



Virginia Tech Applied Research Corporation

(a Nonprofit Virginia Corporation)

Financial Report

June 30, 2024 and 2023

Virginia Tech Applied Research Corporation
(a Nonprofit Virginia Corporation)

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Independent Auditor's Report

The Board of Directors
Virginia Tech Applied Research Corporation

Report on the Audit of the Financial Statements

Opinion

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, 2024 and 2023, 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, 2024 and 2023, 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 Opinion

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 within one year after the financial statements are available to be issued.



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 19, 2024 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 19, 2024



Financial Statements



Virginia Tech Applied Research Corporation

Statements of Financial Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 1,596,139	\$ 957,750
Contract receivables	464,819	635,630
Grant receivables	4,287,286	2,611,772
Other receivables	-	7,326
Deposits and prepaid expenses	708,140	337,920
Property and equipment, net	2,668,290	1,562,992
Right-of-use asset	3,830,573	4,495,785
	<u> </u>	<u> </u>
Total assets	<u>\$ 13,555,247</u>	<u>\$ 10,609,175</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,359,541	\$ 786,474
Accrued payroll and related liabilities	822,215	1,053,778
Note payable	500,617	637,016
Line of credit	2,304,279	-
Lease liability	3,830,573	4,495,785
	<u> </u>	<u> </u>
Total liabilities	8,817,225	6,973,053
COMMITMENTS AND CONTINGENCIES		
	-	-
NET ASSETS – without donor restrictions	<u>4,738,022</u>	<u>3,636,122</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 13,555,247</u>	<u>\$ 10,609,175</u>

Virginia Tech Applied Research Corporation

Statements of Activities Years Ending June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
REVENUES		
Contract revenue	\$ 4,184,574	\$ 7,806,840
Grant revenue	16,919,983	12,728,908
	<hr/>	<hr/>
Total revenues	21,104,557	20,535,748
DIRECT COSTS		
	<u>(11,429,700)</u>	<u>(11,138,490)</u>
Excess of revenues over direct costs	<hr/>	<hr/>
	9,674,857	9,397,258
OPERATING EXPENSES		
General and administrative expenses	2,441,423	2,604,767
Fringe benefits	3,030,463	2,758,975
Overhead	2,973,844	2,816,940
	<hr/>	<hr/>
Total operating expenses	8,445,730	8,180,682
Changes in net assets from operations	<hr/>	<hr/>
	1,229,127	1,216,576
OTHER INCOME (EXPENSE)		
Interest income	30,653	4,453
Interest expense	(157,880)	(99,740)
Forgiveness of loan	-	300,000
Loss due to currency fluctuation	-	(2,105)
	<hr/>	<hr/>
Total other income (expense), net	(127,227)	202,608
Change in net assets	<hr/>	<hr/>
	1,101,900	1,419,184
NET ASSETS – WITHOUT DONOR RESTRICTIONS		
Beginning	<hr/>	<hr/>
	3,636,122	2,216,938
Ending	<hr/>	<hr/>
	\$ 4,738,022	\$ 3,636,122
	<hr/> <hr/>	<hr/> <hr/>

