

Financial Statements and Report of
Independent Certified Public Accountants
Georgia Tech Research Corporation
June 30, 2007

Georgia Tech Research Corporation

Table of Contents

Report of Independent Certified Public Accountants..... 1-2

Management’s Discussion and Analysis 3-5

Basic Financial Statements:

 Statement of Net Assets 6

 Statement of Revenues, Expenses and Changes in Net Assets..... 7

 Statement of Cash Flows..... 8

Notes to Financial Statements 9-16

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Georgia Tech Research Corporation:

We have audited the accompanying financial statements of the business-type activities and each major fund of the **Georgia Tech Research Corporation** (the Research Corporation), a component unit of the Georgia Institute of Technology, as of and for the year ended June 30, 2007, which collectively comprise the Research Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Research Corporation's management. Our responsibility is to express 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 as established by the American Institute of Certified Public Accountants 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Research Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Research Corporation as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007, on our consideration of the Research Corporation'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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

GIZANT TORRENTON LLP

Atlanta, Georgia
November 15, 2007

Georgia Tech Research Corporation

Management's Discussion and Analysis

June 30, 2007

Introduction

The Georgia Tech Research Corporation (GTRC) was chartered on April 13, 1937, as the Industrial Development Council, a not-for-profit corporation affiliated with the Georgia Institute of Technology (GIT), a unit of the University System of the State of Georgia. 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, Georgia Tech Research Institute amended its corporate charter to change the name to the Georgia Tech Research Corporation.

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

Effective July 1, 1998, the Georgia Tech Applied Research Corporation (GTARC) was established as a wholly controlled subsidiary of GTRC. GTARC was organized as the contracting entity for units of the Georgia Institute of Technology performing research under the cost principles of "OMB" Circular A-122 and Federal Acquisition Regulations (FAR) 31.2.

GTRC, and its component unit, GTARC (collectively hereinafter referred to as GTRC), enter into contracts and grant agreements with various organizations, including Federal agencies, and subcontracts with GIT to provide services in connection with these agreements. 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 the Georgia Institute of Technology. The MOU also assigned all intellectual property developed through the performance of contracts subcontracted to the Georgia Institute of Technology 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. The ongoing objective of GTRC is to provide services to the Institution and, through those services, to enhance the Institution's programs and goals as a research institution.

Description of the Financial Statements

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

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

Georgia Tech Research Corporation

Management's Discussion and Analysis For the Year Ended June 30, 2007 (continued)

The statement of revenues, expenses and changes in net assets 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.

Financial Highlights

The condensed statement of net assets is shown below:

	<u>Assets</u>	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>Total Business-type Activities</u>
Current assets		\$67,004,922	\$40,234,571	\$107,239,493
Noncurrent assets		2,140,244	-	2,140,244
Total assets		<u>\$69,145,166</u>	<u>\$40,234,571</u>	<u>\$109,379,737</u>
	<u>Liabilities and Net Assets</u>			
Current liabilities		<u>\$55,066,853</u>	<u>\$13,238,340</u>	<u>\$ 68,305,193</u>
Net assets:				
Invested in capital assets		1,669,985	-	1,669,985
Unrestricted		12,408,328	26,996,231	39,404,559
Total net assets		<u>14,078,313</u>	<u>26,996,231</u>	<u>41,074,544</u>
Total liabilities and net assets		<u>\$69,145,166</u>	<u>\$40,234,571</u>	<u>\$109,379,737</u>

Current assets increased by \$4,730,906 or 4.6% from fiscal 2006 due primarily to an increase in research receivables. Research revenue increased which in turn increased current receivables.

Noncurrent assets primarily consist of equipment net of associated accumulated depreciation and investments. This category declined \$668,664 or 23.8% primarily due to a decrease in investments.

Current liabilities decreased \$1,559,901 or 2.3% primarily due to an increase in payments to or on behalf of GIT for direct research costs incurred.

