

GEORGIA TECH RESEARCH CORPORATION

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2020

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”), an affiliate of Georgia Institute of Technology, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, as of and for the year ended June 30, 2020, 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.

Opinion

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, 2020, 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 5 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 18, 2020, 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 Bekacet LLP

Atlanta, Georgia
September 18, 2020

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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 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, 2020

Financial Highlights

The condensed statements of net position at June 30, 2020 and 2019 are shown below:

	<u>2020</u>	<u>2019</u>
Assets		
Current assets	\$ 144,624,340	\$ 137,272,035
Capital assets, net	838,982	744,185
Noncurrent assets	<u>2,866,834</u>	<u>3,469,975</u>
Total Assets	<u>148,330,156</u>	<u>141,486,195</u>
Liabilities		
Current liabilities	104,322,860	98,302,867
Noncurrent liabilities	<u>2,838,523</u>	<u>3,436,592</u>
Total Liabilities	<u>107,161,383</u>	<u>101,739,459</u>
Net Position		
Invested in capital assets	838,982	744,185
Unrestricted	<u>40,329,791</u>	<u>39,002,551</u>
Total Net Position	<u>\$ 41,168,773</u>	<u>\$ 39,746,736</u>

Current assets increased by \$7,352,305, or approximately 5.4% from fiscal 2019, due primarily to an increase in accounts receivable levels.

Noncurrent assets consist primarily of an investment in direct financing lease. Noncurrent assets decreased by \$603,141, or approximately 17.4% from fiscal 2019, primarily due to the amortization related to the investment in the direct financing lease.

Capital assets increased by \$94,797, or approximately 12.7% from fiscal 2019, primarily due to current year additions being more than current year disposals and depreciation expense.

Current liabilities increased by \$6,019,993, or approximately 6.1% from fiscal 2019, 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 \$1,422,037, or approximately 3.6% from fiscal 2019, which was attributable to GTRC generating net income for the year.

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Financial Highlights (continued)

The condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2020 and 2019 are shown below:

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 338,700,363	\$ 354,592,544
Operating expenses	(337,218,667)	(353,246,625)
Income from operations	1,481,696	1,345,919
Nonoperating (expenses) revenues, net	(59,659)	243,995
Increase in net position	1,422,037	1,589,914
Net position, beginning of year	39,746,736	38,156,822
Net position, end of year	<u>\$ 41,168,773</u>	<u>\$ 39,746,736</u>

Operating revenues consist primarily of research contracts, licensing fees, royalty revenues, and lease income. During fiscal 2020, operating revenues decreased by \$15,892,181, or approximately 4.5%, primarily due to decreased research project revenues and lease income.

Operating expenses decreased by \$16,027,958 or approximately 4.5%, which is primarily proportional to the decrease in operating revenues and lease income.

Nonoperating revenues decreased by \$303,654, from a net gain in 2019 to a net loss in 2020, primarily due to a current year loss on the disposal of capital assets.

Fiscal Year 2020 Impact of COVID-19

During fiscal year 2020, research was impacted by COVID-19. During the fourth quarter, research units associated with GTRC experienced a decrease in revenue of approximately \$29.9 million, or 31% compared with the prior quarter. There was additionally a decrease in revenue of approximately \$26.0 million or 28.1% compared with the fourth quarter of fiscal year 2019. Overall fiscal year 2020 revenue for GTRC was approximately \$328.2 million which is a decrease of \$13.5 million, or 4.0% less than fiscal year 2019 revenue. Research units associated with GTARC were not similarly impacted and experienced revenue growth compared to prior periods.

Economic Outlook

GIT, through GTRC and GTARC, approximately \$1.065 billion in sponsored research awards in fiscal year 2020. Research awards grew in the academic units of GIT. GTRC received approximately \$402 million in new research funding while GTARC received over \$663 million. Overall, new funding for GIT research increased approximately 1.4% over new funding received in 2019.

