

GEORGIA TECH RESEARCH CORPORATION
(An affiliate of Georgia Institute of Technology)

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2023

And Report of Independent Auditor

GEORGIA TECH RESEARCH CORPORATION
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Report of Independent Auditor

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Georgia Tech Research Corporation (“GTRC”), an affiliate of Georgia Institute of Technology, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the GTRC’s basic 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 respective financial position of the business-type activities and the discretely presented component unit of GTRC, as of June 30, 2023, and the respective changes in 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 Opinions

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 GTRC 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 opinions.

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 GTRC’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 GTRC'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 GTRC'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 15, 2023, on our consideration of GTRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 GTRC'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 GTRC's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Atlanta, Georgia
September 15, 2023

GEORGIA TECH RESEARCH CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Introduction

The Georgia Tech Research Corporation ("GTRC") is a state-chartered, not-for-profit corporation serving the Georgia Institute of Technology ("GIT"), a unit of the University System of the state of Georgia, as an approved cooperative organization. The Georgia Tech Applied Research Corporation ("GTARC") is a state-chartered, not-for-profit corporation serving GIT as an approved cooperative organization as defined in 6.17.1 of the University System of Georgia's Board of Regents Policy Manual.

GTRC and GTARC are organized and operate primarily for the purpose of soliciting grants and contracts, accepting grants or entering into contracts for research or services to be performed by or in conjunction with GIT or to be performed using GIT's facilities, and for related objectives. GTRC serves the business segments of GIT, which perform research in accordance with guidance released by the Office of Management and Budget ("OMB"). Awards adhere to Uniform Administrative Requirements, Cost Principles, and Audit Requirements contained in Title 2 of the Code of Federal Regulations. With respect to subsequent incremental funding provided on awards which were received preceding the changes to OMB guidance, GTRC administers the research in accordance with instruction provided by the individual awarding federal agencies.

Description of the Financial Statements

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

The statement of net position presents the assets, liabilities, deferred inflows of resources, and net position of GTRC.

The statement of revenues, expenses, and changes in net position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or 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 activities, capital and related financing activities, and investing activities.

GEORGIA TECH RESEARCH CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Financial Highlights

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

	<u>2023</u>	<u>2022</u>
Assets		
Current assets	\$ 234,152,877	\$ 216,700,136
Capital assets, net	52,243,657	59,383,435
Other assets	<u>45,161,332</u>	<u>54,022,898</u>
Total Assets	<u>331,557,866</u>	<u>330,106,469</u>
Liabilities		
Current liabilities	153,529,877	148,891,196
Noncurrent liabilities	<u>45,137,025</u>	<u>53,922,136</u>
Total Liabilities	<u>198,666,902</u>	<u>202,813,332</u>
Deferred Inflows of Resources - Leases	<u>51,525,372</u>	<u>58,829,364</u>
Net Position		
Net invested in capital assets	(280,147)	(256,932)
Restricted	7,181,311	4,717,786
Unrestricted	<u>74,464,428</u>	<u>64,002,919</u>
Total Net Position	<u>\$ 81,365,592</u>	<u>\$ 68,463,773</u>

Current assets increased by \$17,452,741, or 8.1% from fiscal 2022, due primarily to an increase in cash and accounts receivable balances.

Capital assets decreased by \$7,139,778, or 12.0% from fiscal 2022, primarily due to the amortization of right-of-use assets (ROU).

Other assets decreased by \$8,861,566, or 16.4% from fiscal 2022, primarily due to a decrease in the long-term portion of the lessor receivable balance.

Current liabilities increased by \$4,638,681, or 3.1% from fiscal 2022, primarily due to an increase in advance payments on research contracts.

Noncurrent liabilities decreased by \$8,785,111, or 16.3% from fiscal 2022, primarily due to a decrease in the long-term portion of the lessee obligation balance.

Net position represents the difference between total assets and liabilities. There was an increase in net position of \$12,901,819, or 18.8% from fiscal 2022, which was attributable to GTRC generating net income from operations in fiscal 2023.

