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, 2006

Russell W. Hinton
State Auditor
GEORGIA INSTITUTE OF TECHNOLOGY

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FINANCIAL
October 18, 2006

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

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

Ladies and Gentlemen:

We have audited the accompanying basic financial statements (Exhibits A through D) of Georgia Institute of Technology, an organizational unit of the State of Georgia, as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Georgia Institute of Technology's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

06ARL-62
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Georgia Institute of Technology as of June 30, 2006, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Respectfully submitted,

[Signature]
Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
06ARL-62
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, with over $400 million expended on sponsored research activities and
providing a focused, technology based education to over 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, with three schools in the
College of Engineering listed among the country's top five. Georgia Tech offers degrees through
the Colleges of Architecture, Engineering, Sciences, Computing, Management, and the Ivan
Allen College of Liberal Arts. As a leading technology 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 proud to present its financial statements for fiscal year
2006, which began July 1, 2005 and ended June 30, 2006. There are three financial statements
presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in
Net Assets and the Statement of Cash Flows. This discussion and analysis of the Institute's
financial statements provides an overview of its financial activities for the year. The statements
focus on the financial condition, results of operations and cash flows of the Institute as a whole,
with resources classified for accounting and reporting purposes into five net asset categories:
invested in capital assets, net of related debt; restricted-nonexpendable; restricted-expendable;
restricted-capital projects and unrestricted. The basis of accounting is full accrual, including
capitalization and depreciation of equipment and fixed assets. Comparative data is provided for
fiscal year 2005 and fiscal year 2006.

Statement of Net Assets

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

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

Following is a comparative, condensed version of the Institute's Statement of Net Assets as of June 30, 2005 and June 30, 2006:

Statement of Net Assets, Condensed

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2006</th>
<th>June 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$ 141,652,174.94</td>
<td>$ 128,558,615.37</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>1,149,606,811.19</td>
<td>1,135,752,856.00</td>
</tr>
<tr>
<td>Other Assets</td>
<td>63,439,283.97</td>
<td>61,463,979.77</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$1,354,698,270.10</td>
<td>$1,325,775,451.14</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>$ 82,815,062.58</td>
<td>$ 76,862,980.76</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>348,919,406.29</td>
<td>343,414,915.30</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$ 431,734,468.87</td>
<td>$ 420,277,896.06</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in Capital Assets, Net of Debt</td>
<td>$ 814,640,088.28</td>
<td>$ 797,714,559.53</td>
</tr>
<tr>
<td>Restricted - Nonexpendable</td>
<td>47,535,013.93</td>
<td>45,926,483.32</td>
</tr>
<tr>
<td>Restricted - Expendable</td>
<td>26,607,479.99</td>
<td>29,916,051.09</td>
</tr>
<tr>
<td>Restricted - Capital Projects</td>
<td>15,941,133.84</td>
<td>18,849,526.19</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>18,240,085.19</td>
<td>13,090,934.95</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>$ 922,963,801.23</td>
<td>$ 905,497,555.08</td>
</tr>
</tbody>
</table>

The total assets of the Institute increased by $28,922,818.96. A review of the Statement of Net Assets will reveal that the increase was primarily due to an increase of $13,093,559.57 in current assets and an increase of $13,853,955.19 in investment in plant, net of accumulated depreciation. Further review indicates that approximately $18.2 million in unrestricted net assets and approximately $42.5 million in restricted net assets are available for future operations.

The total liabilities for the year increased by $11,456,572.81. This was due primarily to an increase in noncurrent deferred revenue of approximately $5.4 million and noncurrent Lease Purchase Obligations of $5.1 million. The combination of the increase in total assets of
$28,922,818.96 and the increase in total liabilities of $11,456,572.81 yields an increase in total net assets of $17,466,246.15. The increase in total net assets is primarily in the category of invested in capital assets, net of debt in the amount of $16,925,528.75.

**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, and 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, 2005 and June 30, 2006:

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

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2006</th>
<th>June 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$ 624,286,378.91</td>
<td>$ 575,614,395.39</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>842,777,841.66</td>
<td>815,538,916.21</td>
</tr>
<tr>
<td>Operating Loss</td>
<td>-218,491,462.75</td>
<td>-239,924,520.82</td>
</tr>
<tr>
<td>Nonoperating Revenues and Expenses</td>
<td>222,812,182.82</td>
<td>219,615,955.97</td>
</tr>
<tr>
<td>Income (Loss) Before Other Revenues, Expenses, Gains or Losses</td>
<td>$ 4,320,720.07</td>
<td>$ -20,308,564.85</td>
</tr>
<tr>
<td>Other Revenues, Expenses, Gains or Losses</td>
<td>13,145,526.08</td>
<td>6,598,257.10</td>
</tr>
<tr>
<td>Increase (Decrease) in Net Assets</td>
<td>$ 17,466,246.15</td>
<td>$ -13,710,307.75</td>
</tr>
<tr>
<td>Net Assets at Beginning of Year</td>
<td>905,497,555.08</td>
<td>919,207,862.83</td>
</tr>
<tr>
<td>Net Assets at End of Year</td>
<td>$ 922,963,801.23</td>
<td>$ 905,497,555.08</td>
</tr>
</tbody>
</table>

The Statement of Revenues, Expenses and Changes in Net Assets reflects increases in both Operating and Nonoperating Revenues. Overall revenue increased by $71.7 million, primarily in the area of Federal, State, and Other Grants and Contracts. In addition, revenue from State
Appropriations increased by $20.5 million while Tuition and Fees increased by $8.4 million. There was a reduction in Other Nonoperating Revenues of $15.4 million due to a thorough review of capital asset valuation which was completed in the current fiscal year. Please see Note 1 in the Notes to the Financial Statements for more details.

The graph below compares current and prior year revenue:

Total operating expenses for the year were approximately $842.8 million, an increase of $27.3 million, or 3.4%, over the previous year. The increase is actually less than the $35 million of the previous year, a testament to the cost cutting measures implemented during the past several years when State Appropriations and other revenue sources were flat. The graph on the following page shows year-to-year expenditure changes by object of expenditure:
The chart below shows year-to-year expenditure changes by functional area:

- **Instruction, Research, and Public Service**: FY 2006 $580.3, FY 2005 $550.0
- **Academic, Student, and Institutional Support**: FY 2006 $560.5, FY 2005 $550.4
- **Operations and Maintenance of Plant**: FY 2006 $741.1, FY 2005 $764.4
- **Auxiliary Enterprises**: FY 2006 $254.5, FY 2005 $244.3
- **Scholarships and Fellowships**: FY 2006 $108.5, FY 2005 $118.1
- **Depreciation**: FY 2006 $550.8, FY 2005 $456.6
Statement of Cash Flows

The final statement presented by the Georgia Institute of Technology is the Statement of Cash Flows. The statement presents detailed information about the cash activity of the Institute during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash used by the operating activities. The second section shows cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section presents cash flows from capital and related financing activities used for the acquisition and construction of capital and related items. The fourth section shows the cash flows from investing activities and includes purchases, proceeds, and interest received. 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, 2006 and June 30, 2005, Condensed

<table>
<thead>
<tr>
<th>Cash Provided (Used) By:</th>
<th>June 30, 2006</th>
<th>June 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Activities</td>
<td>-155,254,972.32</td>
<td>-191,098,536.14</td>
</tr>
<tr>
<td>Noncapital Financing Activities</td>
<td>240,243,152.12</td>
<td>235,286,465.66</td>
</tr>
<tr>
<td>Capital and Related Financing Activities</td>
<td>-82,136,159.34</td>
<td>-61,484,144.17</td>
</tr>
<tr>
<td>Investing Activities</td>
<td>14,740,214.19</td>
<td>13,776,564.84</td>
</tr>
<tr>
<td><strong>Net Change in Cash</strong></td>
<td><strong>$ 17,592,234.65</strong></td>
<td><strong>$ -3,519,649.81</strong></td>
</tr>
<tr>
<td>Cash, Beginning of Year</td>
<td>57,798,022.19</td>
<td>61,317,672.00</td>
</tr>
<tr>
<td><strong>Cash, End of Year</strong></td>
<td><strong>$ 75,390,256.84</strong></td>
<td><strong>$ 57,798,022.19</strong></td>
</tr>
</tbody>
</table>

Capital Assets

The most significant capital addition for fiscal year 2006 was the purchase of land and buildings in Midtown Atlanta for $14.2 million. In addition, the Swann Building renovation was completed at a cost of $2.8 million and equipment was purchased at a cost of $4 million for biology research.

