

**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, 2003**

**Russell W. Hinton  
State Auditor**

GEORGIA INSTITUTE OF TECHNOLOGY

- TABLE OF CONTENTS -

	<u>Page</u>
SECTION I	
FINANCIAL	
INDEPENDENT AUDITOR'S COMBINED REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION	
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i
BASIC FINANCIAL STATEMENTS	
EXHIBITS	
A STATEMENT OF NET ASSETS	3
B STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	5
C STATEMENT OF CASH FLOWS	6
D NOTES TO THE FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
SCHEDULES	
SCHEDULES OF REVENUES AND EXPENDITURES COMPARED TO BUDGET - (NON-GAAP BASIS)	
1 RESIDENT INSTRUCTION	33
2 LOTTERY FOR EDUCATION	34
3 OTHER ORGANIZED ACTIVITIES	35
4 RECONCILIATION OF SALARIES AND TRAVEL	36
SECTION II	
AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS	
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS	

GEORGIA INSTITUTE OF TECHNOLOGY

- TABLE OF CONTENTS -

SECTION III

CURRENT YEAR FINDINGS AND QUESTIONED COSTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I  
FINANCIAL



## DEPARTMENT OF AUDITS AND ACCOUNTS

254 Washington Street, S.W. Suite 214  
Atlanta, Georgia 30334-8400

**RUSSELL W. HINTON**  
STATE AUDITOR  
(404) 656-2174

March 4, 2004

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, 2003. 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.

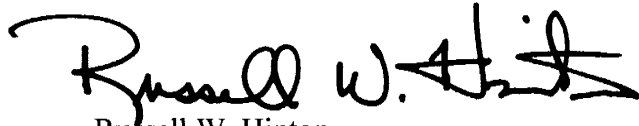
As discussed in Note 1, the financial statements of Georgia Institute of Technology are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of the State of Georgia that is attributable to the transactions of 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, 2003, 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 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 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 taken as a whole. The accompanying supplementary information (Schedules 1 through 4) is presented for purposes of additional analysis and is not a required part of the basic financial statements of Georgia Institute of Technology. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, 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". The signature is stylized with a large initial "R" and a long horizontal stroke at the end.

Russell W. Hinton  
State Auditor

RWH:gp  
03ARL-61

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 nation's leading research universities, providing a focused, technologically based education to nearly 17,000 undergraduate and graduate students. Georgia Tech has many nationally recognized programs and is ranked ninth in the nation by U. S. News and World Report. It offers degrees through the Colleges of Architecture, Engineering, Sciences, Computing, Management, and the Ivan Allen College of Liberal Arts. As a leading technological institute, Georgia Tech has more than 50 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 Institute 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 21<sup>st</sup> century.

### ***Overview of the Financial Statements and Financial Analysis***

Georgia Institute of Technology is pleased to present its financial statements for fiscal year 2003 beginning July 1, 2002 and ending June 30, 2003. 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 financial activities for the year. This is the second set of financial statements issued under new reporting guidelines established by Governmental Accounting Standards Board (GASB) Statements 34 and 35. 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 four net asset categories: invested in capital assets, net of related debt; restricted-nonexpendable; restricted-expendable; and unrestricted. The basis of accounting is full accrual, including capitalization and depreciation of equipment and fixed assets. Because this is the second year under the new standards, comparative data with the prior fiscal year's results are presented in this year's Management's Discussion and Analysis.

### ***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.



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

The Statement of Net Assets for the year ended June 30, 2003 indicates that over \$36 million in unrestricted net assets and \$17 million in restricted net assets are available for future operations. Unrestricted net assets decreased by \$65 million during the year, primarily as a result of the transfer of the State Data Research Center to the Georgia Department of Education (\$38.5 million), and significant outlays for capital construction activities (\$32.9 million). Net Assets Invested in Capital Assets, Net of Related Debt, increased by \$22.3 million during the year. See Note 1 in the Notes to the Financial Statements for additional information concerning the restatement of beginning net assets and the effect of this restatement on depreciable capital assets.

Following is a comparative, condensed version of the Institute's Statement of Net Assets as of June 30, 2002 and June 30, 2003:

Statement of Net Assets, Condensed (dollars in thousands)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>Assets</b>		
Current Assets	\$ 124,564	\$ 183,756
Capital Assets, Net	780,676	695,080
Other Assets	<u>59,027</u>	<u>58,701</u>
<b>Total Assets</b>	<b>\$ <u>964,267</u></b>	<b>\$ <u>937,537</u></b>
<b>Liabilities</b>		
Current Liabilities	\$ 75,142	\$ 70,890
Noncurrent Liabilities	<u>75,098</u>	<u>10,750</u>
<b>Total Liabilities</b>	<b>\$ <u>150,240</u></b>	<b>\$ <u>81,640</u></b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	\$ 716,165	\$ 693,827
Restricted - Nonexpendable	43,493	43,973
Restricted - Expendable	17,863	16,530
Unrestricted	<u>36,506</u>	<u>101,567</u>
<b>Total Net Assets</b>	<b>\$ <u>814,027</u></b>	<b>\$ <u>855,897</u></b>

### ***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, at least directly. For example, state appropriations are nonoperating revenues because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues, even though customers paying for those goods and services are receiving the benefits.

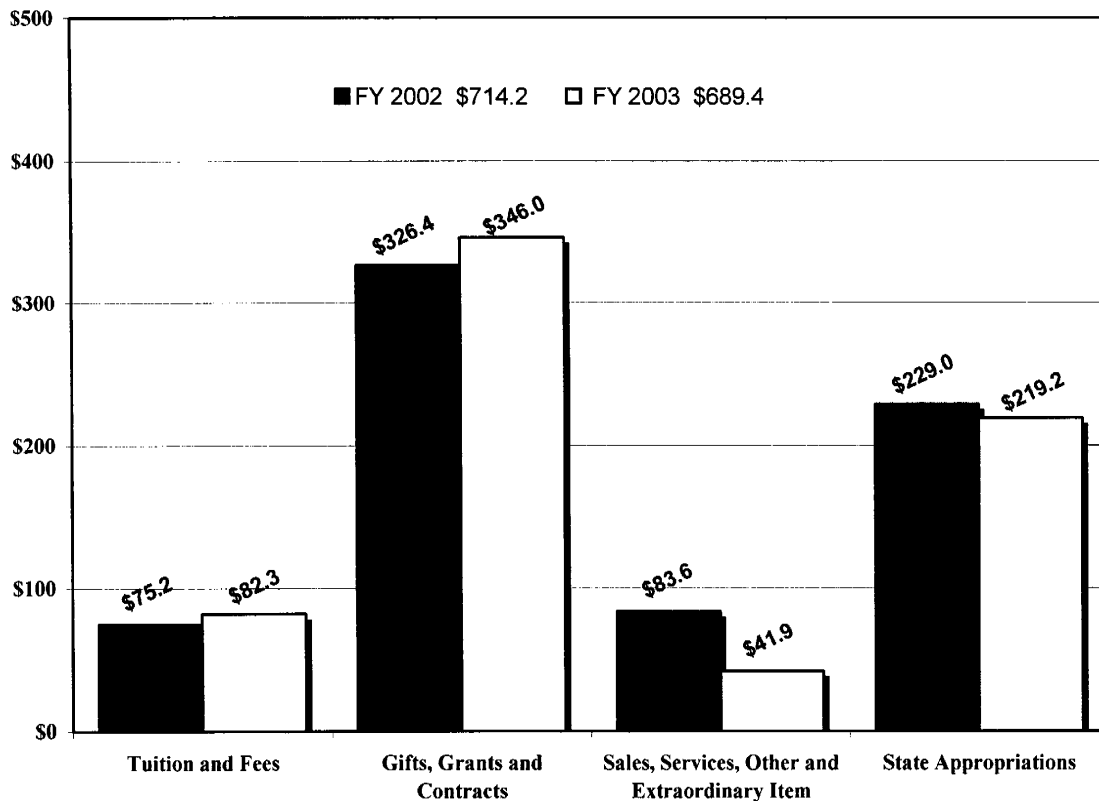
Following is a comparative, condensed version of the Institute's Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2002 and June 30, 2003:

