $ 30,000.00 | Golf Cart Maintenance & Repair | x | | X |
| Technology Integration Group | $ 30,535.00 | McAfee Enterprise Security Log Manager And Maintenance | x | | X |
| JBR Group | $ 33,263.00 | Hood Cleaning | x | | X |
| Agilysys Nv, Llc | $ 36,000.00 | Comprehensive Food Service Inventory Management Solution | x | | X |
| Getinge/Castle Inc | $ 38,640.00 | Scientific Equipment Maintenance | x | | X |
| Guardian Pest Control | $ 40,801.04 | Pest Control Services | x | | X |
| Cae Healthcare | $ 42,949.74 | Simulator Maintenance | x | | X |

| | | | | | |
|---|---|---|---|---|---|
| Electronic Data Collection Corporation | $ 44,375.00 | Parking Management Solutions, Aims Support & Maintenance | x | | X |
| Planters Communications, Llc | $ 48,000.00 | Resnet Bandwidth Expansion | x | | X |
| Tribond, Llc | $ 60,000.00 | Window & Pressure Washing | x | | X |
| Chalk & Wire Learning Assessment, Inc. | $ 60,100.00 | Software License: Chalk & Wire Learning Assessment | x | | X |
| Jeol Usa, Inc. | $ 63,416.75 | Microscope Maintenance | x | | X |
| Peopleadmin, Inc | $ 71,388.20 | People Admin-Select 12 Software Maintenance | x | X | |
| Thyssenkrupp Elevator Amercas | $ 75,360.00 | Elevator Maintenance | x | | X |
| ASI Campus Laundry Solutions | $ 77,325.60 | Laundry Equipment Rental/Service | x | | X |
| Cintas Corporation | $ 80,000.00 | Uniforms: Rental/Lease | x | | X |
| Southeast Roofing Solutions, Inc. | $ 102,000.00 | Roofing And Gutter Maintenance, Repair, And Inspection | x | | X |
| Floorcare Specialists | $ 120,000.00 | Floor Maintenance Multiple Types | x | | X |
| Strategic Products & Services, Llc | $ 133,573.08 | Hardware - Software Maintenance: Smartnet | x | | X |
| Alsco Servitex Division | $ 163,560.00 | Linen Service Rental | x | | X |
| ITR Of Georgia Inc | $ 166,715.64 | Genetec Mobile License Plate Reader Hardware/Software Support And License | x | | X |
| Tribond, Llc | $ 191,652.73 | Floor Maintenance Multiple Types | | | X |
| Desire2Learn Inc | $ 241,453.15 | Software License & Maintenance | x | | X |
| Southeastern Integrated Services, Llc | $ 400,000.00 | Floor Maintenance Multiple Types | x | | X |
| Allgreen Services, Llc | $ 430,253.51 | Solid Waste Collection | x | | X |
| Kelly Tours | $ 975,000.00 | Charter Bus Transportation Services | x | | X |
| First Transit, Inc. | $ 1,800,000.00 | Campus Transit Systems | x | | X |
| US Foods | $ 2,304,737.00 | Food Supplies | x | | X |

## Operational, Management, and Physical Resources Available for Change

Business and financial functions for GaSou will be centralized under the Vice President for Finance and Operations and Chief Information Officer. Both positions will report directly to the president. The Vice President will oversee a leadership team of professionals with extensive experience managing and planning university finances, including the Associate Vice President for Financial Services, Financial Accounting Director, Budget Director, Bursar, Associate Vice President of Operations, and Procurement Director. Some position savings will be realized as a function of consolidating the financial services operations of both universities. Table 9 shows that combining the current GaSou and Armstrong financial and operational staffs will result in a more efficient staffing for the new university, with ample staff positions to properly service the new GaSou's larger fiscal operations.

