

**GEORGIA TECH RESEARCH
CORPORATION**

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2018

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, 2018, 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, 2018, 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, 2018, 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, 2018

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 in accordance with guidance released by the Office of Management and Budget ("OMB"). Awards adhere to Uniform Administrative Requirements, Cost Principles, and Audit Requirements contained in Title 2 of the Code of Federal Regulations ("CFR"). With respect to subsequent incremental funding provided on awards which were received preceding the changes to OMB guidance, GTRC 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 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 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 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>
Assets		
Current assets	\$ 133,242,237	\$124,145,329
Capital assets, (net)	867,708	1,152,763
Noncurrent assets	<u>4,048,369</u>	<u>4,466,600</u>
Total Assets	<u>138,158,314</u>	<u>129,764,692</u>
Liabilities		
Current liabilities	95,991,197	91,198,582
Noncurrent liabilities	<u>4,010,295</u>	<u>4,425,181</u>
Total Liabilities	<u>100,001,492</u>	<u>95,623,763</u>
Net Position		
Invested in capital assets	867,708	1,152,763
Unrestricted	<u>37,289,114</u>	<u>32,988,166</u>
Total Net Position	<u>\$ 38,156,822</u>	<u>\$ 34,140,929</u>

Current assets increased by \$9,096,908, or approximately 7.3% from fiscal 2017, due primarily to an increase in accounts receivable levels.

Noncurrent assets consist primarily of a note receivable and an investment in direct financing lease. Noncurrent assets decreased by \$418,231, or approximately 9.4% from fiscal 2017, primarily due to the pay down of principal related to the investment in the direct financing lease.

Capital assets decreased by \$285,055, or approximately 24.7% from fiscal 2017, primarily due to current year additions being less than current year depreciation expense.

Current liabilities increased by \$4,792,615, or approximately 5.3% from fiscal 2017, primarily due to an increase in advance payments on research contracts.

Net position represents the difference between total assets and liabilities. There was an increase in net position of \$4,015,893, or approximately 11.8% from fiscal 2017, which was attributable to GTRC generating net income for the year and not being in a loss position.

GEORGIA TECH 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	\$ 340,210,210	\$309,472,343
Operating expenses	(336,433,502)	(306,810,396)
Income from operations	3,776,708	2,661,947
Non-operating revenues, net	239,185	691,852
Increase in net position	4,015,893	3,353,799
Net position, beginning of year	34,140,929	30,787,130
Net position, end of year	\$ 38,156,822	\$ 34,140,929

Operating revenues consist primarily of research contracts, licensing fees, royalty revenues and lease income. During fiscal 2018, operating revenues increased by \$30,737,867, or approximately 9.9%, primarily due to increased research project revenues.

Operating expenses increased by \$29,623,106 or approximately 9.7%, which is primarily proportional to the increase in operating revenues but also reflects an increase in general and administrative expenses.

Non-operating revenues decreased by \$452,667, or approximately 65.4%, primarily due to a prior year, one time gain recognized on the disposition of certain assets.

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 RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 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, 2018

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
ASSETS			
Current Assets:			
Cash	\$ 70,896,913	\$ 5,218,352	\$ 76,115,265
Accounts receivable:			
Research contracts - billed	27,234,221	67,591,496	94,825,717
Research contracts - unbilled	30,998,092	43,637,191	74,635,283
Other receivables	3,274,234	-	3,274,234
Less - allowance for doubtful accounts	<u>(499,875)</u>	<u>(1,418,989)</u>	<u>(1,918,864)</u>
Accounts receivable, net	61,006,672	109,809,698	170,816,370
Due from component unit	550,019	-	550,019
Net investment in direct financing lease - current portion	346,304	-	346,304
Prepaid expenses	<u>442,329</u>	<u>61,418</u>	<u>503,747</u>
Total Current Assets	<u>133,242,237</u>	<u>115,089,468</u>	<u>248,331,705</u>
Noncurrent Assets:			
Investments	63	-	63
Net investment in direct financing lease - long-term portion	4,048,306	-	4,048,306
Capital assets, net	<u>867,708</u>	<u>66,889</u>	<u>934,597</u>
Total Noncurrent Assets	<u>4,916,077</u>	<u>66,889</u>	<u>4,982,966</u>
Total Assets	<u>138,158,314</u>	<u>115,156,357</u>	<u>253,314,671</u>
LIABILITIES			
Current Liabilities:			
Accounts payable:			
Georgia Institute of Technology	43,962,029	58,227,811	102,189,840
Due to component unit	-	550,019	550,019
Obligation under leases - current portion	384,315	-	384,315
Unearned research contract revenue	<u>51,644,853</u>	<u>2,097,473</u>	<u>53,742,326</u>
Total Current Liabilities	<u>95,991,197</u>	<u>60,875,303</u>	<u>156,866,500</u>
Noncurrent Liabilities:			
Obligation under leases - long-term portion	4,010,295	-	4,010,295
Funds held on behalf of others	-	28,158,408	28,158,408
Total Noncurrent Liabilities	<u>4,010,295</u>	<u>28,158,408</u>	<u>32,168,703</u>
Total Liabilities	<u>100,001,492</u>	<u>89,033,711</u>	<u>189,035,203</u>
NET POSITION			
Invested in capital assets	867,708	66,889	934,597
Unrestricted	<u>37,289,114</u>	<u>26,055,757</u>	<u>63,344,871</u>
Total Net Position	<u>\$ 38,156,822</u>	<u>\$ 26,122,646</u>	<u>\$ 64,279,468</u>

