

Georgia Tech Research Corporation
Financial Statements
With
Independent Auditors' Report
For the Year Ended June 30, 2012

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, 2012, 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, 2012, 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 September 5, 2012 on our consideration of GTRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and not to provide and 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cherry, Bekaert & Holland, LLP

Atlanta, Georgia
September 5, 2012

Georgia Tech Research Corporation
Management's Discussion and Analysis

June 30, 2012

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.

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.

Georgia Tech Research Corporation
Management's Discussion and Analysis

June 30, 2012

Financial Highlights

The condensed statements of net assets at June 30, 2012 and 2011 are shown below:

	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>2012</u>	<u>2011</u>
			<u>Total Business-type Activities</u>	<u>Total Business-type Activities</u>
Assets				
Current assets	\$ 100,241,826	\$ 70,625,036	\$170,866,862	\$ 156,234,421
Noncurrent assets	<u>1,258,872</u>	<u>-</u>	<u>1,258,872</u>	<u>1,567,191</u>
Total assets	<u>\$101,500,698</u>	<u>\$ 70,625,036</u>	<u>\$172,125,734</u>	<u>\$ 157,801,612</u>
Liabilities and Net Assets				
Current liabilities	<u>\$77,701,640</u>	<u>\$ 49,405,179</u>	<u>\$127,106,819</u>	<u>\$ 115,129,800</u>
Net assets:				
Invested in capital assets	1,054,361	-	1,054,361	1,331,003
Unrestricted	<u>22,744,697</u>	<u>21,219,857</u>	<u>43,964,554</u>	<u>41,340,809</u>
Total net assets	<u>23,799,058</u>	<u>21,219,857</u>	<u>45,018,915</u>	<u>42,671,812</u>
Total liabilities and net assets	<u>\$ 101,500,698</u>	<u>\$ 70,625,036</u>	<u>\$ 172,125,734</u>	<u>\$ 157,801,612</u>

Current assets increased by \$14,632,441 or 9% from fiscal 2011, due primarily to an increase in cash and research receivables. Research revenue increased and cash collections improved, which in turn increased cash and current receivables.

Noncurrent assets consist of investments and capital assets net of the associated accumulated depreciation. Noncurrent assets decreased by \$308,319 or 20% from fiscal 2011, primarily due to an increase in accumulated depreciation on capital assets.

Current liabilities increased \$11,977,019 or 10%, 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 an increase in net assets of \$2,347,103 or 6%, which can primarily be attributed to increases in operating revenue which was partially offset by increases in operating expenses.

Georgia Tech Research Corporation
Management's Discussion and Analysis

June 30, 2012

The condensed statements of revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011 are shown below:

			<u>2012</u>	<u>2011</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	\$ 350,582,612	\$ 239,229,992	\$ 589,812,604	\$ 520,598,037
Operating expenses	<u>(348,437,021)</u>	<u>(239,186,817)</u>	<u>(587,623,838)</u>	<u>(516,731,035)</u>
Income from operations	2,145,591	43,175	2,188,766	3,867,002
Nonoperating revenues, net	<u>139,643</u>	<u>18,694</u>	<u>158,337</u>	<u>1,625,592</u>
Increase in net assets	<u>2,285,234</u>	<u>61,869</u>	<u>2,347,103</u>	<u>5,492,594</u>
Net assets, beginning of year	<u>21,513,824</u>	<u>21,157,988</u>	<u>42,671,812</u>	<u>37,179,218</u>
Net assets, end of year	<u>\$ 23,799,058</u>	<u>\$ 21,219,857</u>	<u>\$ 45,018,915</u>	<u>\$ 42,671,812</u>

Operating revenues consist primarily of research contracts, licensing fees and royalty revenues. During fiscal 2012, operating revenues increased by \$69,214,567 or 13%, primarily due to increased research project revenues.

Operating expenses increased by \$70,892,803 or 14%, primarily due to increased direct research costs resulting from increased research contract activity.

Nonoperating revenues decreased by \$1,467,255 or 90%, primarily due to the gain on the sale of investments in fiscal 2011 not recurring in fiscal 2012.

Economic Outlook

The Georgia Institute of Technology received a record \$567 million in sponsored research awards in fiscal year 2012 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 America 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 did not unduly influence research funding since a large component of Georgia Tech's ARRA funding involved construction of a new facility. However, there were non-recurring programs funded in FY 12 which will not be conducted in FY 12 and FY 13. Interest earned on deposits remains low due to the prevailing low interest rates on secure 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, advanced manufacturing, materials and nanomaterials, high performance computing and computational sciences, and medical records informatics. Georgia Tech has aligned Institute Research Centers with these economic areas.

