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, 2004

Russell W. Hinton
State Auditor

GEORGIA INSTITUTE OF TECHNOLOGY

- TABLE OF CONTENTS -

GEORGIA INSTITUTE OF TECHNOLOGY

- TABLE OF CONTENTS -

SECTION III

CURRENT YEAR 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

January 28, 2005

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 of Georgia Institute of Technology, an organizational unit of the State of Georgia, and its' aggregate discretely presented component units as of and for the year ended June 30, 2004, as listed in the table of contents. 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 did not audit the financial statements of Georgia Institute of Technology's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Georgia Tech Athletic Association, Georgia Tech Alumni Association, Georgia Tech Facilities, Inc., Georgia Tech Foundation, Inc. and Georgia Tech Research Corporation is based on the reports of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinions.

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 (including 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 (including cash flows) of the State of Georgia, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Georgia Institute of Technology and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Georgia Institute of Technology adopted the provisions of the Governmental Accounting Standards Board, Statement Number 39, *Determining Whether Certain Organizations are Component Units* during the year ended June 30, 2004.

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 and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 opinions on the financial statements that collectively comprise the Georgia Institute of Technology's basic financial statements. 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 by us 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,

Russell W. Hinton
State Auditor

RWH:gp
04ARL-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 as one of the top ten public universities 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 21st century.

Overview of the Financial Statements and Financial Analysis

The Georgia Institute of Technology is pleased to present its financial statements for fiscal year 2004, which began July 1, 2003 and ended June 30, 2004. 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. 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. Comparative data with prior fiscal year 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.

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 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 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, 2003 and June 30, 2004:

Statement of Net Assets, Condensed

	June 30, 2004	June 30, 2003
Assets		
Current Assets	$ 141,708,345.03	$ 124,563,867.96
Capital Assets, Net	1,066,511,750.53	780,675,509.51
Other Assets	61,332,907.17	59,027,705.56
Total Assets	$1,269,553,002.73	$ 964,267,083.03
Liabilities		
Current Liabilities	$ 75,857,183.45	$ 75,141,977.25
Noncurrent Liabilities	274,487,956.45	75,098,430.74
Total Liabilities	$ 350,345,139.90	$ 150,240,407.99
Net Assets		
Invested in Capital Assets, Net of Debt	$ 798,306,374.22	$ 716,164,610.33
Restricted - Nonexpendable	43,493,399.60	43,493,399.60
Restricted - Expendable	23,642,629.32	17,862,656.37
Restricted - Capital Outlay	25,042,987.70	
Unrestricted	28,722,471.99	36,506,008.74
Total Net Assets	$ 919,207,862.83	$ 814,026,675.04

The total assets of the Institute increased by approximately $305.3 million, due primarily to the addition of the Technology Square complex, the Ford Environmental Science and Technology Building, and a new Campus Recreation Center. Further review of the Statement of Net Assets indicates that approximately $28.7 million in unrestricted net assets and approximately $48.7 million in restricted net assets are available for future operations.

The total liabilities for the year increased by approximately $200.1 million. The primary reasons for the increase was the incurrence of approximately $187.4 million in lease obligations associated with the acquisition of Technology Square and the Campus Recreation Center. The combination of the increase in total assets and the increase in total liabilities yields an increase in total net assets of approximately $105.2 million from the prior year.

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, both operating and nonoperating, the expenses paid, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Institute. Generally speaking, operating revenues are received for providing goods and services, and operating expenses are those incurred to acquire or produce the goods and services provided in return for the operating revenues. 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 Georgia Legislature without the Legislature directly receiving commensurate goods and services for those revenues.

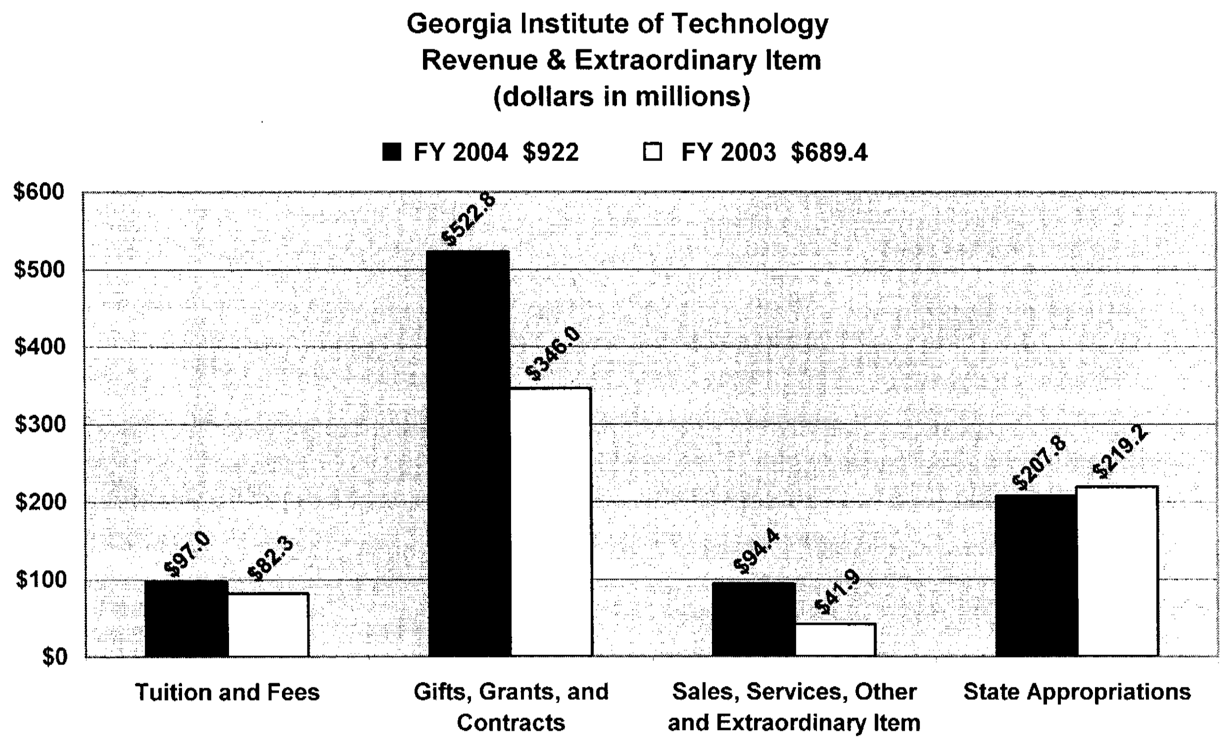
Following is a comparative, condensed version of the Institute's Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2003 and June 30, 2004:

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

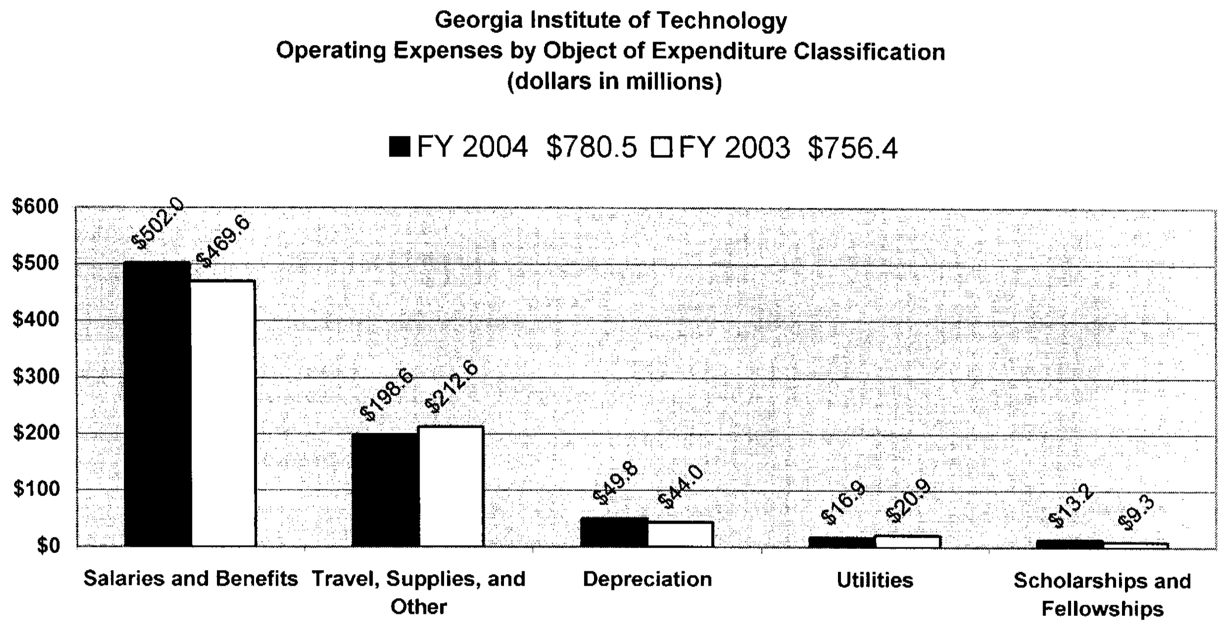
	June 30, 2004	June 30, 2003
Operating Revenues	$ 565,567,339.32	$ 501,290,563.05
Operating Expenses	780,468,418.90	756,425,197.83
Operating Loss	$ -214,901,079.58	$ -255,134,634.78
Nonoperating Revenues and Expenses	203,871,395.37	228,933,196.57
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	$ -11,029,684.21	$ -26,201,438.21
Other Revenues, Expenses, Gains or Losses	140,822,362.39	-4,384,741.33
Extraordinary Item		-38,524,309.04
Increase (Decrease) in Net Assets	$ 129,792,678.18	$ -69,110,488.58
Net Assets at Beginning of Year, as Originally Reported	$ 814,026,675.04	$ 855,896,633.72
Prior Period Adjustment	-24,611,490.39	27,240,529.90
Net Assets at Beginning of Year - Restated	$ 789,415,184.65	$ 883,137,163.62
Net Assets at End of Year	$ 919,207,862.83	$ 814,026,675.04

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year. Total revenues (operating, nonoperating, and other) for the year ended June 30, 2004 were approximately $922 million, up approximately $232.6 million from the prior year total of approximately $689.4 million. The increase in revenue can be attributed primarily to growth in Research Grants and Contracts and Capital Grants and Gifts. Revenue generated by Research Grants and Contracts increased by approximately $45 million, including approximately $37.2 million in Federal grants. Capital Grants and Gifts increased by approximately $137.5 million, including gifts of the Ford Environmental Science and Technology Building valued at approximately $57 million, the Biomedical Engineering Building valued at approximately $23 million, and the Research Administration Building valued at approximately $5 million. Sales, Services and Other Revenues also reflected significant increases over the previous year; however, this is due mainly to the approximately $38.5 million transfer of the State Data Research Center to the Georgia Department of Education in fiscal year 2003. This transfer was an extraordinary item reported in last year's financial statements, and it significantly reduced prior year revenue.

