



**GEORGIA TECH RESEARCH  
CORPORATION**

FINANCIAL STATEMENTS

*For the Year Ended June 30, 2014*

*And Report of Independent Auditor*

# GEORGIA TECH RESEARCH CORPORATION

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## Report of Independent Auditor

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the component unit of the Georgia Tech Research Corporation (“GTRC”), a component unit of the state of Georgia, as of and for the year ended June 30, 2014, which collectively comprise GTRC’s basic financial statements as listed in the table of contents, 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 GTRC’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 GTRC’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 opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities and the component unit of GTRC as of June 30, 2014, and the respective 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, 2014, 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 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 GTRC's internal control over financial reporting and compliance.

*Cherry Bekaert LLP*

Atlanta, Georgia  
September 12, 2014

# GEORGIA TECH RESEARCH CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*JUNE 30, 2014*

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### **Introduction**

The Georgia Tech Research Corporation ("GTRC") 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. The Georgia Tech Applied Research Corporation ("GTARC") is a state-chartered, not-for-profit corporation serving GIT as an approved cooperative organization.

GTRC and GTARC are organized and operate primarily for the purpose of soliciting grants and contracts, accepting grants or entering into contracts for research or services to be performed by or in conjunction with GIT or to be performed using GIT's facilities, and for related objectives. GTRC serves the business segments of GIT, which perform research under the Office of Management and Budget ("OMB") Circulars A-21 and A-110. GTARC serves the business segments of GIT, which perform research under OMB Circular A-122 and Federal Acquisition Regulations ("FAR") 31.2.

### **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 which will assist in understanding the financial condition and performance of GTRC. The net position is an indicator of GTRC's financial health. Over time, increases or decreases in net position are another measure of the changes in GTRC's financial condition when considered with other non-financial facts.

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

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 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, 2014

**Financial Highlights**

The condensed statements of net position at June 30, 2014 and 2013 are shown below:

	<b>Georgia Tech Research Corporation</b>	<b>Georgia Tech Applied Research Corporation</b>	<b>2014 Total Business-Type Activities</b>	<b>2013 Total Business-Type Activities</b>
<b>Assets</b>				
Current assets	\$ 98,269,121	\$ 80,440,840	\$ 178,709,961	\$ 172,175,340
Capital assets, (net)	1,571,286	-	1,571,286	1,413,469
Noncurrent assets	204,084	-	204,084	207,471
Total assets	<u>\$ 100,044,491</u>	<u>\$ 80,440,840</u>	<u>\$ 180,485,331</u>	<u>\$ 173,796,280</u>
<b>Liabilities and Net Position</b>				
Current Liabilities	\$ 72,886,643	\$ 59,099,968	\$ 131,986,611	\$ 128,065,861
Net position:				
Invested in capital assets	1,571,286	-	1,571,286	1,413,469
Unrestricted	25,586,562	-	25,586,562	44,316,950
Total net position	<u>27,157,848</u>	<u>21,340,872</u>	<u>48,498,720</u>	<u>45,730,419</u>
Total liabilities and net position	<u>\$ 100,044,491</u>	<u>\$ 80,440,840</u>	<u>\$ 180,485,331</u>	<u>\$ 173,796,280</u>

Current assets increased by \$6,534,621, or approximately 4% from fiscal 2013, due primarily to an increase in research receivables with higher outstanding balances coupled with a greater cash position.

Noncurrent assets consist of investments and notes receivable. Noncurrent assets decreased by \$3,387, or approximately 2% from fiscal 2013. Capital assets increased by \$157,817, or approximately 11% from fiscal 2013, due to current year additions being higher than the disposal of fully depreciated capital assets.

Current liabilities increased \$3,920,750, or approximately 3% from fiscal 2013, due to an increase in accounts payable for direct research costs for the month of June, increased other funds owed to Georgia Tech, and higher advance payments on research contracts.

Net position represents the difference between total assets and liabilities. There was an increase in net position of \$2,768,301, or approximately 6% from fiscal 2013, which was attributable to an increase in operating income and an increase in cash generated from operating activities.

