

CUBRC, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplementary Information**

December 31, 2021 and December 25, 2020

CUBRC, Inc. and Subsidiaries
Consolidated Financial Statements

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Independent Auditors' Report

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

Opinion

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 31, 2021 and December 25, 2020, 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.

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 31, 2021 and December 25, 2020, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Company'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

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 31, 2021, 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 auditing standards generally accepted in the United States of America. 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 September 12, 2022 on our consideration of CUBRC’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’s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Tronconi Seyarra & Associates LLP". The signature is written in a cursive, flowing style.

Williamsville, New York
September 12, 2022

CUBRC, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2021 and December 25, 2020

	December 31, 2021	December 25, 2020
Assets		
<i>Current Assets</i>		
Cash	\$ 7,714,650	\$ 9,481,051
Accounts receivable	1,455,236	1,913,565
Unbilled accounts receivable	9,506,104	7,739,248
Inventory	349,553	328,144
Prepaid expenses	753,765	516,552
	19,779,308	19,978,560
<i>Property and Equipment, net</i>	529,265	354,531
<i>Investments</i>	3,435,153	3,382,046
	\$ 23,743,726	\$ 23,715,137
Liabilities and Net Assets		
<i>Current Liabilities</i>		
Accounts payable	4,078,574	4,144,555
Current maturities of long-term debt	968,212	1,597,029
Capital lease obligations	12,094	47,186
Unearned revenue	177,280	136,505
Accrued expenses	4,430,438	3,940,358
	9,666,598	9,865,633
<i>Long-term Liabilities</i>		
Accrued incentive compensation	68,333	200,000
Accrued decommissioning costs	395,000	395,000
Capital lease obligations, less current maturities	0	12,094
Long-term debt, less current maturities	0	1,646,016
	463,333	2,253,110
Total long-term liabilities	463,333	2,253,110
Total liabilities	10,129,931	12,118,743
<i>Net Assets Without Donor Restrictions</i>	13,613,795	11,596,394
	\$ 23,743,726	\$ 23,715,137

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

CUBRC, Inc. and Subsidiaries
Consolidated Statements of Activities
for the fiscal years ended December 31, 2021 and December 25, 2020

	December 31, 2021	December 25, 2020
<i>Program Revenue, net</i>		
Contract revenue	\$ 56,788,439	\$ 47,019,277
Cost of revenue	52,971,864	44,866,738
Total program revenue, net	3,816,575	2,152,539
<i>Operating Expenses</i>		
Indirect costs		
Administration	16,191,744	15,157,365
Research and development	538,557	187,932
Facility expenses	4,779,712	3,192,033
Program development	2,224,842	2,588,210
Floor space rental	959,251	987,656
Proposal	514,774	671,131
Depreciation	89,092	98,859
Total indirect costs	25,297,972	22,883,186
Indirect cost reimbursements		
General and administrative	4,962,701	4,711,113
Facility usage	4,673,424	3,057,924
Professional technical expense	7,128,482	6,998,694
Fringe expense	8,110,171	7,308,451
Total indirect cost reimbursements	24,874,778	22,076,182
Total unreimbursed indirect costs	423,194	807,004
Income from operations	3,393,381	1,345,535
<i>Other Income (Expenses) - Non-Contract Related</i>		
Miscellaneous revenue	67,671	130,357
Investment income, net	(2,773)	1,293,064
Legislative pursuits	(73,021)	(74,255)
Interest expense	(30,498)	(62,264)
Unallowed	(1,337,359)	(495,189)
Total other income (expenses) - non-contract related, net	(1,375,980)	791,713
Increase in Net Assets Without Donor Restrictions	2,017,401	2,137,248
<i>Net Assets Without Donor Restrictions, beginning of year</i>	11,596,394	9,459,146
<i>Net Assets Without Donor Restrictions, end of year</i>	\$ 13,613,795	\$ 11,596,394

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

CUBRC, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
for the fiscal years ended December 31, 2021 and December 25, 2020

	December 31, 2021	December 25, 2020
<i>Cash Flows from Operating Activities</i>		
Increase in net assets	\$ 2,017,401	\$ 2,137,248
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	218,306	266,700
Net unrealized loss on investments	5,325	54,225
Net realized gains on investments	0	(1,428,356)
Interest income on investment	(58,432)	(126,042)
(Increase) Decrease in:		
Accounts receivable	458,329	373,085
Unbilled accounts receivable	(1,766,856)	444,786
Inventory	(21,409)	(121,766)
Prepaid expenses	(237,213)	(80,830)
Increase (Decrease) in:		
Accounts payable	(65,981)	70,821
Unearned revenue	40,775	62,719
Accrued expenses	490,080	621,645
Long-term accrued incentive compensation	(131,667)	8,333
	948,658	2,282,568
<i>Net cash provided by operating activities</i>		
<i>Cash Flows from Investing Activities</i>		
Purchases of property and equipment	(393,040)	(93,325)
Proceeds from sales of investments	0	1,428,356
Proceeds from investment tax credits	0	214,160
	(393,040)	1,549,191
<i>Net cash provided by (used in) investing activities</i>		
<i>Cash Flows from Financing Activities</i>		
Proceeds from (repayments on) Paycheck Protection Program loan	(2,274,833)	3,243,045
Repayments on line of credit	0	(1,100,000)
Repayment of capital lease obligations	(47,186)	(45,339)
	(2,322,019)	2,097,706
<i>Net cash provided by (used in) financing activities</i>		
Net increase (decrease) in cash	(1,766,401)	5,929,465
<i>Cash, beginning of year</i>	9,481,051	3,551,586
<i>Cash, end of year</i>	\$ 7,714,650	\$ 9,481,051
<i>Supplemental Disclosure of Cash Flow Information</i>		
Cash paid during the year for:		
Interest expense	\$ 30,498	\$ 39,735