Virginia Tech Applied Research Corporation

Statements of Cash Flows Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,101,900	\$ 1,419,184
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,395,709	1,109,632
Amortization of discount on note payable	103,601	99,740
Loan forgiveness	-	(300,000)
Accrued interest on line of credit	54,279	-
Operating lease expense	665,212	551,550
Change in assets and liabilities:		
(Increase) decrease in:		
Contract receivables	170,811	1,551,756
Grant receivables	(1,675,514)	(919,457)
Other receivables	7,326	(7,326)
Deposits and prepaid expenses	(370,220)	48,170
Increase (decrease) in:		
Accounts payable and accrued expenses	876,737	(1,224,839)
Accrued payroll and related liabilities	(231,563)	249,899
Deferred revenues	-	(21,640)
Lease liability	(665,212)	(551,550)
Net cash provided by operating activities	<u>1,433,066</u>	<u>2,005,119</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(2,804,677)</u>	<u>(1,925,484)</u>
Net cash used in investing activities	<u>(2,804,677)</u>	<u>(1,925,484)</u>
FINANCING ACTIVITIES		
Net borrowings on line of credit	2,250,000	-
Principal payments on note payable	<u>(240,000)</u>	<u>(240,000)</u>
Net cash provided by (used in) financing activities	<u>2,010,000</u>	<u>(240,000)</u>
Increase (decrease) in cash and cash equivalents	638,389	(160,365)
CASH AND CASH EQUIVALENTS		
Beginning	<u>957,750</u>	<u>1,118,115</u>
Ending	<u>\$ 1,596,139</u>	<u>\$ 957,750</u>
NON-CASH INVESTING ACTIVITIES		
Fixed asset purchases included in accounts payable	<u>\$ -</u>	<u>\$ 303,670</u>

Virginia Tech Applied Research Corporation

(a Nonprofit Virginia Corporation)

Notes to Financial Statements

June 30, 2024

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 global welfare as well as national security in several key areas including Data to Decision, C4ISR, Wireless Communications, Cyber, Advanced Manufacturing, Acquisition Innovation, Biotechnology Applications and Security, Mission and Systems Engineering, 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, 2024 and 2023, VT-ARC has not received donor contributions and therefore, all net assets are without donor restrictions.

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 banks located in the Commonwealth of Virginia and Maryland 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, 2024 and 2023 amounts in excess of insured limits were \$992,717 and \$1,196,556, respectively.

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Notes to Financial Statements

June 30, 2024

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, 2024 and 2023. 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 \$5,000. 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, 2024 and 2023.

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

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

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June 30, 2024

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.

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, 2024 and 2023. 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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June 30, 2024

Leases

VT-ARC recognizes leases as described in Accounting Standards Codification (ASC) 842, *Leases*. Under ASC 842, a lease is defined as a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

VT-ARC classifies its leases as either finance leases or operating leases at the lease commencement date based on the criteria specified in ASC 842. This classification impacts the subsequent measurement and presentation of the lease on the financial statements.

Upon commencement of a lease, VT-ARC recognizes the right-of-use asset and lease liability at the present value of the lease payments over the lease term. The present value is determined using the risk-free rate unless the implicit in the lease is readily determinable and lower. VT-ARC includes contract lease and non-lease components in their determination of lease payments.

Right-of-use assets are subsequently measured at cost, adjusted for lease payments, impairment, and any remeasurements. Lease liabilities are measured at amortized cost using the effective interest method. Lease payments are allocated between the principal reduction and interest expense.

The lease term includes the non-cancellable period of the lease and any optional renewal or termination periods, provided that VT-ARC is reasonably certain to exercise an option to renew or not to terminate. Short-term leases with an initial term of 12 months or fewer are expensed as incurred.

Recently Issued Accounting Standards

VT-ARC adopted Accounting Standards Codification (ASC) 842, *Leases*, effective July 1, 2022. VT-ARC elected the package of practical expedients permitted under the transition guidance, which among other things, allowed it to carry forward the historical lease classifications. The adoption of ASC 842 had an impact on VT-ARC's financial statements.

As of the adoption date, July 1, 2022, VT-ARC recognized a right-of-use asset and a corresponding lease liability on the statement of financial position for all material operating leases in accordance with ASC 842. Results from prior periods continue to be reported in accordance with VT-ARC's historical accounting treatment.

Note 2 – Property and Equipment

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

	Estimated Useful Life	2024	2023
Computer equipment and software	3-5 years	\$ 1,336,552	\$ 476,767
Furniture and fixtures	7 years	507,233	503,525
Leasehold improvements	5-10 years	6,524,967	4,887,453
		8,368,752	5,867,745
Less accumulated depreciation and amortization		(5,700,462)	(4,304,753)
		<u>\$ 2,668,290</u>	<u>\$ 1,562,992</u>

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Notes to Financial Statements

June 30, 2024

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 loans 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. During 2023, an additional \$300,000 was forgiven by the Foundation.