See accompanying notes to financial statements.

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

YEAR ENDED JUNE 30, 2018

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
Operating Revenues:			
Research contracts	\$ 327,034,440	\$ 428,146,074	\$ 755,180,514
Licenses and royalties	2,130,977	10,500	2,141,477
Lease income	11,020,278	343,443	11,363,721
Other revenue	24,515	2,022	26,537
Total Operating Revenues	340,210,210	428,502,039	768,712,249
Operating Expenses:			
Research subcontracted to			
Georgia Institute of Technology	309,132,117	416,531,266	725,663,383
Depreciation	305,320	3,423	308,743
Administrative and general expenses	7,779,753	6,721,268	14,501,021
Licenses and royalties expenses	3,402,162	1,785	3,403,947
Lease expenses	11,020,278	343,443	11,363,721
Payments to or on behalf of			
Georgia Institute of Technology	4,793,872	854,382	5,648,254
Total Operating Expenses	336,433,502	424,455,567	760,889,069
Income from operations	3,776,708	4,046,472	7,823,180
Nonoperating Revenues:			
Interest income	202,738	96,930	299,668
Net gain on disposition of assets	36,447	-	36,447
Total Nonoperating Revenues	239,185	96,930	336,115
Increase in net position	4,015,893	4,143,402	8,159,295
Net position, beginning of year	34,140,929	21,979,244	56,120,173
Net position, end of year	\$ 38,156,822	\$ 26,122,646	\$ 64,279,468

See accompanying notes to financial statements.

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

	<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>
Cash flows from operating activities:			
Receipts from grantors	\$ 321,655,681	\$ 385,602,039	\$ 707,257,720
Receipts of license fees and royalties	2,130,977	10,500	2,141,477
Receipts from leases	11,020,278	343,443	11,363,721
Miscellaneous receipts	24,515	2,022	26,537
Payments (to)/from component unit	492,883	(492,883)	-
Payments to or on behalf of Georgia Institute of Technology	(4,793,872)	(854,382)	(5,648,254)
Payments for research contract costs	(308,595,118)	(399,411,978)	(708,007,096)
Payments for licenses and royalties	(3,402,162)	-	(3,402,162)
Payments for leases	(11,020,278)	(343,443)	(11,363,721)
Payments to suppliers	(8,150,465)	(6,782,683)	(14,933,148)
Net cash flows from operating activities	<u>(637,561)</u>	<u>(21,927,365)</u>	<u>(22,564,926)</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	(20,265)	-	(20,265)
Disposition of capital assets	65	-	65
Net cash flows from financing activities	<u>(20,200)</u>	<u>-</u>	<u>(20,200)</u>
Cash flows from investing activities:			
Net gain on disposition of assets	36,447	-	36,447
Interest income	202,738	96,930	299,668
Net cash flows from investing activities	<u>239,185</u>	<u>96,930</u>	<u>336,115</u>
Net decrease in cash	(418,576)	(21,830,435)	(22,249,011)
Cash, beginning of year	71,315,489	27,048,787	98,364,276
Cash, end of year	<u>\$ 70,896,913</u>	<u>\$ 5,218,352</u>	<u>\$ 76,115,265</u>
Reconciliation of operating income to net cash flows from operating activities:			
Operating income	\$ 3,776,708	\$ 4,046,472	\$ 7,823,180
Adjustments to reconcile operating income to net cash flows from operating activities:			
Depreciation	305,320	3,423	308,743
Changes in assets and liabilities:			
Other assets	-	3	3
Prepaid expenses	(370,713)	(61,418)	(432,131)
Accounts receivable	(9,618,854)	(42,646,995)	(52,265,849)
Direct financing lease	399,366	-	399,366
Due to component unit	492,883	(492,883)	-
Accounts payable to Georgia Institute of Technology	536,999	18,960,994	19,497,993
Obligations under leases	(399,365)	-	(399,365)
Funds held on behalf of others	-	(1,839,921)	(1,839,921)
Unearned research contract revenue	4,240,095	102,960	4,343,055
Net cash flows from operating activities	<u>\$ (637,561)</u>	<u>\$ (21,927,365)</u>	<u>\$ (22,564,926)</u>

