



**GEORGIA TECH APPLIED RESEARCH  
CORPORATION**

**FINANCIAL STATEMENTS**

*For the Year Ended June 30, 2014*

*And Report of Independent Auditor*

**GEORGIA TECH APPLIED RESEARCH CORPORATION**

**TABLE OF CONTENTS**

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**REPORT OF INDEPENDENT AUDITOR** ..... 1-2

**MANAGEMENT’S DISCUSSION AND ANALYSIS** ..... 3-5

**BASIC FINANCIAL STATEMENTS**

    Statement of Net Position ..... 6

    Statement of Revenues, Expenses, and Changes in Net Position..... 7

    Statement of Cash Flows ..... 8

    Notes to the Financial Statements ..... 9-11

## **Report of Independent Auditor**

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

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

We have audited the accompanying financial statement of the business-type activities of the Georgia Tech Applied Research Corporation ("GTARC"), a component unit of Georgia Tech Research Corporation, as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities of GTARC as of June 30, 2014, and its changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **OTHER MATTERS**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 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 12, 2014, on our consideration of GTARC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GTARC's internal control over financial reporting and compliance.

*Cherry Bekart LLP*

Atlanta, Georgia  
September 12, 2014

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*JUNE 30, 2014*

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### **Introduction**

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

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

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

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

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

The statement of revenues, expenses, and changes in net position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The financial reporting model classifies investment earnings and changes in the fair value of investments as non-operating revenues. As a result, the financial statements may show operating losses that are then offset by non-operating revenues from a total financial perspective.

The statement of cash flows presents information in the form of cash inflows and outflows summarized by operating, capital and related financing activities, and investing activities.

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

JUNE 30, 2014

**Financial Highlights**

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

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets		
<b>Liabilities and net position</b>	<u>\$ 80,440,840</u>	<u>\$ 76,537,792</u>
Current liabilities		
Unrestricted net position		
Total liabilities and net position	\$ 59,099,968	\$ 55,354,161
	<u>21,340,872</u>	<u>21,183,631</u>
	<u>\$ 80,440,840</u>	<u>\$ 76,537,792</u>

Current assets increased by \$3,903,048, or approximately 5% from fiscal 2013, due primarily to an increase in research receivables, which was the result of an increase in research revenues in 2014 compared to 2013.

Current liabilities increased by \$3,745,807, or approximately 7%, primarily due to the timing of payments made to GIT.

Net position represents the difference between GTARC's assets and liabilities. There was an increase of \$157,241, or less than 1%, which can be attributed to a slight increase in research activities.

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

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 294,642,290	\$ 292,472,152
Operating expenses	(294,515,448)	(292,530,119)
Income (loss) from operations	126,842	(57,967)
Nonoperating revenue, net	30,399	21,741
(Decrease) Increase in net position	157,241	(36,226)
Net position, beginning of year	21,183,631	21,219,857
Net position, end of year	<u>\$ 21,340,872</u>	<u>\$ 21,183,631</u>

Operating revenues consist primarily of research grant revenues. During the fiscal year ended June 30, 2014, operating revenues increased by \$2,170,138, or less than 1%, due to a slight increase in research activities and funds awarded for research projects.

Operating expenses increased \$1,985,329, or less than 1%, due to increased direct research costs in proportion to an increase in research activities.

# **GEORGIA TECH APPLIED RESEARCH CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*JUNE 30, 2014*

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### **Economic Outlook**

The Georgia Institute of Technology, through GTRC and GTARC received more than \$603 million in sponsored research awards in fiscal year 2014. Although research awards grew strongly in the first two quarters, new awards to GTARC slowed in the second half of the year as the effects of sequestration began to affect federal funding agencies. Over all, new funding for GIT research was comparable to that received in 2013.