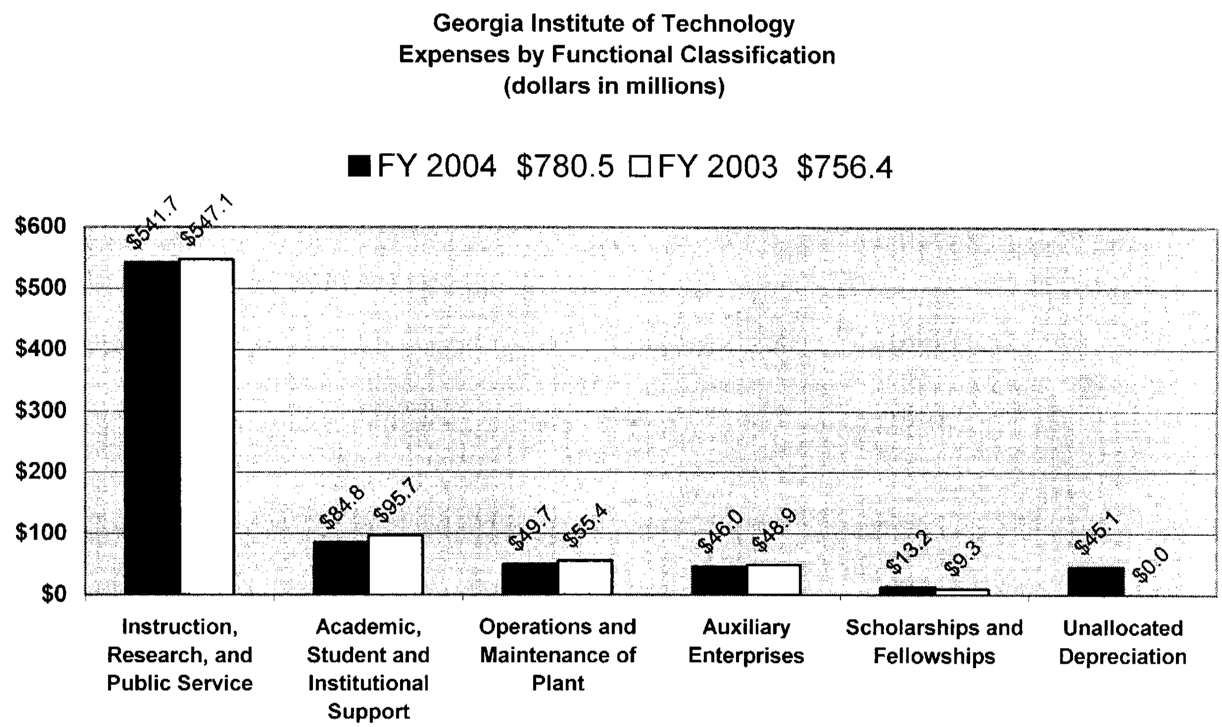
The graph below displays a comparative view of the sources of revenue for the Institute for the current and prior year:



Total operating expenses for the year were approximately $780.5 million, an increase of expenses of approximately $24.1 million but still well under the revenue reported. The graph below illustrates that the majority of increased expenses occurred in Salaries and Benefits.



The functional classification graph below shows continued emphasis on Instruction, Research, and Public Service compared to minimal growth in support functions.



Statement of Cash Flows

The final statement presented by the Georgia Institute of Technology is the Statement of Cash Flows. This statement presents detailed information about the cash activity of the Institute during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used by the operating activities. 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, 2004 and June 30, 2003, Condensed

	June 30, 2004	June 30, 2003
Cash Provided (Used) By:		
Operating Activities	$ -169,613,293.86	$ -218,932.673.63
Noncapital Financing Activities	211,824,207.23	197,798,469.76
Capital and Related Financing Activities	-36,593,637.31	-48,706,088.24
Investing Activities	3,512,389.18	7,139,972.42
Net Change in Cash	$ 9,129,665.24	$ -62,700,319.69
Cash, Beginning of Year	52,188,006.76	114,888,326.45
Cash, End of Year	$ 61,317,672.00	$ 52,188,006.76

Capital Assets

The Institute is continuing an aggressive capital construction program. Major additions in the current year include the Ford Environmental Science and Technology Building, the Campus Recreation Center, and a collection of new buildings known as Technology Square. Included in the Technology Square complex are the Global Learning Center, the College of Management, the Georgia Tech Bookstore, the Economic Development Building, and a parking deck. The total net value of the Capital Asset additions in fiscal year 2004 was over $313 million.

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

Long-Term Debt

Georgia Institute of Technology had a total Long-Term Debt of $294,382,928.54 of which $19,894,972.09 was reflected as current liability at June 30, 2004.

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

Component Units

In compliance with GASB Statement No. 39, Georgia Tech has included the financial statements and notes for all required component units for fiscal year 2004. These units are: Georgia Tech Foundation, Inc., Georgia Tech Athletic Association, Georgia Tech Research Corporation, Georgia Tech Facilities, Inc., and Georgia Tech Alumni Association. Significant investment and long-term liabilities balances for these organizations are as follows:

Georgia Tech Foundation, Inc. holds investments of approximately $881.3 million, of which approximately $271.4 million is the corpus of the endowment. The Foundation has three bond issues outstanding with balances totaling approximately $224,312,000 (net of discounts).

Georgia Tech Athletic Association holds investments of approximately $52.3 million. The Association has outstanding long-term debt, net of discounts and premiums, totaling approximately $112,536,503.

Georgia Tech Facilities, Inc. holds investments of approximately $112.5 million. Facilities, Inc. has four bond issues outstanding with balances totaling approximately $175,840,000.

Further details are available in Note 1, Summary of Significant Accounts Policies and Note 16, Component Units.

Economic Outlook

The Institute's overall financial position is strong. However, reductions in state funding continue to have a negative impact. State appropriations in fiscal year 2004 were approximately $207.8 million, down from approximately $219.2 million in fiscal year 2003. To compensate, the Institute continues to look for ways to reduce costs and generate local revenue to maintain positive momentum and leadership.

The Institute's research program continues to be a strong source of growth. Sponsored research revenue increased 14% in the current year to a total of approximately $306 million. The success of the Institute's research program is mirrored by the success of its nationally ranked academic programs, which continue to attract outstanding students.

Management at the Institute will remain watchful in the coming year and be prepared to react to changes in the state and national economy.

Robert K. Thompson
Senior Vice President
Administration and Finance

BASIC FINANCIAL STATEMENTS

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF NET ASSETS
JUNE 30, 2004

	PRIMARY GOVERNMENT	GEORGIA TECH ATHLETIC ASSOCIATION
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 61,299,367.32	$ 16,410,420.00
Short-Term Investments	8,166,762.32	
Accounts Receivable, Net		
Federal Financial Assistance	26,479,003.30	
Other	41,207,987.27	1,174,280.00
Notes Receivable		
Pledges Receivable		4,758,735.00
Prepaid Items	4,064,377.00	557,637.00
Inventories	490,847.82	
Other Assets		502,927.00
Total Current Assets	$ 141,708,345.03	$ 23,403,999.00
Noncurrent Assets		
Cash and Cash Equivalents	$ 18,304.68	
Investments	54,048,810.84	$ 52,270,100.00
Accounts Receivable		
Leases Receivable		
Notes Receivable, Net	7,265,791.65	
Pledges Receivable		11,993,013.00
Capital Assets, Net	1,066,511,750.53	109,018,560.00
Other Assets		3,079,885.00
Total Noncurrent Assets	$ 1,127,844,657.70	$ 176,361,558.00
Total Assets	$ 1,269,553,002.73	$ 199,765,557.00
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 5,518,974.14	$ 3,829,152.00
Contracts Payable	375,911.49	
Deposits	17,427,501.71	5,309,930.00
Deferred Revenue	25,795,926.19	745,783.00
Salaries Payable	461,269.94	
Other Liabilities	1,203,358.85	
Funds Held for Others	5,179,269.04	
Capital Leases	4,536,602.20	
Compensated Absences	15,358,369.89	468,764.00
Current Portion of Long-Term Debt		1,713,481.00
Total Current Liabilities	$ 75,857,183.45	$ 12,067,110.00
Noncurrent Liabilities		
Compensated Absences	$ 10,819,182.34	
Long-Term Liabilities	263,668,774.11	$ 110,823,022.00
Total Noncurrent Liabilities	$ 274,487,956.45	$ 110,823,022.00
Total Liabilities	$ 350,345,139.90	$ 122,890,132.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 798,306,374.22	$ 1,443,218.00
Restricted for:		
Nonexpendable	43,493,399.60	11,958,903.00
Expendable	23,642,629.32	41,236,048.00
Capital Projects	25,042,987.70	
Unrestricted	28,722,471.99	22,237,256.00
Total Net Assets	$ 919,207,862.83	$ 76,875,425.00