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

Long-Term Liabilities

Georgia Institute of Technology had Long-Term Liabilities of $369,131,869.54, of which $26,024,963.25 was reflected as current liability at June 30, 2006.

For additional information concerning Long-Term Liabilities, see Notes 1, 8, and 10 in the Notes to the Financial Statements.
Economic Outlook

The Institute's overall financial position remains strong. Revenue collections for the State of Georgia are substantially ahead of prior years, so there are expectations that state appropriations, which have declined from a high of $258.8 million in fiscal year 2001 to $234.0 million in the current year, will show improvement. Board of Regents' allocation of state appropriated funds to Georgia Tech for fiscal year 2007 has increased to $244 million. A projected enrollment increase and an approved tuition increase ranging from 5% to 8% for fiscal year 2007 will have a positive impact on revenue, along with projected growth in the sponsored research program. The Institute's ability to generate funding from tuition, sponsored programs and other revenue generating activities has carried programs through the recent economic downturn. At the same time there continues to be pressures on expenses to meet competitive faculty needs and for utilities. Additional state support and capital investments will be necessary to maintain recent momentum and realize the potential of the Institute to contribute to the state and greater Atlanta economy.

G. Wayne Clough, President

Georgia Institute of Technology
BASIC FINANCIAL STATEMENTS
**ASSETS**

Current Assets
- Cash and Cash Equivalents $74,841,219.04
- Short-Term Investments 163,015.77
- Accounts Receivable, Net (Note 3)
  - Federal Financial Assistance 29,235,536.57
  - Other 33,764,762.03
- Inventories (Note 4) 302,485.18
- Prepaid items 3,345,156.35

Total Current Assets $141,652,174.94

Noncurrent Assets
- Noncurrent Cash $549,037.80
- Investments 54,790,279.73
- Notes Receivable, Net 8,189,966.44
- Capital Assets, Net (Note 6) 1,149,606,811.19

Total Noncurrent Assets $1,213,046,095.16

Total Assets $1,354,698,270.10

**LIABILITIES**

Current Liabilities
- Accounts Payable $3,954,259.49
- Salaries Payable 660,795.07
- Benefits Payable 154,698.45
- Contracts Payable 2,020,823.11
- Deposits 22,518,317.86
- Deferred Revenue (Note 7) 19,828,512.30
- Other Liabilities 4,903,329.50
- Funds Held for Others 2,749,983.65
- Lease Purchase Obligations 10,008,721.60
- Compensated Absences 16,016,241.65

Total Current Liabilities $82,815,062.58

Noncurrent Liabilities
- Lease Purchase Obligations $331,226,771.31
- Deferred Revenue (Note 7) 5,812,500.00
- Compensated Absences 11,880,134.98

Total Noncurrent Liabilities $348,919,406.29

Total Liabilities $431,734,468.87

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt $814,640,088.28

Restricted for:
- Nonexpendable 47,535,013.93
- Expendable 26,607,479.89
- Capital Projects 15,941,133.64
- Unrestricted 18,240,085.19

Total Net Assets $922,963,801.23

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

- **Student Tuition and Fees**  
  $124,986,358.52
- **Less: Scholarship Allowances**  
  (-18,854,955.00)
- **Grants and Contracts**  
  - Federal  
    277,281,669.43
  - State  
    15,360,887.66
  - Other  
    122,087,403.80
- **Sales and Services of Educational Departments**  
  14,318,924.76
- **Rents and Royalties**  
  651,523.10

**Auxiliary Enterprises**
- Residence Halls  
  37,015,924.55
- Bookstore  
  1,016,776.73
- Food Services  
  13,989,260.86
- Parking/Transportation  
  10,584,475.49
- Health Services  
  5,041,108.76
- Intercollegiate Athletics  
  2,100,056.62
- Other Organizations  
  1,725,325.36
- **Other Operating Revenues**  
  16,956,738.27

**Total Operating Revenues**  
$624,286,378.91

### Operating Expenses

- **Salaries**  
  - **Faculty**  
    $216,049,214.53
  - **Staff**  
    224,807,198.56
- **Employee Benefits**  
  87,986,257.00
- **Other Personal Services**  
  3,423,485.56
- **Travel**  
  15,842,510.54
- **Scholarships and Fellowships**  
  10,532,313.00
- **Utilities**  
  24,973,552.24
- **Supplies and Other Services**  
  203,137,695.85
- **Depreciation**  
  56,025,611.32

**Total Operating Expenses**  
$842,777,841.66

**Operating Income (Loss)**  
$-218,491,462.75

### Nonoperating Revenues (Expenses)

- **State Appropriations**  
  $239,962,236.00
- **Gifts**  
  7,914,302.87
- **Interest and Other Investment Income**  
  11,913,987.57
- **Interest Expense**  
  -16,962,749.94
- **Other Nonoperating Revenues/Expenses**  
  -14,015,593.68

**Net Nonoperating Revenues**  
$222,812,182.82

**Income (Loss) Before Other Revenues, Expenses, Gains, or Losses**  
$4,320,720.07

**Capital Grants and Gifts**  
- **State**  
  $9,507,759.27
- **Other**  
  3,637,766.81

**Total Other Revenues**  
$13,145,526.08

**Increase (Decrease) in Net Assets**  
$17,466,246.15

**Net Assets - Beginning of Year**  
905,497,555.08

**Net Assets - End of Year**  
$922,963,801.23

The notes to the financial statements are an integral part of this statement.
CASH FLOWS FROM OPERATING ACTIVITIES
Tuition and Fees $ 105,271,025.10
Grants and Contracts 418,643,746.52
Sales and Services of Educational Departments 18,347,591.87
Payments to Suppliers -327,470,919.29
Payments to Employees -441,297,364.01
Payments for Scholarships and Fellowships -10,532,316.00
Loans Issued to Students and Employees -3,814,621.40
Collection of Loans to Students and Employees 3,310,403.44
Auxiliary Enterprise Charges:
  Residence Halls 36,769,585.77
  Bookstore 1,079,624.40
  Food Services 13,984,515.86
  Parking/Transportation 10,609,249.78
  Health Services 5,047,110.76
  Intercollegiate Athletics 2,100,956.62
  Other Organizations 1,761,699.85
  Other Receipts (Payments) 10,924,738.41
Net Cash Provided (Used) by Operating Activities $ -155,254,972.32

