

**GEORGIA TECH  
APPLIED RESEARCH CORPORATION  
(A Component Unit of Georgia Tech Research  
Corporation)**

**FINANCIAL STATEMENTS**

*As of and for the Year Ended June 30, 2023*

*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 Audit of the Financial Statements

#### **Opinion**

We have audited the accompanying financial statements 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, 2023, and the related notes to the financial statements, which collectively comprise the GTARC’s 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, 2023, 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 opinion. 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 3–6 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 15, 2023, 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 15, 2023

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

JUNE 30, 2023

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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 as defined in 6.17.1 of the University System of Georgia's Board of Regents Policy Manual.

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 reduced or increased by nonoperating revenues or expenses 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, 2023

**Financial Highlights**

The condensed statements of net position at June 30, 2023 and 2022 are shown below:

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Current assets	\$ 268,216,961	\$ 235,153,756
Capital assets, net	46,059,788	42,039,328
Other assets	41,351,859	37,531,687
Total Assets	<u>355,628,608</u>	<u>314,724,771</u>
<b>Liabilities</b>		
Current liabilities	86,250,207	97,135,827
Noncurrent liabilities	143,259,696	104,550,413
Total Liabilities	<u>229,509,903</u>	<u>201,686,240</u>
<b>Deferred Inflows of Resources - Leases</b>	<u>46,008,699</u>	<u>41,985,079</u>
<b>Net Position</b>		
Net invested in capital assets	(1,913,359)	(1,378,603)
Unrestricted	82,023,365	72,432,055
Total Net Position	<u>\$ 80,110,006</u>	<u>\$ 71,053,452</u>

Current assets increased by \$33,063,205 or 14.1% from fiscal 2022, due primarily to an increase in the cash balance.

Capital assets, net increased by \$4,020,460 or 9.6% from fiscal 2022, due primarily to an increase in right-of-use assets resulting from lease additions, offset by the amortization of right-of-use assets.

Other assets increased by \$3,820,172 or 10.2% from fiscal 2022, due primarily to a decrease in the long term portion of the lessor receivable balance.

Current liabilities decreased by \$10,885,620 or 11.2% from fiscal 2022, due primarily to the timing of payments to GIT.

Noncurrent liabilities increased by \$38,709,283 or 37.0% from fiscal 2022, primarily due to an increase in funds held on behalf of others.

Net position represents the difference between GTARC's assets and liabilities. There was an increase of \$9,056,554 or 12.7% from fiscal 2022, which was attributable to GTARC generating net income from operations plus nonoperating revenues in fiscal 2023.

# GEORGIA TECH APPLIED RESEARCH CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

### Financial Highlights (continued)

The condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2023 and 2022 are shown below:

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 833,258,947	\$ 707,692,134
Operating expenses	<u>(825,807,459)</u>	<u>(686,359,408)</u>
Income from operations	7,451,488	21,332,726
Nonoperating revenues, net	<u>1,605,066</u>	<u>129,684</u>
Increase in net position	9,056,554	21,462,410
Net position, beginning of year	<u>71,053,452</u>	<u>49,591,042</u>
Net position, end of year	<u>\$ 80,110,006</u>	<u>\$ 71,053,452</u>

Operating revenues consist primarily of research grant revenues. Operating revenues increased by \$125,566,813 or 17.7% from fiscal year 2022, due to an increase in research activities, funds awarded for research projects, and lease income.

Operating expenses increased by \$139,448,051 or 20.3% from fiscal year 2022, due primarily to an increase in subcontracted research expenses related to the increase in research activities.

Nonoperating revenues, net increased by \$1,475,382 or 1,137.7%, from fiscal 2022 primarily due to a significant increase in interest earned year-over-year due to rising interest rates.

### Economic Outlook

GIT, through GTRC and GTARC, received approximately \$1.454 billion in sponsored research awards in fiscal year 2023. Research awards grew in the academic units of GIT. GTRC received nearly \$513 million in new research funding while GTARC received over \$941 million. Overall, new funding for GIT research increased approximately 14.0% over new funding received in 2022.