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

CUBRC, Inc. and Subsidiaries

Notes to 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.

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.

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 31, 2021 and December 25, 2020 included 53 weeks and 52 weeks of operations, respectively.

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. The maximum loss of cash that would result from that risk totals \$5,665,640 and \$5,901,872 at December 31, 2021 and December 25, 2020, respectively. This amount represents the excess of the deposit liabilities reported by the broker over the amount that would be covered by Securities Investor Protection Corporation (“SIPC”). The SIPC protects against the loss of cash and securities of up to \$500,000, which includes a \$250,000 limit for cash.

CUBRC, Inc. and Subsidiaries
Notes to 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 – Unbilled accounts receivable primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. Contract costs consists of labor, subcontractor and consultant costs, materials, purchased services and other direct 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, completed heat transfer gauges that the Company has manufactured, and medtherms for use in certain contracts. Inventory is stated at the lower-of-cost or net realizable value. 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 for 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,

CUBRC, Inc. and Subsidiaries

Notes to Financial Statements (continued)

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

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.

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. No impairment loss was recognized for the fiscal years ended December 31, 2021 and December 25, 2020.

Accrued Expenses – Accrued expenses primarily 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).

CUBRC, Inc. and Subsidiaries
Notes to 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 2021 and 2020.

Revenue Recognition – Substantially all of the Company’s revenue is derived from research and development contracts. The Company provides goods and/or services under varying types of contracts, which include Fixed Price, Cost-Plus Fixed Fee, Time and Materials (“T&M”), Cooperative Agreements, and Other Transaction Agreements.

A contract is accounted for by the Company once such contract is considered valid; meaning the contract has commercial substance, the payment terms have been established, the rights of each party are known, collectability of nearly all consideration is probable and there is approval and commitment from both parties to fulfill their agreed upon obligations. At a contract’s inception, the Company will consider whether two or more contracts, particularly with related customers, objectives and/or timelines should be combined and accounted for as a single contract; this would include evaluating the task orders issued under an indefinite delivery/indefinite quantity (“IDIQ”) award.

At a contract’s inception, the Company determines whether the goods or services to be provided are to be accounted for as a single performance obligation or as multiple performance obligations. This evaluation requires professional judgement, which may impact the timing of the Company’s revenue recognition. Performance obligations are typically not separately identifiable and distinct from one another as most of the Company’s contracts include interrelated tasks and/or deliverables based on results obtained through ongoing research. Accordingly, the goods or services to be provided within the Company’s contracts are mainly accounted for as single performance obligations.

The Company determines the transaction price for each contract based on the consideration the Company expects to receive for the goods or services to be provided under the contract. When a contract is to be incrementally funded, the transaction price allocated to the contract is not to exceed the authorized funding value. In contracts where price may vary, the Company estimates consideration at the most likely amount to be received to the extent it is

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

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

not probable that a material reversal of revenue recognized would be necessary. At a contract's inception, the Company will estimate the transaction price based on the Company's known rights and does not consider impending modifications, unexercised options, or follow-on contracts until these items are considered valid. Contracts may be subsequently modified for various reasons, such as changes in scope, period of performance, price, or otherwise, which may create new or change existing rights and obligations. Depending on the nature of the modification, the Company considers whether to account for the modification as a continuation of the original contract or as a new contract. Generally, modifications to the Company's contracts are not separately identifiable distinct performance obligations from those within the initial contract, therefore, such modifications are mainly accounted for as a continuation of the original contract.

The Company recognizes revenue as performance obligations are satisfied and as the customer takes control of the goods or services. The revenue recognition methodology used by the Company is dependent upon the contract type and other known, relevant circumstances and is identified on a contract-by-contract basis during the evaluation process at the time of award.

Generally, for performance obligations in which the Company provides ongoing goods or services to the customer, revenue is recognized over-time based on the input method of costs incurred. For performance obligations in which the Company has an enforceable right to receive reimbursement for its performance completed to date, revenue is also recognized over-time based on the input method of costs incurred. Under the input method, the extent of progress towards completion is measured based upon costs and standard indirect cost reimbursement rates allowable under each contract as they are incurred.

For performance obligations in which the Company does not provide continual transfer of goods or services to the customer or sustain a right to receive payment for goods or services provided as the contract is being fulfilled, the Company recognizes revenue at the point-in-time when each performance obligation is fully satisfied. A performance obligation is deemed to be fully satisfied upon customer receipt, acceptance or possession of the final deliverable(s) outlined in the contract.