**GEORGIA TECH RESEARCH CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2014

**Financial Highlights (continued)**

The condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013 are shown below:

	<b>Georgia Tech</b>	<b>Georgia Tech</b>	<b>2014</b>	<b>2013</b>
	<b>Research</b>	<b>Applied Research</b>	<b>Total</b>	<b>Total</b>
	<b>Corporation</b>	<b>Corporation</b>	<b>Business-Type</b>	<b>Business-Type</b>
			<b>Activities</b>	<b>Activities</b>
Operating revenues	\$ 319,128,114	\$ 294,642,290	\$ 613,770,404	\$ 630,057,027
Operating expenses	(316,560,445)	(294,515,448)	(611,075,893)	(629,571,969)
Income from operations	2,567,669	126,842	2,694,511	485,058
Non-operating revenues, net	43,391	30,399	73,790	226,446
Increase in net position	2,611,060	157,241	2,768,301	711,504
Net position, beginning of year	24,546,788	21,183,631	45,730,419	45,018,915
Net position, end of year	<u>\$ 27,157,848</u>	<u>\$ 21,340,872</u>	<u>\$ 48,498,720</u>	<u>\$ 45,730,419</u>

Operating revenues consist primarily of research contracts, lease income, licensing fees, and royalty revenues. During fiscal 2014, operating revenues decreased by \$16,286,623, or approximately 3%, primarily due to decreased research project revenues.

Operating expenses decreased by \$18,496,076, or approximately 3%, in proportion to the decrease in operating revenues.

Nonoperating revenues decreased by \$152,654, or approximately 67%, primarily due to realized gains on the sale of investments by GTRC in 2013, which did not reoccur in 2014, in the amount of \$154,666.

**Economic Outlook**

The Georgia Institute of Technology, through its contracting entities GTRC and GTARC, received more than \$688 million in new awards in fiscal year 2014 which represents growth of more than 9%. GTRI had exceptional growth in awards. However, total operating revenue for the fiscal year 2014 was down from fiscal year 2013 as expenditure rates slowed with the shut-down of the U.S. government in the second quarter and lagged for the remainder of the year. As a counterpoint, proposal preparation was high during that time and a number of new master agreements with industry sponsors were executed. Collaboration between the Office of Industry Engagement and the new Industry Research Office created by the Executive Vice President for Research has helped focus efforts on contracts with industry. Georgia Tech's core areas of research strength continue to be strategically important areas of basic and applied research both for government agencies and for industry. These include energy research, sustainability, cybersecurity, high performance computing and computational sciences, electronics and nanosciences, materials, biomaterials, education in science, technology, engineering and mathematics, aerospace engineering, and chemistry and chemical engineering. Uncertainty in the federal budget process will likely continue to drive conservative spending by research performers and the slow pace of economic growth will likely constrain industry funding. While revenue growth may be modest, the base of new funding will support growth of research expenditures through 2015 at a rate ahead of inflation.

**GEORGIA TECH RESEARCH CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*JUNE 30, 2014*

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**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, N.W., Atlanta, Georgia, 30332-0415.