Net assets represent the difference between GTRC's assets and liabilities. There was an increase of \$5,662,142 or 16.0% which can primarily be attributed to increases in operating revenue and investment income which are partially offset by increases in operating expenses.

Georgia Tech Research Corporation

Management's Discussion and Analysis For the Year Ended June 30, 2007 (continued)

The condensed statement of revenues, expenses and changes in net assets is shown below:

	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-type Activities
Operating revenue	\$232,507,763	\$126,159,942	\$358,667,705
Operating expenses	232,441,528	122,257,941	354,699,469
Income from operations	66,235	3,902,001	3,968,236
Nonoperating revenue, net	1,127,745	566,161	1,693,906
Increase in net assets	1,193,980	4,468,162	5,662,142
Net assets, beginning of year	12,884,333	22,528,069	35,412,402
Net assets, end of year	<u>\$ 14,078,313</u>	<u>\$ 26,996,231</u>	<u>\$ 41,074,544</u>

Operating revenues consist primarily of research grant and licensing fees and royalty revenues. During fiscal 2007, operating revenues were up \$15,952,974 or 4.6% primarily due to increased research project revenues and licensing income.

Operating expenses were up \$9,261,622 or 2.7% primarily due to increased direct research costs resulting from increased research activity.

Nonoperating revenues increased \$333,540 or 24.5% primarily due to improved returns on investments.

Economic Outlook

The Georgia Institute of Technology was awarded over \$374 million in sponsored research awards in fiscal year 2007. Ten years ago in fiscal year 1998, awards totaled \$187 million. The funding has doubled in a decade and, by all measures, GIT's research programs are growing. Indicators including biomedical research, compliance protocols and invention disclosures reflect this expansion. Biomedical research has blossomed and now accounts for about \$48 million annually in research expenditures. The expenditures and related revenue increased approximately 35% between 2004 and 2007. The economic outlook for GTRC is positive.

Georgia Tech Research Corporation

Statement of Net Assets

June 30, 2007

<u>Assets</u>	<u>Major Funds</u>		<u>Total Business-type Activities</u>
	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	
Current assets:			
Cash and cash equivalents	\$34,157,236	\$ 8,642,200	\$ 42,799,436
Accounts receivable:			
Research contracts – Billed	14,217,206	20,293,625	34,510,831
Research contracts – Unbilled	18,837,157	13,893,831	32,730,988
Other receivables	289,788	1,190	290,978
Less – Allowance for doubtful accounts	(922,688)	(2,189,459)	(3,112,147)
	<u>32,421,463</u>	<u>31,999,187</u>	<u>64,420,650</u>
Due from (to) component unit	406,816	(406,816)	-
Prepaid expenses	19,407	-	19,407
Total current assets	<u>67,004,922</u>	<u>40,234,571</u>	<u>107,239,493</u>
Noncurrent assets:			
Investments	470,259	-	470,259
Capital assets, net	1,669,985	-	1,669,985
Total noncurrent assets	<u>2,140,244</u>	<u>-</u>	<u>2,140,244</u>
Total assets	<u>\$69,145,166</u>	<u>\$40,234,571</u>	<u>\$109,379,737</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable:			
Georgia Institute of Technology	\$22,410,783	\$10,978,988	\$ 33,389,771
Other	1,699,851	26	1,699,877
	<u>24,110,634</u>	<u>10,979,014</u>	<u>35,089,648</u>
Deferred research contract revenue	30,956,219	2,259,326	33,215,545
Total current liabilities	<u>55,066,853</u>	<u>13,238,340</u>	<u>68,305,193</u>
Net assets:			
Invested in capital assets, net of related depreciation	1,669,985	-	1,669,985
Unrestricted	12,408,328	26,996,231	39,404,559
Total net assets	<u>14,078,313</u>	<u>26,996,231</u>	<u>41,074,544</u>
Total liabilities and net assets	<u>\$69,145,166</u>	<u>\$40,234,571</u>	<u>\$109,379,737</u>

The accompanying notes are an integral part of this statement.