Most contracts entered into with the Federal government include standard Federal Acquisition Regulation and/or Defense Federal Acquisition Regulation Supplement ("FAR and/or DFARS") clauses. These clauses give the customer ownership of work-in-progress or allow for contract termination for convenience, which entitles the Company to be paid for work performed prior to the termination date. Similar contract clauses, such as termination for convenience are typically included in non-governmental (i.e. commercial type contracts), despite not being governed by FAR/DFARS. Such contract clauses would imply satisfaction of criterion required to recognize revenue over-time.

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

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

In certain instances, the Company may apply the right-to-invoice practical expedient for recognizing revenue. When the Company is contractually able to invoice the customer based on the value transferred to the customer as defined in a particular contractual agreement, the Company will then recognize revenue in the amount that it has the right to invoice.

The Company remeasures its progress toward the satisfaction of the performance obligation at the end of each fiscal year. The Company closely monitors its compliance with, and the consistent application of, its critical accounting policies related to contract accounting.

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 31, 2021 and December 25, 2020. 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.

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 financial results.

Oriana, Inc. was incorporated on December 16, 2008 under the laws of the State of Delaware and is treated as a separate corporation for income tax purposes. Income taxes paid in the prior year originated from the sale of the entity’s investment in TROVE Predictive Data Science, LLC. See Note 3.

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

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

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.

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.

New Accounting Pronouncements – In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which delayed the effective date of ASU 2016-02. ASU 2016-02 is scheduled to take effect for the Company for fiscal years beginning after December 15, 2021, with early adoption permitted. Management is in the process of evaluating the potential impact of this standard on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. ASU 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contract modifications, hedging relationships, and other transactions affected by the anticipated transition away from LIBOR. ASU 2020-04 is effective for all entities, including the Company, from March 12, 2020 through December 31, 2022. The Company has evaluated the potential impact of this standard 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 September 12, 2022, the date the accompanying consolidated financial statements were available to be issued, and determined that no additional recognition or disclosure was necessary.

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

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:

	<u>December 31,</u> 2021	<u>December 25,</u> 2020
Current assets excluding non-financial assets:		
Cash	\$ 7,714,650	\$ 9,481,051
Accounts receivable	1,455,236	1,913,565
Unbilled accounts receivable	<u>9,506,104</u>	<u>7,739,248</u>
 Financial assets available to meet cash needs for general expenditures within one year	 \$ <u>18,675,990</u>	 \$ <u>19,133,864</u>

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 Financial Statements (continued)

3. Investments (continued)

Investment Activity – 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 accrued interest at 8% per annum through July 15, 2018 at which point no additional interest was accrued. The interest and principal were due upon the note’s maturity date of December 31, 2019, and 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. Although the maturity date was December 31, 2020, the note, including interest and principal, will ultimately become due upon a liquidity event.

In September 2020, CUBRC received a tax credit refund from the State of Maryland relating to the Company’s capital balance in Akonni Biosystems, Inc. amounting to \$214,160, which reduced the Company’s investment value in Akonni Biosystems, Inc. to \$2,029,786 as of December 25, 2020.

On February 10, 2020, Oriana sold its investment in TROVE Predictive Data Science, LLC for \$1,428,356, which is recorded in investment income in the accompanying consolidated statement of activities for the year ended December 25, 2020. Of the total proceeds, CUBRC received \$1,316,029 during the fiscal year ended December 25, 2020, and \$112,327 during the fiscal year ended December 31, 2021. Income tax expense incurred on the sale, totaling \$81,067, is recorded net against the investment gain in the accompanying consolidated statement of activities and in accrued expenses in the accompanying consolidated balance sheet as of and for the fiscal year ended December 25, 2020.

Fair Value Method Investments – The Company’s investment in Genocoe Biosciences, Inc. (“Genocoe”) 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 31, 2021 and December 25, 2020, the Company’s investment in Genocoe is classified as a Level 1 investment within the fair value hierarchy, with fair value being determined by quoted market prices. Net unrealized losses from marketable securities amounted to (\$5,325) and (\$54,225) for the fiscal years ended December 31, 2021 and December 25, 2020, respectively, and are recorded in the accompanying consolidated statements of activities.

CUBRC, Inc. and Subsidiaries
Notes to 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 31, 2021 and December 25, 2020 consists of the following:

	December 31, 2021	December 25, 2020
Furniture, fixtures and equipment	\$ 3,074,705	\$ 2,948,835
Construction-in-progress	199,740	0
Less accumulated depreciation	2,745,180	2,594,304
	\$ 529,265	\$ 354,531

Depreciation expense totaled \$218,306 and \$266,700 for the fiscal years ended December 31, 2021 and December 25, 2020, 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 \$0 outstanding against this line at both December 31, 2021 and December 25, 2020.

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 31, 2021 and December 25, 2020.

