

**Georgia Tech Research Corporation**  
**Financial Statements**  
**With**  
**Independent Auditors' Report**  
**For the Year Ended June 30, 2009**

# Georgia Tech Research Corporation

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## Independent Auditors' Report

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 (GTRC), a component unit of the State of Georgia, as of and for the year ended June 30, 2009, which collectively comprise GTRC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of GTRC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the 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 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 GTRC as of June 30, 2009, 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 October 8, 2009 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 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 6 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.

Cherry, Bekaert & Holland, L.L.P.

Atlanta, Georgia  
October 8, 2009

# Georgia Tech Research Corporation

## Management's Discussion and Analysis June 30, 2009

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### 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, GTRI amended its corporate charter to change the name to the Georgia Tech Research Corporation.

GTRC serves as the contracting entity for the GIT 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 component of GTRC. 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 its component unit, GTARC (hereinafter collectively 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 GIT. The MOU also assigned all intellectual property developed through the performance of contracts subcontracted to the 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. The ongoing objective of GTRC is to provide services to the GIT and, through those services, to enhance GIT's programs and goals as a research institution.

### Description of the Financial Statements

The statements of net assets, revenues, expenses and changes in net assets, and 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 – Continued June 30, 2009

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 at June 30, 2009 and 2008 is shown below:

			<u>2009</u>	<u>Restated 2008</u>
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-type Activities	Total Business-type Activities
<b>Assets</b>				
Current assets	\$ 82,358,530	\$ 57,421,750	\$ 139,780,280	\$ 130,029,107
Noncurrent assets	<u>1,565,030</u>	-	<u>1,565,030</u>	<u>1,950,005</u>
Total assets	<u>\$ 83,923,560</u>	<u>\$ 57,421,750</u>	<u>\$ 141,345,310</u>	<u>\$ 131,979,112</u>

#### Liabilities and Net Assets

Current liabilities	<u>\$ 68,576,280</u>	<u>\$ 36,347,637</u>	<u>\$ 104,923,917</u>	<u>\$ 94,401,755</u>
Net assets:				
Invested in capital assets	1,441,239	-	1,441,239	1,618,331
Unrestricted	<u>13,906,041</u>	<u>21,074,113</u>	<u>34,980,154</u>	<u>35,959,026</u>
Total net assets	<u>15,347,280</u>	<u>21,074,113</u>	<u>36,421,393</u>	<u>37,577,357</u>
Total liabilities and net assets	<u>\$ 83,923,560</u>	<u>\$ 57,421,750</u>	<u>\$ 141,345,310</u>	<u>\$ 131,979,112</u>

Current assets increased by \$9,751,173 or 7% from fiscal 2008, 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 decreased by \$384,975 or 20%, primarily due to the net depreciation in the fair value of investments from 2008 to 2009.

## Georgia Tech Research Corporation

### Management's Discussion and Analysis – Continued June 30, 2009

Current liabilities increased \$10,522,162 or 11%, primarily due to an increase in accounts payable for direct research costs incurred and advances payments on research contracts.

Net assets represent the difference between GTRC's assets and liabilities. There was a decrease in net assets of \$1,155,964 or 3%, which can primarily be attributed to increases in operating revenue which was more than offset by increases in operating expenses.

The condensed statement of revenues, expenses and changes in net assets for the years ended June 30, 2009 and 2008 is shown below:

			<u>2009</u>	<u>Restated 2008</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>
Operating revenues	\$ 257,220,406	\$ 162,532,545	\$ 419,752,951	\$ 380,286,188
Operating expenses	<u>(258,189,159)</u>	<u>(162,850,553)</u>	<u>(421,039,712)</u>	<u>(379,350,146)</u>
Loss (income) from operations	(968,753)	(318,008)	(1,286,761)	936,042
Nonoperating revenues, net	<u>(11,913)</u>	<u>142,710</u>	<u>130,797</u>	<u>1,786,416</u>
(Decrease) increase in net assets	<u>(980,666)</u>	<u>(175,298)</u>	<u>(1,155,964)</u>	<u>2,722,458</u>
Net assets, beginning of year	<u>16,327,946</u>	<u>21,249,411</u>	<u>37,577,357</u>	<u>34,854,899</u>
Net assets, end of year	<u>\$ 15,347,280</u>	<u>\$ 21,074,113</u>	<u>\$ 36,421,393</u>	<u>\$ 37,577,357</u>

Operating revenues consist primarily of research contracts, licensing fees and royalty revenues. During fiscal 2009, operating revenues increased by \$39,466,763 or 10%, primarily due to increased research project revenues.

Operating expenses increased by \$41,689,566 or 11%, primarily due to increased direct research costs resulting from increased research contract activity.

Nonoperating revenues decreased by \$1,655,619 or 93%, primarily due to a decrease in interest income.

