

CUBRC, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplementary Information**

December 27, 2019 and December 28, 2018

CUBRC, Inc. and Subsidiaries
Consolidated Financial Statements

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Report of Independent Auditors

To the Board of Directors of
CUBRC, Inc.
Buffalo, New York

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CUBRC, Inc. (“CUBRC”) and its subsidiaries (collectively the “Company”), which comprise the consolidated balance sheets as of December 27, 2019 and December 28, 2018, and the related consolidated statements of activities and cash flows for the fiscal years then ended and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America (“GAAS”) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the consolidated financial statements 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 the Company’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 27, 2019 and December 28, 2018, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with GAAP.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of activities as of and for the fiscal year ended December 27, 2019, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards for CUBRC, as required by *Title 2 U.S. Code of Federal Regulations* (“CFR”) *Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated 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 10, 2020 on our consideration of CUBRC, Inc.’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and the results of that testing, and not to provide an opinion on 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 CUBRC, Inc.’s internal control over financial reporting and compliance.

Tranavi Segawa & Associates LLP

Williamsville, New York
November 10, 2020

CUBRC, Inc. and Subsidiaries
Consolidated Balance Sheets
December 27, 2019 and December 28, 2018

	December 27, 2019	December 28, 2018
Assets		
<i>Current Assets</i>		
Cash	\$ 3,551,586	\$ 1,625,750
Accounts receivable	2,286,650	3,430,465
Unbilled accounts receivable	8,184,034	6,220,587
Inventory	206,378	171,275
Prepaid expenses	435,722	276,818
Total current assets	14,664,370	11,724,895
<i>Property and Equipment, net</i>	527,906	768,439
<i>Investments</i>	3,524,389	3,166,656
	\$ 18,716,665	\$ 15,659,990
Liabilities and Net Assets		
<i>Current Liabilities</i>		
Line of credit	\$ 1,100,000	\$ 0
Accounts payable	4,073,734	2,295,315
Capital lease obligations	45,339	43,564
Unearned revenue	73,786	196,009
Accrued expenses	3,318,713	3,276,827
Total current liabilities	8,611,572	5,811,715
<i>Long-term Liabilities</i>		
Accrued incentive compensation	191,667	196,667
Accrued decommissioning costs	395,000	395,000
Capital lease obligations, less current maturities	59,280	104,619
Total long-term liabilities	645,947	696,286
Total liabilities	9,257,519	6,508,001
<i>Net Assets Without Donor Restrictions</i>	9,459,146	9,151,989
	\$ 18,716,665	\$ 15,659,990

See report of independent auditors and notes to consolidated financial statements.

CUBRC, Inc. and Subsidiaries
Consolidated Statements of Activities
for the fiscal years ended December 27, 2019 and December 28, 2018

	<u>December 27, 2019</u>	<u>December 28, 2018</u>
<i>Program Revenue, net</i>		
Contract revenue	\$ 44,073,386	\$ 46,067,438
Cost of revenue	<u>42,229,811</u>	<u>44,033,186</u>
Total program revenue, net	1,843,575	2,034,252
<i>Operating Expenses</i>		
Indirect costs		
Administration	14,198,092	13,539,435
Research and development	514,438	494,475
Facility expenses	2,192,255	1,820,886
Program development	1,944,812	2,226,219
Floor space rental	983,165	1,008,152
Proposal	327,704	544,126
Depreciation	<u>117,398</u>	<u>111,709</u>
Total indirect costs	20,277,864	19,745,002
Indirect cost reimbursements		
General and administrative	3,905,212	4,102,863
Facility usage	1,981,788	1,582,181
Professional technical expense	6,338,692	6,415,130
Fringe expense	<u>6,892,972</u>	<u>6,626,046</u>
Total indirect cost reimbursements	<u>19,118,664</u>	<u>18,726,220</u>
Total unreimbursed indirect costs	<u>1,159,200</u>	<u>1,018,782</u>
Income from operations	684,375	1,015,470
<i>Other Revenues (Expenses) - Non-Contract Related</i>		
Miscellaneous revenue	106,133	53,909
Investment income (losses)	54,600	(358,833)
Legislative pursuits	(78,882)	(103,311)
Interest expense	(13,449)	(35,825)
Unallowed	<u>(445,620)</u>	<u>(361,831)</u>
Total other expenses - non-contract related	<u>(377,218)</u>	<u>(805,891)</u>
Increase in Net Assets Without Donor Restrictions	307,157	209,579
<i>Net Assets Without Donor Restrictions, beginning of year</i>	<u>9,151,989</u>	<u>8,942,410</u>
<i>Net Assets Without Donor Restrictions, end of year</i>	<u><u>\$ 9,459,146</u></u>	<u><u>\$ 9,151,989</u></u>

See report of independent auditors and notes to consolidated financial statements.

CUBRC, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
for the fiscal years ended December 27, 2019 and December 28, 2018

	December 27, 2019	December 28, 2018
<i>Cash Flows from Operating Activities</i>		
Increase in net assets	\$ 307,157	\$ 209,579
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	314,264	300,739
Net unrealized (gains) losses on investments	(54,600)	108,833
Interest income on investment	(103,133)	(17,710)
Impairment loss on investment	0	250,000
(Increase) Decrease in:		
Accounts receivable	1,143,815	(1,141,357)
Unbilled accounts receivable	(1,963,447)	1,615,771
Inventory	(35,103)	83,321
Prepaid expenses	(158,904)	(3,381)
Increase (Decrease) in:		
Accounts payable	1,778,419	(2,108,255)
Unearned revenue	(122,223)	196,009
Accrued expenses	41,886	72,722
Long-term accrued incentive compensation	(5,000)	15,977
Accrued decommissioning costs	0	55,000
	1,143,131	(362,752)
Net cash provided by (used in) operating activities		
<i>Cash Flows from Investing Activities</i>		
Purchases of property and equipment	(73,731)	(189,234)
Purchases of investments	(200,000)	(83,333)
	(273,731)	(272,567)
Net cash used in investing activities		
<i>Cash Flows from Financing Activities</i>		
Net proceeds (repayments) on line of credit	1,100,000	(700,000)
Repayment of capital lease obligations	(43,564)	(41,860)
	1,056,436	(741,860)
Net cash provided (used in) by financing activities		
Net increase (decrease) in cash	1,925,836	(1,377,179)
<i>Cash, beginning of year</i>	1,625,750	3,002,929
<i>Cash, end of year</i>	\$ 3,551,586	\$ 1,625,750
<i>Supplemental Disclosure of Cash Flow Information</i>		
Cash paid during the year for:		
Interest expense	\$ 13,449	\$ 35,825

See report of independent auditors and notes to consolidated financial statements.