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

6. Long-term Debt

	December 31, 2021	December 25, 2020
CUBRC Payroll Protection Program ("PPP") loan dated April 16, 2020, for \$2,218,400, originally payable in monthly installments of \$282,075, including interest at a fixed rate of 1% through April 2022.	\$ 674,062	\$ 2,218,400
Avarint PPP loan dated April 14, 2020, for \$1,024,645, originally payable in monthly installments of \$130,286, including interest at a fixed rate of 1% through April 2022.	294,150	1,024,645
	968,212	3,243,045
Less current maturities	968,212	1,597,029
	\$ 0	\$ 1,646,016

CUBRC and Avarint applied and were approved for financial assistance through the U.S. Small Business Administration ("SBA") in the amounts of \$2,218,400 and \$1,024,645, respectively. These loans accrue interest at a fixed rate of 1.0% per annum and were initially payable over two years in monthly installments of \$282,075 and \$130,286, respectively, beginning in September 2021 and ending in April 2022. Although required payments were deferred for sixteen months, CUBRC and Avarint made payments of \$1,544,338 and \$730,495, respectively, during the year ended December 31, 2021. CUBRC and Avarint made additional payments of \$674,062 and \$294,150, respectively in complete satisfaction of their respective outstanding loan balances subsequent to year end.

7. Contract Revenue

Contract revenue from the Federal Government approximated 97% and 98% of total contract revenue for the fiscal years ended December 31, 2021 and December 25, 2020, respectively. Accounts receivable from the Federal Government approximated 94% and 96% of total accounts receivable as of December 31, 2021 and December 25, 2020, respectively.

CUBRC, Inc. and Subsidiaries
Notes to 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 January 2042. Rental expense for these leases amounted to \$1,647,572 and \$1,637,956 for the fiscal years ended December 31, 2021 and December 25, 2020, respectively.

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

<u>Fiscal year ending</u>	
2022	1,885,585
2023	1,763,764
2024	1,745,160
2025	970,190
2026	990,894
Thereafter	<u>17,300,863</u>
	<u>\$ 24,656,456</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 31, 2021 and December 25, 2020, the Company had accrued \$395,000 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 31, 2021 and December 25, 2020. The accumulated depreciation of this equipment totaled \$203,324 and \$159,754 at December 31, 2021 and December 25, 2020, respectively. The capitalized cost and accumulated depreciation are included in property and equipment, net in the accompanying consolidated statements of financial position.

Future minimum lease payments under this capital lease for the fiscal year ending December 30, 2022 amount to \$12,444, of which \$350 represents interest.

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

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 \$1,625,027 and \$1,465,149 in contributions into the Plan during the fiscal years ended December 31, 2021 and December 25, 2020, respectively.

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

10. Functional Expenses

The functional breakdown of expense incurred by the Company for the fiscal years ended December 31, 2021 and December 25, 2020 are as follows:

<u>December 31, 2021</u>	<u>Research, Development, Testing & Integration</u>	<u>Facilities</u>	<u>Professional Technical Expense (Overhead)</u>	<u>General & Administrative Costs</u>	<u>Total</u>
Salaries	\$ 10,031,480	\$ 397,620	\$ 2,567,027	\$ 2,545,235	\$ 15,541,362
Fringe applied	4,600,035	185,996	1,216,914	1,190,624	7,193,569
Travel	474,616	0	2,963	0	477,579
Purchased services	10,449,667	185,854	41,426	28,124	10,705,071
Consultants	595,241	0	0	0	595,241
Materials, supplies, repairs & maintenance	3,741,643	3,192,596	213,854	409,923	7,558,016
Subcontracts	6,736,504	0	0	0	6,736,504
Space rental	0	688,321	780,970	178,281	1,647,572
Depreciation expense	0	129,214	12,544	76,548	218,306
Professional services	0	0	0	318,056	318,056
IT supplies and services	0	0	251,665	530,693	782,358
Security supplies & services	0	0	39,899	125,359	165,258
Bid & proposal salaries	0	0	0	239,241	239,241
Bid & proposal fringe applied	0	0	0	112,231	112,231
Bid & proposal other costs	0	0	0	1,760	1,760
IR&D salaries	0	0	0	182,035	182,035
IR&D fringe benefits	0	0	0	85,005	85,005
IR&D other costs	0	0	0	51,930	51,930
Program development salaries	0	0	1,464,099	0	1,464,099
Program development fringe	0	0	691,266	0	691,266
Program development other costs	0	0	69,477	0	69,477
Total	<u>36,629,186</u>	<u>4,779,601</u>	<u>7,352,104</u>	<u>6,075,045</u>	<u>54,835,936</u>
Indirect expense allocations	<u>16,342,789</u>	<u>(4,632,624)</u>	<u>(7,117,724)</u>	<u>(4,592,441)</u>	<u>0</u>
Total expenses	<u>\$ 52,971,975</u>	<u>\$ 146,977</u>	<u>\$ 234,380</u>	<u>\$ 1,482,604</u>	<u>\$ 54,835,936</u>