GIT continues to be proactive in working with a diverse set of public and private sponsors to support growth in research across a spectrum of topics. The numbers of contracts received from private industry is steady and the Office of Industry Engagement in the office of GIT's Executive Vice President for Research will focus on building research relationships with private industry sponsors. Certain areas of research continue to promise opportunities for funding for innovative research. These include cyber security, energy and alternative energy, medical device innovation, advanced manufacturing, materials and nanomaterials, high performance computing and computational sciences, and medical records informatics. GIT has aligned Interdisciplinary Research Institutes with these economic areas.

The continued effects of sequestration will likely dampen growth in federal funding in many areas of basic research. The slow economic recovery of the private sector will likely slow growth in research funding from industry sources. Overall the percentage of growth in new awards will likely be in the low single digits. However, awards already made to GTRC and particularly GTARC should sustain research expenditures at GIT at current levels through fiscal year 2014.

### **Requests for Information**

This financial report is designed to provide a general overview of Georgia Tech Applied Research Corporation's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, Georgia Tech Applied Research Corporation, 505 Tenth Street N.W., Atlanta, Georgia, 30332-0415.

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

*JUNE 30, 2014*

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**ASSETS**

Current Assets:

Cash	\$ 22,570,605
Accounts receivable:	
Research contracts - billed	28,714,859
Research contracts - unbilled	30,507,937
Less - allowance for doubtful accounts	<u>(1,971,103)</u>
Accounts receivable, net	57,251,693
Due from Georgia Tech Research Corporation	<u>618,542</u>
Total Current Assets	<u><u>\$ 80,440,840</u></u>

**LIABILITIES AND NET POSITION**

Current Liabilities:

Accounts payable - Georgia Institute of Technology	\$ 52,284,212
Funds held on behalf of Georgia Institute of Technology	3,980,209
Unearned research contract revenues	<u>2,835,547</u>
Total Current Liabilities	59,099,968
Unrestricted net position	<u>21,340,872</u>
Total Liabilities and Net Position	<u><u>\$ 80,440,840</u></u>



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

*FOR THE YEAR ENDED JUNE 30, 2014*

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Operating revenues:	
Research contracts	\$ 294,642,290
Total operating revenues	<u>294,642,290</u>
Operating expenses:	
Research subcontracted to Georgia Institute of Technology	291,456,997
Administrative and general expenses	2,631,375
Payments to or on behalf of Georgia Institute of Technology	427,076
Total operating expenses	<u>294,515,448</u>
Income from operations	126,842
Nonoperating revenue, interest income	<u>30,399</u>
Increase in net position	157,241
Net position, beginning of year	<u>21,183,631</u>
Net position, end of year	<u><u>\$ 21,340,872</u></u>

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

*FOR THE YEAR ENDED JUNE 30, 2014*

**Cash flows from operating activities:**

Receipts from grantors	\$ 295,104,476
Payments to or on behalf of Georgia Institute of Technology	(427,076)
Payments for research subcontracted to Georgia Institute of Technology	(288,915,108)
Payments to suppliers	(2,631,375)
Net cash provided by operating activities	<u>3,130,917</u>

**Cash flows from investing activity:**

Investment income	<u>30,399</u>
Net cash provided by investing activity	<u>30,399</u>

Net increase in cash	3,161,316
Cash, beginning of year	<u>19,409,289</u>
Cash, end of year	<u><u>\$ 22,570,605</u></u>

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ 126,842
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in allowance for doubtful accounts	(3,050)
Changes in assets and liabilities:	
Accounts receivable	(120,140)
Due to/from Georgia Tech Research Corporation	(1,417,545)
Accounts payable to Georgia Institute of Technology	4,643,971
Funds held on behalf of Georgia Institute of Technology	(684,538)
Unearned research contract revenues	585,377
Net cash provided by operating activities	<u><u>\$ 3,130,917</u></u>

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

AS FOR AND THE YEAR ENDED JUNE 30, 2014

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### **Note 1—Description of organization**

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

GTARC enters into contracts and grant agreements with various organizations, including federal agencies, and subcontracts with GIT to provide services in connection with these agreements. GTARC has served as a “university-connected research foundation.” As part of the relationship, payments occur between GIT and Georgia Tech Research Corporation (“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 GTARC 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 GTARC. GTARC 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 GTARC for certain sponsored project expenditures and research administration. 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 GATRC in accordance with the GIT Intellectual Property Policy.