See accompanying notes to financial statements.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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 in accordance with guidance released by the Office of Management and Budget (“OMB”). Awards adhere to Uniform Administrative Requirements, Cost Principles, and Audit Requirements contained in Title 2 of the Code of Federal Regulations (“CFR”). With respect to subsequent incremental funding provided on awards which were received preceding the changes to OMB guidance, GTRC administers the research in accordance with instruction provided by the individual awarding Federal agencies.

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 in accordance with guidance released by the 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.

GTRC and GTARC, 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. 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.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 2—Summary of significant accounting policies

GTRC's financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board ("GASB"). 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:

Reporting Entity – In accordance with the criteria in Statement of Governmental Accounting Standards ("SGAS") No. 61, *The Financial Reporting Entity*, GTRC and GTARC 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.

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 non-operating 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.

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 – 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, 2018, the bank balance was \$71,530,513 and \$5,464,290, and the book balance was \$70,896,913 and \$5,218,352 for GTRC and GTARC, respectively. 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, 2018, the bank balances were collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 2—Summary of significant accounting policies (continued)

Investments – GTRC’s investments consist entirely of equity securities which are acquired as partial consideration for licenses. These equity securities are held exclusively in GTRC’s name and are not subject to GTRC’s investments policy. These equity securities usually do not have readily determinable fair values and are recorded at their fair value at acquisition, which is generally zero or an insignificant amount. Any subsequent disposition of these equity securities is recorded as a gain or loss on sale of investments in nonoperating revenues on the statement of revenues, expenses, and changes in net position.

Major Clients and Concentration of Credit Risk – During the fiscal year ended June 30, 2018, GTRC and GTARC derived approximately 74.2% and 96.6%, respectively, of their revenue from contracts with the U.S. Government. At June 30, 2018, GTRC and GTARC had billed research contracts accounts receivable from the U.S. Government of 33.2% and 86.9%, respectively. Management does not believe these receivables represent significant credit risk at June 30, 2018.

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

Allowance for Doubtful Accounts – The allowance for doubtful accounts is determined by evaluating the prior experience, nature of the contract, and credit rating of the sponsor for each contract with an outstanding balance greater than 180 days. Generally, all account balances greater than 180 days are reserved.

Changes in the allowance for doubtful accounts for the year ended June 30, 2018, were as follows:

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation
Beginning balance	\$ 250,217	\$ 1,509,098
Increase in allowance	400,000	-
Recoveries	304,486	76,972
Write-offs	(454,828)	(167,081)
Ending balance	<u>\$ 499,875</u>	<u>\$ 1,418,989</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.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 2—Summary of significant accounting policies (continued)

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.

Research Administration – During the year ended June 30, 2018, GTRC and GTARC incurred research administration costs totaling \$7,779,753 and \$6,721,268, respectively, for services provided by GIT, which are listed as administrative and general 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 reporting periods beginning after June 15, 2018. GTRC 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 reporting periods beginning after December 15, 2019. GTRC is currently evaluating the impact implementing SGAS No. 87 will have on its financial statements.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

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Note 3—Capital assets

Following are changes in GTRC’s capital assets for the year ended June 30, 2018:

	Balance			Balance
	June 30, 2017	Additions	Transfers	June 30, 2018
Capital assets not being depreciated:				
Construction in progress	\$ 22,857	\$ 14,961	\$ (37,818)	\$ -
Historical treasures and works of art	240,735	-	-	240,735
Total capital assets not being depreciated	<u>263,592</u>	<u>14,961</u>	<u>(37,818)</u>	<u>240,735</u>
Capital assets being depreciated:				
Building improvements	869,418	-		869,418
Computer software	1,257,673	5,304	-	1,262,977
Furniture and equipment	1,071,895	-	37,818	1,109,713
Total capital assets being depreciated	<u>3,198,986</u>	<u>5,304</u>	<u>37,818</u>	<u>3,242,108</u>
Less accumulated depreciation for:				
Building improvements	(390,924)	(82,091)	-	(473,015)
Computer software	(1,079,811)	(105,131)	-	(1,184,942)
Furniture and equipment	(839,080)	(118,098)	-	(957,178)
Total accumulated depreciation	<u>(2,309,815)</u>	<u>(305,320)</u>	<u>-</u>	<u>(2,615,135)</u>
Total capital assets, net	<u>\$ 1,152,763</u>	<u>\$ (285,055)</u>	<u>\$ -</u>	<u>\$ 867,708</u>

During the year ended June 30, 2018, GTRC capital assets had related depreciation expense of \$305,320.