# Georgia Tech Research Corporation

## Management's Discussion and Analysis – Continued June 30, 2009

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### **Economic Outlook**

The Georgia Institute of Technology was awarded over \$483 million in sponsored research awards in fiscal year 2009. The funding has doubled in a decade and, by all measures, GIT's research programs are growing. GTRC's interest income has declined and licensing activity is not growing. However, as the overall economy improves, we anticipate growth in parallel with the national recovery. Those research areas which should see growth are alternative energy, sustainability, biomedical, and nano-technology. It is anticipated that ARRA funding will allow the overall average growth to continue into the fiscal years 2010 and 2011 despite likely decreases in awards from private/industry sponsors.

### **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 Director of Accounting, Georgia Tech Research Corporation, 505 Tenth Street, Atlanta, Georgia, 30332-0415.



# Georgia Tech Research Corporation

## Statement of Net Assets

June 30, 2009

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$41,769,797	\$ 18,862,325	\$ 60,632,122
Accounts receivable:			
Research contracts - Billed	15,955,953	24,626,463	40,582,416
Research contracts - Unbilled	25,488,349	16,456,348	41,944,697
Other receivables	264,905	-	264,905
Less - allowance for doubtful accounts	(1,606,570)	(2,086,279)	(3,692,849)
Accounts receivable, net	40,102,637	38,996,532	79,099,169
Due from (to) component unit	437,107	(437,107)	-
Prepaid expenses	48,989	-	48,989
Total current assets	82,358,530	57,421,750	139,780,280
<b>Noncurrent assets:</b>			
Investments	123,791	-	123,791
Capital assets, net	1,441,239	-	1,441,239
Total noncurrent assets	1,565,030	-	1,565,030
Total assets	\$83,923,560	\$ 57,421,750	\$ 141,345,310
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Accounts payable:			
Georgia Institute of Technology	\$29,310,818	\$ 14,734,693	\$ 44,045,511
Other	1,223,021	788,766	2,011,787
Accounts payable	30,533,839	15,523,459	46,057,298
Funds held on behalf of Georgia Institute of Technology	-	17,829,883	17,829,883
Deferred research contract revenue	38,042,441	2,994,295	41,036,736
Total current liabilities	68,576,280	36,347,637	104,923,917
<b>Net assets:</b>			
Invested in capital assets	1,441,239	-	1,441,239
Unrestricted	13,906,041	21,074,113	34,980,154
Total net assets	15,347,280	21,074,113	36,421,393
Total liabilities and net assets	\$83,923,560	\$ 57,421,750	\$ 141,345,310

See accompanying notes to financial statements.

# Georgia Tech Research Corporation

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

For the Year Ended June 30, 2009

	Major funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business - Type Activities
<b>Operating revenues:</b>			
Research contracts	\$ 249,918,510	\$ 162,531,480	\$ 412,449,990
Licenses and royalties	2,332,635	-	2,332,635
Lease income	4,668,359	-	4,668,359
Other	300,902	1,065	301,967
Total operating revenues	257,220,406	162,532,545	419,752,951
<b>Operating expenses:</b>			
Research contract costs	236,575,580	160,993,297	397,568,877
Depreciation	401,836	-	401,836
Administrative and general expenses	4,859,968	1,591,888	6,451,856
Licenses and royalties expenses	3,302,655	-	3,302,655
Lease expenses	4,668,359	-	4,668,359
Payments to or on behalf of Georgia Institute of Technology	8,380,761	265,368	8,646,129
Total operating expenses	258,189,159	162,850,553	421,039,712
<b>Loss from operations</b>	(968,753)	(318,008)	(1,286,761)
<b>Nonoperating revenues (expenses):</b>			
Interest income	195,974	142,710	338,684
Unrealized losses on investments	(207,887)	-	(207,887)
Total nonoperating revenues (expenses), net	(11,913)	142,710	130,797
<b>Decrease in net assets</b>	(980,666)	(175,298)	(1,155,964)
<b>Net assets, beginning of year</b>	16,327,946	31,825,507	48,153,453
<b>Prior period adjustment (Note 7 )</b>	-	(10,576,096)	(10,576,096)
<b>Net assets, beginning of year (restated)</b>	16,327,946	21,249,411	37,577,357
<b>Net assets, end of year</b>	\$ 15,347,280	\$ 21,074,113	\$ 36,421,393

See accompanying notes to financial statements.