GEORGIA TECH RESEARCH CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Financial Highlights (continued)

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

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 430,395,370	\$ 394,291,912
Operating expenses	(419,242,651)	(379,849,679)
Income from operations	11,152,719	14,442,233
Nonoperating revenues, net	1,749,100	302,177
Increase in net position	12,901,819	14,744,410
Net position, beginning of year	68,463,773	53,719,363
Net position, end of year	<u>\$ 81,365,592</u>	<u>\$ 68,463,773</u>

Operating revenues consist primarily of research contracts, licensing fees, royalty revenues, gift revenue, and lease income. During fiscal 2023, operating revenues increased by \$36,103,458, or 9.2%, from fiscal 2022 primarily due to increased research project revenues and lease income.

Operating expenses increased by \$39,392,972, or 10.4%, from fiscal 2022 primarily due to a nearly proportional increase in research expenses relative to operating revenues.

Nonoperating revenues, net increased by \$1,446,923, or 478.8%, 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 Stonybrook 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, and 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 year ended June 30, 2023.

Requests for Information

This financial report is designed to provide a general overview of Georgia Tech 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, including the separately issued financial statements for Georgia Tech Applied Research Corporation, should be addressed to the Office of the Controller, Georgia Tech Research Corporation, 926 Dalney Street N.W. Atlanta, Georgia, 30332-0415.

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF NET POSITION

JUNE 30, 2023

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
ASSETS			
Current Assets:			
Cash	\$ 128,812,265	\$ 106,119,423	\$ 234,931,688
Accounts Receivable:			
Research contracts - billed	36,030,748	69,530,716	105,561,464
Research contracts - unbilled	63,148,112	82,636,001	145,784,113
Other receivables	1,627,849	696,532	2,324,381
Less allowance for doubtful accounts	<u>(2,932,745)</u>	<u>(2,464,513)</u>	<u>(5,397,258)</u>
Accounts Receivable, Net	97,873,964	150,398,736	248,272,700
Due from Georgia Tech Research Corporation	-	3,795,434	3,795,434
Lessor receivable - current portion	7,386,692	6,692,411	14,079,103
Prepaid expenses	79,956	1,210,957	1,290,913
Total Current Assets	<u>234,152,877</u>	<u>268,216,961</u>	<u>502,369,838</u>
Noncurrent Assets:			
Investments	61	-	61
Lessor receivable - noncurrent portion	45,147,858	41,280,736	86,428,594
Security deposits	13,413	71,123	84,536
Capital assets, net	<u>52,243,657</u>	<u>46,059,788</u>	<u>98,303,445</u>
Total Noncurrent Assets	<u>97,404,989</u>	<u>87,411,647</u>	<u>184,816,636</u>
Total Assets	<u>331,557,866</u>	<u>355,628,608</u>	<u>687,186,474</u>
LIABILITIES			
Current Liabilities:			
Accounts payable - GIT	47,724,913	71,852,563	119,577,476
Due to Georgia Tech Applied Research Corporation	3,795,434	-	3,795,434
Lease obligations - current portion	7,386,779	6,692,411	14,079,190
Unearned research contract revenues	94,490,619	6,427,459	100,918,078
Unearned rent revenue	132,132	1,277,774	1,409,906
Total Current Liabilities	<u>153,529,877</u>	<u>86,250,207</u>	<u>239,780,084</u>
Noncurrent Liabilities:			
Lease obligations - long-term portion	45,137,025	41,280,736	86,417,761
Fees payable - GIT	-	101,978,960	101,978,960
Total Noncurrent Liabilities	<u>45,137,025</u>	<u>143,259,696</u>	<u>188,396,721</u>
Total Liabilities	<u>198,666,902</u>	<u>229,509,903</u>	<u>428,176,805</u>
DEFERRED INFLOWS OF RESOURCES	<u>51,525,372</u>	<u>46,008,699</u>	<u>97,534,071</u>
NET POSITION			
Net invested in capital assets	(280,147)	(1,913,359)	(2,193,506)
Restricted	7,181,311	-	7,181,311
Unrestricted	<u>74,464,428</u>	<u>82,023,365</u>	<u>156,487,793</u>
Total Net Position	<u>\$ 81,365,592</u>	<u>\$ 80,110,006</u>	<u>\$ 161,475,598</u>

