

**GEORGIA TECH
APPLIED RESEARCH CORPORATION**

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2022

And Report of Independent Auditor

GEORGIA TECH APPLIED RESEARCH CORPORATION
TABLE OF CONTENTS

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	9-15

Report of Independent Auditor

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

Report on the Audit of the Financial Statements

Opinion

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 and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GTARC, as of June 30, 2022, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of GTARC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about GTARC’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about GTARC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 19, 2022, 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 solely 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 effectiveness of GTARC's internal control over financial reporting or on compliance. That 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 Bekaert LLP

Atlanta, Georgia
September 19, 2022

GEORGIA TECH APPLIED RESEARCH CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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, deferred inflows of resources 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 interest income, interest expense, 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, 2022

Financial Highlights

The condensed statements of net position at June 30, 2022 and 2021 are shown below:

	<u>2022</u>	<u>2021</u>
Assets		
Current assets	\$ 235,153,756	\$ 189,837,912
Capital assets, net	54,249	57,409
Right-to-use assets, net	41,985,079	-
Noncurrent assets	<u>37,531,687</u>	<u>-</u>
Total Assets	<u>314,724,771</u>	<u>189,895,321</u>
Liabilities		
Current liabilities	97,135,827	68,355,876
Noncurrent liabilities	<u>104,550,413</u>	<u>71,948,403</u>
Total Liabilities	<u>201,686,240</u>	<u>140,304,279</u>
Deferred Inflows of Resources - Leases	<u>41,985,079</u>	<u>-</u>
Net Position		
Invested in capital assets	(1,378,603)	57,409
Unrestricted	<u>72,432,055</u>	<u>49,533,633</u>
Total Net Position	<u>\$ 71,053,452</u>	<u>\$ 49,591,042</u>

Current assets increased by \$45,315,844 or 23.9% from fiscal 2021, due primarily to an increase in receivables compared to 2021.

Effective July 1, 2021, GTARC adopted Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases* ("GASB No. 87") and recorded right-to-use assets, lessor receivables, lease obligations and deferred inflows of resources related to leases that GTARC was the lessee and lessor. At July 1, 2021, right-to-use assets and lease obligations were \$48,032,748, and lessor receivables and deferred inflows of resources were \$48,032,748. The adoption of GASB No. 87 had no impact on GTARC's net position at July 1, 2021.

Current liabilities increased by \$28,779,951 or 42.1% from fiscal 2021, due primarily to the timing of payments to GIT and recording of the current portion of lease obligations in accordance with GASB No. 87.

Noncurrent liabilities increased by \$32,602,010 or 45.3% from fiscal 2021, primarily due to recording of lease obligations in accordance with GASB No.87.

Net position represents the difference between GTARC's assets and liabilities. There was an increase of \$21,462,410 or 43.3% from fiscal 2021, which was attributable to GTARC generating net income from operations in fiscal 2022.

GEORGIA TECH APPLIED RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

Financial Highlights (continued)

The condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2022 and 2021 are shown below:

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 707,692,134	\$ 638,634,809
Operating expenses	(686,359,408)	(630,551,488)
Income from operations	21,332,726	8,083,321
Nonoperating revenues, net	129,684	103,140
Increase in net position	21,462,410	8,186,461
Net position, beginning of year	49,591,042	41,404,581
Net position, end of year	<u>\$ 71,053,452</u>	<u>\$ 49,591,042</u>

Operating revenues consist primarily of research grant revenues. During the fiscal year ended June 30, 2022, operating revenues increased by \$69,057,325 or 10.8%, due to an increase in research activities, funds awarded for research projects, and lease income.

Operating expenses increased by \$55,807,920 or 8.9%, 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 \$1.276 billion in sponsored research awards in fiscal year 2022. Research awards grew in the academic units of GIT. GTRC received approximately \$443 million in new research funding while GTARC received nearly \$833 million. Overall, new funding for GIT research increased approximately 6.5% over new funding received in 2021.

