



GEORGIA INSTITUTE OF TECHNOLOGY

ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2014
INCLUDING INDEPENDENT AUDITOR'S REPORT

GEORGIA INSTITUTE OF TECHNOLOGY

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DEPARTMENT OF AUDITS AND ACCOUNTS

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

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

December 16, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly of Georgia
Members of the Board of Regents of the
University System of Georgia
and
Honorable G. P. "BUD" Peterson, President
Georgia Institute of Technology

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying basic financial statements (Exhibits A through D) of the Georgia Institute of Technology, a unit of the University System of Georgia, which is an organizational unit of the State of Georgia, as of and for the year ended June 30, 2014.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Georgia Institute of Technology's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Georgia Institute of Technology's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Georgia Institute of Technology as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the 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 the Georgia Institute of Technology. They do not purport to, and do not, present fairly the financial position of the State of Georgia as of June 30, 2014, the changes in its financial position or its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, in 2014, the Georgia Institute of Technology adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i through x be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Georgia Institute of Technology. The accompanying supplementary information (Schedules 1 through 6) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information (Schedules 1 through 6) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting or other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014, on our consideration of the Georgia Institute of Technology's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Georgia Institute of Technology's internal control over financial reporting and compliance.

Respectfully,



Greg S. Griffin
State Auditor

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REQUIRED SUPPLEMENTARY INFORMATION

GEORGIA INSTITUTE OF TECHNOLOGY

Management's Discussion and Analysis

Introduction

The Georgia Institute of Technology (Georgia Tech) is one of the thirty-one (31) institutions of higher education within the University System of Georgia (USG). Georgia Tech is one of the nation's top research universities and an international leader in scientific and technological research and education. Distinguished by its commitment to improving the human condition through advanced science and technology, Georgia Tech provides a focused, technology-based education for more than 21,000 undergraduate and graduate students. Georgia Tech offers degrees through the Colleges of Architecture, Computing, Engineering, Sciences, the Scheller College of Business and the Ivan Allen College of Liberal Arts. As a leading technological institute, Georgia Tech has over 200 research centers and laboratories that consistently contribute vital research and innovation to government, industry, and business on a national as well as an international scale.

Accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC), Georgia Tech is a member of the Association of American Universities (AAU), an association of 62 leading research universities in the United States and Canada. Georgia Tech has many nationally recognized programs and is the only technological university consistently ranked in *U.S. News and World Report's* listing of America's Top Ten public universities. Undergraduate and graduate programs in Georgia Tech's College of Engineering are currently ranked in the country's Top Ten by *U.S. News and World Report*. These impressive national rankings reflect the academic prestige long associated with the Georgia Tech curriculum and have led to international recognition in a variety of global rankings, including ninth place in the world for engineering/technology and computer science by the Center for World Class Universities at Shanghai Jiao Tong University. *Payscale.com* ranked Georgia Tech first in the nation in annualized return on investment (ROI) based on the financial return graduates earn from their degrees.

From its beginnings in 1885, Georgia Tech exceeded the expectations of its founders by becoming a multi-faceted research institution that serves as a source of new technologies and a driver of economic development. A recent USG study shows that Georgia Tech has a \$2.6 billion economic impact on the region. Georgia Tech stands out as a distinctively different kind of university, one that is eagerly encouraging and developing the revolutionary technologies of the twenty-first century. Equipped with the extremely rich resources of an outstanding student body, faculty and staff; strong partnerships with business, industry, and government; and support from alumni and friends; Georgia Tech is designing a future of global preeminence, leadership, and service.

The institution continues to have a stable student population as indicated by the comparison numbers that follow.

| | <u>Faculty</u> | <u>Students (Headcount)</u> | <u>Students (FTE)</u> |
|------------------|----------------|---------------------------------|---------------------------|
| Fiscal Year 2014 | 1,086 | 21,471 | 20,134 |
| Fiscal Year 2013 | 1,043 | 21,558 | 20,245 |
| Fiscal Year 2012 | 1,039 | 20,941 | 19,592 |

Overview of the Financial Statements and Financial Analysis

Georgia Institute of Technology is pleased to present its financial statements for fiscal year 2014. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. This discussion and analysis of Georgia Tech'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 Georgia Tech 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 and capitalization and amortization of intangible assets. Comparative data is provided for fiscal year 2014 and fiscal year 2013.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of Georgia Tech as of the end of the fiscal year. The Statement of Net Position is a point-of-time financial statement. The Statement of Net Position presents a fiscal snapshot of Georgia Institute of Technology. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent) plus deferred outflows, and liabilities (current and noncurrent) plus deferred inflows, and net position (assets plus deferred outflows minus liabilities plus deferred inflows). The differences between current and noncurrent assets are discussed in the Notes to the Financial Statements.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution and how much the institution owes vendors.

Finally, the Statement of Net Position provides a picture of the net position (assets plus deferred outflows minus liabilities plus deferred inflows) and their availability for expenditure by the institution. Net position is divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant and equipment owned by the institution. The next category is restricted, which is divided into three categories; nonexpendable, expendable and capital projects. The corpus of nonexpendable, restricted resources is available only for investment purposes. Expendable, restricted resources are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Resources restricted for capital projects are available for expenditure by the institution but must be spent on capital projects. The final category is unrestricted. Unrestricted resources are available to the institution for any lawful purpose.

Statement of Net Position, Condensed

| | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|----------------------------------|-------------------------|-------------------------|
| Assets | | |
| Current Assets | \$ 348,964,700 | \$ 306,877,204 |
| Capital Assets, Net | 1,726,133,331 | 1,707,211,661 |
| Other Assets | <u>87,447,329</u> | <u>77,832,178</u> |
| Total Assets | <u>2,162,545,360</u> | <u>2,091,921,043</u> |
| Liabilities | | |
| Current Liabilities | 171,370,502 | 148,496,331 |
| Noncurrent Liabilities | <u>483,782,755</u> | <u>500,500,385</u> |
| Total Liabilities | <u>655,153,257</u> | <u>648,996,716</u> |
| Net Position | | |
| Net Investment in Capital Assets | 1,245,844,977 | 1,210,752,738 |
| Restricted | | |
| Nonexpendable | 63,073,867 | 56,145,130 |
| Expendable | 23,772,217 | 24,653,257 |
| Capital Projects | 36,947,874 | 34,924,236 |
| Unrestricted | <u>137,753,168</u> | <u>116,448,966</u> |
| Total Net Position | <u>\$ 1,507,392,103</u> | <u>\$ 1,442,924,327</u> |

Total assets increased by \$70,624,317 primarily due to increases of \$42,087,496 and \$18,921,670 in the categories of Current Assets and Capital Assets, Net, respectively.

Total liabilities increased by \$6,156,541. The combination of the increase in total assets of \$70,624,317 and the increase in total liabilities of \$6,156,541 yields an increase in net position of \$64,467,776. The increase in net position is primarily in the categories of Net Investment in Capital Assets and Unrestricted in the amounts of \$35,092,239 and \$21,304,202, respectively.

Statement of Revenues, Expenses and Changes in Net Position

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

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

| | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|--|-------------------------|-------------------------|
| Operating Revenues | \$ 1,123,451,473 | \$ 1,169,290,445 |
| Operating Expenses | <u>1,332,066,331</u> | <u>1,280,868,321</u> |
| Operating Loss | -208,614,858 | -111,577,876 |
| Nonoperating Revenues and Expenses | <u>266,106,797</u> | <u>211,739,385</u> |
| Income Before Other Revenues, Expenses, Gains or Losses | 57,491,939 | 100,161,509 |
| Other Revenues, Expenses, Gains or Losses | <u>6,975,837</u> | <u>11,449,704</u> |
| Increase in Net Position | 64,467,776 | 111,611,213 |
| Net Position at Beginning of Year | <u>1,442,924,327</u> | <u>1,334,813,114</u> |
| Net Position at End of Year | <u>\$ 1,507,392,103</u> | <u>\$ 1,446,424,327</u> |

The Statement of Revenues, Expenses and Changes in Net Position reflect a positive year, which is represented by an increase in Net Position at the end of the year. Some highlights of the information presented on this statement are as follows:

Revenue by Source
For the Years Ended June 30, 2014 and June 30, 2013

| | June 30, 2014 | June 30, 2013 |
|---|------------------|------------------|
| Operating Revenue | | |
| Tuition and Fees | \$ 287,203,042 | \$ 271,444,683 |
| Grants and Contracts | 695,110,524 | 754,543,784 |
| Sales and Services of Educational Departments | 32,472,698 | 28,487,815 |
| Auxiliary | 99,081,204 | 97,309,346 |
| Other | 9,584,005 | 17,504,817 |
| Total Operating Revenue | 1,123,451,473 | 1,169,290,445 |
| Nonoperating Revenue | | |
| State Appropriations | 222,083,429 | 206,883,732 |
| Grants and Contracts | 12,691,771 | 13,156,106 |
| Gifts | 31,842,763 | 32,662,540 |
| Investment Income | 14,358,407 | 13,379,765 |
| Other Revenue | 10,674,976 | |
| Total Nonoperating Revenue | 291,651,346 | 266,082,143 |
| Capital Grants and Gifts | | |
| State | 6,343,221 | 6,828,046 |
| Other | 632,616 | 4,621,658 |
| Total Capital Grants and Gifts | 6,975,837 | 11,449,704 |
| Total Revenues | \$ 1,422,078,656 | \$ 1,446,822,292 |

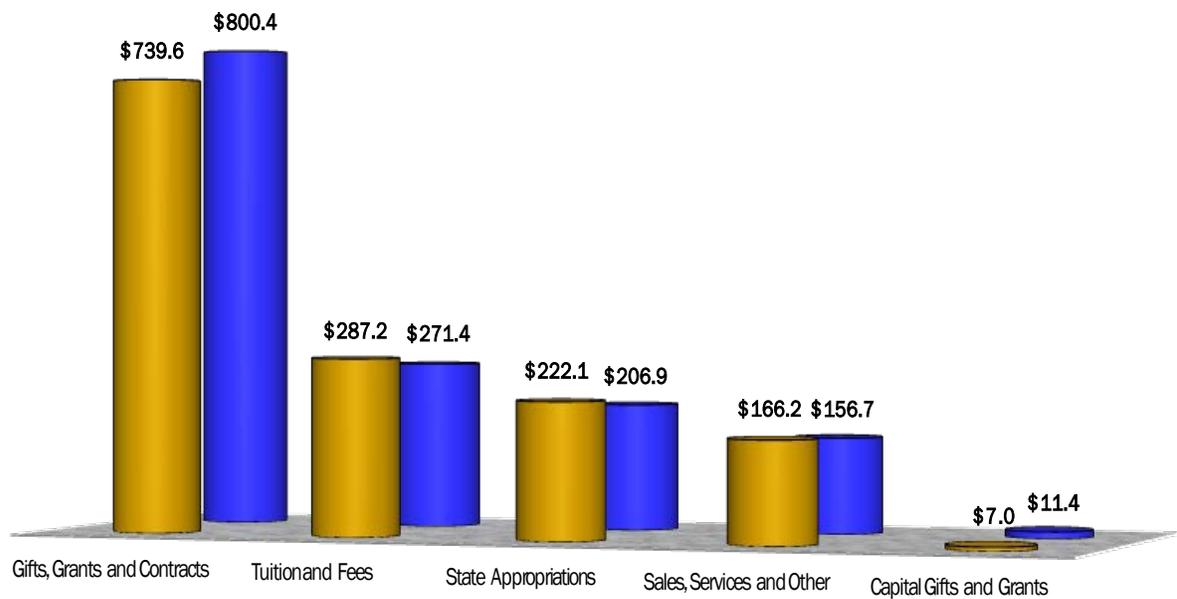
Expenses (By Functional Classification)
For the Years Ended June 30, 2014 and June 30, 2013

| | June 30, 2014 | June 30, 2013 |
|-----------------------------------|------------------|------------------|
| Operating Expenses | | |
| Instruction | \$ 257,746,216 | \$ 239,150,606 |
| Research | 645,922,589 | 612,185,044 |
| Public Service | 49,671,740 | 50,438,575 |
| Academic Support | 51,738,333 | 51,284,572 |
| Student Services | 32,666,736 | 31,781,647 |
| Institutional Support | 71,155,659 | 64,304,959 |
| Plant Operations and Maintenance | 132,647,416 | 146,757,858 |
| Scholarships and Fellowships | 13,481,650 | 13,398,912 |
| Unallocated Expenses | 77,035,992 | 71,566,148 |
| Total Operating Expenses | 1,332,066,331 | 1,280,868,321 |
| Nonoperating Expenses | | |
| Interest Expense (Capital Assets) | 25,544,549 | 27,066,882 |
| Other | | 27,275,876 |
| Total Nonoperating Expenses | 25,544,549 | 54,342,758 |
| Total Expenses | \$ 1,357,610,880 | \$ 1,335,211,079 |

On the Statement of Revenue, Expenses, and Changes in Net Position, Operating Revenue which includes categories such as Tuition and Fees, Operating Grants and Contracts and Sales and Services decreased by a total of \$45.8 million. Nonoperating Revenue which includes categories such as State Appropriations, Nonoperating Gifts Grants and Contracts and Investment Income increased by \$25.6 million. Lastly, Capital Gifts and Grants decreased by \$4.5 million. Overall revenue for fiscal year 2014 decreased by \$24.7 million over the previous fiscal year as illustrated in the graph below. The \$739.6 million in revenue from Gifts, Grants and Contracts includes \$69.1 million of direct expense reimbursements from the Georgia Tech Foundation.