**Table 9. Current GaSou & Armstrong and New GaSou Staffing Positions for Financial Services**

| Division of Financial Services | GaSou Positions | Armstrong Positions | Total Prior to Consolidation | New GaSou |
|---|---|---|---|---|
| Accountant I | 4 | 2 | 6 | 6 |
| Accountant II | 5 | | 5 | 5 |
| Accountant III | 1 | | 1 | 1 |
| Accounting Information Analyst | 1 | | 1 | 1 |
| Accounting Clerks | 11 | | 11 | 11 |
| Administrative Specialist | 4 | 6 | 10 | 10 |
| Archivist | 1 | | 1 | 1 |
| Assistant Director - Business | 2 | 1 | 3 | 3 |
| Assistant Operations Manager | 1 | | 1 | 1 |
| Assistant Vice President | 1 | 1 | 2 | 1 |
| Budget Analyst I | 1 | | 1 | 1 |
| Budget Analyst II | 2 | | 2 | 2 |
| Business Manager | 1 | | 1 | 1 |
| Business Operations Manager | 2 | | 2 | 2 |
| Buyer I | 3 | | 3 | 3 |
| Buyer II | 2 | | 2 | 2 |
| Delivery Worker | 1 | | 1 | 1 |
| Director - Business | 4 | 4 | 8 | 4 |
| Executive Assistant | 1 | 1 | 2 | 1 |
| Manager | 2 | | 2 | 2 |
| Manager - Business | 5 | | 5 | 5 |
| Senior Accounting Assistant | 1 | 3 | 4 | 4 |
| Senior Adm Assistant | 1 | | 1 | 1 |
| Senior Associate Vice President | 1 | | 1 | 1 |
| Shipping & Receiving Clerk | 3 | 1 | 4 | 4 |
| Staff Assistant | 8 | | 8 | 8 |
| Supervisor - Business | 1 | 1 | 2 | 1 |
| Warehouse Foreman | 1 | | 1 | 1 |
| Procurement Assistant | | 1 | 1 | 1 |
| Procurement Assistant II | | 1 | 1 | 1 |
| Special Project Assistant | | 1 | 1 | 1 |
| | | | | |
| Total | 71 | 23 | 94 | 87 |

## Contingency Plan if Resources Do Not Materialize

Contingency plans are in place for any unexpected revenue loss due to state funding cuts or less-than-projected enrollment. Contingency resources include tuition carry-forward funding and savings from delay in hiring non-critical vacancies (an institution-developed austerity measure). Transfers from total unrestricted net assets could be made with governing board approval.

Substantial assets reside with both institutions' philanthropic foundations, and additional funds could be requested from them if needed. The consolidated revenue projections for the new GaSou represent conservative, attainable enrollment growth that will provide sufficient revenue to meet current and projected capacity.

## Financial Compliance Audits

GaSou and Armstrong undergo financial audits as required by federal and state regulations, which require that states undergo an annual audit in accordance with the Single Audit Act Amendments of 1996 (***Appendix 9.4***) and the U.S. Office of Management and Budget (OMB) Circular A-133 (***Appendix 9.5***). As public institutions of higher education, GaSou and Armstrong are organizational units of the Board of Regents (BOR) of the University System of Georgia for financial reporting purposes. Therefore, GaSou and Armstrong are included in the annual financial audit of the BOR by the Georgia Department of Audits and Accounts (DOAA).

The state of Georgia Single Audit Report for FY 2016 in ***Appendix 9.6*** shows that there are no findings or significant deficiencies for GaSou. The Georgia Single Audit Report for FY2017 was not complete at the time of this report. Alternatively, the Georgia Department of Audits and Accounts (DOAA) performed Full Disclosure Management Report (FDMR) engagements for GaSou for FY2017 (***Appendix 9.7***), in which there were no findings or management letter comments. DOAA performed a Full Disclosure Management Report (FDMR) engagement for Armstrong for FY 2016 and 2017 (***Appendices 9.8 and 9.9***). The Armstrong FDMR for FY2016 included no findings or management letter comments. The Armstrong FY2017 FDMR included one finding related to Federal financial aid. The details of the finding are discussed in the Federal Financial Aid section of this report.