GIT has ongoing research initiatives with public and private sponsors in several key areas. GIT received \$65M in Federal sponsorship to work on artificial intelligence initiatives as part of the Build Back Better legislation. In addition to Artificial Intelligence, some focal points for GIT research include Semi-Conductor Technology, Quantum Computing, Manufacturing and Cybersecurity. Georgia Tech is currently establishing three SRC centers related to Semi-Conductor research as part of a \$100M investment. Georgia Tech continues to be a globally recognized leader in the teaching and discovery of machine learning. Another focal point for current and future GIT research efforts is Climatology, Climate change, clean energy and sustainability. The outlook for research expansion and increased funding in fiscal year 2022 was positive and sponsor investment in GIT research continues to increase for the future.

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, 2022

ASSETS

Current Assets:

Cash	\$ 78,420,307
Accounts Receivable:	
Research contracts - billed	82,937,552
Research contracts - unbilled	69,820,619
Less allowance for doubtful accounts	<u>(3,084,365)</u>
Accounts Receivable, net	149,673,806
Lessor receivable - current portion	5,984,894
Prepaid expenses	<u>1,074,749</u>
Total Current Assets	<u>235,153,756</u>

Noncurrent Assets:

Lessor receivable - noncurrent portion	37,460,564
Right-to-use assets, net	41,985,079
Security deposits	71,123
Capital assets, net	<u>54,249</u>
Total Noncurrent Assets	<u>79,571,015</u>
Total Assets	<u>314,724,771</u>

LIABILITIES

Current Liabilities:

Accounts payable - GIT	82,888,168
Due to Georgia Tech Research Corporation	715,797
Lease obligations - current portion	5,984,894
Unearned research contract revenues	6,481,914
Deferred rent revenue	<u>1,065,054</u>
Total Current Liabilities	<u>97,135,827</u>

Noncurrent Liabilities:

Lease obligations - noncurrent portion	37,433,037
Funds held on behalf of others	<u>67,117,376</u>
Total Noncurrent Liabilities	<u>104,550,413</u>
Total Liabilities	<u>201,686,240</u>

DEFERRED INFLOWS OF RESOURCES - LEASES

41,985,079

NET POSITION

Invested in capital assets	(1,378,603)
Unrestricted	<u>72,432,055</u>
Total Net Position	<u>\$ 71,053,452</u>

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

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

YEAR ENDED JUNE 30, 2022

Operating Revenues:	
Research contracts	\$ 699,621,958
Lease income	8,068,985
Other revenue	1,191
Total Operating Revenues	<u>707,692,134</u>
Operating Expenses:	
Research subcontracted to GIT	672,570,838
Depreciation and amortization	6,302,188
Administrative and general expenses	4,270,935
Lease expenses	1,894,880
Payments to or on behalf of GIT	1,320,567
Total Operating Expenses	<u>686,359,408</u>
Income from Operations	<u>21,332,726</u>
Nonoperating Revenues:	
Interest income	129,684
Interest income - leases	361,672
Interest expense - leases	<u>(361,672)</u>
Total Nonoperating Revenues, net	<u>129,684</u>
Increase in net position	21,462,410
Net position, beginning of year	<u>49,591,042</u>
Net position, end of year	<u>\$ 71,053,452</u>

