



**GEORGIA TECH APPLIED RESEARCH  
CORPORATION**

**FINANCIAL STATEMENTS**

*As of and for the Year Ended June 30, 2018*

*And Report of Independent Auditor*

# GEORGIA TECH APPLIED RESEARCH CORPORATION

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## **Report of Independent Auditor**

To the Board of Trustees  
Georgia Tech Applied Research Corporation  
Atlanta, Georgia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Georgia Tech Applied Research Corporation (“GTARC”), a component unit of Georgia Tech Research Corporation, as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

### **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to GTARC’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of GTARC’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities of GTARC as of June 30, 2018, and its changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## OTHER MATTERS

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 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 audit 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2018, 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 the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GTARC's internal control over financial reporting and compliance.

*Cherry Bekaert LLP*

Atlanta, Georgia  
September 12, 2018

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*JUNE 30, 2018*

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### **Introduction**

On July 1, 1998 the Georgia Tech Applied Research Corporation ("GTARC"), a component unit of Georgia Tech Research Corporation ("GTRC"), was established. GTARC is a state-chartered, not-for-profit corporation serving the Georgia Institute of Technology ("GIT"), a unit of the University System of the state of Georgia, as an approved cooperative organization.

GTARC was organized and operates primarily for the purpose of soliciting grants and contracts or accepting grants or entering into contracts for research or services to be performed by or in conjunction with GIT or using GIT's facilities and for related objectives. GTARC serves the business segments of GIT, which perform research in accordance with guidance released by the Office of Management and Budget ("OMB") and Federal Acquisition Regulations ("FAR") 31.2. Awards adhere to guidance contained in Title 2 of the CFR and FAR 31.2. With respect to subsequent incremental funding provided on awards which were received preceding the changes to OMB guidance, GTARC administers the research in accordance with instruction provided by the individual awarding Federal agencies.

### **Description of the Financial Statements**

The statements of net position; revenues, expenses, and changes in net position; and cash flows are designed to provide information that will assist in understanding the financial condition and performance of GTARC. The net position is an indicator of GTARC's financial health. Over time, increases or decreases in net position are another measure of the changes in GTARC's financial condition when considered with other non-financial facts.

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

The statement of revenues, expenses, and changes in net position 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, 2018

### Financial Highlights

The condensed statements of net position at June 30, 2018 and 2017 are shown below:

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current assets	\$ 115,089,468	\$94,211,490
Noncurrent assets	66,889	70,316
Total Assets	<u>115,156,357</u>	<u>94,281,806</u>
<b>Liabilities</b>		
Current liabilities	60,875,303	42,304,233
Noncurrent liabilities	28,158,408	29,998,329
Total Liabilities	<u>89,033,711</u>	<u>72,302,562</u>
<b>Net Position</b>		
Invested in capital assets	66,889	70,313
Unrestricted	26,055,757	21,908,931
Total Net Position	<u>\$ 26,122,646</u>	<u>\$ 21,979,244</u>

Current assets increased by \$20,877,978, or approximately 22.2% from fiscal 2017, due primarily to an increase in research receivables compared to 2017.

Current liabilities increased by \$18,571,070, or approximately 43.9% from fiscal 2017, primarily due to the timing of payments made to GIT.

Net position represents the difference between GTARC's assets and liabilities. There was an increase of \$4,143,402, or approximately 18.9% from fiscal 2017, which was attributable to GTARC generating net income for the year.

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

### Financial Highlights (continued)

The condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017 are shown below:

	June 30,	
	2018	2017
Operating revenues	\$ 428,502,039	\$384,430,323
Operating expenses	(424,455,567)	(383,935,425)
Income from operations	4,046,472	494,898
Nonoperating revenue, net	96,930	101,039
Increase in net position	4,143,402	595,937
Net position, beginning of year	21,979,244	21,383,307
Net position, end of year	\$ 26,122,646	\$ 21,979,244

Operating revenues consist primarily of research grant revenues. During the fiscal year ended June 30, 2018, operating revenues increased by \$44,071,716, or approximately 11.5%, due to an increase in research activities and funds awarded for research projects.

Operating expenses increased \$40,520,142, or approximately 10.6%, due to increased direct research costs in proportion to an increase in research activities.

### Economic Outlook

GIT, through GTRC and GTARC received more than \$851 million in sponsored research awards in fiscal year 2018. Research awards grew in the academic units of GIT. GTRC received over \$354 million in new research funding while GTARC received approximately \$497 million. Overall, new funding for GIT research increased approximately 23.3% over new funding received in 2017.