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

COMPONENT UNITS			
GEORGIA TECH ALUMNI ASSOCIATION	GEORGIA TECH FACILITIES, INC.	GEORGIA TECH FOUNDATION, INC.	GEORGIA TECH RESEARCH CORPORATION
$ 8,992.00	$ 337,000.00	$ 3,043,000.00	$ 31,590,389.00
		9,276,000.00	1,456,300.00
74,770.00	685,000.00	3,435,246.00	24,431,450.00
		4,172,573.00	
		6,222,500.00	
27,310.00			2,227.00
21,741.00			
$ 132,813.00	$ 1,022,000.00	$ 26,149,319.00	$ 57,480,366.00
$ 1,581,145.00	$ 112,490,000.00	$ 881,268,000.00	
	10,803,000.00	10,962,512.21	
	30,018,000.00	182,245,285.79	
		2,230,427.00	
		5,562,456.00	
583,764.00	37,002,000.00	44,681,000.00	$ 3,048,471.00
	4,142,000.00	8,284,000.00	27,912,384.00
$ 2,164,909.00	$ 194,455,000.00	$ 1,135,233,681.00	$ 30,960,855.00
$ 2,297,722.00	$ 195,477,000.00	$ 1,161,383,000.00	$ 88,441,221.00
$ 1,033,349.00	$ 6,729,000.00	$ 13,148,292.00	$ 30,235,433.00
468,433.00			26,276,925.00
300,000.00		23,187,971.00	
		260,557.00	
	685,000.00	3,940,633.00	
$ 1,801,782.00	$ 7,414,000.00	$ 40,537,453.00	$ 56,512,358.00
	$ 177,211,000.00	$ 308,027,547.00	
	$ 177,211,000.00	$ 308,027,547.00	
$ 1,801,782.00	$ 184,625,000.00	$ 348,565,000.00	$ 56,512,358.00
$ 583,763.00	$ 10,073,000.00	$ 4,489,148.00	$ 3,048,471.00
		278,048,767.00	
		247,591,719.00	
	1,162,000.00		
-87,823.00	-383,000.00	282,688,366.00	28,880,392.00
$ 495,940.00	$ 10,852,000.00	$ 812,818,000.00	$ 31,928,863.00

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004

	PRIMARY GOVERNMENT	GEORGIA TECH ATHLETIC ASSOCIATION
OPERATING REVENUES		
Student Tuition and Fees	$ 114,880,469.14	
Less: Scholarship Allowances	-17,831,981.18	
Grants and Contracts		
Federal	266,014,691.50	
State and Local	13,209,756.87	
Nongovernmental	100,062,164.27	
Sales and Services of Educational Departments	14,566,614.90	
Auxiliary Enterprises		
Residence Halls	29,349,295.58	
Bookstore	988,181.08	
Food Services	13,197,812.49	
Parking/Transportation	9,381,792.17	
Health Services	4,907,475.95	
Intercollegiate Athletics	1,949,466.14	
Other Organizations	1,681,990.21	
Other Operating Revenues	13,209,610.20	$ 23,892,664.00
Total Operating Revenues	$ 565,567,339.32	$ 23,892,664.00
OPERATING EXPENSES		
Salaries		
Faculty	$ 200,798,351.06	
Staff	217,567,088.37	$ 11,074,698.00
Employee Benefits	81,206,902.46	2,110,679.00
Other Personal Services	2,424,231.95	145,019.00
Travel	12,990,735.14	2,050,774.00
Scholarships and Fellowships	13,177,665.00	5,699,284.00
Utilities	16,937,901.40	854,265.00
Supplies and Other Services	185,594,823.11	10,584,822.00
Depreciation	49,770,720.41	3,710,886.00
Other Operating Expense		
Payments to or on the Behalf of Georgia Institute of Technology		
Total Operating Expenses	$ 780,468,418.90	$ 36,230,427.00
Operating Income (Loss)	$ -214,901,079.58	$ -12,337,763.00
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	$ 207,830,560.00	
Gifts	2,609,886.52	$ 11,496,191.00
Interest and Other Investment Income	1,098,305.45	8,554,175.00
Interest Expense (Capital Assets)	-11,761,466.72	-5,209,019.00
Other Nonoperating Expense		
Other Nonoperating Revenues	4,094,110.12	
Net Nonoperating Revenues	$ 203,871,395.37	$ 14,841,347.00
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	$ -11,029,684.21	$ 2,503,584.00
Capital Grants and Gifts		
State	$ 77,482,395.72	
Nongovernmental	63,339,966.67	
Total Other Revenues	$ 140,822,362.39	
Increase (Decrease) in Net Assets	$ 129,792,678.18	$ 2,503,584.00
Net Assets		
Net Assets - Beginning of Year, as Originally Reported	$ 814,026,675.04	$ 74,371,841.00
Prior Period Adjustments - See Note 1	-24,611,490.39	
Net Assets - Beginning of Year, Restated	$ 789,415,184.65	$ 74,371,841.00
Net Assets - End of Year	$ 919,207,862.83	$ 76,875,425.00

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

COMPONENT UNITS			
GEORGIA TECH ALUMNI ASSOCIATION	GEORGIA TECH FACILITIES, INC.	GEORGIA TECH FOUNDATION, INC.	GEORGIA TECH RESEARCH CORPORATION
$ 5,533,856.00	$ 2,457,000.00	$ 12,974,000.00	$ 305,659,043.00
$ 5,533,856.00	$ 2,457,000.00	$ 12,974,000.00	$ 305,659,043.00
$ 2,677,396.00		$ 1,804,929.00	
636,966.00		391,300.00	
24,906.00			
231,047.00			
108,101.00			
		5,058.00	
1,849,676.00		5,356,565.00	
137,483.00	$ 166,000.00	2,295,827.00	$ 615,200.00
4,256.00	300,000.00	92,070,321.00	7,064,798.00
			297,210,831.00
$ 5,669,831.00	$ 466,000.00	$ 101,924,000.00	$ 304,890,829.00
$ -135,975.00	$ 1,991,000.00	$ -88,950,000.00	$ 768,214.00
		$ 41,949,000.00	
$ 403,573.00	$ 490,000.00	123,573,000.00	$ 54,624.00
	-4,029,000.00		
	-28,798,000.00		
		15,695,000.00	945,000.00
$ 403,573.00	$ -32,337,000.00	$ 181,217,000.00	$ 999,624.00
$ 267,598.00	$ -30,346,000.00	$ 92,267,000.00	$ 1,767,838.00
$ 267,598.00	$ -30,346,000.00	$ 92,267,000.00	$ 1,767,838.00
$ 228,342.00	$ 41,198,000.00	$ 720,551,000.00	$ 30,161,025.00
$ 228,342.00	$ 41,198,000.00	$ 720,551,000.00	$ 30,161,025.00
$ 495,940.00	$ 10,852,000.00	$ 812,818,000.00	$ 31,928,863.00

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004

EXHIBIT "C"

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	$ 103,388,378.51
Grants and Contracts	359,879,933.14
Sales and Services of Educational Departments	15,435,357.62
Payments to Suppliers	-297,037,578.05
Payments to Employees	-417,176,447.93
Payments for Scholarships and Fellowships	-13,177,665.00
Loans Issued to Students and Employees	-5,086,044.10
Collection of Loans to Students and Employees	5,022,059.43
Auxiliary Enterprise Charges:	
Residence Halls	27,658,519.01
Bookstore	1,070,613.74
Food Services	13,394,089.14
Parking/Transportation	9,417,016.68
Health Services	4,909,730.20
Intercollegiate Athletics	1,949,466.14
Other Organizations	1,786,989.70
Other Receipts (Payments)	18,952,287.91
Net Cash Provided (Used) by Operating Activities	$ -169,613,293.86
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	$ 207,830,560.00
Agency Funds Transactions	1,377,146.47
Gifts and Grants Received for Other than Capital Purposes	2,616,500.76
Net Cash Flows Provided (Used) by Noncapital Financing Activities	$ 211,824,207.23
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants and Gifts Received	$ 32,156,340.68
Proceeds from Sale of Capital Assets	91,523.12
Purchases of Capital Assets	-52,949,681.10
Principal Paid on Capital Debt and Lease	-4,130,353.29
Interest Paid on Capital Debt and Lease	-11,761,466.72
Net Cash Provided (Used) by Capital and Related Financing Activities	$ -36,593,637.31
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	$ 10,809,975.45
Interest on Investments	834,176.05
Purchase of Investments	-8,131,762.32
Net Cash Provided (Used) by Investing Activities	$ 3,512,389.18
Net Increase (Decrease) in Cash	$ 9,129,665.24
Cash and Cash Equivalents - Beginning of Year	$ 52,188,006.76
Cash and Cash Equivalents - End of Year	$ 61,317,672.00

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004

EXHIBIT "C"

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	$ -214,901,079.58
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	49,770,720.41
Change in Assets and Liabilities:	
Accounts Receivables, Net	-9,201,269.30
Inventories	23,887.44
Prepaid Items	-226,457.89
Notes Receivables	-60,626.62
Accounts Payable	2,190,207.32
Deferred Revenue	1,161,679.35
Other Liabilities	933,751.78
Compensated Absences	695,893.23
Net Cash Provided (Used) by Operating Activities	$ -169,613,293.86

NONCASH ACTIVITY	
NONCAPITAL FINANCING, CAPITAL AND RELATED FINANCING TRANSACTIONS AND INVESTING ACTIVITIES	
Fixed Assets Acquired by Incurring Capital Lease Obligations	$ 187,449,830.42
Gift of Capital Assets Reducing Proceeds of Capital Grants and Gifts	$ -108,666,021.71
Change in Fair Market Value of Investments Recognized as a Component of Interest Income	$ 264,129.40

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The 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 the world.

REPORTING ENTITY

The 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 the 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. The 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.