Georgia Institute of Technology Revenue (dollars in millions)

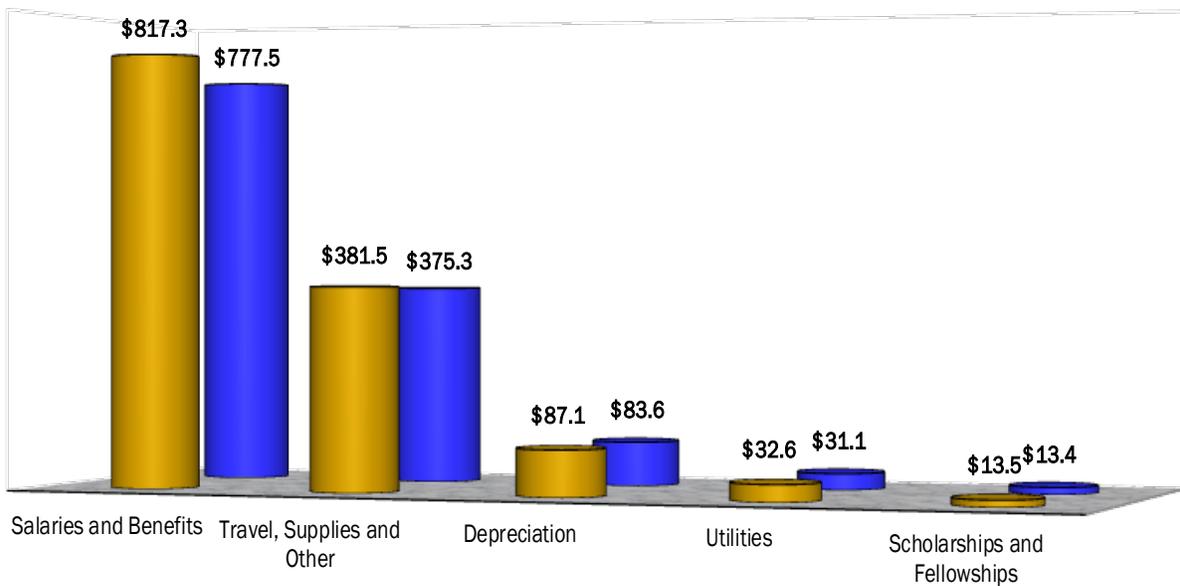
■ FY2014 \$1,422.1 ■ FY2013 \$1,446.8



In the Operating Expenses by Object of Expenditure Class graph below, Total Operating Expenses for fiscal year 2014 were approximately \$1,332.1 million. Salaries and Benefits expenses increased by \$39.8 million from fiscal year 2013 to fiscal year 2014 while Travel, Supplies and Other expenses increased by \$6.2 million. Overall operating expenses increased by \$51.2 million, or 4.0% over the previous fiscal year.

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

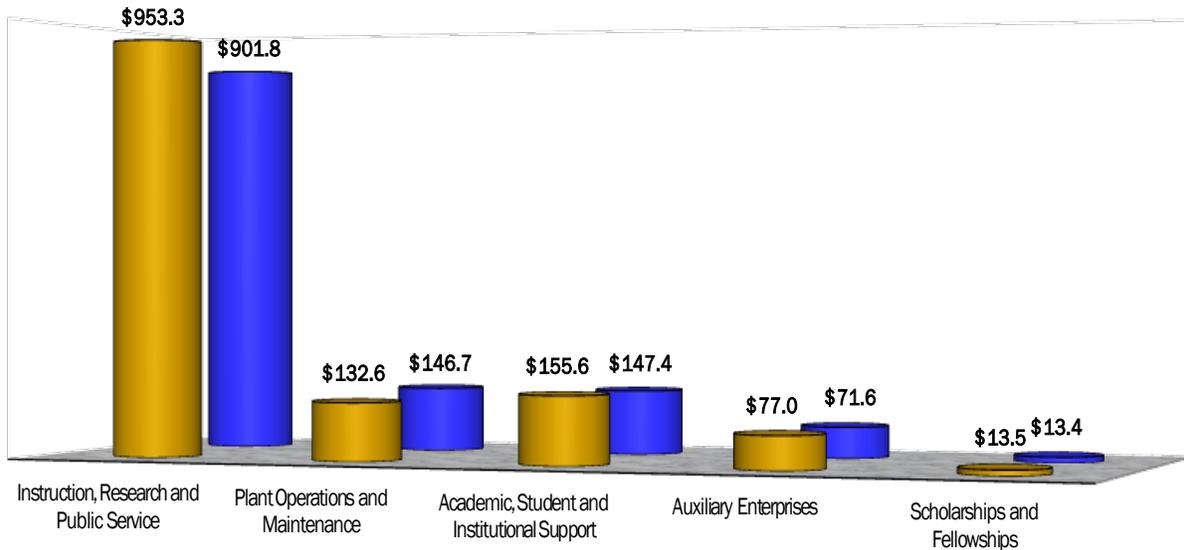
■ FY2014 \$1,332.1 ■ FY2013 \$1,280.9



In the Operating Expenses by Functional Class graph below, Instruction, Research and Public Service expenses increased by \$51.5 million, while operating expenses for Plant Operations and Maintenance decreased by \$14.1 million. Operating expenses for Academic, Student and Institutional Support, Auxiliary Enterprises and Scholarships and Fellowships increased by \$8.2 million, \$5.4 million, and \$0.1 million, respectively. The changes listed above resulted in a \$51.2 million increase in overall operating expenses for the fiscal year as indicated in the illustration below.

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

■ FY2014 \$1,332.1 ■ FY2013 \$1,280.9



Statement of Cash Flows

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

Cash Flows for the Years Ended June 30, 2014 and 2013, Condensed

| | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|--|-----------------------|-----------------------|
| Cash Provided (Used) By: | | |
| Operating Activities | \$ -88,323,751 | \$ -24,638,292 |
| Noncapital Financing Activities | 253,757,670 | 225,285,736 |
| Capital and Related Financing Activities | -141,568,177 | -128,922,244 |
| Investing Activities | <u>6,829,586</u> | <u>9,093,209</u> |
| Net Change in Cash | 30,695,328 | 80,818,409 |
| Cash, Beginning of Year | <u>200,646,885</u> | <u>119,828,476</u> |
| Cash, End of Year | <u>\$ 231,342,213</u> | <u>\$ 200,646,885</u> |

Capital Assets

Georgia Tech had one significant capital asset addition in fiscal year 2014. The Mason Civil Engineering Building was renovated this year, resulting in an addition of \$12 million to the capital asset.

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

Long-Term Liabilities

Georgia Institute of Technology had Long-Term Liabilities of \$519,707,217 of which \$42,186,962 was reflected as current liability at June 30, 2014.

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

Economic Outlook

In fiscal years 2009 through 2013 Georgia Tech experienced significant budget cuts to State Appropriations, including cuts to Resident Instruction, Georgia Tech Research Institute (GTRI), and Enterprise Innovation Institute (EI2). For Georgia Tech, "Resident Instruction" includes the core instructional, research, and administrative support activities and excludes GTRI, EI2, and the Auxiliary, or business-like operations. From fiscal years 2009 through 2013, Georgia Tech received total budget reductions of \$99.7 million, or 35% of the fiscal year 2009 base state funding. The University System of Georgia (USG) and Georgia Tech did not experience any budget reductions in fiscal year 2014, and the fiscal year 2015 Budget did not include reductions.

The University System operates under a formula funding system, which is mainly based on enrollment and is contingent upon the State Legislature's approval of new USG funding. The formula is a mathematical device that aggregates the funding needs of all institutions to provide a continuous level of support for the Resident Instruction activity. In fiscal year 2014 Georgia Tech received \$6.5 million in new formula funding and in fiscal year 2015 received the following new formula funding: \$1.5 million for faculty to support enrollment growth, \$285 million to support new facilities, and \$381 thousand to help fund merit-based pay increases for faculty and staff. In addition, the state provides funding to cover a major share of health insurance and retirement cost increase. Georgia Tech remains watchful and maintains proactive planning efforts as a new performance funding formula is introduced in fiscal year 2016. The revised formula will provide incremental funding to the USG based on the performance of institutions on such measures as student graduation and retention. Georgia Tech expects to fare well on these and other measures.

Sponsored awards received during fiscal year 2014 exceeded \$688 million, representing an 11% increase from the previous year. Annual sponsored revenue decreased by 8% to approximately \$708 million in fiscal year 2014; however, this decrease was anticipated by Institute leadership based on a planned reduction in capital projects funded by the Georgia Tech Foundation and the expiration of sponsored research awards funded by the American Recovery and Reinvestment Act. Georgia Tech is well-positioned in growing and emerging research areas that are of interest and value to both Federal and non-Federal sponsors. For this reason, Georgia Tech expects to maintain strong sponsored revenue performance in the coming fiscal year.

Enrollment is expected to remain stable, with a slight increase likely for fiscal year 2015. The Board of Regents (BOR) approved a tuition increase of 9% for both undergraduate and graduate resident students. For nonresident students the BOR approved 2.7% undergraduate and 1.0% graduate rate increases. Georgia Tech expects to continue increasing tuition in an effort to move tuition closer to its peer institutions.

Another major revenue source for Georgia Tech is indirect cost recoveries. Fiscal year 2014 saw a continuing decline of \$2.8 million or 5.0% from the prior year's recoveries for Resident Instruction and EI2, for a two year total decrease of \$4.7 million or 7.9%. GTRI's indirect cost recoveries remain stable. Georgia Tech remains cautious as it enters fiscal year 2015, planning for these funds to remain flat, or slightly increase, based on new sponsored award indicators noted above.

Georgia Tech expects additional revenue generated from tuition increases, as well as revenue increases from sales and services, to offset negative growth in other revenue categories in fiscal year 2015.