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

JUNE 30, 2014

	<b>Georgia Tech Research Corporation</b>	<b>Component Unit Georgia Tech Applied Research Corporation</b>	<b>Total Business-Type Activities</b>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 53,351,770	\$ 22,570,605	\$ 75,922,375
Accounts receivable:			
Research contracts - billed	20,424,461	28,714,859	49,139,320
Research contracts - unbilled	25,313,725	30,507,937	55,821,662
Other receivables	1,250,889	-	1,250,889
Less - allowance for doubtful accounts	<u>(1,490,946)</u>	<u>(1,971,103)</u>	<u>(3,462,049)</u>
Accounts receivable, net	45,498,129	57,251,693	102,749,822
Due from (to) component unit	(618,542)	618,542	-
Prepaid expenses	37,764		37,764
Total current assets	<u>98,269,121</u>	<u>80,440,840</u>	<u>178,709,961</u>
Noncurrent assets:			
Investments	4,084	-	4,084
Note receivable	200,000	-	200,000
Capital assets, net	<u>1,571,286</u>	<u>-</u>	<u>1,571,286</u>
Total noncurrent assets	<u>1,775,370</u>	<u>-</u>	<u>1,775,370</u>
 Total assets	 <u>\$ 100,044,491</u>	 <u>\$ 80,440,840</u>	 <u>\$ 180,485,331</u>
<b>LIABILITIES AND NET POSITION</b>			
Current liabilities:			
Accounts payable:			
Georgia Institute of Technology	\$ 32,051,538	\$ 52,284,212	84,335,750
Funds held on behalf of Georgia Institute of Technology	-	3,980,209	3,980,209
Unearned research contract revenue	40,835,105	2,835,547	43,670,652
Total current liabilities	<u>72,886,643</u>	<u>59,099,968</u>	<u>131,986,611</u>
Net position:			
Invested in capital assets	1,571,286	-	1,571,286
Unrestricted	25,586,562	21,340,872	46,927,434
Total net position	<u>27,157,848</u>	<u>21,340,872</u>	<u>48,498,720</u>
 Total liabilities and net position	 <u>\$ 100,044,491</u>	 <u>\$ 80,440,840</u>	 <u>\$ 180,485,331</u>

See accompanying notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Component Unit</u>		
	<u>Georgia Tech</u>	<u>Georgia Tech</u>	
	<u>Research</u>	<u>Applied</u>	<u>Total</u>
	<u>Corporation</u>	<u>Research</u>	<u>Business-Type</u>
		<u>Corporation</u>	<u>Activities</u>
Operating revenues:			
Research contracts	\$ 309,099,971	\$ 294,642,290	\$ 603,742,261
Licenses and royalties	2,337,868	-	2,337,868
Lease income	7,607,042	-	7,607,042
Other	83,233	-	83,233
Total operating revenues	<u>319,128,114</u>	<u>294,642,290</u>	<u>613,770,404</u>
Operating expenses:			
Research subcontracted to			
Georgia Institute of Technology	293,503,674	291,456,997	584,960,671
Depreciation	290,213	-	290,213
Administrative and general expenses	5,231,838	2,631,375	7,863,213
Licenses and royalties expenses	4,173,121	-	4,173,121
Lease expenses	7,607,042	-	7,607,042
Payments to or on behalf of			
Georgia Institute of Technology	<u>5,754,557</u>	<u>427,076</u>	<u>6,181,633</u>
Total operating expenses	<u>316,560,445</u>	<u>294,515,448</u>	<u>611,075,893</u>
Income from operations	2,567,669	126,842	2,694,511
Nonoperating revenues:			
Interest income	46,780	30,399	77,179
Unrealized loss on investments	<u>(3,389)</u>	<u>-</u>	<u>(3,389)</u>
Total nonoperating revenues	<u>43,391</u>	<u>30,399</u>	<u>73,790</u>
Increase in net position	2,611,060	157,241	2,768,301
Net position, beginning of year	<u>24,546,788</u>	<u>21,183,631</u>	<u>45,730,419</u>
Net position, end of year	<u>\$ 27,157,848</u>	<u>\$ 21,340,872</u>	<u>\$ 48,498,720</u>

See accompanying notes to financial statements.