The Board of Regents of the University System of Georgia (and thus the Georgia Institute of Technology) is required to implement GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units - an amendment of Statement No. 14,* for fiscal year 2004. This statement requires the inclusion of the financial statements for Foundations and affiliated organizations that qualify as component units in the Annual Financial Report for the institution. These statements (Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets) are reported discretely in the Institute's financial statements. For fiscal year 2004, Georgia Institute of Technology is reporting activity for the following component units:

- Georgia Tech Foundation, Inc.
- Georgia Tech Athletic Association and its subsidiary Alexander-Tharpe Fund
- Georgia Tech Facilities, Inc.
- Georgia Tech Research Corporation and its subsidiary Georgia Tech Applied Research Corporation
- Georgia Tech Alumni Association

See Note 16 for additional component unit disclosures.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 an organizational unit of the State of Georgia, the Institute also adopted 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.

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

RESTATEMENT OF LONG-TERM LIABILITIES AND NET ASSETS

While improving internal controls for capital asset accounting and while preparing to implement GASB Statement Number 39 (*Determining Whether Certain Organizations are Component Units),* capital asset holdings of the Institute and its component units were reviewed to insure that they were correctly valued and not mutually claimed. During this review, three adjustments to Institute asset totals were identified that must be corrected by a restatement of beginning net assets, long-term liabilities, and accumulated depreciation. (Note that adjustments to component unit asset totals were also identified and will be reported within the audited financial statements for these organizations for the year ended June 30, 2004.) For the Institute, the result is to decrease net capital assets by $4,236,490.39, and increase current and long-term liabilities by $20,375,000.00. Net assets decreased by $24,611,490.39 in total. Details are as follows:

Reduction to Capital Assets - In preparing to implement GASB Statement Number 35 (*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities)* the Institute hired an appraisal firm to develop cost and accumulated depreciation totals for buildings and infrastructure. The information provided by the firm included certain

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

RESTATEMENT OF LONG-TERM LIABILITIES AND NET ASSETS

structures that, while situated on Institute land, belong to the Georgia Tech Athletic Association, a component unit. As a result of this correction, the Institute's capital assets were decreased by $16,899,909.34, and accumulated depreciation was reduced by $3,871,011.37. Net assets were reduced by $13,028,897.97.

Correction of Building Additions and Liabilities - In preparing to implement GASB Statement Number 35 (*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities)* the Institute hired an appraisal firm to develop cost and accumulated depreciation totals for buildings and infrastructure. The information provided by the firm included the Bioengineering and Biosciences Building, which was added to Institute records as a gift, but it should have been recorded as an acquisition via a capital lease. As a result of this action, net assets have been reduced by $20,375,000.00 and current and long-term liabilities have been increased by the same amount.

Correction of Equipment and Capital Lease Additions - In preparing to implement GASB Statement Number 35 (*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities)* the Institute implemented new accounting controls and procedures to report equipment procurements both as an expense (for budgetary reporting) and an asset (for GAAP financial reporting). As a result of this action, net assets and capital assets have been increased by $8,792,407.58.

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 between 90 days and 13 months. These 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 Statements of Revenues, Expenses and Changes in Net Assets. The Board of Regents Total Return Fund is included under Investments.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTS RECEIVABLE

Accounts receivable consist 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 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 grants 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 life of the asset, generally 40 to 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 10 years for library books, and 3 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 University 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, the payment of which the full faith, credit and taxing power of the State are pledged.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CAPITAL ASSETS
Effective July 1, 2001, the GSFIC retains construction in progress on its books throughout the construction period then transfers the entire project to the Georgia Institute of Technology when complete. For the year ended June 30, 2004, GSFIC transferred capital additions valued at $57,385,877.59 to the Georgia Institute of Technology.

DEPOSITS
Deposits consist of funds placed with the Institute to reserve housing assignments in an Institute 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 fiscal year. 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 Compensated Absences 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. The Georgia Institute of Technology had accrued liability for compensated absences in the amount of $25,481,659.00 as of July 1, 2003. For fiscal year 2004, $16,393,829.76 was earned in compensated absences and employees were paid $15,697,936.53, resulting in a net increase of $695,893.23. The ending balance as of June 30, 2004 in accrued liability for compensated absences was $26,177,552.23. Compensated absences include a current liability of $15,358,369.89.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NET ASSETS

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 represent resources for which the Institute is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The Institute's Expendable Restricted Net Assets include the following:

	June 30, 2004
Restricted - E&G and Other Organized Activities	$ 5,594,644.91
Federal Loans	6,478,233.06
Institutional Loans	3,307,969.69
Quasi- Endowments	8,261,781.66
Total Restricted Expendable	$23,642,629.32

Restricted net assets - expendable - Capital Projects: Restricted expendable net assets for capital projects represent resources for which the Institute is legally or contractually obligated to spend 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, sales and services of educational departments and auxiliary enterprises. These resources are used to fund 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, 2004, 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.

The Institute's Unrestricted Net Assets includes the following items which are quasi-restricted by management:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NET ASSETS

	June 30, 2004
R & R Reserve	$13,346,746.30
Reserve for Encumbrances	19,094,986.08
Reserve for Inventory	502,096.88
Other Unrestricted	-4,221,357.27
Total Unrestricted Net Assets	$28,722,471.99

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 toward unrestricted resources, and then toward restricted resources.

INCOME TAXES

The 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 revenue 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, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Nonoperating revenue: Nonoperating revenue includes 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 revenue, and certain other revenue 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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCHOLARSHIP ALLOWANCES

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: 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 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.

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

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

STATE OF GEORGIA COLLATERALIZATION STATUTES AND POLICIES

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.

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 market value) held by the entity or by its agent in the entity's name.

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

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

Georgia Institute of Technology

At June 30, 2004, the Institute's cash deposits were as follows:

	Carrying Amount	Bank Balances	Risk Categories 1	2	3
Cash Deposits	$ 9,508,944.48	$16,517,467.34	$ 204,967.07	$ 0.00	$16,312,500.27
Investment Portfolio Accounts	18,304.68	18,304.68	18,304.68		
Total Cash Deposits	$ 9,527,249.16	$16,535,772.02	$ 223,271.75	$ 0.00	$16,312,500.27

Component Units

At June 30, 2004, Georgia Tech Athletic Association's cash deposits were as follows:

	Carrying Amount	Bank Balances	Risk Categories 1	2	3
Cash Deposits	$16,410,420.00	$ 5,353,511.00	$ 100,000.00	$ 0.00	$ 5,253,511.00

At June 30, 2004, Georgia Tech Alumni Association's cash deposits were as follows:

	Carrying Amount	Bank Balances	Risk Categories 1	2	3
Cash Deposits	$ 8,992.00	$ 71,257.00	$ 71,257.00	$ 0.00	$ 0.00

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

CATEGORIZATION OF DEPOSITS

Component Units

At June 30, 2004, Georgia Tech Facilities, Inc.'s cash deposits were as follows:

	Carrying Amount	Bank Balances	Risk Categories 1	2	3
Cash Deposits	$ 337,000.00	$ 5,421,522.93	$ 100,000.00	$ 0.00	$ 5,321,522.93

At June 30, 2004, Georgia Tech Foundation, Inc.'s cash deposits were as follows:

	Carrying Amount	Bank Balances	Risk Categories 1	2	3
Cash Deposits	$ 3,043,000.00	$ 3,511,498.38	$ 200,000.00	$ 0.00	$ 3,311,498.38

At June 30, 2004, Georgia Tech Research Corporation's cash deposits were as follows:

	Carrying Amount	Bank Balances	Risk Categories 1	2	3
Cash Deposits	$31,590,389.00	$31,797,970.08	$ 200,000.00	$31,225,000.00	$ 372,970.08

CATEGORIZATION OF INVESTMENTS

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

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

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

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

CATEGORIZATION OF INVESTMENTS

Georgia Institute of Technology
At June 30, 2004, the Institute's investments consisted of the following:

Type of Investments	Risk Categories 1	Risk Categories 2	Risk Categories 3	Carrying Amount
Common Stock	$ 76,532.91		$ 1,071,057.16	$ 1,147,590.07
Corporate Bonds		$ 2,763,022.20		2,763,022.20
U. S. Government Securities and Corporate Obligations	1,311.81	9,335,844.53	631,330.30	9,968,486.64
Totals	$ 77,844.72	$12,098,866.73	$ 1,702,387.46	$ 13,879,098.91
Investments Not Subject to Categorizations:				
Board of Regents				
Short-Term Fund				24,920,703.91
Total Return Fund				40,168,253.82
Real Estate				1,458.11
Office of Treasury and Fiscal Services				
Georgia Extended Asset Pool				8,131,762.32
Georgia Fund 1				26,838,913.93
Total Investments				$113,940,191.00

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.

Component Units
At June 30, 2004, Georgia Tech Athletic Association's investments consisted of the following:

Type of Investments	
Investments Not Categorized as to Credit Risk:	
Bonds, Stocks, Options and Other Securities	$ 52,270,100.00

At June 30, 2004, Georgia Tech Alumni Association's investments consisted of the following:

Type of Investments	
Investments Not Categorized as to Credit Risk:	
Investment Portfolio Account Mutual Funds	$ 1,581,145.00

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

CATEGORIZATION OF INVESTMENTS

Component Units

At June 30, 2004, Georgia Tech Facilities, Inc.'s investments consisted of the following:

Type of Investments	
Investments Not Categorized as to Credit Risk:	
U. S. Government Securities	$112,490,000.00

At June 30, 2004, Georgia Tech Foundation, Inc.'s investments consisted of the following:

Type of Investments	
Investments Not Categorized as to Credit Risk:	
Bonds, Stocks, Options and Other Securities	$710,715,000.00
Partnership Interests	174,711,000.00
Real Estate	5,118,000.00
Total Investments	$890,544,000.00

At June 30, 2004, Georgia Tech Research Corporation's investments consisted of the following:

Type of Investments	
Investments Not Categorized as to Credit Risk:	
Stocks, Warrants and Other Securities	$ 1,456,300.00

NOTE 3: ACCOUNTS RECEIVABLE

The Institute's accounts receivable consisted of the following at June 30, 2004.