GIT has ongoing research initiatives with public and private sponsors in several key areas. Artificial Intelligence (AI) continues to be an area of strength with the launch of a state-wide partnership in AI in Manufacturing, led by GIT with a \$65.0 million award from the U.S. Commerce Department's Build-Back-Better program. The Semiconductor Research Corporation awarded \$65.0 million to GIT to support three centers focused on the design of modern semiconductors based on AI, cognitive systems, and intelligent sensing. GIT is a key partner in the National Science Foundation Regional Innovation Engine development award led by Emory University addressing health disparities in disease diagnostics. GIT is also a core partner in the New York Climate Exchange on Governors Island, led by Stony Brook University. GIT is also the recipient of a \$27.0 million ARPA-H award in immunoengineering. Additional research focus areas include: clean energy, sustainability, cybersecurity, quantum information science, life sciences and biotechnology, aerospace and planetary science. With support from GTRC and GTARC, GIT also continues to increase its emphasis on delivering impact through its research. The impact is through licensing intellectual property to the industry and also launching startups to productize novel technologies. This past year, the number of inventions grew by 23.0% and the number of patents granted grew by 24.0%. Sixteen startup companies were launched at GIT during the fiscal year ended June 30, 2023.

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

*JUNE 30, 2023*

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**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, 2023

**ASSETS**

Current Assets:

Cash	\$ 106,119,423
Accounts Receivable:	
Research contracts - billed	69,530,716
Research contracts - unbilled	82,636,001
Less allowance for doubtful accounts	(2,464,513)
Other receivables	696,532
Accounts Receivable, net	150,398,736
Due from Georgia Tech Research Corporation	3,795,434
Lessor receivable - current portion	6,692,411
Prepaid expenses	1,210,957
Total Current Assets	<u>268,216,961</u>

Noncurrent Assets:

Lessor receivable - noncurrent portion	41,280,736
Security deposits	71,123
Capital assets, net	46,059,788
Total Noncurrent Assets	<u>87,411,647</u>
<b>Total Assets</b>	<u><u>355,628,608</u></u>

**LIABILITIES**

Current Liabilities:

Accounts payable - GIT	71,852,563
Lease obligations - current portion	6,692,411
Unearned research contract revenues	6,427,459
Unearned rent revenue	1,277,774
Total Current Liabilities	<u>86,250,207</u>

Noncurrent Liabilities:

Lease obligations - noncurrent portion	41,280,736
Fees payable - GIT	101,978,960
Total Noncurrent Liabilities	<u>143,259,696</u>
<b>Total Liabilities</b>	<u>229,509,903</u>

**DEFERRED INFLOWS OF RESOURCES**

46,008,699

**NET POSITION**

Net invested in capital assets	(1,913,359)
Unrestricted	82,023,365
<b>Total Net Position</b>	<u><u>\$ 80,110,006</u></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, 2023*

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Operating Revenues:	
Research contracts	\$ 824,271,411
Lease revenue	8,985,872
Other revenue	1,664
Total Operating Revenues	<u>833,258,947</u>
Operating Expenses:	
Research subcontracted to GIT	807,282,881
Depreciation and amortization	6,751,655
Administrative and general expenses	7,877,045
Lease expenses	2,237,379
Payments to or on behalf of GIT	1,658,499
Total Operating Expenses	<u>825,807,459</u>
Income from Operations	<u>7,451,488</u>
Nonoperating Revenues:	
Interest income	1,605,066
Interest income - leases	487,736
Interest expense - leases	(487,736)
Total Nonoperating Revenues, net	<u>1,605,066</u>
Increase in net position	9,056,554
Net position, beginning of year	<u>71,053,452</u>
Net position, end of year	<u>\$ 80,110,006</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, 2023

