

**VIRGINIA TECH  
APPLIED RESEARCH CORPORATION  
(A Nonprofit Virginia Corporation)**

**FINANCIAL REPORT**

**June 30, 2022 and 2021**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Virginia Tech Applied Research Corporation

### Report on the Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of Virginia Tech Applied Research Corporation (a Virginia nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Tech Applied Research Corporation as of June 30, 2022 and 2021, and the results in its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Governmental 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 Virginia Tech Applied Research Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 these 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 the entity'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 Virginia Tech Applied Research Corporation'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 Virginia Tech Applied Research Corporation'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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2022 on our consideration of Virginia Tech Applied Research Corporation'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 the Virginia Tech Applied Research Corporation'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 the Virginia Tech Applied Research Corporation's internal control over financial reporting and compliance.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 9, 2022

**VIRGINIA TECH APPLIED RESEARCH CORPORATION**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,118,115	\$ 1,260,835
Contract receivables	2,187,386	1,442,062
Grant receivables	1,692,315	895,129
Deposits and prepaid expenses	386,090	372,269
Property and equipment, net	443,470	639,696
Total assets	\$ 5,827,376	\$ 4,609,991
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 1,707,643	\$ 1,521,500
Accrued payroll and related liabilities	803,879	453,448
Deferred revenue	21,640	-
Note payable	1,077,276	1,281,249
Deferred lease incentives	-	155,304
Total liabilities	3,610,438	3,411,501
<b>COMMITMENTS AND CONTINGENCIES</b>		
	-	-
NET ASSETS – without donor restrictions	2,216,938	1,198,490
Total liabilities and net assets	\$ 5,827,376	\$ 4,609,991

The Notes to Financial Statements are an integral part of these statements.

**VIRGINIA TECH APPLIED RESEARCH CORPORATION**

**STATEMENTS OF ACTIVITIES**  
**Years Ending June 30, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>REVENUES</b>		
Contract revenue	\$ 11,988,478	\$ 8,380,632
Grant revenue	6,959,586	5,036,988
Total revenues	18,948,064	13,417,620
<b>DIRECT COSTS</b>	(11,507,301)	(7,637,449)
Excess of revenues over direct costs	7,440,763	5,780,171
<b>OPERATING EXPENSES</b>		
General and administrative expenses	2,255,732	1,593,242
Fringe benefits	1,994,011	1,644,252
Overhead	2,070,827	2,292,730
Total operating expenses	6,320,570	5,530,224
Changes in net assets from operations	1,120,193	249,947
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	516	989
Interest expense	(96,027)	(92,447)
Loss due to currency fluctuation	(6,234)	(1,923)
Total other income (expense), net	(101,745)	(93,381)
Change in net assets	1,018,448	156,566
<b>NET ASSETS – WITHOUT DONOR RESTRICTIONS</b>		
Beginning	1,198,490	1,041,924
Ending	\$ 2,216,938	\$ 1,198,490

The Notes to Financial Statements are an integral part of these statements.

**VIRGINIA TECH APPLIED RESEARCH CORPORATION**

**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,018,448	\$ 156,566
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	492,150	488,805
Amortization of discount on note payable	96,027	92,445
Deferred lease incentive amortization	(155,304)	(198,039)
Change in assets and liabilities:		
(Increase) decrease in:		
Contract receivables	(745,324)	(157,875)
Grant receivables	(797,186)	(365,962)
Deposits and prepaid expenses	(13,821)	33,579
Increase (decrease) in:		
Accounts payable and accrued expenses	186,143	612,643
Accrued payroll and related liabilities	350,431	50,730
Deferred revenues	21,640	(23,393)
	453,204	689,499
Net cash provided by operating activities	453,204	689,499
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(295,924)	(408,750)
Net cash used in investing activities	(295,924)	(408,750)
<b>FINANCING ACTIVITIES</b>		
Principal payments on note payable	(300,000)	(300,000)
Net cash used in financing activities	(300,000)	(300,000)
Decrease in cash and cash equivalents	(142,720)	(19,251)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	1,260,835	1,280,086
Ending	\$ 1,118,115	\$ 1,260,835

The Notes to Financial Statements are an integral part of these statements.

# VIRGINIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2022

### Note 1. Nature of Operations and Summary of Significant Accounting Policies

#### Nature of operations

Virginia Tech Applied Research Corporation (VT-ARC) is a 501(c)(3) nonprofit, nonstock, Virginia corporation formed in December 2009 and affiliated with the Virginia Polytechnic Institute and State University (“Virginia Tech” or the “University”). The mission of VT-ARC is to extend the impact of the Virginia Tech Research and Innovation enterprise, delivering superior analytic and technology solutions to government and non-government customers. VT-ARC performs applied research and development, translational research and development, technical services, and commercialization as an extension of the fundamental research performed within Virginia Tech.

