

**GEORGIA TECH APPLIED RESEARCH
CORPORATION**

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2021

And Report of Independent Auditor

GEORGIA TECH APPLIED RESEARCH CORPORATION

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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 statements 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, 2021, 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, 2021, 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 10, 2021, 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 10, 2021

GEORGIA TECH APPLIED RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

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 to be performed using GIT's facilities and for related objectives. GTARC serves the business segments of GIT, which perform research in accordance with guidance released by the Office of Management and Budget ("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.

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 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 APPLIED RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

Financial Highlights

The condensed statements of net position at June 30, 2021 and 2020 are shown below:

	<u>2021</u>	<u>2020</u>
Assets		
Current assets	\$ 189,837,912	\$ 163,421,099
Noncurrent assets	57,409	60,569
Total Assets	<u>189,895,321</u>	<u>163,481,668</u>
Liabilities		
Current liabilities	68,355,876	67,327,705
Noncurrent liabilities	71,948,403	54,749,382
Total Liabilities	<u>140,304,279</u>	<u>122,077,087</u>
Net Position		
Invested in capital assets	57,409	60,569
Unrestricted	49,533,633	41,344,012
Total Net Position	<u>\$ 49,591,042</u>	<u>\$ 41,404,581</u>

Current assets increased by \$26,416,813, or 16.2% from fiscal 2020, due primarily to an increase in cash position compared to 2020.

Noncurrent liabilities increased by \$17,199,021 or 31.4% from fiscal 2020, primarily due to an increase in funds held on behalf of others compared to 2020.

Net position represents the difference between GTARC's assets and liabilities. There was an increase of \$8,186,461 or 19.8% from fiscal 2020, which was attributable to GTARC generating net income from operations in fiscal 2021.

GEORGIA TECH APPLIED RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

Financial Highlights (continued)

The condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2021 and 2020 are shown below:

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 638,634,809	\$ 567,270,121
Operating expenses	(630,551,488)	(559,276,533)
Income from operations	8,083,321	7,993,588
Nonoperating revenue, net	103,140	125,630
Increase in net position	8,186,461	8,119,218
Net position, beginning of year	41,404,581	33,285,363
Net position, end of year	<u>\$ 49,591,042</u>	<u>\$ 41,404,581</u>

Operating revenues consist primarily of research grant revenues. During the fiscal year ended June 30, 2021, operating revenues increased by \$71,364,688 or 12.6%, due to an increase in research activities, funds awarded for research projects, and lease income.

Operating expenses increased by \$71,274,955 or 12.7%, due primarily to an increase in subcontracted research expenses related to the increase in research activities.

Economic Outlook

GIT, through GTRC and GTARC, received approximately \$1.198 billion in sponsored research awards in fiscal year 2021. Research awards grew in the academic units of GIT. GTRC received approximately \$416 million in new research funding while GTARC received over \$782 million. Overall, new funding for GIT research increased approximately 12.4% over new funding received in 2020.

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, Artificial Intelligence, and Quantum Computing. Work with traditional Department of Defense and Industry sponsors continues to be an area of strength and focus for fiscal year 2022. GIT'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. Over the next five years, GIT will make a substantial investment in Artificial Intelligence that includes hiring an additional 100 researchers in the field, further solidifying its standing as a leader in the teaching and discovery of machine learning. GIT received two National Science Foundation Artificial Intelligence Research Institutes awards, totaling \$40 million, with another GIT affiliated organization, Georgia Research Alliance receiving an additional award for \$20 million. The overall outlook for funding for research in fiscal year 2022 is positive.

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

GEORGIA TECH APPLIED RESEARCH CORPORATION
STATEMENT OF NET POSITION

JUNE 30, 2021

ASSETS

Current Assets:

Cash	\$ 78,982,729
Accounts Receivable:	
Research contracts - billed	54,663,389
Research contracts - unbilled	55,299,214
Other receivables - GIT	1,962,154
Less allowance for doubtful accounts	<u>(3,724,580)</u>
Accounts Receivable, net	108,200,177
Due from GTRC	1,692,109
Prepaid expenses	<u>962,897</u>
Total Current Assets	<u>189,837,912</u>

Noncurrent Assets:

Capital assets, net	<u>57,409</u>
Total Noncurrent Assets	<u>57,409</u>
Total Assets	<u>189,895,321</u>

LIABILITIES

Current Liabilities:

Accounts payable - GIT	62,182,775
Unearned research contract revenues	5,285,004
Deferred rent revenue	<u>888,097</u>
Total Current Liabilities	<u>68,355,876</u>

Noncurrent Liabilities:

Funds held on behalf of others	<u>71,948,403</u>
Total Noncurrent Liabilities	<u>71,948,403</u>
Total Liabilities	<u>140,304,279</u>

NET POSITION

Invested in capital assets	57,409
Unrestricted	<u>49,533,633</u>
Total Net Position	<u>\$ 49,591,042</u>

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

YEAR ENDED JUNE 30, 2021

Operating Revenues:	
Research contracts	\$ 634,069,758
Lease income	4,564,773
Other revenue	278
Total Operating Revenues	<u>638,634,809</u>
Operating Expenses:	
Research subcontracted to GIT	618,043,527
Depreciation	3,160
Administrative and general expenses	6,556,609
Lease expenses	4,577,581
Payments to or on behalf of GIT	1,370,611
Total Operating Expenses	<u>630,551,488</u>
Income from Operations	<u>8,083,321</u>
Nonoperating Revenues:	
Interest income	<u>103,140</u>
Total Nonoperating Revenues	<u>103,140</u>
Increase in net position	8,186,461
Net position, beginning of year	<u>41,404,581</u>
Net position, end of year	<u>\$ 49,591,042</u>

The accompanying notes to the financial statements are an integral part of this statement.