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Component Unit</u>		
	<u>Georgia Tech</u>	<u>Georgia Tech</u>	<u>Total</u>
	<u>Research</u>	<u>Applied</u>	<u>Business-Type</u>
	<u>Corporation</u>	<u>Research</u>	<u>Activities</u>
	<u>Corporation</u>	<u>Corporation</u>	<u>Corporation</u>
<b>Cash flows from operating activities:</b>			
Receipts from grantors	\$ 310,349,875	\$ 295,104,476	\$ 605,454,351
Receipts of license fees and royalties	2,337,868	-	2,337,868
Receipts from leases	7,607,042	-	7,607,042
Miscellaneous receipts	1,081,144	-	1,081,144
Payments to or on behalf of Georgia Institute of Technology	(5,754,557)	(427,076)	(6,181,633)
Payments for research contract costs	(295,096,419)	(288,915,108)	(584,011,527)
Payments for licenses and royalties	(4,173,121)	-	(4,173,121)
Payments for leases	(7,607,042)	-	(7,607,042)
Payments to suppliers	(4,716,267)	(2,631,375)	(7,347,642)
Net cash provided by operating activities	<u>4,028,523</u>	<u>3,130,917</u>	<u>7,159,440</u>
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	(448,031)	-	(448,031)
Net cash used in investing activities	<u>(448,031)</u>	<u>-</u>	<u>(448,031)</u>
<b>Cash flows from investing activity:</b>			
Interest income	46,780	30,399	77,179
Net cash provided by investing activity	<u>46,780</u>	<u>30,399</u>	<u>77,179</u>
Net increase in cash	3,627,272	3,161,316	6,788,588
Cash, beginning of year	49,724,498	19,409,289	69,133,787
Cash, end of year	<u>\$ 53,351,770</u>	<u>\$ 22,570,605</u>	<u>\$ 75,922,375</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 2,567,669	\$ 126,842	\$ 2,694,511
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation	290,213	-	290,213
Change in allowance for doubtful accounts	385,343	(3,050)	382,293
Changes in assets and liabilities:			
Prepaid expenses	35,538	-	35,538
Accounts receivable	(43,725)	(120,140)	(163,865)
Due to/from component unit	1,417,545	(1,417,545)	-
Accounts payable to Georgia Institute of Technology	(1,532,345)	3,959,433	2,427,088
Unearned research contract revenue	908,285	585,377	1,493,662
Net cash provided by operating activities	<u>\$ 4,028,523</u>	<u>\$ 3,130,917</u>	<u>\$ 7,159,440</u>
<b>Schedule of noncash investing activity:</b>			
Decrease in the fair value of investments	<u>\$ (3,389)</u>	<u>\$ -</u>	<u>\$ (3,389)</u>

See accompanying notes to financial statements.

# GEORGIA TECH RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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### Note 1—Description of organization

The Georgia Tech Research Corporation (“GTRC”) was chartered on April 13, 1937, as the Industrial Development Council, 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. 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 GIT, which performs research under the Office of Management and Budget (“OMB”) Circulars A-21 and A-110.

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

GTRC and GTARC (hereinafter collectively referred to as GTRC), enter into contracts and grant agreements with various organizations, including federal agencies, and subcontract with GIT to provide services in connection with these agreements. Since 1946, GTRC has served as a “university-connected research foundation.” 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 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, the financial statements present the individual financial statements of GTRC and GTARC, a discretely presented component unit of GTRC. 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 the Office of the Controller, Georgia Tech Applied Research Corporation, 505 Tenth Street N.W., 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, 2014, and as such, is a discretely presented component unit in the Comprehensive Annual Financial Report of the state of Georgia.

# GEORGIA TECH RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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### Note 2—Significant accounting policies

GTRC's financial statements have been prepared in accordance with 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.

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 cycles 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 Unearned Research Contract Revenue* – Unbilled accounts receivable represent costs incurred and charged to projects in excess of amounts invoiced on those projects. Unearned 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 is granted back to GIT for the benefit of research at GIT. The overhead revenue is reported as revenue from research contracts in the accompanying financial statements.

*Cash* – At June 30, 2014, the bank balance was \$76,996,426, and the book balance was \$75,922,375. Cash balances usually 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, 2014, 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 as partial consideration for a license. Equity security investments are held exclusively in GTRC's name. Equity securities acquired as partial consideration for a license are not subject to GTRC's investments policy.

*Major Clients and Concentration of Credit Risk* – During the fiscal year ended June 30, 2014, GTRC derived approximately 87% of its revenue from contracts with the U.S. Government. At June 30, 2014, approximately 60% 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, 2014.

*Federal Income Taxes* – GTRC is exempt from income taxes as provided by Section 501(c)(3) of the Internal Revenue Code.

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

**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, 2014, were as follows:

	<u>Component Unit</u>		
	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>Total Business-Type Activities</u>
Beginning balance	\$ 1,105,603	\$ 1,974,153	\$ 3,079,756
Increase in allowance	400,000	-	400,000
Recoveries	-	-	-
Write-offs	(14,657)	(3,050)	(17,707)
Ending balance	<u>\$ 1,490,946</u>	<u>\$ 1,971,103</u>	<u>\$ 3,462,049</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.

