



**GEORGIA TECH RESEARCH
CORPORATION**

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2015

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, 2015, 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, 2015, 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 18, 2015, 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.

Cheryl Bekaert LLP

Atlanta, Georgia
September 18, 2015

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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 received prior to December 26, 2014 are governed by principles defined by Circulars A-21 and A-110. Awards received subsequent to December 26, 2014 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, 2015

Financial Highlights

The condensed statements of net position at June 30, 2015 and 2014 are shown below:

	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	2015 Total Business-Type Activities	2014 Total Business-Type Activities
Assets				
Current assets	\$ 108,882,499	\$ 90,179,152	\$ 199,061,651	\$ 178,709,961
Capital assets, (net)	1,628,410	76,633	1,705,043	1,571,286
Noncurrent assets	5,717,383	-	5,717,383	204,084
Total Assets	116,228,292	90,255,785	206,484,077	180,485,331
Liabilities				
Current liabilities	81,078,704	68,559,695	149,638,399	131,986,611
Noncurrent liabilities	5,470,304	-	5,470,304	-
Total Liabilities	86,549,008	68,559,695	155,108,703	131,986,611
Net Position				
Invested in capital assets	1,628,410	76,633	1,705,043	1,571,286
Unrestricted	28,050,874	21,619,457	49,670,331	46,927,434
Total Net Position	\$ 29,679,284	\$ 21,696,090	\$ 51,375,374	\$ 48,498,720

Current assets increased by \$20,351,690, or approximately 11% from fiscal 2014, due primarily to an increase in cash levels and higher research receivables.

Noncurrent assets consist primarily of a note receivable and an investment in direct financing lease. Noncurrent assets increased by \$5,513,299, or approximately 2700% from fiscal 2014, primarily due to an installment sale of leased equipment of approximately \$5.6 million from GTRC to GIT.

Capital assets increased by \$133,757, or approximately 9% from fiscal 2014, due primarily to current year additions being higher than depreciation expense.

Current liabilities increased \$17,651,796, or approximately 13% from fiscal 2014, due to an increase in accounts payable for direct research costs, increased other funds owed to GIT, and higher advance payments on research contracts.

Net position represents the difference between total assets and liabilities. There was an increase in net position of \$2,876,654, or approximately 6% from fiscal 2014, which was attributable to an increase in operating income and an increase in cash generated from operating activities.

GEORGIA TECH RESEARCH CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Financial Highlights (continued)

The condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2015 and 2014 are shown below:

	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	2015 Total Business-Type Activities	2014 Total Business-Type Activities
Operating revenues	\$ 312,198,863	\$ 340,870,180	\$ 653,069,043	\$ 613,770,404
Operating expenses	(309,869,847)	(340,566,330)	(650,436,177)	(611,075,893)
Income from operations	2,329,016	303,850	2,632,866	2,694,511
Non-operating revenues, net	192,420	51,368	243,788	73,790
Increase in net position	2,521,436	355,218	2,876,654	2,768,301
Net position, beginning of year	27,157,848	21,340,872	48,498,720	45,730,419
Net position, end of year	<u>\$ 29,679,284</u>	<u>\$ 21,696,090</u>	<u>\$ 51,375,374</u>	<u>\$ 48,498,720</u>

Operating revenues consist primarily of research contracts, lease income, licensing fees, and royalty revenues. During fiscal 2015, operating revenues increased by \$39,298,639, or approximately 6%, primarily due to increased research project revenues.

Operating expenses increased by \$39,360,284, or approximately 6%, in proportion to the increase in operating revenues.

Non-operating revenues increased by \$169,998, or approximately 230%, due to an increase in interest income and realized gains on the disposition of assets by GTRC in 2015 in the amount of \$127,147.

Economic Outlook

GIT, through GTRC and GTARC, received more than \$638 million in sponsored research awards in fiscal year 2015. Research awards grew in the academic units of Georgia Tech. GTRC received over \$301 million in new research funding while GTARC received approximately \$337 million. Overall, new funding for GIT research was comparable to that received in 2014.

GIT continues to be proactive in working with a diverse set of public and private sponsors to support growth in research with particular emphasis on engagement with private industry. The numbers of contracts received from private industry is steady and the Office of Industry Engagement will work with the Vice Presidents for Research, Corporate Relations, and faculty to focus on building research relationships with strategic research sponsors. Certain areas of research continue to promise opportunities for funding for innovative research. These include cyber security for which a new Interdisciplinary Research Institute was created in 2015. Energy, alternative energy and sustainability are key funding sectors. The Institute opened the Engineered Biosystems Building in 2015. Bioengineering and biosciences is a growing market sector for GIT research and this facility will support the needs of faculty with advanced core facilities. GIT will continue to emphasize medical device innovation, advanced manufacturing, materials and nanomaterials, high performance computing and computational sciences, and medical records informatics.

