

**STATE OF GEORGIA
DEPARTMENT OF AUDITS AND ACCOUNTS**



**GEORGIA INSTITUTE OF TECHNOLOGY
ATLANTA, GEORGIA**

**REPORT ON AUDIT
OF THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Russell W. Hinton
State Auditor**

GEORGIA INSTITUTE OF TECHNOLOGY

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GEORGIA INSTITUTE OF TECHNOLOGY

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SECTION I
FINANCIAL



DEPARTMENT OF AUDITS AND ACCOUNTS

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

Russell W. Hinton
STATE AUDITOR
(404) 656-2174

November 19, 2007

Honorable Sonny Perdue, Governor
Members of the General Assembly of Georgia
Members of the Board of Regents of the
University System of Georgia
and
Honorable G. Wayne Clough, President
Georgia Institute of Technology

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

Ladies and Gentlemen:

We have audited the accompanying basic financial statements (Exhibits A through D) of Georgia Institute of Technology an organizational unit of the State of Georgia, as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Georgia Institute of Technology's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

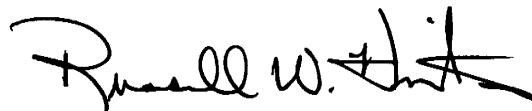
As discussed in Note 1, the financial statements of Georgia Institute of Technology are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of the State of Georgia that is attributable to the transactions of Georgia Institute of Technology. They do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows of the State of Georgia, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Georgia Institute of Technology as of June 30, 2007, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is required supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Georgia Institute of Technology taken as a whole. The accompanying supplementary information (Schedules 1 through 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Russell W. Hinton", with a stylized flourish at the end.

Russell W. Hinton, CPA, CGFM
State Auditor

RWH:gp
07ARL-62

REQUIRED SUPPLEMENTARY INFORMATION

GEORGIA INSTITUTE OF TECHNOLOGY

Management's Discussion and Analysis

Introduction

The Georgia Institute of Technology, also known as Georgia Tech, is one of the 35 institutions of higher education of the University System of Georgia. Georgia Tech is one of the nation's leading research universities, with over \$400 million expended on sponsored research activities and providing a focused, technology based education for nearly 18,000 undergraduate and graduate students. Georgia Tech has many nationally recognized programs and is ranked as one of the top ten public universities in the nation by U. S. News and World Report, with four schools in the College of Engineering listed among the country's top five. Georgia Tech's undergraduate engineering programs are ranked in the Top 10 and the graduate engineering program is consistently ranked in the Top 5. Georgia Tech offers degrees through the Colleges of Engineering, Architecture, Sciences, Computing, Management, and the Ivan Allen College of Liberal Arts. As a leading technological institute, Georgia Tech has over 100 interdisciplinary research centers that consistently contribute vital research and innovation to America's government, industry, and business.

Founded in 1885 to help move Georgia's economy into the industrial age, Georgia Tech exceeded the expectations of its founders by becoming a multi-faceted research institution that serves as a source of new technologies and a driver of economic development. With a clear vision of technology and leadership, the Institute provides a cutting edge education for the 21st century. The Institute continues to grow as reflected by the faculty and student numbers below and other comparisons that follow.

	<u>Faculty</u>	<u>Students (Headcount)</u>	<u>Students (FTE)</u>
Fiscal Year 2007	925	17,936	17,027
Fiscal Year 2006	878	17,135	16,299
Fiscal Year 2005	844	16,841	16,022

Overview of the Financial Statements and Financial Analysis

The Georgia Institute of Technology is pleased to present its financial statements for fiscal year 2007, which began July 1, 2006 and ended June 30, 2007. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the Institute's financial statements provides an overview of its financial activities for the year. The statements focus on the financial condition, results of operations and cash flows of the Institute as a whole, with resources classified for accounting and reporting purposes into five net asset categories: invested in capital assets, net of related debt; restricted - nonexpendable; restricted - expendable; restricted - capital projects and unrestricted. The basis of accounting is full accrual, including capitalization and depreciation of equipment and fixed assets. Comparative data is provided for fiscal year 2006 and fiscal year 2007.

Statement of Net Assets

Using the accrual basis of accounting, the Statement of Net Assets presents the assets, liabilities, and resulting net assets of the Institute as of the end of the fiscal year. Assets, by definition, represent measured economic value obtained and controlled by an entity as a result of past transactions and events. This statement identifies the assets available for current operations, debts owed and net assets available to continue operations in the future.

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

Following is a comparative, condensed version of the Institute's Statement of Net Assets as of June 30, 2006 and June 30, 2007:

Statement of Net Assets, Condensed

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Assets		
Current Assets	\$ 171,893,931	\$ 141,652,175
Capital Assets, Net	1,261,604,842	1,149,606,811
Other Assets	<u>70,001,585</u>	<u>63,439,284</u>
Total Assets	<u>\$1,503,500,358</u>	<u>\$1,354,698,270</u>
Liabilities		
Current Liabilities	\$ 102,305,597	\$ 82,815,063
Noncurrent Liabilities	<u>417,817,152</u>	<u>348,919,406</u>
Total Liabilities	<u>\$ 520,122,749</u>	<u>\$ 431,734,469</u>
Net Assets		
Invested in Capital Assets, Net of Debt	\$ 851,635,161	\$ 814,640,088
Restricted - Nonexpendable	53,098,742	47,535,014
Restricted - Expendable	30,748,494	26,607,480
Restricted - Capital Projects	49,599,664	15,941,134
Unrestricted	<u>-1,704,452</u>	<u>18,240,085</u>
Total Net Assets	<u>\$ 983,377,609</u>	<u>\$ 922,963,801</u>

The total assets of the institution increased by \$148,802,088, due primarily to an increase of \$111,998,031 in capital assets.

The total liabilities for the year increased by \$88,388,280. This was due primarily to an increase in noncurrent Lease Purchase Obligations of approximately \$66.5 million and accounts payable of approximately \$15.5 million. The combination of the increase in total assets of \$148,802,088, and the increase in total liabilities of \$88,388,280 yields an increase in total net assets of \$60,413,808, with most of the net gain in capital assets.

Statement of Revenues, Expenses and Changes in Net Assets

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

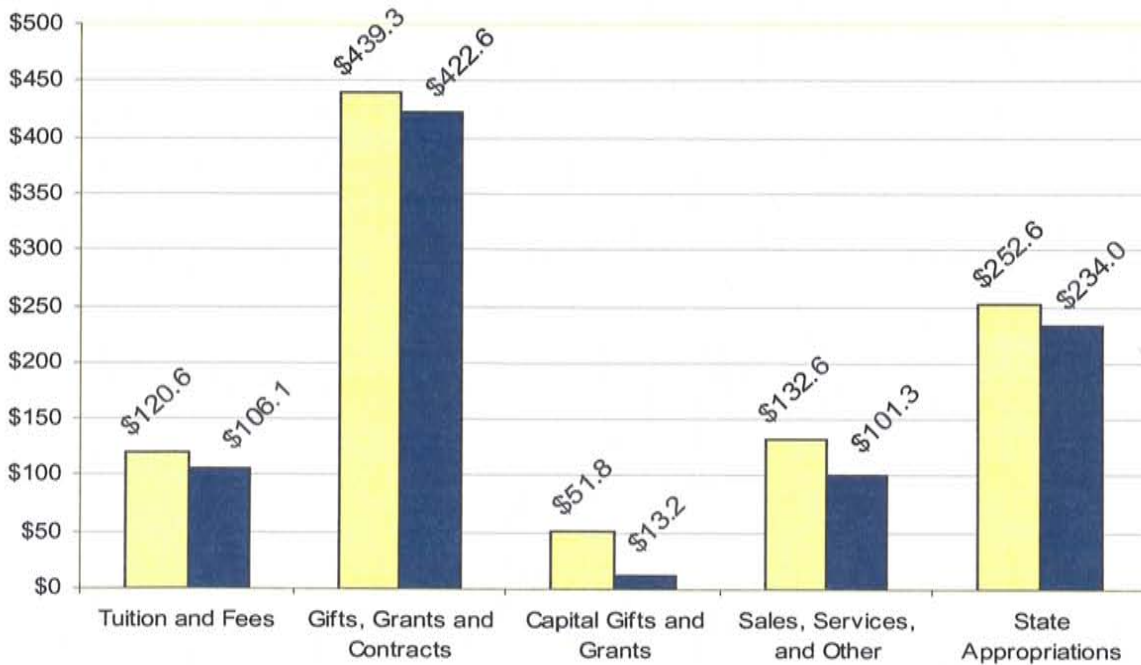
Statement of Revenues, Expenses and Changes in Net Assets, Condensed

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating Revenues	\$ 667,930,667	\$ 624,286,380
Operating Expenses	<u>919,242,200</u>	<u>842,777,843</u>
Operating Loss	\$ -251,311,533	\$ -218,491,463
Nonoperating Revenues and Expenses	<u>259,899,848</u>	<u>222,812,183</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	\$ 8,588,315	\$ 4,320,720
Other Revenues, Expenses, Gains or Losses	<u>51,825,493</u>	<u>13,145,526</u>
Increase (Decrease) in Net Assets	\$ 60,413,808	\$ 17,466,246
Net Assets at Beginning of Year	<u>922,963,801</u>	<u>905,497,555</u>
Net Assets at End of Year	<u>\$ 983,377,609</u>	<u>\$ 922,963,801</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in both Operating and Nonoperating Revenues. Overall, revenue increased by \$119.6 million across the board as illustrated in the graph below.