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

10. Functional Expenses (continued)

December 25, 2020	Research, Development, Testing & Integration	Facilities	Professional Technical Expense (Overhead)	General & Administrative Costs	Total
Salaries	\$ 9,658,750	\$ 141,785	\$ 2,425,957	\$ 2,043,523	\$ 14,270,015
Fringe applied	4,276,715	63,696	1,088,393	907,359	6,336,163
Travel	292,070	0	8,302	0	300,372
Purchased services	3,450,897	153,769	27,785	19,742	3,652,193
Consultants	502,942	0	0	0	502,942
Materials, supplies, repairs & maintenance	3,761,124	2,014,642	76,947	296,518	6,149,231
Subcontracts	8,518,973	0	0	0	8,518,973
Space rental	0	650,300	809,561	178,095	1,637,956
Depreciation expense	0	167,841	15,490	83,369	266,700
Professional services	0	0	0	589,946	589,946
IT supplies and services	0	0	394,349	452,527	846,876
Security supplies & services	0	0	49,391	27,205	76,596
Bid & proposal salaries	0	0	0	302,427	302,427
Bid & proposal fringe applied	0	0	0	135,749	135,749
Bid & proposal other costs	0	0	0	3,216	3,216
IR&D salaries	0	0	0	41,592	41,592
IR&D fringe benefits	0	0	0	18,503	18,503
IR&D other costs	0	0	0	67,790	67,790
Program development salaries	0	0	1,739,838	0	1,739,838
Program development fringe	0	0	775,555	0	775,555
Program development other costs	0	0	72,817	0	72,817
Total	<u>30,461,471</u>	<u>3,192,033</u>	<u>7,484,385</u>	<u>5,167,561</u>	<u>46,305,450</u>
Indirect expense allocations	<u>14,405,267</u>	<u>(3,049,424)</u>	<u>(6,975,533)</u>	<u>(4,380,310)</u>	<u>0</u>
Total expenses	<u>\$ 44,866,738</u>	<u>\$ 142,609</u>	<u>\$ 508,852</u>	<u>\$ 787,251</u>	<u>\$ 46,305,450</u>

A reconciliation of the total functional expenses above to the consolidated statements of activities for the years ended December 31, 2021 and December 25, 2020 is as follows:

	December 31, 2021	December 25, 2020
Cost of revenue	\$ 52,971,864	\$ 44,866,738
Total unreimbursed indirect costs	423,194	807,004
Legislative pursuits	73,021	74,255
Interest expense	30,498	62,264
Unallowed	<u>1,337,359</u>	<u>495,189</u>
	<u>\$ 54,835,936</u>	<u>\$ 46,305,450</u>

Supplementary Information

CUBRC, Inc. and Subsidiaries

Consolidating Balance Sheets

December 31, 2021

	CUBRC, Inc.	Avarint, LLC	Oriana, Inc.	Eliminating Entries	Consolidated Total
Assets					
<i>Current Assets</i>					
Cash	\$ 4,877,969	\$ 2,836,681	\$ 0	\$ 0	\$ 7,714,650
Accounts receivable	813,824	641,412	0	0	1,455,236
Due from affiliated companies	1,480,939	7,832	1,428,357	(2,917,128)	0
Unbilled accounts receivable	7,092,554	2,413,550	0	0	9,506,104
Inventory	349,553	0	0	0	349,553
Prepaid expenses	575,293	178,472	0	0	753,765
	15,190,132	6,077,947	1,428,357	(2,917,128)	19,779,308
<i>Property and Equipment, net</i>	378,858	150,407	0	0	529,265
<i>Investments</i>	7,427,547	0	0	(3,992,394)	3,435,153
	\$ 22,996,537	\$ 6,228,354	\$ 1,428,357	\$ (6,909,522)	\$ 23,743,726

Liabilities, Net Assets and Member's Equity

<i>Current Liabilities</i>					
Accounts payable	\$ 3,525,452	\$ 553,122	\$ 0	0	4,078,574
Due to affiliated companies	1,476,608	1,304,523	135,997	(2,917,128)	0
Current maturities of long-term debt	674,062	294,150	0	0	968,212
Capital lease obligations	0	12,094	0	0	12,094
Unearned revenue	149,963	27,317	0	0	177,280
Accrued expenses	3,373,324	1,057,114	0	0	4,430,438
	9,199,409	3,248,320	135,997	(2,917,128)	9,666,598
<i>Long-term Liabilities</i>					
Accrued incentive compensation	68,333	0	0	0	68,333
Accrued decommissioning costs	115,000	280,000	0	0	395,000
	183,333	280,000	0	0	463,333
	9,382,742	3,528,320	135,997	(2,917,128)	10,129,931
<i>Net Assets Without Donor Restrictions</i>	13,613,795	0	0	0	13,613,795
<i>Member's Equity</i>					
Capital contributions	0	786,116	751,000	(1,537,116)	0
Retained earnings	0	1,913,918	541,360	(2,455,278)	0
	0	2,700,034	1,292,360	(3,992,394)	0
	\$ 22,996,537	\$ 6,228,354	\$ 1,428,357	\$ (6,909,522)	\$ 23,743,726

See independent auditors' report.

