



Riverside Research Institute and Subsidiary

Consolidated Financial Statements,
Independent Auditor's Report and Reports
Required by *Government Auditing Standards*
and the Uniform Guidance
Years Ended December 31, 2022 and 2021

Riverside Research Institute and Subsidiary

Consolidated Financial Statements, Independent Auditor's Report and
Reports Required by *Government Auditing Standards* and the
Uniform Guidance
Years Ended December 31, 2022 and 2021

Riverside Research Institute and Subsidiary

Contents

Independent Auditor’s Report	1-3
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities and Change in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7-24
Schedule of Expenditures of Federal Awards	
Schedule of Expenditures of Federal Awards	25-29
Notes to the Schedule of Expenditures of Federal Awards	30
Independent Auditor’s Reports Required by <i>Government Auditing Standards</i> and the Uniform Guidance	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-32
Independent Auditor’s Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	33-36
Schedule of Findings and Questioned Costs	37-39
Management’s Section	
Management’s Corrective Action Plan	40



Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report

Board of Trustees
Riverside Research Institute and Subsidiary
New York, New York

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Riverside Research Institute and Subsidiary (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Organization has changed its method of accounting for leases for the year ended December 31, 2022 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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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 Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's 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 auditor's 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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Organization'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 Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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 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. Such 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 May 23, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

BDO USA, LLP

McLean, Virginia
May 23, 2023

Consolidated Financial Statements

Riverside Research Institute and Subsidiary

Consolidated Statements of Financial Position

(in thousands)

December 31,	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 15,069	\$ 19,555
Investments	47,532	60,794
Contract receivables, net	33,916	25,547
Contract assets	25,908	20,154
Prepaid expenses and other current assets	2,984	2,939
Total current assets	125,409	128,989
Property and equipment, net	18,149	19,416
Operating lease right-of-use assets	7,953	-
Deferred income taxes	324	278
Deposits and other assets	586	444
Total assets	\$ 152,421	\$ 149,127
Liabilities and net assets		
Current liabilities		
Lines-of-credit	\$ -	\$ -
Accounts payable and accrued expenses	47,526	43,676
Deferred rent, current	-	568
Bond payable, current	-	379
Operating lease liabilities, current	2,797	-
Total current liabilities	50,323	44,623
Deferred rent, net of current portion	-	2,218
Deferred compensation	337	296
Interest rate swap	-	74
Bond payable, net of current portion and unamortized debt issuance costs	-	6,440
Operating lease liabilities	7,355	-
Total liabilities	58,015	53,651
Commitments and contingencies		
Net assets		
Net assets without donor restrictions	90,226	92,198
Non-controlling interest	4,180	3,278
Total net assets	94,406	95,476
Total liabilities and net assets	\$ 152,421	\$ 149,127

See accompanying notes to the consolidated financial statements.

Riverside Research Institute and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets

(in thousands)

Years Ended December 31,	2022	2021
Revenue	\$ 368,601	\$ 336,195
Costs of revenue		
Direct expenses	254,647	232,158
Indirect expenses	97,874	87,233
Depreciation and amortization	3,214	2,661
Total costs of revenue	355,735	322,052
Change in net assets from operations	12,866	14,143
Non-operating activities		
Interest income	160	2
Interest expense	(203)	(225)
Net investment return	(9,871)	4,663
Unrealized gain on interest rate swap	74	111
Other income	12	80
Total non-operating activities, net	(9,828)	4,631
Change in net assets before provision for income taxes	3,038	18,774
Provision for income taxes	(3,266)	(3,067)
(Decrease) increase in net assets	(228)	15,707
Net assets at the beginning of the year	92,198	78,217
(Decrease) increase in net assets attributable to Riverside Research Institute	(1,972)	13,981
Net assets at the end of the year	\$ 90,226	\$ 92,198
Non-controlling interest at beginning of the year	\$ 3,278	\$ 1,973
Dividends paid to non-controlling interest	(842)	(421)
Increase in net assets attributable to non-controlling interest	1,744	1,726
Non-controlling interest at end of the year	\$ 4,180	\$ 3,278

See accompanying notes to the consolidated financial statements.

Riverside Research Institute and Subsidiary

Consolidated Statements of Cash Flows

(in thousands)

Years Ended December 31,	2021	2020
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (228)	\$ 15,707
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,214	2,661
Reduction of operating lease right-of-use assets	2,946	-
Amortization of debt issuance costs	23	23
Net realized and unrealized losses (gains) on investments	9,871	(3,809)
Loss on disposal of property and equipment	217	-
Realized and unrealized gain on interest rate swap	(74)	(111)
Change in allowance for doubtful accounts	14	(100)
Change in deferred rent	-	1,187
Change in deferred income taxes	(46)	(68)
Changes in operating assets and liabilities:		
Contract receivables	(8,383)	15,250
Contract assets	(5,754)	(5,323)
Prepaid expenses and other current assets	(45)	(1,180)
Deposits and other assets	(142)	-
Accounts payable and accrued expenses	3,891	(7,600)
Contract liabilities	-	(3,384)
Operating lease liabilities	(3,533)	-
Net cash provided by operating activities	1,971	13,253
Cash flows from investing activities:		
Purchases of investments	-	(20,945)
Sales of investments	3,391	2,094
Purchases of property and equipment	(2,164)	(5,953)
Net cash provided by (used in) investing activities	1,227	(24,804)
Cash flows from financing activities:		
Principal payments and redemption under bond payable	(6,842)	(391)
Dividends paid to non-controlling interest	(842)	(421)
Net cash used in financing activities	(7,684)	(812)
Net decrease in cash	(4,486)	(12,363)
Cash at the beginning of the year	19,555	31,918
Cash at the end of the year	\$ 15,069	\$ 19,555
Supplemental disclosure of cash flow information:		
Cash paid for interest, net	\$ 20	\$ 200
Cash paid for income taxes	\$ 3,151	\$ 2,458

See accompanying notes to the consolidated financial statements.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Riverside Research Institute (RRI) is a not-for-profit organization engaged in scientific and systems engineering research and program support services, primarily for the Department of Defense and other United States government agencies.

Applied Research Solutions, Inc. (ARS), a qualified small business concern, is a for-profit subsidiary of RRI providing services similar to RRI.