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

GEORGIA TECH APPLIED RESEARCH CORPORATION
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

Cash flows from operating activities:	
Receipts from grantors	\$ 659,345,239
Receipts from leases	7,147,235
Miscellaneous receipts	1,191
Payments (to) from component unit	2,407,906
Payments to or on behalf of GIT	(1,320,567)
Payments for research contract costs	(656,696,472)
Payments to suppliers	(4,453,910)
Payments for leases	<u>(2,256,552)</u>
Net cash flows from operating activities	<u>4,174,070</u>
Cash flow from capital and financing activities:	
Payments on lease obligations	<u>(4,866,176)</u>
Net cash flows from capital and financing activities	<u>(4,866,176)</u>
Cash flows from investing activities:	
Interest income	129,684
Interest income - leases	361,672
Interest expense - leases	<u>(361,672)</u>
Net cash flows from investing activities	<u>129,684</u>
Net decrease in cash	(562,422)
Cash, beginning of year	<u>78,982,729</u>
Cash, end of year	<u>\$ 78,420,307</u>
Reconciliation of operating income to net cash flows from operating activities:	
Income from operations	\$ 21,332,726
Adjustments to reconcile operating income to net cash flows from operating activities:	
Amortization	6,299,028
Depreciation	3,160
Change in allowance for doubtful accounts	(640,215)
Changes in assets and liabilities:	
Accounts receivable	(40,833,414)
Lessor receivables	(1,460,379)
Prepaid expenses	(111,852)
Security deposits	(71,123)
Payments from component unit	2,407,906
Accounts payable - GIT	20,705,393
Funds held on behalf of others	(4,831,027)
Unearned research contract revenues	1,196,910
Deferred rent revenue	<u>176,957</u>
Net cash flows from operating activities	<u>\$ 4,174,070</u>

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

GEORGIA TECH APPLIED RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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 GASB Statement 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 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, 2022

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, 2022, GTARC derived approximately 98.6% of its revenue from contracts with the U.S. government. At June 30, 2022, approximately 86.1% of the billed research contracts accounts receivable was from the U.S. government and approximately 5.4% was from the Georgia Department of Community Health. Management does not believe these receivables represent a significant credit risk at June 30, 2022.

Cash – At June 30, 2022, the bank balance was \$78,537,368 and the book balance was \$78,420,307. 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, 2022, 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. Changes in the allowance for doubtful accounts for the year ended June 30, 2022 are as follows:

Beginning balance	\$ 3,724,580
Write-offs	(640,215)
Ending balance	<u>\$ 3,084,365</u>

GEORGIA TECH APPLIED RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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.

Right-to-Use Assets, Lease Receivables and Lease Obligations – GTARC leases certain academic spaces, administrative offices, and equipment under lease agreements. GTARC has both leases under which it is obligated as a lessee and leases for which it is a lessor.

Leases, as a lessee, are included in right-to-use assets and lease obligations on the statement of net position. A right-to-use asset represents GTARC's right to use an underlying asset for the lease term. Lease obligations represent GTARC's liability to make lease payments arising from the lease agreement. Right-to-use assets and lease obligations are recognized based on the present value of lease payments over the lease term, where the initial term exceeds 12 months. Residual value guarantees and the value of an option to extend or terminate a lease are reflected to the extent it is reasonably certain to be paid or exercised. Variable payments based on future performance or usage are not included in the measurement of the lease liability. Right-to-use assets are amortized using a straight-line basis over the shorter of the lease term or useful life of the underlying asset.

Rental income arising from leases where GTARC is the lessor is included as lease receivables and deferred inflow of resources at the commencement of the lease on the statement of net position. Revenue under these lease arrangements is recognized on a straight-line basis over the lease term.

Deferred Inflows of Resources – Deferred inflows of resources consist of the acquisition of net position that is applicable to a future reporting period.

Net Position – Net position is classified as follows: *Invested in capital assets* represents total investment in capital assets, net of related depreciation and total right-to-use assets, net of related amortization. *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.

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 Statement No. 87, *Leases* ("GASB No. 87"), 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.

GEORGIA TECH APPLIED RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 2—Summary of significant accounting policies (continued)

GTARC adopted GASB No. 87 on July 1, 2021. For the leases where GTARC is the lessee the adoption of GASB No. 87 resulted in an increase in assets and liabilities of \$48,032,748. For the leases where GTARC is the lessor, the adoption of GASB No. 87 resulted in an increase in lease receivables and deferred inflows of resources of \$48,032,748. The cumulative effect on GTARC's net position from the adoption of GASB No. 87 was zero.

In June 2018, GASB issued Statement 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. GTARC adopted this statement on July 1, 2021; the adoption of this statement had no impact on GTARC's financial statements.

In May 2019, GASB issued Statement 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's management does not believe that implementing this statement will have a material impact on its financial statements.