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES
State Appropriations $ 233,962,236.00
Agency Funds Transactions -420,640.07
Gifts and Grants Received for Other than Capital Purposes 5,233,221.73
Other Nonoperating Receipts 1,468,334.46
Net Cash Flows Provided (Used) by Noncapital Financing Activities $ 240,243,152.12

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES
Proceeds from Sale of Capital Assets $ 47,370.44
Purchases of Capital Assets -58,101,811.27
Principal Paid on Capital Debt and Leases -7,118,968.57
Interest Paid on Capital Debt and Leases -16,962,749.94
Net Cash Provided (Used) by Capital and Related Financing Activities $ -82,136,159.34

CASH FLOWS FROM INVESTING ACTIVITIES
Proceeds from Sales and Maturities of Investments $ 3,974,203.25
Interest on Investments 10,766,010.94
Net Cash Provided (Used) by Investing Activities $ 14,740,214.19

Net Increase (Decrease) in Cash $ 17,592,234.65
Cash and Cash Equivalents - Beginning of Year 57,798,022.19

Cash and Cash Equivalents - End of Year $ 75,390,256.84
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss) $ -218,491,462.75

Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities
Depreciation 56,025,611.32
Change in Assets and Liabilities:
  Accounts Receivable, Net -2,283,321.64
  Inventories 193,845.83
  Prepaid Items 2,290,838.03
  Notes Receivable, Net -504,217.96
  Accounts Payable -2,996,542.61
  Deferred Revenue 2,546,787.67
  Other Liabilities 8,508,181.45
  Compensated Absences -544,691.66

Net Cash Provided (Used) by Operating Activities $ -155,254,972.32

NONCASH ACTIVITY

Fixed Assets Acquired by Incurring Capital Lease Obligations $ 10,316,165.01
Change in Fair Value of Investments Recognized as a Component of Interest Income $ 1,147,976.63
Gift of Capital Assets Reducing Proceeds of Capital Grants and Gifts $ -9,507,759.27
Gifts Other than Capital Assets Reducing Proceeds of Grants and Gifts for Other Than Capital Assets $ -2,681,081.14
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
Georgia Institute of Technology is one of thirty-five (35) State supported member institutions of higher education in Georgia which comprise the University System of Georgia, an organizational unit of the State of Georgia. The accompanying financial statements reflect the operations of Georgia Institute of Technology as a separate reporting entity.

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

Legally separate, tax exempt organizations whose activities primarily support units of the University System of Georgia, which are organizational units of the State of Georgia, are considered potential Component Units of the State. See Note 16, Component Units, for additional information.
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 a component unit of the State of Georgia, the Institute was also required to adopt GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the GASB and are presented as required by these standards to provide a comprehensive, entity-wide perspective of the Institute's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund group perspective previously required.

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

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

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

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

INVESTMENTS
The Institute accounts for its investments at fair market value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Changes in unrealized gain (loss) on the carrying value of investments are
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS
reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets. The Board of Regents Diversified Fund, and the Georgia Extended Asset Pool are included under Investments.

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

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

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

CAPITAL ASSETS
Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the Institute's capitalization policy includes all items with a unit cost of $5,000.00 or more, and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that exceed $100,000.00 and significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 75 years for infrastructure and land improvements, 10 years for library books, and 5 to 20 years for equipment. Residual values will generally be 10% of historical costs for infrastructure, buildings and building improvements, and facilities and other improvements.

To obtain the total picture of plant additions in the University System, it is necessary to look at the activities of the Georgia State Financing and Investment Commission (GSFIC) - an organization that is external to the System. GSFIC issues bonds for and on behalf of the State of Georgia, pursuant to powers granted to it in the Constitution of the State of Georgia and the Act creating the GSFIC. The bonds so issued constitute direct and general obligations of the State of Georgia, to the payment of which the full faith, credit and taxing power of the State are pledged.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CAPITAL ASSETS
Effective July 1, 2001, the GSFIC retains construction in progress on their books throughout the construction period and transfers the entire project to the Georgia Institute of Technology when complete. For the year ended June 30, 2006, GSFIC transferred capital additions valued at $9,461,867.97 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 and pre-paid rent.

COMPENSATED ABSENCES
Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses and Changes in Net Assets. Georgia Institute of Technology had accrued liability for compensated absences in the amount of $28,441,068.29 as of July 1, 2005. For fiscal year 2006, $16,589,018.72 was earned in compensated absences and employees were paid $17,133,710.38, for a net decrease of $544,691.66. The ending balance as of June 30, 2006 in accrued liability for compensated absences was $27,896,376.63.

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:
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NET ASSETS

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

_Restricted net assets - nonexpendable:_ Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Institute may accumulate as much of the annual net income of an institutional fund as is prudent under the standard established by Code Section 44-15-7 of Annotated Code of Georgia.

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

Expendable Restricted Net Assets include the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted - E &amp; G and Other Organized Activities</td>
<td>$7,105,693.35</td>
</tr>
<tr>
<td>Federal Loans</td>
<td>6,480,889.55</td>
</tr>
<tr>
<td>Institutional Loans</td>
<td>3,978,175.59</td>
</tr>
<tr>
<td>Quasi-Endowments</td>
<td>9,042,721.50</td>
</tr>
</tbody>
</table>

_Total Restricted Expendable                          | $26,607,479.99  |

_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, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet current expenses for those purposes, except for unexpended state appropriations (surplus).
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NET ASSETS
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, 2006, there was no surplus balance to be refunded. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>R &amp; R Reserve</td>
<td>$ 12,997,398.77</td>
</tr>
<tr>
<td>Reserve for Encumbrances</td>
<td>23,069,960.91</td>
</tr>
<tr>
<td>Reserve for Inventory</td>
<td>285,979.60</td>
</tr>
<tr>
<td>Other Unrestricted</td>
<td>-18,113,254.09</td>
</tr>
<tr>
<td><strong>Total Unrestricted Net Assets</strong></td>
<td><strong>$ 18,240,085.19</strong></td>
</tr>
</tbody>
</table>

June 30, 2006

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

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

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

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

*Nonoperating revenues*: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2: DEPOSITS AND INVESTMENTS

DEPOSITS
The custodial credit risk for deposits is the risk that in the event of a bank failure, the Institute's deposits may not be recovered. Funds belonging to the State of Georgia (and thus the Institute) cannot be placed in a depository paying interest longer than ten days without the depository providing a surety bond to the State. In lieu of a surety bond, the depository may pledge as collateral any one or more of the following securities as enumerated in the Official Code of Georgia Annotated Section 50-17-59:

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

2. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.

3. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.

4. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia.

5. Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest and debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association and the Federal National Mortgage Association.

6. Guarantee or insurance of accounts provided by the Federal Deposit Insurance Corporation.
NOTE 2: DEPOSITS AND INVESTMENTS

DEPOSITS
The Treasurer of the Board of Regents is responsible for all details relative to furnishing the required depository protection for all units of the University System of Georgia.

At June 30, 2006, the carrying value of deposits was $46,439,405.94 and the bank balance was $54,383,516.34. Of the Institute's deposits, $54,180,036.30 was uninsured. Of these uninsured deposits, $48,353,586.12 was collateralized with securities held by the financial institution's trust department or agent in the Institute's name, and $5,826,450.18 were uncollateralized.