#### Statement of Revenues, Expenses and Changes in Net Assets, Condensed (dollars in thousands)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Operating Revenues	\$ 501,291	\$ 451,617
Operating Expenses	<u>756,425</u>	<u>663,780</u>
Operating Loss	\$ -255,134	\$ -212,163
Nonoperating Revenues and Expenses	<u>228,933</u>	<u>240,412</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	\$ -26,201	\$ 28,249
Other Revenues, Expenses, Gains or Losses Extraordinary Item	<u>-4,385</u> <u>-38,524</u>	<u>22,090</u>
Increase (Decrease) in Net Assets	<u>\$ -69,110</u>	<u>\$ 50,339</u>
Net Assets at Beginning of Year, as Originally Reported	\$ 855,897	\$ 1,244,023
Cumulative Effect of Changes in Accounting Principle		-438,465
Prior Period Adjustment	<u>27,240</u>	<u></u>
Net Assets at Beginning of Year - Restated	<u>\$ 883,137</u>	<u>\$ 805,558</u>
Net Assets at End of Year	<u>\$ 814,027</u>	<u>\$ 855,897</u>

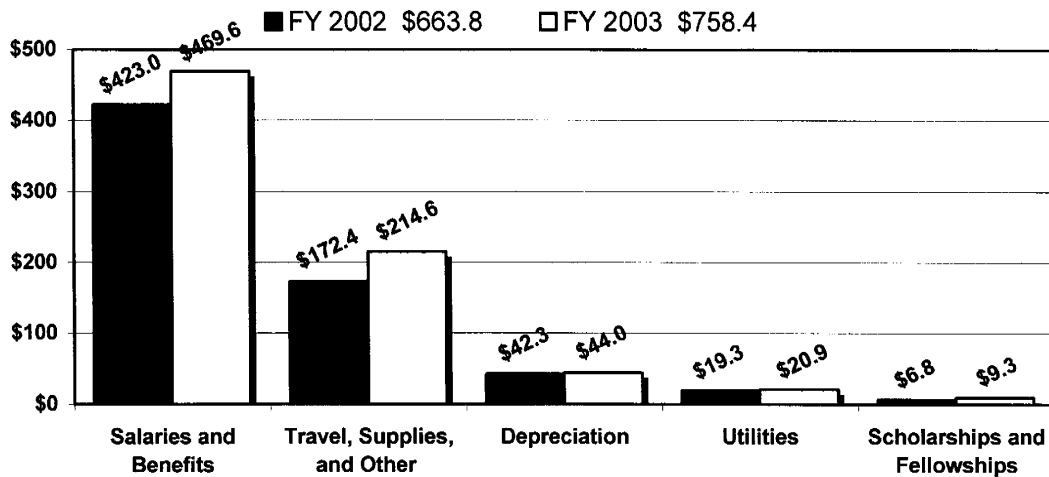
Total revenues (operating, nonoperating, other and extraordinary item) for the year ended June 30, 2003 were \$689.4 million, down \$24.8 million from the prior year total of \$714.2 million. State funding was reduced by \$9.7 million due to budget cuts from the economic downturn. The reduction in the nonoperating revenue/(expense) category results primarily from the loss on disposal of buildings (razed for new construction) and equipment. The reduction in capital grants and gifts reflects a smaller expenditure of capital funds from the Georgia State Financing and Investment Commission. Strong growth in research revenue can be attributed to the Institute's past strategic investments in facilities and programs, and the excellence of the Institute's faculty. The tuition revenue increase resulted from 6% in-state and 14% out-of-state average increases in tuition and fees charged, coupled with an increase in student enrollment. Taken together, these changes show that the Institute is becoming more reliant on its ability to generate revenue from and for its programs. The graph below reflects the essence of these significant shifts in revenue and funding support, and the "Economic Outlook" section at the end of this Management Discussion and Analysis provides further analysis of this trend.

**Georgia Institute of Technology  
Revenue & Extraordinary Item  
(dollars in millions)**



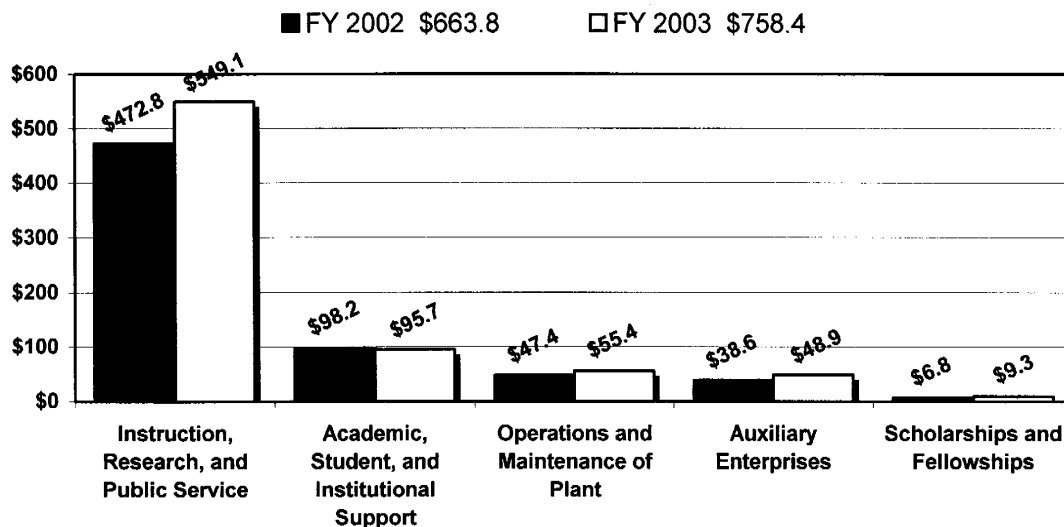
Total expenses for the year were \$758.4 million, exceeding revenues by \$31 million. By object of expenditure classification, there was a shift in expenses to salaries/benefits and travel/supplies compared to the prior year (see graph below).

**Georgia Institute of Technology**  
**Expenses by Object of Expenditure Classification**  
(dollars in millions)



The functional classification graph shows a greater emphasis on Instruction, Research, and Public Service (a growth rate of 19%), compared to flat or minimal growth in support functions. This chart shows that cost cutting during the economic downturn did protect the Institute's core mission as intended.

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



### *Statement of Cash Flows*

The last statement in the report is the Statement of Cash Flows. The statement is divided into five sections. The first section deals with operating cash flows and reflects 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 assets. 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. Due primarily to significant capital construction activities, the transfer of the State Data Research Center from the Institute to the Georgia Department of Education (reported as an Extraordinary Item), and the decision to invest in slightly longer term, higher yielding investments, the Institute's cash balance decreased by \$62.7 million during the year. The Institute's overall cash position remained strong, with over \$52 million available at June 30, 2003.

