



**GEORGIA TECH RESEARCH
CORPORATION**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

And Report of Independent Auditor

GEORGIA TECH RESEARCH CORPORATION

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Report of Independent Auditor

To the Board of Directors
Georgia Tech Research Corporation
Atlanta, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Georgia Tech Research Corporation ("GTRC"), a component unit of the state of Georgia, as of and for the year ended June 30, 2013, which collectively comprise GTRC's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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 opinions 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 GTRC'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 GTRC'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities and each major fund of GTRC as of June 30, 2013, and the respective changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 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 inquiries 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, on our consideration of GTRC'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 the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GTRC's internal control over financial reporting and compliance.

Cheryl Bekaert LLP

Atlanta, Georgia
September 16, 2013

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Introduction

The Georgia Tech Research Corporation ("GTRC") is a state-chartered, not-for-profit corporation serving the Georgia Institute of Technology ("GIT"), a unit of the University System of the state of Georgia, as an approved cooperative organization. The Georgia Tech Applied Research Corporation ("GTARC") is a state-chartered, not-for-profit corporation serving GIT, a unit of the University System of the state of Georgia, as an approved cooperative organization.

GTRC and GTARC are organized and operate primarily for the purpose of soliciting grants and contracts or accepting grants or entering into contracts for research or services to be performed by or in conjunction with GIT or using GIT's facilities and for related objectives. GTRC serves the business segments of GIT which perform research under the Office of Management and Budget ("OMB") Circulars A-21 and A-110. GTARC serves the business segments of GIT which perform research under OMB Circular A-122 and Federal Acquisition Regulations ("FAR") 31.2.

Description of the Financial Statements

The statements of net position; revenues, expenses and changes in net position; and cash flows are designed to provide information which will assist in understanding the financial condition and performance of GTRC. The net position is an indicator of GTRC's financial health. Over time, increases or decreases in net position are another measure of the changes in GTRC's financial condition when considered with other non-financial facts.

The statement of net position presents the assets, liabilities, and net position of GTRC.

The statement of revenues, expenses, and changes in net position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies investment earnings and changes in the fair value of investments as nonoperating revenues. As a result, the financial statements may show operating losses that are then offset by nonoperating revenues from a total financial perspective.

The statement of cash flows presents information in the form of cash inflows and outflows summarized by operating, capital and related financing activities, and investing activities.

GEORGIA TECH RESEARCH CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Financial Highlights

The condensed statements of net position at June 30, 2013 and 2012 are shown below:

			<u>2013</u>	<u>2012</u>
	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>Total Business-Type Activities</u>	<u>Total Business-Type Activities</u>
Assets				
Current assets	\$ 96,436,551	\$ 75,738,789	\$ 172,175,340	\$ 170,866,862
Capital assets, (net)	1,413,469	-	1,413,469	1,054,361
Noncurrent assets	207,471	-	207,471	204,511
Total assets	<u>\$ 98,057,491</u>	<u>\$ 75,738,789</u>	<u>\$ 173,796,280</u>	<u>\$ 172,125,734</u>
Liabilities and Net Position				
Current liabilities	<u>\$ 73,510,703</u>	<u>\$ 54,555,158</u>	<u>\$ 128,065,861</u>	<u>\$ 127,106,819</u>
Net position:				
Invested in capital assets	1,413,469	-	1,413,469	1,054,361
Unrestricted	<u>23,133,319</u>	<u>21,183,631</u>	<u>44,316,950</u>	<u>43,964,554</u>
Total net position	<u>24,546,788</u>	<u>21,183,631</u>	<u>45,730,419</u>	<u>45,018,915</u>
Total liabilities and net position	<u>\$ 98,057,491</u>	<u>\$ 75,738,789</u>	<u>\$ 173,796,280</u>	<u>\$ 172,125,734</u>

Current assets increased by \$1,308,478 or approximately 1% from fiscal 2012, due primarily to an increase in research receivables. Research revenue increased, which in turn increased current receivables.

Noncurrent assets consist of investments and capital assets net of the associated accumulated depreciation. Noncurrent assets increased by \$362,068 or approximately 29% from fiscal 2012, primarily due to the disposal of fully depreciated capital assets and current year additions.