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

The Institute's investments as of June 30, 2006 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
<th>Less Than 1 Year</th>
<th>1 - 5 Years</th>
<th>6 - 10 Years</th>
<th>More than 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U. S. Treasuries</td>
<td>$6,272,468.09</td>
<td>$1,000,065.82</td>
<td>$2,918,141.15</td>
<td>$1,575,946.20</td>
<td>$778,314.92</td>
</tr>
<tr>
<td>U. S. Agencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implicitly Guaranteed</td>
<td>2,590,993.65</td>
<td>620,611.95</td>
<td>1,472,814.00</td>
<td>497,567.70</td>
<td></td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>35,000.00</td>
<td>35,000.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Debt</td>
<td>2,331,134.15</td>
<td>178,545.45</td>
<td>1,484,588.35</td>
<td>668,000.35</td>
<td></td>
</tr>
<tr>
<td>Mortgage Backed Securities (U. S. Agencies)</td>
<td>235,637.59</td>
<td>34,466.62</td>
<td></td>
<td>52,992.71</td>
<td>148,178.26</td>
</tr>
<tr>
<td></td>
<td>$11,465,233.48</td>
<td>$1,834,223.22</td>
<td>$5,910,010.12</td>
<td>$2,794,506.96</td>
<td>$926,493.18</td>
</tr>
<tr>
<td>Other Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond/Fixed Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>159,894.10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Mutual Funds</td>
<td>308,170.43</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Securities - Domestic</td>
<td>906,554.09</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Held for</td>
<td>1,458.11</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Purposes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Pools</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Regents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-Term Fund</td>
<td>9,956,451.47</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversified Fund</td>
<td>42,030,692.62</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of Treasury and Fiscal Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Georgia Fund 1</td>
<td>18,714,374.53</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Georgia Extended Asset Pool</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>128,015.77</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$83,760,644.60</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NOTE 2: DEPOSITS AND INVESTMENTS

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

The Weighted Average Maturity of the Short-Term Fund is 1.3 years. Of the Institute's total investment of $9,956,451.47 in the Short-Term Fund, $9,787,569.00 is invested in debt securities.

The Weighted Average Maturity of the Diversified Fund is 8.2 years. Of the Institute's total investment of $42,030,692.62 in the Diversified Fund, $12,339,747.00 is invested in debt securities.

The Georgia Fund 1 Investment Pool, managed by the Office of Treasury and Fiscal Services, is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. This investment is valued at the pool's share price, $1.00 per share. The Georgia Fund 1 Investment Pool is an AAAm rated investment pool by Standard and Poor's. The Weighted Average Maturity of the Fund is 28 days.

The Georgia Extended Asset Pool, managed by the Office of Treasury and Fiscal Services, is not registered with the Securities and Exchange Commission as an investment company. Net Asset Value (NAV) is calculated daily to determine current share price, which was $1.97 at June 30, 2006. The Georgia Extended Asset Pool is an AAA rated investment pool by Standard and Poor's. The Weighted Average Maturity of the Fund is 1.08 years.
NOTE 2: DEPOSITS AND INVESTMENTS

INVESTMENTS

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

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

At June 30, 2006, $11,098,049.58 of the Institute's applicable investments were uninsured and held by the investment's counterparty in the Institute's name and $1,700,833.02 were uninsured and held by the investment's counterparty's trust department or agent, but not in the Institute's name.

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

<table>
<thead>
<tr>
<th>Rated Debt Investments</th>
<th>Fair Value</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BAA</th>
<th>Unrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. S. Agencies</td>
<td>$2,590,993.65</td>
<td>$2,259,189.82</td>
<td>$331,803.83</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates of Deposit/</td>
<td>35,000.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time Deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Debt</td>
<td>$2,331,134.15</td>
<td>67,049.00</td>
<td>$843,362.15</td>
<td>$997,826.80</td>
<td>$422,896.20</td>
<td></td>
</tr>
<tr>
<td>Mortgage Backed Securities</td>
<td>235,637.59</td>
<td>229,138.99</td>
<td></td>
<td></td>
<td></td>
<td>6,498.60</td>
</tr>
<tr>
<td>(U. S. Agencies)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$5,192,765.39</td>
<td>$2,555,377.81</td>
<td>$843,362.15</td>
<td>$997,826.80</td>
<td>$422,896.20</td>
<td>$373,302.43</td>
</tr>
</tbody>
</table>

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Institute's policy for managing concentration of credit risk is an integral part of its current investment policies dated May 16, 2005, which overviews concentration guidelines not allowing more than 20% of the total investment portfolio to be concentrated in anyone other than the U. S. Treasury or other Federal Government agencies.
NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2006.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Tuition and Fees</td>
<td>$ 749,338.87</td>
</tr>
<tr>
<td>Auxiliary Enterprises and Other Operating Activities</td>
<td>1,550,242.41</td>
</tr>
<tr>
<td>Federal Financial Assistance</td>
<td>29,235,536.57</td>
</tr>
<tr>
<td>Other</td>
<td>33,163,750.60</td>
</tr>
<tr>
<td></td>
<td>$ 64,698,868.45</td>
</tr>
</tbody>
</table>

Less Allowance for Doubtful Accounts

Net Accounts Receivable

$ 63,000,298.60

NOTE 4: INVENTORIES

Inventories consisted of the following at June 30, 2006.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Plant</td>
<td>$ 271,372.86</td>
</tr>
<tr>
<td>Other</td>
<td>31,112.32</td>
</tr>
<tr>
<td>Total</td>
<td>$ 302,485.18</td>
</tr>
</tbody>
</table>

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, 2006. 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, 2006 the allowance for uncollectible loans was $55,126.97.
NOTE 6: CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2006:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance July 1, 2005</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Assets, Not Being Depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$42,937,634.97</td>
<td>$6,006,471.34</td>
<td></td>
<td>$48,944,106.31</td>
</tr>
<tr>
<td>Capitalized Collections</td>
<td>3,398,775.00</td>
<td>2,973,045.00</td>
<td></td>
<td>6,371,820.00</td>
</tr>
<tr>
<td>Construction Work-In-Progress</td>
<td>29,031,108.03</td>
<td>33,465,844.95</td>
<td>$12,773,063.35</td>
<td>49,744,889.63</td>
</tr>
<tr>
<td>Total Capital Assets Not Being Depreciated</td>
<td>$75,387,518.00</td>
<td>$42,445,361.29</td>
<td>$12,777,063.35</td>
<td>$105,060,815.94</td>
</tr>
<tr>
<td>Capital Assets, Being Depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$44,932,890.01</td>
<td>$5,840,982.23</td>
<td></td>
<td>$50,773,872.24</td>
</tr>
<tr>
<td>Building and Building Improvements</td>
<td>1,058,635,426.48</td>
<td>18,263,206.44</td>
<td>$13,457,176.83</td>
<td>1,063,441,456.09</td>
</tr>
<tr>
<td>Facilities and Other Improvements</td>
<td>14,366,612.98</td>
<td>166,157.47</td>
<td>141,413.07</td>
<td>14,388,357.38</td>
</tr>
<tr>
<td>Equipment</td>
<td>306,484,384.71</td>
<td>23,937,052.24</td>
<td>12,237,730.17</td>
<td>318,183,706.78</td>
</tr>
<tr>
<td>Library Collections</td>
<td>80,548,527.55</td>
<td>4,762,816.00</td>
<td>2,474.00</td>
<td>85,309,899.55</td>
</tr>
<tr>
<td>Total Assets Being Depreciated</td>
<td>$1,504,967,841.73</td>
<td>$52,970,214.38</td>
<td>$25,841,794.07</td>
<td>$1,532,096,262.04</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$8,649,692.47</td>
<td>$1,025,619.06</td>
<td></td>
<td>$9,675,311.53</td>
</tr>
<tr>
<td>Building and Building Improvements</td>
<td>188,133,906.87</td>
<td>25,742,219.44</td>
<td>$3,481,124.45</td>
<td>210,395,001.86</td>
</tr>
<tr>
<td>Facilities and Other Improvements</td>
<td>6,545,696.64</td>
<td>315,651.35</td>
<td>94,200.84</td>
<td>6,767,147.15</td>
</tr>
<tr>
<td>Equipment</td>
<td>185,107,314.98</td>
<td>25,812,698.47</td>
<td>9,500,048.97</td>
<td>201,419,945.48</td>
</tr>
<tr>
<td>Library Collections</td>
<td>56,165,892.77</td>
<td>3,129,433.00</td>
<td>2,474.00</td>
<td>59,292,851.77</td>
</tr>
<tr>
<td>Total Accumulated Depreciation</td>
<td>$444,602,503.73</td>
<td>$56,025,611.32</td>
<td>$13,077,848.26</td>
<td>$487,550,266.79</td>
</tr>
<tr>
<td>Total Capital Assets, Being Depreciated, Net</td>
<td>$1,060,365,338.00</td>
<td>$4,055,396.94</td>
<td>$12,763,945.81</td>
<td>$1,044,545,995.25</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>$1,135,752,856.00</td>
<td>$39,389,964.35</td>
<td>$25,536,000.16</td>
<td>$1,149,606,811.19</td>
</tr>
</tbody>
</table>