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Economic Outlook (continued)

GIT is attentive to the extremely competitive environment and very slow growth in federal funding in many areas of basic research. The modest economic recovery in the private sector will likely dampen growth in research funding from industry sources. However, 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 Georgia Tech. Overall the percentage of growth in new awards will likely be in the low single digits. However, awards already made to GTRC and GTARC should sustain research expenditures at GIT at current levels through fiscal year 2016.

Requests for Information

This financial report is designed to provide a general overview of GTRC and GTARC'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, 2015

	<u>Georgia Tech Research Corporation</u>	<u>Component Unit Georgia Tech Applied Research Corporation</u>	<u>Total Business-Type Activities</u>
ASSETS			
Current Assets:			
Cash	\$ 69,002,487	\$ 28,061,214	\$ 97,063,701
Accounts receivable:			
Research contracts - billed	17,550,742	29,685,339	47,236,081
Research contracts - unbilled	21,238,290	34,358,161	55,596,451
Other receivables	1,514,464	-	1,514,464
Less - allowance for doubtful accounts	(1,241,253)	(1,925,562)	(3,166,815)
Accounts receivable, net	39,062,243	62,117,938	101,180,181
Due from (to) component unit	433,012	-	433,012
Net investment in direct financing lease - current portion	282,740	-	282,740
Prepaid expenses	102,017	-	102,017
Total Current Assets	108,882,499	90,179,152	199,061,651
Noncurrent Assets:			
Investments	123	-	123
Note Receivable	200,000	-	200,000
Net investment in direct financing lease - long-term portion	5,319,290	-	5,319,290
Other assets	197,970	-	197,970
Capital assets, net	1,628,410	76,633	1,705,043
Total Noncurrent Assets	7,345,793	76,633	7,422,426
Total Assets	116,228,292	90,255,785	206,484,077
LIABILITIES			
Current Liabilities:			
Accounts payable:			
Georgia Institute of Technology	33,581,623	61,505,054	95,086,677
Due from (to) component unit	-	433,012	433,012
Obligation under leases - current portion	329,696	-	329,696
Funds held on behalf of Georgia Institute of Technology	-	4,362,544	4,362,544
Unearned research contract revenue	47,167,385	2,259,085	49,426,470
Total Current Liabilities	81,078,704	68,559,695	149,638,399
Noncurrent Liabilities:			
Obligation under leases - long-term portion	5,470,304	-	5,470,304
Total Liabilities	86,549,008	68,559,695	155,108,703
NET POSITION			
Invested in capital assets	1,628,410	76,633	1,705,043
Unrestricted	28,050,874	21,619,457	49,670,331
Total Net Position	\$ 29,679,284	\$ 21,696,090	\$ 51,375,374

See accompanying notes to financial statements.

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

YEAR ENDED JUNE 30, 2015

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
Operating Revenues:			
Research contracts	\$ 301,352,252	\$ 340,782,771	\$ 642,135,023
Licenses and royalties	1,810,397	-	1,810,397
Lease income	9,012,161	-	9,012,161
Other	24,053	87,409	111,462
Total Operating Revenues	312,198,863	340,870,180	653,069,043
Operating Expenses:			
Research subcontracted to			
Georgia Institute of Technology	286,144,983	336,963,464	623,108,447
Depreciation	345,267	2,370	347,637
Administrative and general expenses	5,128,707	3,102,976	8,231,683
Licenses and royalties expenses	3,088,494	-	3,088,494
Lease expenses	9,012,161	-	9,012,161
Payments to or on behalf of			
Georgia Institute of Technology	6,150,235	497,520	6,647,755
Total Operating Expenses	309,869,847	340,566,330	650,436,177
Income from operations	2,329,016	303,850	2,632,866
Nonoperating Revenues:			
Interest income	65,273	51,368	116,641
Net gain on disposition of assets	127,147	-	127,147
Total Nonoperating Revenues	192,420	51,368	243,788
Increase in net position	2,521,436	355,218	2,876,654
Net position, beginning of year	27,157,848	21,340,872	48,498,720
Net position, end of year	\$ 29,679,284	\$ 21,696,090	\$ 51,375,374

See accompanying notes to financial statements.