The significant accounting policies followed by RRI and ARS (collectively referred to as the Organization) in preparing the accompanying consolidated financial statements are as follows:

Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements and notes to the consolidated financial statements are presented in thousands, except for share data described in Note 7.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of RRI and ARS. All intercompany account balances and transactions have been eliminated in consolidation. The non-controlling interest is the portion of the equity and earnings from the minority stockholders of ARS.

Net Asset Classification

The Organization classifies its net assets into the two categories: net assets without donor restrictions and net assets with donor restrictions.

- *Net Assets Without Donor Restrictions* - net assets that are not subject to donor-imposed stipulations. This classification also includes RRI's portion of stockholders' equity in ARS.
- *Net Assets With Donor Restrictions* - net assets that are subject to donor-imposed stipulations that will be met either by the actions of the Organization and/or the passage of time. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions. Net assets with donor restrictions may also include net assets required to be held in perpetuity. As of December 31, 2022 and 2021, there are no net assets with donor restrictions.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating Cycle

The Organization's operating cycle for long-term contracts may be greater than one year and is measured by the average time intervening between the inception and the completion of those contracts. Contract-related assets and liabilities are classified as current assets and current liabilities.

Measure of Operations

The Organization includes in its definition of operations all revenues and expenses associated with research and program support services. Interest income, interest expense, net investment return, unrealized gains or losses on the interest rate swap and other income are excluded from the measure of operations and are reported as non-operating activities.

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand, demand deposits and a money market account with financial institutions.

Investments

Investments consist primarily of mutual funds that invest in stocks and bonds. Investments are reported in the consolidated statements of financial position at fair value based on quoted market prices. These investments are held in the custody of a major financial institution. Dividends and realized and unrealized gains and losses are reported as net investment return from non-operating activities in the consolidated statements of activities and changes in net assets. Investment returns are presented net of external investment expenses/fees and direct internal investment expenses, when applicable.

Contract Receivables

Billed contract receivables represent amounts due under various contracts from the U.S. Government and commercial entities for services rendered or reimbursable direct and indirect costs incurred but unpaid as of each year end. Management performs an analysis of billed contract receivables to determine if any allowance for doubtful accounts is required. Factors considered in this analysis include aging of receivables and credit worthiness of the customers. Management arrives at an estimate of a reserve for any amounts not probable of collection at year end. As of December 31, 2022 and 2021, the allowance for doubtful accounts totaled \$14 and \$0, respectively. Uncollectable amounts are written off when all efforts to collect the balance have been exhausted.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

Property and Equipment

The Organization capitalizes expenditures for property and equipment in excess of \$5 with estimated useful lives greater than one year. Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the individual assets. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. Land is not depreciated or amortized. The Organization evaluates the remaining useful lives and recoverability of such assets on a continual basis.

The estimated useful lives of the assets are as follows:

Building	39 years
Building improvements	15 years
Furniture and fixtures	5-7 years
Computers and equipment	3 years

The Organization capitalizes costs that are directly associated with constructing an asset. Once the asset is placed in service, all associated costs are reclassified to the appropriate property and equipment account. Depreciation and amortization on the related asset does not commence until it is placed in service.

Leases

The Organization determines whether a contract contains a lease at inception based on whether a right to control the use of an identified asset is conveyed. All of the Organization's leases are classified as operating leases. The Organization records operating lease right-of-use assets and lease liabilities in the consolidated statements of financial position. Lease expenses are recorded within indirect expenses in the accompanying consolidated statements of activities and changes in net assets. Operating lease right-of-use assets and lease liabilities are recognized based on the net present value of future minimum lease payments over the lease term beginning on the commencement date. The Organization generally is not able to determine the rate implicit in its leases and, as such, applies either an incremental borrowing rate based on the Organization's cost of borrowing for the relevant terms of each lease or an appropriate risk-free rate. Lease expense is recognized on a straight-line basis over the lease term. Lease terms may include an option to extend or terminate a lease if it is reasonably certain that the Organization will exercise such options. The Organization has elected the practical expedients to utilize the risk-free rate, to not separate lease components from non-lease components and to not record a right-of-use asset or lease liability for leases which, at inception, have a term of twelve months or less. Variable lease payments are recognized in the period in which the obligation for those payments is incurred.

Impairment of Long-Lived Assets

The Organization evaluates all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. Recoverability is evaluated by comparing the undiscounted future net cash flows resulting from the use of the asset and its eventual disposition to the carrying value of an asset. When the undiscounted future cash flows are less than the carrying value, impairment is deemed present. No indicators of impairment were identified as of December 31, 2022 or 2021.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

Income Taxes

The Internal Revenue Service (the IRS) has determined that RRI is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the IRC). RRI is also exempt from state income taxes. ARS is a corporation under Subchapter C of the IRC for income tax purposes and therefore is subject to federal and state income taxation.

Income taxes are provided for the tax effect of transactions reported in the consolidated financial statements and consist of taxes currently due plus the change in deferred taxes. The Organization accounts for taxes using the liability method, whereby deferred tax assets and liabilities are recognized based on the future tax return consequences attributable to differences between the financial reporting and income tax basis of assets and liabilities. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Deferred income taxes are recorded using currently enacted income tax rates applicable in the period in which the deferred tax asset or liability is expected to be realized or settled. As changes in tax laws are enacted, deferred income taxes are adjusted through the provision for income taxes in the year of change.

The Organization recognizes the tax benefit for uncertain tax positions when it is more likely than not the position will be sustained upon examination based on the technical merits of the position. The benefit is measured as the largest benefit that is more likely than not to be realized upon ultimate settlement. The Organization has not identified any material uncertain tax positions. The Organization is not currently under audit by any taxing jurisdiction. The Organization is generally no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years ended December 31, 2018 and prior.

Debt Issuance Costs

Debt issuance costs, net of amortized interest expense, are reported as a direct deduction from the face amount of the related bond payable. Interest expense is computed using the straight-line method, which approximates the effective interest method.

Deferred Compensation Agreement

The Organization maintains a deferred compensation agreement with an officer and accounts for this agreement in accordance with the terms of the underlying agreement. The Organization estimates the cost of future benefits and accrues the present value of those costs in a systematic and rational manner over the period in which the individual renders service and becomes eligible for the benefits. To the extent the terms of the agreement attribute all or a portion of the expected future benefits to an individual year of the individual's services, the cost of the benefits is recognized in that year.

Revenue Recognition

The Organization generates revenue from services provided under both short-term and multi-year contracts. The Organization's contracts are most often priced based upon fixed-price arrangements, but also may be priced as reimbursable cost plus a fixed or award fee, or time and material as incurred.