Cash Flows for the Year Ended June 30, 2003, are reflected in a condensed table below. The cash balance for the beginning of the year has been adjusted upwards to reflect a change in cash reporting criteria for highly liquid short-term investments held with the State of Georgia's Local Government Investment Pool and the Board of Regents Short-Term Investment Pool. This reporting change resulted in a change in the beginning cash balance from a cash overdraft of \$4 million to a positive balance of \$114.9 million. The condensed statement follows:

#### Statement of Cash Flows, Condensed (dollars in thousands)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Cash Provided (Used) By:		
Operating Activities	\$ -218,932	\$ -165,938
Noncapital Financing Activities	197,798	237,917
Capital and Related Financing Activities	-48,706	-66,584
Investing Activities	<u>7,140</u>	<u>-38,457</u>
Cash Flow for the Year	\$ <u>-62,700</u>	\$ <u>-33,062</u>
Cash and Cash Equivalents - June 30, 2002	\$ -4,518	
Add: Short-Term Investment Pools	<u>119,406</u>	
Cash and Cash Equivalents - Beginning of Year	\$ <u>114,888</u>	\$ <u>28,544</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>52,188</u></u>	\$ <u><u>-4,518</u></u>

### ***Capital Assets***

The Institute officially added one major structure in this fiscal year, the new Student Health Center at a cost of \$6.3 million. However, the Ford Environmental Science and Technology Building was occupied but not officially transferred to the Institute. It should officially be transferred and recorded on the Institute's books early in the next fiscal year.

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

### ***Long-Term Debt***

Georgia Institute of Technology had a total Long-Term Debt of \$89,992,558.18 of which \$14,894,127.44 was reflected as current liability at June 30, 2003.

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

### ***Economic Outlook***

While the Institute's long-term local revenue outlook is positive, the national and state economic decline continues to negatively impact funding. State funding cuts are required in fiscal year 2004, in addition to those absorbed in fiscal year 2003. The Institute continues to look for ways to reduce costs and capitalize on its strengths and its ability to generate local revenue to maintain positive momentum and leadership.

These strengths include:

- A rapidly growing and well-diversified but strategically focused research program that increased revenue by \$30 million in the current year with new awards in fiscal year 2003 at a record high of \$292 million, thus well positioning the Institute for the upcoming year.
- Nationally recognized programs that enable the Institute to grow by attracting quality students from all over the world as well as Georgia.
- Significant new investments in research and instructional facilities, including global life long learning facilities and technology.
- An increasing emphasis on technology transfer, economic development, and business/industry partnerships.
- Continuing high levels of financial support from alumni and friends.

These strengths, coupled with the Institute's strategic plan, investments, and initiatives, and management's determination to maintain the positive momentum of recent years, position the Institute well for the future.

Robert K. Thompson  
Senior Vice President  
Administration and Finance

BASIC FINANCIAL STATEMENTS

GEORGIA INSTITUTE OF TECHNOLOGY  
STATEMENT OF NET ASSETS  
JUNE 30, 2003

EXHIBIT "A"

ASSETS

<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 52,185,992.65
Short-Term Investments	13,064,870.01
Accounts Receivable, Net	54,960,350.93
Prepaid Items	3,837,919.11
Inventories	<u>514,735.26</u>
Total Current Assets	\$ <u>124,563,867.96</u>
<b>Noncurrent Assets</b>	
Cash and Cash Equivalents	\$ 2,014.11
Investments	51,820,526.42
Notes Receivable, Net	7,205,165.03
Capital Assets, Net (See Note 6)	<u>780,675,509.51</u>
Total Noncurrent Assets	\$ <u>839,703,215.07</u>
Total Assets	\$ <u>964,267,083.03</u>

LIABILITIES

<b>Current Liabilities</b>	
Accounts Payable	\$ 3,202,027.91
Contracts Payable	5,692,853.58
Deposits	17,078,983.11
Deferred Revenue	26,957,605.54
Salaries Payable	280,985.74
Other Liabilities	1,753,070.86
Deposits Held for Other Organizations	5,282,323.07
Capital Leases	283,789.98
Compensated Absences (Current Portion)	<u>14,610,337.46</u>
Total Current Liabilities	\$ <u>75,141,977.25</u>
<b>Noncurrent Liabilities</b>	
Compensated Absences	\$ 10,871,321.54
Long-Term Liabilities	<u>64,227,109.20</u>
Total Noncurrent Liabilities	\$ <u>75,098,430.74</u>
Total Liabilities	\$ <u>150,240,407.99</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 716,164,610.33
Restricted for:	
Nonexpendable	43,493,399.60
Expendable	17,862,656.37
Unrestricted	<u>36,506,008.74</u>
Total Net Assets	\$ <u>814,026,675.04</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, 2003

EXHIBIT "B"

OPERATING REVENUES

Student Tuition and Fees	\$ 93,226,026.35
Less: Scholarship Allowances	-10,956,782.00
Federal Grants and Contracts	228,794,222.43
State and Local Grants and Contracts	8,999,258.21
Nongovernmental Grants and Contracts	96,480,049.44
Sales and Services of Educational Departments	11,119,484.38
Auxiliary Enterprises	
Residence Halls	29,391,092.70
Bookstore	990,892.21
Food Services	13,210,021.97
Parking/Transportation	7,342,859.08
Health Services	4,397,476.93
Intercollegiate Athletics	1,810,069.96
Other Organizations	1,287,940.89
Other Operating Revenues	<u>15,197,950.50</u>
 Total Operating Revenues	 \$ <u>501,290,563.05</u>

OPERATING EXPENSES

Salaries	
Faculty	\$ 184,656,024.83
Staff	206,631,980.17
Other Personal Services	1,599,093.52
Employee Benefits	76,664,946.76
Travel	11,926,009.10
Scholarships and Fellowships	9,284,014.00
Utilities	20,912,778.50
Supplies and Other Services	200,681,744.11
Depreciation	<u>44,068,606.84</u>
 Total Operating Expenses	 \$ <u>756,425,197.83</u>
 Operating Income (Loss)	 \$ <u>-255,134,634.78</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	\$ 219,246,021.00
Gifts	1,967,883.27
Investment Income (Endowments, Auxiliary and Other)	8,259,710.57
Interest Expense (Capital Assets)	-2,029,840.82
Other Nonoperating Revenues	<u>1,489,422.55</u>
 Net Nonoperating Revenues	 \$ <u>228,933,196.57</u>
 Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	 \$ <u>-26,201,438.21</u>
Capital Grants and Gifts	
State	\$ 2,362,184.02
Nongovernmental	974,786.98
Other Grants and Contracts	6,374,164.60
Loss on Disposal of Capital Assets	<u>-14,095,876.93</u>
 Total Other Revenues and Losses	 \$ <u>-4,384,741.33</u>
Extraordinary Item (See Note 15)	\$ <u>-38,524,309.04</u>
 Increase (Decrease) in Net Assets	 \$ <u>-69,110,488.58</u>
Net Assets	
Net Assets - Beginning of Year, as Originally Reported	\$ 855,896,633.72
Prior Period Adjustments - See Note 1	<u>27,240,529.90</u>
Net Assets - Beginning of Year, Restated	\$ <u>883,137,163.62</u>
 Net Assets - End of Year	 \$ <u>814,026,675.04</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, 2003

EXHIBIT "C"