CUBRC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business – CUBRC, Inc. (“CUBRC”) located in Buffalo, New York, is a not-for-profit organization that conducts technical and scientific research, primarily for the Federal Government. More specifically, CUBRC conducts independent research and development and systems integration to benefit the educational, industrial, technological and economic development of Western New York and New York State by seeking research grants and contracts from federal, state and local governmental agencies, foundations and private companies.

Oriana, Inc. (“Oriana”) was formed in December 2008 as a wholly-owned subsidiary of CUBRC. Oriana was formed primarily to hold investments in limited liability companies. In years prior to 2016, activity related to Oriana was insignificant to the consolidated financial statements. Beginning in the fiscal year ended December 30, 2016, CUBRC assigned its membership interest in TROVE Predictive Data Science, LLC (“Trove”) to Oriana and invested additional capital in Oriana to be used for the purchase of additional investments.

Avarint, LLC (“Avarint”) was formed in November 2013 as a wholly-owned subsidiary of CUBRC. Avarint was formed to qualify as a “small-business concern” and to bid on government contract awards that are “set-aside” for eligible small business concerns. During the fiscal year ended December 26, 2014, certain employees and certain assets of CUBRC were transferred to Avarint as part of the process of bidding on specific government contract awards.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of CUBRC, Inc. and its wholly-owned subsidiaries, Oriana and Avarint (collectively, the “Company”). All material intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation – The Company is required to report information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: without donor restrictions and with donor restrictions.

Accounting Period – The Company’s fiscal year ends on a Friday, based on a 4-week, 4-week, 5-week repeating accounting period. The fiscal years ended December 27, 2019 and December 28, 2018 each included 52 weeks of operations.

Cash – Cash balances held at a financial institution potentially subjects the Company to concentration of credit risk, as cash may exceed federally insured limits at various times throughout the year.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Accounts Receivable – Accounts receivable are recorded at net realizable value. Management considers all accounts receivables outstanding for greater than terms specified in each contract to be past due, and uses factors such as customer history and existing economic conditions to determine collectability. Upon management’s determination of uncollectability, such accounts are directly written off to bad debt expense.

Unbilled Accounts Receivable – Contract costs consists of labor, subcontractor and consultant costs, parts and supplies, equipment purchased specifically for particular contracts, other direct costs, and reimbursable indirect costs. These costs are stated at the allowed billable value determined by each respective contract. The costs associated with these projects are recorded as cost of sales when revenue is recognized in accordance with the Company’s policy discussed below. General and administrative expenses are charged to expense as incurred. Revenues associated with indirect cost reimbursements are presented as a reduction of the related costs to arrive at net indirect costs.

Inventory – Inventory consists of glass used in the making of heat transfer gauges, the heat transfer gauges themselves that the Company has manufactured, and medtherms for use in certain contracts. Inventory is stated at the lower-of-cost or market. Cost is determined based on average cost.

Property and Equipment, net – Property and equipment is recorded at cost, net of accumulated depreciation. Major renewals and betterments are capitalized. The costs of maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over estimated service lives, which range from 1 to 7 years.

The Company periodically purchases fixed assets for specific use in government contracts, with expenditures reimbursed by the government in accordance with the terms of the contract award. The value of such purchases is not recorded, as either the title reverts to the grantor at completion of the program, or the remaining value or usefulness of the assets at completion of the program is minimal.

Investments – CUBRC holds investments in marketable securities and also investments that are comprised of equity interests in separate closely-held companies (see Note 3). The interests in the closely-held companies are accounted as equity investments without readily determinable fair values. Upon adoption of the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-01, FASB ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, CUBRC’s investments without readily determinable fair values are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The investments in marketable securities are stated at fair value, as determined by quoted market prices.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Fair Value Measurements – Accounting standards for fair value measurement provide a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Impairment of Long-Lived Assets – The Company regularly assesses all of its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by first qualitatively assessing whether it is more likely than not that an asset is impaired. If such an assessment does determine that it is more likely than not that an asset is impaired, the Company would then perform a quantitative calculation to determine impairment. This is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated either through independent valuation or as the present value of expected future cash flows. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized.

Additionally, CUBRC assesses for impairment, on at least an annual basis, those assets classified as investments on the accompanying balance sheets. A variety of factors are considered when determining if an impairment charge is warranted including, among other things, the financial condition and prospects of the investee, CUBRC’s investment intent, and additional capital infusions in the investees by other third parties. The Company recognized an impairment loss for the fiscal year ended December 28, 2018 in the amount of \$250,000 for the impairment of the Company’s investment in Harker Holding Company LLC (“Harker”). No impairment loss was recognized for the fiscal year ended December 27, 2019.

Accrued Expenses – Accrued expenses represent costs incurred for payroll and payroll related expenses as of the end of the year and future anticipated decommissioning costs related to a lease agreement (see Note 8).

Contingencies – The Company is involved in general legal actions arising in the ordinary course of its business. Management believes that the final resolution of these matters will not have a material impact on the Company’s financial position.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Net Assets without Donor Restrictions – Net assets without donor restrictions represent resources whose use is not restricted by donor-imposed stipulations and are available for general support of the Company.

Net Assets with Donor Restrictions – Net assets with donor restrictions represent resources whose use relates to a specific program or purpose, and whose use by the Company is limited to donor-imposed stipulations that either expire by the passage of time or fulfillment of the purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported as net assets released from restriction. The Company had no net assets with donor restrictions in 2019 and 2018.

Revenue Recognition – Substantially all of the Company’s revenue is derived from research and development contracts. The Company recognizes revenue using an efforts-expended method based upon costs and standard indirect cost reimbursement rates allowable under each contract as they are incurred.

Provisions for estimated losses on uncompleted contracts are made in the period in which the losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Revenues from contract claims are recorded when they can be reasonably estimated and it is probable that such claims are collectible.

Functional Expenses – The Company considers research, development, testing and integration, facilities, professional technical expense(overhead) and general and administrative costs to be its primary functional categories for purposes of expense classification. Functional expenses are shown net of indirect cost reimbursements, which are included within operating expenses in the consolidated statements of activities for the fiscal years ended December 27, 2019 and December 28, 2018. Research, development testing and integration represent the expenses incurred directly on the Company’s contracts, including allocated overhead which is allocated based on rates across the various program expense categories. Facilities represents the expenses incurred to maintain the Company’s facilities, including allocated overhead which is allocated based on rates across the various program expense categories.