Current liabilities increased \$959,042 or approximately 1% from fiscal 2012, primarily due to an increase in accounts payable for direct research costs incurred and advance payments on research contracts.

Net position represents the difference between GTRC's assets and liabilities. There was an increase in net position of \$711,504 or approximately 2% from fiscal 2012, which can primarily be attributed to increases in operating revenue which was partially offset by increases in operating expenses.

GEORGIA TECH RESEARCH CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Financial Highlights (continued)

The condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2012 are shown below:

			2013	2012
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-Type Activities	Total Business-Type Activities
Operating revenues	\$ 337,584,875	\$ 292,472,152	\$ 630,057,027	\$ 589,812,604
Operating expenses	<u>(337,041,850)</u>	<u>(292,530,119)</u>	<u>(629,571,969)</u>	<u>(587,623,838)</u>
Income (loss) from operations	543,025	(57,967)	485,058	2,188,766
Nonoperating revenues, net	<u>204,705</u>	<u>21,741</u>	<u>226,446</u>	<u>158,337</u>
Increase (decrease) in net position	<u>747,730</u>	<u>(36,226)</u>	<u>711,504</u>	<u>2,347,103</u>
Net position, beginning of year	<u>23,799,058</u>	<u>21,219,857</u>	<u>45,018,915</u>	<u>42,671,812</u>
Net position, end of year	<u>\$ 24,546,788</u>	<u>\$ 21,183,631</u>	<u>\$ 45,730,419</u>	<u>\$ 45,018,915</u>

Operating revenues consist primarily of research contracts, licensing fees, and royalty revenues. During fiscal 2013, operating revenues increased by \$40,244,423 or approximately 7%, primarily due to increased research project revenues.

Operating expenses increased by \$41,948,131 or approximately 7%, primarily due to increased direct research costs resulting from increased research contract activity.

Nonoperating revenues net increased by \$68,109 or approximately 43%, primarily due to an increase of the gain on the sale of investments in fiscal 2012 and the decrease of the unrealized loss in fiscal 2012.

Economic Outlook

The Georgia Institute of Technology, through GTRC and GTARC, received more than \$621 million in sponsored research awards in fiscal year 2013. Although research awards grew strongly in the first two quarters, new awards to GTRC slowed in the second half of the year as the effects of sequestration began to affect federal funding agencies. Over all, new funding for GIT research was comparable to that received in 2012.

GIT continues to be proactive in working with a diverse set of public and private sponsors to support growth in research across a spectrum of topics. The numbers of contracts received from private industry is steady, and the Office of Industry Engagement in the office of GIT's Executive Vice President for Research will focus on building research relationships with private industry sponsors. Certain areas of research continue to promise opportunities for funding for innovative research. These include cyber security, energy and alternative energy, medical device innovation, advanced manufacturing, materials and nanomaterials, high performance computing and computational sciences, and medical records informatics. GIT has aligned Interdisciplinary Research Institutes with these economic areas.

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Economic Outlook (continued)

The continued effects of sequestration will likely dampen growth in federal funding in many areas of basic research. The slow economic recovery of the private sector will likely slow growth in research funding from industry sources. Overall the percentage of growth in new awards will likely be in the low single digits. However, awards already made to GTRC and, particularly GTARC, should sustain research expenditures at GIT at current levels through fiscal year 2014.

Requests for Information

This financial report is designed to provide a general overview of Georgia Tech Research Corporation's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information, including the separately issued financial statements for Georgia Tech Applied Research Corporation, should be addressed to the Office of the Controller, Georgia Tech Research Corporation, 505 Tenth Street, N.W., Atlanta, Georgia, 30332-0415.