*Grants to Georgia Institute of Technology* – Pursuant to an agreement between GTRC and the Board of Regents of the University System of Georgia, dated April 1, 1953, the GTRC 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 GTRC.

*Net Position* – GTRC’s net position is classified as follows: *Invested in capital assets* represents GTRC’s total investment in capital assets, net of related depreciation. *Unrestricted net position* represents resources derived primarily from research contracts, licensing and royalties, and lease income. These resources can be used for the ongoing operations of GTRC. However, in accordance with the April 1, 1953, Memorandum of Understanding between GTRC 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 GTRC.

# GEORGIA TECH RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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### **Note 2—Significant accounting policies (continued)**

*Research Administration* – During the year ended June 30, 2014, GTARC incurred research administration costs totaling \$4,074,231 for services provided by GIT which is included in general and administrative expenses in the statement of revenues, expenses, and changes in net position.

*Recent Accounting Pronouncements* – During the year ended June 30, 2014, GTRC adopted SGAS No. 65, *Items Previously Reported as Assets and Liabilities*. SGAS No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of SGAS No. 65 did not result in a change to beginning 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.

### **Note 3—Note receivable**

In connection with the sale of certain common stock, GTRC entered into a promissory note with a company. The note 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 of the company's senior debt.

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

*AS OF AND FOR THE YEAR ENDED JUNE 30, 2014*

**Note 4—Capital assets**

Following are changes in capital assets for the year ended June 30, 2014:

	<b>Balance</b>			
	<b>June 30, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2014</b>
Capital assets not being depreciated:				
Construction in progress	\$ 224,308	\$ 283,154	\$ (236,312)	\$ 271,150
Historical treasures and works of art	240,735	-	-	240,735
Total capital assets not being depreciated	465,043	283,154	(236,312)	511,885
Capital assets being depreciated:				
Building improvements	403,626	220,250	-	623,876
Computer software	870,387	69,222	(17,865)	921,744
Furniture and equipment	2,019,487	111,716	(205,395)	1,925,808
Total capital assets being depreciated	3,293,500	401,188	(223,260)	3,471,428
Less accumulated depreciation for:				
Building improvements	(101,282)	(57,387)	-	(158,669)
Computer software	(615,784)	(77,795)	17,865	(675,714)
Furniture and equipment	(1,628,008)	(155,031)	205,395	(1,577,644)
Total accumulated depreciation	(2,345,074)	(290,213)	223,260	(2,412,027)
Total capital assets, net	<u>\$ 1,413,469</u>	<u>\$ 394,129</u>	<u>\$ (236,312)</u>	<u>\$ 1,571,286</u>



# GEORGIA TECH RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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### 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 notice is given during July of any lease year to be effective as of June 30 of the then-current lease year. The term of this lease expires June 30, 2029. As of June 30, 2014, future minimum lease payments through the term of the lease total \$22,656,600.

*Institute for BioEngineering and BioSciences Complex* – The Institute for BioEngineering and BioSciences Complex (the “Complex”) was developed by Georgia Tech Facilities, Inc. (“GTFI”), 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 GTFI. The term of this lease expires September 1, 2027, or when 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. As of June 30, 2014, future minimum lease payments through the term of the lease total \$20,370,478.

*Cobb County Research Campus* – In May, 2010, The Development Authority of Cobb County issued Revenue Bonds in an aggregate principal amount of \$18,975,000 for the TUFF Cobb Research Campus – Georgia Tech Research Corporation Project. The proceeds of the bonds were loaned to TUFF Cobb Research LLC (“TUFF”), a Georgia limited liability company, the sole member of which is The University Financing Foundation, Inc., a Georgia nonprofit corporation. Simultaneous with the issuance of the Series 2010 bonds, TUFF issued \$12,575,000 Series 2010A Taxable Revenue Bonds. The aggregate amount of the two bond issues was \$31,550,000. According to the Offering Memorandums, TUFF used the proceeds from the 2010 bond issue primarily for capital improvements to the Cobb Research Campus, and the proceeds from the 2010A bond issue primarily for general corporate purposes.