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 82,055,367.38
Grants and Contracts (Exchange)	325,509,544.56
Sales and Services of Educational Departments	10,558,702.26
Payments to Suppliers	-322,276,346.07
Payments to Employees	-391,243,154.60
Payments for Scholarships and Fellowships	-9,284,014.00
Loans Issued to Students and Employees	-3,279,960.26
Collection of Loans to Students and Employees	3,318,961.47
Auxiliary Enterprise Charges:	
Residence Halls	27,762,940.01
Bookstore	992,859.88
Food Services	13,088,137.37
Parking/Transportation	7,390,922.89
Health Services	4,386,981.93
Intercollegiate Athletics	1,808,739.54
Other Organizations	2,393,433.90
Other Receipts (Payments)	<u>27,884,210.11</u>
 Net Cash Provided (Used) by Operating Activities	 \$ <u>-218,932,673.63</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	\$ 219,246,021.00
Agency Funds Transactions	5,486,254.13
Gifts and Grants Received for Other than Capital Purposes	11,590,503.67
Extraordinary Item	<u>-38,524,309.04</u>
 Net Cash Flows Provided (Used) by Noncapital Financing Activities	 \$ <u>197,798,469.76</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Grants and Gifts Received	\$ 3,336,971.00
Purchases of Capital Assets	-49,268,458.08
Principal Paid on Capital Debt and Lease	-744,760.34
Interest Paid on Capital Debt and Lease	<u>-2,029,840.82</u>
 Net Cash Provided (Used) by Capital and Related Financing Activities	 \$ <u>-48,706,088.24</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Investments	\$ 8,016,127.63
Purchase of Investments	<u>-876,155.21</u>
 Net Cash Provided (Used) by Investing Activities	 \$ <u>7,139,972.42</u>
 Net Increase (Decrease) in Cash	 \$ <u>-62,700,319.69</u>
Cash and Cash Equivalents - June 30, 2002	\$ -4,518,302.73
Add: Short-Term Investments Pools	<u>119,406,629.18</u>
 Cash and Cash Equivalents - Beginning of Year	 \$ <u>114,888,326.45</u>
 Cash and Cash Equivalents - End of Year	 \$ <u><u>52,188,006.76</u></u>

GEORGIA INSTITUTE OF TECHNOLOGY  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2003

EXHIBIT "C"

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ -255,134,634.78
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	44,068,606.84
Change in Assets and Liabilities:	
Accounts Receivables, Net	-12,546,581.65
Inventories	52,747.69
Prepaid Items	2,808,922.37
Accounts Payable	-1,074,716.32
Deferred Revenue	352,853.57
Other Liabilities	714,568.67
Compensated Absences	<u>1,825,559.98</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -218,932,673.63</u>

NONCASH ACTIVITY

NONCASH INVESTING - NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS

Fixed Assets Acquired by Incurring Capital Lease Obligations	<u>\$ 64,073,545.12</u>
Changes in Fair Value of Investments Recognized as a Component of Interest Income	<u>\$ 482,045.44</u>
Changes in Interest Receivable Affecting Interest Received	<u>\$ 160,605.79</u>

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

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**NATURE OF OPERATIONS**

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

**REPORTING ENTITY**

Georgia Institute of Technology is one of thirty-four (34) 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.

**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 was required to implement 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 is also required to adopt GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. The financial statement presentation required by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38 provides 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.

Generally Accepted Accounting Principles (GAAP) requires that the reporting of summer school revenues and expenses be between fiscal years rather than in one fiscal year. Due to the lack of materiality, Institutions of the University System of Georgia will continue to report summer school revenues and expenses in the year in which the predominate activity takes place.

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

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. The Institute has elected to not apply FASB pronouncements issued after the applicable date.

**RESTATEMENT OF PRIOR YEAR NET ASSETS – BEGINNING OF YEAR**

In the initial year of implementation of GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, the Institute failed to include residual values on its depreciable capital assets in accordance with asset capitalization policies adopted in the Capital Asset Guide for the University System of Georgia. As a result of the Institute's inclusion of residual values for depreciable capital assets, net assets at July 1, 2002 were increased by \$17,152,900.39 for the effects on accumulated depreciation. In addition, the Institute corrected the prior year beginning capital assets values of buildings constructed or renovated using funds contributed by the Atlanta Committee for the Olympic Games. As a result of this and various other minor capital assets adjustments, net assets at July 1, 2002 were increased by \$10,087,629.51 for the effects on assets and accumulated depreciation.

**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 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

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**INVESTMENTS**

component of investment income in the statements of revenues, expenses and changes in net assets. The Board of Regents Total Return Fund is included under Investments.

Investments in the various investment pools maintained by the Institute consist in part, of U. S. Agency Securities and other mortgage-backed securities such as collateralized mortgage obligations and adjustable rate mortgages. These mortgage-backed securities are reported as U. S. Government Securities and Corporate Obligations in the note of custodial credit risk. (See Note 2 on Categorization of Investments.) Investments in the investment pools are transacted by an external investment firm under direction of investment advisory agreement executed between the Institute and the investment management firm. As of June 30, 2003, the Institute had \$525,460.44 invested in U. S. Agency Securities and other mortgage-backed securities.

**ACCOUNTS RECEIVABLE**

Accounts receivable consists of tuition and fee charges 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 include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Institute's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

**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 CASH AND INVESTMENTS**

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

**CAPITAL ASSETS**

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the Institute's capitalization policy includes all items with a unit cost of \$5,000.00 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that exceed \$100,000.00 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 60 years for buildings, 20 to 25 years for infrastructure and land improvements, 10 years for library books, and 3 to 7 years for equipment.

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**CAPITAL ASSETS**

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.

Effective July 1, 2001, the GSFIC retains construction in progress on their books throughout the construction period and transfers the entire project to Georgia Institute of Technology when complete. For the year ended June 30, 2003, GSFIC transferred capital additions valued at \$2,362,184.02 and noncapital additions valued at \$6,327,654.93 to Georgia Institute of Technology.

**DEPOSITS**

Deposits represent good faith deposits from students to reserve housing assignments in an Institute residence hall, Institute controlled funds held for the disbursement 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.

**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 accrued vacation payable in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses and Changes in Net Assets. Georgia Institute of Technology had accrued liability for compensated absences in the amount of \$23,656,099.02 as of July 1, 2002. For fiscal year 2003, \$16,445,422.62 was earned in compensated absences and employees were paid \$14,619,862.64 for a net increase of \$1,825,559.98. The ending balance as of June 30, 2003 in accrued liability for compensated absences is \$25,481,659.00. Compensated absences include a current liability of \$14,610,337.46.

**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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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 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.

*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) which must be refunded to the Board of Regents of the University System of Georgia Administrative Central Office for remittance to the Office of Treasury and Fiscal Services. At June 30, 2003, there was no surplus balance 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.



GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**NET ASSETS**

	<u>June 30, 2003</u>
R & R Reserve	\$ 11,362,500.51
Reserve for Encumbrances	24,217,902.12
Reserve for Inventory	599,306.78
Other Unrestricted	<u>326,299.33</u>
Total Unrestricted Net Assets	\$ <u>36,506,008.74</u>

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 revenues 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, (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

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**SCHOLARSHIP ALLOWANCES**

such programs are used to satisfy tuition and fees and other student charges, the Institute has recorded contra revenue for scholarship allowances.