GEORGIA TECH APPLIED RESEARCH CORPORATION
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:	
Receipts from grantors	\$ 635,074,789
Receipts from leases	5,452,870
Miscellaneous receipts	278
Payments from component unit	(1,664,587)
Payments to or on behalf of GIT	(1,370,611)
Payments for research contract costs	(603,970,462)
Payments to suppliers	(6,604,210)
Payments for leases	(5,465,678)
Net cash flows from operating activities	<u>21,452,389</u>
Cash flows from investing activities:	
Interest income	<u>103,140</u>
Net cash flows from investing activities	<u>103,140</u>
Net increase in cash	21,555,529
Cash, beginning of year	<u>57,427,200</u>
Cash, end of year	<u><u>\$ 78,982,729</u></u>
Reconciliation of operating income to net cash flows from operating activities:	
Operating income	\$ 8,083,321
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	3,160
Change in allowance for doubtful accounts	2,316,734
Changes in assets and liabilities:	
Accounts receivable	(4,577,733)
Prepaid expenses	(935,698)
Due from GTRC	(1,664,587)
Accounts payable - GIT	(3,125,956)
Funds held on behalf of others	17,199,021
Unearned research contract revenues	3,266,030
Deferred rent revenue	888,097
Net cash from operating activities	<u><u>\$ 21,452,389</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

GEORGIA TECH APPLIED RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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 in accordance with guidance released by the Office of Management and Budget (“OMB”) and Federal Acquisition Regulations (“FAR”) 31.2. Awards adhere to guidance contained in Title 2 of the Code of Federal Regulations (“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.

Prior to the formation of GTARC, contracting duties were handled solely by Georgia Tech Research Corporation (“GTRC”). 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 GTARC for certain sponsored project expenditures and research administration. GTARC is a component unit of the GTRC.

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 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.

Note 2—Summary of significant accounting policies

GTARC’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as prescribed by the Governmental Accounting Standards Board (“GASB”). The financial statements of GTARC 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 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.

In addition, GTARC and GTRC 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.

GEORGIA TECH APPLIED RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

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 nonoperating revenues.

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.

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 – 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, 2021, GTARC derived approximately 96.3% of its revenue from contracts with the U.S. government. At June 30, 2021, approximately 75.5% of the billed research contracts accounts receivable was from the U.S. government and approximately 10.0% was from the Georgia Department of Community Health. Management does not believe these receivables represent a significant credit risk at June 30, 2021.

Cash – At June 30, 2021, the bank balance was \$78,418,417 and the book balance was \$78,982,729. 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, 2021, 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.

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, 2021 are as follows:

Beginning balance	\$ 1,407,846
Increase in allowance	2,329,786
Write-offs	(13,052)
Ending balance	<u>\$ 3,724,580</u>

GEORGIA TECH APPLIED RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

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.

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, fees, and lease income. These resources can be used for ongoing operations. All GTARC 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.

Research Administration – During the year ended June 30, 2021, GTARC incurred research administration costs totaling \$6,556,609 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. GTARC is 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. 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. GTARC management does not believe that implementing SGAS No. 91 will have a material impact on its financial statements.

GEORGIA TECH APPLIED RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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.

Note 4—Lease commitments

Research Facilities – GTARC has entered into agreements to lease space for 15 remote field offices as of June 30, 2021. 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, 2021 are as follows:

<u>Years Ending June 30,</u>	<u>Commitments</u>	<u>Sub Rental Receipts</u>	<u>Net Rental Commitment</u>
2022	\$ 5,206,199	\$ 5,206,199	\$ -
2023	5,851,539	-	5,851,539
2024	5,803,399	-	5,803,399
2025	5,945,906	-	5,945,906
2026	5,954,233	-	5,954,233
2027-2031	27,288,397	-	27,288,397
2032-2036	8,157,354	-	8,157,354
2037-2041	416,339	-	416,339
	<u>\$ 64,623,366</u>	<u>\$ 5,206,199</u>	<u>\$ 59,417,167</u>

Net rent expense for the year ended June 30, 2021 was as follows:

Minimum rentals	\$ 4,564,773
Less sublease rentals - GIT	(4,577,581)
Net rent expense	<u>\$ (12,808)</u>

Note 5—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. The increase in the borrowing limit was to ensure operational cash needs would be met in case of delayed cash collections related to Federal Government sponsors. Effective May 22, 2020, the expiration date was extended to May 22, 2021. On May 22, 2021, the Original Agreement was again amended (the “Third Amendment”) to extend the expiration date to May 21, 2022 and the borrowing limit was decreased to \$10,000,000. GTARC determined the limit could be reduced after maintaining sufficient cash collections throughout fiscal year 2021 during COVID-19.

GEORGIA TECH APPLIED RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 5—Line of credit (continued)

The Loan Agreement contains various covenants and restrictions. At June 30, 2021, management believes that GTARC was in compliance with these covenants and restrictions.

During the year ended June 30, 2021, GTARC incurred \$108,993 in bank fees related to the line of credit. At June 30, 2021, the interest rate on the line of credit was 1.08%. During the year ended June 30, 2021, there were no draws on the line of credit and there was \$-0- outstanding at June 30, 2021.

Note 6—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 entities to settle intercompany obligations at management's discretion. For the year ended June 30, 2021, GTARC incurred \$2,668,808 in allocated operating expenses. At June 30, 2021, GTARC had an outstanding receivable of \$1,692,109 due from GTRC.