Dr. G.P "Bud" Peterson, President
Georgia Institute of Technology

Mr. Steven G. Swant, Executive Vice President
Georgia Institute of Technology

BASIC FINANCIAL STATEMENTS

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF NET POSITION
JUNE 30, 2014

EXHIBIT "A"

| <u>ASSETS</u> | |
|---|-------------------------|
| Current Assets | |
| Cash and Cash Equivalents | \$ 231,019,293 |
| Short-Term Investments | 154,283 |
| Accounts Receivable, Net (Note 3) | |
| Receivables - Federal Financial Assistance | 63,355,153 |
| Receivables - Other | 43,118,935 |
| Due From Affiliated Organizations | 81,303 |
| Inventories (Note 4) | 342,985 |
| Prepaid Items | <u>10,892,748</u> |
| Total Current Assets | <u>348,964,700</u> |
| Noncurrent Assets | |
| Cash and Cash Equivalents (Externally Restricted) | 322,920 |
| Due From USO - Capital Liability Reserve Fund | 2,275,907 |
| Investments | 72,442,613 |
| Notes Receivable, Net | 12,405,889 |
| Capital Assets, Net (Note 6) | <u>1,726,133,331</u> |
| Total Noncurrent Assets | <u>1,813,580,660</u> |
| Total Assets | <u>2,162,545,360</u> |
| <u>LIABILITIES</u> | |
| Current Liabilities | |
| Accounts Payable | 42,913,453 |
| Salaries Payable | 2,446,024 |
| Benefits Payable | 504,932 |
| Contracts Payable | 8,879,285 |
| Deposits | 40,793,685 |
| Advances (Including Tuition and Fees) (Note 7) | 22,082,061 |
| Other Liabilities | 1,325,950 |
| Deposits Held for Other Organizations | 10,238,150 |
| Lease Purchase Obligations (Note 8 and 10) | 16,822,798 |
| Compensated Absences | <u>25,364,164</u> |
| Total Current Liabilities | <u>171,370,502</u> |
| Noncurrent Liabilities | |
| Lease Purchase Obligations (Note 8 and 10) | 460,965,556 |
| Advances (Note 6) | 6,262,500 |
| Compensated Absences | <u>16,554,699</u> |
| Total Noncurrent Liabilities | <u>483,782,755</u> |
| Total Liabilities | <u>655,153,257</u> |
| <u>NET POSITION</u> | |
| Net Investment in Capital Assets | 1,245,844,977 |
| Restricted for: | |
| Nonexpendable | 63,073,867 |
| Expendable | 23,772,217 |
| Capital Projects | 36,947,874 |
| Unrestricted | <u>137,753,168</u> |
| Total Net Position | <u>\$ 1,507,392,103</u> |

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

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

EXHIBIT "B"

OPERATING REVENUES

| | | |
|---|----|--------------------------|
| Student Tuition and Fees (Net of Allowance for Doubtful Accounts) | \$ | 326,785,485 |
| Less: Scholarship Allowances | | -39,582,443 |
| Grants and Contracts | | |
| Federal | | 486,489,805 |
| Federal Stimulus | | 6,888,954 |
| State | | 12,281,723 |
| Other | | 189,450,042 |
| Sales and Services | | 32,472,698 |
| Rents and Royalties | | 486,248 |
| Auxiliary Enterprises | | |
| Residence Halls | | 67,323,663 |
| Bookstore | | 2,040,855 |
| Food Services | | 2,625,684 |
| Parking/Transportation | | 15,974,541 |
| Health Services | | 8,748,086 |
| Other Organizations | | 2,368,375 |
| Other Operating Revenues | | <u>9,097,757</u> |
| Total Operating Revenues | | <u>1,123,451,473</u> |

OPERATING EXPENSES

| | | |
|------------------------------|--|--------------------------|
| Salaries | | |
| Faculty | | 329,366,062 |
| Staff | | 336,637,046 |
| Employee Benefits | | 150,676,488 |
| Other Personal Services | | 661,114 |
| Travel | | 25,701,038 |
| Scholarships and Fellowships | | 13,479,735 |
| Utilities | | 32,581,813 |
| Supplies and Other Services | | 355,837,894 |
| Depreciation/Amortization | | <u>87,125,141</u> |
| Total Operating Expenses | | <u>1,332,066,331</u> |
| Operating Loss | | <u>-208,614,858</u> |

NONOPERATING REVENUES (EXPENSES)

| | | |
|--|----|---------------------------------|
| State Appropriations | | 222,083,429 |
| Grants and Contracts | | |
| Federal | | 12,691,771 |
| Gifts | | 31,842,763 |
| Investment Income (Endowments, Auxiliary and Other) | | 14,358,407 |
| Interest Expense (Capital Assets) | | -25,544,549 |
| Other Nonoperating Revenues | | <u>10,674,976</u> |
| Net Nonoperating Revenues | | <u>266,106,797</u> |
| Income Before Other Revenues, Expenses, Gains, or Losses | | <u>57,491,939</u> |
| Capital Grants and Gifts | | |
| State | | 6,343,221 |
| Other | | <u>632,616</u> |
| Total Other Revenues, Expenses, Gains or Losses | | <u>6,975,837</u> |
| Increase in Net Position | | 64,467,776 |
| Net Position - Beginning of Year, Restated | | <u>1,442,924,327</u> |
| Net Position - End of Year | \$ | <u><u>1,507,392,103</u></u> |

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

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

EXHIBIT "C"

| | |
|--|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Tuition and Fees | \$ 287,901,826 |
| Grants and Contracts (Exchange) | 688,098,073 |
| Sales and Services | 32,158,771 |
| Payments to Suppliers | -521,622,285 |
| Payments to Employees | -664,493,266 |
| Payments for Scholarships and Fellowships | -13,479,735 |
| Loans Issued to Students and Employees | -3,171,150 |
| Collection of Loans to Students and Employees | 3,683,837 |
| Auxiliary Enterprise Charges: | |
| Residence Halls | 66,900,241 |
| Bookstore | 2,040,855 |
| Food Services | 2,608,974 |
| Parking/Transportation | 16,096,729 |
| Health Services | 8,739,663 |
| Other Organizations | 1,231,114 |
| Other Receipts | <u>4,982,602</u> |
| Net Cash Used by Operating Activities | <u>-88,323,751</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State Appropriations | 222,083,429 |
| Agency Funds Transactions | 7,022,813 |
| Gifts and Grants Received for Other than Capital Purposes | 14,476,452 |
| Other Nonoperating Revenues | <u>10,174,976</u> |
| Net Cash Flows Provided by Noncapital Financing Activities | <u>253,757,670</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Capital Grants and Gifts Received | 6,343,221 |
| Proceeds from Sale of Capital Assets | 8,801,955 |
| Purchases of Capital Assets | -111,161,904 |
| Principal Paid on Capital Debt and Leases | -18,671,169 |
| Interest Paid on Capital Debt and Leases | <u>-26,880,280</u> |
| Net Cash Used by Capital and Related Financing Activities | <u>-141,568,177</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on Investments | <u>6,829,586</u> |
| Net Increase in Cash | 30,695,328 |
| Cash and Cash Equivalents - Beginning of Year | <u>200,646,885</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ <u>231,342,213</u></u> |

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

EXHIBIT "C"

RECONCILIATION OF OPERATING LOSS TO NET CASH

USED BY OPERATING ACTIVITIES:

| | |
|---|------------------|
| Operating Loss | \$ -208,614,858 |
| Adjustments to Reconcile Operating Loss to Net Cash | |
| Used by Operating Activities | |
| Depreciation/Amortization | 87,125,141 |
| Operating Expenses Related to Noncash Gifts | 30,058,080 |
| Change in Assets and Liabilities: | |
| Accounts Receivables, Net | -11,840,471 |
| Inventories | 35,468 |
| Prepaid Items | -2,186,182 |
| Notes Receivable, Net | 512,687 |
| Accounts Payable | 7,428,907 |
| Advances (Including Tuition and Fees) (Note 7) | -852,154 |
| Other Liabilities | 8,866,072 |
| Compensated Absences | <u>1,143,559</u> |

| | |
|---------------------------------------|------------------------------|
| Net Cash Used by Operating Activities | \$ <u><u>-88,323,751</u></u> |
|---------------------------------------|------------------------------|

NONCASH ACTIVITY

| | |
|---|---------------------------|
| Change in Fair Value of Investments Recognized as a Component of Interest Income | \$ <u>7,528,820</u> |
| Gift Reducing Proceeds of Gifts and Grants Received for Other Than Capital Purposes | \$ <u>-30,798,972</u> |
| Gift of Capital Assets Reducing Proceeds of Capital Grants and Gifts | \$ <u><u>-632,616</u></u> |

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

Note 1. Summary of Significant Accounting Policies

Nature of Operations

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

Reporting Entity

Georgia Institute of Technology is one of thirty-one (31) 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 Affiliated 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 for additional information.

Financial Statement Presentation

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 University's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

Basis of Accounting

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

New Accounting Pronouncements

In fiscal year 2014, the Institute adopted the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this Statement clarify the use of deferred inflows of resources and deferred outflows of resources. Certain items, including those items which were previously reported as assets and liabilities, will now be reported as outflows of resources or inflows of resources. As of June 30, 2014, the Institute did not have any deferred outflows of resources or deferred inflows of resources.

In fiscal year 2014, the Institute adopted Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Corrections - 2012, an amendment to GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting guidance by amending GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 10 was amended by removing the provision that limited fund based reporting of an entity's risk and financing activities to certain funds. GASB Statement No. 62 was amended by modifying guidance on (1) operating lease payments that vary from a straight-line basis, (2) purchases of a loan or a group of loans, and (3) recognition of servicing fees on mortgage loans that are sold when the stated service fee rate differs from a current (normal) servicing fee rate. The adoption of this Statement did not have a significant impact on the Institute's financial statements.

In fiscal year 2014, the Institute adopted Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and reporting requirements for state and local governments that extend or receive financial guarantees that are nonexchange transactions. The adoption of this statement did not have a significant impact on the Institute's financial statements.

Future Accounting Pronouncements

In fiscal year 2015, the Institute will adopt Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of this Statement establish accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. Implementation of this Statement will require the Institute to record a liability for its proportionate share of the Net Pension Liability of pension plans in which it participates. Actuarial estimates are currently being made to determine the Institute's liability, the effects of which are believed to be material.

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 Pools and the Board of Regents Short-Term Investment Pool.

Short-Term Investments

Short-Term Investments consist of investments of 90 days - 13 months, which includes 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

Investments include financial instruments with terms in excess of 13 months, certain other securities for the production of revenue, land, and other real estate held as investments by endowments. The Institute accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position. The Board of Regents Diversified Fund and the Georgia Extended Asset Pool are included under Investments for the Institute.

Accounts Receivable

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff, with the majority 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 pursuant to the Institute's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Consumable supplies are recorded on the consumption method and are valued at cost on the Statement of Net Position 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 Position.

Prepaid Items

Payments made to vendors and local government organizations for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the Institute's capitalization policy includes all items with a unit cost of \$5,000 or more, and a useful life that meets or exceeds 5 years. Renovations to buildings, infrastructure and facilities and other improvements are capitalized as betterments when the expenditure for the renovation meets or exceeds the capitalization threshold of \$100,000. The Institute uses the parent/child methodology to track the costs of nonresearch buildings. In this instance, the original asset is considered the "parent" and any improvements that meet the capitalization criteria above are considered "children". The child asset normally takes on the remaining useful life of the parent asset unless it is determined the child asset increases the useful life of the structure by 25 percent of the original life. If the child asset increases the useful life, the net book value of the original building asset is recapitalized along with eligible improvements as a new asset and the original building asset is retired. 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, 25 to 75 years for infrastructure, 20 to 50 years for facilities and other improvements, 10 years for library books and 5 to 10 years for equipment. Nonresearch buildings are generally depreciated over 40 to 50 years as indicated above. Research buildings are depreciated by building component such as elevators, general structure, HVAC (heating, ventilation and air conditioning), roof, etc. The useful life of these components is generally between 20 and 50 years. Residual values will generally be 10% of historical costs for infrastructure, buildings and building improvements, and facilities and other improvements.

Amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, copyrights and internally generated software is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 20 years.