During the year ended June 30, 2018, GTARC capital assets had related depreciation expense of \$3,423, with a resulting net book value of \$66,889.

Note 4—Net investment in direct financing lease

On April 15, 2015, GTRC entered into a Master Lease Agreement (“Master Lease”) with Banc of America Leasing & Capital, LLC (“BOA”), covering the acquisition and lease of certain research equipment; see Note 5. On June 17, 2015, GTRC and GIT entered into a State of Georgia Standard Agency Agreement (the “Agreement”) whereby GIT leased the research equipment acquired under the Master Lease from GTRC. Per the terms of the Agreement, GIT will pay consideration to GTRC in an amount equal to the consideration due under the Master Lease. The Agreement between GTRC and GIT has a term of 119 months beginning on June 25, 2015 with quarterly payments until April 15, 2025; at which time the research equipment will be conveyed to GIT. Therefore, GIT has recorded the research equipment as a capital asset on its books and conversely, GTRC has recorded the asset as a net investment in direct financing lease on the statement of net position.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 4—Net investment in direct financing lease (continued)

Future minimum net amounts receivable under direct financing lease at June 30, 2018 are as follows:

Year Ending June 30,	
2019	\$ 727,400
2020	727,400
2021	727,400
2022	727,400
2023	727,400
2024-2025	<u>1,454,800</u>
Gross investment in direct financing lease	5,091,800
Less: unearned interest income	<u>(697,190)</u>
Net investment in direct financing lease	<u><u>\$ 4,394,610</u></u>

Note 5—Lease commitments

Operating Leases

Research Facilities – GTRC is committed to an operating lease with the University Financing Foundation, Inc., a Georgia nonprofit corporation, 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, 2018, future minimum lease payments through the term of the lease total \$16,614,840.

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 GTFI. 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, 2018, future minimum lease payments through the term of the lease total \$13,337,940.

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.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 5—Lease commitments (continued)

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 bonds of approximately \$53,620,668. As of June 30, 2018, future minimum lease payments through the term of the lease total \$38,068,800.

GTRC also has a number of other lease agreements that are subleased to GIT with lease terms expiring from 2019-2022. As of June 30, 2018, future minimum lease payments through the term of these leases totaled \$12,612,517.

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.

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

Years Ending June 30,	Commitments	Sub Rental Receipts	Net Rental Commitment
2019	\$ 10,137,902	\$ 10,137,902	\$ -
2020	8,795,950	-	8,795,950
2021	7,787,895	-	7,787,895
2022	6,051,874	-	6,051,874
2023	5,042,369	-	5,042,369
2028-2028	23,996,904	-	23,996,904
2029-2033	11,892,840	-	11,892,840
2034-2038	6,921,600	-	6,921,600
	\$ 80,627,334	\$ 10,137,902	\$ 70,489,432

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

Minimum rentals	\$ 11,020,278
Less - Sublease rentals - Georgia Institute of Technology	(11,020,278)
Net rent expense	\$ -

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 5—Lease commitments (continued)

Direct Financing Lease

BOA Master Lease Agreement – On April 15, 2015, GTRC entered into a Master Lease with BOA, covering the acquisition and lease of certain research equipment in an amount not to exceed \$5,800,000. BOA entered into an Acquisition Fund and Account Control Agreement with Deutsche Bank National Trust Company, as the Acquisition Fund Custodian, to provide the Acquisition Funding for the Master Lease. The Master Lease requires that the cost of the equipment be deposited into an Acquisition Fund for the purpose of fully funding the Master Lease, and the Acquisition Fund Custodian provide for a mechanism for the application of such amounts to the purchase of and payment for the equipment. GTRC will arrange for, supervise and provide for, or cause to be supervised and provided for, the acquisition of the equipment, with moneys available in the Acquisition Fund. The Master Lease expires on April 15, 2025.

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

<u>Year Ending June 30,</u>	
2019	\$ 727,400
2020	727,400
2021	727,400
2022	727,400
2023	727,400
2024-2025	1,454,800
Total minimum lease payments	5,091,800
Less: amount representing interest	(697,190)
	<u>\$ 4,394,610</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.

Note 7—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.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 7—Line of credit (continued)

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.