Student Tuition and Fees	$ 386,665.32
Auxiliary Enterprises and Other Operating Activities	845,163.54
Federal Financial Assistance	26,479,003.30
Other	41,645,349.09
	$69,356,181.25
Less Allowance for Doubtful Accounts	1,669,190.68
Net Accounts Receivable	$67,686,990.57

NOTE 4: INVENTORIES

The Institute's inventories consisted of the following at June 30, 2004.

Physical Plant	$ 235,115.29
Other	255,732.53
Total	$ 490,847.82

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, 2004. 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, 2004 the allowance for uncollectible loans was $61,426.98.

NOTE 6: CAPITAL ASSETS

Following are the changes in the Institute's capital assets for the year ended June 30, 2004:

NOTE 6: CAPITAL ASSETS

	Beginning Balance July 1, 2003 (Restated)	Additions	Reductions	Ending Balance June 30, 2004
Capital Assets, Not Being Depreciated:				
Land	$ 29,996,371.64	$ 12,941,263.33		$ 42,937,634.97
Construction Work-In-Progress	26,278,763.59	62,786,501.74	$ 21,344,305.84	67,720,959.49
Capitalized Collections	3,398,775.00			3,398,775.00
Total Capital Assets Not Being Depreciated	$ 59,673,910.23	$ 75,727,765.07	$ 21,344,305.84	$ 114,057,369.46
Capital Assets, Being Depreciated:				
Infrastructure	$ 37,211,206.29	$ 5,197,780.68		$ 42,408,986.97
Building and Building Improvements	626,907,045.24	245,280,402.04	$ 2,322,573.74	869,864,873.54
Facilities and Other Improvements	13,893,087.72	308,200.40		14,201,288.12
Equipment	281,373,262.01	31,110,782.74	17,366,189.00	295,117,855.75
Capital Leases	67,186,386.11	138,668.77	443,800.58	66,881,254.30
Library Collections	69,969,004.39	5,224,034.00	16,110.00	75,176,928.39
Total Assets Being Depreciated	$1,096,539,991.76	$287,259,868.63	$ 20,148,673.32	$1,363,651,187.07
Less: Accumulated Depreciation:				
Infrastructure	$ 6,884,852.31	$ 839,979.60		$ 7,724,831.91
Buildings and Building Improvements	148,367,187.46	16,296,593.34	$ 1,936,366.37	162,727,414.43
Facilities and Other Improvements	5,949,142.26	286,037.10		6,235,179.36
Equipment	166,267,915.88	25,335,106.86	16,223,355.86	175,379,666.88
Capital Leases	3,608,685.29	2,988,282.51	172,965.15	6,424,002.65
Library Collections	48,697,099.77	4,024,721.00	16,110.00	52,705,710.77
Total Accumulated Depreciation	$ 379,774,882.97	$ 49,770,720.41	$ 18,348,797.38	$ 411,196,806.00
Total Capital Assets, Being Depreciated, Net	$ 716,765,108.79	$237,489,148.22	$ 1,799,875.94	$ 952,454,381.07
Capital Assets, Net (Restated - see Note 1)	$ 776,439,019.02	$313,216,913.29	$ 23,144,181.78	$1,066,511,750.53

NOTE 7: DEFERRED REVENUE

Deferred revenue consisted of the following at June 30, 2004.

Prepaid Tuition and Fees	$ 9,821,822.99
Research	13,522,289.14
Other Deferred Revenue	2,451,814.06
Totals	$25,795,926.19

NOTE 8: LONG-TERM LIABILITIES

The Institute's Long-Term liability activity for the year ended June 30, 2004 was as follows:

NOTE 8: LONG-TERM LIABILITIES

	Beginning Balance July 1, 2003 (Restated)	Additions	Reductions	Ending Balance June 30, 2004	Current Portion
Lease Obligations	$ 84,885,899.18	$187,449,830.42	$ 4,130,353.29	$268,205,376.31	$ 4,536,602.20
Compensated Absences	25,481,659.00	16,393,829.76	15,697,936.53	26,177,552.23	15,358,369.89
Total	$110,367,558.18	$203,843,660.18	$ 19,828,289.82	$294,382,928.54	$ 19,894,972.09

NOTE 9: SIGNIFICANT COMMITMENTS

Georgia Institute of Technology had significant unearned, outstanding, construction or renovation contracts executed in the amount of $2,110,528.79 as of June 30, 2004. 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, 2004, were as follows:

	Real Property	
	Capital Leases	Operating Leases
Year Ending June 30:		
2005	$ 18,508,986.60	$ 5,541,209.65
2006	18,511,401.15	
2007	18,573,767.78	
2008	18,713,540.81	
2009	18,843,147.46	
2010 through 2014	95,818,471.14	
2015 through 2019	100,696,649.79	
2020 through 2024	102,366,805.54	
2025 through 2029	75,397,412.19	
2030 through 2034	31,125,220.97	
Total Minimum Lease Payments	$498,555,403.43	$ 5,541,209.65
Less: Interest	230,350,027.12	
Principal Outstanding	$268,205,376.31	

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 2034. Expenses for fiscal year 2004 were $15,891,820.01 of which $11,761,466.72 represented interest. Total principal paid on capital leases was $4,130,353.29 for the fiscal year ended June 30, 2004. Interest rates range from 4 percent to 11 percent. The following is a summary of the carrying values of assets held under capital lease at June 30, 2004:

Land	$ 11,457,418.00
Buildings	270,507,880.89
Equipment	1,133,251.19
Totals	$283,098,550.08

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices are exercisable at the expiration of the lease terms.

Georgia Institute of Technology had three capital leases with related parties in fiscal year 2004.

In November 1997, Georgia Institute of Technology entered into a capital lease of $21,560,000.00 for the Institute of Bioengineering and Biosciences Building with the Georgia Tech Research Corporation and Georgia Tech Facilities, Inc., both discretely presented component units. The lease term is for a 30-year period that began November 1997 and expires May 2028. At June 30, 2004, the remaining long-term debt obligation (principal) under the lease was $19,945,000.00, and the amount due (principal and interest) in the next fiscal year is $1,426,153.76.

In August 2001, Georgia Institute of Technology entered into a capital lease of $142,298,200.00 with the Georgia Tech Foundation, Inc. for a complex of buildings collectively named "Technology Square". Georgia Tech Foundation, Inc. is a discretely presented component unit of the Institute. The lease term is for a 29-year period that began August 2003 and expires July 2032. At June 30, 2004, the remaining long-term debt obligation (principal) under the lease was $139,900,440.00, and the amount due (principal and interest) in the next fiscal year is $9,838,142.60.

In February 2001, Georgia Institute of Technology entered into a capital lease of $44,980,000.00 with the Georgia Tech Foundation, Inc. for the Institute's Campus Recreation Center. As noted previously, Georgia Tech Foundation, Inc. is a discretely presented component unit of the Institute. The lease term is for a 30-year period that began May 2001 and expires November 2031. The Institute did not occupy this building until October 2003 so this capital lease was not recorded on the financial statements until fiscal year 2004. At June 30, 2004, the remaining long-term debt obligation (principal) under the lease was $44,220,000.00, and the amount due (principal and interest) in the next fiscal year is $3,065,317.52.

NOTE 10: LEASE OBLIGATIONS

CAPITAL LEASES

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 $64,029,360.00 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, 2004, the remaining long-term debt obligation (principal) under the lease was $63,779,827.56 and the amount due (principal and interest) in the next fiscal year is $3,888,108.54. 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 also has various capital leases for equipment with an outstanding balance at June 30, 2004 totaling $360,108.75.

OPERATING LEASES

Georgia Institute of Technology's noncancellable operating leases with remaining terms of more than one year expire in various fiscal years from 2005 through 2006. 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 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), a related party, for office space renewable each year. The current agreement is for July 1, 2004 through June 30, 2005 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 2005.

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, 2004 through June 30, 2005 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 2005.

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, 2004 through June 30, 2005 for monthly fees of $125,870.00. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Tech Research Corporation $1,510,440.00 in fiscal year 2005.

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, 2004 through June 30, 2005 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 2005.

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, 2004 through June 30, 2005 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 2005.

In 2003, Georgia Institute of Technology entered into a real property operating lease with the Georgia Applied Technology Ventures, Inc., a related party, for office space renewable each year. The current agreement is for July 1, 2004 through June 30, 2005 for monthly fees of $65,920.00. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Applied Technology Ventures, Inc. $791,040.00 in fiscal year 2005.

In 2003, Georgia Institute of Technology entered into a real property operating lease with VLP 1, Inc., a subsidiary of Georgia Applied Technology Ventures, Inc., a related party, for office and lab space renewable each year. The current agreement is for July 1, 2004 through June 30, 2005 for monthly fees ranging from $58,027.08 to $83,886.44 per month (Some space is leased on a month to month basis.) The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay VLP 1, Inc. a minimum of $696,324.96 in fiscal year 2005.

NOTE 10: LEASE OBLIGATIONS

OPERATING LEASES

Description of Related Party Leases

In 2003, Georgia Institute of Technology entered into a real property operating lease with VLP 2, Inc., a subsidiary of Georgia Applied Technology Ventures, Inc., a related party, for space renewable each year. The current agreement is for July 1, 2004 through June 30, 2005 for monthly fees of $21,664.46. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay VLP2, Inc. $259,973.52 in fiscal year 2005.

Noncancellable operating lease expenditures in 2004 were $9,567,313.37 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 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 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 2004, 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:

Fiscal Year	Percentage Contributed	Required Contribution
2004	100%	$16,699,191.29
2003	100%	$15,907,134.52
2002	100%	$14,821,929.46

NOTE 11: RETIREMENT PLANS

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.

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 statue, 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, 2004, for employees covered by ERS was $294,073.04. The Institute's total payroll for all employees was $420,789,671.38.

NOTE 11: RETIREMENT PLANS

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

Funding Policy

Under the old plan, member contributions consist of 7.16% 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 to the employee. The Institute is also required to contribute at a specified percentage of active member payroll determined annually by actuarial valuation. For the year ended June 30, 2004, the ERS employer contribution rate for the Institute was 5.66% of gross salaries for "old plan" members and 10.41% of gross salaries for "new plan" members. Employer contributions are also made on amounts paid for accumulated leave to retiring employees.