Georgia Institute of Technology
Revenue
(dollars in millions)

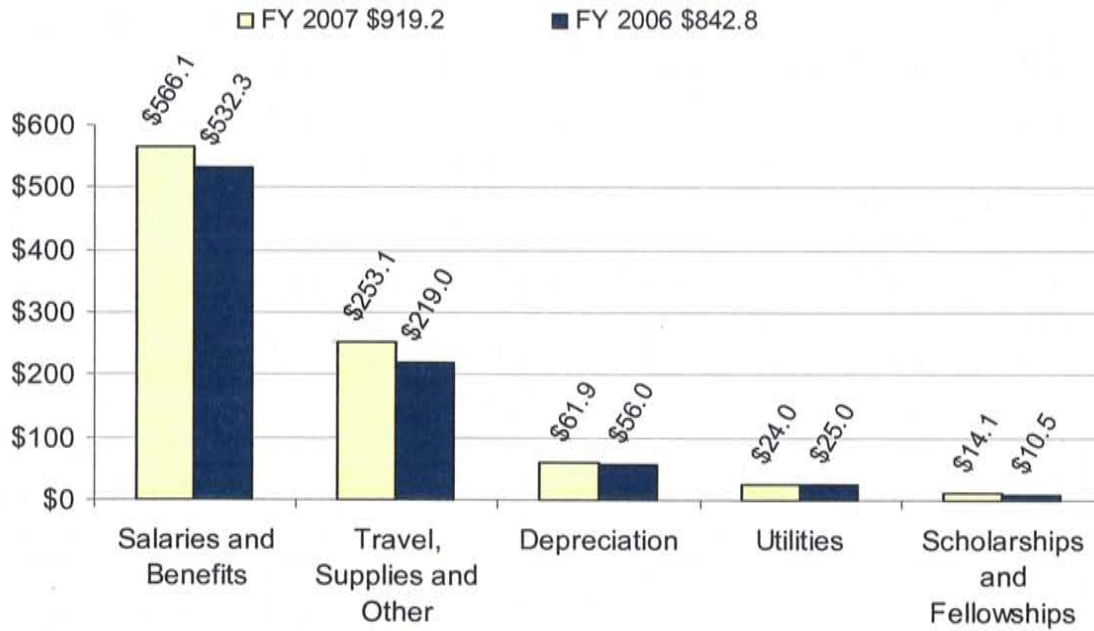
■ FY 2007 \$996.9 ■ FY 2006 \$877.2



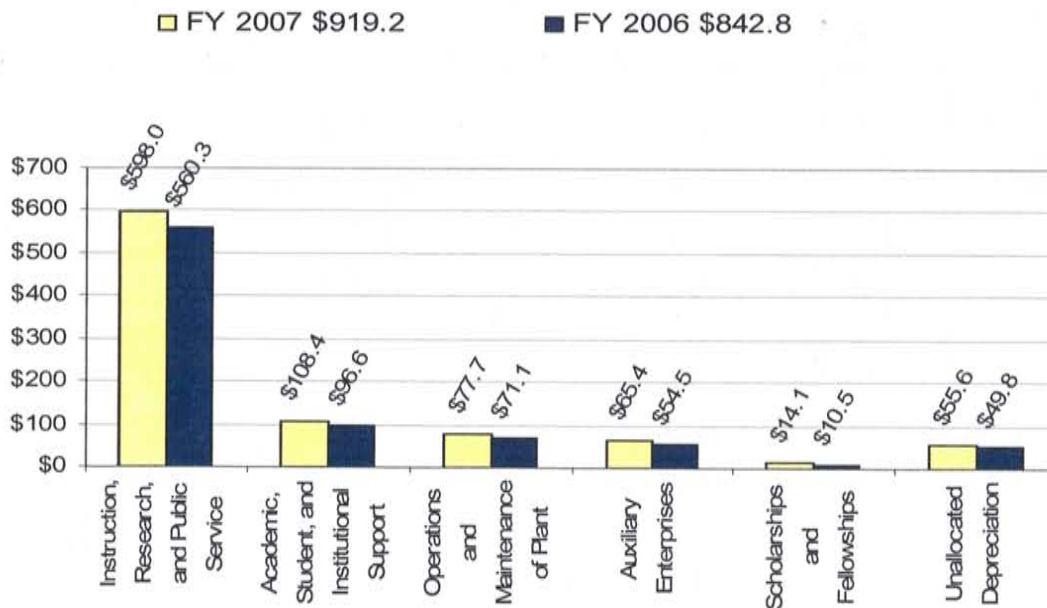
The following graph shows year-to-date expenditure changes by object of expenditure:

Total operating expenses for the year were approximately \$919.2 million, an increase of \$76.4 million, or 9.1% over the previous year. Significant increases in operating expenses from fiscal year 2006 to fiscal year 2007 include compensation and employee benefits, and Supplies and Other Services. The compensation and employee benefits category increased by \$33.8 million primarily due to increased research expenditures. Travel, Supplies and Other Services expenses increased from \$219.0 million in fiscal year 2006 to \$253.1 million in fiscal year 2007.

Georgia Institute of Technology
Operating Expenses by Object of Expenditure Class
(dollars in millions)



Georgia Institute of Technology
Expenses by Functional Classification
(dollars in millions)



Statement of Cash Flows

The final statement presented by the Georgia Institute of Technology is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

Cash Flows for the Years Ended June 30, 2007 and June 30, 2006, Condensed

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash Provided (Used) By:		
Operating Activities	\$ -180,304,402	\$ -155,254,972
Noncapital Financing Activities	274,039,837	240,243,152
Capital and Related Financing Activities	-76,013,550	-82,136,159
Investing Activities	<u>7,841,204</u>	<u>14,740,214</u>
Net Change in Cash	\$ 25,563,089	\$ 17,592,235
Cash, Beginning of Year	<u>75,390,257</u>	<u>57,798,022</u>
Cash, End of Year	\$ <u>100,953,346</u>	\$ <u>75,390,257</u>

Capital Assets

The Institute had three significant capital additions in fiscal year 2007. Two of the three additions were research buildings. The Molecular Science and Engineering Building was completed this year, resulting in an addition of \$80.4 million. Also, the Klaus Advanced Computing Building was completed at a cost of \$49.7 million, which includes a \$9.8 million parking facility. The third significant capital addition in fiscal year 2007 was the \$9.6 million addition of the museum collection at the Institute of Paper Science and Technology.

For additional information concerning Capital Assets, see Notes 1, 6, 8, 9 and 10 in the Notes to the Financial Statements.

Long-Term Liabilities

Georgia Institute of Technology had Long-Term Liabilities of \$441,446,745 of which \$29,248,343 was reflected as current liability at June 30, 2007.

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

Economic Outlook

The Institute is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. The Institute's overall financial position is strong. Even with a relatively flat funded year for state appropriations, the Institute was able to generate a modest increase in Net Assets. The Institute anticipates the current fiscal year will be much like last and will maintain a close watch over resources to maintain the Institute's ability to react to unknown internal and external issues.