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

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

YEAR ENDED JUNE 30, 2023

	Component Unit		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-Type Activities
Operating Revenues:			
Research contracts	\$ 415,300,495	\$ 824,271,411	\$ 1,239,571,906
Licenses and royalties	3,105,126	-	3,105,126
Lease revenue	7,606,193	8,985,872	16,592,065
Gift revenue	4,379,382	-	4,379,382
Other revenue	4,174	1,664	5,838
Total Operating Revenues	<u>430,395,370</u>	<u>833,258,947</u>	<u>1,263,654,317</u>
Operating Expenses:			
Research subcontracted to GIT	392,623,971	807,282,881	1,199,906,852
Depreciation and amortization	7,444,273	6,751,655	14,195,928
Administrative and general expenses	2,471,394	7,877,045	10,348,439
Licenses and royalties expenses	6,566,646	-	6,566,646
Lease expenses	302,146	2,237,379	2,539,525
Payments to or on behalf of GIT	9,834,221	1,658,499	11,492,720
Total Operating Expenses	<u>419,242,651</u>	<u>825,807,459</u>	<u>1,245,050,110</u>
Income from Operations	<u>11,152,719</u>	<u>7,451,488</u>	<u>18,604,207</u>
Nonoperating Income:			
Interest income	1,747,291	1,605,066	3,352,357
Interest income - leases	735,466	487,736	1,223,202
Interest expense - leases	(735,381)	(487,736)	(1,223,117)
Net gain on sales of investments	1,724	-	1,724
Total Nonoperating Income	<u>1,749,100</u>	<u>1,605,066</u>	<u>3,354,166</u>
Increase in net position	12,901,819	9,056,554	21,958,373
Net position, beginning of year	<u>68,463,773</u>	<u>71,053,452</u>	<u>139,517,225</u>
Net position, end of year	<u>\$ 81,365,592</u>	<u>\$ 80,110,006</u>	<u>\$ 161,475,598</u>

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

GEORGIA TECH RESEARCH CORPORATION
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

	Georgia Tech Research Corporation	Component Unit Georgia Tech Applied Research Corporation	Total Business-Type Activities
Cash flows from operating activities:			
Receipts from grantors	\$ 408,924,704	\$ 823,492,026	\$ 1,232,416,730
Receipts of license fees and royalties	3,105,126		3,105,126
Receipts from leases	9,353,827	8,694,523	18,048,350
Miscellaneous receipts	4,174	1,664	5,838
Payments (to) from component unit	4,511,231	(4,511,231)	-
Payments to or on behalf of GIT	(9,834,221)	(1,658,499)	(11,492,720)
Payments for research contract costs	(391,254,810)	(783,456,902)	(1,174,711,712)
Payments for licenses and royalties	(6,566,646)	-	(6,566,646)
Payments for leases	(302,146)	(2,237,379)	(2,539,525)
Payments to suppliers	(2,242,590)	(8,013,253)	(10,255,843)
Net cash flows from operating activities	<u>15,698,649</u>	<u>32,310,949</u>	<u>48,009,598</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(304,495)	-	(304,495)
Payments on lease obligations	(8,996,940)	(6,216,899)	(15,213,839)
Net cash flows from capital and related financing activities	<u>(9,301,435)</u>	<u>(6,216,899)</u>	<u>(15,518,334)</u>
Cash flows from investing activities:			
Interest income	1,747,291	1,605,066	3,352,357
Interest income - leases	735,466	487,736	1,223,202
Interest expense - leases	(735,381)	(487,736)	(1,223,117)
Proceeds from sales of investments	1,724	-	1,724
Net cash flows from investing activities	<u>1,749,100</u>	<u>1,605,066</u>	<u>3,354,166</u>
Increase in cash	8,146,314	27,699,116	35,845,430
Cash, beginning of year	120,665,951	78,420,307	199,086,258
Cash, end of year	<u>\$ 128,812,265</u>	<u>\$ 106,119,423</u>	<u>\$ 234,931,688</u>
Reconciliation of operating income to net cash flows from operating activities:			
Income from operations	\$ 11,152,719	\$ 7,451,488	\$ 18,604,207
Adjustments to reconcile operating income to net cash flows from operating activities:			
Amortization	7,302,614	6,748,495	14,051,109
Depreciation	141,659	3,160	144,819
Change in allowance for doubtful accounts	(172,967)	(619,852)	(792,819)
Changes in assets and liabilities:			
Accounts receivable	(10,274,593)	(105,078)	(10,379,671)
Lessor receivables	1,754,106	(504,069)	1,250,037
Prepaid expenses	228,804	(136,208)	92,596
Payments (to) from component unit	4,511,231	(4,511,231)	-
Accounts payable to GIT	1,369,161	(11,035,605)	(9,666,444)
Fees payable - GIT	-	34,861,584	34,861,584
Unearned research contract revenue	(307,613)	(54,455)	(362,068)
Unearned rent revenue	(6,472)	212,720	206,248
Net cash flows from operating activities	<u>\$ 15,698,649</u>	<u>\$ 32,310,949</u>	<u>\$ 48,009,598</u>