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 Georgia State Financing and Investment Commission. The bonds issued constitute direct and general obligations of the State of Georgia, the payment of which the full faith, credit and taxing power of the State are pledged.

For projects managed by GSFIC, GSFIC retains construction in progress on its books throughout the construction period and transfers the entire project to the Institute when complete. For projects managed by the Institute, the Institute retains construction in progress on its books and is reimbursed by GSFIC. For the year ended June 30, 2014, GSFIC did not transfer any capital additions to Georgia Institute of Technology.

Capital Liability Reserve Fund

In fiscal year 2014, the Board of Regents established a Capital Liability Reserve Fund (Fund) to protect the fiscal integrity of the University System of Georgia (USG), to maintain the strongest possible credit ratings associated with Public Private Venture (PPV) projects, and to ensure that the Board of Regents can effectively support its long-term capital lease obligations. The Fund is financed by all USG institutions participating in the PPV program. The Fund serves as a pooled reserve that is managed by the Board of Regents. The Fund shall only be used to address significant shortfalls and only insofar as a requesting USG institution is unable to make the required PPV capital lease payment to the designated cooperative organization. The Fund will continue as long as the Board of Regents has rental obligations under the PPV program and at the conclusion of the program, funds will be returned to the Institute. The Institute's contribution to the fund as of June 30, 2014 was \$2,275,907.

Deposits

Deposits represent good faith deposits from students to reserve housing assignments in an Institute residence hall.

Advances

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

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statement of Net Position, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses and Changes in Net Position.

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 Position

The Institute's net position is classified as follows:

Net Investment in Capital Assets: 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 the net investment in capital assets. 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.

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT "D"

Restricted - nonexpendable: includes 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 be either 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 - expendable: includes resources in which the Institute is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Expendable Restricted include the following at June 30, 2014:

| | | |
|---|--------|------------------------------|
| Restricted - E&G and Other Organized Activities | \$ | 2,103,307 |
| Federal Loans | | 7,190,321 |
| Institutional Loans | | 7,171,461 |
| Quasi-Endowments | | <u>7,307,128</u> |
| Total Restricted Expendable | \$ | <u><u>23,772,217</u></u> |

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

Unrestricted: Unrestricted represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet current expenses for those purposes, except for unexpended state appropriations (surplus). Unexpended state appropriations must be refunded to the Board of Regents of the University System of Georgia, University System Office for remittance to the Office of the State Treasurer. At June 30, 2014, the Institute had a surplus balance in state appropriations of \$39,669.95 to be refunded.

Unrestricted resources include the following items which are quasi-restricted by management at June 30, 2014:

| | | |
|-------------------------------------|--------|-------------------------------|
| R & R Reserve | \$ | 22,326,420 |
| Reserve for Encumbrances | | 60,996,881 |
| Reserve for Inventory | | 342,984 |
| Capital Liability Reserve Fund | | 2,275,907 |
| Other Unrestricted | | <u>51,810,976</u> |
| Total Unrestricted Net Position | \$ | <u><u>137,753,168</u></u> |

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

Income Taxes

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

Classification of Revenues and Expenses

The Statement of Revenues, Expenses and Changes in Net Position classify fiscal year activity as operating and nonoperating according to the following criteria:

Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) certain federal, state and local grants and contracts, and (3) sales and services.

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenue 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, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as state appropriations and investment income.

Operating expenses includes activities that have the characteristics of exchange transactions.

Nonoperating expense includes activities that have the characteristics of nonexchange transactions, such as capital financing costs and costs related to investment activity.

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 Position. 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.

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, 2014, the carrying value of deposits was \$20,910,548 and the bank balance was \$23,735,923. Of the Institute's deposits, \$23,592,261 was uninsured. Of these uninsured deposits, \$688,168 was collateralized with securities held by the financial institution's trust department or agent in the Institute's name, \$22,904,093 was collateralized with securities held by the financial institution, by its trust department or agency, but not in the Institute's name.

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, 2014 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT "D"

| Investment Type | Fair Value | Investment Maturity | | | |
|-----------------------------------|-----------------------|---------------------|---------------------|---------------------|--------------------|
| | | 4 - 12 Months | 1 - 5 Years | 6 - 10 Years | More than 10 Years |
| Debt Securities | | | | | |
| U. S. Treasuries | \$ 3,869,056 | \$ 176,480 | \$ 2,070,900 | \$ 1,621,676 | |
| U. S. Agencies | | | | | |
| Explicitly Guaranteed | 3,276 | | | | \$ 3,276 |
| Implicitly Guaranteed | 2,587,786 | 498,372 | 1,327,662 | 409,681 | 352,071 |
| Corporate Debt | 101,419 | 19,334 | 41,074 | 41,011 | |
| | <u>\$ 6,561,537</u> | <u>\$ 694,186</u> | <u>\$ 3,439,636</u> | <u>\$ 2,072,368</u> | <u>\$ 355,347</u> |
| Other Investments | | | | | |
| Equity Mutual Funds | 8,152,122 | | | | |
| Equity Securities - Domestic | 791,567 | | | | |
| Equity Securities - International | 64,929 | | | | |
| Real Estate Fund | 229,339 | | | | |
| Real Estate Investment Trusts | 443,040 | | | | |
| Other - Equity Securities | 8,180 | | | | |
| Investment Pools | | | | | |
| Board of Regents | | | | | |
| Short-Term Fund | 116,219,063 | | | | |
| Diversified Fund | 56,191,899 | | | | |
| Office of the State Treasurer | | | | | |
| Georgia Fund 1 | 94,184,902 | | | | |
| Georgia Extended Asset Pool | 154,283 | | | | |
| Total Investments | <u>\$ 283,000,861</u> | | | | |

The Board of Regents Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each fund 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 - System Office (oversight unit). This audit can be obtained from the Georgia Department of Audits - Education Audit Division or on their web site at <http://www.audits.ga.gov>.

The Georgia Fund 1 Investment Pool, managed by the Office of the State Treasurer, is not registered with the Securities and Exchange Commission as an investment company. This investment is valued at the pool's share price, \$1.00 per share. The Georgia Fund 1 Investment Pool is an AA+f rated investment pool by Standard and Poor's. The Weighted Average Maturity of the Fund is 62 days.

The Georgia Extended Asset Pool, managed by the Office of the State Treasurer, is not registered with the Securities and Exchange Commission as an investment company. Net Asset Value (NAV) is calculated daily to determine current share price, which was \$1.99 at June 30, 2014. The Georgia Extended Asset Pool is an AA+f rated investment pool by Standard and Poor's. The Weighted Average Maturity of the Fund is .22 years.

The investment policy of the Office of the State Treasurer for the Georgia Fund 1 and Georgia Extended Asset Pool does not provide for investment in derivatives or similar investments. Additional information on the Georgia Fund 1 and Georgia Extended Asset Pool is disclosed in the *State of Georgia* Comprehensive Annual Financial Report. This audit can be obtained from the Georgia Department of Audits and Accounts at www.audits.ga.gov/SGD/CAFR.html.

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 Regent's policy and applicable Federal and State laws.

The Effective Duration of the Short-Term Fund is .55 years. Of the Institute's total investment of \$116,219,063 in the Short-Term Fund, \$11,036,046 is invested in debt securities.

The Effective Duration of the Diversified Fund is 5.05 years. Of the Institute's total investment of \$56,191,899 in the Diversified Fund, \$17,098,071 is invested in debt securities.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Institute will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Institute's policy for managing custodial credit risk for investments is an integral part of its current investment policies dated May 16, 2005, which specifies how counterparties are selected and how investments are to be held on behalf of the Institute. These policies can be obtained from our web site at <http://treasury.gatech.edu/treasury-policies-procedures>.

At June 30, 2014, \$13,748,385 of the Institute's applicable investments were uninsured and held by the investment's counterparty in the institute's name and \$1,940,863 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 for investments is an integral part of its current investment policies dated May 16, 2005, which identifies approved investment products, and specifies the required credit quality, as applicable, for each investment based upon approved credit rating agencies.

The investments subject to credit quality risk are reflected below:

| <u>Credit Quality Risk</u> | <u>Fair Value</u> | <u>AAA</u> | <u>AA</u> | <u>A</u> | <u>BBB</u> |
|----------------------------|---------------------|-------------------|---------------------|------------------|------------------|
| Related Debt Investments | | | | | |
| U. S. Agency Securities | \$ 2,587,786 | \$ 212,056 | \$ 2,375,730 | | |
| Corporate Bonds | 101,419 | | 27,560 | 57,037 | 16,822 |
| | <u>\$ 2,689,205</u> | <u>\$ 212,056</u> | <u>\$ 2,403,290</u> | <u>\$ 57,037</u> | <u>\$ 16,822</u> |

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 credit risk for investments 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, 2014:

| | | |
|--|----|---------------------------|
| Student Tuition and Fees | \$ | 3,456,800 |
| Auxiliary Enterprises and Other Operating Activities | | 2,599,339 |
| Federal Financial Assistance | | 63,355,153 |
| Georgia State Financing and Investment Commission | | 327,407 |
| Due from Affiliated Organizations | | 81,303 |
| Other | | <u>39,077,322</u> |
| | \$ | 108,897,324 |
| Less Allowance for Doubtful Accounts | | <u>2,341,933</u> |
| Net Accounts Receivable | \$ | <u><u>106,555,391</u></u> |

Note 4. Inventories

Inventories consisted of the following at June 30, 2014:

| | | |
|-------------------|----|-----------------------|
| Physical Plant | \$ | 286,857 |
| Other | | <u>56,128</u> |
| Total Inventories | \$ | <u><u>342,985</u></u> |

Note 5. Notes/Loans Receivable

The Federal Perkins Loan Program (the Program) comprises substantially all of the loans receivable at June 30, 2014. 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, 2014, the allowance for uncollectible loans was approximately \$459,918.

GEORGIA INSTITUTE OF TECHNOLOGY
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EXHIBIT "D"

Note 6. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2014:

| | | | | |
|--|-----------------------------|--------------------------|--------------------------|-----------------------------|
| Capital Assets, Not Being Depreciated/ Amortized: | | | | |
| Land | \$ 55,768,543 | | | \$ 55,768,543 |
| Capitalized Collections | 19,055,536 | \$ 19,500 | | 19,075,036 |
| Construction Work-In-Progress | <u>42,941,887</u> | <u>52,637,078</u> | <u>\$ 24,407,175</u> | <u>71,171,790</u> |
| Total Capital Assets, Not Being Depreciated/Amortized | <u>117,765,966</u> | <u>52,656,578</u> | <u>24,407,175</u> | <u>146,015,369</u> |
| Capital Assets, Being Depreciated/ Amortized: | | | | |
| Infrastructure | 123,114,373 | 6,152,954 | | 129,267,327 |
| Building and Building Improvements | 1,703,765,487 | 26,440,793 | | 1,730,206,280 |
| Facilities and Other Improvements | 45,522,628 | 1,896,556 | 880,672 | 46,538,512 |
| Equipment | 460,826,356 | 39,820,114 | 13,491,930 | 487,154,540 |
| Library Collections | 117,859,498 | 5,464,360 | 432,047 | 122,891,811 |
| Software | <u>1,530,895</u> | | | <u>1,530,895</u> |
| Total Assets Being Depreciated/ Amortized | <u>2,452,619,237</u> | <u>79,774,777</u> | <u>14,804,649</u> | <u>2,517,589,365</u> |
| Less: Accumulated Depreciation/ Amortization: | | | | |
| Infrastructure | 28,935,932 | 3,310,758 | | 32,246,690 |
| Building and Building Improvements | 434,362,947 | 38,089,231 | | 472,452,178 |
| Facilities and Other Improvements | 11,360,333 | 1,776,111 | 551,332 | 12,585,112 |
| Equipment | 299,861,944 | 38,908,124 | 11,843,901 | 326,926,167 |
| Library Collections | 87,504,213 | 4,887,827 | 432,047 | 91,959,993 |
| Software | <u>1,148,173</u> | <u>153,090</u> | | <u>1,301,263</u> |
| Total Accumulated Depreciation/ Amortization | <u>863,173,542</u> | <u>87,125,141</u> | <u>12,827,280</u> | <u>937,471,403</u> |
| Total Capital Assets, Being Depreciated/ Amortized, Net | <u>1,589,445,695</u> | <u>-7,350,364</u> | <u>1,977,369</u> | <u>1,580,117,962</u> |
| Capital Assets, Net | <u>\$ 1,707,211,661</u> | <u>\$ 45,306,214</u> | <u>\$ 26,384,544</u> | <u>\$ 1,726,133,331</u> |

Note 7. Advances (Including Tuition and Fees)

Advances (Including Tuitions and Fees) consisted of the following at June 30, 2014:

| | |
|--------------------------|--------------------------|
| Prepaid Tuition and Fees | \$ 19,240,948 |
| Research | 7,819,765 |
| Other Advances | <u>1,283,848</u> |
| Total Advances | <u>\$ 28,344,561</u> |

Long-term advances (included above) totaled \$6,262,500, which consisted of deferred rental payments and up-front receipts deferred for a multi-year vending contract.