The Organization considers a contract with a customer to exist under Accounting Standards Codification (ASC) 606, *Revenue From Contracts With Customers*, when there is approval and

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

commitment from both the Organization and the customer, the rights of the parties and payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. The Organization also will consider whether two or more contracts entered into with the same customer should be combined and accounted for as a single contract.

Customer contracts are often modified to change the scope, price, specifications or other terms within the existing arrangement. Contract modifications are evaluated by management to determine whether the modification should be accounted for as part of the original performance obligation(s) or as a separate contract. If the modification adds distinct goods or services and increases the contract value proportionate to the stand-alone selling price of the additional goods or services, it will be accounted for as a separate contract. Generally, the Organization's contract modifications do not include goods or services which are distinct, and therefore are accounted for as part of the original performance obligation(s) with any impact on transaction price or estimated costs at completion being recorded through a cumulative catch-up adjustment to revenue.

The Organization evaluates each service deliverable contracted with the customer to determine whether it represents promises to transfer distinct goods or services. Under ASC 606, these are referred to as performance obligations. One or more service deliverables often represent a single performance obligation. This evaluation requires significant judgment and the impact of combining or separating performance obligations may change the timing over which revenue from the contract is recognized. The Organization's contracts generally provide a set of integrated or highly interrelated tasks or services and are therefore accounted for as a single performance obligation. However, in cases where the Organization provides more than one distinct good or service within a customer contract, the contract is separated into individual performance obligations which are accounted for discretely.

Contracts with the U.S. government are subject to the Federal Acquisition Regulations (FAR) and are priced based on estimated or actual costs of providing the goods and/or services. Certain of the Organization's contracts contain award fees or other provisions that may increase or decrease the transaction price. These variable amounts are generally awarded upon achievement of certain performance metrics, program milestones or cost targets and may be based upon customer discretion. Management estimates variable consideration as the most likely amount that the Organization expects to achieve based on its assessment of the variable fee provisions within the contract, prior experience with similar contracts or customers, and management's evaluation of the performance on such contracts. The Organization may perform work under a contract that has not been fully funded if the work has been authorized by the management and the customer to proceed. The Organization evaluates unfunded amounts as variable consideration in estimating the transaction price. The Organization includes the estimated variable consideration in transaction price to the extent that it is probable that a significant reversal of revenue will not occur upon the ultimate settlement of the variable fee provision. For contracts with multiple performance obligations, the Organization allocates the transaction price to each performance obligation using its best estimate of the standalone selling price of each distinct good or service in the contract. In cases where the Organization does not provide the distinct good or service on a standalone basis, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which the Organization forecasts its expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service. The Organization's U.S. government contracts generally contain FAR provisions that enable the customer to terminate a contract for default or for the convenience of the U.S. government.

The Organization measures its progress toward complete satisfaction of each performance obligation based on the method the Organization believes best depicts the transfer of control to the

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

customer. Under fixed-price contracts, the Organization recognizes revenue over time using a contract cost-based input method to measure progress as the contracts typically involve a continuous transfer of control to the customer. Under a contract cost-based input method, revenue is recognized based on the proportion of contract costs incurred to the total estimated costs expected to be incurred upon completion of the underlying performance obligation. The Organization generally includes both funded and unfunded portions of customer contracts in this estimation process.

Under time-and-materials and cost-reimbursable-plus-fee contracts, revenue is recognized over time using the right-to-invoice practical expedient as the Organization is contractually able to invoice the customer based on the control transferred.

Many of the Organization's contracts recognize revenue under a contract cost-based input method and require an estimate-at-completion (EAC) process, which management uses to review and monitor the progress towards the completion of the performance obligations. Estimating the total cost at completion of performance obligations is an accounting estimate and requires management to make assumptions that may affect the timing of revenue recognition. Changes in these estimates can occur for a variety of reasons and, if significant, may impact the profitability of the Organization's contracts. Changes in estimates related to contracts accounted for under the EAC process are recognized in the period when such changes are made on a cumulative catch-up basis. If the estimate of contract profitability indicates an anticipated loss on a contract, the Organization recognizes the total loss at the time it is identified. As of and for the years ended December 31, 2022 and 2021, management determined that no significant provisions for contract losses were necessary.

If a contract does not meet the criteria for recognizing revenue over time, revenue is recognized at a point in time. Revenue is recognized at the point in time when control of the good or service is transferred to the customer. The Organization considers control to be transferred when it has a present right to payment and the customer has legal title.

Fixed-price contracts are typically billed to the customer using milestone or fixed monthly payments, while cost-reimbursable-plus-fee and time-and-material contracts are typically billed to the customer at periodic intervals as indicated by the terms of the contract. Disparities between the timing of revenue recognition and customer billings and cash collections results in net contract assets or liabilities being recognized at the end of each reporting period.

Contract assets primarily consist of unbilled receivables typically resulting from revenue recognized exceeding the amount billed to the customer and right to payment is not just subject to the passage of time. Contract liabilities, when applicable, primarily consist of advance payments in excess of revenue recognized resulting in deferred revenue.

U.S. government contractors must also comply with applicable government procurement statutes and regulations and may be subject to potential contract termination, suspension and debarment, or other remedies if they fail to comply with such regulations. Management believes the Organization has complied with all applicable procurement statutes and regulations. The Organization may provide reserves against amounts billed, collected and recognized as revenue if and when a loss from such disputes is considered probable.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

Costs of Revenue

Costs of revenue include all direct contract costs, as well as indirect overhead costs and selling, general and administrative expenses that are allowable and allocable to contracts under federal procurement standards. Costs of revenue also include costs and expenses that are unallowable and are not allocable to contracts for billing purposes. Such costs and expenses do not directly generate revenue but are necessary for business operations.

Contract costs incurred for U.S. government contracts, including indirect costs, are subject to audit and adjustment by the Organization's cognizant agency. Contract revenue has been recorded in amounts that are expected to be realized upon final settlement.

Concentrations of Credit Risk

The Organization's assets that are exposed to credit risk consist primarily of cash and cash equivalents, contract receivables and investments. The Organization maintains its cash in bank deposit accounts which at times may exceed the federally insured limits. Interest and noninterest bearing deposits with financial institutions in aggregate are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250. As of December 31, 2022, amounts on deposit in excess of federally insured limits approximates \$14,577. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk. Contract receivables consist primarily of amounts due from various agencies of the federal government or prime contractors doing business with the federal government. Historically, the Organization has not experienced significant losses related to billed contract receivables and, therefore, believes that the credit risk related to contract receivables is minimal. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the consolidated statements of financial position.