NOTE 2: CASH AND CASH EQUIVALENTS; OTHER DEPOSITS; AND INVESTMENTS

**STATE OF GEORGIA COLLATERALIZATION STATUTES AND POLICIES**

Funds belonging to the State of Georgia (and thus Georgia Institute of Technology) cannot be placed in a depository paying interest longer than ten days without the depository providing a surety bond to the State. In lieu of a surety bond, the depository may pledge as collateral any one or more of the following securities as enumerated in the Official Code of Georgia Annotated Section 50-17-59:

1. Bonds, bill, certificates of indebtedness, notes, or other direct obligations of the United States or of the State of Georgia.
2. Bonds, bills, certificates of indebtedness, notes, 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, or 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 Bank, 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.

As authorized in the Official Code of Georgia Annotated Section 50-17-53, the State Depository Board has adopted policies which allow agencies of the State of Georgia (and thus Georgia Institute of Technology), the option of exempting demand deposits from the collateral requirements.

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.

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 2: CASH AND CASH EQUIVALENTS; OTHER DEPOSITS; AND INVESTMENTS

**CATEGORIZATION OF DEPOSITS**

The Institute's cash deposits are categorized by risk as follows:

Category 1 - Amounts covered by depository insurance or collateralized with securities (at fair value) held by the Institute or by its agent in the Institute's name.

Category 2 - Amounts collateralized with securities (at fair value) held by the pledging financial institution's trust department or agent in the Institute's name.

Category 3 - Amounts collateralized with securities (at fair value) held by the pledging financial institution, or by its trust department or agent but not in the Institute's name, and amounts uncollateralized.

Cash Deposits as of June 30, 2003 are as follows:

	<u>Carrying Amount</u>	<u>Bank Balances</u>	<u>Risk Categories</u>		
			<u>1</u>	<u>2</u>	<u>3</u>
Cash Deposits	\$ <u>2,530,763.91</u>	\$ <u>16,563,633.56</u>	\$ <u>65,314.77</u>	\$ <u>0.00</u>	\$ <u>16,498,318.79</u>

**CATEGORIZATION OF INVESTMENTS**

The Institute's investments are categorized as to credit risk within the three categories described below:

Category 1 - Insured or registered, or securities held by the Institute or its agent in the Institute's name.

Category 2 - Uninsured and unregistered, with securities held by the counter party's trust department or agent in the Institute's name.

Category 3 - Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent, but not in the Institute's name.

At June 30, 2003, the Institute's investments consisted of the following:

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 2: CASH AND CASH EQUIVALENTS; OTHER DEPOSITS; AND INVESTMENTS

**CATEGORIZATION OF INVESTMENTS**

<u>Type of Investments</u>	<u>Risk Categories</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Common Stock	\$ 74,258.31	\$ 944,303.54	\$ 0.00	\$ 1,018,561.85
Corporate Bonds		2,900,008.25		2,900,008.25
U. S. Government Securities and Corporate Obligations	<u>1,715.97</u>	<u>10,221,944.40</u>		<u>10,223,660.37</u>
Totals	<u>\$ 75,974.28</u>	<u>\$14,066,256.19</u>	<u>\$ 0.00</u>	\$ 14,142,230.47
Investments Not Subject to Categorizations:				
Board of Regents				
Short-Term Fund				25,035,992.60
Total Return Fund				37,723,132.67
Investment Portfolio Accounts				
Mutual Funds				-46,294.83
Real Estate				1,458.11
Office of Treasury and Fiscal Services				
Georgia Extended Asset Pool				13,029,870.01
Georgia Fund 1				<u>24,568,568.75</u>
Total Investments				<u>\$114,454,957.78</u>

Funds invested in an investment pool managed by another governmental entity are not required to be categorized since the Institute did not own any specific, identifiable investment securities of the pool.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2003.

	<u>June 30, 2003</u>
Student Tuition and Fees	\$ 762,969.14
Auxiliary Enterprises and Other Operating Activities	7,402,099.47
Federal, State, and Private Funds	47,054,796.93
Georgia State Financing and Investment Commission	<u>1,626,706.99</u>
	\$ 56,846,572.53
Less Allowance for Doubtful Accounts	<u>1,886,221.60</u>
Net Accounts Receivable	<u>\$ 54,960,350.93</u>

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 4: INVENTORIES

Inventories consisted of the following at June 30, 2003.

	<u>June 30, 2003</u>
Physical Plant	\$ 243,510.86
Other	<u>271,224.40</u>
Total	<u>\$ 514,735.26</u>

NOTE 5: NOTES/LOANS RECEIVABLE

Notes/Loans receivable primarily consist of student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2003 and 2002. 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, 2003, the allowance for uncollectible loans was approximately \$35,000.00.

NOTE 6: CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2003:

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 6: CAPITAL ASSETS

	Beginning Balance July 1, 2002 (Restated)	Additions	Reductions	Ending Balance June 30, 2003
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 29,335,742.64	\$ 660,629.00		\$ 29,996,371.64
Construction Work-In-Progress	21,531,327.46	17,530,075.62	\$12,782,639.49	26,278,763.59
Capitalized Collections	<u>3,350,335.00</u>	<u>48,440.00</u>		<u>3,398,775.00</u>
Total Capital Assets Not Being Depreciated	<u>\$ 54,217,405.10</u>	<u>\$ 18,239,144.62</u>	<u>\$12,782,639.49</u>	<u>\$ 59,673,910.23</u>
Capital Assets, Being Depreciated:				
Infrastructure	\$ 36,947,445.78	\$ 1,023,637.59	\$ 759,877.08	\$ 37,211,206.29
Building and Building Improvements Facilities and Other Improvements	635,795,935.17	15,425,228.02	7,414,208.61	643,806,954.58
Equipment	13,736,862.72	156,225.00		13,893,087.72
Capital Leases	272,822,254.66	25,829,830.96	26,102,891.09	272,549,194.53
Library Collections	3,354,070.34	64,073,545.12	209,569.35	67,218,046.11
	<u>65,423,661.05</u>	<u>4,554,104.00</u>	<u>8,760.66</u>	<u>69,969,004.39</u>
Total Assets Being Depreciated	<u>\$1,028,080,229.72</u>	<u>\$111,062,570.69</u>	<u>\$34,495,306.79</u>	<u>\$1,104,647,493.62</u>
Less: Accumulated Depreciation:				
Infrastructure	\$ 7,278,035.72	\$ 782,503.54	\$ 1,175,686.95	\$ 6,884,852.31
Buildings	141,444,451.49	13,248,848.99	2,455,101.65	152,238,198.83
Facilities and Other Improvements	5,653,616.35	295,525.91		5,949,142.26
Equipment	160,035,903.15	22,972,830.12	16,740,817.39	166,267,915.88
Capital Leases	640,635.29	2,987,113.21	19,063.21	3,608,685.29
Library Collections	<u>44,924,075.36</u>	<u>3,781,785.07</u>	<u>8,760.66</u>	<u>48,697,099.77</u>
Total Accumulated Depreciation	<u>\$ 359,976,717.36</u>	<u>\$ 44,068,606.84</u>	<u>\$20,399,429.86</u>	<u>\$ 383,645,894.34</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 668,103,512.36</u>	<u>\$ 66,993,963.85</u>	<u>\$14,095,876.93</u>	<u>\$ 721,001,599.28</u>
Capital Assets, Net	<u>\$ 722,320,917.46</u>	<u>\$ 85,233,108.47</u>	<u>\$26,878,516.42</u>	<u>\$ 780,675,509.51</u>

NOTE 7: DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2003.