Income and Gains (Losses) on Investments – Interest and dividends are recognized when earned or declared. Realized gains and losses are determined on the basis of specific investments sold. The difference between the aggregate fair value of investments at the beginning of the year and their aggregate fair values at the end of the year is recorded as an unrealized gain or loss in the accompanying consolidated statements of activities.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Income Taxes – CUBRC is an exempt organization as defined under 501(c)(3) of the Internal Revenue Code, and as such, is exempt from federal income taxes. Accordingly, no provision for income taxes has been reflected in the accompanying consolidated financial statements.

Avarint is a limited liability company and is treated as a disregarded entity for income tax purposes. Due to the fact that any income or losses of Avarint flow through to CUBRC, an exempt organization, no income taxes are provided for on Avarint's results.

Management Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements – In January 2016, the FASB issued ASU 2016-01, FASB ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The adoption of ASU 2016-01 did not have an impact on the Company's recognition of assets. The amendments of this update were applied by the Company for the years ended December 27, 2019 and December 28, 2018.

Recently Issued Accounting Pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from contracts with Customers (Topic 606)*. ASU 2014-09 applies to entities with contracts with customers and requires such entities to recognize revenue under a five-step model whereby the entity would first identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations, and recognize revenue when (or as) the entity satisfies the performance obligations. ASC 606 could be applied by either a full retrospective approach or a modified retrospective approach.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will require organizations that lease assets to recognize on the balance sheet the assets and liabilities related to the rights and obligations created by those leases. ASU 2016-02 will take effect for the Company for fiscal years beginning after December 15, 2019 with early application permitted for all organizations. In July of 2019, the FASB unanimously approved a proposal for public comment to delay the implementation date of the new lease standard by one year.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses (Topic 326)*, *Derivatives and Hedging (Topic 815)*, and *Leases (Topic 842)*, which defers the effective date of ASU 2016-02.

The Company has evaluated the potential impact of these standards and does not expect it to materially impact its consolidated financial statements.

In June 2020, the FASB issued ASU 2020-05 Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) which defers the effective date of ASU 2014-09 for the Company for its fiscal year beginning after December 15, 2019, and defers the effective date of ASU 2016-02 for the Company for its fiscal year beginning after December 15, 2021, with early adoption permitted.

The Company has evaluated the potential impact of these standards and does not expect it to materially impact its consolidated financial statements.

Subsequent Events – Management of the Company has evaluated subsequent events, for recognition or disclosure, through November 10, 2020, the date the accompanying consolidated financial statements were available to be issued (See Notes 3 and 11).

2. Liquidity and Availability of Financial Assets

The Company primarily generates financial assets by conducting technical and scientific research for the Federal Government. The financial assets are acquired throughout the year to help meet the Company’s cash needs for general expenditures. The following table presents the Company’s financial assets available for general expenditures within one year of the statement of financial position date:

	December 27, 2019	December 28, 2018
Current assets excluding non-financial assets:		
Cash	\$ 3,551,586	\$ 1,625,750
Accounts receivable	2,286,650	3,430,465
Unbilled accounts recievable	8,184,034	6,220,587
Financial assets available to meet cash needs for general expenditures within one year	\$ 14,022,270	\$ 11,276,802

Additionally, the Company has an available line of credit with a maximum borrowing capacity of up to \$4,000,000 (see Note 5).

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

3. Investments

The Company continues to actively pursue strategic equity investments in outside entities. The following is a summary of investments held by the Company at December 27, 2019 and December 28, 2018:

	December 27, 2019			
	Cost	Fair Value	Ownership	Related-Party Ownership
Equity investments without readily determinable fair values				
Akonni Biosystems, Inc.	\$ 2,117,904	n/a	4.85%	CEO, VP
Prosetta Biosciences Inc.	1,342,585	n/a	3.05%	CEO
Harker Holding Company LLC	0	n/a	4.92%	n/a
TROVE Predictive Data Science, LLC	0	n/a	17.80%	n/a
	\$ 3,460,489			

Equity investment with readily determinable fair values

Genocea Biosciences Inc.	\$ 4,500	\$ 63,900	n/a	n/a
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	December 28, 2018			
	Cost	Fair Value	Ownership	Related-Party Ownership
Equity investments without readily determinable fair values				
Akonni Biosystems, Inc.	\$ 1,814,771	n/a	4.85%	CEO, VP
Prosetta Biosciences Inc.	1,342,585	n/a	3.05%	CEO
Harker Holding Company LLC	0	n/a	4.90%	n/a
TROVE Predictive Data Science, LLC	0	n/a	19.22%	n/a
	\$ 3,157,356			

Equity investment with readily determinable fair values

Genocea Biosciences Inc.	\$ 4,500	\$ 9,300	n/a	n/a
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As of December 27, 2019 and December 28, 2018, key officers of the Company held personal investments of less than 1% in each respective company noted above.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

Investment Activity – CUBRC’s Board of Directors approved a motion at its December 2015 Board of Directors meeting to contribute \$500,000 over the next three years in exchange for Trove Class A membership units. The funds were to be contributed in equal quarterly installments of approximately \$41,700, with a total of \$500,000 contributed by Oriana as of the years ended December 27, 2019 and December 28, 2018. In addition, CUBRC assigned its membership interest in Trove to Oriana during the year ended December 30, 2016.

On March 3, 2017, CUBRC purchased an 8% senior convertible promissory note of Akonni Biosystems, Inc. in the amount of \$400,000 initial principal. On January 20, 2018, the note was converted into a new 8% senior secured promissory note of \$428,318. The original \$400,000 note principal balance accrues interest at 8% per annum through July 15, 2018 at which point no additional interest accrued. The interest and principal were due upon maturity date of December 31, 2019. This note was converted to 583,879 shares of Series DD Preferred Stock at a cost of \$443,748 on January 28, 2019.

On June 4, 2019, CUBRC purchased a 14% secured note of Akonni Biosystems, Inc. with a principal amount of \$400,000, at a discount, for \$200,000. The interest and principal are due upon maturity date of December 31, 2020.

Oriana entered into a Series A Common Unit Purchase Agreement with Harker Holding Company LLC (“Harker”) in July 2016. As part of the agreement, Oriana contributed \$250,000 to Harker in exchange for 250,000 Series A Common Units. As of December 28, 2019 and 2018, this investment had been fully impaired to a cost basis of \$0.

On February 10, 2020, Oriana sold its investment in TROVE Predictive Data Science, LLC for \$2,734,068. Under ASU 2016-01, this will be considered a realized gain on investments for the fiscal year ended December 25, 2020.