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—Right-to-use assets, net

GTARC has recorded right-to-use assets related to leased space for remote field offices. The related lease obligations are discussed in Note 5. Changes in right-to-use assets for the year ended June 30, 2022 are shown below:

	Beginning Balance July 1, 2021	Additions	Reductions	Ending Balance June 30, 2022
Right-to-use assets:				
Building and building improvements	\$ 48,032,748	\$ 251,359	\$ -	\$ 48,284,107
Total right-to-use assets being amortized	48,032,748	251,359	-	48,284,107
Less accumulated amortization for:				
Building and building improvements	-	(6,299,028)	-	(6,299,028)
Total accumulated amortization	-	(6,299,028)	-	(6,299,028)
Right-to-use assets, net	<u>\$ 48,032,748</u>	<u>\$ (6,047,669)</u>	<u>\$ -</u>	<u>\$ 41,985,079</u>

GEORGIA TECH APPLIED RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 5—Lease obligations

GTARC has entered into agreements to lease space for 14 remote field offices as of June 30, 2022. 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. These agreements shall terminate if the University System of Georgia Board of Regents (“Board of Regents”), a related entity, does not provide adequate funding to GIT, but that is considered a remote possibility. GTARC’s principal and interest payments related to leases for the year ended June 30, 2022 were \$4,866,176 and \$361,672 respectively. Interest rate ranges from 0.50% to 6.50%.

The following is a summary of the carrying values of right-to-use assets held under lease at June 30, 2022:

Description	Gross Amount	Less Accumulated Amortization	Net Assets Held Under Lease at June 30, 2022	Outstanding Balance per Lease Agreements at June 30, 2022
Building and Building Improvements	\$ 48,284,107	\$ 6,299,028	\$ 41,985,079	\$ 43,417,931
Total Assets Held Under Lease	<u>\$ 48,284,107</u>	<u>\$ 6,299,028</u>	<u>\$ 41,985,079</u>	<u>\$ 43,417,931</u>

The following schedule lists pertinent information for each of GTARC’s leases at June 30, 2022:

Description	Lessor	Original Principal	End Month/Year	Remaining Lease Term	Outstanding Principal at June 30, 2022
Orlando, FL	EIP UP, LLC	\$ 617,975	12/25	3.5 years	\$ 488,912
Panama City, FL	Devine Spa and Sa	99,193	06/23	1 year	50,212
Shalimar, FL	Radboud Propertie	277,649	04/24	2 years	180,102
Boston, MA	RCS-Bedford (DM)	3,926,870	04/31	9 years	3,582,102
Quantico, VA	Patricia Group, LLC	1,365,329	03/27	5 years	1,175,737
Arlington, VA	Rosslyn Metro Cen	6,439,986	05/32	10 years	6,441,090
Dayton, OH	2970 Presidential C	3,041,620	06/30	8 years	2,740,143
Tucson, AZ	ABP, LLC	369,502	06/25	3 years	267,042
Phoenix, AZ	Shirinian Properties	996,636	06/28	6 years	868,121
Pax River, MD	Wildewood One, LI	1,498,937	06/28	6 years	1,292,061
Huntsville, AL	LW Redstone Com	3,716,088	04/25	3 years	2,790,810
San Diego, CA	LVA5 San Diego Lf	9,543,569	03/29	7 years	8,533,841
CODA - Atlanta, GA	Portman Tech, LLC	9,020,418	05/34	12 years	8,429,844
ATC - Atlanta, GA	GTF ATC, LLC	7,370,335	06/28	6 years	6,577,914
Total		<u>\$ 48,284,107</u>			<u>\$ 43,417,931</u>

GEORGIA TECH APPLIED RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 5—Lease obligations (continued)

Future commitments related to the outstanding lease obligations at June 30, 2022 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 5,984,894	\$ 320,756	\$ 6,305,650
2024	6,246,611	271,403	6,518,014
2025	6,214,772	218,960	6,433,732
2026	5,331,528	174,152	5,505,680
2027	4,957,421	135,193	5,092,614
2028-2032	13,248,440	249,157	13,497,597
2033-2037	1,434,265	9,372	1,443,637
	<u>\$ 43,417,931</u>	<u>\$ 1,378,993</u>	<u>\$ 44,796,924</u>