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

	<u>Component Unit</u>		
	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>Total Business-Type Activities</u>
Cash flows from operating activities:			
Receipts from grantors	\$ 314,120,418	\$ 335,340,063	\$ 649,460,481
Receipts of license fees and royalties	1,810,397	-	1,810,397
Receipts from leases	9,012,161	-	9,012,161
Miscellaneous receipts	24,053	87,409	111,462
Payments to or on behalf of Georgia Institute of Technology	(6,150,235)	(497,520)	(6,647,755)
Payments for research contract costs	(284,614,890)	(326,308,732)	(610,923,622)
Payments for licenses and royalties	(3,088,494)	-	(3,088,494)
Payments for leases	(9,012,161)	-	(9,012,161)
Payments to suppliers	(5,189,304)	(3,102,976)	(8,292,280)
Related party transactions	(1,051,554)	-	(1,051,554)
Net cash provided by operating activities	<u>15,860,391</u>	<u>5,518,244</u>	<u>21,378,635</u>
Cash flows from capital and related financing activities			
Purchase / disposition of capital assets	(406,054)	(79,003)	(485,057)
Net cash used in investing activities	<u>(406,054)</u>	<u>(79,003)</u>	<u>(485,057)</u>
Cash flows from investing activity:			
Net gain on disposition of investments	131,107	-	131,107
Interest income	65,273	51,368	116,641
Net cash provided by investing activity	<u>196,380</u>	<u>51,368</u>	<u>247,748</u>
Net increase in cash	15,650,717	5,490,609	21,141,326
Cash, beginning of year	53,351,770	22,570,605	75,922,375
Cash, end of year	<u>\$ 69,002,487</u>	<u>\$ 28,061,214</u>	<u>\$ 97,063,701</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 2,329,016	\$ 303,850	\$ 2,632,866
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation	345,267	2,370	347,637
Loss on disposal of capital assets	3,656	-	3,656
Change in allowance for doubtful accounts	(249,693)	(45,541)	(295,234)
Changes in assets and liabilities:			
Prepaid expenses	(64,253)	-	(64,253)
Accounts receivable	6,685,579	(4,820,704)	1,864,875
Due to/from component unit	(1,051,554)	1,051,554	-
Accounts payable to Georgia Institute of Technology	1,530,093	9,220,842	10,750,935
Funds held on behalf of Georgia Institute of Technology	-	382,335	382,335
Unearned research contract revenue	6,332,280	(576,462)	5,755,818
Net cash provided by operating activities	<u>\$ 15,860,391</u>	<u>\$ 5,518,244</u>	<u>\$ 21,378,635</u>
Schedule of noncash investing and financing activity:			
Research equipment financed by a capital lease and transferred to an investment in direct financing lease	\$ 5,800,000	\$ -	\$ 5,800,000

See accompanying notes to financial statements.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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 received prior to December 26, 2014 are governed by principles defined by Circulars A-21 and A-110. Awards received subsequent to December 26, 2014 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 received prior to December 26, 2014 are governed by cost principles defined by Circular A-122 and Federal Acquisition Regulations (“FAR”) 31.2. Awards received subsequent to December 26, 2014 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 (hereinafter collectively referred to as “GTRC”), enter into contracts and grant agreements with various organizations, including federal agencies, and subcontract with GIT to provide services in connection with these agreements. Since 1946, GTRC has served as a “university-connected research foundation.” As part of the relationship, payments occur between GIT and GTRC for certain sponsored project expenditures and research administration.

In a Memorandum of Understanding (“MOU”) dated April 1, 1953, the Board of Regents of the University System of Georgia authorized GTRC (then GTRI) to serve as the official grantee for all contracts and grants for the conduct of sponsored research at GIT. The MOU also assigned all intellectual property developed through the performance of contracts subcontracted to GIT to GTRC. GTRC is the administrative organization for discoveries, innovations, inventions, patents, and copyrights and is responsible for intellectual property management including patenting and licensing. Currently, pursuant to the Cooperative Organization Guiding Principles Memoranda of Understanding and the Board of Regents Policy 1905, payments occur between GIT and GTRC and GTARC for certain sponsored project expenditures and research administration. GTRC and GTARC hold in trust for GIT any balances, after the payment of necessary operating costs, for the promotion of research at GIT and for the benefit of research at GIT. Intellectual property created in the course of research and other activities at GIT is assigned to GTRC in accordance with the GIT Intellectual Property Policy.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1—Description of organization (continued)

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.

The state of Georgia has determined that GTRC is significant to the state of Georgia for the year ended June 30, 2015, and as such, is a discretely presented component unit in the Comprehensive Annual Financial Report of the state of Georgia.

Note 2—Significant accounting policies

GTRC’s financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (“GASB”). The financial statements of GTRC have been prepared on the accrual basis of accounting and are presented in conformity with GAAP.