GIT is working with a diverse set of public and private sponsors to support growth in research with continued emphasis on engagement with private industry. During fiscal year 2018, the research corporations collectively received approximately \$125 million in private industry funding. The development of Research Neighborhoods aligned with the Institute's strategic research themes provides opportunities for educational engagement for students as well as research collaboration. Certain areas of research continue to promise opportunities for innovative research funding. These include cyber security; data analytics and data sciences which will occupy new facilities in 2019; and manufacturing including cell based manufacturing. Work with traditional Department of Defense sponsors should continue to be an area of strength and focus during fiscal year 2019 with the passing of the National Defense Authorization Act which will ensure the stability of funding from these sponsors.

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*JUNE 30, 2018*

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### **Economic Outlook (continued)**

GIT is focused on improving the ethical environment of the institution, related academic units and the research corporations. As publicly reported, ethical lapses have led to some high profile departures from the administrative offices at GIT and GTARC. Corrective actions have been implemented and further corrective actions are in the process of being implemented to address these lapses. GIT is attentive to the fact that funding to the research departments associated with GTARC has outpaced the growth of the current GTARC administrative infrastructure. Management is currently evaluating and implementing changes which will allow for greater efficiencies with respect to billing and oversight as operations continue to expand. GIT is attentive to proposed limits on reimbursement of Facilities and Administrative Costs that arise from time to time. The federal government has emphasized the importance of public-private research collaboration which makes the emphasis on relationships with industry sponsors an important part of supporting research at GIT. The Offices of Industry Engagement and Corporate Relations will continue to work with the Vice President for Research to develop major public-private projects aligned with GIT's strategic research themes. Overall new awards for research reflect strong growth in most sectors.

### **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 Controller, Georgia Tech Applied Research Corporation, 505 Tenth Street N.W., Atlanta, Georgia, 30332-0415.



**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
**STATEMENT OF NET POSITION**

*JUNE 30, 2018*

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**ASSETS**

Current Assets:

Cash	\$ 5,218,352
Accounts receivable:	
Research contracts - billed	67,591,496
Research contracts - unbilled	43,637,191
Less - allowance for doubtful accounts	<u>(1,418,989)</u>
Accounts receivable, net	109,809,698
Prepaid expenses	<u>61,418</u>
Total Current Assets	<u>115,089,468</u>

Noncurrent Assets:

Capital assets, net	<u>66,889</u>
Total Noncurrent Assets	<u>66,889</u>
<b>Total Assets</b>	<u>115,156,357</u>

**LIABILITIES**

Current Liabilities:

Accounts payable - Georgia Institute of Technology	58,227,811
Due to Georgia Tech Research Corporation	550,019
Unearned research contract revenues	<u>2,097,473</u>
Total Current Liabilities	<u>60,875,303</u>

Noncurrent Liabilities:

Funds held on behalf of others	<u>28,158,408</u>
Total Noncurrent Liabilities	<u>28,158,408</u>
<b>Total Liabilities</b>	<u>89,033,711</u>

**NET POSITION**

Invested in capital assets	66,889
Unrestricted	<u>26,055,757</u>
<b>Total Net Position</b>	<u>\$ 26,122,646</u>

**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

*YEAR ENDED JUNE 30, 2018*

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Operating Revenues:	
Research contracts	\$ 428,146,074
Licenses and royalties	10,500
Lease income	343,443
Other revenue	2,022
Total Operating Revenues	<u>428,502,039</u>
Operating Expenses:	
Research subcontracted to Georgia Institute of Technology	416,531,266
Depreciation	3,423
Administrative and general expenses	6,721,268
Licenses and royalties expenses	1,785
Lease expenses	343,443
Payments to or on behalf of Georgia Institute of Technology	854,382
Total Operating Expenses	<u>424,455,567</u>
Income from operations	4,046,472
Nonoperating revenue, interest income	<u>96,930</u>
Increase in net position	4,143,402
Net position, beginning of year	<u>21,979,244</u>
Net position, end of year	<u>\$ 26,122,646</u>

See accompanying notes to the financial statements.