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

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Description of organization

The Georgia Tech Research Corporation (“GTRC”) was chartered on April 13, 1937, as the Industrial Development Council, a state-chartered, not-for-profit corporation serving the Georgia Institute of Technology (“GIT”), a unit of the University System of the state of Georgia, as an approved cooperative organization. GTRC was established for the purpose of engaging in sponsored research for scientific, literary, and educational purposes or related objectives. On February 9, 1946, the corporate charter was amended and included a provision to change the name from the Industrial Development Council to the Georgia Tech Research Institute (“GTRI”). On April 6, 1984, GTRI amended its corporate charter to change the name to the GTRC.

GTRC serves as the contracting entity for GIT, which performs research in accordance with guidance released by the Office of Management and Budget (“OMB”). Awards adhere to Uniform Administrative Requirements, Cost Principles, and Audit Requirements contained in Title 2 of the Code of Federal Regulations (“CFR”). With respect to subsequent incremental funding provided on awards which were received preceding the changes to OMB guidance, GTRC administers the research in accordance with instruction provided by the individual awarding federal agencies.

GTRC enters into contracts and grant agreements with various organizations, including federal agencies, and subcontract with GIT to provide services in connection with these agreements. Since 1946, GTRC has served as a “university-connected research foundation”. As part of the relationship, payments occur between GIT and GTRC for certain sponsored project expenditures and research administration.

On July 1, 1998, the Georgia Tech Applied Research Corporation (“GTARC”) was established. GTARC was organized as the contracting entity for units of GIT performing research in accordance with guidance released by the OMB and Federal Acquisition Regulations (“FAR”) 31.2. Awards 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.

In a Memorandum of Understanding (“MOU”) dated April 1, 1953, the Board of Regents of the University System of the state 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.

In accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) applicable to governments, the financial statements present the individual financial statements of GTRC and GTARC, a discretely presented component unit of GTRC. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of GTRC. Separately issued financial statements for Georgia Tech Applied Research Corporation can be obtained by contacting the Office of the Controller, Georgia Tech Applied Research Corporation, 926 Dalney Street N.W., Atlanta, Georgia 30332-0415.

GEORGIA TECH RESEARCH CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Summary of significant accounting policies

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

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

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

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

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 – Reimbursements are received from sponsoring agencies for indirect costs incurred. GTRC retains a portion of the indirect costs which is used for operating expenses, and the remainder is granted back to GIT for the benefit of research at GIT. The overhead revenue is reported as revenue from research contracts in the accompanying financial statements.

Cash – At June 30, 2023, the bank balance was \$129,568,382 and \$106,267,370, and the book balance was \$128,812,265 and \$106,119,423 for GTRC and GTARC, respectively. Cash balances usually exceed federally insured amounts. GTRC mitigates this risk by depositing and investing cash with major financial institutions. GTRC has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2023, the bank balances were collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services.

Investments – Investments consist entirely of equity securities which are acquired as partial consideration for licenses. These equity securities are held exclusively in GTRC’s name and are not subject to GTRC’s investments policy. These equity securities usually do not have readily determinable fair values and are recorded at their fair value at acquisition, which is generally zero or an insignificant amount. Any subsequent disposition of these equity securities is recorded as a gain or loss on sale of investments in nonoperating revenues on the statement of revenues, expenses, and changes in net position.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Summary of significant accounting policies (continued)

Federal Income Taxes – GTRC and GTARC are 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:

	<u>Component Unit</u>	
	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>
Beginning balance	\$ 3,105,712	\$ 3,084,365
Write-offs	(172,967)	(619,852)
Ending balance	<u>\$ 2,932,745</u>	<u>\$ 2,464,513</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.