Dr. G. Wayne Clough, President
Georgia Institute of Technology

BASIC FINANCIAL STATEMENTS

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF NET ASSETS
JUNE 30, 2007

EXHIBIT "A"

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 100,953,346
Short-Term Investments	135,224
Accounts Receivable, Net (Note 3)	
Federal Financial Assistance	28,724,983
Other	29,613,490
Inventories (Note 4)	292,680
Prepaid Items	<u>12,174,208</u>
Total Current Assets	\$ <u>171,893,931</u>
Noncurrent Assets	
Investments	\$ 61,279,558
Notes Receivable, Net	8,722,027
Capital Assets, Net (Note 6)	<u>1,261,604,842</u>
Total Noncurrent Assets	\$ <u>1,331,606,427</u>
Total Assets	\$ <u>1,503,500,358</u>

LIABILITIES

Current Liabilities	
Accounts Payable	\$ 19,456,196
Salaries Payable	937,851
Benefits Payable	168,616
Contracts Payable	877,164
Deposits	23,435,169
Deferred Revenue (Note 7)	14,212,988
Other Liabilities	3,659,190
Funds Held for Others	10,310,080
Lease Purchase Obligations	12,199,221
Compensated Absences	<u>17,049,122</u>
Total Current Liabilities	\$ <u>102,305,597</u>
Noncurrent Liabilities	
Lease Purchase Obligations	\$ 397,770,460
Compensated Absences	14,427,942
Deferred Revenue (Note 7)	<u>5,618,750</u>
Total Noncurrent Liabilities	\$ <u>417,817,152</u>
Total Liabilities	\$ <u>520,122,749</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 851,635,161
Restricted for:	
Nonexpendable	53,098,742
Expendable	30,748,494
Capital Projects	49,599,664
Unrestricted	<u>-1,704,452</u>
Total Net Assets	\$ <u>983,377,609</u>

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

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007

EXHIBIT "B"

OPERATING REVENUES

Student Tuition and Fees	\$ 150,861,562
Less: Scholarship Allowances	-30,308,134
Grants and Contracts	
Federal	271,377,083
State	14,458,823
Other	145,131,747
Sales and Services of Educational Departments	19,984,311
Rents and Royalties	1,328,641
Auxiliary Enterprises	
Residence Halls	40,453,291
Bookstore	1,207,997
Food Services	16,549,781
Parking/Transportation	12,327,842
Health Services	5,607,789
Other Organizations	7,708,794
Other Operating Revenues	<u>11,241,140</u>
 Total Operating Revenues	 \$ <u>667,930,667</u>

OPERATING EXPENSES

Salaries	
Faculty	\$ 231,263,794
Staff	236,894,546
Employee Benefits	93,697,921
Other Personal Services	4,262,976
Travel	16,646,544
Scholarships and Fellowships	14,117,989
Utilities	24,009,703
Supplies and Other Services	236,484,800
Depreciation	<u>61,863,927</u>
 Total Operating Expenses	 \$ <u>919,242,200</u>
 Operating Income (Loss)	 \$ <u>-251,311,533</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	\$ 252,569,542
Gifts	8,321,310
Interest and Other Investment Income	14,392,690
Interest Expense	-17,133,263
Other Nonoperating Revenues/Expenses	<u>1,749,569</u>
 Net Nonoperating Revenues	 \$ <u>259,899,848</u>
 Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	 \$ <u>8,588,315</u>
Capital Grants and Gifts	
State	\$ 35,918,570
Other	<u>15,906,923</u>
 Total Other Revenues, Expenses, Gains or Losses	 \$ <u>51,825,493</u>
 Increase (Decrease) in Net Assets	 \$ 60,413,808
Net Assets - Beginning of Year	<u>922,963,801</u>
 Net Assets - End of Year	 \$ <u><u>983,377,609</u></u>

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

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007

EXHIBIT "C"

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 120,614,653
Grants and Contracts	424,582,707
Sales and Services	19,958,891
Payments to Suppliers	-368,136,973
Payments to Employees	-464,300,597
Payments for Scholarships and Fellowships	-14,117,989
Loans Issued to Students and Employees	-3,324,660
Collection of Loans to Students and Employees	2,792,599
Auxiliary Enterprise Charges:	
Residence Halls	40,528,835
Bookstore	1,221,747
Food Services	16,552,314
Parking/Transportation	12,344,382
Health Services	5,605,106
Other Organizations	7,673,394
Other Receipts (Payments)	<u>17,701,189</u>

Net Cash Provided (Used) by Operating Activities \$ -180,304,402

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	\$ 252,569,542
Agency Funds Transactions	7,560,716
Gifts and Grants Received for Other than Capital Purposes	8,321,310
Other Nonoperating Receipts	<u>5,588,269</u>

Net Cash Flows Provided (Used) by Noncapital Financing Activities \$ 274,039,837

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Grants and Gifts Received	\$ 8,888,962
Purchases of Capital Assets	-57,603,151
Principal Paid on Capital Debt and Leases	-10,192,611
Interest Paid on Capital Debt and Leases	<u>-17,106,750</u>

Net Cash Provided (Used) by Capital and Related Financing Activities \$ -76,013,550

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	\$ 35,000
Interest on Investments	8,292,746
Purchase of Investments	<u>-486,542</u>

Net Cash Provided (Used) by Investing Activities \$ 7,841,204

Net Increase (Decrease) in Cash \$ 25,563,089

Cash and Cash Equivalents - Beginning of Year 75,390,257

Cash and Cash Equivalents - End of Year \$ 100,953,346

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007

EXHIBIT "C"

RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ -251,311,533
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities	
Depreciation	61,863,927
Change in Assets and Liabilities:	
Accounts Receivable, Net	4,661,826
Inventories	9,805
Prepaid Items	-8,206,888
Notes Receivable, Net	-532,061
Accounts Payable	15,792,909
Deferred Revenue	-5,809,273
Other Liabilities	-353,802
Compensated Absences	<u>3,580,688</u>

Net Cash Provided (Used) by Operating Activities	\$ <u>-180,304,402</u>
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NONCASH ACTIVITY

Fixed Assets Acquired by Incurring Capital Lease Obligations	\$ <u>78,926,800</u>
Change in Fair Value of Investments Recognized as a Component of Interest Income	\$ <u>6,099,944</u>
Change in Accrued Interest Payable Affecting Interest Paid	\$ <u>26,513</u>
Gift of Capital Assets Reducing Proceeds of Capital Grants and Gifts	\$ <u>-42,936,531</u>

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Georgia Institute of Technology serves the state, national and international communities by providing its students with academic instruction that advances fundamental knowledge, conducting research to create a better world for mankind, and by disseminating knowledge to the people of Georgia, the nation, and throughout the world.

REPORTING ENTITY

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

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

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

FINANCIAL STATEMENT PRESENTATION

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The State of Georgia implemented GASB Statement No. 34 as of and for the year ended June 30, 2002. As a component unit of the State of Georgia, the Institute was also required to adopt GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. 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 Institute's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund group perspective previously required.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

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

CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents consist of petty cash, demand deposits and time deposits in authorized financial institutions, and cash management pools that have the general characteristics of demand deposit accounts. This includes the State Investment Pool and the Board of Regents Short-Term Investment Pool.

SHORT-TERM INVESTMENTS

Short-Term Investments consist of investments of 90 days - 13 months. This would include certificates of deposits or other time restricted investments with original maturities of six months or more when purchased. Funds are not readily available and there is a penalty for early withdrawal.

INVESTMENTS

The Institute accounts for its investments at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets. The Board of Regents Diversified Fund, and the Georgia Extended Asset Pool are included under Investments.

ACCOUNTS RECEIVABLE

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVENTORIES

Consumable supplies are recorded on the consumption method and are valued at cost on the Statement of Net Assets using the average-cost basis. Resale inventories are valued at cost using the average-cost basis.

NONCURRENT INVESTMENTS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the Institute's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that exceed \$100,000 and significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 75 years for infrastructure and land improvements, 10 years for library books, and 5 to 20 years for equipment. Residual values will generally be 10% of historical costs for infrastructure, buildings and building improvements, and facilities and other improvements.

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

For projects managed by GSFIC, the GSFIC retains construction in progress on its books throughout the construction period and transfers the entire project to the Institution when complete. For projects managed by the Institution, the Institution retains construction in progress on its books and is reimbursed by GSFIC. For the year ended June 30, 2007, GSFIC transferred capital additions valued at \$48,910,061 to the Georgia Institute of Technology.

ACCOUNTS PAYABLE

Accounts Payable are amounts due to trade vendors for goods and services received but not paid for as of the end of the fiscal year. In fiscal year 2007, the Institute added new controls to better identify outstanding obligations at year end, and as a result, accounts payable was adjusted by \$6,247,697 for the year.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DEPOSITS

Deposits consist of funds placed with the Institute to reserve housing assignments in an Institution residence hall, Institute controlled funds held for the payment of employee benefits, and other various activities at the Institute.