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF NET POSITION

JUNE 30, 2013

	Major Funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-Type Activities
ASSETS			
Current assets:			
Cash	\$ 49,724,498	\$ 19,409,289	\$ 69,133,787
Accounts receivable:			
Research contracts - billed	18,350,302	33,360,385	51,710,687
Research contracts - unbilled	27,159,367	25,742,271	52,901,638
Other receivables	969,597	-	969,597
Less - allowance for doubtful accounts	<u>(1,105,603)</u>	<u>(1,974,153)</u>	<u>(3,079,756)</u>
Accounts receivable, net	45,373,663	57,128,503	102,502,166
Due from (to) component unit	799,003	(799,003)	-
Prepaid expenses	<u>539,387</u>	<u>-</u>	<u>539,387</u>
Total current assets	<u>96,436,551</u>	<u>75,738,789</u>	<u>172,175,340</u>
Noncurrent assets:			
Investments	7,471	-	7,471
Note receivable	200,000	-	200,000
Capital assets, net	<u>1,413,469</u>	<u>-</u>	<u>1,413,469</u>
Total noncurrent assets	<u>1,620,940</u>	<u>-</u>	<u>1,620,940</u>
Total assets	<u>\$ 98,057,491</u>	<u>\$ 75,738,789</u>	<u>\$ 173,796,280</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable:			
Georgia Institute of Technology	\$ 32,646,372	\$ 47,640,241	\$ 80,286,613
Other	<u>937,511</u>	<u>-</u>	<u>937,511</u>
Accounts payable	33,583,883	47,640,241	81,224,124
Funds held on behalf of Georgia Institute of Technology	-	4,664,747	4,664,747
Unearned research contract revenue	<u>39,926,820</u>	<u>2,250,170</u>	<u>42,176,990</u>
Total current liabilities	<u>73,510,703</u>	<u>54,555,158</u>	<u>128,065,861</u>
Net position:			
Invested in capital assets	1,413,469	-	1,413,469
Unrestricted	<u>23,133,319</u>	<u>21,183,631</u>	<u>44,316,950</u>
Total net position	<u>24,546,788</u>	<u>21,183,631</u>	<u>45,730,419</u>
Total liabilities and net position	<u>\$ 98,057,491</u>	<u>\$ 75,738,789</u>	<u>\$ 173,796,280</u>

See accompanying notes to financial statements.

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Major Funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-Type Activities
Operating revenues:			
Research contracts	\$ 327,383,042	\$ 292,472,129	\$ 619,855,171
Licenses and royalties	2,592,560	-	2,592,560
Lease income	7,607,999	-	7,607,999
Other	1,274	23	1,297
Total operating revenues	<u>337,584,875</u>	<u>292,472,152</u>	<u>630,057,027</u>
Operating expenses:			
Research contract costs	311,032,269	289,734,330	600,766,599
Depreciation	288,454	-	288,454
Administrative and general expenses	4,968,363	2,355,896	7,324,259
Licenses and royalties expenses	3,941,892	-	3,941,892
Lease expenses	7,607,999	-	7,607,999
Payments to or on behalf of Georgia Institute of Technology	<u>9,202,873</u>	<u>439,893</u>	<u>9,642,766</u>
Total operating expenses	<u>337,041,850</u>	<u>292,530,119</u>	<u>629,571,969</u>
Income (loss) from operations	543,025	(57,967)	485,058
Nonoperating revenues:			
Interest income	50,039	21,741	71,780
Realized gains on sale of investments	151,706	-	151,706
Unrealized gains on investments	<u>2,960</u>	<u>-</u>	<u>2,960</u>
Total nonoperating revenues	<u>204,705</u>	<u>21,741</u>	<u>226,446</u>
Increase (decrease) in net position	747,730	(36,226)	711,504
Net position, beginning of year	<u>23,799,058</u>	<u>21,219,857</u>	<u>45,018,915</u>
Net position, end of year	<u>\$ 24,546,788</u>	<u>\$ 21,183,631</u>	<u>\$ 45,730,419</u>

See accompanying notes to financial statements.