GIT is working with a diverse set of public and private sponsors to support growth in research. Certain areas of research continue to promise opportunities for innovative research funding. These include COVID-19, Cybersecurity, Autonomy, and Quantum Computing. Work with traditional Department of Defense and Industry sponsors continues to be an area of strength and focus for fiscal year 2021. GT's University Affiliated Research Center in partnership with the Department of Defense has been awarded Ordering Agreements with a potential value of \$3 billion over a 10 year period. The overall outlook for funding for research in fiscal year 2021 is positive.

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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, 926 Dalney Street N.W. Atlanta, Georgia, 30332-0415.

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF NET POSITION

JUNE 30, 2020

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
ASSETS			
Current Assets:			
Cash	\$ 81,848,264	\$ 57,427,200	\$ 139,275,464
Accounts Receivable:			
Research contracts - billed	20,512,887	46,833,922	67,346,809
Research contracts - unbilled	44,651,993	60,513,102	105,165,095
Other receivables	834,535	-	834,535
Less allowance for doubtful accounts	(3,680,268)	(1,407,846)	(5,088,114)
Accounts Receivable, Net	62,319,147	105,939,178	168,258,325
Due from GTRC	-	27,522	27,522
Net investment in direct financing lease - current portion	399,904	-	399,904
Prepaid expenses	57,025	27,199	84,224
Total Current Assets	144,624,340	163,421,099	308,045,439
Noncurrent Assets:			
Investments	62	-	62
Net investment in direct financing lease - long-term portion	2,866,772	-	2,866,772
Capital assets, net	838,982	60,569	899,551
Total Noncurrent Assets	3,705,816	60,569	3,766,385
Total Assets	148,330,156	163,481,668	311,811,824
LIABILITIES			
Current Liabilities:			
Accounts payable - GIT	41,571,682	65,308,731	106,880,413
Due to component unit	27,522	-	27,522
Obligation under leases - current portion	428,153	-	428,153
Unearned research contract revenues	62,295,503	2,018,974	64,314,477
Total Current Liabilities	104,322,860	67,327,705	171,650,565
Noncurrent Liabilities:			
Obligation under leases - long-term portion	2,838,523	-	2,838,523
Funds held on behalf of others	-	54,749,382	54,749,382
Total Noncurrent Liabilities	2,838,523	54,749,382	57,587,905
Total Liabilities	107,161,383	122,077,087	229,238,470
NET POSITION			
Invested in capital assets	838,982	60,569	899,551
Unrestricted	40,329,791	41,344,012	81,673,803
Total Net Position	\$ 41,168,773	\$ 41,404,581	\$ 82,573,354

See accompanying notes to the financial statements.

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

YEAR ENDED JUNE 30, 2020

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
Operating Revenues:			
Research contracts	\$ 328,226,386	\$ 564,337,203	\$ 892,563,589
Licenses and royalties	2,429,836	-	2,429,836
Lease income	8,021,750	2,932,581	10,954,331
Other revenue	22,391	337	22,728
Total Operating Revenues	<u>338,700,363</u>	<u>567,270,121</u>	<u>905,970,484</u>
Operating Expenses:			
Research subcontracted to GIT	309,875,200	549,076,506	858,951,706
Depreciation	251,788	3,160	254,948
Administrative and general expenses	11,360,168	5,917,181	17,277,349
Licenses and royalties expenses	4,219,907	-	4,219,907
Lease expenses	8,021,750	2,932,581	10,954,331
Payments to or on behalf of GIT	3,489,854	1,347,105	4,836,959
Total Operating Expenses	<u>337,218,667</u>	<u>559,276,533</u>	<u>896,495,200</u>
Income from Operations	<u>1,481,696</u>	<u>7,993,588</u>	<u>9,475,284</u>
Nonoperating Income (Loss):			
Interest income	213,411	125,630	339,041
Net gain on sale of investments	30,572	-	30,572
Net loss on disposition of capital assets	(303,642)	-	(303,642)
Total Nonoperating Income (Loss)	<u>(59,659)</u>	<u>125,630</u>	<u>65,971</u>
Increase in net position	1,422,037	8,119,218	9,541,255
Net position, beginning of year	39,746,736	33,285,363	73,032,099
Net position, end of year	<u>\$ 41,168,773</u>	<u>\$ 41,404,581</u>	<u>\$ 82,573,354</u>

See accompanying notes to the financial statements.