NOTE 7: DEFERRED REVENUE

Current deferred revenue consisted of the following at June 30, 2006.

Prepaid Tuition and Fees $9,988,582.51
Research 8,960,353.10
Other Deferred Revenue 879,576.69

Totals $19,828,512.30

Long-Term deferred revenue totaled $5,812,500.00.

NOTE 8: LONG-TERM LIABILITIES

Long-Term liability activity for the year ended June 30, 2006 was as follows:
NOTE 8: LONG-TERM LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leases</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease Obligations</td>
<td>$338,038,296.47</td>
<td>$10,316,165.01</td>
<td>$7,118,968.57</td>
<td>$341,235,492.91</td>
<td>$10,008,721.60</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>28,441,068.29</td>
<td>16,589,018.72</td>
<td>17,133,710.38</td>
<td>27,896,376.63</td>
<td>16,016,241.65</td>
</tr>
<tr>
<td>Total Long-Term Obligations</td>
<td>$366,479,364.76</td>
<td>$26,905,183.72</td>
<td>$24,252,678.95</td>
<td>$369,131,869.54</td>
<td>$26,024,963.25</td>
</tr>
</tbody>
</table>

NOTE 9: SIGNIFICANT COMMITMENTS

Georgia Institute of Technology had significant unearned, outstanding, construction or renovation contracts executed in the amount of $4,075,491.44 as of June 30, 2006. This amount is not reflected in the accompanying basic financial statements.

NOTE 10: LEASE OBLIGATIONS

Georgia Institute of Technology is obligated under various operating leases for the use of real property (land, buildings, and office facilities) and equipment, and also is obligated under capital leases and installment purchase agreements for the acquisition of real property and equipment.

CAPITAL LEASES

Capital leases are generally payable in installments ranging from monthly to annually and have terms expiring in various years between 2005 and 2035. Expenditures for fiscal year 2006 were $24,520,584.55 of which $17,401,615.98 represented interest. Total principal paid on capital leases was $7,118,968.57 for the fiscal year ended June 30, 2006. Interest rates range from 3.36 percent to 11 percent. The following is a summary of the carrying values of assets held under capital lease at June 30, 2006:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$11,315,863.31</td>
</tr>
<tr>
<td>Buildings</td>
<td>324,191,454.91</td>
</tr>
<tr>
<td>Equipment</td>
<td>8,817,797.21</td>
</tr>
</tbody>
</table>

Total Assets Held Under Capital Lease $344,325,115.43

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

Georgia Institute of Technology had four capital leases with related parties in fiscal year 2006. In November 1997, Georgia Institute of Technology entered into a capital lease of $21,560,000.00
NOTE 10: LEASE OBLIGATIONS

CAPITAL LEASES
for the Parker H. Petit Institute of Bioengineering and Biosciences Building with the Georgia Tech Research Corporation and Georgia Tech Facilities, Inc., both affiliated organizations. The lease term is for a 30-year period that began November 1997 and expires May 2028. At June 30, 2006 the remaining long-term debt obligation (principal) under the lease was $19,025,000.00, and the amount due (principal and interest) in the next fiscal year is $1,423,608.76.

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 an affiliated organization of the Institute. The lease term is for a 29-year period that began August 2003 and expires July 2032. At June 30, 2006 the remaining long-term debt obligation (principal) under the lease was $134,536,960.00, and the amount due (principal and interest) in the next fiscal year is $9,939,912.60.

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 an affiliated organization of the Institute. The lease term is for a 30-year period that began February 2001 and expires February 2031. At June 30, 2006 the remaining long-term debt obligation (principal) under the lease was $42,605,000.00, and the amount due (principal and interest) in the next fiscal year is $3,069,317.52.

In May 2005 Georgia Institute of Technology entered into a capital lease of $70,320,000.00 with Georgia Tech Facilities, Inc., an affiliated organization, for a complex of buildings collectively named "Married Family Housing". The lease term is for 25 years and expires in June, 2030. At June 30, 2006 the remaining long-term debt obligation under the lease was $68,885,000.00 and the amount due (principal and interest) in the next fiscal year is $5,080,145.02.

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, 2006 the remaining long-term debt obligation (principal) under the lease was $62,874,061.76 and the amount due (principal and interest) in the next fiscal year is $4,140,928.90. 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, 2006 totaling $13,309,471.15.
NOTE 10: LEASE OBLIGATIONS

OPERATING LEASES
Georgia Institute of Technology's noncancellable operating leases with remaining terms of more than one year expire in various fiscal years from 2006 through 2009. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancelable if the State of Georgia does not provide adequate funding, but that is considered a remote possibility. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Examples of property under operating leases include real estate rentals, copiers and other small business equipment.

DESCRIPTION OF RELATED PARTY LEASES
In 1994, Georgia Institute of Technology entered into a real property operating lease with the Georgia Tech Research Corporation, (GTRC), an affiliated organization, for office space in Arlington, Virginia. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $16,709.14. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC $200,509.68 in fiscal year 2007.

In 1995, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Marietta, Georgia. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $105,055.83. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC $1,260,669.96 in fiscal year 2007.

In 1995, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in the Centennial Research Building in Atlanta, Georgia. The current agreement is for July 1, 2006 through June 30, 2007 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 GTRC $1,510,440.00 in fiscal year 2007.

In 2000, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Fairburn, Ohio. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $15,904.50. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC $190,854.00 in fiscal year 2007.

In 2002, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Orlando, Florida. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $3,743.86. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC $44,926.32 in fiscal year 2007.
NOTE 10: LEASE OBLIGATIONS

DESCRIPTION OF RELATED PARTY LEASES

In 2003, Georgia Institute of Technology entered into a real property operating lease with Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office space in the Cenrgy One Building located at 75 Fifth Street in Atlanta, Georgia. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $69,934.53. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Advanced Technology Ventures, Inc. $839,214.36 in fiscal year 2007.

In 2003, Georgia Institute of Technology entered into a real property operating lease with VLP 1, Inc., a subsidiary of Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office and lab space located at 575 14th Street in Atlanta, Georgia. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $55,797.51. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay VLP 1, Inc. a minimum of $669,570.16 in fiscal year 2007.