Total contributions to the plan made during fiscal year 2004 amounted to $34,319.12, of which $27,960.92 was made by the Institute and $6,358.20 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, 2004, 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 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 2004, the employer contribution was 10.03% 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.

NOTE 11: RETIREMENT PLANS

REGENTS RETIREMENT PLAN

Funding Policy

The Institute and its covered employees made required contributions (including some minor adjustments) of $15,211,836.05 (10.03%) and $7,579,376.31 (5%), respectively in fiscal year 2004.

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 $3,500.00 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.

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 2004 amounted to $786,931.88 which represents 7.5% of covered payroll. 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 $2,000,000.00 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 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.

NOTE 13: CONTINGENCIES

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, 2004.

At the request of Institute management, in April 2004, Georgia Tech Facilities, Inc. (Facilities), a component unit of Georgia Tech (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 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 of the University System of Georgia approval. If approved by the Board of Regents of the University System of Georgia, the estimated minimum liability for the project would be $34 million.

On May 17, 2004, the Board of Regents of the University System of Georgia (BOR) and the Institute entered into a series of agreements with Facilities, the first of which was a 30-year ground lease from the BOR to Facilities for a parcel of land on which a new Molecular Science and Engineering (MSE) Building will be located. At the end of the 30-year period, any improvements located on the ground lease will revert to the BOR/Institute. The second agreement was a lease agreement between BOR/Institute and Facilities for the new MSE Building. The lease is for 30 years with annual options to renew. The lease amount will approximate $5 million annually. Given that the intent of the Institute is to lease the MSE building for the entire 30-year period, it will be treated as a capital lease once the building is completed and occupied, which is expected to occur in calendar year 2007.

On June 24, 2003, the Board of Regents of the University System of Georgia (BOR) and the Institute entered into a series of agreements with Facilities, the first of which was a 25 year ground lease from the BOR to Facilities for a parcel of land on which a new family apartment complex and parking deck will be located. At the end of the 25-year period, any improvements located on the ground lease will revert to the BOR/Institute. The second agreement, signed July 17, 2003, was a lease agreement between BOR/Institute and Facilities for the new complex and parking deck. The lease, upon occupancy, is for 25 years with annual options to renew. The annual lease amount will closely approximate the average annual debt service (principal and interest) on the structures but will not exceed $4.5 million. Given that the intent of the Institute is to lease the complex and deck for the entire 25-year period, it will be treated as a capital lease once the buildings are completed and occupied, which is expected to occur in calendar year 2005.

NOTE 13: CONTINGENCIES

On July 17, 2003, the Board of Regents of the University System of Georgia (BOR) and the Institute entered into a series of agreements with Facilities, the first of which was a 20-year facility lease from the BOR to Facilities for the use of the new Klaus parking facility. At the end of the 20-year period, any improvements located on the lease will revert to the BOR/Institute. The second agreement was a rental agreement between BOR/Institute and Facilities for the new parking facility. The rental agreement is for 20 years upon occupancy, with annual options to renew. The lease amount will closely approximate the average annual debt service (principal and interest) on the structure but will not exceed $850,000.00. Given that the intent of the Institute is to lease the complex and deck for the entire 20-year period, it will be treated as a capital lease once the building is completed and occupied, which is expected to occur in calendar year 2006.

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 $25,000.00 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, 2004, there were 1,078 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2004, Georgia Institute of Technology recognized as incurred $4,841,080.28 of expenditures, which was net of $1,861,878.86 of participant contributions.

NOTE 15: 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, 2004

	Functional Classification					
Natural Classification	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support
Salaries						
Faculty	$ 79,613,449.91	$109,145,131.82	$ 7,017,717.12	$ 3,935,429.89	$ 38,686.14	$ 797,688.43
Staff	44,618,121.17	82,020,133.01	9,477,004.84	16,182,930.01	8,814,866.73	21,473,249.32
Employee Benefits	24,117,624.44	33,636,789.93	3,611,332.85	4,448,518.61	1,753,051.39	5,752,140.37
Other Personal Services	1,313,574.39	388,097.81	402,753.05	47,205.36	58,350.12	73,141.58
Travel	2,028,971.39	8,726,364.42	1,149,135.96	447,529.95	218,481.05	254,877.43
Scholarships and Fellowships						
Utilities	134,321.07	190,027.22	58,991.88			14,248.80
Supplies and Other Services	22,178,451.89	104,351,858.05	7,558,870.35	6,715,748.64	9,100,499.40	4,658,201.15
Depreciation						
Total Operating Expenses	$174,004,514.26	$338,458,402.26	$ 29,275,806.05	$ 31,777,362.46	$ 19,983,934.83	$ 33,023,547.08

	Functional Classification				
Natural Classification	Plant Operations and Maintenance	Scholarships and Fellowships	Auxiliary Enterprises	Unallocated Depreciation	Total Operating Expenses
Salaries					
Faculty	$ 250,247.75				$200,798,351.06
Staff	22,573,687.61		$ 12,407,095.68		217,567,088.37
Employee Benefits	5,192,708.55		2,694,736.32		81,206,902.46
Other Personal Services	141,909.64		-800.00		2,424,231.95
Travel	65,290.99		100,083.95		12,990,735.14
Scholarships and Fellowships		$ 13,177,665.00			13,177,665.00
Utilities	12,404,600.66		4,135,711.77		16,937,901.40
Supplies and Other Services	9,055,594.01		21,975,599.62		185,594,823.11
Depreciation			4,672,275.65	$ 45,098,444.76	49,770,720.41
Total Operating Expenses	$ 49,684,039.21	$ 13,177,665.00	$ 45,984,702.99	$ 45,098,444.76	$780,468,418.90

NOTE 16: COMPONENT UNITS

Georgia Tech Foundation, Inc., (Foundation) is a legally separate, tax-exempt component unit of the Georgia Institute of Technology (Institute). The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Institute in support of its programs. The Foundation board of trustees is self-perpetuating and consists of forty-five (45) elected trustees, who are alumni of the Institute and five (5) ex-officio trustees. Although the Institute does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted for support of the Institute. Because the resources held by the Foundation are used by, or for the benefit of, the Institute, the Foundation is considered a component unit of the Institute and is discretely presented in the Institute's financial statements.

NOTE 16: COMPONENT UNITS

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports were reclassified to the GASB presentation for external financial reporting purposes in these financial statements. The Foundation's fiscal year is July 1 through June 30.

During the year ended June 30, 2004, the Foundation distributed $50,536,092.41 to the Institute for restricted and unrestricted purposes. Note 10 of this financial report provides information on related party leases between the Foundation and the Institute. Complete financial statements for the Foundation can be requested at the following address:

Georgia Tech Foundation, Inc.
Controller's Office
760 Spring Street, N.W., Suite 400
Atlanta, GA 30308

Georgia Tech Athletic Association (Association) is a legally separate, tax-exempt component unit of the Georgia Institute of Technology (Institute). The Association administers the Institute's intercollegiate athletics program, including fund-raising to support scholarships. The 14-member association board of trustees is appointed predominantly by the President of the Georgia Institute of Technology, and consists of faculty, alumni, students, and friends of the Institute. Although the Institute does not control the timing or amount of receipts and disbursements, all of the Association's resources are restricted to support the intercollegiate athletic program for Georgia Tech. Because the resources are used for the benefit of the Institute, the Association is considered a component unit of the Institute and is discretely presented in the Institute's financial statements.

The Association is a private nonprofit organization that reports under GASB standards, the same used by the Institute. The Association's financial information has been condensed, and expenses have been converted from functional to natural classification for presentation within the Institute's financial statements. The Association's fiscal year is July 1 through June 30.

During the year ended June 30, 2004, the Association distributed $4,314,549.78 to the Institute for scholarship support and $4,027,688 in other payments that were either expense reimbursements or support for Institute programs. The Institute distributed to the Association, $1,936,857.69 in (net) fees collected from students for support of the intercollegiate athletic program. Complete financial statements for the Association can be requested at the following address:

NOTE 16: COMPONENT UNITS

Georgia Tech Athletic Association
150 Bobby Dodd Way, NW
Atlanta, GA 30332-0455
Attention: Mollie Simmons Mayfield
Assistant Director of Athletics

Georgia Tech Research Corporation and its subsidiary Georgia Tech Applied Research Corporation (referred to in the singular as GTRC in this document) are legally separate, tax-exempt component units of the Georgia Institute of Technology (Institute). GTRC functions as the prime contractor for most sponsored research conducted at Georgia Tech and subcontracts with the Institute for faculty and staff services. GTRC's 12-member board of trustees is self-perpetuating and consists of senior Institute administrators, alumni, and supporters of Georgia Tech. GTRC's income and resources are restricted to support research mission objectives of Georgia Tech. Because resources held by GTRC are restricted for use in support of the Institute, GTRC is considered a component unit of Georgia Tech and is discretely presented in the Institute's financial statements.

The Georgia Tech Research Corporation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports were reclassified to the GASB presentation for external financial reporting purposes in these financial statements. The Foundation's fiscal year is July 1 through June 30.

During the year ended June 30, 2004, GTRC distributed $297,210,831 to the Institute, primarily as reimbursement for research and other sponsored activities conducted on campus. The Institute distributed $3,640,724.81 to GTRC, primarily for related-party rental payments. Note 10 of this financial report provides information on related party leases. Complete financial statements for GTRC can be requested at the following address:

Georgia Tech Research Corporation
Director of Accounting and Reports
505 Tenth Street
Atlanta, GA 30332-0415

Georgia Tech Facilities, Inc., (Facilities) is a legally separate, tax-exempt component unit of the Georgia Institute of Technology (Institute). Facilities constructs research and auxiliary buildings and other structures for use by the Institute and then leases the completed buildings/structures to the Institute. The eight-member Facilities board is appointed by the President of the Georgia Institute of Technology and consists of alumni and friends of Georgia Tech. Although the Institute does not control the timing or amount of receipts and disbursements

NOTE 16: COMPONENT UNITS

for Facilities, its resources and income are restricted to support the construction activities of Georgia Tech. Because the restricted resources held by Facilities can only be used by, or for the benefit of, the Institute, Facilities is considered a component unit of Georgia Tech and is discretely presented in the Institute's financial statements.