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
Cash flows from operating activities:			
Receipts from grantors	\$ 326,853,203	\$ 557,431,540	\$ 884,284,743
Receipts of license fees and royalties	2,429,836	-	2,429,836
Receipts from leases	8,021,750	2,932,581	10,954,331
Miscellaneous receipts	22,391	337	22,728
Payments (to) from component unit	(35,786)	35,786	-
Payments to or on behalf of GIT	(3,489,854)	(1,347,105)	(4,836,959)
Payments for research contract costs	(311,720,543)	(524,184,873)	(835,905,416)
Payments for licenses and royalties	(4,219,907)	-	(4,219,907)
Payments for leases	(8,021,750)	(2,932,581)	(10,954,331)
Payments to suppliers	(8,136,781)	(5,896,252)	(14,033,033)
Net cash flows from operating activities	<u>1,702,559</u>	<u>26,039,433</u>	<u>27,741,992</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(650,227)	-	(650,227)
Net cash flows from capital and related financing activities	<u>(650,227)</u>	<u>-</u>	<u>(650,227)</u>
Cash flows from investing activities:			
Proceeds from sales of investments	30,572	-	30,572
Interest income	213,411	125,630	339,041
Net cash flows from investing activities	<u>243,983</u>	<u>125,630</u>	<u>369,613</u>
Net increase in cash	1,296,315	26,165,063	27,461,378
Cash, beginning of year	80,551,949	31,262,137	111,814,086
Cash, end of year	<u>\$ 81,848,264</u>	<u>\$ 57,427,200</u>	<u>\$ 139,275,464</u>
Reconciliation of operating income to net cash flows from operating activities:			
Operating income	\$ 1,481,696	\$ 7,993,588	\$ 9,475,284
Adjustments to reconcile operating income to net cash flows from operating activities:			
Depreciation	251,788	3,160	254,948
Change in allowance for doubtful accounts	3,051,268	-	3,051,268
Changes in assets and liabilities:			
Prepaid expenses	23,387	20,929	44,316
Accounts receivable	(9,103,199)	(5,416,963)	(14,520,162)
Payments (to) from component unit	(35,786)	35,786	-
Accounts payable to GIT	(1,845,343)	11,035,263	9,189,920
Funds held on behalf of others	-	13,856,370	13,856,370
Unearned research contract revenue	7,878,748	(1,488,700)	6,390,048
Net cash flows from operating activities	<u>\$ 1,702,559</u>	<u>\$ 26,039,433</u>	<u>\$ 27,741,992</u>

See accompanying notes to the financial statements.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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 GTRC.

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.

GTRC enters 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.

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.

In a Memorandum of Understanding (“MOU”) dated April 1, 1953, the Board of Regents of the University System of the state 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 with GIT for certain sponsored project expenditures and research administration. Balances are held in trust for GIT on 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 (“U.S. 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, 926 Dalney Street N.W., Atlanta, Georgia 30332-0415.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Summary of significant accounting policies

The financial statements have been prepared in accordance with U.S. 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 U.S. 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. 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 – Revenues are derived from grants and cost reimbursement contracts which provide for the recovery of direct and indirect costs. Revenue recognized 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.

Revenue generated from normal operational cycles are classified 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.

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 – Reimbursements are received 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, 2020, the bank balance was \$82,362,445 and \$57,778,027, and the book balance was \$81,848,264 and \$57,427,200 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, 2020, 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, 2020

Note 2—Summary of significant accounting policies (continued)

Investments – 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, 2020, GTRC and GTARC derived approximately 81.6% and 96.8%, respectively, of their revenue from contracts with the U.S. government. At June 30, 2020, GTRC and GTARC had billed research contracts accounts receivable from the U.S. government of 15.4% and 80%, respectively. Management does not believe these receivables represent significant credit risk at June 30, 2020.