CUBRC, Inc. and Subsidiaries
Consolidating Statements of Activities
for the fiscal year ended December 31, 2021

	<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	\$ 41,917,281	\$ 15,377,304	\$ 0	\$ (506,146)	\$ 56,788,439
Cost of revenue	<u>39,088,907</u>	<u>14,389,103</u>	<u>0</u>	<u>(506,146)</u>	<u>52,971,864</u>
Total program revenue, net	2,828,374	988,201	0	0	3,816,575
Operating Expenses					
Indirect costs					
Administration	10,464,456	5,727,288	0	0	16,191,744
Research and development	538,557	0	0	0	538,557
Facility expenses	4,205,088	574,624	0	0	4,779,712
Program development	1,642,752	582,090	0	0	2,224,842
Floor space rental	703,406	255,845	0	0	959,251
Proposal	452,813	61,961	0	0	514,774
Depreciation	<u>81,957</u>	<u>7,135</u>	<u>0</u>	<u>0</u>	<u>89,092</u>
Total indirect costs	18,089,029	7,208,943	0	0	25,297,972
Indirect cost reimbursements					
General and administrative	3,714,331	1,248,370	0	0	4,962,701
Facility usage	4,204,874	468,550	0	0	4,673,424
Professional technical expense	4,428,335	2,700,147	0	0	7,128,482
Fringe expense	<u>5,692,067</u>	<u>2,418,104</u>	<u>0</u>	<u>0</u>	<u>8,110,171</u>
Total indirect cost reimbursements	18,039,607	6,835,171	0	0	24,874,778
Total unreimbursed indirect costs	<u>49,422</u>	<u>373,772</u>	<u>0</u>	<u>0</u>	<u>423,194</u>
Income from operations	2,778,952	614,429	0	0	3,393,381
Other Income (Expenses) - Non-Contract Related					
Miscellaneous revenue	64,129	3,542	0	0	67,671
Investment losses, net	(2,773)	0	0	0	(2,773)
Legislative pursuits	(73,021)	0	0	0	(73,021)
Interest expense	(20,916)	(9,582)	0	0	(30,498)
Unallowed	<u>(973,414)</u>	<u>(360,823)</u>	<u>(3,122)</u>	<u>0</u>	<u>(1,337,359)</u>
Total other expenses - non-contract related, net	<u>(1,005,995)</u>	<u>(366,863)</u>	<u>(3,122)</u>	<u>0</u>	<u>(1,375,980)</u>
Increase (decrease) in net assets without donor restrictions	1,772,957	247,566	(3,122)	0	2,017,401
Income from subsidiaries, net	<u>244,444</u>	<u>0</u>	<u>0</u>	<u>(244,444)</u>	<u>0</u>
Increase (decrease) in net assets	<u>\$ 2,017,401</u>	<u>\$ 247,566</u>	<u>\$ (3,122)</u>	<u>\$ (244,444)</u>	<u>\$ 2,017,401</u>

See independent auditors' report.

**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 31, 2021, 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 September 12, 2022.

Report on 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") as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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

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 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.

A handwritten signature in blue ink that reads "Tromoni Segarra & Associates LLP". The signature is written in a cursive style.

Williamsville, New York
September 12, 2022

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

Opinion on Each Major Federal Program

We have audited CUBRC, Inc.'s ("CUBRC") compliance with the types of compliance requirements identified as subject to audit 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 31, 2021. CUBRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 31, 2021.

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 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* 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 *Auditors' Responsibilities for the Audit of Compliance* section of our report.

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

Auditors' 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 CUBRC, Inc.'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 CUBRC, Inc.'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 risks 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 CUBRC, Inc.'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 CUBRC, Inc.'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 CUBRC, Inc.'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 a 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 *Auditors' 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 were not 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

Tromoni Seyarra & Associates LLP

Williamsville, New York
September 12, 2022

CUBRC, Inc.
Schedule of Expenditures of Federal Awards
for the fiscal year ended December 31, 2021

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>			
TruArray	12	W911NF-06-C-0162	\$ 159
HAWC Material ACRN AB	12	W31P4Q-15-D-0015	(551)
HT Air & Ablation ODC AA	12	W31P4Q-15-D-0015	859
TO16 TBG Test Material AA	12	W31P4Q-15-D-0015	(2,090)
TO17 Ablation ODC AA	12	W31P4Q-15-D-0015	2,853
TO5 Ontolgoy Suppt Lab	12	W56KGU-17-D-0010	107,462
TO5 Ontolgoy Suppt Lab	12	W56KGU-17-D-0010	20,840
TO2 HWF Dev ODC AA	12	W31P4Q-20-D-0047	11,891,181
TO3 HWF Devel ODC AA	12	W31P4Q-20-D-0047	7,121,073
TO4 DARPA Data Rec ODC AA	12	W31P4Q-20-D-0047	92,158
TO5 MDA ODC AA	12	W31P4Q-20-D-0047	87,415
TO6 HWF PS AA	12	W31P4Q-20-D-0047	4,902,019
TO7 ODC ACRN AA	12	W31P4Q-20-D-0047	22,585
Total Direct Programs			\$ 24,245,963
<i>Pass-Through Programs From:</i>			
Charles River Analytics			
CR TAC-IRB	12	W911NF-19-C-0007	\$ 15,875
Consortium Management Group			
Consort Mgmt Advan Phase1	12	W15QKN-17-9-5555	487,414
Calspan Aero Systems Engineering			
Calspan ASE	12	W50RAJ-21-9-0003	102,573
Total Pass-Through Programs			\$ 605,862
U.S. Air Force			
<i>Direct Programs</i>			
AFRL Aware 2	12	FA8750-09-C-0170	\$ 102
InRITHM SSDP Maneuv Det	12	FA8750-17-C-0143	595,196
Model Instrument Purchase	12	FA8650-19-C-2423	921,191
NASIC ATR	12	FA8750-19-C-0214	2,578,046
AFRL RODEO	12	FA8750-20-C-0206	443,491
AFRL OpML C2	12	FA8750-20-C-1011	416,790
AFRL RIKO	12	FA8751-21-P0011	24,987
Total Direct Programs			\$ 4,979,803
<i>Pass-Through Programs From</i>			
Avarint			
Avarint SME Tactical Decon	12	FA8075-14-D-0003	\$ 17,846
Avarint DIADS Kubernetes	12	FA9304-20-F-0016	137,715
ATA Engineering Inc.			
ATA Advanced Material Tst	12	FA8650-18-P-5041	151,147
ATA Fluid Struct Mat Inte	12	FA8204-20-C-0004	350,384
BAE Systems			
BAE Letter Contract	12	FA8650-19-F-0001	11,276
BAE MEMDEWD	12	FA8750-19-C-0529	87,800
Battelle Memorial Inst.			
Battelle Comp Tox II	12	FA8075-14-D-0003	147,253
Booz Allen			
BAH ORCA Option Year 1	12	FA8750-18-C-0016	(148)