Georgia Tech Research Corporation

Statement of Revenues, Expenses and Changes in Net Assets For the Year Ended June 30, 2007

	Major Funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-type Activities
Operating revenues:			
Research contracts	\$225,717,784	\$126,102,411	\$351,820,195
Licenses and royalties	2,026,124	-	2,026,124
Lease income	4,732,544	-	4,732,544
Other	31,311	57,531	88,842
Total operating revenue	<u>232,507,763</u>	<u>126,159,942</u>	<u>358,667,705</u>
Operating expenses:			
Research contract costs	214,106,218	120,541,939	334,648,157
Depreciation	516,883	-	516,883
Administrative and general expenses	3,647,498	1,600,689	5,248,187
Licenses and royalties expenses	2,859,431	-	2,859,431
Lease expenses	4,732,544	-	4,732,544
Payments to or on behalf of Georgia Institute of Technology	6,578,954	115,313	6,694,267
Total operating expenses	<u>232,441,528</u>	<u>122,257,941</u>	<u>354,699,469</u>
Income from operations	<u>66,235</u>	<u>3,902,001</u>	<u>3,968,236</u>
Nonoperating revenue (expense):			
Interest income	1,376,343	566,161	1,942,504
Unrealized loss on investments	(489,333)	-	(489,333)
Other	240,735	-	240,735
Total nonoperating revenue, net	<u>1,127,745</u>	<u>566,161</u>	<u>1,693,906</u>
Increase in net assets	1,193,980	4,468,162	5,662,142
Net assets, beginning of year	12,884,333	22,528,069	35,412,402
Net assets, end of year	<u>\$ 14,078,313</u>	<u>\$ 26,996,231</u>	<u>\$ 41,074,544</u>

The accompanying notes are an integral part of this statement.

Georgia Tech Research Corporation

Statement of Cash Flows

For the Year Ended June 30, 2007

	Major Funds		Total Business-type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Cash flows from operating activities:			
Receipts from grantors	\$226,803,453	\$ 122,734,252	\$349,537,705
Receipts of license fees and royalties	2,026,124	-	2,026,124
Receipts from leasee	4,732,544	-	4,732,544
Miscellaneous receipts	357,013	-	357,013
Payments for licenses and royalties	(2,859,431)	-	(2,859,431)
Payments for leases	(4,732,544)	-	(4,732,544)
Payments to or on behalf of Georgia Institute of Technology	(6,578,954)	(115,313)	(6,694,267)
Payments to suppliers	(216,850,589)	(124,585,434)	(341,436,023)
Net cash provided by (used in) operating activities	2,897,616	(1,966,495)	931,121
Cash flows from capital and related financing activities – Purchase of capital assets	(96,818)	-	(96,818)
Cash flows from investing activities – Investment income	1,376,343	566,161	1,942,504
Net increase (decrease) in cash and cash equivalents	4,177,141	(1,400,334)	2,776,807
Cash and cash equivalents, beginning of year	29,980,095	10,042,534	40,022,629
Cash and cash equivalents, end of year	<u>\$ 34,157,236</u>	<u>\$ 8,642,200</u>	<u>\$ 42,799,436</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 66,235	\$ 3,902,001	\$ 3,968,236
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation	516,883	-	516,883
Provision for bad debt	300,000	200,000	500,000
Changes in assets and liabilities:			
Accounts receivable	790,096	(3,625,689)	(2,835,593)
Due (to) from component unit	(60,223)	60,223	-
Prepaid expenses	381,497	-	381,497
Accounts payable to Georgia Institute of Technology	(2,245,529)	(1,877,594)	(4,123,123)
Accounts payable other	60,501	(2,638)	57,863
Deferred revenues	3,088,156	(622,798)	2,465,358
Net cash provided by (used in) operating activities	<u>\$ 2,897,616</u>	<u>\$ (1,966,495)</u>	<u>\$ 931,121</u>
Schedule of noncash investing activity – Increase in fair value of investments	<u>\$ 489,332</u>	<u>\$ -</u>	<u>\$ 489,332</u>
Schedule of noncash capital and related financing activities – Donated asset	<u>\$ 240,735</u>	<u>\$ -</u>	<u>\$ 240,735</u>

The accompanying notes are an integral part of this statement.