Fair Value Method Investments – The Company’s investment in Genocea Biosciences, Inc. (“Genocea”) is carried at fair value, with realized and unrealized gains (losses) reported as increases (decreases) in net assets in the accompanying consolidated statements of activities. As of December 27, 2019 and December 28, 2018, the Company’s investment in Geneoca is classified as a Level 1 investment within the fair value hierarchy, with fair value being determined by quoted market prices. Net unrealized gains (losses) from marketable securities amounted to \$54,600 and (\$25,500) for the fiscal years ended December 27, 2019 and December 28, 2018, respectively, and are recorded in the accompanying consolidated statements of activities.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

Impairment and Investment Risk – Investments are exposed to various risks, such as interest rate, market and credit risks. The Company’s investments are regularly reviewed throughout the year for potential impairment and are written down to their fair value when other-than-temporary declines exist. Fair value is generally based on (i) other third-party investors’ recent transactions, (ii) other information available regarding the current market for similar assets, and/or (iii) a market approach as deemed appropriate.

4. Property and Equipment, net

Property and equipment, net, at December 27, 2019 and December 28, 2018 consists of the following:

	December 27, 2019	December 28, 2018
Furniture, fixtures and equipment	\$ 2,855,510	\$ 2,781,779
Less accumulated depreciation	2,327,604	2,013,340
	\$ 527,906	\$ 768,439

Depreciation expense totaled \$314,264 and \$300,739 for the fiscal years ended December 27, 2019 and December 28, 2018, respectively.

5. Line of Credit

CUBRC has available a \$4,000,000 bank demand line of credit with interest payable at 3% plus the greater of one-month LIBOR, adjusting daily, or one-day LIBOR. The line is secured by substantially all assets, is subject to terms and conditions applied by the bank for working capital financing, and is annually reviewed for renewal. There was \$1,100,000 and \$0 outstanding against this line at December 27, 2019 and December 28, 2018, respectively.

The bank requires that the balance on the line of credit be zero for at least 30 consecutive calendar days in any 12-month period. The Company was in compliance with this covenant as of and for the fiscal years ended December 27, 2019 and December 28, 2018.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

6. Transactions with Related Parties

The Company is party to certain agreements and transactions in the normal course of business. These transactions include:

The Research Foundation of the State University of New York (the “RF/SUNY”) – During the fiscal years ended December 27, 2019 and December 28, 2018, a RF/SUNY employee worked at CUBRC on a part-time basis, splitting time between CUBRC and the RF/SUNY.

CUBRC also subcontracts parts of various programs to RF/SUNY. The subcontracts are for various personnel and related costs. CUBRC also leases a laboratory facility from RF/SUNY.

Subcontractors – CUBRC subcontracts parts of various federal award programs as well as non federal awards to RF/SUNY. Amounts subcontracted to RF/SUNY for the fiscal years ended December 27, 2019 and December 28, 2018 totaled \$75,658 and \$311,828, respectively. No other related parties were subcontracted work in both of the years ended December 27, 2019 and December 28, 2018. See Note 3 for additional related party transactions.

Amounts payable to related parties, net, as of December 27, 2019 and December 28, 2018 were as follows:

	December 27, 2019	December 28, 2018
RF/SUNY	\$ (77)	\$ (11,871)
Prosetta Biosciences Inc.	(20,915)	(20,915)
Akonni Biosystems, Inc.	(2,748)	(2,748)
	\$ (23,740)	\$ (35,534)

7. Contract Revenue

Contract revenue from the Federal Government approximated 98% and 96% of total contract revenue for the fiscal years ended December 27, 2019 and December 28, 2018, respectively. Accounts receivable from the Federal Government approximated 93% and 90% of total accounts receivable as of December 27, 2019 and December 28, 2018, respectively.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

8. Lease Obligations

Operating Leases

The Company leases office, administrative, and testing space in various locations under the terms of various operating leases through December 2024. Rental expense for these leases amounted to \$1,633,454 and \$1,659,247 for the fiscal years ended December 27, 2019 and December 28, 2018, respectively.

Operating Leases

Future minimum rentals to be paid for leases with non-cancelable terms are:

<u>Fiscal year ending</u>	
2020	\$ 1,642,127
2021	1,501,034
2022	1,490,977
2023	776,026
2024	747,229
	<hr/>
	\$ <u>6,157,393</u>

The Company currently leases certain building space to conduct research and development for certain government agencies. In accordance with the terms of the lease agreement, the Company is responsible for certain decommissioning costs in the event the leased area is no longer used for such research. As of December 27, 2019 and December 28, 2018, the Company had accrued \$395,000, respectively, for this obligation.

Capital Lease

During 2017, the Company entered into a capital lease agreement for certain research equipment. The obligation under this capital lease has been recorded in the accompanying consolidated financial statements at the present value of future minimum lease payments, discounted at a rate of 4%.

The capitalized cost of this equipment totaled \$217,847 at December 27, 2019 and December 28, 2018. The accumulated depreciation of this equipment totaled \$116,185 and \$72,616 at December 27, 2019 and December 28, 2018, respectively. The capitalized cost and accumulated depreciation are included in property and equipment, net in the accompanying consolidated statements of financial position.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

8. Lease Obligations (continued)

Future minimum lease payments under this capital lease at December 27, 2019 are:

<u>Fiscal year ending</u>	
2020	\$ 49,773
2021	49,773
2022	12,443
	111,989
Less amount representing interest	7,370
	104,619
Less current maturities	45,339
	\$ 59,280

9. Employee Benefit Plan

The Company has a volume submitter profit-sharing/401(k) plan (the “Plan”) covering substantially all employees of the Company’s participating business units who have attained the age of 21. The Plan is a defined contribution plan under which participants may elect to contribute up to 100% of their annual compensation limited to the amount imposed by law.

The Company’s discretionary contribution was equal to 7% of employee compensation for all employees who worked for the Company for seven years or more. Employees who worked for the Company for more than one year, but less than seven years, received discretionary contributions equal to 5% of their compensation. Additionally, all employees received safe-harbor contributions from the Company equal to 3% of their compensation. The Plan also allows the Company to make an additional discretionary profit-sharing contribution. The Company made \$1,382,743 and \$1,369,095 in contributions into the Plan in fiscal years ended December 27, 2019 and December 28, 2018, respectively.