The Georgia Tech Facilities, Inc. is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports were reclassified to the GASB presentation for external financial reporting purposes in these financial statements. The Foundation's fiscal year is July 1 through June 30.

Investments carried as capital assets valued at $19.945 million, and bonds payable are included in Facilities' financial statements. The corresponding buildings and associated long-term debt are included in the Institute's report. Note 10 of this financial report provides information on related party leases. Complete financial statements for Facilities can be obtained from the following address:

Georgia Tech Facilities, Inc.
Treasurer's Office
Lyman Hall, Room 315
Atlanta, GA 30332-0257
Attention: Joel Hercik

Georgia Tech Alumni Association (Alumni Association) is a legally separate, tax-exempt component unit of the Georgia Institute of Technology (Institute). The Alumni Association acts primarily as a point of contact with the Institute's alumni, prospective students, and friends for outreach and development. The 43 member Alumni Association board of trustees is self-perpetuating and consists of alumni and friends of the Institute. Although the Institute does not control the timing or amount of receipts from the Alumni Association, the majority of resources or income thereon that the Alumni Association holds and invests are restricted to support the Alumni Association's mission of serving and promoting the alumni of the Institute. Because resources held by the Alumni Association are used by, or for the benefit of, the Institute, the Alumni Association is considered a component unit of the Institute and is discretely presented in the Institute's financial statements.

The Alumni Association is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The FASB reports were reclassified to the GASB presentation for external financial reporting purposes in these financial statements. The Foundation's fiscal year is July 1 through June 30.

NOTE 16: COMPONENT UNITS

During the year ended June 30, 2004, the Alumni Association paid $561,610.26 to the Institute primarily for reimbursement of employee insurance costs. The Institute funded $144,353.00 in Alumni Association costs in support of that unit's communication and outreach mission. The Alumni Association also received $3,599,884.00 in funding support from the Georgia Tech Foundation, Inc., another component unit of the Institute. Complete financial statements for the Alumni Association can be requested at the following address:

Georgia Tech Alumni Association
190 North Avenue
Atlanta, GA 30313
Attention: Controller

Investments for Component Units

The Georgia Tech Foundation, Inc. (GTF) holds investments totaling $881.3 million as of June 30, 2004, of which $271.4 million is the corpus of the endowment. Included in GTF's investments is $52.3 million in assets held and invested for the benefit of the Georgia Tech Athletic Association, Inc. (GTAA). Earnings on GTF's endowment are used to support programs and services of the Georgia Institute of Technology. Earnings on funds held for the benefit of GTAA are used to support the athletic and scholarship programs of that organization.

Endowment corpus is nonexpendable, but the earnings on the investments may be spent in accordance with donor restrictions or in accordance with GTF's spending policy. GTF has established a spending policy in which up to 6% of the twelve quarter average market value of the endowment funds are allocated from the earnings for expenditure. In fiscal year 2004, the Foundation allocated 5.7% of that average.

Georgia Tech Facilities, Inc. lists investments totaling $112.5 million on its balance sheet; however, this is composed primarily of investments in U. S. Treasury Notes that will be used to construct facilities that will be leased by Georgia Institute of Technology.

Georgia Tech Foundation, Inc. (Foundation) holds an investment in a long-term capital lease receivable of $182,245,285.79 from the Georgia Institute of Technology (Institute). This is a leveraged lease that is priced to fund the debt used to finance the leased facilities. Given that, there is no profit margin in the agreement, no residual value for the Foundation because the assets transfer to the Institute at the end of the lease, and the related nature of the parties involved in the transaction, the lease receivable is recorded net of future lease receipts and no deferred revenue is recognized.

Georgia Tech Facilities, Inc. holds an investment in a long-term capital lease receivable of $30,018,000.00 from the Georgia Institute of Technology (Institute). This is a leveraged lease that is priced to fund the debt used to finance the leased facilities. Given that, there is no profit margin in the agreement, no residual value for Georgia Tech Facilities, Inc. because the assets

NOTE 16: COMPONENT UNITS

Investments for Component Units
transfer to the Institute at the end of the lease, and the related nature of the parties involved in the transaction, the lease receivable is recorded net of future lease receipts and no deferred revenue is recognized.

Long-Term Liabilities for Component Units
Georgia Tech Foundation, Inc. has three bond issues outstanding with balances totaling $226,060,000 (not including an unamortized bond discount of $1,748,000). These serial and term bonds include both tax exempt and taxable instruments. The proceeds from the bond issues were used to construct (for the Georgia Institute of Technology) a new Campus Recreation Center and Technology Square, a complex of buildings which includes a bookstore, retail space, a hotel, professional education center, economic development building, parking deck, and an academic building which houses the College of Management. Interest rates on the bonds range from 2.99% to 6.6%. Details of outstanding balances and current year activity for the three bond issues are shown in the statements which follow.

Georgia Tech Facilities, Inc. has four bond issues outstanding with balances totaling $175,840,000. The proceeds from the bond issues were used to acquire or construct (for the benefit of the Georgia Institute of Technology) the Habersham Building, which houses the Institute's Ivan Allen College, Bioengineering and Biosciences Building, Family Housing Complex, Klaus parking deck, and the Molecular Science and Engineering Building. Interest rates on the bonds range from 2% to 5.25%. Details of outstanding balances and current year activity for the four bond issues are shown in the statements, which follow.

The Georgia Tech Athletic Association has one bond issue outstanding with a balance of $110,155,000 and one unsecured note payable totaling $1,036,175. The combined balance for the two is $111,191,175. The bonds payable total does not include an unamortized discount of $1,000,908 and an unamortized "swaption" premium of $2,346,236 which are included in changes in long-term debt identified below. Proceeds from the bonds and note payable were used to finance the acquisition and/or construction of athletic related facilities. Interest rates on the bonds and note range from 4% to 5.5%. Detail of outstanding balances and current year activity for the long-term debt is shown in the statements, which follow.

Changes in long-term liabilities for component units for the fiscal year ended June 30, 2004 are shown below:

NOTE 16: COMPONENT UNITS

Long-Term Liabilities for Component Units

	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due Within One Year
Georgia Tech Foundation, Inc.					
Bonds Payable					
Series 2001A	$ 44,980,000.00		$ 760,000.00	$ 44,220,000.00	$ 790,000.00
Series 2002A (Tax Exempt)	111,090,000.00		1,835,000.00	109,255,000.00	1,900,000.00
Series 2002B (Taxable)	73,190,000.00		605,000.00	72,585,000.00	1,315,000.00
Georgia Tech Facilities, Inc.					
Bonds Payable					
Series 1997A	10,595,000.00		225,000.00	10,370,000.00	235,000.00
Series 1997B	20,375,000.00		430,000.00	19,945,000.00	450,000.00
Series 2003	0.00	$ 70,320,000.00		70,320,000.00	
Series 2004	0.00	75,205,000.00		75,205,000.00	
Georgia Tech Athletic Association					
Bonds and Note Payable					
Series 2001 and Note Payable	111,828,820.00	2,367,000.00	1,659,317.00	112,536,503.00	1,713,481.00
Total Long-Term Debt	$372,058,820.00	$147,892,000.00	$ 5,514,317.00	$514,436,503.00	$ 6,403,481.00

Debt Service Obligations

Annual debt service requirements to maturity for Georgia Tech Foundation, Inc. Series 2001A, 2002A, and 2002B bonds payable are as follows:

	Bonds Payable		
	Principal	Interest	Total
Year Ending June 30:			
2005	$ 4,005,000.00	$ 12,247,589.03	$ 16,252,589.03
2006	4,180,000.00	12,079,973.78	16,259,973.78
2007	4,385,000.00	11,879,629.78	16,264,629.78
2008	4,605,000.00	11,662,200.03	16,267,200.03
2009	4,825,000.00	11,437,490.53	16,262,490.53
2010 through 2014	28,135,000.00	53,148,807.73	81,283,807.73
2015 through 2019	37,250,000.00	44,016,058.85	81,266,058.85
2020 through 2024	46,015,000.00	32,029,819.29	78,044,819.29
2025 through 2029	54,845,000.00	18,404,121.75	73,249,121.75
2030 through 2032	37,815,000.00	3,071,206.75	40,886,206.75
	$226,060,000.00	$209,976,897.52	$436,036,897.52

Annual debt service requirements to maturity for Georgia Tech Facilities, Inc. Series 1997A, 1997B, 2003, and 2004 bonds payable are as follows:

NOTE 16: COMPONENT UNITS

Debt Service Obligations

	Bonds Payable		
	Principal	Interest	Total
Year Ending June 30:			
2005	$ 685,000.00	$ 8,044,143.78	$ 8,729,143.78
2006	2,150,000.00	8,449,238.78	10,599,238.78
2007	2,550,000.00	8,383,616.28	10,933,616.28
2008	3,920,000.00	8,309,060.65	12,229,060.65
2009	4,040,000.00	8,186,708.76	12,226,708.76
2010 through 2014	22,800,000.00	38,343,705.64	61,143,705.64
2015 through 2019	28,945,000.00	32,172,876.55	61,117,876.55
2020 through 2024	37,450,000.00	23,698,513.42	61,148,513.42
2025 through 2029	42,380,000.00	13,365,375.00	55,745,375.00
2030 through 2034	21,660,000.00	5,397,250.00	27,057,250.00
2035 through 2036	9,260,000.00	700,250.00	9,960,250.00
	$175,840,000.00	$155,050,738.86	$330,890,738.86