DEFERRED REVENUES

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

COMPENSATED ABSENCES

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses and Changes in Net Assets. Georgia Institute of Technology had accrued liability for compensated absences in the amount of \$27,896,377 as of July 1, 2006. For fiscal year 2007, \$19,387,855 was earned in compensated absences and employees were paid \$15,807,168, for a net increase of \$3,580,687. The ending balance as of June 30, 2007 in accrued liability for compensated absences was \$31,477,064.

NONCURRENT LIABILITIES

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

NET ASSETS

The Institute's net assets are classified as follows:

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

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be

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EXHIBIT "D"

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NET ASSETS

expended or added to principal. The Institute may accumulate as much of the annual net income of an institutional fund as is prudent under the standard established by Code Section 44-15-7 of Annotated Code of Georgia.

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

Expendable Restricted Net Assets include the following:

Restricted - E&G and Other Organized Activities	\$ 5,420,828
Federal Loans	6,507,339
Institutional Loans	4,516,473
Quasi-Endowments	<u>14,303,854</u>
 Total Restricted Expendable	 \$ <u>30,748,494</u>

Restricted net assets - expendable - Capital Projects: This represents resources for which the Institute is legally or contractually obligated to spend resources for capital projects in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet current expenses for those purposes, except for unexpended state appropriations (surplus). Unexpended state appropriations must be refunded to the Board of Regents of the University System of Georgia, University System Office for remittance to the Office of Treasury and Fiscal Services. At June 30, 2007, there was no surplus to be refunded. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

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

R & R Reserve	\$ 12,571,771
Reserve for Encumbrances	26,860,115
Reserve for Inventory	319,089
Other Unrestricted	<u>-41,455,427</u>
 Total Unrestricted Net Assets	 \$ <u>-1,704,452</u>

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NET ASSETS

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

INCOME TAXES

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

CLASSIFICATION OF REVENUES

The Institute has classified its revenues as either operating or nonoperating in the Statement of Revenues, Expenses and Changes in Net Assets according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, net of scholarship allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

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

SCHOLARSHIP ALLOWANCES

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

NOTE 2: DEPOSITS AND INVESTMENTS

DEPOSITS

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Institute's deposits may not be recovered. Funds belonging to the State of Georgia (and thus the Institute) cannot be placed in a depository paying interest longer than ten days without the depository

NOTE 2: DEPOSITS AND INVESTMENTS

DEPOSITS

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, 2007, the carrying value of the Institute's deposits was \$21,290,280 and the bank balance was \$33,822,948. Of the Institute's deposits, \$33,517,574 was uninsured. Of these uninsured deposits, \$30,476,886 were collateralized with securities held by the financial institution's trust department or agent in the Institute's name, and \$3,040,688 were uncollateralized.

INVESTMENTS

Georgia Institute of Technology maintains an investment policy which fosters sound and prudent judgment in the management of assets to ensure safety of capital consistent with the fiduciary responsibility each institution has to the citizens of Georgia and which conforms to Board of Regents investment policy. All investments are consistent with donor intent, Board of Regents policy, and applicable Federal and state laws.

GEORGIA INSTITUTE OF TECHNOLOGY
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EXHIBIT "D"

NOTE 2: DEPOSITS AND INVESTMENTS

INVESTMENTS

The Institute's investments as of June 30, 2007 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Investment Type	Fair Value	Investment Maturity			
		Less Than 1 Year	1 - 5 Years	6 - 10 Years	More than 10 Years
Debt Securities					
U. S. Treasuries	\$ 4,675,972	\$ 386,822	\$ 1,972,361	\$ 2,231,492	\$ 85,297
U. S. Agencies					
Explicitly Guaranteed	24,701		13,684		11,017
Implicitly Guaranteed	4,076,840	660,056	2,013,269	600,506	803,009
Corporate Debt	<u>2,959,235</u>	<u>1,051,538</u>	<u>1,340,425</u>	<u>561,779</u>	<u>5,493</u>
	\$ 11,736,748	\$ <u>2,098,416</u>	\$ <u>5,339,739</u>	\$ <u>3,393,777</u>	\$ <u>904,816</u>
Other Investments					
Bond/Equity Mutual Funds	472,846				
Equity Mutual Funds	311,842				
Equity Securities - Domestic	1,176,216				
Real Estate Held for Investment Purposes	1,458				
Investment Pools					
Board of Regents					
Short-Term Fund	4,937,571				
Diversified Fund	47,580,447				
Office of Treasury and Fiscal Services					
Georgia Fund 1	74,675,564				
Georgia Extended Asset Pool	<u>135,224</u>				
	\$ <u>141,027,916</u>				

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

The Georgia Fund 1 Investment Pool, managed by the Office of Treasury and Fiscal Services, is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. This investment is valued at the pool's share price, \$1.00 per share. The Georgia Fund 1

NOTE 2: DEPOSITS AND INVESTMENTS

INVESTMENTS

Investment Pool is an AAAM rated investment pool by Standard and Poor's. The Weighted Average Maturity of the Fund is 15 days.

The Georgia Extended Asset Pool, managed by the Office of Treasury and Fiscal Services, is not registered with the Securities and Exchange Commission as an investment company. Net Asset Value (NAV) is calculated daily to determine current share price, which was \$1.99 at June 30, 2007. The Georgia Extended Asset Pool is an AAA rated investment pool by Standard and Poor's. The Effective Duration of the Fund is .91 years.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Institute's policy for managing interest rate risk is to comply with Regents policy and applicable Federal and state laws.

The Weighted Average Maturity of the Short-Term Fund is 2.24 years. Of the Institute's total investment of \$4,937,571 in the Short-Term Fund, \$4,918,809 is invested in debt securities.

The Weighted Average Maturity of the Diversified Fund is 8.66 years. Of the Institute's total investment of \$47,580,447 in the Diversified Fund, \$12,175,836 is invested in debt securities.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Institute will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Institute's policy for managing custodial credit risk for investments is an integral part of its current investment policies dated May 16, 2005, which specifies how counterparties are selected and how investments are to be held on behalf of the Institute.

At June 30, 2007, \$12,817,575 of the Institute's applicable investments were uninsured and held by the investment's counterparty in the Institute's name.

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Institute's policy for managing credit quality risk is for investments is an integral part of its current investment policies dated May 16, 2005, which identifies approved investment products, and specifies the required credit quality, as applicable, for each investment based upon approved credit rating agencies.

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

EXHIBIT "D"

NOTE 2: DEPOSITS AND INVESTMENTS

INVESTMENTS

The investments subject to credit quality risk are reflected below:

<u>Rated Debt Investments</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BAA</u>	<u>Unrated</u>
U. S. Agencies	\$ 4,076,840	\$ 4,076,840				
Corporate Debt	<u>2,959,235</u>	<u>347,936</u>	<u>\$ 808,969</u>	<u>\$ 1,078,786</u>	<u>\$ 330,081</u>	<u>\$ 393,463</u>
	<u>\$ 7,036,075</u>	<u>\$ 4,424,776</u>	<u>\$ 808,969</u>	<u>\$ 1,078,786</u>	<u>\$ 330,081</u>	<u>\$ 393,463</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Institute's policy for managing foreign currency risk is to comply with Regents policy and applicable Federal and state laws in regards to all direct investments. Of the Institute's total investments, \$144,622 (.1% of all reported investments), is invested through an outside trust in an international equity mutual fund. The foreign currency risk associated with this investment is considered minimal.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2007:

Student Tuition and Fees	\$ 1,765,763
Auxiliary Enterprises and Other Operating Activities	1,513,953
Federal Financial Assistance	28,724,983
Other	<u>28,154,717</u>
	\$ 60,159,416
Less: Allowance for Doubtful Accounts	<u>1,820,943</u>
Net Accounts Receivable	<u>\$ 58,338,473</u>

NOTE 4: INVENTORIES

Inventories consisted of the following at June 30, 2007:

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EXHIBIT "D"

NOTE 4: INVENTORIES

Physical Plant	\$ 247,094
Other	<u>45,586</u>
Total	<u>\$ 292,680</u>

NOTE 5: NOTES/LOANS RECEIVABLE

Notes/Loans Receivable, primarily consisting of student loans made through the Federal Perkins Loan Program (the Program), comprise substantially all of the loans receivable at June 30, 2007. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The Federal government reimburses the Institute for amounts cancelled under these provisions. As the Institute determines that loans are uncollectible and not eligible for reimbursement by the Federal government, the loans are written off and assigned to the U. S. Department of Education. The Institute has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2007 the allowance for uncollectible loans was approximately \$59,058.