In particular, VT-ARC has focused on challenges impacting national security in several key areas including Data to Decision, C4ISR, Wireless Communications, Cyber, Advanced Manufacturing, Power & Energy, Counter WMD, S&T Strategy and Policy, Tech Transition & Transfer and Commercialization. While funded and operated as a standalone nonprofit corporation, it collaborates closely with Virginia Tech to leverage the capabilities and expertise of the University.

#### Basis of presentation

The financial statements of VT-ARC have been prepared on the accrual basis. The financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) No. 958, *Not-for-Profit Entities*. Under FASB ASC No. 958, VT-ARC is required to report information regarding its financial position and activities according to two classes of net assets as follows:

**Net Assets without Donor Restrictions** are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

**Net Assets with Donor Restrictions** are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of VT-ARC pursuant to those stipulations. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs.

At June 30, 2022 and 2021, VT-ARC has not received donor contributions and therefore, all net assets are without donor restrictions.

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# VIRGINIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2022

### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

#### Cash and cash equivalents

VT-ARC considers all highly liquid debt investments purchased with an initial maturity of three months or less to be cash equivalents.

Cash is held in a bank located in the Commonwealth of Virginia and is insured by the Federal Deposit Insurance Corporation (FDIC). At times, the balance may be in excess of insured limits. As of June 30, 2022 and 2021 amounts in excess of insured limits were \$1,037,779 and \$1,061,621, respectively.

#### Receivables

Receivables are stated at the amounts expected to be collected in future periods on contractual work completed and earned through year's end and do not bear interest. Amounts collected on receivables are included in net cash flows from operating activities in the statements of cash flows. An allowance for uncollectible accounts is used to account for estimated uncollectible amounts. Management believes that all accounts are collectible and no allowance was recorded at June 30, 2022 and 2021. VT-ARC does not have any off-balance-sheet credit exposure related to its customers.

#### Property and equipment

VT-ARC capitalizes expenditures for property and equipment in excess of \$2,500. Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Assets acquired under contracts in which title does not ultimately transfer to VT-ARC are not recorded as property and equipment.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the remaining term of the lease. The lease term includes all reasonably assured renewals.

#### Long-lived assets

Long-lived assets, such as buildings and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, VT-ARC first compares undiscounted cash flows expected to be generated by that long-lived asset or asset group to its carrying value. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined using various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairment loss was recognized in the years ended June 30, 2022 and 2021.

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# VIRGINIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2022

### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

#### Compensated absences

Employees earn paid time off based on their level, years of service, and other performance measures. The benefit is vested when earned, can be carried over from year to year, and is not to exceed certain limits. A liability is recorded for the estimated amount of compensation for future absences.

#### Revenue recognition

VT-ARC adopted Accounting Standards Update (ASU) 2014-09 and all amendments as of July 1, 2020. As it relates to VT-ARC's contracts to deliver products, the guidance in ASC 606 is consistent with the guidance in ASC 605; therefore, the modified retrospective approach resulted in no cumulative catch-up to net assets. Furthermore, there was no significant impact to revenues recognized, and no significant changes to VT-ARC's related processes, systems, or internal control over financial reporting because of the new guidance.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectability is probable.

VT-ARC generates almost all of its revenue from three different types of contractual arrangements: cost, time and material (T&M), and fixed price contracts. Revenue on cost contracts is recognized to the extent of costs incurred plus an estimate of the applicable fees earned, if any. VT-ARC considers fixed fees under cost contracts to be earned in proportion to the allowable costs incurred in performance of the contract. For cost contracts that include performance based fee incentives, VT-ARC recognizes the relevant portion of the expected fee to be awarded by the customer at the time such fee can be reasonably estimated, based on factors such as VT-ARC's prior award experience and communications with the customer regarding performance. Revenue on T&M contracts is recognized to the extent of billable rates times hours delivered for services provided, to the extent of material cost for products delivered to customers, and to the extent of expenses incurred on behalf of the customers.

Revenue on fixed price contracts is recognized on the percentage-of-completion method using costs incurred in relation to total estimated costs. For fixed price-completion contracts, revenue is generally recognized over the period when services are provided.

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# VIRGINIA TECH APPLIED RESEARCH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2022

### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

#### Revenue recognition (Continued)

Contract accounting requires judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of the VT-ARC's contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. Contract costs include material, labor, subcontracting costs, and other direct costs, as well as an allocation of allowable indirect costs. Assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. For contract change orders, claims or similar items, VT-ARC applies judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for VT-ARC to assess anticipated performance. Estimates of award fees for certain contracts are also a factor in estimating revenue and profit rates based on actual and anticipated awards.