Changes in lease obligations for the year ended June 30, 2022 are shown below:

	<u>Beginning Balance July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2022</u>
Lease obligations	\$ 48,032,748	\$ 251,359	\$ (4,866,176)	\$ 43,417,931
	<u>\$ 48,032,748</u>	<u>\$ 251,359</u>	<u>\$ (4,866,176)</u>	<u>\$ 43,417,931</u>

Note 6—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. On December 28, the Original Agreement was again amended (the “Fourth Amendment”) to extend the expiration date to November 10, 2022 and increase the borrowing limit to \$50,000,000. The increase in the borrowing limit was to ensure adequate working capital and due to the possibility of government shutdowns.

The Loan Agreement contains various covenants and restrictions. At June 30, 2022, management believes GTARC was in compliance with these covenants and restrictions.

During the year ended June 30, 2022, GTARC incurred \$63,146 in bank fees related to the line of credit. At June 30, 2022, the interest rate on the line of credit was 2.58%. During the year ended June 30, 2022, there were no draws on the line of credit and there was no balance outstanding at June 30, 2022.

GEORGIA TECH APPLIED RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 7—Deferred inflows of resources

Deferred inflows of resources reported on the statement of net position as of June 30, 2022, consist of deferred inflows of resources related to leases where GTARC is the lessor. The Board of Regents, a related entity, is the lessee under all leases where GTARC is the lessor.

The following is a summary of assets with deferred inflows of resources held under lease at June 30, 2022:

Description	Lessee	End Month/Year	Remaining Lease Term	Amortized Revenue Year Ended June 30, 2022	Deferred Inflow of Resource at June 30, 2022
Orlando, FL	Board of Regents	12/25	3.5 years	\$ 137,328	\$ 480,647
Panama City, FL	Board of Regents	06/23	1 year	49,596	49,596
Shalimar, FL	Board of Regents	04/24	2 years	97,994	179,656
Boston, MA	Board of Regents	04/31	9 years	399,343	3,527,528
Quantico, VA	Board of Regents	03/27	5 years	237,448	1,127,880
Arlington, VA	Board of Regents	05/32	10 years	589,922	5,850,064
Dayton, OH	Board of Regents	06/30	8 years	337,958	2,703,663
Tucson, AZ	Board of Regents	06/25	3 years	92,376	277,127
Phoenix, AZ	Board of Regents	06/28	6 years	142,377	854,259
Pax River, MD	Board of Regents	06/28	6 years	214,134	1,284,803
Huntsville, AL	Board of Regents	04/25	3 years	969,414	2,746,674
San Diego, CA	Board of Regents	03/29	7 years	1,231,428	8,312,141
CODA - Atlanta, GA	Board of Regents	05/34	12 years	730,347	8,290,070
ATC - Atlanta, GA	Board of Regents	06/28	6 years	1,069,363	6,300,971
Total				<u>\$ 6,299,028</u>	<u>\$ 41,985,079</u>

Note 8—Related party transactions

During the course of normal business, GIT, GTARC and GTRC have numerous shared transactions. On a monthly basis, GIT bills GTRC and GTARC for research administration costs. GTRC allocates and receives reimbursement from GTARC for its proportionate share of the costs GIT bills to GTRC. In addition, GTARC is billed directly by GIT for other research administration costs. Intercompany balances between GTRC and GTARC are reconciled monthly and funds are transferred between the entities to settle intercompany obligations at management's discretion.

For the year ended June 30, 2022, GTARC reimbursed GTRC \$3,115,930 for allocated research administration costs of which \$2,377,491 represents GIT billings to GTRC. In addition, for the year ended June 30, 2022, GIT directly billed and received reimbursement of \$1,155,005 for other research administration from GTARC. These amounts are reported in administrative and general expenses in the statement of revenues, expenses, and changes in net position. At June 30, 2022, GTARC had an outstanding payable of \$715,797 due to GTRC.