NOTE 6: CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2007:

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
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EXHIBIT "D"

NOTE 6: CAPITAL ASSETS

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007
Capital Assets, Not Being Depreciated:				
Land	\$ 48,944,106	\$ 1,703,799		\$ 50,647,905
Capitalized Collections	6,371,820	10,543,016		16,914,836
Construction Work-In-Progress	<u>49,744,890</u>	<u>18,055,350</u>	\$ <u>42,120,278</u>	<u>25,679,962</u>
Total Capital Assets Not Being Depreciated	<u>\$ 105,060,816</u>	<u>\$ 30,302,165</u>	<u>\$ 42,120,278</u>	<u>\$ 93,242,703</u>
Capital Assets, Being Depreciated:				
Infrastructure	\$ 50,773,872	\$ 4,373,344		\$ 55,147,216
Building and Building Improvements	1,063,441,456	155,240,716	\$ 4,471,892	1,214,210,280
Facilities and Other Improvements	14,388,357	426,981		14,815,338
Equipment	318,183,707	24,784,668	18,969,969	323,998,406
Library Collections	<u>85,308,870</u>	<u>4,570,404</u>	<u>1,242</u>	<u>89,878,032</u>
Total Assets Being Depreciated	<u>\$ 1,532,096,262</u>	<u>\$ 189,396,113</u>	<u>\$ 23,443,103</u>	<u>\$ 1,698,049,272</u>
Less: Accumulated Depreciation:				
Infrastructure	\$ 9,675,312	\$ 1,168,504		\$ 10,843,816
Building and Building Improvements	210,395,002	32,618,472	\$ 680,817	242,332,657
Facilities and Other Improvements	6,767,147	322,383		7,089,530
Equipment	201,419,954	24,965,388	19,045,002	207,340,340
Library Collections	<u>59,292,852</u>	<u>2,789,180</u>	<u>1,242</u>	<u>62,080,790</u>
Total Accumulated Depreciation	<u>\$ 487,550,267</u>	<u>\$ 61,863,927</u>	<u>\$ 19,727,061</u>	<u>\$ 529,687,133</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 1,044,545,995</u>	<u>\$ 127,532,186</u>	<u>\$ 3,716,042</u>	<u>\$ 1,168,362,139</u>
Capital Assets, Net	<u>\$ 1,149,606,811</u>	<u>\$ 157,834,351</u>	<u>\$ 45,836,320</u>	<u>\$ 1,261,604,842</u>

Included in the Institute's building assets is the Burge Apartment Building. A request has been forwarded to the Board of Regents requesting permission to demolish this structure, but as of the reporting date, no action has been taken on the request. The original cost of the building was \$2,443,385, with accumulated depreciation of \$1,277,707 leaving a net book value of \$1,165,678.

NOTE 7: DEFERRED REVENUE

Current deferred revenue consisted of the following at June 30, 2007:

Prepaid Tuition and Fees	\$ 11,066,231
Research	2,064,854
Other Deferred Revenue	<u>1,081,903</u>
Total	<u>\$ 14,212,988</u>

Long-Term deferred revenue totaled \$5,618,750.

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
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EXHIBIT "D"

NOTE 8: LONG-TERM LIABILITIES

Long-Term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2007</u>	Current Portion
Leases					
Lease Obligations	\$ 341,235,493	\$ 78,926,800	\$ 10,192,612	\$ 409,969,681	\$ 12,199,221
Other Liabilities					
Compensated Absences	<u>27,896,377</u>	<u>19,387,855</u>	<u>15,807,168</u>	<u>31,477,064</u>	<u>17,049,122</u>
Total Long-Term Obligations	<u>\$ 369,131,870</u>	<u>\$ 98,314,655</u>	<u>\$ 25,999,780</u>	<u>\$ 441,446,745</u>	<u>\$ 29,248,343</u>

NOTE 9: SIGNIFICANT COMMITMENTS

Georgia Institute of Technology had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$13,625,865 as of June 30, 2007. This amount is not reflected in the accompanying basic financial statements.

NOTE 10: LEASE OBLIGATIONS

Georgia Institute of Technology 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 2007 and 2036. Expenditures for fiscal year 2007 were \$27,325,875 of which \$17,133,263 represented interest. Total principal paid on capital leases was \$10,192,612 for the fiscal year ended June 30, 2007. Interest rates range from 3.36% to 11%. The following is a summary of the carrying values of assets held under capital lease at June 30, 2007:

Land	\$ 11,457,418
Buildings	439,686,312
Equipment	<u>8,307,166</u>
Total Assets Held Under Capital Lease	<u>\$ 459,450,896</u>

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.

NOTE 10: LEASE OBLIGATIONS

CAPITAL LEASES

Georgia Institute of Technology had six capital leases with related parties in fiscal year 2007. In November 1997, Georgia Institute of Technology entered into a capital lease of \$21,560,000 for the Parker H. Petit Institute of Bioengineering and Biosciences Building with the Georgia Tech Research Corporation and Georgia Tech Facilities, Inc., both affiliated organizations. The lease term is for a 30-year period that began November 1997 and expires May 2028. At June 30, 2007 the remaining long-term debt obligation (principal) under the lease was \$18,535,000 and the amount due (principal and interest) in the next fiscal year is \$1,425,429.

In August 2001, Georgia Institute of Technology entered into a capital lease of \$142,298,200 with the Georgia Tech Foundation, Inc., for a complex of buildings collectively named "Technology Square". Georgia Tech Foundation, Inc., is an affiliated organization of the Institute. The lease term is for a 29-year period that began August 2003 and expires July 2032. At June 30, 2007 the remaining long-term debt obligation (principal) under the lease was \$131,660,360, and the amount due (principal and interest) in the next fiscal year is \$9,941,680.

In February 2001, Georgia Institute of Technology entered into a capital lease of \$44,980,000 with the Georgia Tech Foundation, Inc., for the Institute's Campus Recreation Center. As noted previously, Georgia Tech Foundation, Inc., is an affiliated organization of the Institute. The lease term is for a 30-year period that began February 2001 and expires February 2031. At June 30, 2007 the remaining long-term debt obligation (principal) under the lease was \$41,745,000, and the amount due (principal and interest) in the next fiscal year is \$3,072,992.

In May 2005, Georgia Institute of Technology entered into a capital lease of \$70,320,000 with Georgia Tech Facilities, Inc., an affiliated organization, for two structures/buildings: (1) A complex of buildings collectively named "Married Family Housing", including an adjoining parking deck; and (2) The underground parking deck for the Klaus Advanced Computing Center. The lease terms are 25 years on the Housing complex and 20 years on the Klaus parking deck. The lease expires in June 2030. At June 30, 2007, the remaining long-term debt obligation under the lease was \$67,080,000 and the amount due (principal and interest) in the next fiscal year is \$5,080,877.

Georgia Institute of Technology also has one real property capital lease with an unrelated party. In June 2003, the Institute entered into a capital lease of \$64,029,360 with the University Financing Foundation for the Technology Square Research Building. The lease term is for a 23-year period that began June 2003 and expires June 2026. At June 30, 2007, the remaining long-term debt obligation (principal) under the lease was \$62,191,204 and the amount due (principal and interest) in the next fiscal year is \$4,273,438. The Institute may cancel the lease agreement under prescribed terms if sufficient appropriations, revenues, income, grants or other funding sources are not available. The Institute is responsible for most operating costs such as repairs, utilities and insurance for this lease.

GEORGIA INSTITUTE OF TECHNOLOGY
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JUNE 30, 2007

EXHIBIT "D"

NOTE 10: LEASE OBLIGATIONS

CAPITAL LEASES

In May 2007, Georgia Institute of Technology entered into a capital lease of \$75,205,000 with Georgia Tech Facilities, Inc., an affiliated organization, for a Molecular Sciences and Engineering Building. The lease term is for 29 years and expires in June 2036. At June 30, 2007 the remaining long-term debt obligation under the lease was \$75,205,000 and the amount due (principal and interest) in the next fiscal year is \$4,979,550.

The Institute is obligated to various parties for the lease purchase of furniture, fixtures, equipment, and plant infrastructure improvements. These leases have various end dates through June 30, 2012. At June 30, 2007, the total obligation under these agreements was \$13,553,117. The amount due (principal and interest) in the next fiscal year is \$4,356,677.