In addition to adhering to the mandated audit schedule and accounting policies and procedures, both universities maintain comprehensive networks of internal controls to ensure compliance with federal, state, and local requirements. Procedures are in place to assess risk, deter non-compliance, and detect violations at the earliest opportunity. Key institutional components involved in controlling institutional finances and monitoring compliance include the University System of Georgia Board of Regents, the University System of Georgia Internal Audit function, and the respective university internal auditors, fiscal officers, and staff. Similar components will be in place for the consolidated institution.

## Federal Financial Aid Audits

At both GaSou and Armstrong, the student Financial Aid Offices provide guidance and assistance to students to ease the financial burdens associated with paying for college. Both institutions are in full compliance with their responsibilities, as required by Title IV of the 1998 Higher Education Act of 1965 as amended, and audit financial aid programs as required by federal and state regulations.

Georgia Southern University was the recipient of a Federal Program Review conducted by the

Department of Education (DOE) in May 2015. In that review, the University was cited for 8 findings (***Appendix 9.10****).* The University responded satisfactorily to all but one of the findings (***Appendix 9.11***). The finding for an inadequate policy for Satisfactory Academic Progress required the University to take follow-up action. Part of that action required that the University submit a new policy for Satisfactory Academic Progress for approval by the DOE. Once the policy was approved, the University was required to apply that policy to all students who had received aid for a 4-year period and compile a list of students deemed ineligible to have received aid under the new policy and also list the total amount of aid all of the students received in each aid program. The University was also required to submit copies of all information pertaining to Satisfactory Academic Progress for all of the students identified. The DOE began a review of the files and then asked that we conduct our own review of the files. Instead of reviewing all of the files, Georgia Southern proposed to pay a settlement to the DOE (***Appendix 9.12***). The DOE is still reviewing and considering that request. Since the new policy was implemented, the University is now in compliance with the federal Satisfactory Academic Progress requirements as well as all other federal requirements and regulations.

The Georgia Department of Audits (DOAA) conducted a review and issued a Full Disclosure Management Report for the period ended June 30, 2017 at Armstrong (***Appendix 9.9***). The DOAA review included an audit of Federal Financial Aid programs. The auditor's report included one Federal Award Finding related to internal control deficiencies and one item for management consideration involving timely reporting of enrollment data. Further detail of the finding and management letter comment are found in the attached Full Disclosure Management Report. Armstrong management previous to the DOAA FDMR engagement removed the Armstrong Financial Aid Director from office. The GaSou Financial Aid Director is currently serving as interim director at Armstrong until consolidation is finalized.

Table 10 provides the magnitude of financial resources provided to students by each institution and projection of combined resources available to assist students with the cost of education.

**Table 10. Financial Aid Awarded in 2016-2017.**

| | GaSou | | Armstrong | | Combined | |
|---|---|---|---|---|---|---|
| Financial Aid Program | Total Paid | Total Recipients | Total Paid | Total Recipients | Total Paid | Total Recipients |
| Pell Grant | 28,649,083 | 7,103 | 12,067,582 | 3,181 | 40,716,665 | 10,284 |
| Supplemental Opportunity Grant | 468,344 | 882 | 116,148 | 230 | 584,492 | 1,112 |
| Work Study | 353,091 | 273 | 234,744 | 110 | 587,835 | 383 |
| Perkins Loans | 328,117 | 230 | 0 | 0 | 328,117 | 230 |
| Stafford Loans | 92,178,843 | 12,870 | 34,202,027 | 4,458 | 126,380,870 | 17,328 |
| Teach | 154,591 | 59 | 44,320 | 21 | 198,911 | 80 |
| State Aid | 36,200,226 | 8,894 | 7,620,769 | 2,232 | 43,820,995 | 11,126 |
| Institutional Aid | 7,817,556 | 1,730 | 1,887,371 | 709 | 9,704,927 | 2,439 |
| Other Sources of Aid | 31,864,790 | 3,875 | 8,791,003 | 1,129 | 40,655,793 | 5,004 |
| Total | 198,014,641 | 18,147 | 64,963,964 | 6,416 | 262,978,605 | 24,563 |

**State Financial Aid Audits**

Armstrong had an audit performed by Georgia Student Finance Commission (GFSC) in May 2017. The audit findings report (***Appendix 9.13***) listed 18 findings and 13 areas of concern. In the response to the audit findings (***Appendix 9.14***), Armstrong concurred with 16 of the findings and disputed two of them. The University concurred with all of the areas of concern. Changes to policies and procedures have been made in order to insure that future findings do not occur. A final letter of closure has not yet been issued by GSFC.