**Cash flows from operating activities:**

Receipts from grantors	\$ 823,492,026
Receipts from leases	8,694,523
Miscellaneous receipts	1,664
Payments to Georgia Tech Research Corporation	(4,511,231)
Payments to or on behalf of GIT	(1,658,499)
Payments for research contract costs	(783,456,902)
Payments to suppliers	(8,013,253)
Payments for leases	(2,237,379)
Net cash flows from operating activities	<u>32,310,949</u>

**Cash flows from capital and related financing activities:**

Payments on lease obligations	<u>(6,216,899)</u>
Net cash flows from capital and related financing activities	<u>(6,216,899)</u>

**Cash flows from investing activities:**

Interest income	1,605,066
Interest income - leases	487,736
Interest expense - leases	<u>(487,736)</u>
Net cash flows from investing activities	<u>1,605,066</u>

Increase in cash	27,699,116
Cash, beginning of year	<u>78,420,307</u>
Cash, end of year	<u>\$ 106,119,423</u>

**Reconciliation of operating income to net cash flows from operating activities:**

Income from operations	\$ 7,451,488
Adjustments to reconcile operating income to net cash flows from operating activities:	
Amortization of right-of-use assets	6,748,495
Depreciation	3,160
Change in allowance for doubtful accounts	(619,852)
Changes in assets and liabilities:	
Accounts receivable	(105,078)
Lessor receivables	(504,069)
Prepaid expenses	(136,208)
Due from Georgia Tech Research Corporation	(4,511,231)
Accounts payable - GIT	(11,035,605)
Fees payable - GIT	34,861,584
Unearned research contract revenues	(54,455)
Unearned rent revenue	212,720
Net cash flows from operating activities	<u>\$ 32,310,949</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, 2023

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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 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 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 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, 2023

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**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.

*Fees Payable to GIT* – 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. The short-term portion represents the amounts requested by GIT not paid as of year-end and are reported in accounts payable – GIT in the statement of net position.

*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.

*Cash* – At June 30, 2023, the bank balance was \$106,267,370 and the book balance was \$106,119,423. 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, 2023, 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, 2023 are as follows:

Beginning balance	\$ 3,084,365
Write-offs	<u>(619,852)</u>
Ending balance	<u><u>\$ 2,464,513</u></u>

*Capital Assets* – A threshold of \$5,000 has been established for capitalizing equipment. All capitalized assets purchased under the terms of equipment and facilities grants are donated to GIT when fully depreciated. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives which range from 3 to 10 years. The straight-line method of depreciation is followed for all capital assets.

**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2023

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**Note 2—Summary of significant accounting policies (continued)**

*Leases* – 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.

Right-of-use (“ROU”) assets represent GTARC’s ROU an underlying asset for the lease term and are reported as capital assets. Lease obligations represent GTARC’s liability to make lease payments arising from the lease agreement. ROU 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. ROU assets are amortized using a straight-line basis over the shorter of the lease term or useful life of the underlying asset.

GTARC’s lessor receivable is measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, GTARC may receive variable lease payments that are based on future performance or usage. The variable payments are recorded as an inflow of resources in the period the payment is received. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

*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: *Net Invested in capital assets* represents total investment in capital assets, net of related depreciation and total ROU 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* – On July 1, 2022, GTARC adopted GASB Statement 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 adoption of this standard did not have a material impact on GTARC’s financial statements.

On July 1, 2022, GTARC adopted GASB Statement 96, *Subscription-Based Information Technology Arrangements (“SBITA”)*, which defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. The adoption of this standard did not have a material impact on GTARC’s financial statements.