# Georgia Tech Research Corporation

## Statement of Cash Flows

For the Year Ended June 30, 2009

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
<b>Cash flows from operating activities:</b>			
Receipts from grantors	\$ 254,161,629	\$ 155,501,749	\$ 409,663,378
Receipts of license fees and royalties	2,332,635	-	2,332,635
Receipts from leases	4,668,359	-	4,668,359
Miscellaneous receipts	326,219	1,065	327,284
Payments for licenses and royalties	(3,302,655)	-	(3,302,655)
Payments for leases	(4,668,359)	-	(4,668,359)
Payments to or on behalf of Georgia Institute of Technology	(8,380,761)	(265,368)	(8,646,129)
Payments for research contract costs	(242,135,056)	(155,379,104)	(397,514,160)
Net cash provided by (used in) operating activities	<u>3,002,011</u>	<u>(141,658)</u>	<u>2,860,353</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	(224,748)	-	(224,748)
Net cash used in capital and related financing activities	<u>(224,748)</u>	<u>-</u>	<u>(224,748)</u>
<b>Cash flows from investing activities</b>			
Investment income	195,974	142,710	338,684
Net cash provided by investing activities	<u>195,974</u>	<u>142,710</u>	<u>338,684</u>
<b>Net increase in cash and cash equivalents</b>	2,973,237	1,052	2,974,289
<b>Cash and cash equivalents, beginning of year</b>	38,796,560	18,861,273	57,657,833
<b>Cash and cash equivalents, end of year</b>	<u>\$ 41,769,797</u>	<u>\$ 18,862,325</u>	<u>\$ 60,632,122</u>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>			
Operating loss	\$ (968,753)	\$ (318,008)	\$ (1,286,761)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	401,836	-	401,836
Provision for bad debt	700,000	-	700,000
Changes in assets and liabilities:			
Accounts receivable	(540,113)	(7,302,602)	(7,842,715)
Due to/from component unit	(65,518)	65,518	-
Prepaid expenses	(5,758)	-	(5,758)
Accounts payable to Georgia Institute of Technology	(903,034)	380,860	(522,174)
Accounts payable other	203,496	(494,086)	(290,590)
Funds held on behalf of Georgia Institute of Technology	-	7,253,789	7,253,789
Deferred research contract revenue	4,179,855	272,871	4,452,726
Net cash provided by (used in) operating activities	<u>\$ 3,002,011</u>	<u>\$ (141,658)</u>	<u>\$ 2,860,353</u>
<b>Schedule of noncash investing activity:</b>			
Decrease in the fair value of investments	<u>\$ (207,887)</u>	<u>\$ -</u>	<u>\$ (207,887)</u>

See accompanying notes to financial statements.

# Georgia Tech Research Corporation

## Notes to Financial Statements

As of and for the Year Ended June 30, 2009

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### NOTE 1 – 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 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 the GIT 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 component of GTRC. 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 its component unit, GTARC (hereinafter collectively 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 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. Separately issued financial statements for Georgia Tech Applied Research Corporation can be obtained by contacting to the Director of Accounting, Georgia Tech Applied Research Corporation, 505 Tenth Street, Atlanta, Georgia, 30332-0415.

The Board of Regents of the University System of Georgia and GIT follow Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations are Component Units, an amendment of Statement No. 14." The State of Georgia has determined that GTRC is significant to the State of Georgia for the year ended June 30, 2009, and as such, is a discretely presented component unit in the Comprehensive Annual Report of the State of Georgia.

# Georgia Tech Research Corporation

## Notes to Financial Statements

As of and for the Year Ended June 30, 2009

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### NOTE 2 – 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:

#### 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 cycle 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 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 Board of 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.

# Georgia Tech Research Corporation

## Notes to Financial Statements

As of and for the Year Ended June 30, 2009

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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, 2009, the bank balance was \$1,748,192 and the book balance was \$1,121,209. 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, 2009 the bank balances were collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services. Cash equivalents are comprised of short-term investments in money market funds, and are stated at cost, which approximates fair value. The money market fund's underlying investments are comprised of U.S. Treasury Bills, rated AAA by Standard and Poor's, and repurchase agreements, rated P-1 and A-1+, by Moody's and Standard and Poor's, respectively.

#### 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, 2009. Investments for which there is no readily determinable fair value are valued at a nominal amount based on management's estimate of fair value.

#### Major Clients and Concentration of Credit Risk

During the fiscal year ended June 30, 2009, GTRC derived approximately 81% of its revenue from contracts with the U.S. Government. At June 30, 2009, approximately 63% 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, 2009.

#### 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.

# Georgia Tech Research Corporation

## Notes to Financial Statements

As of and for the Year Ended June 30, 2009

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the allowance for doubtful accounts for the year ended June 30, 2009, were as follows:

	Major funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business - type Activities
Beginning balance	\$ 1,108,096	\$ 2,228,257	\$ 3,336,353
Recoveries	10,505	1,303	11,808
Bad debt expense	700,000	-	700,000
Write offs	(212,031)	(143,281)	(355,312)
Ending balance	<u>\$ 1,606,570</u>	<u>\$ 2,086,279</u>	<u>\$ 3,692,849</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 \$406,960 to GIT during the year ended June 30, 2009.