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:

	Due Date	Outstanding Balance	
		2024	2023
Foundation promissory note	July 1, 2026	\$ 720,000	\$ 960,000
Debt discount		(219,383)	(322,984)
		<u>\$ 500,617</u>	<u>\$ 637,016</u>

VT-ARC entered into a line of credit agreement with Virginia Tech (a related party) on December 7, 2023. The line of credit limit allowed for borrowings up to \$3,000,000 to be used to support operations with quarterly payments of both interest and principal. The balance will be payable in full on December 31, 2033. Interest accrues at a fixed rate of 4.75% per annum with unpaid interest of \$54,279 added to the outstanding principal. As of June 30, 2024, \$2,304,279 was outstanding.

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 2024 and 2023 were \$749,250 and \$2,465,559, 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, 2024 and 2023, 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 2024 and 2023 were \$711,464 and \$713,414, respectively.

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June 30, 2024

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 leases its primary facility in Arlington, Virginia. This facility had annual inflationary increases through February 2022, the end of the original 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. VT-ARC also leases office space for a grant customer at the Arlington, Virginia location. This lease was subject to annual increases of 2.75% through April 2023, the end of the original lease term. As VT-ARC's involvement in this lease is to facilitate the customer's ability to use the space, the expense for this leased space is the customer's and is excluded from these financial statements. During 2023, VT-ARC initiated a new lease agreement through August 2029. This new agreement 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. At June 30, 2024, VT-ARC's operating lease liability was calculated using a discount rate of 3.48% which approximates VR-ARC's borrowing rate.

The future minimum lease payments required under the operating lease as of June 30, 2024 are as follows:

Year Ending June 30,	Total
2025	\$ 811,121
2026	811,121
2027	811,121
2028	811,121
2029	811,121
Thereafter	135,187
Total minimum lease payment	4,190,792
Discount on lease liabilities	(360,219)
Total lease liabilities	<u>\$ 3,830,573</u>

Total operating lease expense recognized for the year ended June 30, 2024 was composed of the following:

Amortization of right-of-use assets	\$ 665,212
Interest on lease liabilities	145,909
Total lease expense	<u>\$ 811,121</u>

Note 7 – Business and Credit Concentrations

For the years ended June 30, 2024 and 2023, VT-ARC had three and four customers, respectively, that each accounted for more than 5% of total revenues. Revenues for these customers totaled approximately \$17,980,000, or 85% of total revenues for 2024 and \$17,319,000, or 84% of total revenues for 2023. At June 30, 2024 and 2023, VT-ARC had two and three customers, respectively, that each accounted for more than 5% of the receivable balance. These accounts totaled approximately \$4,220,000, or 90% and \$2,502,000, or 81%, of the combined contract and research grant receivables as of June 30, 2024 and 2023, respectively.

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Notes to Financial Statements

June 30, 2024

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, 2024. Additionally, fiscal year 2024 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.

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:

	2024	2023
Cash and cash equivalents	\$ 1,596,139	\$ 957,750
Contract receivables	464,819	635,630
Grant receivables	4,287,286	2,611,772
Other receivables	-	7,326
	<u>\$ 6,348,244</u>	<u>\$ 4,212,478</u>

Note 10 – Subsequent Events

VT-ARC has evaluated subsequent events from the statement of financial position date through November 19, 2024, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

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Notes to Financial Statements

June 30, 2024

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, 2024 and 2023 were allocated as follows:

	2024		
	Program	Administration	Total
Salaries	\$ 7,128,320	\$ 1,940,324	\$ 9,068,644
Benefits	1,425,411	387,996	1,813,407
Depreciation	30,018	-	30,018
Rent	837,232	-	837,232
Professional services	-	308,186	308,186
Consulting	2,498,729	-	2,498,729
Travel	110,443	27,681	138,124
Subcontractors	816,934	-	816,934
Other	3,927,033	125,032	4,052,065
Facilities	41,900	270,191	312,091
	<u>\$ 16,816,020</u>	<u>\$ 3,059,410</u>	<u>\$ 19,875,430</u>

	2023		
	Program	Administration	Total
Salaries	\$ 6,906,894	\$ 1,677,658	\$ 8,584,552
Benefits	1,399,007	339,813	1,738,820
Depreciation	40,736	-	40,736
Rent	892,279	-	892,279
Professional services	-	336,593	336,593
Consulting	1,873,615	-	1,873,615
Travel	59,070	26,468	85,538
Subcontractors	2,238,450	-	2,238,450
Other	2,919,478	151,552	3,071,030
Facilities	356,537	101,022	457,559
	<u>\$ 16,686,066</u>	<u>\$ 2,633,106</u>	<u>\$ 19,319,172</u>



Compliance Section



Virginia Tech Applied Research Corporation
(a Nonprofit Virginia Corporation)

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor/Program Title	Assistance Listing Number	Amount	Federal Award Number	Pass through Entity	Sub-Award Number	Passed Through to Sub-Recipients
Research and development programs cluster:						
U.S. Department of Defense:						
Air Force Office of Scientific Research	12.800	\$ 15,001,493	FA9550-22-3-0001			\$ -
Basic Scientific Research	12.431	1,909,730	W911NF-15-3-0001			-
Basic Scientific Research	12.431	8,760	W911NF-21-2-0160	AIHEC	425-Consulting Contract	-
Other	12.000	757,318	HQ0034-19-D-0003	Virginia Tech	420132-19B68	-
Other	12.000	12,837	HQ0034-19-D-0003	Virginia Tech	420312-19B68	-
Other	12.000	98,096	N00024-22-D-6404	JHU APL	182235	-
Other	12.000	59,706	W15QKN-17-9-5555	Virginia Tech	420454-19B68	-
Other	12.000	343,579	HQ0034-19-D-0003	SERC	2103541-02	-
National Science Foundation:						
NSF Technology, Innovation, and Partnerships	47.084	<u>483,428</u>	49100423C0009			<u>-</u>
Total expenditures of federal awards		<u>\$ 18,674,947</u>				<u>\$ -</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, 2024

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) presents the activity of all cost-type federal award programs of Virginia Tech Applied Research Corporation (VT-ARC) for the year ended June 30, 2024. 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), which comprise the statement of financial position as of June 30, 2024, 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 19, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Virginia Tech Applied Research Corporation'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 Virginia Tech Applied Research Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Virginia Tech Applied Research Corporation'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 or significant deficiencies may exist that have not been identified.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Virginia Tech Applied Research Corporation'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 financial statements. 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 Virginia Tech Applied Research Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Virginia Tech Applied Research Corporation'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 19, 2024



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 Each Major Federal Program

We have audited the Virginia Tech Applied Research Corporation's (a Virginia nonprofit organization) 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 Virginia Tech Applied Research Corporation's major federal programs for the year ended June 30, 2024. Virginia Tech Applied Research Corporation'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, Virginia Tech Applied Research Corporation 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, 2024.

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 Virginia Tech Applied Research Corporation 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 Virginia Tech Applied Research Corporation'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 Virginia Tech Applied Research Corporation'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 Virginia Tech Applied Research Corporation'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 Virginia Tech Applied Research Corporation'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 Virginia Tech Applied Research Corporation'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 Virginia Tech Applied Research Corporation'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 Virginia Tech Applied Research Corporation'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.

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 19, 2024

Virginia Tech Applied Research Corporation

(a Nonprofit Virginia Corporation)

Schedule of Findings and Questioned Costs

June 30, 2024

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