Fair Value of Financial Instruments

The fair value of the Organization's cash and cash equivalents, contract receivables and accounts payable and accrued expenses approximate their carrying amounts due to the relatively short maturity of these items.

Recently Adopted Authoritative Guidance

In February 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which supersedes the current lease guidance under Leases (Topic 840) and makes several changes, such as requiring an entity to recognize a right-of-use (ROU) asset and corresponding lease obligation in the consolidated statements of financial position, and classified as financing or operating, as appropriate. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, to add clarity to certain areas within ASU 2016-02 and ASU 2018-11, *Targeted Improvements*, to add an additional and optional transition method to adopt the new leases standard by allowing recognition of a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Organization adopted ASC 842 utilizing the modified retrospective method with a practical expedient through a cumulative-effect adjustment at January 1, 2022. As a result, on January 1, 2022, the Organization recorded a noncash transaction to recognize an operating lease liability totaling \$13,685 with an operating right-of-use

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

asset of \$10,899 in the accompanying consolidated statements of financial position. The initial operating right-of-use asset was reduced by the existing accumulated deferred rent balance of \$2,786. The adoption of this standard had no significant impact on the operational results in the accompanying consolidated statements of activities and changes in net assets.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which eliminates the requirement that a credit loss on a financial instrument be "probable" prior to recognition. Instead, a valuation allowance will be recorded to reflect an entity's current estimate of all expected credit losses, based on both historical and forecasted information related to an instrument. The update is effective for the Organization for annual and interim reporting periods beginning after December 15, 2022, and should be adopted using a modified retrospective approach, which applies a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. A prospective approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date and loans and debt securities acquired with deteriorated credit quality. The Organization is currently assessing the effect that the new standard will have on its consolidated financial statements.

The Organization has assessed other accounting pronouncements issued or effective during the years ended December 31, 2022 and 2021 and deemed they were not applicable to the Organization or are not anticipated to have a material effect on the consolidated financial statements.

2. Fair Value Measurements

The Organization measures fair value, the price that would be received from selling an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date, in accordance with ASC 820, *Fair Value Measurement*.

In determining fair value, the Organization uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from and corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used as of December 31, 2022 or 2021:

- Mutual funds are valued at the daily closing price as reported by the fund. The mutual funds are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.
- The interest rate swap is valued utilizing a mid-market level market valuation that is modeled on Bloomberg based on the terms set forth in the Swap Confirmation Agreement. The model uses the percentage of the LIBOR to forecast future cash flows over the remaining life of the swap.

The following table presents the fair value hierarchy for assets of the Organization measured at fair value as of December 31, 2022:

<i>Description</i>	As of December 31, 2022			
	Assets Measured At Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
Short-term bonds	\$ 4,080	\$ 4,080	\$ -	\$ -
Intermediate term bonds	11,765	11,765	-	-
Long-term bonds	2,008	2,008	-	-
Large blend	18,387	18,387	-	-
Foreign large blend	11,292	11,292	-	-
	\$ 47,532	\$ 47,532	\$ -	\$ -

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

The following table presents the fair value hierarchy for assets and liabilities of the Organization measured at fair value as of December 31, 2021:

Description	As of December 31, 2021			
	Assets Measured At Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Assets:				
Mutual funds:				
Short-term bonds	\$ 5,281	\$ 5,281	\$ -	\$ -
Intermediate term bonds	15,372	15,372	-	-
Long-term bonds	2,986	2,986	-	-
Large blend	22,835	22,835	-	-
Foreign large blend	14,320	14,320	-	-
	\$ 60,794	\$ 60,794	\$ -	\$ -
Liabilities:				
Interest rate swap	\$ 74	\$ -	\$ 74	\$ -

The following schedule summarizes the net investment return reflected within the consolidated statements of activities and changes in net assets for the years ended December 31:

	2022	2021
Interest and dividends	\$ 1,212	\$ 901
Realized and unrealized (losses) gains	(11,022)	3,809
Investment fees	(61)	(47)
	\$ (9,871)	\$ 4,663

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2022	2021
Land	\$ 698	\$ 698
Building and building improvements	13,446	13,446
Furniture and fixtures	10,007	9,788
Computer and equipment	2,756	1,811
Leasehold improvements	10,334	10,214
Construction-in-progress	529	205
	37,770	36,162
Less: accumulated depreciation and amortization	(19,621)	(16,746)
	\$ 18,149	\$ 19,416

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

Depreciation and amortization expense charged to operations was \$3,214 and \$2,661 for the years ended December 31, 2022 and 2021, respectively.

4. Lines-of-Credit and Bond Payable

Lines-of-Credit

RRI has available a line-of-credit facility with a bank with a maximum limit of \$15,000, subject to a borrowing base calculation. The line-of-credit bears interest at the daily Secured Overnight Financing Rate (SOFR) plus 160 basis points (5.9% as of December 31, 2022). The line-of-credit is collateralized by all assets of RRI and expires, if not renewed, on September 30, 2023. RRI is subject to certain financial covenants as required by the line-of-credit agreement. As of December 31, 2022 and 2021, there were no amounts outstanding under the line-of-credit.

ARS has available a line-of-credit facility with a bank with a maximum limit of \$15,000. The line-of-credit bears interest at the daily SOFR plus 200 basis points (6.3% as of December 31, 2022). The line-of-credit was guaranteed by RRI until October 1, 2021, at which time the guarantee was removed. The line-of-credit expires, if not renewed, on September 30, 2023. ARS is subject to certain financial covenants as required by the line-of-credit agreement. As of December 31, 2022 and 2021, there were no amounts outstanding under the line-of-credit.

No interest expense was incurred related to lines-of-credit during the years ended December 31, 2022 and 2021, respectively.

Bond Payable

On December 15, 2015, RRI entered into a tax-exempt bond financing agreement with the Greene County Port Authority and a banking institution as trustee, purchaser and fiscal agent. RRI received \$9,000 in proceeds from the issuance of the Greene County Port Authority Economic Development Revenue Bond Series 2015. The bond principal was payable over a 20-year amortization term with a maturity date of December 24, 2035. Interest on the bond was payable monthly at a floating rate of 70 percent of the 30-day LIBOR plus 1.4 percent.