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF CASH FLOWS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Major Funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-Type Activities
Cash flows from operating activities:			
Receipts from grantors	\$ 327,492,201	\$ 284,928,876	\$ 612,421,077
Receipts of license fees and royalties	2,592,560	-	2,592,560
Receipts from leases	7,607,999	-	7,607,999
Miscellaneous receipts	1,274	23	1,297
Payments for licenses and royalties	(3,941,892)	-	(3,941,892)
Payments for leases	(7,607,999)	-	(7,607,999)
Payments to or on behalf of Georgia Institute of Technology	(9,202,873)	(439,893)	(9,642,766)
Payments for research contract costs	(319,441,706)	(286,429,827)	(605,871,533)
Miscellaneous payments	(510,419)	-	(510,419)
Net cash used in operating activities	<u>(3,010,855)</u>	<u>(1,940,821)</u>	<u>(4,951,676)</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(647,562)	-	(647,562)
Net cash used in capital and related financing activities	<u>(647,562)</u>	<u>-</u>	<u>(647,562)</u>
Cash flows from investing activities			
Realized gain on sale of investment	151,706	-	151,706
Interest income	50,039	21,741	71,780
Net cash provided by investing activities	<u>201,745</u>	<u>21,741</u>	<u>223,486</u>
Net decrease in cash	(3,456,672)	(1,919,080)	(5,375,752)
Cash, beginning of year	53,181,170	21,328,369	74,509,539
Cash, end of year	<u>\$ 49,724,498</u>	<u>\$ 19,409,289</u>	<u>\$ 69,133,787</u>
Reconciliation of operating income (loss) to net cash used			
in operating activities:			
Operating income (loss)	\$ 543,025	\$ (57,967)	\$ 485,058
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation	288,454	-	288,454
Change in allowance for doubtful accounts	(60,271)	42,560	(17,711)
Changes in assets and liabilities:			
Accounts receivable	913,096	(7,585,812)	(6,672,716)
Due to/from component unit	(510,419)	510,419	-
Prepaid expenses	6,197	-	6,197
Accounts payable to Georgia Institute of Technology	(4,047,389)	6,415,278	2,367,889
Accounts payable other	600,118	-	600,118
Funds held on behalf of Georgia Institute of Technology	-	(751,908)	(751,908)
Unearned research contract revenue	(743,666)	(513,391)	(1,257,057)
Net cash used in operating activities	<u>\$ (3,010,855)</u>	<u>\$ (1,940,821)</u>	<u>\$ (4,951,676)</u>
Schedule of noncash investing activity:			
Increase in the fair value of investments	\$ 2,960	\$ -	\$ 2,960
Net noncash investing activity	<u>\$ 2,960</u>	<u>\$ -</u>	<u>\$ 2,960</u>

See accompanying notes to financial statements.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Note 1 –Description of organization

The Georgia Tech Research Corporation (“GTRC”) was chartered on April 13, 1937, as the Industrial Development Council, a state-chartered, not-for-profit corporation serving the Georgia Institute of Technology (“GIT”), a unit of the University System of the state of Georgia, as an approved cooperative organization. GTRC was established for the purpose of engaging in sponsored research for scientific, literary, and educational purposes or related objectives. On February 9, 1946, the corporate charter was amended and included a provision to change the name from the Industrial Development Council to the Georgia Tech Research Institute (“GTRI”). On April 6, 1984, GTRI amended its corporate charter to change the name to the Georgia Tech Research Corporation.

GTRC serves as the contracting entity for GIT which performs research under the Office of Management and Budget (“OMB”) Circulars A-21 and A-110.

On July 1, 1998 the Georgia Tech Applied Research Corporation (“GTARC”) was established. GTARC was organized as the contracting entity for units of the GIT performing research under the cost principles of OMB Circular A-122 and Federal Acquisition Regulations (FAR) 31.2.

GTRC and GTARC (hereinafter collectively referred to as GTRC), enter into contracts and grant agreements with various organizations, including federal agencies, and subcontract with GIT to provide services in connection with these agreements. Since 1946, GTRC has served as a “university-connected research foundation.” As part of the relationship, payments occur between GIT and GTRC for certain sponsored project expenditures and research administration.

In a Memorandum of Understanding (“MOU”) dated April 1, 1953, the Board of Regents of the University System of Georgia authorized GTRC (then GTRI) to serve as the official grantee for all contracts and grants for the conduct of sponsored research at GIT. The MOU also assigned all intellectual property developed through the performance of contracts subcontracted to GIT to GTRC. GTRC is the administrative organization for discoveries, innovations, inventions, patents, and copyrights and is responsible for intellectual property management including patenting and licensing. Currently, pursuant to the Cooperative Organization Guiding Principles Memoranda of Understanding and the Board of Regents Policy 1905, payments occur between GIT and GTRC and GTARC for certain sponsored project expenditures and research administration. GTRC and GTARC hold in trust for GIT any balances, after the payment of necessary operating costs, for the promotion of research at GIT and for the benefit of research at GIT. Intellectual property created in the course of research and other activities at GIT is assigned to GTRC in accordance with the GIT Intellectual Property Policy.