OPERATING LEASES

Georgia Institute of Technology's noncancellable operating leases with remaining terms of more than one year expire in various fiscal years from 2007 through 2009. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancelable 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. Examples of property under operating leases include real estate rentals, copiers and other small business equipment.

DESCRIPTION OF RELATED PARTY LEASES

In 1994, Georgia Institute of Technology entered into a real property operating lease with the Georgia Tech Research Corporation, (GTRC), an affiliated organization, for office space in Arlington, Virginia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$17,224. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC \$206,694 in fiscal year 2008.

In 1995, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Marietta, Georgia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$105,055. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC \$1,260,669 in fiscal year 2008.

In 1995, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in the Centennial Research Building in Atlanta, Georgia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$125,870. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC \$1,510,440 in fiscal year 2008.

NOTE 10: LEASE OBLIGATIONS

DESCRIPTION OF RELATED PARTY LEASES

In 2000, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Fairburn, Ohio. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$16,346. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC \$196,155 in fiscal year 2008.

In 2002, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Orlando, Florida. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$3,988. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC \$47,856 in fiscal year 2008.

In 2003, Georgia Institute of Technology entered into a real property operating lease with Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office space in the Centergy One Building located at 75 Fifth Street in Atlanta, Georgia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$72,032. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Advanced Technology Ventures, Inc., \$864,384 in fiscal year 2008.

In 2003, Georgia Institute of Technology entered into a real property operating lease with VLP 1, Inc., a subsidiary of Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office and lab space located at 575 14th Street in Atlanta, Georgia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees ranging between \$55,763 and \$58,279. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay VLP 1, Inc., a minimum of \$681,743 in fiscal year 2008.

In 2003, Georgia Institute of Technology entered into a real property operating lease with VLP 2, Inc., a subsidiary of Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office space located at 650 Ethel Street in Atlanta, Georgia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$23,673. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay VLP 2, Inc., \$284,076 in fiscal year 2008.

In 2004, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Marietta, Georgia. The current agreement is for July 1, 2007 through June 30, 2008 with monthly fees of \$2,240. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC \$26,880 in fiscal year 2008.

NOTE 10: LEASE OBLIGATIONS

DESCRIPTION OF RELATED PARTY LEASES

In 2007, Georgia Institute of Technology entered into a real property operating lease with Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office space in the Centergy One Building located at 75 Fifth Street in Atlanta, Georgia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$131,611. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Advanced Technology Ventures, Inc., \$1,579,332 in fiscal year 2008.

In 2007, Georgia Institute of Technology entered into a real property operating lease with VLP 3, Inc., a subsidiary of Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office space located at 395 North Avenue in Atlanta, Georgia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$34,140. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay VLP 3, Inc., \$409,680 in fiscal year 2008.

In 2007, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Quantico, Virginia. The current agreement is for July 1, 2007 through June 30, 2008 for monthly fees of \$5,093. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC \$61,116 in fiscal year 2008.

Georgia Institute of Technology's fiscal year 2007 noncancellable operating lease expenditures for real property was \$9,558,054.

FUTURE COMMITMENTS

Future commitments for capital leases (which here and on the Statement of Net Assets include other installment purchase agreements) and for noncancellable operating leases having remaining terms in excess of one year as of June 30, 2007, were as follows:

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

EXHIBIT "D"

NOTE 10: LEASE OBLIGATIONS

FUTURE COMMITMENTS

	<u>Real Property and Equipment</u>	
	<u>Capital Leases</u>	<u>Operating Leases</u>
Year Ending June 30:		
2008	\$ 33,130,645	\$ 9,604,767
2009	33,260,529	
2010	32,408,037	
2011	30,685,643	
2012	29,435,200	
2013 through 2017	147,651,825	
2018 through 2022	153,243,082	
2023 through 2027	137,226,481	
2028 through 2032	95,970,949	
2033 through 2036	<u>19,926,747</u>	
Total Minimum Lease Payments	\$ 712,939,138	\$ <u>9,604,767</u>
Less: Interest	<u>302,969,457</u>	
Principal Outstanding	\$ <u>409,969,681</u>	

NOTE 11: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA

Plan Description

Georgia Institute of Technology participates in the Teachers Retirement System of Georgia (TRS), a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly. TRS provides retirement allowances and other benefits for plan participants. TRS provides service retirement, disability retirement, and survivor's benefits for its members in accordance with State statute. The Teachers Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the TRS offices or from the Georgia Department of Audits and Accounts.

Funding Policy

Employees of Georgia Institute of Technology who are covered by TRS are required by State statute to contribute 5% of their gross earnings to TRS. Georgia Institute of Technology makes monthly employer contributions to TRS at rates adopted by the TRS Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2007, the employer contribution rate was 9.28% for covered employees. Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

NOTE 11: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA

Funding Policy

<u>Fiscal Year</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>
2007	100%	\$18,025,456
2006	100%	\$17,233,661
2005	100%	\$16,731,285

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

Plan Description

Georgia Institute of Technology participates in the Employees' Retirement System of Georgia (ERS), a cost-sharing multiple-employer defined benefit pension plan established by the General Assembly of Georgia for the purpose of providing retirement allowances for employees of the State of Georgia.

The benefit structure of ERS is defined by State statute and was significantly modified on July 1, 1982. Unless elected otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. All other members are "new plan" members subject to the modified plan provisions.

Under both the old plan and new plan, members become vested after 10 years of creditable service. A member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60. Additionally, there are certain provisions allowing for retirement after 25 years of service regardless of age.

Retirement benefits paid to members are based upon a formula which considers the monthly average of the member's highest twenty-four consecutive calendar months of salary, the number of years of creditable service, and the member's age at retirement. Post-retirement cost-of-living adjustments are also made to member's benefits. 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.

In addition, the ERS Board of Trustees created the Supplemental Retirement Benefit Plan (SRBP) effective January 1, 1998. The SRBP was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of ERS. The purpose of SRBP is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC 415.

NOTE 11: RETIREMENT PLANS

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

Plan Description

The ERS issues a financial report each fiscal year, which may be obtained through ERS.

Funding Policy

As established by State statute, all full-time employees of the State of Georgia and its political subdivisions, who are not members of other state retirement systems, are eligible to participate in the ERS. Both employer and employee contributions are established by State statute. The Institute's payroll for the year ended June 30, 2007, for employees covered by ERS was \$548,801. The Institute's total payroll for all employees was \$472,421,316.

For the year ended June 30, 2007 under the old plan, member contributions consist of 6.5% of annual compensation minus \$7. Of these member contributions, the employee pays the first 1.5% and the Institute pays the remainder on behalf of the employee.

Under the new plan, member contributions consist solely of 1.5% of annual compensation paid by employee. The Institute also is required to contribute at a specified percentage of active member payroll determined annually by actuarial valuation for both old and new plans. For the year ended June 30, 2007, the ERS employer contribution rate for the Institute amounted to 10.41% of covered payroll and included the amounts contributed on behalf of the employees under the old plan referred to above. Employer contributions are also made on amounts paid for accumulated leave to retiring employees.

Total contributions to the plan made during fiscal year 2007 amounted to \$65,537, of which \$57,305 was made by the Institute and \$8,232 was made by employees. These contributions met the requirements of the plan.

Actuarial and Trend Information

Actuarial and historical trend information is presented in the ERS June 30, 2007 financial report, which may be obtained through ERS.

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 is administered by the Board of Regents of the University System of Georgia. O.C.G.A. 47-3-68(a) defines who may participate in the Regents Retirement Plan. An "eligible university system employee" is a faculty member or a principal administrator, as designated by the regulations of the Board of Regents. Under the Regents Retirement Plan, a plan participant may purchase annuity contracts from four approved vendors (AIG-VALIC, American Century, Fidelity, and TIAA-CREF) for the purpose of receiving retirement and death benefits. Benefits

NOTE 11: RETIREMENT PLANS

REGENTS RETIREMENT PLAN

Plan Description

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

Georgia Institute of Technology 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 2007, the employer contribution was 9.66% for the first six months and 8.13% for the last six months of the participating employee's earnable compensation. Employees contribute 5% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and nonforfeitable at all times.

The Institute and its covered employees made required contributions (including some minor adjustments) of \$15,775,893 (9.66% or 8.13%) and \$8,880,566 (5%), respectively.