Note 8. Long-Term Liabilities

Long-Term liability activity for the year ended June 30, 2014 was as follows:

| | Beginning Balance <u>July 1, 2013</u> | Adjustments | Additions | Reductions | Ending Balance <u>June 30, 2014</u> | Current Portion |
|-----------------------------|---|---------------|----------------------|----------------------|---|----------------------|
| Leases | | | | | | |
| Lease Obligations | \$ 496,458,923 | \$ 600 | | \$ 18,671,169 | \$ 477,788,354 | \$ 16,822,798 |
| Other Liabilities | | | | | | |
| Compensated Absences | <u>40,775,303</u> | | <u>\$ 26,654,193</u> | <u>25,510,633</u> | <u>41,918,863</u> | <u>25,364,164</u> |
| Total Long-Term Obligations | <u>\$ 537,234,226</u> | <u>\$ 600</u> | <u>\$ 26,654,193</u> | <u>\$ 44,181,802</u> | <u>\$ 519,707,217</u> | <u>\$ 42,186,962</u> |

Note 9. Significant Commitments

The Institute had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$41,228,807 as of June 30, 2014. 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 2014 and 2043. Cash payments for fiscal year 2014 were \$45,551,450 of which \$26,880,281 represented interest. Total reduction to capital leases was \$18,671,169 for the fiscal year ended June 30, 2014. Interest rates range from 1.9 percent to 6.5 percent.

GEORGIA INSTITUTE OF TECHNOLOGY
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EXHIBIT "D"

The following is a summary of the carrying values of assets held under capital lease at June 30, 2014:

| <u>Description</u> | <u>Gross Amount</u> (+) | <u>Accumulated Depreciation</u> (-) | <u>Net Position Held Under Capital Lease at June 30, 2014</u> (=) | <u>Outstanding Balances per Lease Schedules at June 30, 2014</u> |
|---|----------------------------|--|--|--|
| Land - (PPV Only) | \$ 11,457,418 | | \$ 11,457,418 | \$ 8,620,774 |
| Infrastructure - (PPV) | 39,705,000 | \$ 9,290,970 | 30,414,030 | 36,712,045 |
| Equipment | 11,190,288 | 8,077,206 | 3,113,082 | 1,657,807 |
| Buildings | 84,359,140 | 27,973,997 | 56,385,143 | 74,631,401 |
| Buildings - (PPV) | 445,124,955 | 74,273,762 | 370,851,193 | 355,576,576 |
| Facilities and Improvements - (PPV Only) | 679,713 | 467,068 | 212,645 | 589,751 |
| Total Assets Held Under Capital Lease at June 30, 2014 | \$ 592,516,514 | \$ 120,083,003 | \$ 472,433,511 | \$ 477,788,354 |

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 fifteen capital leases with related parties in fiscal year 2014, including six capital leases for the Technology Square Complex. These related party leases are with the Georgia Tech Research Corporation (GTRC), Georgia Tech Facilities, Inc. (GTFI), and the Georgia Tech Foundation (GTF). The Institute also had one real property capital lease with an unrelated party, The University Financing Foundation (TUFF).

The following capital lease schedule lists the pertinent information for each lease including the building name, lessor, total principal amount, lease term, lease begin date, lease end date, remaining long-term debt as of June 30, 2014 and the principal and interest due in fiscal year 2015.

CAPITAL LEASE SCHEDULE

| <u>BUILDING</u> | <u>LESSOR</u> | <u>TOTAL PRINCIPAL</u> | <u>LEASE TERM</u> | <u>BEG DT MM/YY</u> | <u>END DT MM/YY</u> | <u>REM LTD @ JUNE 30, 2014</u> | <u>P & I DUE IN FY2015</u> |
|---------------------------------|---------------|----------------------------|-----------------------|-------------------------|-------------------------|------------------------------------|------------------------------------|
| Institute for Bloeng & Biosci | GTRC | \$ 21,560,000 | 30 yrs | 11/97 | 05/28 | \$ 14,350,000 | \$ 1,424,375 |
| Campus Recreation Center/Pkg | GTF | 44,980,000 | 30 yrs | 02/01 | 02/31 | 34,495,000 | 3,307,742 |
| Technology Square Rsch Bldg | TUFF | 76,150,584 | 29 yrs | 06/03 | 06/32 | 72,565,085 | 5,220,150 |
| Technology Square Complex | GTF | 142,298,200 | 19-29 yrs | 08/03 | 04/32 | 107,067,800 | 10,212,894 |
| Married Family Housing | GTFI | 61,863,391 | 25 yrs | 10/05 | 04/30 | 46,887,612 | 4,500,000 |
| Molecular Sciences & Eng | GTFI | 75,205,000 | 35 yrs | 09/06 | 04/41 | 64,993,960 | 4,917,000 |
| Klaus Advanced Computing Pkg | GTFI | 9,835,000 | 20 yrs | 10/05 | 04/25 | 6,765,000 | 850,000 |
| Electrical Sub Station | GTFI | 39,705,000 | 34 yrs | 10/07 | 12/40 | 36,712,045 | 3,000,000 |
| North Ave Apts (Pkg/Dining) | GTFI | 82,705,507 | 25 yrs | 07/11 | 06/36 | 72,296,376 | 5,868,000 |
| Academy of Medicine | GTFI | 5,000,000 | 20 yrs | 01/12 | 12/30 | 4,586,310 | 430,000 |
| Carbon Neutral Energy Solutions | GTFI | 13,815,000 | 31 yrs | 10/12 | 04/43 | 13,345,043 | 882,000 |

The Institute is obligated to various parties for the lease purchase of furniture, fixtures, equipment, and plant infrastructure improvements. These leases have various end dates through June 30, 2018. At June 30, 2014, the remaining long-term debt obligation under these agreements was \$3,724,123. The amount due (principal and interest) in the next fiscal year is \$2,159,237.

OPERATING LEASES

Georgia Institute of Technology is the lessee under a number of one-year operating leases, which generally provide for renewal option periods. Lease renewals are at the fair rental value at the time of renewal. All agreements are cancellable if the State of Georgia does not provide adequate funding, but that is considered a remote possibility. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Properties are leased for specific Institute activities, however most of the Institute's operating leases are for office space.

DESCRIPTION OF RELATED PARTY LEASES

Georgia Institute of Technology entered into various real property operating leases with related parties including Georgia Tech Research Corporation (GTRC), Georgia Tech Foundation (GTF), Georgia Advanced Technology Ventures (GATV), Inc. and VLP 1, VLP 2, VLP 3 and TEP 1 subsidiaries of GATV. The current agreements are for July 1, 2014 through June 30, 2015 with most of the agreements containing a renewal option. Under these agreements, the Institute is obligated to pay these related parties a total of \$10,640,555 in the next fiscal year.

FUTURE COMMITMENTS

Future commitments for capital leases (which here and on the Statement of Net Position include other installment purchase agreements) and for noncancellable operating leases having remaining terms in excess of one year as of June 30, 2014, were as follows:

| | Real Property and Equipment | |
|------------------------------|-----------------------------|---------------------|
| | Capital Leases | Operating Leases |
| Year Ending June 30: | | |
| 2015 | \$ 42,771,398 | \$ 14,568,991 |
| 2016 | 41,461,128 | |
| 2017 | 41,518,664 | |
| 2018 | 41,595,323 | |
| 2019 | 41,270,089 | |
| 2020 - 2024 | 205,518,553 | |
| 2025 - 2029 | 200,405,605 | |
| 2030 - 2034 | 120,541,606 | |
| 2035 - 2039 | 45,171,000 | |
| 2040 - 2043 | 16,895,500 | |
| Total Minimum Lease Payments | \$ 797,148,866 | \$ 14,568,991 |
| Less: Interest | 319,360,512 | |
| Principal Outstanding | \$ 477,788,354 | |

Georgia Institute of Technology's fiscal year 2014 expense for rental of real property and equipment under operating leases was \$13,292,677, which includes payments to related parties of \$10,273,851.

Note 11. Retirement Plans

Georgia Institute of Technology participates in various retirement plans administered by the State of Georgia under two major retirement systems: Employees' Retirement System of Georgia (ERS System) and Teachers Retirement System of Georgia. These two systems issue separate publicly available financial reports that include the applicable financial statements and required supplementary information. The reports may be obtained from the respective system offices. The significant retirement plans that Georgia Institute of Technology participates in are described below. More detailed information can be found in the plan agreements and related legislation. Each plan, including benefit and contribution provisions, was established and can be amended by State law.

Employees' Retirement System of Georgia

The ERS System is comprised of individual retirement systems and plans covering substantially all employees of the State of Georgia except for teachers and other employees covered by the Teachers Retirement System of Georgia. One of the ERS System plans, the Employees' Retirement System of Georgia (ERS), is a cost-sharing multiple-employer defined benefit pension plan that was established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees and has the powers and privileges of a corporation. ERS acts pursuant to statutory direction and guidelines, which may be amended prospectively for new hires but for existing members and beneficiaries may be amended in some aspects only subject to potential application of certain constitutional restraints against impairment of contract.

On November 20, 1997, the Board created the Supplemental Retirement Benefit Plan (SRBP-ERS) of ERS. SRBP-ERS 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 the SRBP-ERS is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC Section 415. Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in the SRBP-ERS whenever their benefits under ERS exceed the limitation on benefits imposed by IRC Section 415.

The benefit structure of ERS is established by the Board of Trustees under statutory guidelines. Unless the employee elects 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. Members hired on or after July 1, 1982 but prior to January 1, 2009 are "new plan" members subject to the modified plan provisions. Effective January 1, 2009, newly hired State employees, as well as rehired State employees who did not maintain eligibility for the "old" or "new" plan, are members of the Georgia State Employees' Pension and Savings Plan (GSEPS). ERS members hired prior to January 1, 2009 also have the option to change their membership to the GSEPS plan.

Under the old plan, new plan, and GSEPS, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon a formula adopted by the Board of Trustees for such purpose. The formula considers the monthly average of the member's highest 24 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 may be made to members' benefits provided the members were hired prior to July 1, 2009. 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.

Member contribution rates are set by law. Member contributions under the old plan are 4% of annual compensation up to \$4,200 plus 6% of annual compensation in excess of \$4,200. Under the old plan, Georgia Institute of Technology pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these Georgia Institute of Technology contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25% of annual compensation. Georgia Institute of Technology is required to contribute at a specified percentage of active member payroll established by the Board of Trustees determined annually in accordance with actuarial valuation and minimum funding standards as provided by law. These Georgia Institute of Technology contributions are not at any time refundable to the member or his/her beneficiary.