In accordance with accounting principles generally accepted in the United States of America (“GAAP”) applicable to governments, the financial statements present the individual financial statements of GTRC and GTARC as major funds. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of GTRC. Transactions and balances between GTRC and GTARC are eliminated in the entity-wide financial statements. Separately issued financial statements for Georgia Tech Applied Research Corporation can be obtained by contacting the Office of the Controller, Georgia Tech Applied Research Corporation, 505 Tenth Street N.W., Atlanta, Georgia, 30332-0415.

The state of Georgia has determined that GTRC is significant to the state of Georgia for the year ended June 30, 2013, and as such, is a discretely presented component unit in the Comprehensive Annual Financial Report of the state of Georgia.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Note 2 –Significant accounting policies

GTRC's financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board ("GASB"). In accordance with GAAP the financial statements of GTRC have been prepared on the accrual basis of accounting and are presented in conformity with GAAP.

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

Revenues – Substantially all of GTRC's revenues are derived from grants and cost reimbursement contracts which provide for the recovery of direct and indirect costs. GTRC recognizes revenue associated with direct and indirect costs as the related costs are incurred for approved research activities. The recovery of indirect costs is generally recorded at fixed rates negotiated with the sponsoring agency. License and royalty revenues are recorded when earned.

GTRC and GTARC classify revenue generated from their normal operational cycles as operating income. Revenue streams such as research contracts, licenses and royalties, and lease income are examples of what are considered to be operating revenues. Revenues that are not generated during the normal operating cycle such as interest income and unrealized gains and losses on investments are classified as nonoperating revenues.

Unbilled Accounts Receivable and Unearned Research Contract Revenue – Unbilled accounts receivable represent costs incurred and charged to projects in excess of amounts invoiced on those projects. Unearned research contract revenue represents amounts invoiced on various projects in excess of costs incurred and charged to those projects.

Overhead Revenue – GTRC receives reimbursement from sponsoring agencies for indirect costs incurred. GTRC retains a portion of the indirect costs which is used for operating expenses, and the remainder is granted back to GIT for the benefit of research at GIT. The overhead revenue is reported as revenue from research contracts in the accompanying financial statements.

Cash – At June 30, 2013, the bank balance was \$70,060,319, and the book balance was \$69,133,787. At times, cash balances may exceed federally insured amounts. GTRC mitigates this risk by depositing and investing cash with major financial institutions. GTRC has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2013, the bank balances were collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services.

Investments – GTRC's investments consist entirely of equity securities, which are acquired as partial consideration for a license. Equity security investments are held exclusively in GTRC's name. Equity securities acquired as partial consideration for a license are not subject to GTRC's investments policy.

Major Clients and Concentration of Credit Risk – During the fiscal year ended June 30, 2013, GTRC derived approximately 86% of its revenue from contracts with the U.S. Government. At June 30, 2013, approximately 61% of billed research contracts accounts receivable was from the U.S. Government. Management does not believe these receivables represent significant credit risk at June 30, 2013.

Federal Income Taxes – GTRC is exempt from income taxes as provided by Section 501(c)(3) of the Internal Revenue Code.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Note 2 –Significant accounting policies (continued)

Allowance for Doubtful Accounts – The allowance for doubtful accounts is determined by evaluating the prior experience, nature of the contract, and credit rating of the sponsor for each contract with an outstanding balance greater than 180 days. Generally, all account balances greater than 180 days are reserved.