In December 2022, RRI elected an option within the bond financing agreement to fully redeem the outstanding amounts and, as such, has fully repaid the outstanding balance of the bonds and has been released of obligations by Greene County Port Authority and the banking institution trustee. As of December 31, 2022, no amounts remain outstanding under the tax-exempt bond.

Interest expense related to the bond totaled \$181 and \$105 for the years ended December 31, 2022 and 2021, respectively. Also included in interest expense in the accompanying consolidated statements of activities and changes in net assets is \$23 of amortization of debt issuance costs for each of the years ended December 31, 2022 and 2021.

On December 23, 2015, RRI entered into an interest rate swap agreement with the same banking institution. The effect of the agreement was to fix the interest rate of the bond at 2.85 percent through December 22, 2022. For the years ended December 31, 2022 and 2021, RRI recognized realized and unrealized gains of \$74 and \$111, respectively, which was as a result of fluctuations in the fair value of the interest rate swap and the redemption of the bonds and related swap in 2022.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

5. Benefit Plans

Deferred Compensation Agreement

During the year ended November 30, 2016, RRI entered into a deferred compensation agreement with an officer. In accordance with the agreement, RRI established a deferred compensation reserve account for the individual and provides a fixed monthly credit plus a quarterly compounded interest accrual based on the current prime rate, to the reserve account. To be eligible for the benefit, the agreement requires continuing employment until a specified time, and the account balance is then distributed based on an established vesting schedule, over a four-year period. As of December 31, 2022 and 2021, the Organization has recognized liabilities totaling \$337 and \$296, respectively, related to the deferred compensation agreement. Compensation expense, including accrual of interest, related to the deferred compensation agreement was approximately \$115 and \$148 for the years ended December 31, 2022 and 2021, respectively.

Retirement Plans

RRI maintains a tax-sheltered retirement income IRC 403(b) plan (the 403(b) Plan) covering substantially all of its eligible employees. The 403(b) Plan enables participants to make pretax salary contributions, within limits, through elective salary deferrals. RRI does not contribute to this plan.

RRI also maintains a defined-contribution plan covering all full-time employees of RRI who have at least one year of service and are at least twenty-one years of age. RRI makes a contribution each year equal to a percentage of all participants' compensation. The contribution amount is dependent upon each employee's years of service and becomes fully vested upon the employee attaining three years of service. Participants are not permitted to contribute to this plan. Amounts contributed to this plan and recorded as pension expense for the years ended December 31, 2022 and 2021 totaled approximately \$4,683 and \$4,116, respectively.

ARS sponsors a 401(k) savings plan (the 401(k) Plan). All ARS employees are eligible to participate after meeting certain age and service requirements as defined in the 401(k) Plan document. ARS makes non-elective safe harbor matching contributions and may make discretionary contributions to the Plan. Company contributions are safe harbor and vest immediately. Contributions to the Plan totaled \$3,137 and \$2,414 for the years ended December 31, 2022 and 2021, respectively.

6. Disaggregation of Revenue

The Organization disaggregates revenue from contracts with customers by contract type, customer, as well as whether the Organization acts as prime contractor or sub-contractor, as the Organization believes these categories best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Performance obligations related to the Organization's contracts are satisfied over time as work progresses or at a point in time. Substantially all revenue for the years ended December 31, 2022 and 2021 were transferred to customers over time. Incurred costs represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

Performance Obligations

Remaining performance obligations represent the transaction price of exercised contracts for which work has not yet been performed, irrespective of whether funding has or has not been authorized and appropriated as of the date of exercise. Remaining performance obligations do not include negotiated but unexercised options or the unfunded value of expired contracts.

7. Common, Restricted and Preferred Stock

Common Stock

As of December 31, 2022 and 2021, ARS has 10,000 shares authorized, and 9,500 shares issued and outstanding. As of December 31, 2022 and 2021, two of ARS's employees each hold 1,000 shares of common stock, while RRI holds the remaining 7,500 shares issued and outstanding. As a result, approximately 21 percent of ARS's net equity position is reflected as a non-controlling interest in the consolidated financial statements.

Restricted Common Stock

During 2012, with approval of the Board of Trustees of RRI, ARS granted restricted shares of common stock in ARS to two employees. As of December 31, 2022 and 2021, a total of 2,000 restricted common stock shares were outstanding. No restricted common stock was granted or forfeited during 2022 or 2021. The restricted common stock vests 25% per year for four years commencing with the first anniversary date of the grant as long as the employee remains employed by ARS. As of December 31, 2022 and 2021, the two employees were fully vested in the restricted common stock.

At the grant date, the value of the restricted common stock was determined by management to be insignificant as ARS had no assets or revenue and projections of future free cash flows were uncertain. As a result, the Organization has not recognized stock compensation expense related to the restricted common stock agreements and no value was given to the restricted common stock that was transferred to the non-controlling stockholders.

All holders of restricted common stock of ARS are restricted from selling or transferring their shares without the consent of RRI with the exception of transfers to a permitted transferee as defined by the stockholders' agreement. Except with regard to restrictions on selling, assigning, transferring, pledging, hypothecating, encumbering or otherwise disposing of the restricted common stock, the stockholders have all rights of a stockholder of ARS, including the right to receive dividends and vote.

If the employment of any holders of restricted common stock of ARS is terminated at any time, RRI has the right to purchase any vested shares from the terminated stockholder within 90 days of the termination. The purchase price of vested shares is defined in the stockholders' agreement and is based on a trailing twelve months of earnings before interest, taxes, depreciation and amortization (EBITDA) and a varying multiple which is also defined in the stockholders' agreement.

Preferred Stock

On December 12, 2016, RRI entered into a subscription agreement with ARS to purchase 250 shares of preferred stock, no par value per share, of ARS at a purchase price of \$10 per share. The preferred stock does not entitle RRI any additional voting rights. In the event of any liquidation, dissolution or winding up of ARS, whether voluntary or involuntary, RRI as the holder of each share of the

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

preferred stock shall be entitled, prior to the common stockholders, to be paid out of the assets of ARS available for distribution an amount equal to \$10 per share, plus all accrued and unpaid dividends (whether or not declared).

The preferred stock shall be redeemable, in whole or in part, at the discretion of ARS, at a price per share of \$10 per share, plus all accrued and unpaid dividends (with certain limits and restrictions). The preferred stock may not be reissued, however it may be issued in one or more series, from time to time within three years from the date of first issuance of the shares.