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
Integration Innovation			
I3 T&E support SBIR II	12	N68936-20-C-0036	17,270
Massachusetts Institute			
MIT Optical Hyper Data Co	12	FA8702-15-D-0001	775,314
Northrop Grumman			
NGC Space GBSDB EMD Phase	12	FA8219-20-C-0006	128,322
Schafer Corporation			
Schafer Corp NOVA TO 3	12	FA9451-04-D-0399/003	102
Sierra Nevada Corporation			
SNC Net-Centric SIGINET	12	FA8750-05-C-0002	1,102
Texas A&M			
Texas A&M BOLT	12	FA9550-18-1-0010	394,333
Texas A&M BOLT II	12	FA9550-19-1-0154	142,044
Theofanous & Co., Inc.			
Theo T&E Support SBIR II	12	N68936-20-C-0037	23,136
Total Pass-Through Programs			\$ 2,384,896
U.S. Navy			
<i>Direct Programs:</i>			
NRL MINDS	12	N00173-07-C-4018	\$ 25
ONR LINKS - Core	12	N00014-20-C-2016	1,863,514
ONR SMILE Opt 1	12	N00014-20-C-2045	1,364,912
NRL SMART(ATEAS)	12	N0017321C6000	924,554
NIWC SAIL-ON	12	N66001-21-P-6597	64,435
Total Direct Programs			\$ 4,217,440
<i>Pass-Through Programs From:</i>			
Adaptive Methods, Inc.			
Adaptive Methods NION	12	N00173-09-C-4013	\$ 20
Forward Slope, Inc.			
Forward Slope MTC2 Yr4	12	N00178-14-D-7718	344,725
General Dynamics			
GD C4S DIADS/PARC	12	W900KK-09-D-0001	954
In-Depth Engineering Corp			
In-Depth Sliced P2 Opt2	12	N00024-16-P-4080	5,074
InDepth -SWFTS SE&I	12	N00024-19-C-6400	144,496
InDepth P-8	12	N68335-21-C-0002	156,381
InDepth Nails	12	N68335-21-C-0589	46,029
InDepth DARE	12	N68335-21-C-0002	36,081
ISEA TEK, LLC			
IseaTek INFOTON P-II Base	12	N68335-19-C-0302	193,384
Machina Cognita Technologies			
MCT SMARTS	12	N68835-20-C-0586	33,323
MCT -Multi Model Evid	12	N68335-21-C-0581	28,587
MCT SMARTS Phase 2	12	N68335-22-C-0087	11,117
PMAT			
PMAT Data Link Bottleneck	12	N68335-21-C-0026	37,045
Raytheon Technologies			
Raytheon Flat BOLT	12	N00014-20-C-1086	16,960
The Research Foundation			
RF MEDS	12	N000142012242	15,103
True Engineering Technology			
True NAV-TET-CUBRC-2021	12	N68335-21-C-0409	68,950
Total Pass-Through Programs			\$ 1,138,229
Defense Advance Research Projects Agency			
<i>Direct Program:</i>			
DARPA SAVER Subcontract	12	HR0011-21-90021	\$ 626,463
Total Direct Program			\$ 626,463