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

Revenues – Substantially all of GTRC’s revenues are derived from grants and cost reimbursement contracts which provide for the recovery of direct and indirect costs. GTRC recognizes revenue associated with direct and indirect costs as the related costs are incurred for approved research activities. The recovery of indirect costs is generally recorded at fixed rates negotiated with the sponsoring agency. License and royalty revenues are recorded when earned.

GTRC and GTARC classify revenue generated from their normal operational cycles as operating income. Revenue streams such as research contracts, licenses and royalties, and lease income are examples of what are considered to be operating revenues. Revenues that are not generated during the normal operating cycle such as interest income and unrealized gains and losses on investments are classified as 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.

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, 2015, the bank balance was \$97,611,386, and the book balance was \$97,063,701. 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, 2015, 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, 2015

Note 2—Significant accounting policies (continued)

Investments – GTRC’s investments consist entirely of equity securities, which are acquired as partial consideration for a license. Equity security investments are held exclusively in GTRC’s name. Equity securities acquired as partial consideration for a license are not subject to GTRC’s investments policy.

Major Clients and Concentration of Credit Risk – During the fiscal year ended June 30, 2015, GTRC derived approximately 88% of its revenue from contracts with the U.S. Government. At June 30, 2015, approximately 55% of billed research contracts accounts receivable was from the U.S. Government. Management does not believe these receivables represent significant credit risk at June 30, 2015.

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, 2015, were as follows:

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
Beginning balance	\$ 1,490,946	\$ 1,971,103	\$ 3,462,049
Increase in allowance	-	-	-
Recoveries	11,974	349	12,323
Write-offs	(261,667)	(45,890)	(307,557)
Ending balance	<u>\$ 1,241,253</u>	<u>\$ 1,925,562</u>	<u>\$ 3,166,815</u>

Capital Assets – Capital assets are recorded at cost. GTRC has established a threshold of \$5,000 for capitalizing equipment. All capitalized assets purchased under the terms of equipment and facilities grants are donated to GIT when fully depreciated. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives which range from three to ten years. The straight-line method of depreciation is followed for all capital assets.

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

Net Position – GTRC’s net position is classified as follows: *Invested in capital assets* represents GTRC’s total investment in capital assets, net of related depreciation. *Unrestricted net position* represents resources derived primarily from research contracts, licensing and royalties, and lease income. These resources can be used for the ongoing operations of GTRC. However, in accordance with the April 1, 1953 Memorandum of Understanding between GTRC and the Board of Regents of the University System of Georgia, all balances held after the payment of necessary operating costs are to be held in trust for GIT for the promotion of research at GIT. These balances will be returned to GIT in the form of grants which are made at the discretion of the Board of Trustees of GTRC.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 2—Significant accounting policies (continued)

Research Administration – During the year ended June 30, 2015, GTRC incurred research administration costs totaling \$8,231,683 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.

Note 3—Note receivable

In connection with the sale of certain common stock, GTRC entered into a promissory note with a company. The note bears interest at 6% per annum and is paid quarterly. Pursuant to the terms of the subordination, the note receivable obligation of the company to GTRC is subordinate to the payment in full of all of the company's senior debt.

Note 4—Capital assets

Following are changes in GTRC's capital assets for the year ended June 30, 2015:

	Balance			Balance
	June 30, 2014	Increases	Decreases	June 30, 2015
Capital assets not being depreciated:				
Construction in progress	\$ 271,150	\$ 227,835	\$ (411,405)	\$ 87,580
Historical treasures and works of art	240,735	-	-	\$ 240,735
Total capital assets not being depreciated	<u>511,885</u>	<u>227,835</u>	<u>(411,405)</u>	<u>328,315</u>
Capital assets being depreciated:				
Building improvements	623,876	35,887	-	659,763
Computer software	921,744	376,735	-	1,298,479
Furniture and equipment	1,925,808	177,002	(1,158,215)	944,595
Total capital assets being depreciated	<u>3,471,428</u>	<u>589,624</u>	<u>(1,158,215)</u>	<u>2,902,837</u>
Less accumulated depreciation for:				
Building improvements	(158,669)	(63,884)	-	(222,553)
Computer software	(675,714)	(130,006)	-	(805,720)
Furniture and equipment	(1,577,644)	(151,377)	1,154,552	(574,469)
Total accumulated depreciation	<u>(2,412,027)</u>	<u>(345,267)</u>	<u>1,154,552</u>	<u>(1,602,742)</u>
Total capital assets, net	<u>\$ 1,571,286</u>	<u>\$ 472,192</u>	<u>\$ (2,724,172)</u>	<u>\$ 1,628,410</u>

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 4—Capital assets (continued)

During the year ended June 30, 2015, GTARC acquired capital assets of \$79,003 and had related depreciation expense of \$2,370, with a resulting net book value of \$76,633.

