

**Georgia Tech Applied Research Corporation**  
**Financial Statements**  
**With**  
**Independent Auditors' Report**  
**For the Year Ended June 30, 2011**

# Georgia Tech Applied Research Corporation

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## Independent Auditors' Report

To the Board of Trustees of  
Georgia Tech Applied Research Corporation:

We have audited the accompanying statement of net assets of the Georgia Tech Applied Research Corporation ("GTARC"), a component unit of Georgia Tech Research Corporation, as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of GTARC's management. Our responsibility is to express an opinion 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 GTARC as of June 30, 2011, 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 August 31, 2011 on our consideration of GTARC'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 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.

*Cherry, Bekaert & Holland, LLP*

Atlanta, Georgia  
August 31, 2011

# Georgia Tech Applied Research Corporation

## Management's Discussion and Analysis

June 30, 2011

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### Introduction

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

GTARC enters into contracts and grant agreements with various organizations, including federal agencies, and subcontracts with the GIT to provide services in connection with these agreements. As part of the relationship, payments occur between GIT and GTARC 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 Georgia Tech Research Institute) 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 and GTARC are the administrative organizations for discoveries, innovations, inventions, patents and copyrights and are responsible for intellectual property management, including patenting and licensing. The ongoing objective of GTARC 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 that will assist in understanding the financial condition and performance of GTARC. The net assets are an indicator of GTARC's financial health. Over time, increases or decreases in net assets are another measure of the changes in GTARC's financial condition when considered with other non-financial facts.

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

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 non-operating. The financial reporting model classifies investment earnings and changes in the fair value of investments as non-operating revenues. As a result, the financial statements may show operating losses that are then offset by non-operating 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 Applied Research Corporation

## Management's Discussion and Analysis

June 30, 2011

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### Financial Highlights

The condensed statement of net assets at June 30, 2011 and 2010 is shown below:

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current assets	<u>\$ 61,462,207</u>	<u>\$ 59,161,274</u>
<b>Liabilities and net assets</b>		
Current liabilities	\$ 40,304,219	\$ 38,187,124
Unrestricted net assets	<u>21,157,988</u>	<u>20,974,150</u>
Total liabilities and net assets	<u>\$ 61,462,207</u>	<u>\$ 59,161,274</u>

Current assets increased by \$2,300,933 or 4% from fiscal year 2010 due primarily to an increase in research receivables which was the result of an increase in research revenues in 2011 compared to 2010.

Current liabilities increased by \$2,117,095 or 5% primarily due to the timing of payments made to GIT.

Net assets represent the difference between GTARC's assets and liabilities. There was an increase of \$183,838 or less than 1%, which can primarily be attributed to the increase in research activities.

The condensed statement of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010 is shown below:

	<b>June 30,</b>	
	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 208,807,788	\$ 196,251,214
Operating expenses	<u>(208,629,980)</u>	<u>(196,364,175)</u>
Income (loss) from operations	177,808	(112,961)
Nonoperating revenue, net	<u>6,030</u>	<u>12,998</u>
Increase (decrease) in net assets	183,838	(99,963)
Net assets, beginning of year	<u>20,974,150</u>	<u>21,074,113</u>
Net assets, end of year	<u>\$ 21,157,988</u>	<u>\$ 20,974,150</u>

# Georgia Tech Applied Research Corporation

## Management's Discussion and Analysis

June 30, 2011

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Operating revenues consist primarily of research grant revenues. During the fiscal year ended June 30, 2011, operating revenues increased by \$12,556,574 or 6%, due to increased research activities.

Additionally, operating expenses increased \$12,265,805 or 6% primarily due to increased direct research costs resulting from increased research activities.

### **Economic Outlook**

Georgia Tech received a record \$567 million in sponsored research awards in fiscal year 2011 continuing a trend of accelerated growth in external research support. A relatively small portion of the growth in awards is accounted for by funding through the American Recovery and Reinvestment Act ("ARRA") and growth would have been positive in the absence of ARRA funding. The conclusion of the stimulus program in 2011 will not unduly influence research funding since a large component of Georgia Tech's ARRA funding involved construction of a new facility. Interest earned on deposits remains low due to the prevailing low interest rates on secured deposits. Georgia Tech continues to be proactive in working with a diverse set of public and private sponsors to support growth across a spectrum of topics. Certain areas of research continue to promise opportunities for funding for innovative research. These include energy/alternative energy, medical device innovation, nanotechnology, high performance computing and computational sciences, and medical records informatics. Georgia Tech has aligned Institute Research Centers with these economic areas.

### **Requests for Information**

This financial report is designed to provide a general overview of Georgia Tech Applied 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 should be addressed to the Office of the Director of Accounting, Georgia Tech Applied Research Corporation, 505 Tenth Street, Atlanta, Georgia, 30332-0415.

# Georgia Tech Applied Research Corporation

## Statement of Net Assets

June 30, 2011

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<b>ASSETS</b>	
<b>Current assets:</b>	
Cash	\$ 21,650,834
Accounts receivable:	
Research contracts - Billed	19,865,995
Research contracts - Unbilled	21,944,972
Less - Allowance for doubtful accounts	<u>(1,999,594)</u>
Accounts receivable, net	39,811,373
 Total current assets	 <u><u>\$ 61,462,207</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current liabilities:</b>	
Accounts payable:	
Georgia Institute of Technology	\$ 18,365,901
Other	<u>6,203,692</u>
Accounts payable	24,569,593
 Due to Georgia Tech Research Corporation	 716,020
 Funds held on behalf of Georgia Institute of Technology	 11,808,853
 Deferred research contract revenues	 <u>3,209,753</u>
 Total current liabilities	 40,304,219
 <b>Unrestricted net assets</b>	 <u>21,157,988</u>
Total liabilities and net assets	<u><u>\$ 61,462,207</u></u>

See accompanying notes to financial statements.