	<u>June 30, 2003</u>
Prepaid Tuition and Fees	\$15,762,812.56
Research	7,104,002.10
Other Deferred Revenue	<u>4,090,790.88</u>
Totals	<u>\$26,957,605.54</u>

NOTE 8: LONG-TERM LIABILITIES

Long-Term liability activity for the year ended June 30, 2003 was as follows:

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 8: LONG-TERM LIABILITIES

	<u>Beginning Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2003</u>	<u>Current Portion</u>
Leases					
Lease Obligations	\$ 1,252,955.00	\$ 64,073,545.12	\$ 815,600.94	\$ 64,510,899.18	\$ 283,789.98
Other Liabilities					
Compensated Absences	<u>23,656,099.02</u>	<u>16,445,422.62</u>	<u>14,619,862.64</u>	<u>25,481,659.00</u>	<u>14,610,337.46</u>
Total Long-Term Obligations	<u>\$ 24,909,054.02</u>	<u>\$ 80,518,967.74</u>	<u>\$ 15,435,463.58</u>	<u>\$ 89,992,558.18</u>	<u>\$ 14,894,127.44</u>

NOTE 9: SIGNIFICANT CONSTRUCTION COMMITMENTS

Georgia Institute of Technology had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$3,393,198.76 as of June 30, 2003. 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.

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, 2003, were as follows:

	<u>Real Property</u>	
	<u>Capital Leases</u>	<u>Operating Leases</u>
Year Ending June 30:		
2004	\$ 4,131,620.24	\$ 5,789,171.87
2005	4,173,453.63	
2006	4,033,038.05	
2007	4,143,792.15	
2008	4,273,438.63	
2009 - 2013	23,508,091.24	
2014 - 2018	27,517,935.86	
2019 - 2023	32,211,751.52	
2024 - 2026	<u>18,081,516.10</u>	
Total Minimum Lease Payments	\$122,074,637.42	<u>\$ 5,789,171.87</u>
Less: Interest	<u>57,563,738.24</u>	
Principal Outstanding	<u>\$ 64,510,899.18</u>	

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 10: LEASE OBLIGATIONS

**CAPITAL LEASES**

Capital leases are generally payable in installments ranging from monthly to annually and have terms expiring in various years between 2004 and 2026. Expenses for fiscal year 2003 were \$2,774,601.16 of which \$2,029,840.82 represented interest. Total principal paid on capital leases was \$744,760.34 for the fiscal year ended June 30, 2003. Interest rates range from 5 percent to 11 percent. The following is a summary of the carrying values of assets held under capital lease at June 30, 2003:

Buildings	\$61,361,469.93
Equipment	<u>2,247,890.89</u>
Total Assets Held Under Capital Lease	<u>\$63,609,360.82</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.

**OPERATING LEASES**

Georgia Institute of Technology's noncancellable operating leases having remaining terms of more than one year expire in various fiscal years from 2004 through 2005. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancellable if the State of Georgia does not provide adequate funding, but that is considered a remote possibility. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Examples of property under operating leases are copiers and other small business equipment.

**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), a related party, for office space renewable each year. The current agreement is for July 1, 2003 through June 30, 2004 for monthly fees of \$14,815.50. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Tech Research Corporation \$177,786.00 in fiscal year 2004.

In 1995, Georgia Institute of Technology entered into a real property operating lease with the Georgia Tech Research Corporation (GTRC), a related party, for office space renewable each year. The current agreement is for July 1, 2003 through June 30, 2004 for monthly fees of \$105,055.82. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Tech Research Corporation \$1,260,669.84 in fiscal year 2004.



NOTE 10: LEASE OBLIGATIONS

**OPERATING LEASES**

**Description of Related Party Leases**

In 1995, Georgia Institute of Technology entered into a real property operating lease with the Georgia Tech Research Corporation (GTRC), a related party, for office space renewable each year. The current agreement is for July 1, 2003 through June 30, 2004 for monthly fees of \$32,248.00. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Tech Research Corporation \$386,976.00 in fiscal year 2004.

In 2000, Georgia Institute of Technology entered into a real property operating lease with the Georgia Tech Research Corporation (GTRC), a related party, for office space renewable each year. The current agreement is for July 1, 2003 through June 30, 2004 for monthly fees of \$15,462.71. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Tech Research Corporation \$185,552.52 in fiscal year 2004.

In 2002, Georgia Institute of Technology entered into a real property operating lease with the Georgia Tech Research Corporation (GTRC), a related party, for office space renewable each year. The current agreement is for July 1, 2003 through June 30, 2004 for monthly fees of \$3,732.47. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Tech Research Corporation \$44,789.64 in fiscal year 2004.

In 2002, Georgia Institute of Technology entered into a real property operating lease with the Georgia Tech Research Corporation (GTRC), a related party, for office space renewable each year. The current agreement is for July 1, 2003 through June 30, 2004 for monthly fees of \$93,622.00. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Tech Research Corporation \$1,123,464.00 in fiscal year 2004.

Noncancellable operating lease expenses in 2003 were \$12,475,968.17 for real property.

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 General Assembly of Georgia for the purpose of providing retirement allowances and other benefits for teachers of the State of Georgia. TRS provides service retirement, disability retirement, and

NOTE 11: RETIREMENT PLANS

**TEACHERS RETIREMENT SYSTEM OF GEORGIA**

**Plan Description**

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 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 2003, the employer contribution rate was 9.24% for covered employees. Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>
2003	100%	\$15,907,134.52
2002	100%	\$14,821,929.46
2001	100%	\$18,792,120.88

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**

**Plan Description**

Georgia Institute of Technology participates in the Employees' Retirement System of Georgia (ERS), a single-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 65. If 10 years of service is completed and age 60 is reached, the member may retire with a reduced benefit. Additionally, there are certain provisions allowing for retirement after 25 years of service regardless of age.

NOTE 11: RETIREMENT PLANS

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**

**Plan Description**

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. Postretirement 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.

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, 2003, for employees covered by ERS was \$695,601.14. The Institute's total payroll for all employees was \$392,887,098.52.

Under the old plan, member contributions consist of 7.41% of annual compensation. 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 the year ended June 30, 2003, the ERS employer contribution rate for the Institute amounted to 7.26% of covered payroll and included the amounts contributed on behalf of the employee 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 2003 amounted to \$85,510.28, of which \$50,501.97 was made by the Institute and \$35,008.31 was made by employees. These contributions met the requirements of the plan.

NOTE 11: RETIREMENT PLANS

**EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA**

**Actuarial and Trend Information**

Actuarial and historical trend information is presented in the ERS June 30, 2003, 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 established and administered by the Board of Regents of the University System of Georgia, under which it may purchase annuity contracts for the purpose of providing retirement and death benefits for eligible faculty and principal administrators. Benefits depend solely on amounts contributed to the plan plus investment earnings. Benefits are payable to participating employees or their beneficiaries in accordance with the terms of the annuity contracts.

**Funding Policy**

Member contribution requirements are established by the Board of Trustees of the Teachers Retirement System. Employer contributions are established by statute and may be amended only by the General Assembly of the State of Georgia. The employer contributes 10.02% 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.

Georgia Institute of Technology and the covered employees made the required contributions of \$13,936,579.28 (10.02%) and \$6,953,104.25 (5%), respectively.