Annual debt service requirements to maturity for the Georgia Tech Athletic Association Series 2001 bonds payable and unsecured note payable are as follows:

	Bonds and Note Payable		
	Principal	Interest	Total
Year Ending June 30:			
2005	$ 1,713,481.00	$ 5,620,572.00	$ 7,334,053.00
2006	1,779,482.00	5,554,895.00	7,334,377.00
2007	1,855,480.00	5,475,095.00	7,330,575.00
2008	1,951,979.00	5,380,006.00	7,331,985.00
2009	2,052,978.00	5,279,962.00	7,332,940.00
2010 through 2014	11,832,869.00	24,823,881.00	36,656,750.00
2015 through 2019	15,463,334.00	21,193,902.00	36,657,236.00
2020 through 2024	20,018,285.00	16,630,655.00	36,648,940.00
2025 through 2029	26,198,287.00	10,785,493.00	36,983,780.00
2030 through 2034	28,325,000.00	3,032,334.00	31,357,334.00
	$111,191,175.00	$103,776,795.00	$214,967,970.00
Unamortized Premium	2,346,236.00		
Unamortized Discount	-1,000,908.00		
Total Bonds and Notes Payable	$112,536,503.00		

SUPPLEMENTARY INFORMATION

GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO
BUDGET - (NON-GAAP BASIS)
RESIDENT INSTRUCTION
YEAR ENDED JUNE 30, 2004

SCHEDULE "1"

	BUDGET	ACTUAL (1)	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES			
State Appropriations	$ 189,382,398.00	$ 189,382,398.00	$ 0.00
Other Revenues Retained	494,987,455.00	422,077,119.27	-72,910,335.73
	$ 684,369,853.00	$ 611,459,517.27	$ -72,910,335.73
EXPENDITURES			
Personal Services:			
Education, General and Departmental Services	$ 234,814,822.00	$ 274,083,850.91	$ -39,269,028.91
Sponsored Operations	120,527,698.00	105,465,998.22	15,061,699.78
Operating Expenses:			
Education, General and Departmental Services	149,311,187.00	98,558,842.47	50,752,344.53
Sponsored Operations	129,472,302.00	106,665,026.37	22,807,275.63
Capital Outlay	32,000,000.00	0.00	32,000,000.00
Special Funding Initiative	3,393,738.00	3,913,740.22	-520,002.22
Research Consortium	14,850,106.00	14,833,386.09	16,719.91
	$ 684,369,853.00	$ 603,520,844.28	$ 80,849,008.72
Excess of Revenues over Expenditures		$ 7,938,672.99	$ 7,938,672.99

(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.

SCHEDULE "2"

GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET - (NON-GAAP BASIS)
OTHER ORGANIZED ACTIVITIES
YEAR ENDED JUNE 30, 2004

	BUDGET	ACTUAL (1)	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES			
State Appropriations	$ 18,448,162.00	$ 18,448,162.00	$ 0.00
Other Revenues Retained	150,248,002.00	129,644,472.49	-20,603,529.51
	$ 168,696,164.00	$ 148,092,634.49	$ -20,603,529.51
EXPENDITURES			
Personal Services:			
Education, General and Departmental Services	$ 27,795,694.00	$ 27,162,142.81	$ 633,551.19
Sponsored Operations	52,114,736.00	52,566,052.10	-451,316.10
Operating Expenses:			
Education, General and Departmental Services	25,990,763.00	19,982,338.30	6,008,424.70
Sponsored Operations	26,605,000.00	21,123,276.35	5,481,723.65
Agricultural Research	1,669,447.00	1,643,009.12	26,437.88
Advanced Technology Development Center/Economic Development Institute	25,570,316.00	17,802,974.86	7,767,341.14
CATEA (formerly CRT)	8,950,208.00	5,533,335.32	3,416,872.68
	$ 168,696,164.00	$ 145,813,128.86	$ 22,883,035.14
Excess of Revenues over Expenditures		$ 2,279,505.63	$ 2,279,505.63

(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, 2004

SCHEDULE "3"

		SALARIES	TRAVEL
Totals per Annual Supplement		$ 417,205,851.84	$ 12,990,735.14
Accruals - Payroll			
June 30, 2004		461,269.94	
June 30, 2003		-280,985.74	
Compensated Absences			
June 30, 2004		24,317,280.29	
June 30, 2003		-23,670,839.76	
Prepaid Salaries			
June 30, 2003		2,491,394.48	
Adjustments			
Shared Services on Jointly Staffed Personnel			
Board of Regents of the University System of Georgia			
Barnes,	Rosalind	22,632.06	
Blackwell,	Lana	11,519.77	
Ervin,	Juanita	2,305.98	
Jones,	Shelia	60,214.04	
Kilpatrick,	Toyna	14,811.60	
Revak,	Roxanne	10,312.88	
Georgia Southern University			
Bishop,	Patricia	24,000.00	
Lesaja,	Goran	27,000.00	
Georgia State University			
O'Farrell,	Laura	29,904.00	
Southern Polytechnic State University			
Pace,	Jack	24,000.00	
State University of West Georgia			
Osbeck,	Lisa	24,000.00	
Valdosta State University			
Derrick,	M. Elizabeth	15,000.00	
		$ 420,789,671.38	$ 12,990,735.14

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, 2004

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

FS-503-02-01	Previously Reported Corrective Action Implemented
FS-503-03-01	Previously Reported Corrective Action Implemented

SECTION III

CURRENT YEAR FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

REVENUE/RECEIVABLES/RECEIPTS
Failure to Monitor Sponsored Projects
Finding Control Number: FS-503-04-01

Condition: Georgia Institute of Technology did not adequately monitor the timeliness of charges and collection efforts on their Sponsored Projects which resulted in funds due the Institute becoming uncollectible. These uncollectible amounts for certain Sponsored Projects in Restricted funds were funded by General Operations (Resident Instruction Fund).

Criteria: The, Board of Regents of the University System of Georgia's Business Procedures Manuel, Section 10.4.1 (4), as revised, requires that uncollectible accounts must be identified by fund and that "fund integrity must be maintained at all times with regard to the uncollectible accounts". Section 10.4.3 also states "federal receivables resulting from contract or grant activity are to be considered, for write-off purposes, as disallowed charges. The funding source for disallowed charges is indirect cost recoveries (revenue)."

Questioned Cost: N/A

Information: An examination of the uncollectible amounts funded by the Resident Instruction fund disclosed the following:

1. Two expired project agreements had inadequate collection procedures.
2. On nine projects collection of membership dues was inadequate to support research expenditures.
3. Two project agreements had inadequate collection procedures.
4. Two projects showed funds were due however the Sponsor stated that payment had been made.
5. Thirty projects had costs rejected because they were incurred or identified after the project termination date.
6. One project had expenses that were based on anticipated funding that was not realized.

Cause: Management at Georgia Institute of Technology failed to adequately monitor charges to and collections of certain Sponsored Projects within the Restricted funds of the Institute.

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

REVENUE/RECEIVABLES/RECEIPTS
Failure to Monitor Sponsored Projects
Finding Control Number: FS-503-04-01

Effect: As a result of the weaknesses identified, certain Sponsored Projects reflected accounts receivable which were uncollectible due to inadequate collection procedures and/or disallowed charges. These uncollectible amounts were funded by the General Operations (Resident Instruction Fund) of the Institute. However, the funding source for these uncollectibles should be the Indirect Cost Recoveries Fund.

Recommendation: Institute management should strengthen controls to ensure that charges against Sponsored Projects are made in a timely manner to facilitate prompt billing. Also, accounts receivable related to these charges should be closely monitored to ensure proper collection from Sponsors.

EXPENDITURES/LIABILITIES/DISBURSEMENTS
Failure to Follow Travel Policies, Regulations and Procedures
Finding Control Number: FS-503-04-02

Condition: Georgia Institute of Technology failed to comply with and consistently follow its travel policies, regulations and procedures as outlined in Chapter 6 of the Business and Finance Manual.

Criteria: The Georgia Institute of Technology's Business and Finance Manual, Chapter 6.2, Travel Authorization Procedures/TAR Form, Travel Authority Request, states that "University System of Georgia regulations require that a travel authorization form be completed and approved for out-of-state trips or in-state trips not covered under standing authorization prior to the dates of travel". Chapter 6.13, Travel Reimbursement/TES Form, Certification/Approval of Travel Expense Statements, Paragraph 2, states "Reimbursement requests should be submitted to Accounts Payable within 10 working days after completion of the trip".

Questioned Cost: N/A

Information: Test of Controls were performed on the Institute's travel authorization, approval and payment processes. Tests of Controls were performed on twenty five (25) transactions. Additional substantive transactional testing was performed on forty six (46) items resulting in testing of seventy one (71) total transactions. Our testing revealed the following deficiencies:

GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS
Failure to Follow Travel Policies, Regulations and Procedures
Finding Control Number: FS-503-04-02

1. Five (5) instances were noted where Travel Authority Request forms were not properly signed and dated by the employee and/or the supervisor.

2. Eleven (11) Travel Authority Request forms were dated subsequent to the first date of travel in violation of the "pre approval" policy.

3. Twenty (20) travel expense statements were submitted for reimbursement in excess of 30 days after the last date of travel. Several were submitted more than six months after the date of travel and one (1) was submitted over a year after the travel had occurred.

4. Calculation errors were noted on two (2) travel expense statements resulting in underpayments of $46.62.

5. Two (2) travel expense statement had duplicate billings which resulted in overpayments of $272.38.

Cause: The Georgia Institute of Technology failed to follow established travel policies and procedures to ensure that travel expenses are authorized prior to the occurrences of travel; that travel reimbursement requests are submitted in a timely manner; and that payments are made according to established guidelines.

Effect: By not consistently following travel policies, regulations, and procedures, the Georgia Institute of Technology has placed itself in a position where travel expenses incurred could be unauthorized and/or incorrectly reimbursed.

Recommendation: The Georgia Institute of Technology should implement procedures and controls to ensure that all travel policies and procedures are properly followed.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.