**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2023

**Note 3—Capital assets, net**

Capital asset activity for the year ended June 30, 2023 is as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2022</b>	<b>Additions</b>	<b>Disposals</b>	<b>June 30, 2023</b>
Capital assets being depreciated:				
Building improvements	\$ 79,003	\$ -	\$ -	\$ 79,003
Leased buildings - right-of-use assets	48,284,107	10,772,115	-	59,056,222
Total capital assets being depreciated	48,363,110	10,772,115	-	59,135,225
Less accumulated depreciation for:				
Building improvements	(24,754)	(3,160)	-	(27,914)
Less accumulated amortization for:				
Leased buildings - right-of-use assets	(6,299,028)	(6,748,495)	-	(13,047,523)
Total accumulated depreciation and amortization	(6,323,782)	(6,751,655)	-	(13,075,437)
Total capital assets, net	<u>\$ 42,039,328</u>	<u>\$ 4,020,460</u>	<u>\$ -</u>	<u>\$ 46,059,788</u>

**Note 4—Leases**

GTARC has entered into agreements to lease space for remote field offices that 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. The lease revenue is measured at the present value of the future rent payments expected to be received during the lease term at discount rates ranging from .34% to 6.5%. During the year ended June 30, 2023, GTARC recognized \$8,985,872 of lease revenue and \$487,736 of interest revenue under these leases.

Deferred inflows of resources reported on the statement of net position as of June 30, 2023, 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 deferred inflow of resources on lease activity for the fiscal year ended June 30, 2023 is as follows:

	<b>Beginning</b>		<b>Ending</b>
	<b>Balance</b>	<b>Revenue</b>	<b>Balance</b>
	<b>July 1, 2022</b>	<b>Recognized</b>	<b>June 30, 2023</b>
Deferred inflows of resources on leases	<u>\$ 41,985,079</u>	<u>\$ (6,748,495)</u>	<u>\$ 46,008,699</u>

**GEORGIA TECH APPLIED RESEARCH CORPORATION**  
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JUNE 30, 2023

**Note 4—Leases (continued)**

Changes in lease obligations for the year ended June 30, 2023 are as follows:

	<b>Beginning Balance July 1, 2022</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance June 30, 2023</b>	<b>Current Portion</b>
Lease obligations	\$ 43,417,931	\$ 10,772,115	\$ (6,216,899)	\$ 47,973,147	\$ 6,692,411

GTARC's principal and interest payments related to leases for the year ended June 30, 2023 were \$6,216,899 and \$487,736 respectively. Interest rate ranges from .34% to 6.5%.

Future commitments related to the outstanding lease obligations at June 30, 2023 are as follows:

<b>Years Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 6,692,411	\$ 783,772	\$ 7,476,183
2025	6,652,977	665,428	7,318,405
2026	5,807,793	553,985	6,361,778
2027	5,864,567	444,432	6,308,999
2028	5,727,581	340,669	6,068,250
2029-2033	16,550,340	615,154	17,165,494
2034-2038	677,478	1,960	679,438
	<u>\$ 47,973,147</u>	<u>\$ 3,405,400</u>	<u>\$ 51,378,547</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. 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. Effective December 10, 2022, the line of credit was renewed and the expiration date was extended to December 10, 2023.

The Loan Agreement contains various covenants and restrictions. At June 30, 2023, management believes GTARC was in compliance with these covenants and restrictions.

During the year ended June 30, 2023, GTARC incurred \$126,736 in bank fees related to the line of credit. At June 30, 2023, the interest rate on the line of credit was 6.06%. During the year ended June 30, 2023, there were no draws on the line of credit and there was no balance outstanding at June 30, 2023.



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**Note 6—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, 2023, GTARC reimbursed GTRC \$4,183,782 for allocated research administration costs of which \$2,969,800 represents GIT billings to GTRC. In addition, for the year ended June 30, 2023, GIT directly billed and received reimbursement of \$3,693,263 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, 2023, GTARC had an outstanding receivable of \$3,795,434 from GTRC.

**Note 7—Contingencies and concentrations**

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 fiscal year ended June 30, 2023, GTARC derived approximately 98.2% of its revenue from contracts with the U.S. government. At June 30, 2023, approximately 83.0% of the billed research contracts accounts receivable was from the U.S. government and approximately 7.9% was from the Georgia Department of Community Health. Management does not believe these receivables represent a significant credit risk at June 30, 2023.