**GEORGIA DEFINED CONTRIBUTION PLAN**

**Plan Description**

Georgia Institute of Technology participates in the Georgia Defined Contribution Plan (GDGP) 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. GDGP 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 \$3,500.00 credited to his/her account, the Board of

NOTE 11: RETIREMENT PLANS

**GEORGIA DEFINED CONTRIBUTION PLAN**

**Benefits**

Trustees has the option of requiring a lump sum distribution to the member in lieu of making periodic payments. Upon the death of a member, a lump sum distribution equaling the amount credited to his/her account will be paid to the member's designated beneficiary. Benefit provisions are established by State statute.

**Contributions and Vesting**

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

Total contributions made by employees during fiscal year 2003 amounted to \$788,654.67 which represents 7.5% of covered payroll. These contributions met the requirements of the plan.

NOTE 12: RISK MANAGEMENT

Georgia Institute of Technology is a participant in the Board of Regents of the University System of Georgia Health Benefits Plan, which is a self-insurance program of health and dental benefits for employees and retirees of the University System of Georgia. Georgia Institute of Technology and participating employees and retirees pay premiums to the Health Benefits Plan for this health insurance coverage. The Health Benefits Plan is included in the financial statements of the Board of Regents of the University System of Georgia - Administrative Central Office. All units of the University System of Georgia share the risk of loss for claims of the Health Benefits Plan. The Health Benefits Plan is considered a self-sustaining risk fund that provides health coverage for its members up to a maximum lifetime benefit of \$2,000,000.00 per person and dental coverage up to an annual maximum of \$1,000.00 per person. The Board of Regents has contracted with Blue Cross Blue Shield of Georgia to process claims in accordance with the Health Benefits Plan as established by the Board of Regents.

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

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

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 which 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.

Effective for periods beginning July 1, 2003, Georgia Institute of Technology has entered into a series of agreements to acquire space for the College of Management, bookstore, Distance Learning and Professional Education, and other academic and research space from the Georgia Tech Foundation Funding Corporation. These agreements grant GIT the exclusive right of annual renewal upon designated notification to the landlord prior to the beginning of each fiscal year. For fiscal year 2004, the Institute's obligation will be \$17.4 million.

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 for the fiscal year ended June 30, 2003.

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. Employees who are eligible for retirement or disability under the criteria established by the Teachers Retirement System of Georgia and who

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 14: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

have at least ten years of service with the University System of Georgia are 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.

As of June 30, 2003, there were 1,101 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2003, Georgia Institute of Technology recognized as incurred \$4,274,159.53 of expenditures, which was net of \$1,345,730.46 of participant contributions.

NOTE 15: EXTRAORDINARY ITEM

By Executive Order dated January 31, 2003, budgetary and programmatic responsibilities for the State Data Research Center were transferred from the Georgia Institute of Technology to the Georgia Department of Education and the Governors Office of Planning and Budget. Unspent appropriations totaling \$38,524,309.04 were transferred to the two agencies now responsible for the Center.

GEORGIA INSTITUTE OF TECHNOLOGY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

EXHIBIT "D"

NOTE 16: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The Institute's operating expenses by functional classification are shown below:

Statement of Operating Expenses - Natural vs Functional Classifications  
For the Fiscal Year Ended June 30, 2003

Natural Classification	Functional Classification				
	Instruction	Research	Public Service	Academic Support	Student Services
Salaries					
Faculty	\$ 77,018,728.11	\$ 96,877,369.95	\$ 7,096,567.70	\$ 2,809,661.24	\$ 81,820.22
Staff	43,800,178.99	73,979,011.81	12,215,348.64	15,629,178.84	8,744,821.09
Other Personal Services	547,893.68	326,271.00	600,058.16	10,281.55	44,634.31
Employee Benefits	23,509,080.62	29,723,881.75	3,926,398.43	4,059,298.09	1,725,982.25
Travel	2,061,209.49	7,823,901.45	1,075,938.04	320,847.65	209,011.75
Scholarships and Fellowships					
Utilities	2,008,241.18	2,398,684.62	759,869.76	429,668.78	188,101.97
Supplies and Other Services	17,709,650.05	96,678,751.82	26,533,924.77	6,139,645.48	7,227,908.03
Depreciation	3,510,992.72	16,547,725.03	400,980.41	4,512,607.34	1,302,164.06
<b>Total Operating Expenses</b>	<b>\$170,165,974.84</b>	<b>\$324,355,597.43</b>	<b>\$52,609,085.91</b>	<b>\$33,911,188.97</b>	<b>\$ 19,524,443.68</b>

Natural Classification	Functional Classification				Total Operating Expenses
	Institutional Support	Plant Operations and Maintenance	Scholarships and Fellowships	Auxiliary Enterprises	
Salaries					
Faculty	\$ 537,007.28	\$ 234,870.33			\$184,656,024.83
Staff	20,204,181.18	20,329,774.07		\$11,729,485.55	206,631,980.17
Other Personal Services	68,324.82	1,630.00			1,599,093.52
Employee Benefits	6,453,509.69	4,789,771.41		2,477,024.52	76,664,946.76
Travel	243,534.21	75,180.16		116,386.35	11,926,009.10
Scholarships and Fellowships			\$ 9,284,014.00		9,284,014.00
Utilities	399,226.57	9,753,655.05		4,975,330.57	20,912,778.50
Supplies and Other Services	2,987,788.89	18,088,110.49		25,315,964.58	200,681,744.11
Depreciation	11,335,862.11	2,152,860.45		4,305,414.72	44,068,606.84
<b>Total Operating Expenses</b>	<b>\$ 42,229,434.75</b>	<b>\$ 55,425,851.96</b>	<b>\$ 9,284,014.00</b>	<b>\$48,919,606.29</b>	<b>\$756,425,197.83</b>



SUPPLEMENTARY INFORMATION

GEORGIA INSTITUTE OF TECHNOLOGY  
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO  
BUDGET - (NON-GAAP BASIS)  
RESIDENT INSTRUCTION  
YEAR ENDED JUNE 30, 2003

SCHEDULE "1"

	<u>BUDGET</u>	<u>ACTUAL (1)</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
State Appropriations	\$ 191,556,918.00	\$ 191,556,918.00	\$ 0.00
Other Revenues Retained	<u>421,258,678.00</u>	<u>331,790,419.17</u>	<u>-89,468,258.83</u>
	<u>\$ 612,815,596.00</u>	<u>\$ 523,347,337.17</u>	<u>\$ -89,468,258.83</u>
 <u>EXPENDITURES</u>			
Personal Services:			
Education, General and Departmental Services	\$ 259,555,702.00	\$ 248,349,728.63	\$ 11,205,973.37
Sponsored Operations	99,182,658.00	93,930,293.97	5,252,364.03
Operating Expenses:			
Education, General and Departmental Services	90,134,072.00	69,670,753.49	20,463,318.51
Sponsored Operations	100,817,342.00	88,775,131.51	12,042,210.49
Capital Outlay	39,986,572.00	18,992,153.67	20,994,418.33
Special Funding Initiative	4,572,463.00	5,301,867.46	-729,404.46
Research Consortium	<u>18,566,787.00</u>	<u>18,443,255.12</u>	<u>123,531.88</u>
	<u>\$ 612,815,596.00</u>	<u>\$ 543,463,183.85</u>	<u>\$ 69,352,412.15</u>
 Excess of Revenues over Expenditures		<u>\$ -20,115,846.68</u>	<u>\$ -20,115,846.68</u>

(1) 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.

See notes to the financial statements.