Federal Income Taxes – GTRC and GTARC are 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, 2020 are as follows:

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation
Beginning balance	\$ 629,000	\$ 1,417,105
Increase in allowance	3,200,000	14,742
Write-offs	(148,732)	(24,001)
Ending balance	<u>\$ 3,680,268</u>	<u>\$ 1,407,846</u>

Capital Assets – A threshold of \$5,000 has been established 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 unrestricted net position.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Summary of significant accounting policies (continued)

Net Position – Net position is classified as follows: *Invested in capital assets* represents 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 ongoing operations. 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, 2020, GTRC and GTARC incurred research administration costs totaling \$8,760,168 and \$5,917,181, 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 U.S. 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 June 2017, GASB issued 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, 2022. GTRC and GTARC are currently evaluating the impact implementing SGAS No. 87 will have on its financial statements.

In June 2018, GASB issued SGAS No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest costs incurred prior to the end of a construction period. This statement establishes accounting requirements for interest cost incurred before the end of a construction period and aligns the reporting of these costs as expenditures on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for the fiscal year ending June 30, 2022. GTRC or GTARC management does not believe that implementing SGAS No. 89 will have a material impact on its financial statements.

In May 2019, GASB issued SGAS No. 91, *Conduit Debt Obligations*, which standardizes the reporting of conduit debt obligations by issuers and eliminates diversity in reporting practices. This statement clarifies reporting by establishing that conduit debt obligations are not the liability of issuers. The requirements of this statement are effective for the fiscal year ending June 30, 2023. GTRC or GTARC management does not believe that implementing SGAS No. 91 will have a material impact on its financial statements.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 3—Capital assets

Following are changes in capital assets for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Disposals	Transfers	Balance June 30, 2020
Capital assets not being depreciated:					
Construction in progress	\$ 28,672	\$ -	\$ -	\$ (28,672)	\$ -
Historical treasures and works of art	240,735	-	-	-	240,735
Total capital assets not being depreciated	269,407	-	-	(28,672)	240,735
Capital assets being depreciated:					
Building improvements	869,418	222,583	(869,419)	-	222,582
Computer software	1,262,977	-	-	-	1,262,977
Furniture and equipment	1,187,310	427,644	-	28,672	1,643,626
Total capital assets being depreciated	3,319,705	650,227	(869,419)	28,672	3,129,185
Less accumulated depreciation for:					
Building improvements	(547,224)	(25,973)	565,777	-	(7,420)
Computer software	(1,252,048)	(7,739)	-	-	(1,259,787)
Furniture and equipment	(1,045,655)	(218,076)	-	-	(1,263,731)
Total accumulated depreciation	(2,844,927)	(251,788)	565,777	-	(2,530,938)
Total capital assets, net	\$ 744,185	\$ 398,439	\$ (303,642)	\$ -	\$ 838,982

During the year ended June 30, 2020, GTRC's capital assets had related depreciation expense of \$251,788.

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. In 2016, GIT made an advanced payment to GTRC for the remaining balance of the lease. GTRC recorded this as an advanced payment and is reported in accounts payable - GIT on the statement of net position. GTRC will amortize these payments ratably over the remaining life of the lease.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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

Future minimum net amounts to be amortized under direct financing lease at June 30, 2020 are as follows:

<u>Years Ending June 30,</u>	
2021	\$ 727,400
2022	727,400
2023	727,400
2024	727,400
2025	<u>727,400</u>
Gross investment in direct financing lease	3,637,000
Less unearned interest income	<u>(370,324)</u>
Net investment in direct financing lease	<u>\$ 3,266,676</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, 2020, future minimum lease payments through the term of the lease total \$15,295,015.

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, 2020, future minimum lease payments through the term of the lease total \$11,640,504.

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 County 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, 2020

Note 5—Lease commitments (continued)

The Cobb County 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. In May 2020, GTRC and TUFF amended the agreement requiring TUFF to provide \$1,522,000 in capital improvements. GTRC will pay TUFF a monthly special rent assessment of \$15,751 through the end of the lease term in consideration for the capital improvements. As of June 30, 2020, future minimum lease payments through the term of the lease total \$33,742,800.

GTRC also has a number of other lease agreements that are subleased to GIT with lease terms expiring from 2021-2025. As of June 30, 2020, future minimum lease payments through the term of these leases totaled \$8,623,279.