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

10. Functional Expenses

The functional breakdown of expense incurred by the Company for the years ended December 27, 2019 and December 28, 2018 are as follows:

2019	Research, Development, Testing & Integration	Facilities	Professional Technical Expense (Overhead)	General & Administrative Costs	Total
Salaries	\$ 9,253,981	128,309	2,345,471	1,867,783	13,595,544
Fringe Applied	4,190,777	59,697	1,078,884	852,754	6,182,112
Travel	717,699	0	42,177	219	760,095
Purchases Services	2,055,180	159,981	59,582	52,822	2,327,565
Consultants	306,172	0	0	0	306,172
Materials, Supplies, Repairs & Maintenance	3,962,809	997,113	76,417	290,036	5,326,375
Subcontracts	9,844,448	0	0	0	9,844,448
Space Rental	0	650,289	807,783	175,382	1,633,454
Depreciation Expense	0	196,866	24,843	92,555	314,264
Professional Services	0	0	0	434,415	434,415
IT Supplies and Services	0	0	243,433	345,588	589,021
Security Supplies & Services	0	0	98,751	1,158	99,909
Bid & Proposal Salaries	0	0	0	147,323	147,323
Bid & Proposal Fringe Applied	0	0	0	68,196	68,196
Bid & Proposal Other Costs	0	0	0	5,346	5,346
IR&D Salaries	0	0	0	154,252	154,252
IR&D Fringe Benefits	0	0	0	70,306	70,306
IR&D Other Costs	0	0	0	123,353	123,353
Program Development Salaries	0	0	1,177,320	0	1,177,320
Program Development Fringe	0	0	538,200	0	538,200
Program Development Other Costs	0	0	229,292	0	229,292
Total	30,331,066	2,192,255	6,584,533	4,819,108	43,926,962
Indirect Expense Allocations	11,898,745	(1,981,788)	(6,417,703)	(3,499,254)	0
Total Expenses	\$ 42,229,811	210,467	304,450	1,182,234	43,926,962

CUBRC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

10. Functional Expenses (continued)

2018	Research, Development, Testing & Integration	Facilities	Professional Technical Expense (Overhead)	General & Administrative Costs	Total
Salaries	\$ 8,613,690	223,110	2,250,108	1,872,714	12,959,622
Fringe Applied	3,868,067	101,444	1,023,699	841,896	5,835,106
Travel	692,165	0	23,681	1,657	717,503
Purchased Services	1,427,868	154,698	45,348	45,504	1,673,418
Consultants	500,478	0	0	0	500,478
Materials, Supplies, Repairs & Maintenance	2,141,653	501,509	90,404	361,295	3,094,861
Subcontracts	15,093,242	0	0	0	15,093,242
Space Rental	0	651,095	836,009	172,143	1,659,247
Depreciation Expense	0	189,030	31,067	80,642	300,739
Professional Services	0	0	0	367,607	367,607
IT Supplies and Services	0	0	230,617	191,822	422,439
Security Supplies & Services	0	0	45,765	729	46,494
Bid & Proposal Salaries	0	0	0	235,631	235,631
Bid & Proposal Fringe Applied	0	0	0	107,830	107,830
Bid & Proposal Other Costs	0	0	0	10,365	10,365
IR&D Salaries	0	0	0	189,713	189,713
IR&D Fringe Benefits	0	0	0	86,753	86,753
IR&D Other Costs	0	0	0	25,668	25,668
Program Development Salaries	0	0	1,304,539	0	1,304,539
Program Development Fringe	0	0	584,237	0	584,237
Program Development Other Costs	0	0	337,443	0	337,443
Total	32,337,163	1,820,886	6,723,928	4,670,958	45,552,935
Indirect Expense Allocations	11,696,023	(1,582,181)	(6,464,135)	(3,649,707)	0
Total Expenses	\$ 44,033,186	238,705	338,782	942,262	45,552,935

11. Subsequent Event

During 2020, the Company's operations, as well as the overall economy, has been impacted as a result of the spread of COVID-19 (Coronavirus), government-ordered restrictions on public gatherings and the shutdown of nonessential businesses. In an effort to aid in cash flow, the Company applied for and was approved for financial assistance through the Small Business Administration. The approved loan for CUBRC is for \$2,218,400 at a fixed rate of 1.00% payable over 2 years in monthly installments of \$124,222 beginning seven months after the date of the loan. The approved loan for Avarint is for \$1,024,645 at a fixed rate of 1.00% payable over 2 years in monthly installments of \$57,376 beginning seven months after the date of the loan.

Supplementary Information

CUBRC, Inc. and Subsidiaries

Consolidating Balance Sheets

December 27, 2019

	CUBRC, Inc.	Avarint, LLC	Oriana, Inc.	Eliminating Entries	Consolidated Total
Assets					
Current Assets					
Cash	\$ 1,350,602	\$ 2,200,984	\$ 0	\$ 0	\$ 3,551,586
Accounts receivable	1,196,931	1,089,719	0	0	2,286,650
Due from affiliated companies	1,009,417	0	0	(1,009,417)	0
Unbilled accounts receivable	5,323,292	2,860,742	0	0	8,184,034
Inventory	206,378	0	0	0	206,378
Prepaid expenses	355,664	80,058	0	0	435,722
	9,442,284	6,231,503	0	(1,009,417)	14,664,370
Total current assets	9,442,284	6,231,503	0	(1,009,417)	14,664,370
Property and Equipment, net	323,688	204,218	0	0	527,906
Investments	5,438,310	0	0	(1,913,921)	3,524,389
	\$ 15,204,282	\$ 6,435,721	\$ 0	\$ (2,923,338)	\$ 18,716,665
	\$ 15,204,282	\$ 6,435,721	\$ 0	\$ (2,923,338)	\$ 18,716,665
Liabilities, Net Assets and Member's Equity					
Current Liabilities					
Line of credit	\$ 1,100,000	\$ 0	\$ 0	\$ 0	\$ 1,100,000
Accounts payable	1,827,170	2,246,564	0	0	4,073,734
Due to affiliated company	0	970,790	38,627	(1,009,417)	0
Capital lease obligations	0	45,339	0	0	45,339
Unearned revenue	73,786	0	0	0	73,786
Accrued expenses	2,437,513	881,200	0	0	3,318,713
	5,438,469	4,143,893	38,627	(1,009,417)	8,611,572
Total current liabilities	5,438,469	4,143,893	38,627	(1,009,417)	8,611,572
Long-term Liabilities					
Accrued incentive compensation	191,667	0	0	0	191,667
Accrued decommissioning costs	115,000	280,000	0	0	395,000
Capital lease obligations, less current maturities	0	59,280	0	0	59,280
	306,667	339,280	0	0	645,947
Total long-term liabilities	306,667	339,280	0	0	645,947
Total liabilities	5,745,136	4,483,173	38,627	(1,009,417)	9,257,519
Net Assets Without Donor Restrictions	9,459,146	0	0	0	9,459,146
Members' Equity (Deficit)					
Capital contributions	0	786,116	751,000	(1,537,116)	0
Retained earnings (Accumulated deficit)	0	1,166,432	(789,627)	(376,805)	0
	0	1,952,548	(38,627)	(1,913,921)	0
Total member's equity (deficit)	0	1,952,548	(38,627)	(1,913,921)	0
	\$ 15,204,282	\$ 6,435,721	\$ 0	\$ (2,923,338)	\$ 18,716,665
	\$ 15,204,282	\$ 6,435,721	\$ 0	\$ (2,923,338)	\$ 18,716,665

See report of independent auditors.