Leases – GTRC leases certain academic spaces, administrative offices, and equipment under lease agreements. GTRC 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 GTRC’s right to use an underlying asset for the lease term and are reported as capital assets. Lease obligations represent GTRC’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, GTRC 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.

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

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Summary of significant accounting policies (continued)

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. *Restricted net position* represents gift revenues not yet expended for the restricted purposes stipulated by the donor. *Unrestricted net position* represents resources derived primarily from research contracts, licensing, royalties, and lease income. These resources can be used for ongoing operations. However, in accordance with the April 1, 1953 Memorandum of Understanding between GTRC and the Board of Regents of the University System of Georgia, all balances held after the payment of necessary operating costs are to be held in trust for GIT for the promotion of research at GIT. These balances will be returned to GIT in the form of grants which are made at the discretion of the Board of Trustees of GTRC.

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, GTRC 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 GTRC's financial statements.

On July 1, 2022, GTRC adopted GASB Statement 96, *Subscription-Based Information Technology Arrangements* (“SBITA”), which defines a SBITA; establishes that a SBITA results in a ROU 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 GTRC's financial statements.

GEORGIA TECH 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:

	<u>Balance</u> <u>June 30, 2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2023</u>
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 42,008	\$ -	\$ 42,008
Historical treasures and works of art	240,735	-	-	240,735
Total capital assets not being depreciated	<u>240,735</u>	<u>42,008</u>	<u>-</u>	<u>282,743</u>
Capital assets being depreciated:				
Building improvements	222,583	-	-	222,583
Computer software	1,262,977	-	-	1,262,977
Furniture and equipment	1,658,846	262,487	-	1,921,333
Leased buildings - right-of-use assets	66,122,783	-	-	66,122,783
Total capital assets being depreciated	<u>69,267,189</u>	<u>262,487</u>	<u>-</u>	<u>69,529,676</u>
Less accumulated depreciation for:				
Building improvements	(51,338)	(21,960)	-	(73,298)
Computer software	(1,262,534)	(443)	-	(1,262,977)
Furniture and equipment	(1,507,994)	(119,256)	-	(1,627,250)
Less accumulated amortization for:				
Leased buildings - right-of-use assets	<u>(7,302,623)</u>	<u>(7,302,614)</u>	<u>-</u>	<u>(14,605,237)</u>
Total accumulated depreciation and amortization	<u>(10,124,489)</u>	<u>(7,444,273)</u>	<u>-</u>	<u>(17,568,762)</u>
Total capital assets, net	<u>\$ 59,383,435</u>	<u>\$ (7,139,778)</u>	<u>\$ -</u>	<u>\$ 52,243,657</u>

Note 4—Leases

Research Facilities – GTRC is committed to an operating lease with The University Financing Foundation, Inc., a Georgia nonprofit corporation, for the Centennial Research Building. The lease carries successive two-year terms that are automatically renewed at prevailing market rates in effect at the time of the renewal. GTRC may cancel the lease provided notice is given during July of any lease year to be effective as of June 30 of the then current lease year. The term of this lease expires June 30, 2029. As of June 30, 2023, future minimum lease payments through the term of the lease total \$10,196,677.

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

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 4—Leases (continued)

The Cobb County Research Campus is a six-building, 160,000 square foot Research Park located on approximately 53.2 acres in Cobb County, Georgia. GTRC leases the property from TUFF. GTRC subleases the property to the Board of Regents of the University System of Georgia for the benefit of GIT. The lease is a general obligation of GTRC. The end of the lease term is September 30, 2036, the maturity date of the bonds. The lease also has an option to extend the lease term through September 30, 2041. The sublease is an annually renewable lease agreement. The timing and amount of rental payments under the sublease total approximately \$54,144,016, adequate to meet the debt service and debt service reserve fund requirement related to the 2010 and 2010A bonds of approximately \$53,620,668. In May 2020, GTRC and TUFF amended the agreement requiring TUFF to provide \$1,522,000 in capital improvements. GTRC will pay TUFF a monthly special rent assessment of \$15,751 through the end of the lease term in consideration for the capital improvements. As of June 30, 2023, future minimum lease payments through the extension option of the lease total \$32,063,340.