Georgia Tech Research Corporation

Notes to Financial Statements

June 30, 2007

Note A - Description of Organization

The Georgia Tech Research Corporation (GTRC) was chartered on April 13, 1937, as the Industrial Development Council, a not-for-profit corporation affiliated with the Georgia Institute of Technology (GIT), a unit of the University System of the State of Georgia. GTRC was established for the purpose of engaging in sponsored research for scientific, literary and educational purposes, or any one or more of any such stated purposes. On February 9, 1946, the corporate charter was amended and the name was changed to the Georgia Tech Research Institute (GTRI). On April 6, 1984, GTRI amended its corporate charter to change its name to Georgia Tech Research Corporation.

Effective July 1, 1998, the Georgia Tech Applied Research Corporation (GTARC) was established as a wholly controlled subsidiary of GTRC. GTARC was organized as the contracting entity for units of the Georgia Institute of Technology performing research under the cost principles of OMB Circular A-122 and Federal Acquisition Regulations (FAR) 31.2.

GTRC and its component unit, GTARC (collectively hereinafter referred to as GTRC), enter into contracts and grant agreements with various organizations, including Federal agencies, and subcontracts with GIT to provide services in connection with these agreements. GTRC is largely a conduit organization, subcontracting performance of all contracts it enters into to GIT. As such, GTRC is an affiliated entity of GIT. As part of the relationship, transfers of funds occur between GIT and GTRC for certain sponsored project expenditures and research administration.

In accordance with Statement No. 14, as amended by Statements No. 34 and 39 of the Governmental Accounting Standards Board (GASB), GTRC and GTARC are considered part of the same reporting entity (GTRC), since they are fiscally interdependent. Accordingly, the accompanying financial statements for GTRC 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.

The Board of Regents of the University System of Georgia and Georgia Institute of Technology follow Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations are Component Units, an amendment of Statement No. 14." This statement requires the inclusion of the financial statements for foundations and affiliated organizations that qualify as component units in the annual report of the affiliated educational institution. These statements are reported as a discretely presented component unit in the Georgia Institute of Technology's Annual Financial Report.

Georgia Tech Research Corporation

Notes to Financial Statements

June 30, 2007

Note B - Significant Accounting Policies

The financial statements of GTRC have been prepared in conformity with accounting principles generally accepted in the United States of America and in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds, and other Governmental Entities that use Proprietary Fund Accounting," and GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." GTRC follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, that do not conflict with GASB pronouncements. The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

Revenue

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. The recovery of indirect costs is generally recorded at fixed rates negotiated with the sponsoring agency. License and royalty revenues are recorded when received due to the inherent uncertainty over the amounts to be received.

Unbilled Accounts Receivable and Deferred Research Contract Revenue

Unbilled accounts receivable represents costs incurred and charged to projects in excess of amounts invoiced on those projects. Deferred 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, with Trustee approval, is generally granted back to GIT in future periods. The overhead revenue is reported as revenue from research contracts in the accompanying financial statements.

Cash and Cash Equivalents

Cash and cash equivalents are defined as bank deposits and short-term investments with original maturities of less than 90 days. At June 30, 2007, the bank balance was \$1,820,259 and the book balance was \$1,049,436. GTRC had uninsured and uncollateralized deposits totaling \$1,620,259. 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. Additionally, subsequent to June 30, 2007, GTRC obtained collateral from the financial institution for deposit amounts exceeding federally insured limits. Cash equivalents are comprised of short-term investments in commercial paper and are stated at cost, which approximates fair value. At June 30, 2007, the fair value of short-term investments was \$41,750,000.

