

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GEORGIA TECH APPLIED RESEARCH CORPORATION

Year ended June 30, 2004

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Report of Independent Certified Public Accountants

Board of Trustees
Georgia Tech Applied Research Corporation
Atlanta, Georgia

We have audited the accompanying statement of financial position of Georgia Tech Applied Research Corporation (a not-for-profit corporation and wholly-controlled subsidiary of Georgia Tech Research Corporation) as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial position of Georgia Tech Applied Research Corporation as of June 30, 2004, and the changes in its net assets and its 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 10, 2004 on our consideration of Georgia Tech Applied Research Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Grant Thornton LLP

Atlanta, Georgia
September 10, 2004

Georgia Tech Applied Research Corporation

STATEMENT OF FINANCIAL POSITION

June 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note B-2)	\$	17,757,262
Accounts receivable:		
Research contracts		15,071,835
Less allowance for doubtful accounts		<u>(2,193,775)</u>
		12,878,060
Research projects in process (Note B-4)		<u>9,966,231</u>
Total assets	\$	<u><u>40,601,553</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable:		
Georgia Institute of Technology	\$	8,398,184
Other		230,590
Intercompany payable		432,388
Deferred research contract revenue (Note B-4)		<u>8,007,232</u>
Total current liabilities		17,068,394

COMMITMENTS (Notes C and D)

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NET ASSETS - UNRESTRICTED (Note B-1)

Net assets allocated to research pursuant to Board of Regents Agreement		<u>23,533,159</u>
Total liabilities and net assets	\$	<u><u>40,601,553</u></u>

The accompanying notes are an integral part of this financial statement.

Georgia Tech Applied Research Corporation

STATEMENT OF ACTIVITIES

Year ended June 30, 2004

	Unrestricted	Temporarily Restricted	Total
Gross billing on research contracts (Note B-1)	\$ -	\$ 109,176,513	\$ 109,176,513
Direct costs	-	64,377,237	64,377,237
Georgia Institute of Technology overhead charges	-	35,059,913	35,059,913
	-	99,437,150	99,437,150
Excess of billings over direct costs and Georgia Institute of Technology overhead charges	-	9,739,363	9,739,363
Net assets released from restrictions	9,739,363	(9,739,363)	-
Administrative and general expenses	2,681,034	-	2,681,034
Operating revenue	7,058,329	-	7,058,329
Other revenue (expense)			
Interest income	210,980	-	210,980
License expense	(175,271)	-	(175,271)
FAR 3.2 overhead	(3,361,960)	-	(3,361,960)
Miscellaneous income	2,616	-	2,616
Total other revenue, net	(3,323,635)	-	(3,323,635)
Change in net assets	3,734,694	-	3,734,694
Net assets, beginning of year	19,798,465	-	19,798,465
Net assets, end of year	\$ 23,533,159	\$ -	\$ 23,533,159

The accompanying notes are an integral part of this financial statement.

Georgia Tech Applied Research Corporation

STATEMENT OF CASH FLOWS

Year ended June 30, 2004

Cash flows used in operating activities:	
Change in net assets	\$ 3,734,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase in accounts receivable	(521,053)
Decrease in research projects in process	2,945,496
Decrease in accounts payable	(4,166,415)
Increase in deferred revenue	4,315,875
Decrease in intercompany payable	(4,413,644)
Increase in deferred research contract revenue	952,402
Increase in other current liabilities	<u>230,590</u>
Net cash used in operating activities	(656,749)
Net increase in cash and cash equivalents	3,077,945
Cash and cash equivalents, beginning of year	<u>14,679,317</u>
Cash and cash equivalents, end of year	<u><u>\$ 17,757,262</u></u>

The accompanying notes are an integral part of this financial statement.

Georgia Tech Applied Research Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - NATURE OF ORGANIZATION

Effective July 1, 1998, Georgia Tech Applied Research Corporation ("GTARC") was established as a wholly-controlled subsidiary of Georgia Tech Research Corporation. GTARC was organized as the contracting arm to engage in sponsored research for scientific purposes for work to be performed by Georgia Tech Research Institute.

GTARC enters into contracts and grant agreements with various organizations, including Federal agencies, and subcontracts with the Georgia Institute of Technology ("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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The financial statements of GTARC have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

1. Revenue

Substantially all of GTARC's revenues are derived from temporarily restricted grants and cost reimbursement contracts which provide for the recovery of direct and indirect costs. GTARC recognizes temporarily restricted revenue associated with direct and indirect costs as the related costs are incurred. The recovery of indirect costs is generally recorded at fixed rates negotiated with the sponsoring agency. When sponsor restrictions expire, that is, when a stipulated time restriction ends or the purpose for the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and highly liquid investments with original maturities of less than 90 days. Cash equivalents are stated at cost, which approximates market value. GTARC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

3. 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 - CONTINUED

June 30, 2004

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Research Projects in Process and Deferred Research Contract Revenue

Research contracts in process represent 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.

5. Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C - CONTINGENT LIABILITIES

Federal and state funded research projects are subject to special audits. Such audits could result in some allocated costs being disallowed or rate 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.