GEORGIA INSTITUTE OF TECHNOLOGY  
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO  
BUDGET - (NON-GAAP BASIS)  
LOTTERY FOR EDUCATION  
YEAR ENDED JUNE 30, 2003

SCHEDULE "2"

	<u>BUDGET</u>	<u>ACTUAL (1)</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
State Appropriations	\$ 2,742,978.00	\$ 2,742,978.00	\$ 0.00
Other Revenues Retained	<u>5,939,193.00</u>	<u>0.00</u>	<u>-5,939,193.00</u>
	<u>\$ 8,682,171.00</u>	<u>\$ 2,742,978.00</u>	<u>\$ -5,939,193.00</u>
<u>EXPENDITURES</u>			
Equipment, Technology and Construction Trust Fund	\$ 2,742,978.00	\$ 2,717,274.87	\$ 25,703.13
Student Information System	<u>5,939,193.00</u>	<u>5,939,193.00</u>	<u>0.00</u>
	<u>\$ 8,682,171.00</u>	<u>\$ 8,656,467.87</u>	<u>\$ 25,703.13</u>
Excess of Revenues over Expenditures		<u>\$ -5,913,489.87</u>	<u>\$ -5,913,489.87</u>

(1) 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.

See notes to the financial statements.

GEORGIA INSTITUTE OF TECHNOLOGY  
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO  
BUDGET - (NON-GAAP BASIS)  
OTHER ORGANIZED ACTIVITIES  
YEAR ENDED JUNE 30, 2003

SCHEDULE "3"

	<u>BUDGET</u>	<u>ACTUAL (1)</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<u>FUNDS AVAILABLE</u>			
<u>REVENUES</u>			
State Appropriations	\$ 24,946,125.00	\$ 24,946,125.00	\$ 0.00
Other Revenues Retained	134,650,780.00	118,077,386.58	-16,573,393.42
<u>CARRY-OVER FROM PRIOR YEAR</u>			
Transfer from Reserved Fund Balance	16,085,634.00	16,085,634.00	0.00
	<u>\$ 175,682,539.00</u>	<u>\$ 159,109,145.58</u>	<u>\$ -16,573,393.42</u>
 <u>EXPENDITURES</u>			
Personal Services:			
Education, General and Departmental Services	\$ 28,381,059.00	\$ 27,817,277.54	\$ 563,781.46
Sponsored Operations	47,584,500.00	49,439,668.87	-1,855,168.87
Operating Expenses:			
Education, General and Departmental Services	43,097,880.00	22,247,629.81	20,850,250.19
Sponsored Operations	24,029,036.00	21,209,130.66	2,819,905.34
Agricultural Research	1,740,142.00	1,740,142.00	0.00
Advanced Technology Development Center/Economic Development Institute	23,002,628.00	18,357,369.55	4,645,258.45
CATEA (formerly CRT)	7,847,294.00	5,074,904.09	2,772,389.91
	<u>\$ 175,682,539.00</u>	<u>\$ 145,886,122.52</u>	<u>\$ 29,796,416.48</u>
 Excess of Revenues over Expenditures		<u>\$ 13,223,023.06</u>	<u>\$ 13,223,023.06</u>

(1) 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.

See notes to the financial statements.

GEORGIA INSTITUTE OF TECHNOLOGY  
RECONCILIATION OF SALARIES AND TRAVEL  
YEAR ENDED JUNE 30, 2003

SCHEDULE "4"

	SALARIES	TRAVEL
Totals per Annual Supplement	\$ 391,286,901.45	\$ 11,926,009.10
Accruals - Payroll		
June 30, 2003	280,985.74	
June 30, 2002	-171,125.90	
Compensated Absences		
June 30, 2003	23,670,839.76	
June 30, 2002	-21,975,010.70	
Prepaid Salaries		
June 30, 2003	-2,491,394.48	
June 30, 2002	2,148,470.65	
Adjustments		
Shared Services on Jointly Staffed Personnel		
Floyd College		
Wang, Long	24,000.00	
Georgia State University		
O'Farrell, Laura	7,499.00	
Georgia Southern University		
Zhang, Jin-yuan	15,000.00	
Middle Georgia College		
Roubides, Pascal	24,000.00	
State University of West Georgia		
Leavitt, Andrew	3,000.00	
Malone, Kareen R.	15,000.00	
Southern Polytechnic State University		
Deng, Shangrong	24,000.00	
Valdosta State University		
Deng, Shangrong	24,933.00	
	\$ 392,887,098.52	\$ 11,926,009.10

See notes to the financial statements.

**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, 2003

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

**FINDING CONTROL NUMBER AND STATUS**

FS-503-02-01                      Partially Resolved - See Corrective Action/Responses

**CORRECTIVE ACTION/RESPONSES**

**CAPITAL ASSETS**

Inadequacies in Operation of Property Management System

Finding Control Number: FS-503-02-01

During April 2002, the new Capital Asset Management System was implemented as planned. This new system and the related operating procedures have strengthened the controls over the identification and recording of equipment additions and dispositions, and the documentation of changes to the equipment inventory. This change has strengthened internal accounting controls over the equipment inventory process; however, improvement has not been uniform on the campus. Test samples conducted by the Institute's Capital Assets Accounting Department indicated that additional staff training was needed in some departments to insure that the new system is used effectively. This on-going training program has been initiated, and management will continue to monitor progress in this area to complete this corrective action plan.

SECTION III

CURRENT YEAR FINDINGS AND QUESTIONED COSTS



GEORGIA INSTITUTE OF TECHNOLOGY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CAPITAL ASSETS

Inadequate Capital Asset Records

Finding Control Number: FS-503-03-01

Criteria: The Institute should maintain its Capital Asset records in accordance with the Board of Regents Capital Asset Guide for the University System of Georgia. Property management records should be maintained such that additions and deletions are properly recorded, adequate documentation is available supporting deletions and transfers, and subsidiary Capital Asset module information supports balances reported in the Institute's general ledger and financial statements.

Condition: The accounting procedures of the Institute were insufficient to provide adequate controls over Capital Assets.

Questioned Cost: N/A

Information: Audit sampling and other procedures were utilized to verify the validity and accuracy of the equipment inventory records as presented for audit. An equipment inventory sample of one hundred fifty (150) items was randomly selected from the subsidiary equipment inventory records. Thirty (30) equipment items reported by the Institute as having been deleted or disposed of during the fiscal year were also selected for testing. Additionally, the listing of small value deletions was tested to verify that items meeting the capitalization threshold, having a value of \$5,000 or greater, were not deleted. The results of our testing disclosed the following:

- (1) Two items from our equipment sample were found to be exceptions. One item could not be located. A second item was on the Institute's Capital Asset records but was an equipment item that belonged to the Institute's Research Foundation.
- (2) Twenty two (22) items could not be located to the physical location indicated on the property management system.
- (3) Adequate documentation could not be provided for two (2) items reported as being disposed of by the institution.
- (4) Three (3) items were deleted incorrectly as part of small value deletions. These items had values greater than \$5,000 each.

GEORGIA INSTITUTE OF TECHNOLOGY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CAPITAL ASSETS

Inadequate Capital Asset Records

Finding Control Number: FS-503-03-01

Effect: Without satisfactory accounting controls and procedures in place, the Institute could place itself in a position where potential misappropriation of assets could occur.

Cause: Institute management had failed to implement satisfactory controls to properly account for and track equipment inventory additions and deletions.

Recommendations: The Institute should establish procedures and controls to strengthen internal accounting controls over Capital Assets and to ensure that reconciliations are performed on a timely basis.