CUBRC, Inc. and Subsidiaries
Consolidating Statements of Activities
for the fiscal year ended December 27, 2019

	<u>CUBRC, Inc.</u>	<u>Avarint, LLC</u>	<u>Oriana, Inc.</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
Program Revenue, net					
Contract revenue	\$ 25,384,433	\$ 18,817,992	\$ 0	\$ (129,039)	\$ 44,073,386
Cost of revenue	<u>24,479,254</u>	<u>17,879,596</u>	<u>0</u>	<u>(129,039)</u>	<u>42,229,811</u>
Total program revenue, net	905,179	938,396	0	0	1,843,575
Operating Expenses					
Indirect costs					
Administration	9,368,762	4,829,330	0	0	14,198,092
Research and development	490,546	23,892	0	0	514,438
Facility expenses	1,774,866	417,389	0	0	2,192,255
Program development	1,430,975	513,837	0	0	1,944,812
Floor space rental	715,895	267,270	0	0	983,165
Proposal	206,429	121,275	0	0	327,704
Depreciation	<u>81,306</u>	<u>36,092</u>	<u>0</u>	<u>0</u>	<u>117,398</u>
Total indirect costs	14,068,779	6,209,085	0	0	20,277,864
Indirect cost reimbursements					
General and administrative	2,719,917	1,185,295	0	0	3,905,212
Facility usage	1,691,788	290,000	0	0	1,981,788
Professional technical expense	3,957,840	2,380,852	0	0	6,338,692
Fringe expense	<u>4,715,812</u>	<u>2,177,160</u>	<u>0</u>	<u>0</u>	<u>6,892,972</u>
Total indirect cost reimbursements	13,085,357	6,033,307	0	0	19,118,664
Total unreimbursed indirect costs	<u>983,422</u>	<u>175,778</u>	<u>0</u>	<u>0</u>	<u>1,159,200</u>
Income (loss) from operations	(78,243)	762,618	0	0	684,375
Other Revenues (Expenses) - Non-Contract Related					
Miscellaneous revenue	106,061	72	0	0	106,133
Investment gains	54,600	0	0	0	54,600
Legislative pursuits	(78,882)	0	0	0	(78,882)
Interest expense	(6,640)	(6,809)	0	0	(13,449)
Unallowed	<u>(157,124)</u>	<u>(272,503)</u>	<u>(15,993)</u>	<u>0</u>	<u>(445,620)</u>
Total other expenses - non-contract related	<u>(81,985)</u>	<u>(279,240)</u>	<u>(15,993)</u>	<u>0</u>	<u>(377,218)</u>
Increase (Decrease) in net assets without donor restrictions	(160,228)	483,378	(15,993)	0	307,157
Income from subsidiaries, net	<u>467,385</u>	<u>0</u>	<u>0</u>	<u>(467,385)</u>	<u>0</u>
Increase (decrease) in net assets	<u>\$ 307,157</u>	<u>\$ 483,378</u>	<u>\$ (15,993)</u>	<u>\$ (467,385)</u>	<u>\$ 307,157</u>

See report of independent auditors.

**Independent Auditors' 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***

To the Board of Directors of
CUBRC, Inc.
Buffalo, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of CUBRC, Inc. ("CUBRC") and Subsidiaries (collectively the "Company"), which comprise the consolidated balance sheet as of December 27, 2019, and the related consolidated statements of activities and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered CUBRC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CUBRC's internal control. Accordingly, we do not express an opinion on the effectiveness of CUBRC'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 consolidated 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 would not necessarily 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated 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 consolidated 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

This report is intended 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 the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Torcan Segura & Associates LLP

Williamsville, New York
November 10, 2020

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
CUBRC, Inc.
Buffalo, New York

Report on Compliance for Each Major Federal Program

We have audited CUBRC, Inc.'s ("CUBRC") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of CUBRC's major federal programs for the fiscal year ended December 27, 2019. CUBRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of CUBRC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards 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 ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CUBRC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CUBRC's compliance.

Opinion on Each Major Federal Program

In our opinion, CUBRC 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 fiscal year ended December 27, 2019.

Report on Internal Control Over Compliance

Management of CUBRC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered CUBRC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on the internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CUBRC's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Truman Segura & Associates LLP

Williamsville, New York
November 10, 2020

CUBRC, Inc.
Schedule of Expenditures of Federal Awards
for the year ended December 27, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
Research and Development Program Cluster			
U.S. Department of Defense			
U.S. Army			
<i>Direct Programs</i>			
LENS DO12	12	W31P4Q-15-D-0015	7,597,413
LENS DO14	12	W31P4Q-15-D-0015	478,297
LENS DO15	12	W31P4Q-15-D-0015	863,351
USAICOE Predictive Fusion	12	W911NF-15-2-0043	147,457
TO1 ExPED AVARTAR Labor	12	W6QK ACC-APG Division A	334,093
TO 2 ICED & ROMA	12	W6QK ACC-APG Division A	497,029
TO 3 MTC2 Intellex	12	W6QK ACC-APG Division A	289,659
TO 4 USG Cognitive Data	12	W6QK ACC-APG Division A	778,346
SEDS Management	12	W911QY-7-A-0009/7218	33,147
Total Direct Programs			<u>\$ 11,018,792</u>
<i>Pass-Through Programs From:</i>			
Booz Allen			
BAH TO5 KY-10	12	W15P7T-10-D-D415	\$ 915
Concurrent Technologies C			
CTC CARC Testing	12	W56HZV-05-C-0414	23
Data Tactics Corporation			
Data - CERDEC and I2WD	12	W1597T-10-C-A268	(163)
General Dynamics			
GD MALTS PC Config	12	W900KK-09-D-0001	463
GD MALTS Phase II	12	W900KK-09-D-001	214
Leidos			
Leidos DYNAMIC	12	W56KGU-15-D-0008	118,136
Polaris Alpha Advanced Sy			
Polaris Alpha PA ATP C	12	W56KGU-15-D-0007/003	355,772
PPG Industries Inc.			
PPG CARC Testing	12	W912HQ-13-C-0007	20
Production Products, MFG			
PPSTL MIL 282 Testing	12	W56HZV-13-D-00700071	23
TDA Research Inc.			
TDA VX Detoxification	12	W911NF-09-C-0107	2
Truetech, Inc.			
Truetech M9 Testing	12	W56HZV-13-C-0307	252
Smiths Detection			
Smith Detection Guardian	12	W911SR-07-C-0080	1,505
Total Pass-Through Programs			<u>\$ 477,162</u>
U.S. Air Force			
<i>Direct Programs</i>			
KDD P4 Dev-Integ Experiment	12	FA8650-10-C-7062	\$ 3,065
AFRL Distributed DYGRAF	12	FA8750-16-C-0124	15,677
InRITHM AFRL	12	FA8750-17-C-0143	2,413,452
Freejet Det Model Design	12	FA8650-19-C2423	925
US AirForce VIEWS TO26 LAB	12	FA9302-09-D-0030	4,260
Total Direct Programs			<u>\$ 2,437,379</u>

See report of independent auditors and notes to schedule of expenditures of federal awards.