Georgia Tech Research Corporation

Notes to Financial Statements

June 30, 2007

Investments

Investments consist of equity securities which are stated at fair value. Publicly traded companies are valued based on the closing market price on June 30, 2007. Investments for which there is no readily determinable fair value are valued at a nominal amount.

Major Clients and Concentration of Credit Risk

During the fiscal year ended June 30, 2007, GTRC derived approximately 68% of its revenue from contracts with the U.S. government. At June 30, 2007, approximately 47% of accounts receivable were from the U.S. government. Management does not believe these receivables represent significant credit risk at June 30, 2007.

Federal Income Taxes

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

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, 2007, were as follows:

	<u>GTRC</u>	<u>GTARC</u>	<u>Total Business Type Activities</u>
Beginning balance	\$853,835	\$2,366,851	\$3,220,686
Recoveries	14,035	79,250	93,285
Bad debt expense	300,000	200,000	500,000
Write off's	<u>(245,182)</u>	<u>(456,642)</u>	<u>(701,824)</u>
Ending balance	<u>\$922,688</u>	<u>\$2,189,459</u>	<u>\$3,112,147</u>

Capital Assets

Capital assets are capitalized at cost. Donated assets, if any, are recorded at their estimated fair value at the date of the gift. 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. GTRC donated fully depreciated capital assets with an original cost of approximately \$890,000 to GIT during fiscal 2007.

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 equipment.

Georgia Tech Research Corporation

Notes to Financial Statements

June 30, 2007

Grants to Georgia Institute of Technology

Grants of funds are made from time to time to GIT, as authorized by the Board of Trustees. Pursuant to an agreement between GTRC and the Board of Regents of the University System of the State of Georgia, dated April 1, 1953, GTRC shall hold in trust all unrestricted net assets for GIT who shall use such revenue from time to time and in such manner as the Board of Trustees of GTRC may see fit, for the promotion of research at GIT.

Net Assets

GTRC'S net assets are classified as follows: Invested in capital assets, net of related depreciation - represents GTRC's total investment in capital assets, net of depreciation. Net assets - unrestricted - represents resources derived from contracts, grants and fees. These resources are used for the ongoing operations of GTRC and may be used at the discretion of the governing board to meet current expenses for those purposes and to enhance programs at GIT.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note C - Investments

GTRC's investments consist entirely of equity securities, which are acquired in exchange for certain licensing fees, and are held in GTRC's name.

Interest Rate Risk

Interest rate risk is the risk that changes of interest rates of debt investments will adversely affect the fair value of an investment. GTRC does not have a formal policy for managing interest rate risk.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, GTRC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. GTRC does not have a formal policy for managing custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GTRC does not have a formal policy for managing concentration of credit risk.

Georgia Tech Research Corporation

Notes to Financial Statements

June 30, 2007

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. GTRC's investments are not exposed to foreign currency risk as securities in currencies other than the U.S. dollar are not permissible by GTRC.

Note D - Capital Assets

Following are changes in capital assets for the year ended June 30, 2007:

<u>Description</u>	<u>Balance, June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2007</u>
Capital assets not being depreciated - Historical treasures and works of art	\$ -	\$ 240,735	\$ -	\$ 240,735
Capital assets being depreciated:				
Building improvements	13,570	7,563	-	21,133
Computer software	563,479	89,256	-	652,735
Furniture and equipment	3,735,434	-	890,067	2,845,367
Total capital assets being depreciated	4,312,483	96,819	890,067	3,519,235
Less - Accumulated depreciation for:				
Building improvements	(1,131)	(1,925)	-	(3,056)
Computer software	(231,001)	(97,130)	-	(328,131)
Furniture and equipment	(2,231,037)	(417,828)	890,067	(1,758,798)
Total accumulated depreciation	(2,463,169)	(516,883)	890,067	(2,089,985)
Total capital assets, net	<u>\$1,849,314</u>	<u>\$(179,329)</u>	<u>\$ -</u>	<u>\$1,669,985</u>

Note E - Lease Commitments

Research Facilities

GTRC is committed to two operating leases with The University Financing Foundation, Inc. for the Cobb County Research Facility and Centennial Research Building. The leases carry successive two-year lease terms that are automatically renewed at prevailing market rates in effect at the time of the renewal. GTRC may cancel either lease upon notice given during July of any lease year to be effective as of June 30 of the then-current lease year. The present monthly rentals for the Cobb County Research Facility and the Centennial Research Building are \$105,056 and \$125,870, respectively.