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, 2020 are as follows:

<u>Years Ending June 30,</u>	<u>Commitments</u>	<u>Sub Rental Receipts</u>	<u>Net Rental Commitment</u>
2021	\$ 8,364,427	\$ 8,364,427	\$ -
2022	7,349,343	-	7,349,343
2023	6,544,596	-	6,544,596
2024	6,572,745	-	6,572,745
2025	5,947,436	-	5,947,436
2026-2030	21,545,051	-	21,545,051
2031-2035	10,382,400	-	10,382,400
2036-2037	2,595,600	-	2,595,600
	<u>\$ 69,301,598</u>	<u>\$ 8,364,427</u>	<u>\$ 60,937,171</u>

Net rent expense for the year ended June 30, 2020 are as follows:

Minimum rentals	\$ 8,021,750
Less sublease rentals - GIT	(8,021,750)
Net rent expense	<u>\$ -</u>

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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 has arranged for, supervised and provided 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, 2020 are as follows:

Years Ending June 30,

2021	\$ 727,400
2022	727,400
2023	727,400
2024	727,400
2025	<u>727,400</u>
Total minimum lease payments	3,637,000
Less amount representing interest	<u>(370,324)</u>
	<u>\$ 3,266,676</u>

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; see Note 4.

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—Component unit

Line of Credit

On November 10, 2017, GTARC and Bank of America, N.A. (the “Lender”) entered into a Loan Agreement (the “Original Agreement”). The Original Agreement provides GTARC with a revolving line of credit (“line of credit”) of up to \$3,000,000 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 November 5, 2018, the Original Agreement was amended (the “First Amendment”) to increase the borrowing limit to \$10,000,000 and extend the expiration date to October 31, 2019. On May 24, 2019, the Original Agreement was again amended (the “Second Amendment”) to increase the borrowing limit to \$43,000,000 and extend the expiration date to May 20, 2020. GTARC amended the Loan Agreement to insure operational cash needs would be met in case of delayed cash collections related to federal government sponsors. The Loan Agreement contains various covenants and restrictions. At June 30, 2020, management believes that GTARC was in compliance with these covenants and restrictions.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 7—Component unit (continued)

During the year ended June 30, 2020, GTARC incurred \$97,146 in bank fees related to the line of credit. At June 30, 2020, the interest rate on the line of credit was 1.08%. During the year ended June 30, 2020, there were no draws on the line of credit and there was a zero balance outstanding as of June 30, 2020.

Capital Assets

During the year ended June 30, 2020, GTARC capital assets had related depreciation expense of \$3,160 with a resulting net book value of \$60,569.

Lease Commitments

Research Facilities – GTARC has entered into agreements to lease space for 11 remote field offices as of June 30, 2020. 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, 2020 are as follows:

<u>Years Ending June 30,</u>	<u>Commitments</u>	<u>Sub Rental Receipts</u>	<u>Net Rental Commitment</u>
2021	\$ 3,369,528	\$ 3,369,528	\$ -
2022	2,792,320	-	2,792,320
2023	2,644,415	-	2,644,415
2024	2,468,547	-	2,468,547
2025	2,290,546	-	2,290,546
2026-2030	5,731,552	-	5,731,552
2031-2035	380,497	-	380,497
	<u>\$ 19,677,405</u>	<u>\$ 3,369,528</u>	<u>\$ 16,307,877</u>

Net rent expense for the year ended June 30, 2020 are as follows:

Minimum rentals	\$ 2,932,581
Less sublease rentals - GIT	(2,932,581)
Net rent expense	<u>\$ -</u>

Note 8—Related party transactions

During the course of normal business, GTARC and GTRC have numerous shared transactions. On a monthly basis, GTARC is allocated a portion of the expenses paid by GTRC based upon its estimated proportion of usage of those expenses. Intercompany balances between the two entities are reconciled monthly and funds are transferred between the companies to settle intercompany obligations at management's discretion. For the year ended June 30, 2020, GTARC incurred \$4,415,145 in allocated operating expenses. At June 30, 2020, GTRC had an outstanding payable of \$27,522 due to GTARC.