Note 5—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. On June 17, 2015, GTRC and GIT entered into a State of Georgia Standard Agency Agreement (the “Agreement”) whereby GIT leased the research equipment 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.

Future minimum net amounts receivable under direct financing lease at June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 545,550
2017	727,400
2018	727,400
2019	727,400
2020	727,400
2021 - 2025	<u>3,637,004</u>
Gross investment in direct financing lease	\$ 7,092,154
Less: unearned interest income	<u>(1,490,124)</u>
Net investment in direct financing lease	<u>\$ 5,602,030</u>

Note 6—Lease commitments

Operating Leases

Research Facilities – GTRC is committed to an operating lease with the University Financing Foundation, Inc. for the Centennial Research Building. The lease carries successive two-year terms that are automatically renewed at prevailing market rates in effect at the time of the renewal. GTRC may cancel the lease provided notice is given during July of any lease year to be effective as of June 30 of the then-current lease year. The term of this lease expires June 30, 2029. As of June 30, 2015, future minimum lease payments through the term of the lease total \$21,146,160.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 6—Lease commitments (continued)

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, 2015, future minimum lease payments through the term of the lease total \$17,703,131.

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

The Cobb Research Campus is a six-building, 160,000 square foot Research Park located on approximately 53.2 acres in Cobb County, Georgia. GTRC leases the property from TUFF. GTRC subleases the property to the Board of Regents of the University System of Georgia for the benefit of GIT. The lease is a general obligation of GTRC. The end of the lease term is October 31, 2036, the maturity date of the bonds. The sublease is an annually renewable lease agreement. The timing and amount of rental payments under the sublease total approximately \$54,144,016, adequate to meet the debt service and debt service reserve fund requirement related to the 2010 and 2010A bonds of approximately \$53,620,668. As of June 30, 2015, future minimum lease payments through the term of the lease total \$44,298,240.

The facilities GTRC leases in connection with the above lease agreements are subleased to GIT. The subleases carry successive one-year terms that are renewable annually. The timing and amount of rental payments under the subleases are substantially the same as those under their corresponding lease agreements between GTRC and the third-party lessors. GTRC expects to receive revenues sufficient to offset its obligations under the lease agreements through annual renewal of the subleases by GIT.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 6—Lease commitments (continued)

Future minimum operating lease payments at June 30, 2015, are as follows:

Years Ending June 30,	Commitments	Sub Rental Receipts	Net Rental Commitment
2016	\$ 9,106,781	\$ 9,106,781	\$ -
2017	8,217,394	-	8,217,394
2018	7,459,146	-	7,459,146
2019	7,151,286	-	7,151,286
2020	6,151,027	-	6,151,027
2021-2025	26,061,577	-	26,061,577
2026-2030	19,576,510	-	19,576,510
2031-2035	10,382,400	-	10,382,400
2036-2037	2,768,640	-	2,768,640
	\$ 96,874,761	\$ 9,106,781	\$ 87,767,980

Net rent expense for the year ended June 30, 2015, was as follows:

Minimum rentals	\$ 9,012,161
Less - Sublease rentals - Georgia Institute of Technology	(9,012,161)
Net rent expense	\$ -

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.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 6—Lease commitments (continued)

Future minimum direct financing lease payments at June 30, 2015, are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 545,550
2017	727,400
2018	727,400
2019	727,400
2020	727,400
2021 - 2025	<u>3,637,004</u>
Total minimum lease payments	\$ 7,092,154
Less: amount representing interest	<u>(1,292,154)</u>
Net direct financing lease	<u>\$ 5,800,000</u>

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 secured 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, not subject to early termination penalties and was scheduled to expire on October 3, 2014. On August 4, 2014, GTARC terminated the line of credit. On November 24, 2014, the Loan Agreement was amended (the “Amendment”). The Amendment reinstated the line of credit and increased the line to \$3,000,000, while extending the expiration date to January 5, 2016. 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, 2015, management believes that GTARC was in compliance with these covenants and restrictions.

During the year ended June 30, 2015, GTARC incurred \$5,695 in bank various fees related to the line of credit. At June 30, 2015, the interest rate on the line of credit was 1.124%. During the year ended June 30, 2015, there were no draws on the line of credit and there was a zero balance outstanding as of June 30, 2015.

Note 8—Contingencies

Federal and state funded research projects are subject to special audits. Such audits could result in some allocated costs being disallowed or indirect cost rates adjusted. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

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