Costs and estimated earnings in excess of billings on uncompleted contracts represent contract revenue recognized on projects in excess of amounts invoiced on those projects. There were no earnings in excess of billings on uncompleted contracts at June 30, 2022 or 2021. Deferred revenues represent amounts invoiced on projects in excess of costs incurred and profit earned on those projects.

#### Income taxes

VT-ARC is exempt from federal income taxes under Section 501(c)(3) of the *Internal Revenue Code*. Activities that generate unrelated business income, as defined by the IRS, are subject to income taxes.

VT-ARC has analyzed filing positions in the tax jurisdictions where it is required to file income tax returns, including its status as a tax-exempt organization, and no reserves for uncertain tax positions, nor interest and penalties, have been recorded in these financial statements.

#### Functional allocation of expenses

The costs of providing VT-ARC's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results will differ from those estimates.

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**VIRGINIA TECH APPLIED RESEARCH CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

Recently issued accounting standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 will replace most existing lease guidance in U.S. GAAP when it becomes effective. ASU 2016-02 requires an entity to recognize most leases, including operating leases, on the balance sheet of the lessee. ASU 2016-02 is effective for nonpublic companies for annual reporting periods beginning after December 15, 2019, with early adoption permitted. ASU 2016-02 requires the use of a modified retrospective transition method with elected reliefs. VT-ARC is still evaluating the effect that ASU 2016-02 will have on its financial statements and disclosures. In June 2021, the FASB issued ASU 2021-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which delayed implementation of these standards due to the COVID-19 pandemic. VT-ARC will implement the provisions of ASU 2016-02 as of July 1, 2022. VT-ARC is currently evaluating the impact this ASU will have on the financial statements and related disclosures.

**Note 2. Property and Equipment**

Property and equipment consisted of the following as of June 30:

	<b>Estimated Useful Life</b>	<b>2022</b>	<b>2021</b>
Computer equipment and software	3-5 years	\$ 835,244	\$ 785,077
Furniture and fixtures	7 years	548,996	510,808
Leasehold improvements	5-10 years	4,173,912	4,069,686
		5,558,152	5,365,571
Less accumulated depreciation and amortization		(5,114,682)	(4,725,875)
		\$ 443,470	\$ 639,696

**Note 3. Notes Payable**

VT-ARC's operations and the capitalization of the lease and build-out of a secure facility in Northern Virginia were funded by lines of credit from the Virginia Tech Foundation (the "Foundation") and the University. Interest expense on outstanding balances was calculated based on predefined formulas that approximate lost earnings on invested funds at the Foundation, resulting in interest rates between 3.0% and 4.0%. Effective June 30, 2016, the Foundation agreed to forgive all but \$3,000,000 of the then outstanding debt owed by VT-ARC to the Foundation under a modified promissory note payable. The terms of the modified promissory note payable include a zero percent interest rate with the remaining \$3,000,000 principal balance due and payable in full by July 1, 2026. Borrowings are secured by the assets of VT-ARC.

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**VIRGINIA TECH APPLIED RESEARCH CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**

**Note 3. Notes Payable (Continued)**

The no interest note is discounted using a rate of 3.87% which approximates the borrowing rate on other borrowings from the Foundation. Details are presented below as of June 30:

	<u>Due Date</u>	<u>Outstanding Balance</u>	
		<u>2022</u>	<u>2021</u>
Foundation promissory note	July 1, 2026	\$ 1,500,000	\$ 1,800,000
Debt discount		(422,724)	(518,751)
		<u>\$ 1,077,276</u>	<u>\$ 1,281,249</u>

**Note 4. Related Party Transactions**

VT-ARC and Virginia Tech have executed agreements to share certain resources in the furtherance of VT-ARC's mission. Under these agreements, VT-ARC may use Virginia Tech personnel, facilities, and materials on a reimbursement basis. Virginia Tech is held harmless for the actions of VT-ARC. Total payments to Virginia Tech under these agreements during 2022 and 2021 were \$2,690,893 and \$1,668,177, respectively.

VT-ARC is required to distribute surplus profits, as determined by Virginia Tech, to the University and to convey any interest in real property it owns to Virginia Tech. Through June 30, 2022 and 2021, no such distributions have been required.