Employer contributions required for fiscal year 2014 were based on the June 30, 2011 actuarial valuation as follows:

| | |
|-----------|--------|
| Old Plan* | 18.46% |
| New Plan | 18.46% |
| GSEPS | 15.18% |

* 13.71% exclusive of contributions paid by the employer on behalf of old plan members

Members become vested after 10 years of service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions; the member forfeits all rights to retirement benefits.

Teachers Retirement System of Georgia

The Teachers Retirement System of Georgia (TRS) is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS.

On October 25, 1996, the Board created the Supplemental Retirement Benefit Plan of the Georgia Teachers Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2014 were 6.00% of annual salary. Employer contributions required for fiscal year 2014 were 12.28% of annual salary as required by the June 30, 2011 actuarial valuation.

The following table summarizes the Georgia Institute of Technology contributions by defined benefit plan for the years ending June 30, 2014, June 30, 2013, and June 30, 2012:

| Fiscal Year | ERS | | TRS | |
|-------------|-----------------------|------------------------|-----------------------|------------------------|
| | Required Contribution | Percentage Contributed | Required Contribution | Percentage Contributed |
| 2014 | \$ 202,351 | 100% | \$ 27,175,203 | 100% |
| 2013 | \$ 153,729 | 100% | \$ 24,374,980 | 100% |
| 2012 | \$ 105,626 | 100% | \$ 21,634,408 | 100% |

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 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 all exempt full and partial benefit eligible employees, as designated by the regulations of the Board of Regents. Under the Regents Retirement Plan, a plan participant may purchase annuity contracts from four approved vendors (VALIC, Fidelity, and TIAA-CREF) for the purpose of receiving retirement and death benefits. Benefits depend solely on amounts contributed to the plan plus investment earnings. Benefits are payable to participating employees or their beneficiaries in accordance with the terms of the annuity contracts.

Funding Policy

Georgia Institute of Technology makes monthly employer contributions for the Regents Retirement Plan at rates adopted by the Teachers Retirement System of Georgia Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2014, the employer contribution was 9.24% for the participating employee's earnable compensation. Employees contribute 6% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and nonforfeitable at all times.

Georgia Institute of Technology and the covered employees made the required contributions of \$28,713,521 (9.24%) and \$18,620,535 (6%), respectively.

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

Georgia Defined Contribution Plan

Plan Description

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

Benefits

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

Contributions

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

Total contributions made by employees during fiscal year 2014 amounted to \$863,335 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 four different healthcare plan options. For the University System of Georgia's Plan Year 2014, the following healthcare plan options were available:

- BlueChoice HMO
- Health Savings Account (HSA) Open Access POS
- Open Access Point-of-Service (POS)
- Kaiser Permanente HMO

Georgia Institute of Technology and participating employees and retirees pay premiums to the healthcare plan options to access benefits coverage. The respective health 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 the self-insured plans; including the HSA Open Access POS, the Open Access POS and the BlueChoice HMO. The reserves for these plans are considered to be a self-sustaining risk fund. The Board of Regents has contracted with Blue Cross Blue Shield of Georgia to serve as the claims administrator for the self-insured healthcare plans. In addition to the self-insured healthcare plan options offered to the employees of the University System of Georgia, a fully insured HMO healthcare plan option is also offered to System employees through Kaiser Permanente.

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.

Georgia Institute of Technology is responsible for pollution monitoring and remediation in all Institute facilities, including asbestos abatement. Monitoring and remediation activities are performed during renovation/construction projects when deemed necessary by Institute management. As of June 30, 2014, the Institute recorded a liability and expense in the amount of \$143,458 for pollution monitoring and remediation projects in various Institute structures. The liability is reflected on the Statement of Net Position in Accounts Payable and on the Statement of Revenues, Expenses, and Changes in Net Position in Supplies and Other Services. The liability was determined using the Expected Cash Flow Measurement Technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. The Institute does not anticipate any significant changes to the expected remediation outlay. There are no expected recoveries that have reduced the liability.

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 expenditure 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 for the fiscal year ended June 30, 2014.

Note 14. Post-Employment Benefits Other Than Pension Benefits

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

The Board of Regents Retiree Health Benefit Plan is a single-employer, defined benefit plan. Financial statements and required supplementary information for the Plan are included in the publicly available Consolidated Annual Financial Report of the University System of Georgia. The Institute pays the employer portion of health insurance for its eligible retirees based on rates that are established annually by the Board of Regents for the upcoming plan year. For the 2014 plan year, the employer rate was between 70-75% of the total health insurance cost for eligible retirees and the retiree rate was between 25-30%.

As of June 30, 2014, there were 1,529 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2014, Georgia Institute of Technology recognized as incurred \$8,414,724 of expenditures, which was net of \$3,332,032 of participant contributions.

GEORGIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT "D"

Note 15. Natural Classifications with Functional Classifications

The Institute's operating expenses by functional classification for fiscal year 2014 are shown below:

| <u>Natural Classification</u> | Functional Classification | | | | |
|-------------------------------|---------------------------|-----------------------|----------------------|----------------------|----------------------|
| | Instruction | Research | Public Service | Academic Support | Student Services |
| Salaries | | | | | |
| Faculty | \$ 110,764,882 | \$ 203,644,223 | \$ 5,630,287 | \$ 6,689,763 | \$ 634,599 |
| Staff | 60,176,946 | 129,012,666 | 23,831,572 | 20,111,677 | 13,222,174 |
| Employee Benefits | 41,501,950 | 70,529,872 | 7,392,291 | 7,221,797 | 3,190,876 |
| Other Personal Services | 52,100 | 30,114 | 516,300 | 15,666 | 29,599 |
| Travel | 4,821,521 | 17,513,306 | 1,086,877 | 651,227 | 449,317 |
| Scholarships and Fellowships | | | | | |
| Utilities | 425,831 | 1,543,843 | 167,980 | -76,476 | 29,651 |
| Supplies and Other Services | 27,841,771 | 183,073,709 | 10,647,080 | 10,465,955 | 13,043,442 |
| Depreciation/Amortization | 12,161,215 | 40,574,856 | 399,353 | 6,658,724 | 2,067,078 |
| Total Operating Expenses | <u>\$ 257,746,216</u> | <u>\$ 645,922,589</u> | <u>\$ 49,671,740</u> | <u>\$ 51,738,333</u> | <u>\$ 32,666,736</u> |

| <u>Natural Classification</u> | Functional Classification | | | | |
|-------------------------------|---------------------------|--|------------------------------------|--------------------------|--------------------------------|
| | Institutional Support | Plant Operations and Maintenance | Scholarships and Fellowships | Auxiliary Enterprises | Total Operating Expenses |
| Salaries | | | | | |
| Faculty | \$ 1,798,616 | \$ 48,819 | | \$ 154,873 | \$ 329,366,062 |
| Staff | 41,912,712 | 28,210,562 | | 20,158,737 | 336,637,046 |
| Employee Benefits | 7,299,226 | 8,134,293 | | 5,406,183 | 150,676,488 |
| Other Personal Services | 12,098 | 955 | | 4,282 | 661,114 |
| Travel | 887,312 | 91,990 | | 199,488 | 25,701,038 |
| Scholarships and Fellowships | | | \$ 13,479,735 | | 13,479,735 |
| Utilities | 68,419 | 20,380,976 | | 10,041,589 | 32,581,813 |
| Supplies and Other Services | 12,456,158 | 67,902,042 | 1,915 | 30,405,822 | 355,837,894 |
| Depreciation/Amortization | 6,721,118 | 7,877,779 | | 10,665,018 | 87,125,141 |
| Total Operating Expenses | <u>\$ 71,155,659</u> | <u>\$ 132,647,416</u> | <u>\$ 13,481,650</u> | <u>\$ 77,035,992</u> | <u>\$ 1,332,066,331</u> |

Note 16. Affiliated Organizations

The Georgia Tech Foundation (GTF), Georgia Advanced Technology Ventures (GATV), Georgia Tech Facilities, Inc. (GTFI), Georgia Tech Athletic Association (GTAA), Georgia Tech Alumni Association and Georgia Tech Research Corporation (GTRC) are legally separate, tax exempt organizations whose activities primarily support Georgia Institute of Technology. These affiliated organizations are considered potential component units of the State of Georgia in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* - an amendment of GASB Statements No. 14 and No. 34, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Therefore, the financial statements of the affiliated organizations are not included in these financial statements. Copies of the financial statements for the affiliated organizations may be obtained from Georgia Institute of Technology.

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, 2014, and as such, are reported as component units in the Comprehensive Annual Financial Report of the State of Georgia (CAFR). Significant affiliated organizations issue separate audited financial statements that can be obtained from Georgia Institute of Technology.

Note 17. Subsequent Event

On March 14, 2014 the Institute entered into a Memorandum of Understanding (MOU) with Emory University (Emory) to mutually develop, own and operate a shared library facility ("The Facility") to house certain library collections of each institution. To accomplish this goal EmTech, Inc. ("EmTech") a not-for-profit corporation whose six-member board is equally appointed by the Presidents of Emory and the Institute, will construct, finance and manage The Facility on behalf of Emory and the Institute. The land on which The Facility will be constructed is owned by Emory and will be ground leased to EmTech. On May 20, 2014 the Georgia Board of Regents approved a proposed rental agreement for the period of December 1, 2015 through June 30, 2016 with options to renew on a year-to-year basis for 29 consecutive one-year periods, and then one option to renew for a five month period. The rental agreement is expected to be signed in fiscal year 2015 between EmTech as lessor and Emory and the Institute individually as tenants of The Facility. The Institute will commit to monthly rent payments which will cover expenses consisting of the following components: debt service, ground rent, operating costs, a capital reserve, EmTech's ongoing administrative and corporate costs, and funding a facility operating reserve. Rent shall escalate annually in conjunction with the escalation of these components. The Institute will pay an estimated total rent of \$50,379,807 over a thirty year period, with the first year's annual rental payment estimated to be \$1,499,050.

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SUPPLEMENTARY INFORMATION

GEORGIA INSTITUTE OF TECHNOLOGY
BALANCE SHEET (NON-GAAP BASIS)
BUDGET FUND
JUNE 30, 2014

SCHEDULE "1"

ASSETS

| | | |
|------------------------------|----|------------------------------|
| Cash and Cash Equivalents | \$ | 62,244,471.91 |
| Investments | | 154,235.16 |
| Accounts Receivable | | |
| Federal Financial Assistance | | 61,470,350.38 |
| Other | | 35,492,471.77 |
| Prepaid Expenditures | | 8,501,823.73 |
| Inventories | | <u>286,856.73</u> |
| | | |
| Total Assets | \$ | <u><u>168,150,209.68</u></u> |

LIABILITIES AND FUND EQUITY

| | | |
|---------------------------------------|----|------------------------------|
| Liabilities | | |
| Encumbrances Payable | \$ | 35,401,274.38 |
| Accounts Payable | | 70,007,536.23 |
| Advances (Including Tuition and Fees) | | 27,301,158.74 |
| Funds Held for Others | | 3,602.33 |
| Other Liabilities | | <u>217,167.00</u> |
| | | |
| Total Liabilities | | <u>132,930,738.68</u> |
| | | |
| Fund Balances | | |
| Reserved | | |
| Department Sales and Services | | 8,327,358.44 |
| Indirect Cost Recoveries | | 23,464,876.19 |
| Technology Fees | | 508,799.52 |
| Restricted/Sponsored Funds | | 446,557.23 |
| Uncollectible Accounts Receivable | | 1,523,083.68 |
| Tuition Carry-Over | | 625,735.47 |
| Inventories | | 283,390.52 |
| Unreserved | | |
| Surplus | | <u>39,669.95</u> |
| | | |
| Total Fund Balances | | <u>35,219,471.00</u> |
| | | |
| Total Liabilities and Fund Balances | \$ | <u><u>168,150,209.68</u></u> |

Actual amounts were prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework.