GTRC has entered into agreements to lease 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 GTRC and the third party lessors. GTRC expects to receive revenues sufficient to offset its obligations under the lease agreements through annual renewal of the subleases by GIT. 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 0.5% to 2.5%. During the year ended June 30, 2023, GTRC recognized \$7,606,193 of lease revenue and \$735,466 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 GTRC is the lessor. The Board of Regents, a related entity, is the lessee under all leases where GTRC is the lessor. The deferred inflow of resources on lease activity for the fiscal year ended June 30, 2023 is as follows:

	Beginning Balance July 1, 2022	Additions	Revenue Recognized	Ending Balance June 30, 2023
Deferred inflows of resources on leases	\$ 58,829,364	\$ -	\$ (7,303,992)	\$ 51,525,372

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

	Beginning Balance July 1, 2022	Increases	Decreases	Ending Balance June 30, 2023	Current Portion
Lease obligations	\$ 59,640,367	\$ -	\$ (7,116,563)	\$ 52,523,804	\$ 7,386,779

GTRC’s principal and interest payments related to leases for the year ended June 30, 2023 were \$7,116,563 and \$735,281, respectively. Interest rate ranges from 0.5% to 2.5%.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 4—Leases (continued)

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 7,386,779	\$ 669,445	\$ 8,056,224
2025	6,934,297	599,076	7,533,373
2026	6,379,343	534,033	6,913,376
2027	5,414,519	470,031	5,884,550
2028	4,406,262	414,174	4,820,436
2029-2033	11,372,089	1,415,919	12,788,008
2034-2038	7,762,720	566,861	8,329,581
2039-2042	2,867,795	85,649	2,953,444
	<u>\$ 52,523,804</u>	<u>\$ 4,755,188</u>	<u>\$ 57,278,992</u>

Note 5—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 indirect cost rates adjusted. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

During the fiscal year ended June 30, 2023, GTRC and GTARC derived approximately 78.4% and 98.2%, respectively, of their revenue from contracts with the U.S. government. At June 30, 2023, approximately 41.3% of the GTRC billed research contracts accounts receivable was from the U.S. government. At June 30, 2023, approximately 83.0% of the GTARC billed research contracts accounts receivable balance 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 significant credit risk at June 30, 2023.

Note 6—Component unit – Georgia Tech Applied Research Corporation

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.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 6—Component unit – Georgia Tech Applied Research Corporation (continued)

On December 28, 2021, 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. 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.

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

	Balance			Balance
	June 30, 2022	Additions	Disposals	June 30, 2023
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
	<u>48,363,110</u>	<u>10,772,115</u>	<u>-</u>	<u>59,135,225</u>
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>

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.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 9—Component unit – Georgia Tech Applied Research Corporation (continued)

The deferred inflow of resources on lease activity for the fiscal year ended June 30, 2023 is as follows:

	Beginning Balance July 1, 2022	Additions	Revenue Recognized	Ending Balance June 30, 2023
Deferred inflows of resources on leases	\$ 41,985,079	\$ 10,772,115	\$ (6,748,495)	\$ 46,008,699

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

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023	Current Portion
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:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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 10—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.

GEORGIA TECH RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

Note 11—Corporate gifts to benefit research

On November 8, 2019, the GTRC Board of Trustees authorized the General Manager of the Corporation to develop a plan to accept and administer monetary donations from corporate donors in the support of research at GIT. The Board of Trustees further resolved that prior to the implementation of any such program that final approval must be given by the audit committee of the Board of Trustees, GIT, and the Georgia Tech Foundation. On May 15, 2020, the GTRC Board of Trustees unanimously voted to accept corporate gifts for research. Research gifts were accepted in accordance with the resolution beginning during fiscal year 2023. For the year ended June 30, 2023, GTRC recognized \$4,379,382 in corporate gifts for research.