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

GEORGIA DEFINED CONTRIBUTION PLAN

Plan Description

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

Benefits

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

NOTE 11: RETIREMENT PLANS

GEORGIA DEFINED CONTRIBUTION PLAN

Contributions and Vesting

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

Total contributions made by employees during fiscal year 2007 amounted to \$806,499 which represents 7.5% of covered payroll (with minor adjustments included). These contributions met the requirements of the plan.

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

NOTE 12: RISK MANAGEMENT

The University System of Georgia offers its employees and retirees access to two different self-insured healthcare plan options - a PPO/PPO Consumer healthcare plan, and an indemnity healthcare plan. Georgia Institute of Technology and participating employees and retirees pay premiums to either of the self-insured healthcare plan options to access benefits coverage. The respective self-insured healthcare plan options are included in the financial statements of the Board of Regents of the University System of Georgia - University System Office. All units of the University System of Georgia share the risk of loss for claims associated with these plans. The reserves for these two plans are considered to be a self-sustaining risk fund. Both self-insured healthcare plan options provide a maximum lifetime benefit of \$2,000,000 per person. The Board of Regents has contracted with Blue Cross Blue Shield of Georgia, a wholly owned subsidiary of WellPoint, to serve as the claims administrator for the two self-insured healthcare plan products. In addition to the two different self-insured healthcare plan options offered to the employees of the University System of Georgia, two fully insured HMO healthcare plan options 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. Georgia Institute of Technology, as an organizational unit of the Board of Regents of the University System of

NOTE 12: RISK MANAGEMENT

Georgia, is part of the State of Georgia reporting entity, and as such, is covered by the State of Georgia risk management program administered by DOAS. Premiums for the risk management program are charged to the various state organizations by DOAS to provide claims servicing and claims payment.

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

NOTE 13: CONTINGENCIES

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

Litigation, claims and assessments filed against Georgia Institute of Technology (an organizational unit of the Board of Regents of the University System of Georgia), if any, are generally considered to be actions against the State of Georgia. Accordingly, significant litigation, claims and assessments pending against the State of Georgia are disclosed in the State of Georgia Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007.

At the request of Institute management, in April 2004, Georgia Tech Facilities Inc. (Facilities), an affiliated organization of Georgia Institute of Technology (see Note 16), adopted a Declaration of Official Intent to seek the issuance of taxable and tax-exempt obligations by the Development Authority of Fulton County for the purpose of financing the Main Campus Electrical Substation Project for the benefit of Georgia Tech. This resolution was intended to constitute a "declaration of official intent" within the meaning of Treasury Regulation Section 1.150-2. Facilities and Georgia Tech also entered into a Memorandum of Understanding (MOU). Under the MOU, Facilities agreed to manage the design and construction of the project as well as proceed with the financing subject to the Institute securing Board of Regents approval. The project has been approved by the Board of Regents, with a construction budget of \$34 million. The ground lease and rental agreement have been completed and it is expected that the project will be completed in fiscal year 2008.

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

EXHIBIT "D"

NOTE 13: CONTINGENCIES

At the request of Institute management, in March 2007, Georgia Tech Facilities, Inc. (Facilities), an affiliated organization of Georgia Institute of Technology (see Note 16), adopted a Declaration of Official Intent to seek the issuance of tax-exempt obligations by the Development Authority of Fulton County for the purpose of financing the acquisition, renovation and construction of facilities for the use of the Institute to be known as the North Avenue Apartments project. The resolution was intended to constitute a "declaration of official intent" within the meaning of Treasury Regulation Section 1.150-2. Facilities and Georgia Tech also entered into a Memorandum of Understanding (MOU). Under the MOU, Facilities agreed to manage the design and construction of the project as well as proceed with the financing subject to the Institute securing Board of Regents approval, which was subsequently received. The ground lease of the project to Facilities and a rental agreement to the Board of Regents for use by Georgia Tech were executed effective July 1, 2007.

NOTE 14: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

As of June 30, 2007, there were 1,216 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2007, Georgia Institute of Technology recognized as incurred \$6,118,067 of expenditures, which was net of \$2,260,011 of participant contributions.

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

EXHIBIT "D"

NOTE 15: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The Institute's operating expenses by functional classification for fiscal year 2007 are shown below:

Natural Classification	Functional Classification					
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support
Salaries						
Faculty	\$ 88,800,728	\$ 129,790,317	\$ 6,434,470	\$ 5,469,085	\$ 210,527	\$ 474,256
Staff	47,117,241	87,549,205	7,962,024	18,150,845	10,795,941	28,431,578
Employee Benefits	27,696,421	38,698,567	2,949,650	5,417,689	2,747,554	7,698,600
Other Personal Services	2,300,505	371,145	960,702	130,759	7,733	280,788
Travel	3,074,444	10,964,681	1,165,969	569,754	288,028	325,549
Scholarships and Fellowships						
Utilities	250,426	134,302	84,362			11,956
Supplies and Other Services	28,377,490	89,067,070	24,252,728	10,017,306	8,915,635	8,438,657
Depreciation						
Total Operating Expenses	<u>\$ 197,617,255</u>	<u>\$ 356,575,287</u>	<u>\$ 43,809,905</u>	<u>\$ 39,755,438</u>	<u>\$ 22,965,418</u>	<u>\$ 45,661,384</u>

Natural Classification	Functional Classification				
	Plant Operations and Maintenance	Scholarships and Fellowships	Auxiliary Enterprises	Unallocated Expenses	Total Operating Expenses
Salaries					
Faculty	\$ 84,411				\$ 231,263,794
Staff	21,734,817		\$ 15,152,895		236,894,546
Employee Benefits	5,165,180		3,324,260		93,697,921
Other Personal Services	211,344				4,262,976
Travel	91,410		166,709		16,646,544
Scholarships and Fellowships		\$ 14,117,989			14,117,989
Utilities	17,897,002		5,631,655		24,009,703
Supplies and Other Services	32,562,851	2,834	34,850,229		236,484,800
Depreciation			6,290,255	\$ 55,573,672	61,863,927
Total Operating Expenses	<u>\$ 77,747,015</u>	<u>\$ 14,120,823</u>	<u>\$ 65,416,003</u>	<u>\$ 55,573,672</u>	<u>\$ 919,242,200</u>

NOTE 16: AFFILIATED ORGANIZATIONS

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, *The Reporting Entity*, which became effective for the year ended June 30, 2004, Georgia Tech Athletic Association, Georgia Tech Facilities, Inc., Georgia Tech Foundation, Inc., and Georgia Tech Research Corporation have been determined to be legally separate, tax exempt organizations whose activities primarily support Georgia Institute of Technology, a unit of the University System of Georgia (an organizational unit of the State of Georgia). The State Accounting Office has determined Component Units of the State of Georgia, as required by GASB Statement No. 39, should be assessed in relation to their significance to the State of Georgia. Accordingly, Georgia Institute of Technology has not included financial activity for these affiliated organizations in these financial statements.

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

EXHIBIT "D"

NOTE 16: AFFILIATED ORGANIZATIONS

Georgia Tech Athletic Association, Georgia Tech Facilities, Inc., Georgia Tech Foundation, Inc., and Georgia Tech Research Corporation have been determined significant to the State of Georgia for the year ended June 30, 2007, and as such, are reported as discretely presented component units in the Comprehensive Annual Financial Report of the State of Georgia (CAFR). The significant discretely presented component units issue separate audited financial statements that can be obtained from the Board of Regents of the University System of Georgia.