Changes in the allowance for doubtful accounts for the year ended June 30, 2013, were as follows:

	Major Funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-Type Activities
Beginning balance	\$ 1,165,874	\$ 1,931,593	\$ 3,097,467
Recoveries	23,781	84,831	108,612
Write offs	(84,052)	(42,271)	(126,323)
Ending balance	<u>\$ 1,105,603</u>	<u>\$ 1,974,153</u>	<u>\$ 3,079,756</u>

Capital Assets – Capital assets are recorded at cost. GTRC has established a threshold of \$5,000 for capitalizing equipment. All capitalized assets purchased under the terms of equipment and facilities grants are donated to GIT when fully depreciated.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives which range from three to ten years. The straight-line method of depreciation is followed for all capital assets.

Grants to Georgia Institute of Technology – Pursuant to an agreement between GTRC and the Board of Regents of the University System of Georgia, dated April 1, 1953, the GTRC Board of Trustees will issue grants from time to time as it sees fit for the promotion of research at GIT. These grants will be funded from the balances held in trust for GIT which are reflected in the unrestricted net position of GTRC.

Net Position – GTRC’s net position is classified as follows: *Invested in capital assets* represents GTRC’s total investment in capital assets, net of related depreciation. *Unrestricted net position* represents resources derived primarily from research contracts, licensing and royalties, and lease income. These resources can be used for the ongoing operations of GTRC. However, in accordance with the April 1, 1953, Memorandum of Understanding between GTRC and the Board of Regents of the University System of Georgia, all balances held after the payment of necessary operating costs are to be held in trust for GIT for the promotion of research at GIT. These balances will be returned to GIT in the form of grants which are made at the discretion of the Board of Trustees of GTRC.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Note 2 –Significant accounting policies (continued)

Recent Accounting Pronouncements – During the year ended June 30, 2013, GTRC adopted issued Statements of Governmental Accounting Standards (“SGAS”) No. 61, *The Financial Reporting Entity: Omnibus* amends GASB Statements No. 14 and 34 regarding the assessment of potential component units to be included in the reporting entity. Certain organizations are required to be included as component units because they are fiscally dependent on the primary government. In addition to fiscal dependency, the pronouncement now requires that a financial benefit or burden be present between the primary government and the potential component unit in order for it to be included in the reporting entity of the primary government. The pronouncement also changes and adds new criteria for determining whether a component unit should be blended or discretely presented. The adoption of this statement did not have an impact on the GTRC’s financial reporting entity.

During the year ended June 30, 2013, GTRC adopted the provisions of SGAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB’s authoritative literature, certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (“AICPA”) Committee on Accounting Procedures; the provisions of SGAS 62 additionally eliminates the election provided in SGAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

During the year ended June 30, 2013, GTRC adopted SGAS No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. SGAS No. 63 identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in SGAS No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of SGAS No. 63 did not result in a change to beginning net position.

In March 2012, the GASB issued SGAS No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The guidance provided in SGAS No. 65 will be effective for GTRC for the year ending June 30, 2014. The provisions of SGAS No. 65 are not expected to have a significant effect on the net position of GTRC.

Use of Estimates in Preparation of Financial Statements – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Note 3 –Note receivable

In connection with the sale of certain common stock, GTRC entered into a promissory note with a company, which bears interest at 6% per annum and is paid quarterly. Pursuant to the terms of the subordination, the note receivable obligation of the company to GTRC is subordinate to the payment in full of all the company's senior debt.

Note 4 –Capital assets

Following are changes in capital assets for the year ended June 30, 2013:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not being depreciated:				
Construction in progress	\$ 133,302	\$ 313,798	\$ (222,792)	\$ 224,308
Historical treasures and works of art	240,735	-	-	240,735
Total capital assets not being depreciated	374,037	313,798	(222,792)	465,043
Capital assets being depreciated:				
Building improvements	218,357	188,661	(3,392)	403,626
Computer software	647,595	222,792	-	870,387
Furniture and equipment	2,553,186	152,906	(686,605)	2,019,487
Total capital assets being depreciated	3,419,138	564,359	(689,997)	3,293,500
Less accumulated depreciation for:				
Building improvements	(64,348)	(37,218)	284	(101,282)
Computer software	(591,117)	(24,667)	-	(615,784)
Furniture and equipment	(2,083,349)	(226,569)	681,910	(1,628,008)
Total accumulated depreciation	(2,738,814)	(288,454)	682,194	(2,345,074)
Total capital assets, net	<u>\$ 1,054,361</u>	<u>\$ 589,703</u>	<u>\$ (230,595)</u>	<u>\$ 1,413,469</u>

Note 5 –Lease commitments

Research Facilities – GTRC is committed to an operating lease with the University Financing Foundation, Inc. for the Centennial Research Building. The lease carries successive two-year terms that are automatically renewed at prevailing market rates in effect at the time of the renewal. GTRC may cancel the lease provided that notice is given during July of any lease year to be effective as of June 30 of the then-current lease year.