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the year ended December 27, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
<i>Pass-Through Programs From</i>			
Avarint			
Avarint JEFs Helmet Cover	12	FA8075-14-D-0003/002	\$ 9,681
Avarint JEFs SME	12	FA8075-14-D-0003	5,894
ATA Engineering Inc.			
ATA Advanced Material Tst	12	FA8650-18-P-5041	85,769
ATREVIDA Science			
Atrevida Design Aerodynam	12	FA8649-19-P-A052	9,991
BAE Systems			
BAE Hallmark Phase 1	12	FA8750-17-C-0065	154,857
Battelle Memorial Inst.			
Tox Tool Development	12	FA8075-14-D-0003 DO5	325,861
Enhance Enterprise			
Enhance Ent - AIR CSI	12	FA8750-13-C-0174	3,203
Harmonia Holdings Group			
Harmonia R&D Support	12	FA8750-12-C-0249	23,891
JT3 LLC			
JT3 DIADS Phase 5	12	F42650-01-C-7218	3,487
JT3 DIADS Phase 7	12	F42650-01-C-7218	192
JT3 DIADS PC Systems	12	F42650-01-C-7218	1,035
Lockheed Martin Corporation			
LM Shroud	12	FA8681-18-C-0021	908,157
Massachusetts Institute			
MIT/LL Optical Hypersonic	12	FA8702-15-D-0001	455,501
Ohio Aeronautical Institute			
OAI Digital Thread/Twin	12	FA8650-14-D-2410	11,400
Texas A&M			
Texas A&M BOLT	12	FA9550-18-1-0010	83,090
TIAX, LLC			
TIAX Int Aircrew Ensemble	12	FA8606-11-D-6360	283
TIAX Material Set Testing	12	FA8606-11-D-6360	42
TYBRIN Corporation			
Tybrin ARDTEAS Prgm ARES	12	FA9304-09-C-0100	327
Tybrin ARDTEAS Prgm ARES	12	FA9304-09-C-0100	1,097
XAnalytics Systems			
XAnalyt APSIS II FFP	12	FA8750-16-C-0252	303,470
			<u>303,470</u>
Total Pass-Through Programs			\$ <u>2,387,228</u>
 <i>U.S. Navy</i>			
<i>Direct Programs:</i>			
NSWC - Seaport	12	N000178-05-D-5388	\$ 2,501
ONR NODE	12	N00014-13-P-1137	991
ONR BOGI	12	N00014-13-P-1016	369
ONR COMAND	12	N00014-15-C-5163	439,369
ONR SMA2RT	12	N00014-16-C-1004	1,411,287
ONR PROBE	12	N00014-17-C-1018	1,220,480
ONR TRACE	12	N00014-18-P-2002	3,518
ONR LIFT	12	N00014-19-C-2050	229,064
SPAWAR C2RPC Jave Upgrade	12	Gov't Purchase Card	1,080
Spawar MTC2 Source Code	12	N66001-15-P-0127	2,625
			<u>2,625</u>
Total Direct Programs			\$ <u>3,311,284</u>

See report of independent auditors and notes to schedule of expenditures of federal awards.

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the year ended December 27, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
<i>Pass-Through Programs From:</i>			
Assurance Technology Corp			
ATC C4ISR Program Support	12	N000173-18-C-6007	\$ 95,739
Decisive Analytics Corp			
DAC Fishe	12	N00014-11-M-0289	56
DAC Data Extractor	12	N68335-17-C-0394	423
DCS Corporation			
DCS Rigors Teist Install	12	N00173-11-C-6012	974
In-Depth Engineering Corp			
In-Depth Sliced P2 Base	12	N00024-16-P-4080	198,078
In-Depth Big Data Base	12	N68335-19-C-0436	41,191
The John Hopkins University			
JHU High Speed Weapons	12	N00024-13-D-6400	2,209
PMAT			
PMAT - ICED ICAP Integration	12	N68335-18-C-0028	87,750
Modus Operandi, Inc.			
Modus TO1	12	N00253-14-C-0004	52,187
ISEA TEK, LLC			
IseaTek INFOTON	12	N68335-18-C-0356	77,637
IseaTek INFOTON	12	N68335-19-C-0302	115,362
General Dynamics			
GD RFA 14-1 Support	12	N68936-10-D-0034	3,577
Northrop Grumman			
NF Aero-RAFSA	12	N00014-15-C-0129	2,436
The Research Foundation			
RF Data Sci Approach Auto	12	N00244-18-1-0003	3,713
Soar Technology, Inc.			
Soar Tech PM2	12	N00014-13-P-1179	3,891
System of Systems Analytic			
SoSA Corp C2IS2 Ontology	12	N41756-12-C-4822	346
SoSA Corp Ontology	12	N41756-12-C-4822	2,418
			<u>687,987</u>
Total Pass-Through Programs			\$ <u>687,987</u>
Defense Advance Research Projects Agency			
<i>Pass-Through Program From:</i>			
Lockheed Martin Corporation			
LM Glider Program	12	HR0011-16-9-0008	\$ 1,432,367
			<u>1,432,367</u>
Total Pass-Through Program			\$ <u>1,432,367</u>
Defense Logistics Agency			
<i>Pass-Through Program From:</i>			
Hentzen Coatings, Inc.			
Hentzen CARC Testing	12	SP0700-03-D-1380	\$ 4
Sherwin Williams			
Sherwin CARC Testing	12	SP0700-03-D-1380	24
Powder Technologies Inc.			
Powder Tech CARC Testing	12	SP0700-03-D-1380	9
Resodyn Corporation			
Resoldyn CARC Testing	12	SP0700-03-D-1380	25
Hentzen Coatings, Inc.			
Hentzen CARC Testing	12	SP0700-03-1380	43
RANDOLPH PRODUCTS			
Randolph Prod-CARC Testing	12	SP0700-03-1380	110
			<u>215</u>
Total Pass-Through Program			\$ <u>215</u>

See report of independent auditors and notes to schedule of expenditures of federal awards.