GEORGIA INSTITUTE OF TECHNOLOGY
SUMMARY BUDGET COMPARISON AND SURPLUS ANALYSIS REPORT (NON-GAAP BASIS)
BUDGET FUND
YEAR ENDED JUNE 30, 2014

SCHEDULE "2"

| | BUDGET | ACTUAL | VARIANCE - FAVORABLE (UNFAVORABLE) |
|--|-------------------|-------------------|--|
| <u>REVENUES</u> | | | |
| State Appropriation | | | |
| State General Funds | \$ 222,326,590.00 | \$ 222,326,590.00 | \$ 0.00 |
| Other Funds | 1,215,233,366.00 | 1,118,438,450.55 | -96,794,915.45 |
| Total Revenues | 1,437,559,956.00 | 1,340,765,040.55 | -96,794,915.45 |
| <u>ADJUSTMENTS AND PROGRAM TRANSFERS</u> | 0.00 | 1,740,959.23 | 1,740,959.23 |
| <u>CARRY-OVER FROM PRIOR YEARS</u> | | | |
| Transfers from Reserved Fund Balance | 0.00 | 27,294,342.13 | 27,294,342.13 |
| Total Funds Available | 1,437,559,956.00 | 1,369,800,341.91 | -67,759,614.09 |
| <u>EXPENDITURES</u> | | | |
| Research Consortium | 5,896,551.00 | 5,896,551.00 | 0.00 |
| Enterprise Innovation Institute (EII) | 19,229,016.00 | 18,392,003.89 | 837,012.11 |
| Georgia Tech Research Institute | 336,815,482.00 | 316,048,722.94 | 20,766,759.06 |
| Teaching | 1,075,618,907.00 | 995,981,319.60 | 79,637,587.40 |
| Total Expenditures | 1,437,559,956.00 | 1,336,318,597.43 | 101,241,358.57 |
| Excess of Funds Available over Expenditures | \$ 0.00 | 33,481,744.48 | \$ 33,481,744.48 |
| <u>FUND BALANCE JULY 1</u> | | | |
| Reserved | | 28,992,398.88 | |
| Unreserved | | 189,417.89 | |
| <u>ADJUSTMENTS</u> | | | |
| Prior Year Payables/Expenditures | | 284,180.46 | |
| Prior Year Receivables/Revenues | | -190,767.56 | |
| Unreserved Fund Balance (Surplus) Returned to Board of Regents - University System Office Year Ended June 30, 2013 | | -189,417.89 | |
| Early Return of Surplus in current Fiscal Year | | -53,743.13 | |
| Prior Year Reserved Fund Balance Included in Funds Available | | -27,294,342.13 | |
| <u>FUND BALANCE JUNE 30</u> | | \$ 35,219,471.00 | |
| <u>SUMMARY OF FUND BALANCE</u> | | | |
| Reserved | | | |
| Department Sales and Services | \$ | 8,327,358.44 | |
| Indirect Cost Recoveries | | 23,464,876.19 | |
| Technology Fees | | 508,799.52 | |
| Restricted/Sponsored Funds | | 446,557.23 | |
| Uncollectible Accounts Receivable | | 1,523,083.68 | |
| Tuition Carry-Over | | 625,735.47 | |
| Inventories | | 283,390.52 | |
| Total Reserved | | 35,179,801.05 | |
| Unreserved | | | |
| Surplus | | 39,669.95 | |
| Total Fund Balance | \$ | 35,219,471.00 | |

Actual amounts were prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework.

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF FUNDS AVAILABLE AND EXPENDITURES COMPARED TO BUDGET BY PROGRAM AND FUNDING SOURCE
(NON-GAAP BASIS) BUDGET FUND
YEAR ENDED JUNE 30, 2014

| | Original Appropriation | Amended Appropriation | Final Budget | Current Year Revenues |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Research Consortium | | | | |
| State Appropriation | | | | |
| State General Funds | \$ 5,896,551.00 | \$ 5,896,551.00 | \$ 5,896,551.00 | \$ 5,896,551.00 |
| Enterprise Innovation Institute (EII) | | | | |
| State Appropriation | | | | |
| State General Funds | 7,187,612.00 | 7,187,612.00 | 7,187,612.00 | 7,187,612.00 |
| Other Funds | 10,475,000.00 | 11,121,638.00 | 12,041,404.00 | 10,868,777.84 |
| Total Enterprise Innovation Institute (EII) | <u>17,662,612.00</u> | <u>18,309,250.00</u> | <u>19,229,016.00</u> | <u>18,056,389.84</u> |
| Georgia Tech Research Institute | | | | |
| State Appropriation | | | | |
| State General Funds | 5,588,520.00 | 5,588,520.00 | 5,588,520.00 | 5,588,520.00 |
| Other Funds | 223,917,958.00 | 314,011,962.00 | 331,226,962.00 | 310,742,979.24 |
| Total Georgia Tech Research Institute | <u>229,506,478.00</u> | <u>319,600,482.00</u> | <u>336,815,482.00</u> | <u>316,331,499.24</u> |
| Teaching | | | | |
| State Appropriation | | | | |
| State General Funds | 203,601,515.00 | 203,653,907.00 | 203,653,907.00 | 203,653,907.00 |
| Other Funds | 818,150,000.00 | 817,980,000.00 | 871,965,000.00 | 796,826,693.47 |
| Total Teaching | <u>1,021,751,515.00</u> | <u>1,021,633,907.00</u> | <u>1,075,618,907.00</u> | <u>1,000,480,600.47</u> |
| Total Operating Activity | <u>\$ 1,274,817,156.00</u> | <u>\$ 1,365,440,190.00</u> | <u>\$ 1,437,559,956.00</u> | <u>\$ 1,340,765,040.55</u> |

Actual amounts were prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework.

| Funds Available Compared to Budget | | | | Expenditures Compared to Budget | | Excess of Funds Available Over Expenditures |
|------------------------------------|-----------------------------------|-----------------------|------------------------------|---------------------------------|------------------------------|---|
| Prior Year Carry-Over | Adjustments and Program Transfers | Total Funds Available | Variance Positive (Negative) | Actual | Variance Positive (Negative) | |
| \$ 0.00 | \$ 0.00 | \$ 5,896,551.00 | \$ 0.00 | \$ 5,896,551.00 | \$ 0.00 | \$ 0.00 |
| 0.00 | 0.00 | 7,187,612.00 | 0.00 | 7,187,611.88 | 0.12 | 0.12 |
| 0.00 | 335,614.23 | 11,204,392.07 | -837,011.93 | 11,204,392.01 | 837,011.99 | 0.06 |
| 0.00 | 335,614.23 | 18,392,004.07 | -837,011.93 | 18,392,003.89 | 837,012.11 | 0.18 |
| 0.00 | 0.00 | 5,588,520.00 | 0.00 | 5,588,520.00 | 0.00 | 0.00 |
| 0.00 | 0.00 | 310,742,979.24 | -20,483,982.76 | 310,460,202.94 | 20,766,759.06 | 282,776.30 |
| 0.00 | 0.00 | 316,331,499.24 | -20,483,982.76 | 316,048,722.94 | 20,766,759.06 | 282,776.30 |
| 0.00 | 0.00 | 203,653,907.00 | 0.00 | 203,653,907.00 | 0.00 | 0.00 |
| 27,294,342.13 | 1,405,345.00 | 825,526,380.60 | -46,438,619.40 | 792,327,412.60 | 79,637,587.40 | 33,198,968.00 |
| 27,294,342.13 | 1,405,345.00 | 1,029,180,287.60 | -46,438,619.40 | 995,981,319.60 | 79,637,587.40 | 33,198,968.00 |
| \$ 27,294,342.13 | \$ 1,740,959.23 | \$ 1,369,800,341.91 | \$ -67,759,614.09 | \$ 1,336,318,597.43 | \$ 101,241,358.57 | \$ 33,481,744.48 |

GEORGIA INSTITUTE OF TECHNOLOGY
STATEMENT OF CHANGES TO FUND BALANCE BY PROGRAM AND FUNDING SOURCE
(NON-GAAP BASIS) BUDGET FUND
YEAR ENDED JUNE 30, 2014

| | Beginning Fund Balance July 1 | Fund Balance Carried Over from Prior Period as Funds Available | Return of Fiscal Year 2013 Surplus | Prior Period Adjustments |
|---|-------------------------------------|---|--|-----------------------------|
| Research Consortium | | | | |
| State Appropriation | | | | |
| State General Funds | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Enterprise Innovation Institute (EII) | | | | |
| State Appropriation | | | | |
| State General Funds | 0.02 | 0.00 | -0.02 | 0.00 |
| Other Funds | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Enterprise Innovation Institute (EII) | 0.02 | 0.00 | -0.02 | 0.00 |
| Georgia Tech Research Institute | | | | |
| State Appropriation | | | | |
| State General Funds | 1,369.71 | 0.00 | -1,369.71 | 1,222.70 |
| Other Funds | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Georgia Tech Research Institute | 1,369.71 | 0.00 | -1,369.71 | 1,222.70 |
| Teaching | | | | |
| State Appropriation | | | | |
| State General Funds | 134,855.90 | 0.00 | -134,855.90 | 207,357.09 |
| Other Funds | 27,347,534.39 | -27,294,342.13 | -53,192.26 | -115,166.89 |
| Total Teaching | 27,482,390.29 | -27,294,342.13 | -188,048.16 | 92,190.20 |
| Total Operating Activity | 27,483,760.02 | -27,294,342.13 | -189,417.89 | 93,412.90 |
| Prior Year Reserves | | | | |
| Not Available for Expenditure | | | | |
| Inventories | 324,314.14 | 0.00 | 0.00 | 0.00 |
| Uncollectible Accounts Receivable | 1,373,742.61 | 0.00 | 0.00 | 0.00 |
| Budget Unit Totals | \$ 29,181,816.77 | \$ -27,294,342.13 | \$ -189,417.89 | \$ 93,412.90 |

Actual amounts were prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework.

| Other Adjustments | Early Return Fiscal Year 2014 Surplus | Excess of Funds Available Over Expenditures | Ending Fund Balance June 30 | Analysis of Ending Fund Balance | | |
|-------------------|---------------------------------------|---|-----------------------------|---------------------------------|--------------|------------------|
| | | | | Reserved | Surplus | Total |
| \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 0.00 | 0.00 | 0.12 | 0.12 | 0.00 | 0.12 | 0.12 |
| 0.00 | 0.00 | 0.06 | 0.06 | 0.00 | 0.06 | 0.06 |
| 0.00 | 0.00 | 0.18 | 0.18 | 0.00 | 0.18 | 0.18 |
| 0.00 | 0.00 | 0.00 | 1,222.70 | 0.00 | 1,222.70 | 1,222.70 |
| 0.00 | 0.00 | 282,776.30 | 282,776.30 | 282,776.30 | 0.00 | 282,776.30 |
| 0.00 | 0.00 | 282,776.30 | 283,999.00 | 282,776.30 | 1,222.70 | 283,999.00 |
| 0.00 | -53,743.13 | 0.00 | 153,613.96 | 0.00 | 153,613.96 | 153,613.96 |
| -108,417.45 | 0.00 | 33,198,968.00 | 32,975,383.66 | 33,090,550.55 | -115,166.89 | 32,975,383.66 |
| -108,417.45 | -53,743.13 | 33,198,968.00 | 33,128,997.62 | 33,090,550.55 | 38,447.07 | 33,128,997.62 |
| -108,417.45 | -53,743.13 | 33,481,744.48 | 33,412,996.80 | 33,373,326.85 | 39,669.95 | 33,412,996.80 |
| -40,923.62 | 0.00 | 0.00 | 283,390.52 | 283,390.52 | 0.00 | 283,390.52 |
| 149,341.07 | 0.00 | 0.00 | 1,523,083.68 | 1,523,083.68 | 0.00 | 1,523,083.68 |
| \$ 0.00 | \$ -53,743.13 | \$ 33,481,744.48 | \$ 35,219,471.00 | \$ 35,179,801.05 | \$ 39,669.95 | \$ 35,219,471.00 |