As the holder of the preferred stock, RRI, is entitled to receive cumulative cash dividends at a rate of \$0.60 per annum per share, payable quarterly on the first day of January, April, July and October each year. All accrued and accumulated dividends on the preferred stock shall be paid prior and in preference to any dividend on any common stock and any other class of securities. For the years ended December 31, 2022 and 2021, accumulated cash dividends amounted to \$0 and \$5, respectively. All payments and balances were eliminated in consolidation.

At the beginning of 2021, RRI continued to hold 100 shares of ARS's preferred stock. In January 2021, ARS redeemed all remaining shares of preferred stock from RRI at a purchase price of \$10,000 per share. As of December 31, 2021, RRI no longer holds any ARS preferred stock.

8. Income Taxes

The ARS provision for income taxes consists of the following for the year ended December 31:

	2022	2021
Current:		
Federal	\$ 2,656	\$ 2,286
State	656	849
Deferred:		
Federal	(36)	(53)
State	(10)	(15)
Provision for income taxes	\$ 3,266	\$ 3,067

Deferred tax assets (liabilities) consist of the following as of December 31:

	2022	2021
Depreciation and amortization	\$ (6)	\$ (12)
Accrued payroll	330	290
Deferred tax assets, net	\$ 324	\$ 278

Deferred tax assets are provided for those items for which the reporting period for income tax purposes is different than the reporting period for financial statement purposes. Those balances are stated at the enacted tax rates expected to be in effect when ARS pays or recovers the taxes. Deferred income tax assets represent amounts available to reduce income taxes ARS will pay on taxable income in future years. Management evaluates the ability to realize these future tax

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

deductions by assessing whether ARS expects to have sufficient future taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies to utilize these future deductions and credits. Management establishes a valuation allowance when they no longer consider it more likely than not that a deferred tax asset will be realized. As of each reporting date, management considers new evidence, both positive and negative, that could impact their view with regard to future realization of deferred tax assets. As of December 31, 2022 and 2021, management determined that sufficient positive evidence exists to conclude that it is more likely than not that the deferred tax assets are realizable for ARS, and therefore, no valuation allowance is required.

9. Commitments and Contingencies

Commitments

The Organization leases office space and certain equipment under the terms of noncancelable operating leases that expire at various dates through November 2031. The Organization is also responsible for certain operating expenses. As described in Note 1, effective January 1, 2022, the Organization adopted ASC 842 using the modified retrospective approach. In accordance with this approach, the Organization did not recast the prior period consolidated financial statements. All prior periods amounts and disclosures are presented under ASC 840.

The Organization recognizes the total cost of its leases ratably over the respective lease periods. The Organization recorded lease costs totaling \$3,249, which is inclusive of \$101 of short-term lease costs, for the year ended December 31, 2022.

The following is a schedule by year of the maturities of the operating lease liabilities required under these leases as of December 31, 2022:

Years Ending December 31,

2023	\$	2,927
2024		1,975
2025		1,125
2026		749
2027		763
Thereafter		3,136
Total operating lease payments		10,675
Less: imputed interest		(523)
		\$ 10,152

The weighted average remaining lease term and discount rates for operating leases were approximately 6.29 years and 1.44% at December 31, 2022.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

Transitional disclosure

Expected future minimum lease payments on office facility operating leases as of December 31, 2021 were as follows:

Years ending December 31,

2022	\$	3,424
2023		2,459
2024		1,707
2025		777
2026		748
Thereafter		3,899
	\$	13,014

Rent expense under operating leases classified under ASC 840 was approximately \$2,703 for the year ended December 31, 2021.

Contingencies

The majority of the Organization's revenues are generated from prime contracts or subcontracts for which the U.S. government is the ultimate customer. Changes in federal government budgetary priorities, domestic and international economic conditions and political circumstances, among other factors, could impact the status of the Organization's current contracts and the Organization's ability to win new or follow-on contract awards. In the event of unilateral early termination by the customer or expiration without renewal, the loss of one or more of the Organization's significant contracts could have a material and adverse impact on the Organization's future financial results.

The Organization is subject to lawsuits and claims with respect to matters arising in the normal course of business. In the opinion of management, the ultimate liabilities, if any, resulting from these lawsuits or claims, will not materially affect the consolidated financial position or results of operations of the Organization.

Contract Concentrations

As of and for the year ended December 31, 2022, the Organization generated revenue from two contracts that approximated 58% of total revenue and three contracts that approximated 72% of the contract receivables balance. As of and for the year ended December 31, 2021, the Organization generated revenue from two contracts that approximated 60% of total revenue and 67% of the contract receivables balance.

10. Functional Expenses

The Organization allocates its expenses on a functional basis among its program and support services. Expenditures which can be identified with program or support services are allocated directly according to their natural expenditure. The preference and priority is to directly charge the program or supporting function where the service or expense item is used. Costs that are common to several functions are allocated among the program and supporting services on a reasonable basis that is consistently applied, including allocations based on time records, space

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

utilized and estimates made by management. The majority of salaries and employee benefits are classified as direct charges, while some are allocated based upon estimates of time and effort.

The Organization's operating expenses grouped by functional classification for the year ended December 31, 2022 are as follows:

<i>Natural classification</i>	Program	Management and General	Total
Compensation and benefits	\$ 175,130	\$ 13,382	\$ 188,512
Professional fees	139,643	998	140,641
Information technology	7,758	769	8,527
Occupancy	4,314	253	4,567
Travel	3,788	182	3,970
Meetings, events and memberships	692	215	907
Interest	195	8	203
Depreciation and amortization	3,101	113	3,214
Insurance	544	308	852
Other	3,945	600	4,545
Total	\$ 339,110	\$ 16,828	\$ 355,938

The Organization's operating expenses grouped by functional classification for the year ended December 31, 2021 are as follows:

<i>Natural classification</i>	Program	Management and General	Total
Compensation and benefits	\$ 155,919	\$ 11,687	\$ 167,606
Professional fees	138,039	761	138,800
Information technology	2,737	608	3,345
Occupancy	3,827	289	4,116
Travel	2,061	150	2,211
Meetings, events and memberships	238	261	499
Interest	120	105	225
Depreciation and amortization	2,558	103	2,661
Insurance	84	420	504
Other	1,764	546	2,310
Total	\$ 307,347	\$ 14,930	\$ 322,277

The total functional expenses shown above are a summation of total costs of revenue and interest expense from the consolidated statements of activities and changes in net assets.