Georgia Tech Research Corporation
Management's Discussion and Analysis
June 30, 2012

Requests for Information

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

Georgia Tech Research Corporation

Statement of Net Assets

June 30, 2012

	Major funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business - Type Activities
ASSETS			
Current assets:			
Cash	\$ 53,181,170	\$ 21,328,369	\$ 74,509,539
Accounts receivable:			
Research contracts - Billed	20,236,713	27,253,088	47,489,801
Research contracts - Unbilled	26,483,635	24,263,756	50,747,391
Other receivables	672,014	-	672,014
Less - allowance for doubtful accounts	(1,165,874)	(1,931,593)	(3,097,467)
Accounts receivable, net	46,226,488	49,585,251	95,811,739
Due from (to) component unit	288,584	(288,584)	-
Prepaid expenses	545,584	-	545,584
Total current assets	100,241,826	70,625,036	170,866,862
Noncurrent assets:			
Investments	4,511	-	4,511
Note receivable	200,000	-	200,000
Capital assets, net	1,054,361	-	1,054,361
Total noncurrent assets	1,258,872	-	1,258,872
Total assets	\$ 101,500,698	\$ 70,625,036	\$ 172,125,734
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable:			
Georgia Institute of Technology	\$ 36,693,761	\$ 41,224,963	\$ 77,918,724
Other	337,393	-	337,393
Accounts payable	37,031,154	41,224,963	78,256,117
Funds held on behalf of Georgia Institute of Technology	-	5,416,655	5,416,655
Deferred research contract revenue	40,670,486	2,763,561	43,434,047
Total current liabilities	77,701,640	49,405,179	127,106,819
Net assets:			
Invested in capital assets	1,054,361	-	1,054,361
Unrestricted	22,744,697	21,219,857	43,964,554
Total net assets	23,799,058	21,219,857	45,018,915
Total liabilities and net assets	\$ 101,500,698	\$ 70,625,036	\$ 172,125,734

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, 2012

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Operating revenues:			
Research contracts	\$ 340,573,294	\$ 239,214,590	\$ 579,787,884
Licenses and royalties	2,578,821	-	2,578,821
Lease income	7,427,577	-	7,427,577
Other	2,920	15,402	18,322
Total operating revenues	<u>350,582,612</u>	<u>239,229,992</u>	<u>589,812,604</u>
Operating expenses:			
Research contract costs	323,808,801	236,838,595	560,647,396
Depreciation	324,692	-	324,692
Administrative and general expenses	4,539,680	2,013,481	6,553,161
Licenses and royalties expenses	3,847,001	-	3,847,001
Lease expenses	7,427,577	-	7,427,577
Payments to or on behalf of Georgia Institute of Technology	<u>8,489,270</u>	<u>334,741</u>	<u>8,824,011</u>
Total operating expenses	<u>348,437,021</u>	<u>239,186,817</u>	<u>587,623,838</u>
Income from operations	2,145,591	43,175	2,188,766
Nonoperating revenues (expenses):			
Interest income	46,321	18,694	65,015
Realized gain on sale of investments	125,000	-	125,000
Unrealized loss on investments	<u>(31,678)</u>	<u>-</u>	<u>(31,678)</u>
Total nonoperating revenues (expenses), net	<u>139,643</u>	<u>18,694</u>	<u>158,337</u>
Increase in net assets	2,285,234	61,869	2,347,103
Net assets, beginning of year	<u>21,513,824</u>	<u>21,157,988</u>	<u>42,671,812</u>
Net assets, end of year	<u>\$ 23,799,058</u>	<u>\$ 21,219,857</u>	<u>\$ 45,018,915</u>

See accompanying notes to financial statements.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2012

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Cash flows from operating activities:			
Receipts from grantors	\$ 332,576,931	\$ 229,440,713	\$ 562,017,644
Receipts of license fees and royalties	2,578,821	-	2,578,821
Receipts from leases	7,427,577	-	7,427,577
Miscellaneous receipts	427,436	15,402	442,838
Payments for licenses and royalties	(3,847,001)	-	(3,847,001)
Payments for leases	(7,427,577)	-	(7,427,577)
Payments to or on behalf of Georgia Institute of Technology	(8,489,270)	(334,741)	(8,824,011)
Payments for research contract costs	(325,509,418)	(229,462,533)	(554,971,951)
Net cash used in operating activities	<u>(2,262,501)</u>	<u>(341,159)</u>	<u>(2,603,660)</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(48,051)	-	(48,051)
Net cash used in capital and related financing activities	<u>(48,051)</u>	<u>-</u>	<u>(48,051)</u>
Cash flows from investing activities			
Realized gain on sale of investment	125,000	-	125,000
Interest income	46,321	18,694	65,015
Net cash provided by investing activities	<u>171,321</u>	<u>18,694</u>	<u>190,015</u>
Net decrease in cash	(2,139,231)	(322,465)	(2,461,696)
Cash, beginning of year	55,320,401	21,650,834	76,971,235
Cash, end of year	<u>\$ 53,181,170</u>	<u>\$ 21,328,369</u>	<u>\$ 74,509,539</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 2,145,591	\$ 43,175	\$ 2,188,766
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation	324,692	-	324,692
Changes in assets and liabilities:			
Accounts receivable	(6,939,767)	(9,773,878)	(16,713,645)
Due to/from component unit	427,436	(429,836)	(2,400)
Prepaid expenses	(380,492)	-	(380,492)
Accounts payable to Georgia Institute of Technology	3,452,287	16,657,770	20,110,057
Accounts payable other	(233,257)	-	(233,257)
Funds held on behalf of Georgia Institute of Technology	-	(6,392,198)	(6,392,198)
Deferred research contract revenue	(1,058,991)	(446,192)	(1,505,183)
Net cash used in operating activities	<u>\$ (2,262,501)</u>	<u>\$ (341,159)</u>	<u>\$ (2,603,660)</u>
Schedule of noncash investing activity:			
Decrease in the fair value of investments	\$ (31,678)	\$ -	\$ (31,678)
Net noncash investing activity	<u>\$ (31,678)</u>	<u>\$ -</u>	<u>\$ (31,678)</u>