GTRC is also committed to an operating lease with TUFF Cobb Research LLC for the Cobb Research Facility. The lease is for twenty-five years expiring in October 2037 and has one five-year option at \$75,833 annually.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

Note 5—Lease commitments (continued)

Institute for BioEngineering and BioSciences Complex – The Institute for BioEngineering and BioSciences Complex (the “Complex”) was developed by Georgia Tech Facilities, Inc. (“GTF”), formerly Georgia Tech Foundation Facilities, Inc., and funded by the issuance of 30-year, fixed rate, Series B bonds through the Fulton County Development Authority. On December 1, 1997, GTRC agreed to guarantee these bonds by entering into an agreement to lease the Complex from GTF. On April 1, 2008, the Series 1997B Bonds were refunded by the issuance of \$19,900,000 Development Authority of Fulton County Series 2008B Revenue Bonds. In connection with the refunding GTRC guaranteed the 2008B Revenue Bonds and entered into an Amended and Restated Facility Lease Agreement with GTF. In accordance with the amended and restated lease agreement, the lease will expire on September 1, 2028, or at such time as the Revenue Bonds are redeemed. GTRC is obligated to pay rent in an amount equal to the principal, premium (if any), and interest on the Series 2008B Revenue Bonds when due and upon any redemption or acceleration thereunder.

All of the facilities GTRC leases in connection with the above lease agreements are subleased to GIT. The subleases carry successive one-year terms that may be renewed upon notice given at least sixty (60) days prior to the end of the sublease term. The timing and amount of rental payments under the subleases are substantially the same as those under their corresponding lease agreements between GTRC and the third-party lessors.

Future minimum lease payments at June 30, 2013, are as follows:

	<u>Commitments</u>	<u>Sub Rental Receipts</u>	<u>Net Rental Commitment</u>
Year ending June 30:			
2014	\$ 7,303,076	\$ 7,303,076	\$ -
2015	7,027,949	-	7,027,949
2016	6,317,567	-	6,317,567
2017	5,566,637	-	5,566,637
2018	5,041,764	-	5,041,764
2019-2023	25,210,236	-	25,210,236
2024-2028	25,209,419	-	25,209,419
2029-2033	11,892,840	-	11,892,840
2034-2038	6,921,600	-	6,921,600
	<u>\$ 100,491,088</u>	<u>\$ 7,303,076</u>	<u>\$ 93,188,012</u>

Net rent expense for the year ended June 30, 2013, was as follows:

Minimum rentals	\$ 7,607,999
Less - Sublease rentals - Georgia Institute of Technology	<u>(7,607,999)</u>
Net rent expense	<u>\$ -</u>

GEORGIA TECH RESEARCH CORPORATION
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Note 6 –Contingencies

Federal and state funded research projects are subject to special audits. Such audits could result in some allocated costs being disallowed or indirect cost rates adjusted. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

During the year ended June 30, 2013 a lawsuit was filed against GTRC in the United States District Court for the Northern District of California, San Jose Division. The plaintiff's claims relate to GTRC's alleged breach of its license agreement with the plaintiff and alleged interference with its rights to commercialize the technology subject to the license agreement. The plaintiff has requested relief in the form of actual, general, special, compensatory and consequential damages, as well as punitive damages; certain declaratory relief; pre-judgment interest at the maximum legal rate; reasonable attorneys' fees and costs; and such other relief as the court deems just and proper. GTRC has filed a motion to dismiss which is currently under consideration by the court. Although GTRC cannot predict the outcome of the lawsuit if its motion is not granted, GTRC believes the plaintiff's claims are meritless and intends to vigorously defend the lawsuit.