In 2003, Georgia Institute of Technology entered into a real property operating lease with VLP 2, Inc., a subsidiary of Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office space located at 650 Ethel Street in Atlanta, Georgia. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $22,983.83. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay VLP 2, Inc. $275,805.96 in fiscal year 2007.

In 2004, Georgia Institute of Technology entered into a real property operating lease with GTRC for office space in Marietta, Georgia. The current agreement is for July 1, 2006 through June 30, 2007 with monthly fees of $2,116.80. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay GTRC $25,200.00 in fiscal year 2007.

In 2006, Georgia Institute of Technology entered into a real property operating lease with Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office space in Columbus, Georgia. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $2,068.00. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Advanced Technology Ventures, Inc. $24,816.00 in fiscal year 2007.

In 2006, Georgia Institute of Technology entered into a real property operating lease with Georgia Advanced Technology Ventures, Inc., an affiliated organization, for office space in the Cenrgy One Building located at 75 Fifth Street in Atlanta, Georgia. The current agreement is for July 1, 2006 through June 30, 2007 for monthly fees of $128,683.63. The agreement does contain a renewal option. Under this agreement, Georgia Institute of Technology is obligated to pay Georgia Advanced Technology Ventures, Inc. $1,544,203.56 in fiscal year 2007.
NOTE 11: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA

Plan Description
Georgia Institute of Technology participates in the Teachers Retirement System of Georgia (TRS), a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly. TRS provides retirement allowances and other benefits for plan participants. TRS provides service retirement, disability retirement, and survivor's benefits for its members in accordance with State statute. The Teachers Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the 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 2006, 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:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Percentage Contributed</th>
<th>Required Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>100%</td>
<td>$17,233,661.18</td>
</tr>
<tr>
<td>2005</td>
<td>100%</td>
<td>$16,731,285.81</td>
</tr>
<tr>
<td>2004</td>
<td>100%</td>
<td>$16,699,191.29</td>
</tr>
</tbody>
</table>

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.
NOTE 11: RETIREMENT PLANS

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

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

Retirement benefits paid to members are based upon a formula which considers the monthly average of the member's highest twenty-four consecutive calendar months of salary, the number of years of creditable service, and the member's age at retirement. Post-retirement cost-of-living adjustments are also made to member's benefits. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension at reduced rates to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

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

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

Funding Policy
As established by State statute, all full-time employees of the State of Georgia and its political subdivisions, who are not members of other state retirement systems, are eligible to participate in the ERS. Both employer and employee contributions are established by State statute. The Institute's payroll for the year ended June 30, 2006, for employees covered by ERS was $513,004.24. The Institute's total payroll for all employees was $444,279,898.65.

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, 2006, the ERS employer contribution rate for the Institute was 5.66% of covered payroll and included the amounts contributed on behalf of the employees under the old plan referred to above. Employer contributions are also made on amounts paid for accumulated leave to retiring employees.
NOTE 11: RETIREMENT PLANS

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

Funding Policy
Total contributions to the plan made during fiscal year 2006 amounted to $61,660.51, of which $43,713.38 was made by the Institute and $17,947.13 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, 2006, 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 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. The four approved annuity providers are AIG-VALIC, American Century, Fidelity Investments, and TIAA-CREF.

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 2006, the employer contribution was 9.65% of the participating employee's earnable compensation. Employees contribute 5% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and nonforfeitable at all times.

The Institute and its covered employees made required contributions (including some minor adjustments) of $16,098,913.92 (9.65%) and $8,340,874.46 (5%), respectively in fiscal year 2006.
NOTE 11: RETIREMENT PLANS

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

Total contributions made by employees during fiscal year 2006 amounted to $764,788.22 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 that are disallowed under grant terms. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although Georgia Institute of Technology expects such amounts, if any, to be immaterial to its overall financial position.

Litigation, claims and assessments filed against Georgia Institute of Technology (an organizational unit of the Board of Regents of the University System of Georgia), if any, are generally considered to be actions against the State of Georgia. Accordingly, significant litigation, claims and assessments pending against the State of Georgia are disclosed in the State of Georgia Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006.

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

On May 17, 2004, the Board of Regents (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 fiscal year 2007.
NOTE 13: CONTINGENCIES

On July 17, 2003 the Board of Regents (BOR) and the Institute entered into a series of agreements with Facilities, the first of which was a 20-year land 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 an annual agreement with options to renew on a year-to-year basis. 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 fiscal year 2007.

On July 21, 2006, Georgia Institute of Technology and the current owners reached a tentative agreement for the purchase of land and buildings located at 830 West Peachtree Street, Atlanta, Georgia. The agreed upon amount was $1,515,196.00, and this was in addition to amounts previously paid to the Superior Court of Fulton County in a condemnation settlement. This tentative agreement is subject to the approval of the Georgia Board of Regents.

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, 2006, there were 1,170 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2006, Georgia Institute of Technology recognized as incurred $5,786,006.60 of expenditures, which was net of $2,164,574.54 of participant contributions.
NOTE 15: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The Institute's operating expenses by functional classification for fiscal year 2006 are shown below:

<table>
<thead>
<tr>
<th>Natural Classification</th>
<th>Instruction</th>
<th>Research</th>
<th>Public Service</th>
<th>Academic Support</th>
<th>Student Services</th>
<th>Institutional Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faculty</td>
<td>82,187,555.45</td>
<td>121,104,386.56</td>
<td>7,098,405.13</td>
<td>4,466,768.90</td>
<td>227,302.54</td>
<td>729,797.54</td>
</tr>
<tr>
<td>Staff</td>
<td>44,577,941.29</td>
<td>82,689,916.24</td>
<td>10,369,870.45</td>
<td>17,624,631.48</td>
<td>9,889,085.69</td>
<td>24,813,570.56</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>25,115,737.35</td>
<td>37,336,543.83</td>
<td>3,661,677.11</td>
<td>4,821,987.95</td>
<td>1,988,647.67</td>
<td>7,192,530.88</td>
</tr>
<tr>
<td>Personal Services</td>
<td>1,908,803.26</td>
<td>314,835.04</td>
<td>786,955.02</td>
<td>118,909.96</td>
<td>17,003.56</td>
<td>71,500.00</td>
</tr>
<tr>
<td>Travel</td>
<td>2,587,703.83</td>
<td>10,569,583.19</td>
<td>1,352,772.27</td>
<td>612,192.80</td>
<td>261,593.03</td>
<td>274,114.93</td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>216,430.35</td>
<td>187,308.22</td>
<td>107,438.33</td>
<td></td>
<td></td>
<td>10,565.57</td>
</tr>
<tr>
<td>Supplies and Other Services</td>
<td>25,318,121.74</td>
<td>86,192,529.13</td>
<td>16,616,575.54</td>
<td>7,091,792.63</td>
<td>7,818,936.95</td>
<td>8,562,447.83</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td><strong>$181,012,293.27</strong></td>
<td><strong>$338,395,103.21</strong></td>
<td><strong>$39,993,692.85</strong></td>
<td><strong>$34,732,283.72</strong></td>
<td><strong>$20,202,569.44</strong></td>
<td><strong>$41,654,527.31</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Natural Classification</th>
<th>Plant Operations and Maintenance</th>
<th>Scholarships and Fellowships</th>
<th>Auxiliary Enterprises</th>
<th>Depreciation Expenses</th>
<th>Total Operating Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faculty</td>
<td>234,998.41</td>
<td></td>
<td></td>
<td></td>
<td>$216,049,214.53</td>
</tr>
<tr>
<td>Staff</td>
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<td></td>
<td></td>
<td></td>
<td>224,807,198.56</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>4,892,390.06</td>
<td></td>
<td></td>
<td></td>
<td>87,986,257.06</td>
</tr>
<tr>
<td>Personal Services</td>
<td>204,148.14</td>
<td></td>
<td></td>
<td></td>
<td>3,423,485.56</td>
</tr>
<tr>
<td>Travel</td>
<td>73,607.41</td>
<td></td>
<td></td>
<td></td>
<td>15,842,510.54</td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>18,155,044.78</td>
<td></td>
<td></td>
<td></td>
<td>10,532,316.00</td>
</tr>
<tr>
<td>Supplies and Other Services</td>
<td>26,199,117.86</td>
<td></td>
<td></td>
<td></td>
<td>203,137,695.85</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>56,025,611.32</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td><strong>$71,067,708.04</strong></td>
<td><strong>$10,532,316.00</strong></td>
<td><strong>$54,488,720.80</strong></td>
<td><strong>$49,794,626.02</strong></td>
<td><strong>$482,777,841.66</strong></td>
</tr>
</tbody>
</table>