Riverside Research Institute and Subsidiary

Notes to the Consolidated Financial Statements

11. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the consolidated statements of financial position date for general expenditures such as operating expenses and debt service, construction and fixed asset purchases not financed with debt financing are as follows:

	2022		2021	
Cash and cash equivalents	\$	15,069	\$	19,555
Investments		47,532		60,794
Contract receivables, net		33,916		25,547
Contract assets		25,908		20,154
	\$	122,425	\$	126,050

There were no financial assets unavailable within one year of the consolidated statements of financial position date for general expenditures. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization's main source of liquidity is contract revenue from federal government agencies. The Organization also has two lines-of-credit available for short-term cash needs (see Note 4).

12. Related Party Transactions

Certain members of the Board of Trustees of RRI and Board of Directors of ARS are members of the Board of Directors or are key employees of other organizations in which RRI and ARS engage in business activities. ARS also pays stipends to third-party Board members for their service to the Board. During the years ended December 31, 2022 and 2021, the Organization incurred \$716 and \$620, respectively, in costs and stipends with these related organizations and recognized \$495 and \$343, respectively, of revenue with these related organizations. As of December 31, 2022 and 2021, amounts payable to related organizations totaled \$54 and \$35, respectively, and amounts receivable from related organizations totaled \$0 and \$22, respectively.

13. Subsequent Events

The Organization has evaluated its December 31, 2022 consolidated financial statements for subsequent events through May 23, 2023, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

Schedule of Expenditures of Federal Awards

Riverside Research Institute and Subsidiary

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass-Through Entity	2022 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
U.S. Department of Defense				
Department of the Air Force				
Technical Sensor Radar Support Program	12.RD		\$ 1,841,584	\$ -
Cobra Dane System Engineering & Integration Services	12.RD		3,138,464	-
Fixed Station Sensors	12.RD		3,959,593	-
Big Safari	12.RD		337,135	-
Red Giant	12.RD		1,341,083	-
Mission Systems Open Architecture Science & Technology	12.RD		1,191,964	-
Research & Development in Antenna & Electromagnetic Tech	12.RD		8,064	-
Advanced Novel Spectrum Warfare Environment Research	12.RD		1,523,955	-
Microelectronics & Embedded Systems Assurance	12.RD		5,901,695	-
Virtual Combat Lab Studies & Analysis Task	12.RD		746,435	-
RF Analysis & Verification Engineering Software	12.RD		1,199,147	-
Multi-sensor Integration for Autonomy & Openness	12.RD		812,857	-
Direct IT Computational Testing & Overall Research	12.RD		2,778,547	-
Optics, Plasma Technology & Electro-Magnetic Antenna	12.RD		1,233,689	-
Big Safari 2	12.RD		2,281,842	-
Mission Systems Open Architecture Prototyping, Experimentation, and Demonstration (MOAPED)	12.RD		26,996	-
Microelectronics and Embedded System Assurance (MESA) II	12.RD		886,282	-
Technical Sensor Radar Support (TSRS) Program	12.RD		358,503	-
USSOCOM Regional Contracting Office	12.RD		2,514	-
Total Direct Programs Department of the Air Force			29,570,349	-

Riverside Research Institute and Subsidiary

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass-Through Entity	2022 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
Pass Through Programs From:				
ZETA Associates, Inc.	12.RD	173118SC-RRI-01	1,159,561	-
Solis Applied Science, LLS	12.RD	2019W911W519F0050RIVERSIDE01	746,341	-
Systems Planning and Analysis, Inc.	12.RD	SPA-SC-03002-RRC-19-001	190,465	-
Alion Science & Technology	12.RD	GS00Q14OADU401	1,950,767	-
Parallax Advanced Research Corporation	12.RD	11197-005	142,471	-
BAE SYSTEMS	12.RD	FA852721D005	1,741,899	-
CGI Federal Inc.	12.RD	47QTCK18D0022	1,881,504	-
DESE Research, Inc.	12.RD	W9124P-19-9-001	82,213	-
Applied Research Solutions, Inc.	12.RD	FA8721-19-F-0005	925,151	-
Analytical Graphics, Inc.	12.RD	RS-11915	144,688	-
Peraton	12.RD	GS00Q09BGD0031/FA875019F0003	41,041	-
Georgia Institute of Technology	12.RD	FA8075-16-D-0005	653	-
Ball Aerospace & Technologies Corp	12.RD	22SLM0004	234,423	-
University of Dayton	12.RD	FA8650-22-C-1017	764,149	-
Secmation, LLC	12.RD	FA8658-22-C-B005	183,096	-
Total Department of the Air Force			39,758,771	-
Department of the Army				
Pass Through Program From:				
University System of Georgia - Georgia Institute of Technology	12.RD	W31P4Q-18-0002	154,736	-
Total Department of the Army			154,736	-

Riverside Research Institute and Subsidiary

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass-Through Entity	2022 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
Defense Intelligence Agency				
Virginia Contracting Activity NMO DCGS	12.RD		2,906,879	-
Total Defense Intelligence Agency			2,906,879	-
Defense Advanced Research Projects Agency				
Universal Composability for Preventing Adversarial Composition Techniques	12.910		162,576	-
Total Direct Programs Defense Advanced Research Projects Agency			162,576	-
Pass Through Program From: Trusted Science and Technology, Inc.	12.910	140D0420C0047	31,519	-
Total Defense Advanced Research Projects Agency			194,095	-
Office of Naval Research				
Neptune	12.RD		369,669	-
Total Office of Naval Research			369,669	-
Space Development Agency				
Pass Through Program From: Clarity Cyber, LLC	12.RD	HQ085022C0001	96,935	-
Total Space Development Agency			96,935	-
Missile Defense Agency				
Pass Through Program From: Secmation, LLC	12.RD	HQ086021C7117	38,505	-
Total Missile Defense Agency			38,505	-