**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
**STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2018

**Cash flows from operating activities:**

Receipts from grantors	\$ 385,602,039
Receipts of license fees and royalties	10,500
Receipts from leases	343,443
Miscellaneous receipts	2,022
Payments to component unit	(492,883)
Payments to or on behalf of Georgia Institute of Technology	(854,382)
Payments for research contract costs	(399,411,978)
Payments to suppliers	(6,782,683)
Payments for leases	(343,443)
Net cash flows from operating activities	<u>(21,927,365)</u>

**Cash flows from investing activities:**

Investment income	<u>96,930</u>
Net cash flows from investing activities	<u>96,930</u>

Net increase in cash	(21,830,435)
Cash, beginning of year	<u>27,048,787</u>
Cash, end of year	<u><u>\$ 5,218,352</u></u>

**Reconciliation of operating income to net**

**cash flows from operating activities:**

Operating income	\$ 4,046,472
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	3,423
Change in allowance for doubtful accounts	
Changes in assets and liabilities:	
Accounts receivable	(42,646,995)
Prepaid expenses	(61,418)
Other assets	3
Due to Georgia Tech Research Corporation	(492,883)
Accounts payable to Georgia Institute of Technology	18,960,994
Funds held on behalf of others	(1,839,921)
Unearned research contract revenues	<u>102,960</u>
Net cash used in operating activities	<u><u>\$ (21,927,365)</u></u>

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### Note 1—Description of organization

Georgia Tech Applied Research Corporation (“GTARC”) was established on July 1, 1998. GTARC was organized as the contracting entity for units of the Georgia Institute of Technology (“GIT”) performing research in accordance with guidance released by the Office of Management and Budget (“OMB”) and Federal Acquisition Regulations (“FAR”) 31.2. Awards adhere to guidance contained in Title 2 of the CFR and FAR 31.2. With respect to subsequent incremental funding provided on awards which were received preceding the changes to OMB guidance, GTARC administers the research in accordance with instruction provided by the individual awarding Federal agencies. GTARC is a component unit of the Georgia Tech Research Corporation (“GTRC”). Prior to the formation of GTARC, contracting duties were handled solely by GTRC.

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 has served as a “university-connected research foundation.” 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 GTRI) to serve as the official grantee for all contracts and grants for the conduct of sponsored research at GIT. The MOU also assigned all intellectual property developed through the performance of contracts subcontracted to 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. Currently, pursuant to the Cooperative Organization Guiding Principles Memoranda of Understanding and the Board of Regents Policy 1905, payments occur between GIT and GTRC and GTARC for certain sponsored project expenditures and research administration. GTRC and GTARC hold in trust for GIT any balances, after the payment of necessary operating costs, for the promotion of research at GIT and for the benefit of research at GIT. Intellectual property created in the course of research and other activities at GIT is assigned to GTRC in accordance with the GIT Intellectual Property Policy.

In accordance with accounting principles generally accepted in the United States of America (“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 discretely presented component unit.

### Note 2—Summary of significant accounting policies

GTARC’s financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (“GASB”). 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:

*Reporting Entity* – In accordance with the criteria in Statement of Governmental Accounting Standards (“SGAS”) No. 61, *The Financial Reporting Entity*, GTARC and GTRC are legally separate, tax exempt component units of the state of Georgia (the “State”). Although GIT is not fiscally accountable for GTRC and GTARC, it has been determined that the nature and significance of the relationship between GIT, GTRC and GTARC is such that exclusion of GTARC and GTRC from GIT’s departmental financial statements would render those statements misleading.

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Note 2—Summary of significant accounting policies (continued)**

*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.

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 Unearned Research Contract Revenue* – Unbilled accounts receivable represent costs incurred for approved research projects and charged to projects in excess of amounts invoiced on those projects. Unearned research contract revenues represent amounts invoiced on various projects in excess of costs incurred and charged to those projects.

*Funds Held on Behalf of Others* – Sponsored research projects have fees charged to sponsors in accordance with FAR 31.2. These fees are held on behalf of GIT and can be invoiced to GTARC by the appropriate department of GIT.

*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, 2018, GTARC derived approximately 96.6% of its revenue from contracts with the U.S. Government. At June 30, 2018, approximately 86.9% of the billed research contracts accounts receivable was from the U.S. Government. Management does not believe these receivables represent a significant credit risk at June 30, 2018.

*Cash* – At June 30, 2018, the bank balance was \$5,464,290, and the book balance was \$5,218,352. Cash balances usually 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, 2018, 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.