**Note 5. Retirement Benefits**

VT-ARC provides a defined contribution benefit plan through Teacher's Insurance and Annuity Association (TIAA). VT-ARC contributes a fixed percentage of an employee's salary plus a match up to 5% of an employee's salary to an account maintained in the employee's name. Once the contribution is paid, management of the retirement account is the responsibility of the employee. Amounts paid by VT-ARC during 2022 and 2021 were \$483,878 and \$381,167, respectively.

In addition, VT-ARC provides a deferred compensation plan for employees through TIAA. Under this plan, employees may set aside a portion of their salary through payroll deductions, with all contributions and earnings free from current income taxes.

**Note 6. Lease Commitments**

VT-ARC leased two primary facilities, one in Blacksburg, Virginia and the second in Arlington, Virginia. The second facility had subsequent annual inflationary increases through February 2022, the end of the lease term, and included a lease holiday and a build out allowance which resulted in a deferred lease incentive of \$1,937,649 at its inception. This amount was allocated over the lease term as a reduction of lease expense. During 2022 and 2021, incentive amortization of \$155,301 and \$198,039 respectively was recorded as a reduction to lease expense each year. VT-ARC also leases office space for a grant customer in Arlington, Virginia. This lease is subject to annual increases of 2.75% through April 2023, the end of the lease term. For the years ended June 30, 2022 and 2021 the lease expense for this customer lease was \$439,645. Total rent expense for VT-ARC's leases during 2022 and 2021 was \$999,761 and \$948,465, respectively. Subsequent to year end, VT-ARC reduced the square footage leased through the original lease in Arlington and Virginia Tech began leasing the vacated space. As part of this reduction in leased space, fully depreciated assets remained with the vacated space. In addition, a portion of VT-ARC's outstanding debt, originally associated with an allocated portion of the facility improvements, was assumed by Virginia Tech.

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**VIRGINIA TECH APPLIED RESEARCH CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**

**Note 6. Lease Commitments (Continued)**

The future minimum lease payments required under these operating leases as of June 30, 2022 are as follows:

	<u><b>Total</b></u>
Year ending June 30:	
2023	\$ 820,387
2024	26,000
2025	<u>23,833</u>
	<u><u>\$ 870,220</u></u>

**Note 7. Business and Credit Concentrations**

For the years ended June 30, 2022 and 2021, VT-ARC had six and five customers, respectively, that each accounted for more than 5% of total revenues. Revenues for these customers totaled approximately \$16,042,000, or 85% of total revenues for 2022 and \$10,801,000, or 81% of total revenues for 2021. At June 30, 2022 and 2021, VT-ARC had five customers that each accounted for more than 5% of the receivable balance. These accounts totaled approximately \$2,989,000, or 81% and \$1,921,000, or 86% of the combined contract and research grant receivables as of June 30, 2022 and 2021, respectively.

**Note 8. Commitments and Contingencies**

*Contingencies*

Substantial amounts are received and expended by VT-ARC under federal contracts and are subject to audit by governmental agencies. The regulations governing federal awards and contracts are complex and can be subject to varying interpretations. Indirect costs are charged to contracts based upon submitted rates throughout the year and have been approved by the applicable federal agency through June 30, 2022. Additionally, fiscal year 2022 rates have been calculated, but not approved. There have been no audits of incurred costs by governmental agencies.

*Special Purpose Grants*

Special purpose grants are subject to audit to determine compliance with their requirements. Management believes that if any refunds are required they will be immaterial to VT-ARC's financial statements.

(Continued)

**VIRGINIA TECH APPLIED RESEARCH CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**

**Note 9. Liquidity and Availability**

In order to meet and manage cash flow needs, without donor restriction cash balances are maintained at balances deemed sufficient to meet short term projected operating needs. Financial assets available for general expenditures without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of:

	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 1,118,115	\$ 1,260,835
Contract receivables	2,187,386	1,442,062
Grant receivables	1,692,315	895,129
	\$ 4,997,816	\$ 3,598,026

**Note 10. Subsequent Events**

VT-ARC has evaluated subsequent events from the statement of financial position date through November 9, 2022, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

**Note 11. Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The following allocation presents the natural classification of expenses by function. For purposes of this presentation, direct costs of contracts and grants are presented as program expenses below. Expenses for the years ended June 30, 2022 and 2021 were allocated as follows:

	<b>2022</b>			<b>2021</b>
	<b>Program</b>	<b>Administration</b>	<b>Total</b>	<b>Total</b>
Salaries	\$ 4,712,871	\$ 1,329,918	\$ 6,042,789	\$ 5,054,401
Benefits	960,200	270,957	1,231,157	1,074,981
Depreciation	220,206	-	220,206	488,805
Rent	999,761	-	999,761	948,465
Professional services	-	259,644	259,644	246,711
Consulting	406,878	-	406,878	245,177
Travel	42,777	8,830	51,607	8,109
Subcontractors	5,489,155	-	5,489,155	3,207,877
Materials	-	-	-	-
Other	2,386,966	134,594	2,521,560	1,554,733
Facilities	135,108	470,007	605,115	338,414
	\$ 15,353,922	\$ 2,473,950	\$ 17,827,872	\$ 13,167,673