# Georgia Tech Applied Research Corporation

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

For the Year Ended June 30, 2011

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<b>Operating revenues:</b>	
Research contracts	\$ 208,807,788
Total operating revenues	<u>208,807,788</u>
<b>Operating expenses:</b>	
Research contract costs	\$ 206,542,496
Administrative and general expenses	1,692,499
Payments to or on behalf of Georgia Institute of Technology	394,985
Total operating expenses	<u>208,629,980</u>
<b>Income from operations</b>	177,808
<b>Nonoperating revenue - interest income</b>	<u>6,030</u>
<b>Increase in net assets</b>	183,838
<b>Net assets, beginning of year</b>	<u>20,974,150</u>
<b>Net assets, end of year</b>	<u><u>\$ 21,157,988</u></u>

See accompanying notes to financial statements.

# Georgia Tech Applied Research Corporation

## Statement of Cash Flows

For the Year Ended June 30, 2011

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### Cash flows from operating activities:

Receipts from grantors	\$ 207,696,184
Payments to or on behalf of Georgia Institute of Technology	(394,985)
Payments for research contract costs	(206,117,900)
Net cash provided by operating activities	<u>1,183,299</u>

### Cash flows from investing activity:

Investment income	<u>6,030</u>
Net cash provided by investing activity	<u>6,030</u>

**Net increase in cash** 1,189,329

**Cash and cash equivalents, beginning of year** 20,461,505  
**Cash, end of year** \$ 21,650,834

### Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 177,808
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(1,111,604)
Due to Georgia Tech Research Corporation	116,557
Accounts payable to Georgia Institute of Technology	3,859,466
Accounts payable - other	(2,862,931)
Funds held on behalf of Georgia Institute of Technology	1,195,632
Deferred research contract revenues	(191,629)
Net cash provided by operating activities	<u><u>\$ 1,183,299</u></u>

See accompanying notes to financial statements.

# Georgia Tech Applied Research Corporation

## Notes to Financial Statements

As for and the Year Ended June 30, 2011

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### NOTE 1 – DESCRIPTION OF ORGANIZATION

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

GTARC enters into contracts and grant agreements with various organizations, including federal agencies, and subcontracts with GIT to provide services in connection with these agreements. GTARC is largely a conduit organization, subcontracting performance of all contracts it enters into to GIT. As such, GTARC is an affiliated entity of GIT. As part of the relationship, transfers of funds occur between GIT and GTARC for certain sponsor project expenditures and research administration.

In accordance with accounting principles generally accepted in the United States (“GAAP”) applicable to governments GTRC and GTARC are considered part of the same reporting entity, since they are fiscally interdependent. Accordingly, the accompanying financial statements for GTARC are presented in the financial statements of GTRC as a major fund.

The State of Georgia has determined that GTRC is significant to the State of Georgia for the year ended June 30, 2011, and as such, is a discretely presented component unit in the Comprehensive Annual Financial Report of the State of Georgia.

### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

GTARC follows guidance as to governmental proprietary funds and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989. In accordance with GAAP, the financial statements of GTARC 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

The majority of GTARC's revenues are derived from grants and cost reimbursement contracts that provide for the recovery of direct and indirect costs. GTARC 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.

# Georgia Tech Applied Research Corporation

## Notes to Financial Statements

As for and the Year Ended June 30, 2011

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

GTARC classifies revenues generated from within its' normal operating cycle such as research contracts as operating income. Revenues that are not generated during the normal operating cycle such as interest income are classified as non-operating revenues.

#### **Unbilled Accounts Receivable and Deferred Research Contract Revenue**

Unbilled accounts receivable represents costs incurred for approved research projects 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**

GTARC receives reimbursement from sponsoring agencies for indirect costs incurred. GTARC 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.

#### **Major Clients and Concentration of Credit Risk**

During the fiscal year ended June 30, 2011, GTARC derived approximately 95% of its revenue from contracts with the U.S. Government. At June 30, 2011, approximately 71% of the billed research contracts accounts receivable was from the U.S. Government. Management does not believe these receivables represent significant credit risk at June 30, 2011.

#### **Cash**

At June 30, 2011, the bank balance was \$22,386,840 and the book balance was \$21,650,834. At times, cash balances may exceed federally insured amounts. GTARC mitigates this risk by depositing and investing cash with major financial institutions. GTARC has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2011, the bank balance was collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services.

#### **Federal Income Taxes**

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

# Georgia Tech Applied Research Corporation

## Notes to Financial Statements

As for and the Year Ended June 30, 2011

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### 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, 2011 were as follows:

Beginning balance	\$	2,086,255
Recoveries		41,501
Write offs		(128,162)
Ending Balance	\$	<u>1,999,594</u>

#### 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 GTARC and the Board of Regents of the University System of Georgia, dated April 1, 1953, GTARC 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 GTARC may see fit for the promotion of research at GIT.

#### Net Assets

Unrestricted net assets represent resources derived from research contracts and fees. These resources are used for the ongoing operations of GTARC and may be used at the discretion of the governing board to meet current expenses for those purposes and to enhance programs at GIT. All of GTARC's net assets are unrestricted.

#### 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.

#### Subsequent Events

Subsequent events have been evaluated through August 31, 2011, the date these financial statements were available to be issued.

### NOTE 3 – CONTINGENT LIABILITIES

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.