*Grants to Georgia Institute of Technology* – Pursuant to an agreement between GTARC and the Board of Regents of the University System of Georgia dated April 1, 1953, the GTARC Board of Trustees will issue grants from time to time as it sees fit for the promotion of research at GIT. These grants will be funded from the balances held in trust for GIT which are reflected in the unrestricted net position of GTARC.

**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2018

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**Note 2—Summary of 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, 2018 were as follows:

Beginning balance	\$ 1,509,098
Recoveries	76,972
Write offs	<u>(167,081)</u>
Ending balance	<u>\$ 1,418,989</u>

*Net Position* – Unrestricted net position represents resources derived primarily from research contracts and fees. These resources can be used for the ongoing operations of GTARC. However, in accordance with the April 1, 1953, Memorandum of Understanding between GTARC and the Board of Regents of the University System of Georgia, all balances held after the payment of necessary operating costs are to be held in trust for GIT for the promotion of research at GIT. These balances will be returned to GIT in the form of grants, which are made at the discretion of the Board of Trustees of GTARC.

*Research Administration* – During the year ended June 30, 2018, GTARC incurred research administration costs totaling \$6,721,268 for services provided by GTRC, which are listed as general and administrative expenses in the statement of revenues, expenses, and changes in net position.

*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.

*New Accounting Pronouncements* – In April, 2018, GASB issued Statement of Governmental Accounting Standards (“SGAS”) No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information disclosed in notes to government financial statements related to debt. This Statement defines debt and requires that additional essential information related to debt be disclosed in notes to the financial statements. The requirements of this Statement are effective for the fiscal year ending June 30, 2019. GTARC is currently evaluating the impact implementing SGAS No. 88 will have on its financial statements.

In June 2017, GASB issued Statement of Governmental Accounting Standards (“SGAS”) No. 87, *Leases*, which improves the accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It also requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021. GTARC is currently evaluating the impact implementing SGAS No. 87 will have on its financial statements.

**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2018

**Note 3—Contingencies**

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

**Note 4—Lease commitments**

*Research Facilities* – GTARC has entered into agreements to lease space for seven remote field offices as of June 30, 2018. These remote field offices are used to engage in research on behalf of GTRI. These facilities are subleased to GIT. The subleases carry successive one-year terms that are renewable annually. The timing and amount of rental payments under the subleases are substantially the same as those under their corresponding lease agreements between GTARC and the third-party lessors. GTARC expects to receive revenues sufficient to offset its obligations under the lease agreements through annual renewal of the subleases by GIT.

Future minimum operating lease payments at June 30, 2018, are as follows:

Years Ending June 30,	Commitments	Sub Rental Receipts	Net Rental Commitment
2019	\$ 907,928	\$ 907,928	\$ -
2020	1,016,754	-	1,016,754
2021	1,053,578	-	1,053,578
2022	1,034,281	-	1,034,281
2023	733,158	-	733,158
	\$ 4,745,699	\$ 907,928	\$ 3,837,771

Net rent expense for the year ended June 30, 2018, was as follows:

Minimum rentals	\$ 343,443
Less - Sublease rentals - Georgia Institute of Technology	(343,443)
Net rent expense	\$ -

**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2018*

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**Note 5—Line of credit**

On October 4, 2013, GTARC and Bank of America, N.A. (the “Lender”) entered into a Loan Agreement (the “Loan Agreement”). The Loan Agreement provides GTARC with a revolving line of credit (“line of credit”) of up to \$2,000,000 at an interest rate of the LIBOR daily floating rate plus 1.00%. The line of credit is unsecured and not subject to early termination penalties. On August 4, 2014, GTARC terminated the line of credit. On November 24, 2014, the Loan Agreement was amended (the “First Amendment”) to reinstate the line of credit, increase the borrowing limit to \$3,000,000 and establish the expiration date of January 5, 2016. On November 7, 2017, the Loan Agreement was again amended (the “Second Amendment”) to reinstate the line of borrowing limit of \$3,000,000 and extend the expiration date to October 31, 2018. GTARC amended the Loan Agreement to meet the requirements of a Federal Program Request for Proposal. The Loan Agreement contains various covenants and restrictions. At June 30, 2018, management believes that GTARC was in compliance with these covenants and restrictions.

During the year ended June 30, 2018, GTARC incurred \$3,771 in bank fees related to the line of credit. At June 30, 2018, the interest rate on the line of credit was 2.93%. During the year ended June 30, 2018, there were no draws on the line of credit and there was a zero balance outstanding as of June 30, 2018.