The Cobb Research Campus is a six-building, 160,000 square foot Research Park located on approximately 53.2 acres in Cobb County, Georgia. GTRC leases the property from TUFF. GTRC subleases the property to the Board of Regents of the University System of Georgia for the benefit of GIT. The lease is a general obligation of GTRC. The end of the lease term is October 31, 2036, the maturity date of the bonds. The sublease is an annually renewable lease agreement. The timing and amount of rental payments under the sublease total approximately \$54,144,016, adequate to meet the debt service and debt service reserve fund requirement related to the 2010 and 2010A bond s of approximately \$53,620,668. As of June 30, 2014, future minimum lease payments through the term of the lease total \$46,374,720.

The facilities GTRC leases in connection with the above lease agreements 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 GTRC and the third-party lessors. GTRC expects to receive revenues sufficient to offset its obligations under the lease agreements through annual renewal of the subleases by GIT.

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

**Note 5—Lease commitments (continued)**

Future minimum lease payments at June 30, 2014, are as follows:

Year ending June 30:	<u>Commitments</u>	<u>Sub Rental Receipts</u>	<u>Net Rental Commitment</u>
2015	\$ 7,835,108	\$ 7,835,108	\$ -
2016	7,578,975	-	7,578,975
2017	6,767,465	-	6,767,465
2018	5,919,190	-	5,919,190
2019	5,595,888	-	5,595,888
2020 - 2024	25,209,863	-	25,209,863
2025 - 2029	22,541,847	-	22,541,847
2030 - 2034	10,382,400	-	10,382,400
2035 - 2036	4,845,120	-	4,845,120
	<u>\$ 96,675,856</u>	<u>\$ 7,835,108</u>	<u>\$ 88,840,748</u>

Net rent expense for the year ended June 30, 2014, was as follows:

Minimum rentals	\$ 7,607,042
Less - Sublease rentals - Georgia Institute of Technology	(7,607,042)
Net rent expense	<u>\$ -</u>

**Note 6—Contingencies**

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.

A lawsuit filed in 2012, in the United States District Court For The Northern District of California, San Jose Division, styled Centric Technologies, LLC, a California limited liability company, Plaintiff vs. Georgia Tech Research Corporation, a Georgia nonprofit corporation, was voluntarily dismissed by Plaintiff without prejudice on June 11, 2014, and without payment of any money or other consideration by Defendant.

A lawsuit was filed on August 9, 2013, styled Transcardiac Therapeutics, Inc. vs. Ajit Yoganathan, Ph.D., Jorge H. Jiminez, Ph.D., Vinod H. Thourani, M.D., Emory University, Georgia Tech Research Corporation, and Georgia Tech Foundation, Inc. Attorneys for GTRC filed an answer to the Complaint denying the allegations in the Complaint and asserting a counterclaim. Discovery in the case has not yet opened, and no trial date has been set. Although GTRC cannot predict the outcome of the lawsuit, GTRC believes the claims are meritless and intends to vigorously defend the lawsuit.

# GEORGIA TECH RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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### **Note 6—Contingencies (continued)**

During the year ended June 30, 2014, management of GTARC was informed of a GIT examination into the noncompliance with GIT policies and procedures for various sponsored projects that had been subcontracted by GTARC to GIT. No provision has been made for any liabilities that may arise from this examination as management believes that the ultimate result will not have a material impact on the financial statement of GTARC.

### **Note 7—Debt**

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 secured revolving line of credit (“line of credit”) of up to \$2,000,000 at an interest rate of LIBOR daily floating rate plus 1.00%. The line of credit is unsecured, is not subject to early termination penalties and expires on October 3, 2014. GTARC entered into 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, 2014 management believes that GTARC was in compliance with these covenants and restrictions.

During the year ended June 30, 2014, GTARC incurred \$3,500 in origination fees and \$3,750 in interest expense on the line of credit. At June 30, 2014, the interest rate on the line of credit was 1.15%. During the year ended June 30, 2014 there were no draws on the line of credit and there was a zero balance outstanding as of June 30, 2014. On August 4, 2014 GTARC terminated the line of credit.