

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GEORGIA TECH APPLIED RESEARCH CORPORATION

Year ended June 30, 2005

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF ACTIVITIES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7

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-owned subsidiary of Georgia Tech Research Corporation) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountant and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2005, 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 12, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Grant Thornton LLP

Atlanta, Georgia
September 12, 2005

Marquis One, Suite 300
245 Peachtree Center Avenue
Atlanta, GA 30303
T 404.330.2000
F 404.330.2047
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

Georgia Tech Applied Research Corporation

STATEMENT OF FINANCIAL POSITION

June 30, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note B-2)	\$	19,679,790
Accounts receivable:		
Research contracts		15,098,423
Other Receivables		15,123
Less allowance for doubtful accounts		<u>(2,230,545)</u>
		12,883,001
Research projects in process (Note B-5)		<u>13,647,454</u>
Total assets	\$	<u><u>46,210,245</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable:		
Georgia Institute of Technology	\$	11,626,717
Intercompany payable		1,903,702
Deferred research contract revenue (Note B-5)		<u>4,722,910</u>
Total current liabilities		18,253,329

COMMITMENTS (Note C)

-

NET ASSETS - UNRESTRICTED

Net assets designated to research pursuant to Board of Regents Agreement		<u>27,956,916</u>
Total liabilities and net assets	\$	<u><u>46,210,245</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, 2005

Gross revenue from research contracts (Note B-1)	\$ 117,524,176
Direct costs	72,112,826
Georgia Institute of Technology overhead charges	43,210,705
	<u>115,323,531</u>
Excess of research revenue over direct costs and Georgia Institute of Technology overhead charges	2,200,645
Other operating revenue, net	3,401,304
Administrative and general expenses	<u>(1,459,971)</u>
Operating revenue	4,141,978
Other revenue (expense)	
Interest income	444,832
License expense	(164,998)
Miscellaneous income	1,945
Total other revenue, net	<u>281,779</u>
Change in net assets	4,423,757
Net assets, beginning of year	<u>23,533,159</u>
Net assets, end of year	<u>\$ 27,956,916</u>

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

Georgia Tech Applied Research Corporation

STATEMENT OF CASH FLOWS

Year ended June 30, 2005

Cash flows used in operating activities:	
Change in net assets	\$ 4,423,757
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in accounts receivable (net)	(4,941)
Increase in research projects in process	(3,681,223)
Increase in accounts payable	2,997,943
Increase in intercompany payable	1,471,314
Decrease in deferred research contract revenue	<u>(3,284,322)</u>
Net cash used in operating activities	1,922,528
Cash and cash equivalents, beginning of year	<u>17,757,262</u>
Cash and cash equivalents, end of year	<u><u>\$ 19,679,790</u></u>

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

Georgia Tech Applied Research Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - NATURE OF ORGANIZATION

Georgia Tech Applied Research Corporation ("GTARC") was established July 1, 1998 as a wholly-owned 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 grants and cost reimbursement contracts which provide for the recovery of direct and indirect costs. GTARC recognizes revenue associated with direct and indirect costs as the related costs are incurred. The recovery of indirect costs is generally recorded at fixed rates negotiated with the sponsoring agency.

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.

3. Major Clients and Concentration of Credit Risk

During the fiscal year ended June 30, 2005, the Corporation derived approximately 82.5 percent of its revenue from contracts with the U.S. government. At June 30, 2005, approximately 44 percent of accounts receivable were from the U.S. government. Management does not believe these receivables represent significant credit risk at June 30, 2005.

4. 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

5. 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.

6. 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.