See accompanying notes to financial statements.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2012

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

The State of Georgia has determined that GTRC is significant to the State of Georgia for the year ended June 30, 2012, 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

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

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Cash

At June 30, 2012, the bank balance was \$75,278,332 and the book balance was \$74,509,539. 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, 2012 the bank balances were collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services.

Investments

GTRC's investments consist entirely of equity securities, which are acquired in exchange for certain licensing fees. Equity security investments are held exclusively in GTRC's name. Equity securities acquired in exchange for licensing fees are not subject to GTRC's investments policy.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major Clients and Concentration of Credit Risk

During the fiscal year ended June 30, 2012, GTRC derived approximately 86% of its revenue from contracts with the U.S. Government. At June 30, 2012, approximately 58% 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, 2012.

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, 2012, were as follows:

	<u>Major funds</u>		
	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>Total Business - type Activities</u>
Beginning balance	\$ 1,952,938	\$ 1,999,594	\$ 3,952,532
Recoveries	59,831	-	59,831
Write offs	(846,895)	(68,001)	(914,896)
Ending balance	<u>\$ 1,165,874</u>	<u>\$ 1,931,593</u>	<u>\$ 3,097,467</u>

Capital Assets

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

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

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 3 – NOTE RECEIVABLE

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

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2012

NOTE 4 – CAPITAL ASSETS

Following are changes in capital assets for the year ended June 30, 2012:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Construction in progress	\$ 285,397	\$ 56,546	\$ (208,641)	\$ 133,302
Historical treasures and works of art	240,735	-	-	\$ 240,735
Total capital assets not being depreciated	526,132	56,546	(208,641)	374,037
Capital assets being depreciated:				
Building improvements	127,331	91,026	-	218,357
Computer software	633,515	38,490	(24,410)	647,595
Furniture and equipment	2,482,557	70,629	-	2,553,186
Total capital assets being depreciated	3,243,403	200,145	(24,410)	3,419,138
Less accumulated depreciation for:				
Building improvements	(44,336)	(20,012)	-	(64,348)
Computer software	(602,785)	(12,742)	24,410	(591,117)
Furniture and equipment	(1,791,411)	(291,938)	-	(2,083,349)
Total accumulated depreciation	(2,438,532)	(324,692)	24,410	(2,738,814)
Total capital assets, net	\$ 1,331,003	\$ (68,001)	\$ (208,641)	\$ 1,054,361

NOTE 5 – LEASE COMMITMENTS

Research Facilities

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

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

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2012

NOTE 5 – LEASE COMMITMENTS (Continued)

Institute for BioEngineering and BioSciences Complex

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

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

Future minimum lease payments at June 30, 2012 are as follows:

	<u>Commitments</u>	<u>Sub Rental Receipts</u>	<u>Net Rental Commitment</u>
Year ending June 30:			
2013	\$ 7,044,806	\$ 7,044,806	\$ -
2014	5,385,057	-	5,385,057
2015	4,924,255	-	4,924,255
2016	4,581,735	-	4,581,735
2017	4,056,197	-	4,056,197
2018-2022	17,657,431	-	17,657,431
2023-2027	17,657,650	-	17,657,650
2028-2032	11,837,418	-	11,837,418
2033-2037	8,998,080	-	8,998,080
	<u>\$ 82,142,629</u>	<u>\$ 7,044,806</u>	<u>\$ 75,097,823</u>

Net rent expense for the year ended June 30, 2012, was as follows:

Minimum rentals	\$ 7,427,577
Less - Sublease rentals - Georgia Institute of Technology	<u>(7,427,577)</u>
Net rent expense	<u>\$ -</u>

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2012

Note 6 – CONTINGENT LIABILITIES

As of June 30, 2012, GTRC guarantees approximately \$25,909 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.