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
<i>Pass-Through Programs From:</i>			
Raytheon Technologies			
Raytheon Darpa Heat TA3	12	HR0011-21-C-0050	\$ 3,529
The Research Foundation			
Research Found MALAISE	12	HR0011-20-C-0124	<u>34,561</u>
Total Pass-Through Programs			\$ 38,090
<i>Defense Threat Reduction Agency</i>			
<i>Direct Program</i>			
Defense Threat Reduction			
DTRA Epivax Opt 3 CLIN 4	12	HDTRA1-17-1-0014	\$ <u>219,761</u>
Total Direct Program			\$ 219,761
<i>Pass-Through Program From:</i>			
Avarint LLC			
Avarint FLIR CONMAP	12	HDTRA-17-C-0069	\$ <u>3,411</u>
Total Pass-Through Program			\$ 3,411
<i>Missile Defense Agency</i>			
<i>Pass-Through Programs From:</i>			
Kratos Defense			
KRATOS-Desgn Next Gen See	12	HQ0147-18-C-0025	\$ 146,804
The John Hopkins University			
JHU AGD Experiments	12	HQ0147-18-D-0004	<u>259,394</u>
Total Pass-Through Programs			\$ 406,198
Total U.S. Department of Defense			<u>\$ 38,866,116</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Direct Program</i>			
FDA Immunogen Risk Peptid	93	75F40120C00157	\$ <u>623,185</u>
Total Direct Program			\$ 623,185
<i>Pass-Through Program From:</i>			
SeLux Diagnostics, Inc.			
SeLux BARDA Opt 2	93	HHSO100201800013C	\$ <u>154,130</u>
Total Pass-Through Program			\$ 154,130
Total U.S. Department of Health and Human Services			<u>\$ 777,315</u>
<i>U.S. Department of Transportation</i>			
<i>National Highway Traffic Safety Administration</i>			
<i>Direct Program</i>			
CenTIR2	20	DTFH61-07-H-00023	\$ <u>479</u>
Total Direct Program			\$ 479
<i>Pass-Through Program From:</i>			
Alaska Highway Safety Office			
AK Rural EMS Optimization	20	DTNH22-06-H-00023	\$ <u>(166)</u>
Total Pass-Through Program			\$ (166)
Total U.S. Department of Transportation			<u>\$ 313</u>

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
National Aeronautics and Space Administration			
<i>Direct Program</i>			
NASA Upset Recovery Trail	43	NNX08AQ80G	\$ <u>214</u>
Total Direct Program			\$ 214
<i>Pass-Through Program From:</i>			
Aerie Aerospace, LLC			
Aerie Valve Rebuild	43	NNM15AA19C	\$ <u>38,530</u>
Total Pass-Through Program			\$ 38,530
Total National Aeronautics and Space Administration			\$ <u><u>38,744</u></u>
Department of Energy			
<i>Pass-Through Programs From:</i>			
Avarint LLC			
Avarint Indep 3rd Testing	81	US001-0000827510	\$ 29,607
Sonalysts, Inc.			
Sonalysts MetaphortesP2	81	DE-SC0018729	\$ <u>94,812</u>
Total Pass-Through Programs			\$ 124,419
Total Department of Energy			\$ <u><u>124,419</u></u>
USAID			
<i>Pass-Through Program From:</i>			
J.E. Austin Associates			
MERC III Base Year	98	47QRAA19D004J7200AA2	\$ <u>167,941</u>
Total Pass-Through Program			\$ 167,941
Total USAID			\$ <u><u>167,941</u></u>
		Total Federal Awards	\$ <u><u>39,974,848</u></u>

See independent auditors' report 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 – CUBRC has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance and instead uses the overhead allocation rate provided by specific contracts for the Program.

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 31, 2021. Type B programs for CUBRC are those which were less than \$750,000 in expenditures for the fiscal year ended December 31, 2021.

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 31, 2021, 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>
DTRA Epivax Opt 3 CLIN 4	HDTRA1-17-1-0014	\$ 140,478
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	223,209
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	58,910
NIWC C2X Lab Support	FA8750-19-C-0214	72,701
NIWC C2X Lab Support	FA8750-19-C-0214	87,337
NIWC C2X Lab Support	FA8750-19-C-0214	172,934
NIWC C2X Lab Support	FA8750-19-C-0214	197,507
NIWC C2X Lab Support	FA8750-19-C-0214	30,464
NIWC C2X Lab Support	FA8750-19-C-0214	191,399
NIWC C2X Lab Support	FA8750-19-C-0214	53,816
NIWC C2X Lab Support	FA8750-19-C-0214	33,333
NIWC C2X Lab Support	FA8750-19-C-0214	66,858
AFRL RODEO	FA8750-20-C-0206	59,040
ONR LINKS - Core	N00014-20-C-2016	96,137
ONR SMILE	N00014-20-C-2045	85,795
DTRA Epivax Opt 3 CLIN 4	HDTRA1-17-1-0014	46,241
AFRL OpML C2	FA8750-20-C-1011	23,094
FDA Immunogen Risk Peptid	75F40120C00157	479,913
CCDC TO 2	W31P4Q-20-D-0047	1,097,440
CCDC TO 6	W31P4Q-20-D-0047	16,708
DARPA SAVER Subcontract	HR00112190021	214,365
Consort Mgmt Advan GIFTED	W15QKN-17-9-5555	18,596
		<u>\$ 3,466,275</u>

CUBRC, Inc.
*Schedule of Findings and Questioned Costs
for the fiscal year ended December 31, 2021*

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

CUBRC, Inc.

Summary Schedule of Prior Audit Findings for the fiscal year ended December 31, 2021

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