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**VIRGINIA TECH APPLIED RESEARCH CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**

**Note 12. COVID-19 Outbreak**

In March of 2021, the World Health Organization (WHO) classified the COVID-19 outbreak as a global pandemic, adversely affecting global economic activity and financial markets. As the COVID-19 outbreak continues to evolve, the extent of the impact on VT-ARC's operations will depend on the duration and spread of the outbreak, which is uncertain and cannot be predicted. The extent to which the COVID-19 outbreak may impact VT-ARC's activities cannot be reasonably estimated at this time.

# COMPLIANCE SECTION

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**VIRGINIA TECH APPLIED RESEARCH CORPORATION**  
**(a Nonprofit Virginia Corporation)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2022**

<u>Federal Grantor/Program Title</u>	<u>Assistance Listing Number</u>	<u>Amount</u>	<u>Federal Award Number</u>	<u>Pass through Entity</u>	<u>Sub-Award Number</u>	<u>Passed Through to Sub-Recipients</u>
Research and development programs cluster:						
U.S. Department of Defense:						
Air Force Defense Research Sciences Program	12.800	\$ 5,761,755	FA9550-17-3-0001			\$ 271,383
Basic Scientific Research	12.431	1,197,831	W911NF-15-3-0001			169,589
Other	12.000	5,511,198	W15QKN-15-9-1004	Adv Tech Intl	NSC-20-2020	2,971,982
Other	12.000	140,109	FA9750-19-C-0026	Virginia Tech	450631-19B68	-
Other	12.000	251,856	W15QKN-17-9-5555	Virginia Tech	419648-19B68	-
Other	12.000	269,827	HQ0034-19-D-0003	Virginia Tech	419725-19B68	-
Sub-total Department of Defense		<u>13,132,576</u>				<u>\$ 3,412,954</u>
Total expenditures of federal awards		<u>\$ 13,132,576</u>				

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**VIRGINIA TECH APPLIED RESEARCH CORPORATION**  
**(a Nonprofit Virginia Corporation)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2022**

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) presents the activity of all federal award programs of Virginia Tech Applied Research Corporation (“VT-ARC”) for the year ended June 30, 2022. All federal awards received directly and indirectly from federal agencies are included in this Schedule. The information in the Schedule is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 2. Basis of Accounting**

The accompanying Schedule is presented using the accrual basis of accounting.

Expenditures for federal awards are recognized as incurred using the cost accounting principles contained in the Uniform Guidance, or as specified under the grant agreement. Under these cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

**Note 3. Indirect Cost Rate**

VT-ARC has established indirect rates with various entities and thus does not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Virginia Tech Applied Research Corporation:

We have audited, in accordance with the 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, the financial statements of Virginia Tech Applied Research Corporation (a Virginia nonprofit organization) (VT-ARC), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered VT-ARC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VT-ARC's internal control. Accordingly, we do not express an opinion on the effectiveness of VT-ARC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether VT-ARC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of VT-ARC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VT-ARC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 9, 2022



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

The Board of Directors  
Virginia Tech Applied Research Corporation

**Report on Compliance for the Major Federal Program**

*Opinion on Compliance for Each Major Federal Program*

We have audited the Virginia Tech Applied Research Corporation's (a Virginia nonprofit organization) (VT-ARC) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of VT-ARC's major federal programs for the year ended June 30, 2022. VT-ARC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, VT-ARC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of VT-ARC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal documentation of VT-ARC's compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to VT-ARC's federal programs.

## **Report on Compliance for Each Major Federal Program**

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on VT-ARC's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about VT-ARC's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material noncompliance, 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 VT-ARC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of VT-ARC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of VT-ARC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

### **Report on Internal Control over Compliance (Continued)**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. **Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.**

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 9, 2022

**VIRGINIA TECH APPLIED RESEARCH CORPORATION**  
**(a Nonprofit Virginia Corporation)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2022**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
3. Noncompliance material to the financial statements: **No**
4. Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
5. Type of report issued on compliance for major programs: **Unmodified**
6. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
7. Major programs:
  - Research and Development Cluster - various Assistance Listing numbers
8. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
9. Auditee qualified as a low risk auditee: **Yes**

**B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

**C. Findings and Questioned Costs Relating to Federal Awards**

None