In accordance with accounting principles generally accepted in the United States (“GAAP”) applicable to governments, GTRC and GTARC are considered part of the same reporting entity since they are fiscally interdependent. Accordingly, the accompanying financial statements for GTARC are presented in the financial statements of GTRC as a discretely presented component unit.

The state of Georgia has determined that GTRC is significant to the state of Georgia for the year ended June 30, 2014, and as such, is a discretely presented component unit in the Comprehensive Annual Financial Report of the state of Georgia.

### **Note 2—Significant accounting policies**

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

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

*Revenues* – The majority of GTARC’s revenues are derived from grants and cost reimbursement contracts that provide for the recovery of direct and indirect costs. GTARC recognizes revenue associated with direct and indirect costs as the related costs are incurred for approved research activities. The recovery of indirect costs is generally recorded at fixed rates negotiated with the sponsoring agency.

GTARC classifies revenues generated from within its normal operating cycle, such as research contracts, as operating income. Revenues that are not generated during the normal operating cycle, such as interest income, are classified as non-operating revenues.

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

AS FOR AND THE YEAR ENDED JUNE 30, 2014

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

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

*Overhead Revenue* – GTARC receives reimbursement from sponsoring agencies for indirect costs incurred. GTARC retains a portion of the indirect costs, which is used for operating expenses, and the remainder, with Board of Trustee approval, is generally granted back to GIT in future periods. The overhead revenue is reported as revenue from research contracts in the accompanying financial statements.

*Major Clients and Concentration of Credit Risk* – During the fiscal year ended June 30, 2014, GTARC derived approximately 96% of its revenue from contracts with the U.S. Government. At June 30, 2014, approximately 83% of the billed research contracts accounts receivable was from the U.S. Government. Management does not believe these receivables represent a significant credit risk at June 30, 2014.

*Cash* – At June 30, 2014, the bank balance was \$22,852,641, and the book balance was \$22,570,605. Cash balances usually exceed federally insured amounts. GTARC mitigates this risk by depositing and investing cash with major financial institutions. GTARC has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2014, the bank balance was collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services.

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

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

*Allowance for Doubtful Accounts* – The allowance for doubtful accounts is determined by evaluating the prior experience, nature of the contract, and credit rating of the sponsor for each contract with an outstanding balance greater than 180 days. Generally, all account balances greater than 180 days are reserved. Changes in the allowance for doubtful accounts for the year ended June 30, 2014, were as follows:

Beginning balance	\$ 1,974,153
Recoveries	-
Write offs	<u>(3,050)</u>
Ending balance	<u>\$ 1,971,103</u>

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

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

AS FOR AND THE YEAR ENDED JUNE 30, 2014

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

*Research Administration* – During the year ended June 30, 2014, GTARC incurred research administration costs totaling \$2,604,306 for services provided by GTRC which is included in general and administrative expenses in the statement of revenues, expenses, and changes in net position.

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

*Use of Estimates in Preparation of Financial Statements* – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Note 3—Contingencies**

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

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

### **Note 4—Debt**

On October 4, 2013, GTARC and Bank of America, N.A. (the “Lender”) entered into a Loan Agreement (the “Loan Agreement”). The Loan Agreement provides GTARC with a secured revolving line of credit (“line of credit”) of up to \$2,000,000 at an interest rate of LIBOR daily floating rate plus 1.00%. The line of credit is unsecured, is not subject to early termination penalties and expires on October 3, 2014. GTARC entered into the Loan Agreement to meet the requirements of a Federal Program Request for Proposal. The Loan Agreement contains various covenants and restrictions. At June 30, 2014 management believes that GTARC was in compliance with these covenants and restrictions.

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