GaSou had an audit performed by GSFC in May, 2015. The audit letter of closure (***Appendix 9.15***) illustrates no issues with compliance in regards to the administration and management of the state programs and no corrective actions or monetary liabilities were assessed as a result of the review.

**Internal Financial Aid Audits**

In addition to the required federal and state financial aid audits, GaSou also conducts internal audits of financial aid programs as part of the institution's identified audit schedule. The GaSou Internal Audit Department conducted an audit of GaSou's financial aid programs in 2014 (***Appendix 9.16***). The audit resulted in no official recommendations and determined that "GaSou's Student Financial Aid Office (Financial Aid) is accomplishing its primary objective of providing financial aid to students in accordance with state and federal regulations."

Armstrong's Internal Audit is currently reviewing controls in the area of Financial Aid. Fieldwork is expected to be completed by September 8, and a draft audit report is expected by September 15. New procedures are being developed to address all control weaknesses as they are identified during this audit.

**Statement of Financial Position of Unrestricted Net Assets,**

Unrestricted net assets represent resources derived from state appropriations, student tuition and fees, indirect cost recoveries, and sales and services of educational departments. The statement of financial position of unrestricted net assets, exclusive of plan assets and plant-related debt, represents the change in unrestricted net assets attributable to operations from FY2017 for GaSou and Armstrong.

Total unrestricted net assets for GaSou were $49 million for period ending June 30, 2017, which represents an increase of $1.7 million over the prior year. Armstrong had total unrestricted net assets of $4.6 million as of June 30, 2017, which is an increase of $1.6 million over the prior year.

**Pre-Acquisition Application submitted to the U.S. Department of Education**

Contact with the U.S. Department of Education regarding the proposed consolidation of GaSou and Armstrong has been handled by the USG assistant Vice Chancellor, Planning and Implementation. As noted in the previous four USG consolidations, correspondence from the U.S. Department of Education confirms that the U.S. DOE does not require consolidating institutions to provide a Pre-Acquisition Application (***Appendix 9.17***) as part of a merger review/approval process. However, their Program Participation Agreement must be current when they file the new eApp in January 2018. Both the GaSou (***Appendix 9.18***) and Armstrong (***Appendix 9.19***) Program Participation Agreements are active through 2019. Once consolidated in January 2018, GaSou officials will notify the USDOE and begin the process to switch over financial aid funding to the GaSou beginning summer 2018.

**Appendices**

9.1 BOR Policy Manual Section 7
9.2 BOR Business Procedures Manual
9.3 Official Code of Georgia 36-81-3
9.4 Georgia Single Audit Act Amendments of 1996
9.5 OMB Circular A-133 for 2014
9.6 GaSou 2016 State of Georgia Single Audit Report
9.7 GaSou 2017 DOAA Full Disclosure Management Report
9.8 Armstrong 2016 DOAA Full Disclosure Management Report
9.9 Armstrong 2017 DOAA Full Disclosure Management Report
9.10 GaSou DOE Federal Program Review May 2015
9.11 GaSou Response to DOE Federal Program Review
9.12 GaSou Settlement Proposal
9.13 Armstrong 2017 GFSC Audit Findings
9.14 Armstrong 2017 Response to GFSC Audit Findings
9.15 GaSou GFSC 2015 Audit Letter of Closure
9.16 GaSou 2014 Internal Audit of Financial Aid Programs
9.17 Pre-Acquisition Application Confirmation
9.18 GaSou Program Participation Agreement
9.19 Armstrong Program Participation Agreement