NOTE 16: AFFILIATED ORGANIZATIONS

In accordance with GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14, The Reporting Entity, which became effective for the year ended June 30, 2004, Georgia Tech Athletic Association, Georgia Tech Facilities, Inc., Georgia Tech Foundation, Inc., and Georgia Tech Research Corporation have been determined to be legally separate, tax exempt organizations whose activities primarily support Georgia Institute of Technology, a unit of the University System of Georgia (an organizational unit of the State of Georgia). The State Accounting Office has determined Component Units of the State of Georgia, as required by GASB Statement No. 39, should be assessed in relation to their significance to the State of Georgia. Accordingly, Georgia Institute of Technology has not included financial activity for these affiliated organizations in these financial statements.
NOTE 16: AFFILIATED ORGANIZATIONS

Georgia Tech Athletic Association, Georgia Tech Facilities, Inc., Georgia Tech Foundation, Inc., and Georgia Tech Research Corporation have been determined significant to the State of Georgia for the year ended June 30, 2006, and as such, are reported as discretely presented component units in the Comprehensive Annual Financial Report of the State of Georgia (CAFR). The significant discretely presented component units issue separate audited financial statements that can be obtained from the Board of Regents of the University System of Georgia.
SUPPLEMENTARY INFORMATION
## ASSETS

<table>
<thead>
<tr>
<th>Asset</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$19,770,433.45</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$29,235,536.57</td>
</tr>
<tr>
<td>Other</td>
<td>$22,955,461.52</td>
</tr>
<tr>
<td>Prepaid Expenditures</td>
<td>$3,341,974.88</td>
</tr>
<tr>
<td>Inventories</td>
<td>$271,372.86</td>
</tr>
</tbody>
</table>

**Total Assets**

$75,574,779.28

## LIABILITIES AND FUND EQUITY

<table>
<thead>
<tr>
<th>Liability</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$24,427,933.63</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>$14,905,565.72</td>
</tr>
<tr>
<td>Funds Held for Others</td>
<td>$17,204,552.75</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$7,422,620.25</td>
</tr>
</tbody>
</table>

**Total Liabilities**

$63,960,672.35

<table>
<thead>
<tr>
<th>Fund Balances</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Outlay</td>
<td>$8,930,146.71</td>
</tr>
<tr>
<td>Restricted/Sponsored Funds</td>
<td>$644,588.68</td>
</tr>
<tr>
<td>Uncollectible Accounts Receivable</td>
<td>$890,339.69</td>
</tr>
<tr>
<td>Inventories</td>
<td>$254,867.28</td>
</tr>
<tr>
<td>Carry-Over &quot;Per State Accounting Office&quot;</td>
<td>$894,184.57</td>
</tr>
</tbody>
</table>

**Total Fund Balances**

$11,614,106.93

**Total Liabilities and Fund Balances**

$75,574,779.28

---

Actual amounts were prepared on a prescribed basis of accounting that demonstrated compliance with budgetary statutes and regulations of the State of Georgia, which is a comprehensive basis of accounting other than generally accepted accounting principles.
## GEORGIA INSTITUTE OF TECHNOLOGY
### SCHEDULE "2"
#### BUDGET COMPARISON AND SURPLUS ANALYSIS REPORT (NON-GAAP BASIS)
##### BUDGET FUND
##### YEAR ENDED JUNE 30, 2006

### REVENUES

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance Favorable (Unfavorable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State General Funds</td>
<td>233,962,236.00</td>
<td>233,962,236.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>378,393,219.00</td>
<td>328,231,290.69</td>
<td>-50,161,928.31</td>
</tr>
<tr>
<td>Other Funds</td>
<td>303,418,562.00</td>
<td>254,383,731.98</td>
<td>-49,034,830.02</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>915,775,017.00</strong></td>
<td><strong>846,577,258.67</strong></td>
<td><strong>-69,197,758.33</strong></td>
</tr>
</tbody>
</table>

### EXPENDITURES

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance Favorable (Unfavorable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Technology Development Center/EDI</td>
<td>24,044,266.00</td>
<td>20,549,209.36</td>
<td>3,495,056.64</td>
</tr>
<tr>
<td>Center for Assistive Technology and Environmental Access</td>
<td>5,067,421.00</td>
<td>3,961,959.02</td>
<td>1,105,461.98</td>
</tr>
<tr>
<td>Georgia Tech Research Institute</td>
<td>142,454,864.00</td>
<td>141,105,420.48</td>
<td>1,349,443.52</td>
</tr>
<tr>
<td>Research Consortium</td>
<td>15,861,611.00</td>
<td>15,853,626.87</td>
<td>7,984.13</td>
</tr>
<tr>
<td>Special Funding Initiatives</td>
<td>805,461.00</td>
<td>837,268.08</td>
<td>-31,807.08</td>
</tr>
<tr>
<td>Teaching</td>
<td>727,541,394.00</td>
<td>676,594,647.82</td>
<td>50,946,746.18</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>915,775,017.00</strong></td>
<td><strong>858,902,131.63</strong></td>
<td><strong>56,872,885.37</strong></td>
</tr>
</tbody>
</table>

**Excess of Funds Available over Expenditures**

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance Favorable (Unfavorable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of Funds Available over Expenditures</td>
<td>0.00</td>
<td>-12,324,872.96</td>
<td>-12,324,872.96</td>
</tr>
</tbody>
</table>

### FUND BALANCE JULY 1

- **Reserved**: 24,464,248.08

### ADJUSTMENTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance Favorable (Unfavorable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Year Payables/Expenditures</td>
<td>4,989,302.78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior Year Receivables/Revenues</td>
<td>-413,011.72</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Mandatory Transfers</td>
<td>-5,101,559.25</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### FUND BALANCE JUNE 30

- **Reserved**: 11,614,106.93

### SUMMARY OF FUND BALANCE

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance Favorable (Unfavorable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserved</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Outlay</td>
<td></td>
<td>8,930,146.71</td>
<td></td>
</tr>
<tr>
<td>Restricted/Sponsored Funds</td>
<td></td>
<td>644,588.68</td>
<td></td>
</tr>
<tr>
<td>Uncollectible Accounts Receivable</td>
<td></td>
<td>830,339.89</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td>254,867.28</td>
<td></td>
</tr>
<tr>
<td>Carry-Over &quot;Per State Accounting Office&quot;</td>
<td></td>
<td>634,164.57</td>
<td></td>
</tr>
<tr>
<td><strong>Total Fund Balance</strong></td>
<td><strong>11,614,106.93</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Actual amounts were prepared on a prescribed basis of accounting that demonstrated compliance with budgetary statutes and regulations of the State of Georgia, which is a comprehensive basis of accounting other than generally accepted accounting principles.
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GEORGIA INSTITUTE OF TECHNOLOGY  
RECONCILIATION OF SALARIES AND TRAVEL  
YEAR ENDED JUNE 30, 2006  