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SUPPLEMENTARY INFORMATION

GEORGIA INSTITUTE OF TECHNOLOGY
BALANCE SHEET (NON-GAAP BASIS)
BUDGET FUND
JUNE 30, 2007

SCHEDULE "1"

ASSETS

Cash and Cash Equivalents	\$ 27,971,806.50
Accounts Receivable	
Federal Financial Assistance	28,724,982.86
Other	22,259,167.15
Prepaid Expenditures	11,405,254.93
Inventories	<u>247,094.32</u>

Total Assets \$ 90,608,305.76

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 25,755,495.01
Deferred Revenue	15,870,717.39
Other Liabilities	<u>21,590,777.89</u>

Total Liabilities \$ 63,216,990.29

Fund Balances

Reserved	
Capital Outlay	\$ 26,835,109.55
Restricted/Sponsored Funds	516,989.25
Uncollectible Accounts Receivable	955,382.69
Inventories	273,503.32
Carry-Over "Per State Accounting Office"	<u>-1,189,669.34</u>

Total Fund Balances \$ 27,391,315.47

Total Liabilities and Fund Balances \$ 90,608,305.76

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

GEORGIA INSTITUTE OF TECHNOLOGY
BUDGET COMPARISON AND SURPLUS ANALYSIS REPORT (NON-GAAP BASIS)
BUDGET FUND
YEAR ENDED JUNE 30, 2007

SCHEDULE "2"

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
State Appropriation			
State General Funds	\$ 251,819,542.00	\$ 251,819,542.00	\$ 0.00
Tobacco Funds	750,000.00	750,000.00	0.00
Federal Funds	384,844,736.00	327,734,908.12	-57,109,827.88
Other Funds	<u>327,592,602.00</u>	<u>318,674,244.10</u>	<u>-8,918,357.90</u>
Total Revenues	\$ <u>965,006,880.00</u>	\$ <u>898,978,694.22</u>	\$ <u>-66,028,185.78</u>
<u>EXPENDITURES</u>			
Advanced Technology Development Center/Economic Development Institute	\$ 28,697,215.00	\$ 27,980,921.29	\$ 716,293.71
Georgia Tech Research Institute	138,720,640.00	134,899,475.96	3,821,164.04
Research Consortium	17,652,564.00	17,639,337.02	13,226.98
Special Funding Initiatives	1,039,086.00	1,039,086.00	0.00
Teaching	<u>778,897,375.00</u>	<u>706,782,937.25</u>	<u>72,114,437.75</u>
Total Expenditures	\$ <u>965,006,880.00</u>	\$ <u>888,341,757.52</u>	\$ <u>76,665,122.48</u>
Excess of Funds Available over Expenditures	\$ <u>0.00</u>	\$ 10,636,936.70	\$ <u>10,636,936.70</u>

FUND BALANCE JULY 1

Reserved	11,614,106.93
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ADJUSTMENTS

Prior Year Payables/Expenditures	117,214.67
Prior Year Receivables/Revenues	-127,186.54
Non-Mandatory Transfers	7,234,077.62
Other Additions (Deletions)	<u>-2,083,833.91</u>

<u>FUND BALANCE JUNE 30</u>	<u>\$ 27,391,315.47</u>
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SUMMARY OF FUND BALANCE

Reserved	
Capital Outlay	\$ 26,835,109.55
Restricted/Sponsored Funds	516,989.25
Uncollectible Accounts Receivable	955,382.69
Inventories	273,503.32
Carry-Over "Per State Accounting Office"	<u>-1,189,669.34</u>
Total Fund Balance	<u>\$ 27,391,315.47</u>

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

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GEORGIA INSTITUTE OF TECHNOLOGY
RECONCILIATION OF SALARIES AND TRAVEL
YEAR ENDED JUNE 30, 2007

SCHEDULE "3"

	<u>SALARIES</u>	<u>TRAVEL</u>
Totals per Annual Supplement	\$ 468,081,493	\$ 16,512,098
Accruals		
June 30, 2007	937,851	
June 30, 2006	-660,795	
Compensated Absences		
June 30, 2007	29,240,190	
June 30, 2006	-25,913,959	
Adjustments		
Shared Services on Jointly Staffed Personnel		
Board of Regents of the University System of Georgia		
Barnes, Rosalind	106,912	
Bearden, Alison	1,366	
Birkes, Angela	76,203	
Chalasani, Kanti	97,314	
Ervin, Juanita	29,921	
Hughes, Michael	104,045	
Jean-Baptiste, Rebecca	49,692	
Jones, Shelia	120,741	
Kilpatrick, Toyna	27,919	
Mast, Amy	111,366	
Pevey, Mark	20,592	
Revak, Roxanne	4,353	
Sommer, Candice	46,605	
Stewart, Janet	43,620	
Thomas, Cheryl	33,276	
Wallace, Erica	7,268	
Watlington, Daniel	12,024	
Wolf-Ward, Tina	48,661	
Georgia State University		
O'Farrell, Laura	-21,368	
Kennesaw State University		
Panu, Al	3,000	
Agency Funds		134,446
Unidentified Variance	<u>-186,974</u>	
	\$ <u>472,421,316</u>	\$ <u>16,646,544</u>

SECTION II

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

GEORGIA INSTITUTE OF TECHNOLOGY
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

FS-503-05-01	Previously Reported Corrective Action Implemented
FS-503-06-01	Previously Reported Corrective Action Implemented
FS-503-06-02	Previously Reported Corrective Action Implemented

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings were reported.

SECTION III

CURRENT YEAR FINDINGS AND QUESTIONED COSTS

GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

REVENUES/RECEIVABLES/RECEIPTS
EXPENSES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER

Inadequate Accounting Procedures

Significant Deficiency

Finding Control Number: FS-503-07-01

Condition: Accounting procedures of Georgia Institute of Technology were insufficient to provide adequate controls over reporting of liabilities, expenses, accounts receivable and revenues.

Criteria: The Board of Regents of the University System of Georgia's Business Procedures Manual, Section 1.2 states, in part, "GASB Statement 34 requires that institutions that report as Business Type Activities (BTAs) follow accrual accounting. Under accrual accounting, revenue is recognized when earned and expenses are recognized when accrued".

Questioned Cost: N/A

Information: A review of subsequent year activity disclosed \$10,212,285 that should have been recorded as liabilities and expenses in the year under review. Of this amount, \$6,143,077 was for Restricted Funds activity. Restricted Funds are predominately accounted for on a reimbursement basis, therefore, accounts receivable and revenues associated with these expenditures would not have been recognized where funds are available from the grantor in the year under review.

Cause: Management of Georgia Institute of Technology failed to implement adequate controls and procedures to (1) ensure proper recognition of revenues and (2) proper recording of expenditures when the liability is incurred in accordance with generally accepted accounting principles.

Effect: The failure of Georgia Institute of Technology to maintain a complete and accurate general ledger can lead to inaccurate internal and external reporting.

Recommendation: Management of Georgia Institute of Technology should review the accounting procedures in place and implement additional procedures to ensure that financial transactions are recorded in accordance with generally accepted accounting principles.

GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Improper Use of Purchasing Cards

Significant Deficiency

Finding Control Number: FS-503-07-02

Condition: A review of purchasing card transactions revealed that the Georgia Institute of Technology failed to implement internal controls to ensure that purchase card expenditures were adequately monitored and in compliance with the Georgia Institute of Technology's guidelines as prescribed in the Georgia Institute of Technology's Procurement Card Manual.

Criteria: Purchasing card transactions must comply with purchasing guidelines established in the Georgia Institute of Technology's (1) Procurement Card Manual and (2) with prescribed credit and transaction limits.

Questioned Costs: N/A

Information: Adequate procedures were not in place to ensure purchasing card expenditures were properly documented, allowable, and reviewed/approved by someone other than the cardholder. Additionally, procedures were not in place to ensure that violations of the purchasing card policy were documented or communicated to the Procurement Department.

A review of seventy-one purchasing card expenditures revealed the following:

- 1) Four instances in which purchases were made for unallowable items.
- 2) Eleven cardholders were identified as having overspent their single transaction limit by improperly dividing transactions into multiple transactions to avoid exceeding the approved single transaction limit.
- 3) Of the eleven cardholders in item 2 above, six cardholders appear to have made purchases greater than their single transaction limit of \$5,000 in an effort to circumvent the state's no-bid limit.
- 4) No documentation could be provided for one transaction selected for testing.

GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Improper Use of Purchasing Cards

Significant Deficiency

Finding Control Number: FS-503-07-02

Cause: Management at the Georgia Institute of Technology failed to enforce the transaction limits and guidelines established in the Procurement Card Manual. The Georgia Institute of Technology's policy identifies the responsibilities of each department. The policy states "departments are responsible for reviewing all transactions to (1) ensure the appropriateness of purchases and funds being utilized (2) verify the completeness of documentation (signed and reconciled statements, detailed receipts, disputed transactions) and (3) identify any policy violations and take appropriate action". 15 of 16 violations noted in the Information section were not identified by the department reviewer. As a result, the P-Card Administrator and, consequently, the cardholders violating the P-Card policy did not receive written notification of their violations.

Effect: The purchasing card program was designed to simplify and streamline the purchasing process and lower overall transaction costs for smaller supplies and materials purchases. However, the Georgia Institute of Technology has placed itself in a position in which the benefits of using the purchasing cards could be diminished because of misuse and failure to follow purchasing card guidelines.

Recommendation: Management of Georgia Institute of Technology should establish and implement appropriate procedures to ensure that purchasing card guidelines are followed for all purchasing card transactions.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings were reported.