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the year ended December 27, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
<i>Defense Threat Reduction Agency</i>			
<i>Direct Program</i>			
Defense Threat Reduction DTRA Epivax Grant	12	HDTRA1-17-1-0014	\$ <u>474,321</u>
<i>Missile Defense Agency</i>			
<i>Pass-Through Program From:</i>			
Charles River Analytics CR AMMUFFFF+	12	HQ0147-16-C-7801	8,596
GCAS Inc. GCAS STTR Decision Making	12	HQ0147-14-C-7920	<u>1,163</u>
Total Pass-Through Program			\$ <u>9,759</u>
Total U.S. Department of Defense			\$ <u>22,236,494</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Direct Programs</i>			
BARDA- TP434	93	HHS0100201200002C	\$ 1,286,305
FDA EPIVAX Opt 1 Teripar	93	HHSF223201810186C	372,483
NIAD TP-271	93	HHSN272201100028C	179,423
SeLux BARDA Dx	93	HHSO100201800013C	<u>186,104</u>
Total U.S. Department of Health and Human Services			\$ <u>2,024,315</u>
<i>U.S. Department of Transportation</i>			
<i>Federal Highway Administration</i>			
<i>Direct Program</i>			
FHWA Res Utiliz SHRP2 Data	20	DTFH61-16-C-00004	\$ <u>648</u>
<i>General Services Administrations</i>			
<i>Direct Program</i>			
FHWA Res Utiliz SHRP2 Data	39	GS01T10BKM0034	\$ <u>200</u>
<i>National Aeronautics and Space Administration</i>			
<i>Direct Program</i>			
NASA TO7 Pathfinder test	43	NNJ11HB71C	998
NASA TO 11 127CH	43	NNJ11HB71C	38,664
TO 5 Fab High Freq/High	43	NNJ16HC07C	<u>7,180</u>
Total Direct Program			\$ <u>46,842</u>
<i>Pass-Through Programs From</i>			
Tao of Systems Integration TAO SYS High Frequency	43	NNX11CF80F	10
Space Exploration Technology SpaceX Dragon 2 Test	43	NNK14MA74C	543
Analytical Mechanics Association AMA Teams 3 FY 19	43	80LARC17C0003	<u>2,020</u>
Total Pass-Through Programs			\$ <u>2,573</u>
Total National Aeronautic and Space Administration			\$ <u>49,415</u>

See report of independent auditors and notes to schedule of expenditures of federal awards.

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the year ended December 27, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
<i>Department of Energy</i>			
<i>Pass-Through Programs From:</i>			
Sonalysts, Inc.			
Sonalysts MetaphortesP2	81	DE-SC0018729	\$ <u>7,358</u>
<i>Office of Procurement Operations</i>			
<i>Pass-Through Programs From:</i>			
Avarint LLC			
Avarint ENSCO Support	97	70RSAT18C00000046	\$ <u>7,047</u>
<i>USAID</i>			
<i>Pass-Through Programs From:</i>			
J.E. Austin Associates			
JE Austin Merc	98	AID-OAA-C-15-00106	\$ <u>161,578</u>
Total Federal Awards			\$ <u><u>24,487,055</u></u>

See report of independent auditors and notes to schedule of expenditures of federal awards.

CUBRC, Inc.

Notes to Schedule of Expenditures of Federal Awards

1. **Summary of Significant Accounting Policies**

Basis of Presentation – The accompanying schedule of expenditures of federal awards (the “Schedule”) presents the activity of all federal awards programs administered during the current fiscal year by CUBRC, Inc. (“CUBRC”), an entity as described in Note 1 to its basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the Schedule. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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

The amounts reported as federal expenditures were obtained from appropriate financial reports for the applicable program and periods. The amounts reported in these financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger, which is the source of supporting data for CUBRC’s financial statements.

Indirect Costs – Indirect costs and administrative allowances are set by the Department of Defense by contractual rates or approved percentage.

Major Program Determination – All of CUBRC’s federally funded programs fall under the Research and Development Cluster as closely related programs that share common compliance requirements. Type A programs for CUBRC are those which equal or exceeded \$750,000 in expenditures for the fiscal year ended December 27, 2019. Type B programs for CUBRC are those which were less than \$750,000 in expenditures for the fiscal year ended December 27, 2019.

CUBRC, Inc.

Notes to Schedule of Expenditures of Federal Awards (continued)

2. Subrecipients

Of the federal expenditures presented in the Schedule for the fiscal year ended December 27, 2019, CUBRC provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal or Pass-through Grantor's Number</u>	<u>Amount Provided to Subrecipient</u>
KDD P4 Dev-Integ Experim	FA8650-10-C-7062	\$ 2,522
NIAID TP 271	HHSN272201100028C	123,611
BARA TP434	HHS0100201200002C	1,286,305
LENS DO12	W31P4Q-15-D-0015	15,000
LENS DO14	W31P4Q-15-D-0015	93,406
DTRA Epivax Opt 2 CLIN 3	HDTRA1-17-1-0014	174,205
DTRA Epivax Opt 2 CLIN 3	HDTRA1-17-1-0014	219,686
InRITHM AFRL	FA8750-17-C-0143	64,288
InRITHM AFRL	FA8750-17-C-0143	59,706
InRITHM AFRL	FA8750-17-C-0143	66,000
InRITHM AFRL	FA8750-17-C-0143	39,292
InRITHM AFRL	FA8750-17-C-0143	22,882
InRITHM AFRL	FA8750-17-C-0143	472,500
InRITHM AFRL	FA8750-17-C-0143	4,020
InRITHM AFRL	FA8750-17-C-0143	96,640
Tox Tool Development	FA8075-14-D-0003 DO5	147,504
FDA EPIVAX Opt 1 Teripar	HHSF223201810186C	258,774
		<u>\$ 3,146,341</u>

CUBRC, Inc.
*Schedule of Findings and Questioned Costs
for the year ended December 27, 2019*

Section I. Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with <i>Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i>	No
Identification of major program:	
Research and development cluster	
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as a low-risk auditee?	Yes

Section II. Financial Statement Findings

No matters were reported.

Section III. Federal Award Findings and Questioned Costs

No matters were reported.

See report of independent auditors and notes to consolidated financial statements and schedule of expenditures of federal awards.

CUBRC, Inc.
Summary Schedule of Prior Audit Findings
for the year ended December 27, 2019

<u>Program</u>	<u>Prior Year Audit Finding Cost</u>	<u>Questioned Finding</u>	<u>Status of Finding</u>
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There are no prior year findings.

*See report of independent auditors and notes to
consolidated financial statements and schedule of expenditures of federal awards.*