In connection with these lease agreements, both facilities have been 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 present monthly rental receipts on these subleases for the Cobb County Research Facility and the Centennial Research Building are equivalent to the monthly rental payments.

Georgia Tech Research Corporation

Notes to Financial Statements

June 30, 2007

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. The lease term extends from December 1, 1997, until 30 years after the issuance of a certificate of occupancy. GTRC is obligated to pay rent in an amount equal to the principal, premium (if any) and interest on the Series 1997B Bonds when due and upon any redemption or acceleration thereunder.

In connection with this lease agreement, GTRC subleased the complex to GIT. The sublease carries 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 sublease are substantially the same as those under the lease agreement between GTRC and GTF.

Office Space

GTRC leases office space under operating leases for research activities in Fairborn, Ohio, and Arlington, Virginia. The Arlington lease required a base rent of \$16,094 per month for the year ended June 30, 2007, and expires June 30, 2008. The Fairborn lease required a base rent of \$15,905 per month for the year ended June 30, 2007, and the lease expires June 30, 2011.

GTRC also leases office space in Orlando, Florida. The Orlando lease term began July 1, 2004, and expired June 30, 2007. The lease was renewed subsequent to June 30, 2007, and expires June 30, 2009. For the year ended June 30, 2007, the Orlando lease required a base rent of \$3,232 per month.

GTRC also leases office space in Marietta, Georgia. The Marietta lease term began September 1, 2004, and expires August 31, 2007. Prior to June 30, 2007, the lease was renewed and expires August 31, 2009. For the year ended June 30, 2007, the Marietta lease required a base rent of \$2,177 per month.

GTRC also entered into a lease agreement for research facilities in Quantico, Virginia, prior to June 30, 2007. The lease term began July 1, 2007, and expires June 30, 2010. The base monthly rent is \$10,187 for the year-end June 30, 2008.

Georgia Tech Research Corporation

Notes to Financial Statements

June 30, 2007

The majority of GTRC's leases 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 third-party lessor.

	<u>Commitments</u>	<u>Sublease Rental Receipts</u>	<u>Net Rental Commitment</u>
Year ending June 30:			
2008	\$ 4,782,410	\$4,782,410	-
2009	4,598,217	-	\$ 4,598,217
2010	3,026,514	-	3,026,514
2011	2,898,605	-	2,898,605
2012	2,686,045	-	2,686,045
2013-2017	9,643,965	-	9,643,965
2018-2022	7,124,500	-	7,124,500
2023-2027	7,127,000	-	7,127,000
2028	1,424,750	-	1,424,750
	<u>\$43,312,006</u>	<u>\$4,782,410</u>	<u>\$38,529,596</u>

Net rent expense for the year ended June 30, 2007, was computed as follows:

Minimum rentals	\$4,732,544
Less:	
Sublease rentals – Georgia Institute of Technology	<u>(4,732,544)</u>
Net rent expense	<u>\$ -</u>

Note F - Contingent Liabilities

As of June 30, 2007, GTRC guarantees approximately \$137,785 of home mortgages of new research faculty members.

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.

Georgia Tech Research Corporation

Notes to Financial Statements

June 30, 2007

Note G - Change to Governmental Reporting Model

Effective July 1, 2006, GTRC implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments" and GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The change to the governmental reporting model was made as a result of re-examining the procedures for board of trustee appointments and GTRC's relationship with GIT. Previously, GTRC followed financial reporting practices applicable to not-for-profit organizations. The change to the GASB financial reporting format had no effect on the measure of assets, liabilities or net assets.