Summary of Ending Fund Balance

Reserved

| | | |
|-----------------------------------|-----------------|-----------------|
| Department Sales and Services | \$ 8,327,358.44 | \$ 8,327,358.44 |
| Indirect Cost Recoveries | 23,464,876.19 | 23,464,876.19 |
| Technology Fees | 508,799.52 | 508,799.52 |
| Restricted/Sponsored Funds | 446,557.23 | 446,557.23 |
| Uncollectible Accounts Receivable | 1,523,083.68 | 1,523,083.68 |
| Tuition Carry-Over | 625,735.47 | 625,735.47 |
| Inventories | 283,390.52 | 283,390.52 |

Unreserved

| | | |
|---------|--------------|--------------|
| Surplus | \$ 39,669.95 | \$ 39,669.95 |
|---------|--------------|--------------|

Total Ending Fund Balances - June 30 \$ 35,179,801.05 \$ 39,669.95 \$ 35,219,471.00

GEORGIA INSTITUTE OF TECHNOLOGY
RECONCILIATION OF BUDGET TO GAAP
YEAR ENDED JUNE 30, 2014

SCHEDULE "5"

Presented below is a reconciliation of the fund balance of the Budget Fund, as reported on Schedule 1, to Net Position of business-type activities, as reported on Exhibit A.

| | | |
|--|--------------------|-------------------------|
| Total Fund Balances - Budget Fund - Non-GAAP Basis (Schedule "1") | \$ | 35,219,471.00 |
| Amounts reported for Business-Type Activities in the Statement of Net Position are different because: | | |
| Capital Assets used in Business-Type Activities are not reported in the Budget Fund. | | 1,726,133,331.47 |
| Uncollectible accounts receivable are reported as an asset and reserved fund balance in the Budget Fund and as a contra-asset account on the Statement of Net Position. | | -1,523,083.68 |
| Funds placed on deposit with the Georgia State Financing and Investment Commission for use in capital outlay projects are reported as an outlay in the Budget Fund, but are included as a prepaid item on the Statement of Net Position. | | 2,587,278.00 |
| Changes in the Fair Market Value of Investments are recognized on the Statement of Net Position, but are not reported in the Budget Fund. | | 31,926,013.46 |
| Agency and Other Fiduciary Fund activities are not reported as a component of the Budget Fund. | | |
| Assets | \$ 5,551,679.16 | |
| Liabilities | -5,490,306.94 | |
| Total Net Effect of Agency and Other Fiduciary Fund Activity | | 61,372.22 |
| Auxiliary Enterprises Fund activities are not reported as a component of the Budget Fund. | | |
| Assets | \$ 83,519,126.79 | |
| Liabilities | -12,826,958.36 | |
| Total Net Effect of Auxiliary Enterprises Fund Activity | | 70,692,168.43 |
| Endowment Fund activities are not reported as a component of the Budget Fund. | | |
| Assets | \$ 116,253,457.29 | |
| Liabilities | 0.00 | |
| Total Net Effect of Endowment Fund Activity | | 116,253,457.29 |
| Loan Fund activities are not reported as a component of the Budget Fund. | | |
| Assets | \$ 14,146,714.23 | |
| Liabilities | -5,530.17 | |
| Total Net Effect of Loan Fund Activity | | 14,141,184.06 |
| Student Activities Fund activities are not reported as a component of the Budget Fund. | | |
| Assets | \$ 5,036,678.98 | |
| Liabilities | -654,241.12 | |
| Total Net Effect of Student Activity Fund Activity | | 4,382,437.86 |
| Insurance Reimbursement Fund activities are not reported as a component of the Budget Fund | | |
| Assets | \$ 27,517.34 | |
| Liabilities | -115,492.95 | |
| Total Net Effect of Insurance Reimbursement Fund Activity | | -87,975.61 |
| The budgetary basis of accounting implemented by the State of Georgia recognizes expenditures when encumbered. The following adjustments were made to eliminate this activity for reporting on the Statement of Net Position. | | |
| Payables reported in the Budget Fund that are based on encumbrances are eliminated for GAAP reporting. | \$ 35,401,274.38 | |
| Prepaid items reported in the Budget Fund that based on encumbrances are eliminated for GAAP reporting. | -200,000.00 | |
| Payables for goods and services provided in the current fiscal year reported in the Budget Fund as encumbrances payable are reported as accounts payable for GAAP reporting. | 1,327,198.57 | |
| Total Net Effect of Encumbrance Activity | | 36,528,472.95 |
| Certain Liabilities are not due and payable in the current period and therefore are not reported as liabilities in the Budget Fund. | | |
| Capital Leases Payable | \$ -477,788,354.02 | |
| Compensated Absences Payable | -41,918,862.67 | |
| Contracts Payable | -8,879,284.63 | |
| Claims and Judgments Payable | -335,523.00 | |
| Total Liabilities | | -528,922,024.32 |
| Rounding Variance | | -0.13 |
| Net Position of Business-Type Activities (Exhibit "A") | \$ | <u>1,507,392,103.00</u> |

The supplementary information presented on Schedules 1, 2, 3 and 4 was prepared on a prescribed basis of accounting that demonstrates compliance with budgetary statutes and regulations of the State of Georgia, which is a special purpose framework. The information was derived from, and relates directly to, the same information used to prepare the financial statements. However, the budgetary statutes and regulations of the State of Georgia require reporting of certain information that is not in accordance with generally accepted accounting principles. Presented on this schedule is a reconciliation of the fund balance of the Budget Fund, as reported on Schedule 1, to Net Position of business-type activities, as reported on Exhibit A.

GEORGIA INSTITUTE OF TECHNOLOGY
RECONCILIATION OF SALARIES AND TRAVEL
YEAR ENDED JUNE 30, 2014

SCHEDULE "6"

| | SALARIES | TRAVEL |
|--|-------------------|------------------|
| Totals per Annual Supplement | \$ 665,307,780.83 | \$ 25,701,038.20 |
| Accruals | | |
| June 30, 2014 | 2,446,024.00 | |
| June 30, 2013 | -2,079,742.00 | |
| Compensated Absences | | |
| June 30, 2014 | 38,939,956.00 | |
| June 30, 2013 | -37,877,662.00 | |
| Adjustments | | |
| Shared Services on Jointly Staffed Personnel | | |
| Atlanta Metropolitan College | | |
| Porter, Kristi | -2,800.00 | |
| Clayton State University | | |
| Sanford, Dennis | 1,700.00 | |
| Georgia Gwinnett College | | |
| Andrews, Samantha | -11,880.00 | |
| Park, Han Jung | -12,000.00 | |
| Georgia Perimeter College | | |
| Moore, Andy | -2,100.00 | |
| Reddick, Erin | -20,700.00 | |
| Rooney, Brian | -8,800.00 | |
| Tome, Carla | -1,650.00 | |
| Georgia State University | | |
| Alemdar, Meltem | -10,500.00 | |
| Arkin, Ronald | -500.00 | |
| Berry, Roberta | -25,000.00 | |
| Lukkarila, Lauren | -3,500.00 | |
| Perez, Ruperto | -300.00 | |
| Sy, Samba | 9,305.00 | |
| Shibata, Masaki | 6,600.00 | |
| Kennesaw State University | | |
| Shipton, Erik | -4,800.00 | |
| Southern Polytechnic State University | | |
| Abessi, Ozeair | -2,923.00 | |
| Choi, Seong-O | -18,000.00 | |
| Hacrow, Aaron | -13,500.00 | |
| Lee, Michael | -9,000.00 | |
| Siriojvisuth, Apinut | -9,000.00 | |
| University of Georgia | | |
| Harland, Robert | -950.00 | |
| Nash, Amy F. | -6,125.00 | |
| Phillips, Deborah | -50,000.00 | |
| University System of Georgia, Board of Regents | | |
| King, Greg | -58,000.00 | |
| Loftis, Rich | -11,013.50 | |
| Lummis, Jimmy | -3,000.00 | |
| Pearman, David | -68,531.77 | |
| Todd, Robert | -87,083.37 | |
| Unidentified Variance | -309,197.19 | -0.20 |
| | \$ 666,003,108.00 | \$ 25,701,038.00 |

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS



DEPARTMENT OF AUDITS AND ACCOUNTS

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

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

December 16, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly of Georgia
Members of the Board of Regents of the
University System of Georgia
and
Honorable G.P. "Bud" Peterson, President
Georgia Institute of Technology

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Ladies and Gentlemen:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Georgia Institute of Technology as of and for the year ended June 30, 2014, and have issued our report thereon dated December 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Georgia Institute of Technology's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Georgia Institute of Technology's internal control. Accordingly, we do not express an opinion on the effectiveness of Georgia Institute of Technology's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies

may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item FS-503-14-01 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Georgia Institute of Technology's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Georgia Institute of Technology's Response to Findings

Georgia Institute of Technology's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Georgia Institute of Technology's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2014YB-30

SECTION III

FINDINGS AND QUESTIONED COSTS

GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS-503-14-01 Inadequate Internal Controls over Research Labs

Control Category: Accounting Controls (Overall)
Internal Control Impact: Significant Deficiency

Description:

An internal audit over the Advanced Concepts Laboratory (ACL) within Georgia Tech Research Institute (GTRI) noted the intentional circumvention of established procedures and compliance with GTRI and Georgia Institute of Technology requirements.

Criteria:

The Institute's management is responsible for designing, maintaining and monitoring procedures and requirements over the revenues and expenses associated with GTRI to provide reasonable assurance that transactions are valid and are in line with the Institute's objectives.

Condition:

Several issues were noted associated with the ACL and GTRI within the internal audit, including the following:

- The audit revealed that when purchasing concerns were raised regarding proper procedures or practices within the ACL and other GTRI labs, the accounting and finance staff were not supported by lab and/or senior GTRI management.
- Some researchers claimed that purchases were for “classified” contracts to deter the audit, accounting and financial oversight.
- Conflicts of Interest as prescribed by Institute policy 5.6.4 *Disclosure of Real or Potential Conflicts of Interest* were intentionally not disclosed by employees.
- ACL was not following GTRI's policies for the use of overages resulting from Firm-Fixed Price contracts.

The Internal Audit findings noted that the majority (90%) of the unallowable cost on sponsored research occurred prior to the fiscal year ended June 30, 2014.

Questioned Cost:

Total unallowable cost of \$518,025 was discovered, which occurred during fiscal years 2009 through 2014. Total unallowable cost is considered immaterial to the financial statements.

Cause:

In discussing these conditions with Institute personnel, they stated that there was an absence of appropriate support, tone and messaging related to compliance, contributing to an environment in which various “red flags” for malfeasance were not adequately addressed.

Effect:

Without the requisite managerial support for satisfactory controls and procedures in place at GTRI, the Institute placed itself in a position where misappropriation of assets occurred.

Recommendation:

At the time of issuance of the audit report, Institute management has implemented additional controls to further mitigate risk in the areas identified, including changes in reporting structures and multiple changes in personnel.

GEORGIA INSTITUTE OF TECHNOLOGY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Views of Responsible Officials and Corrective Action Plans:

Management concurs with this finding and recommendation. The issues noted were initially identified through the Institute's system of financial controls and principle-based accountability standards. Management has since engaged in an aggressive and proactive approach to improve processes related to the management and oversight of sponsored programs. Additional controls have been implemented to mitigate risk in the areas identified including the development of new policies, changes in reporting structures and multiple changes in personnel. Corrective actions noted in the internal audit report outline specific measures that are being implemented on schedule and as planned. Action steps related to the "Condition" noted herein will be completed by June 30, 2015.

Primary Contact: Dr. Jeffrey F. Scott, Senior Vice President for Administration and Finance
Telephone: 404-385-3868; E-Mail: jeff.scott@business.gatech.edu

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