Riverside Research Institute and Subsidiary

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass-Through Entity	2022 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
Other Contracts	12.RD		1,831,888	-
Total U.S. Department of Defense			45,351,478	-
U.S. Department of Health and Human Services				
In Utero Mouse Embryo Phenotyping	93.286		7,208	-
Novel in-vivo Ultrasound-Based POC	93.286		52,769	-
Vitreo-retinal Disease Imaging w/3D Annular-Array Ultrasound	93.286		290,511	-
Super-Resolution Nanodrop	93.865		2,760	-
Total U.S. Department of Health and Human Services			353,248	-
U.S. Department of the Interior				
Integrated Source Management - Collection Planning	15.817		2,366,715	-
Cognitive Assessment System w/Physiology Integration, Analysis, and Neuromodeling, Volume 2	15.817		145,967	-
Total Direct Programs U.S. Department of the Interior			2,512,682	-
Pass Through Programs From:				
Booz Allen Hamilton	15.RD	S901635BAH	661,245	-
Applied Research Associates, Inc.	15.RD	W911QX-16-D-0015	493,762	-
Total U.S. Department of the Interior			3,667,689	-

Riverside Research Institute and Subsidiary

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass-Through Entity	2022 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
General Services Administration				
Advisory & Assistance Services	39.RD		600,690	-
Facilities Directorate Support	39.RD		1,132,245	-
Remote Sensing & Command, Control, Communications & Computers	39.RD		64,746	-
Defense Innovation Unit (DIU) Subject Matter Expert/Engineering Support Services	39.RD		394,761	-
Total General Services Administration			2,192,442	-
Total Research & Development Cluster Expenditures of Federal Awards			\$ 51,564,857	\$ -

The accompanying notes are an integral part of the schedule.

Riverside Research Institute and Subsidiary

Notes to the Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards (the Schedule) are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. CFR Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. Indirect Cost Rate

The Organization has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Basis of Presentation

The accompanying Schedule includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

All of the Organization's federal awards were in the form of cash assistance for the year ended December 31, 2022. The Organization had no federally funded insurance programs or loan guarantees during the year ended December 31, 2022.

4. Other Contracts

Other contracts, referred to in the Schedule, consist of federal contracts the Organization has entered into that are of a classified nature.

Independent Auditor's Reports Required by *Government Auditing Standards* and the Uniform Guidance



Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Riverside Research Institute and Subsidiary
New York, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Riverside Research Institute and Subsidiary (the Organization), which comprise the Organization's consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

McLean, Virginia
May 23, 2023



Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

Board of Trustees
Riverside Research Institute and Subsidiary
New York, New York

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Riverside Research Institute and Subsidiary's (the Organization) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2022. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization 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 the major federal program. Our audit does not provide a legal determination of the Organization'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 the Organization's federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization'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 GAAS, *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 the Organization's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *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 the Organization'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 the Organization'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 the Organization'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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.



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.

BDO USA, LLP

McLean, Virginia
May 23, 2023

Riverside Research Institute and Subsidiary

Schedule of Findings and Questioned Costs Year Ended December 31, 2022

Section I - Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued on whether the consolidated financial statements audited were prepared in accordance with U.S. GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported
- Noncompliance material to consolidated financial statements noted? _____ Yes X No

Federal Awards

Internal control over the major federal program:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? X Yes _____ None reported

Type of auditor's report issued on compliance for the major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X Yes _____ No

Identification of the major federal program:

Assistance Listing Number	Name of Federal Program or Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,546,946

Auditee qualified as low-risk auditee?

 X Yes _____ No

Riverside Research Institute and Subsidiary

Schedule of Findings and Questioned Costs Year Ended December 31, 2022

Section II - Financial Statement Findings

There were no findings related to the consolidated financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS) identified during the 2022 audit.

Section III - Federal Award Findings and Questioned Costs

2022-001 Internal Control over Compliance and Compliance with Reporting - Preparation of the Schedule of Expenditures of Federal Awards

Information on the Major Federal Program -

General Services Administration
Assistance Listing Number: 39.RD
Assistance Listing Name: Advisory & Assistance Services

Criteria - The Uniform Guidance in 2 CFR §200.510 (b) states in part: “The auditee must also prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with CFR §200.502 Basis for determining Federal awards expended.”

Condition - Certain contract expenditures related to the Advisory & Assistance Services award with General Services Administration (GSA) were incorrectly reported in the initial SEFA. The total federal expenditures initially reported in the SEFA for this award totaled \$3,719,891. However, based on testing by the auditors, contract expenditures totaling \$3,119,210 were determined to not qualify for SEFA presentation based on CFR Section §200.502 due to a certain task within the award being firm fixed price.

Cause - One task of the Advisory & Assistance Services award was incorrectly labeled as cost-reimbursable with the Organization’s accounting system. This error resulted in the Organization not following its policies and procedures in place to ensure compliance with the requirements regarding the preparation of the SEFA.

Effect or Potential Effect - Failure to comply with the reporting requirements of the Uniform Guidance related to the preparation of the SEFA could result in expenses from Federal awards being inaccurately reported.

Questioned Costs - None.

Context - This is a condition identified based upon our review of the Organization’s compliance with specified requirements required based on CFR §200.502. The prevalence of these findings is detailed in the condition section above.

Repeat finding - This is not a repeat finding.

Recommendation - We recommend that the Organization implement policies and procedures to ensure that Federal expenditures reported on the SEFA are properly included based on underlying Federal and award requirements.

Riverside Research Institute and Subsidiary

Schedule of Findings and Questioned Costs Year Ended December 31, 2022

Views of Responsible Officials - Management agrees with the finding. The inclusion of the contract task was an oversight as the project type was mislabeled in the accounting system. Riverside will implement an additional review of projects created in the accounting system to ensure the reliance of the information to identify only the amount of Federal awards that are required to be reported under CFR §200.502. Additionally, the one task of the Advisory & Assistance Services award that was the cause of the issue has been corrected within the accounting system.

Management's Corrective Action Plan

Corrective Action Plan

Finding 2022-001

In response to the reported deficiency of internal controls over compliance with the preparation of the Schedule of Expenditures of Federal Awards (SEFA), Riverside is implementing the following Corrective Action Plan:

1. Upon notification from the Contracts Department of new awards or modifications, the Program Controller will review the Project Setup with an emphasis on ensuring the Project Type is correctly assigned.
2. Prior to approving the Project Setup in Cost Point by the Contracts Department, the Contracts Manager will ensure the Project Setup is accurate.
3. Riverside will perform a rigorous review of the SEFA in advance of submitting the document to our external auditors. This will include reviewing the Project Type of each project identified as required to be reported in the SEFA.

Individual(s) Responsible for the Corrective Action Plan: Vivian Arthur, Controller, (703) 908-2135, Gary Van Gorder, (937) 427-7009.

Anticipated Completion Date: December 2023