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

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 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* represent GTRC's total investment in capital assets, net of related depreciation. *Unrestricted net assets* represent resources derived primarily from research contracts, licensing and royalties, and lease income. 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.

# Georgia Tech Research Corporation

## Notes to Financial Statements

As of and for the Year Ended June 30, 2009

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 3 – INVESTMENTS

GTRC's investments consist entirely of equity securities, which are acquired in exchange for certain licensing fees, and certain short-term investments in money market funds. Equity security investments are held exclusively in GTRC's name. At June 30, 2009, equity securities and short-term investments totaled \$123,791 and \$59,510,613, respectively. Equity securities and short-term investments are reported as investments and cash equivalents in the statement of net assets, respectively. At June 30, 2009, the short-term investments were uninsured and unregistered, with securities held by the counterparty or by its agent, but not 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.

#### 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 does not have a formal policy for managing foreign currency risk.



# Georgia Tech Research Corporation

## Notes to Financial Statements

As of and for the Year Ended June 30, 2009

### NOTE 4 – CAPITAL ASSETS

Following are changes in capital assets for the year ended June 30, 2009:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets not being depreciated				
Land				
Construction in progress	\$ 32,098	\$ -	\$ 32,098	\$ -
Historical treasures and works of art	240,735	-	-	240,735
Total capital assets not being depreciated	272,833	-	32,098	240,735
Capital assets being depreciated				
Building improvements	95,233	32,098	-	127,331
Computer software	566,569	27,855	-	594,424
Furniture and equipment	2,995,729	196,890	406,960	2,785,659
Total capital assets being depreciated	3,657,531	256,843	406,960	3,507,414
Less accumulated depreciation for				
Building improvements	(6,404)	12,466	-	(18,870)
Computer software	(417,109)	81,322	-	(498,431)
Furniture and equipment	(1,888,521)	308,049	406,960	(1,789,610)
Total accumulated depreciation	(2,312,034)	401,836	406,960	(2,306,910)
Total capital assets, net	<u>\$ 1,618,330</u>	<u>\$ 658,679</u>	<u>\$ -</u>	<u>\$ 1,441,239</u>

### NOTE 5 – 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.

# Georgia Tech Research Corporation

## Notes to Financial Statements

As of and for the Year Ended June 30, 2009

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### NOTE 5 – LEASE COMMITMENTS (Continued)

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 approximates the monthly rental payments.

#### **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 Bonds Revenue 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.

GTRC’s leases are subleased to GIT. The subleases carry successive one-year terms that may be renewed upon notice given at lease 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 lessors.

# Georgia Tech Research Corporation

## Notes to Financial Statements

As of and for the Year Ended June 30, 2009

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### NOTE 5 – LEASE COMMITMENTS (Continued)

Future minimum lease payments at June 30, 2009 are as follows:

	<u>Commitments</u>	<u>Sub Rental Receipts</u>	<u>Net Rental Commitment</u>
<b>Year ending June 30:</b>			
2010	\$ 5,178,984	\$ 5,178,984	\$ -
2011	3,445,603	-	3,445,603
2012	3,116,541	-	3,116,541
2013	3,066,596	-	3,066,596
2014	3,077,279	-	3,077,279
2015-2019	7,543,010	-	7,543,010
2020-2024	7,275,263	-	7,275,263
2025-2028	5,819,761	-	5,819,761
	<u>\$ 38,523,037</u>	<u>\$ 5,178,984</u>	<u>\$ 33,344,053</u>

Net rent expense for the year ended June 30, 2009, was as follows:

Minimum rentals	\$ 4,668,359
Less - Sublease rentals - Georgia Institute of Technology	<u>(4,668,359)</u>
Net rent expense	<u>\$ -</u>

### NOTE 6 – CONTINGENT LIABILITIES

As of June 30, 2009, GTRC guarantees approximately \$82,647 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

As of and for the Year Ended June 30, 2009

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### NOTE 7 – PRIOR PERIOD ADJUSTMENT

Management of GTARC determined that the amount held for GIT as strategic and other reserves was not reflected appropriately in the financial statement; therefore, during the year ended June 30, 2009 GTARC restated its beginning unrestricted net assets to properly present these amounts. The restatement had the following effect:

#### **Funds held on behalf of GIT:**

Funds held on behalf of GIT, June 30, 2008, as previously reported	\$	-
Adjustment to correct recording error		<u>10,576,096</u>

<b>Funds held on behalf of GIT, June 30, 2008, restated</b>	<b>\$</b>	<b><u>10,576,096</u></b>
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#### **Net assets - Unrestricted:**

Net assets - Unrestricted, June 30, 2008, as previously reported	\$	31,825,507
Adjustment to correct recording error		<u>(10,576,096)</u>

<b>Net assets - Unrestricted, June 30, 2008, restated</b>	<b>\$</b>	<b><u>21,249,411</u></b>
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