<table>
<thead>
<tr>
<th></th>
<th>SALARIES</th>
<th>TRAVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totals per Annual Supplement</td>
<td>$ 443,840,786.48</td>
<td>$ 15,842,510.54</td>
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<tr>
<td>Accruals</td>
<td></td>
<td></td>
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<tr>
<td>June 30, 2006</td>
<td>660,795.07</td>
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</tr>
<tr>
<td>June 30, 2005</td>
<td>-557,054.33</td>
<td></td>
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<tr>
<td>Compensated Absences</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 30, 2006</td>
<td>25,913,958.78</td>
<td></td>
</tr>
<tr>
<td>June 30, 2005</td>
<td>-26,419,942.68</td>
<td></td>
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<tr>
<td>Adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shared Services on Jointly Staffed Personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Regents of the University System of Georgia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barnes,</td>
<td>Rosalind 102,195.46</td>
<td></td>
</tr>
<tr>
<td>Ervin,</td>
<td>Juanita 28,601.49</td>
<td></td>
</tr>
<tr>
<td>Hughes,</td>
<td>Michael 55,926.61</td>
<td></td>
</tr>
<tr>
<td>Jean-Baptiste,</td>
<td>Rebecca 56,207.50</td>
<td></td>
</tr>
<tr>
<td>Jones,</td>
<td>Shelia 114,000.91</td>
<td></td>
</tr>
<tr>
<td>Kilpatrick,</td>
<td>Toyna 26,571.27</td>
<td></td>
</tr>
<tr>
<td>Mast,</td>
<td>Any 106,453.65</td>
<td></td>
</tr>
<tr>
<td>Revak,</td>
<td>Roxanne 41,973.42</td>
<td></td>
</tr>
<tr>
<td>Rigole,</td>
<td>Neil 114,446.58</td>
<td></td>
</tr>
<tr>
<td>Stewart,</td>
<td>Janet 42,636.54</td>
<td></td>
</tr>
<tr>
<td>Wallace,</td>
<td>Erica 23,326.68</td>
<td></td>
</tr>
<tr>
<td>Watlington,</td>
<td>Daniel 45,322.20</td>
<td></td>
</tr>
<tr>
<td>Columbus State University</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ionascu,</td>
<td>Eugene 24,030.00</td>
<td></td>
</tr>
<tr>
<td>Kennesaw State University</td>
<td></td>
<td></td>
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<tr>
<td>Panu,</td>
<td>Al 24,000.00</td>
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</tr>
<tr>
<td>Unidentified Variance</td>
<td>35,643.02</td>
<td></td>
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</table>

$ 444,279,898.65  $ 15,842,510.54
SECTION II

AUDITEE’S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

<table>
<thead>
<tr>
<th>Control Number</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>FS-503-04-01</td>
<td>Further Action Not Warranted</td>
</tr>
<tr>
<td>FS-503-05-01</td>
<td>Partially Resolved - See Corrective Action/Responses</td>
</tr>
</tbody>
</table>

CORRECTIVE ACTION/RESPONSES

REVENUES/RECEIVABLES/RECEIPTS
Failure to Monitor Sponsored Projects
Finding Control Number: FS-503-05-01

Stated Corrective Action Plan and status of each step:

1. Continue new activities implemented during the last year that included the following three major actions:

   - Increased reporting to campus units concerning sponsored projects that have term dates during the next 90 days and 30 days to encourage corrective action when needed to complete all sponsored activities and/or to complete all required expenditures prior to the end of the agreements.
   - New "Expenditure Rate Reporting" procedures with a "Burn Chart" that match actual expenditures on Sponsored projects to estimated project budget by month.
   - Sponsored Project Accounts Receivable quarterly monitoring procedures to identify instances where action is needed to assure timely collection of funds.


2. Complete utilization of new procedures that prohibit salary cost transfers to sponsored projects requested over 150 days after payment.

   Status: Completed.

3. Enhance the information presented in Grants and Contracts Accounting Office and Office of Sponsored Programs training programs about the importance of recording charges against Sponsored Projects in a timely manner to facilitate prompt billing and collection activities for sponsored Project.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

<table>
<thead>
<tr>
<th>Control Number</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>FA-503-05-01</td>
<td>Previously Reported Corrective Action Implemented</td>
</tr>
</tbody>
</table>
SECTION III

CURRENT YEAR FINDINGS AND QUESTIONED COSTS
GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

REVENUES/RECEIVABLES/RECEIPTS
Failure to Monitor Sponsored Projects
Finding Control Number: FS-503-06-01

Condition: Georgia Institute of Technology did not adequately maintain fund integrity related to uncollectible accounts receivables associated with Sponsored Projects. These uncollectible amounts for certain Sponsored Projects in Restricted funds were funded by General Operations (Resident Instruction Fund and Other Organized Activities Fund).

Criteria: The Board of Regents of the University System of Georgia's Business Procedures Manual, 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 state "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 uncollectible accounts receivable written off during fiscal year 2006, disclosed that $191,978.97 was reimbursed by the Resident Instruction and Other Organized Funds.

Cause: Management at Georgia Institute of Technology failed to adequately follow write-off guidelines established in the Board of Regents of the University System of Georgia's Business Procedures Manual.

Effect: As a result of the weakness identified, certain uncollectible accounts receivable associated with Sponsored Projects were funded by the General Operations (Resident Instruction Fund and Other Organized Activities 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 and recorded in accordance with Board of Regents policies.
FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Improper Loan Agreement
Finding Control Number: FS-503-06-02

Condition: Georgia Institute of Technology entered into an agreement with the Georgia Tech Foundation, Inc. (GTF), an affiliated organization to borrow funds for the construction of the NanoTechnology Research Center Building in violation of State statute.

Criteria: Units of the University System of Georgia do not have the authority to enter into debt agreements in violation of the Constitution of the State of Georgia, Article VII, Section IV, Paragraph VII which states in part, as follows:

"There shall be a Georgia State Financing and Investment Commission......The commission shall be responsible for the issuance of all public debt....."

Questioned Cost: N/A

Information: In October 2005 a Memorandum of Understanding (MOU) was agreed to and accepted by Georgia Institute of Technology and GTF. Based on the terms of the MOU, GTF loaned Georgia Institute of Technology $18,328,749.00 in October 2006. Subsequently, Georgia Institute of Technology recorded a liability on their accounting records.

Cause: Management of Georgia Institute of Technology disregarded the specific limitations imposed by the Constitution of the State of Georgia related to issuance of debt.

Effect: The debt resulting from the loan is a violation of Article VII, Section IV, Paragraph VII of the Constitution of the State of Georgia.

Recommendation: After being brought to the attention of management, the Memorandum of Understanding between the Georgia Institute of Technology (GIT) and the Georgia Tech Foundation, Inc. (GTF) was rescinded on January 22, 2007. Both parties agreed that the funds received by GIT constituted a gift from GTF. Management should ensure that future agreements entered into during the normal course of business comply with State laws.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.