
UI LABS dba MXD USA

Financial Report
December 31, 2023

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Independent Auditor's Report

To the Board of Directors
UI LABS dba MXD USA

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of UI LABS dba MXD USA (MxD), which comprise the statement of financial position as of December 31, 2023 and 2022 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MxD as of December 31, 2023 and 2022 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 Audits of the Financial Statements* section of our report. We are required to be independent of the MxD and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits 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 financial statements.

To the Board of Directors
UI LABS dba MXD USA

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 MxD's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MxD'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2024 on our consideration of MxD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 MxD'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 MxD's internal control over financial reporting and compliance.

Plante & Moran, PLLC

July 2, 2024

Statement of Financial Position

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash	\$ 10,482,319	\$ 12,488,545
Receivables - Net of allowances (Note 5)	10,220,363	11,114,894
Prepaid expenses and other assets	1,308,088	660,116
Right-of-use operating lease assets	13,064,943	14,102,459
Fixed assets - Net (Note 8)	<u>3,225,811</u>	<u>4,475,547</u>
Total assets	<u>\$ 38,301,524</u>	<u>\$ 42,841,561</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 171,120	\$ 173,573
Contract liabilities - Deferred membership dues	1,264,514	1,328,132
Refundable advances	3,123,046	1,668,434
Accrued expenses	2,661,042	2,730,129
Accrued compensation	1,068,088	888,732
Operating lease liability (Note 9)	<u>14,406,762</u>	<u>14,906,380</u>
Total liabilities	22,694,572	21,695,380
Net Assets		
Without donor restrictions	14,961,919	20,947,281
With donor restrictions	<u>645,033</u>	<u>198,900</u>
Total net assets	<u>15,606,952</u>	<u>21,146,181</u>
Total liabilities and net assets	<u>\$ 38,301,524</u>	<u>\$ 42,841,561</u>

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support						
Grants	\$ 20,130,366	\$ -	\$ 20,130,366	\$ 21,400,955	\$ -	\$ 21,400,955
Membership dues	2,780,166	-	2,780,166	4,027,777	-	4,027,777
In-kind contributions	836,491	465,033	1,301,524	271,689	-	271,689
Miscellaneous revenue	728,646	-	728,646	924,346	-	924,346
Net assets released from restrictions	18,900	(18,900)	-	1,687,367	(1,687,367)	-
Total revenue and other support	24,494,569	446,133	24,940,702	28,312,134	(1,687,367)	26,624,767
Expenses						
Salaries and benefits	10,311,426	-	10,311,426	8,155,765	-	8,155,765
Consultants and contractors	4,184,674	-	4,184,674	1,631,570	-	1,631,570
Travel, meeting, and communications	893,400	-	893,400	681,445	-	681,445
Rent and utilities	1,755,292	-	1,755,292	1,761,742	-	1,761,742
Insurance	142,235	-	142,235	139,778	-	139,778
Banking, registration, and business fees	253,508	-	253,508	294,184	-	294,184
Software, equipment, and supplies	1,532,618	-	1,532,618	2,854,487	-	2,854,487
Depreciation	1,991,201	-	1,991,201	1,873,699	-	1,873,699
Pass-through program costs	9,407,101	-	9,407,101	10,504,147	-	10,504,147
Bad debt	344,369	-	344,369	482,501	-	482,501
Total expenses	30,815,824	-	30,815,824	28,379,318	-	28,379,318
(Decrease) Increase in Net Assets - Before nonoperating income	(6,321,255)	446,133	(5,875,122)	(67,184)	(1,687,367)	(1,754,551)
Nonoperating Income	335,893	-	335,893	29,636	-	29,636
(Decrease) Increase in Net Assets	(5,985,362)	446,133	(5,539,229)	(37,548)	(1,687,367)	(1,724,915)
Net Assets - Beginning of year	20,947,281	198,900	21,146,181	20,984,829	1,886,267	22,871,096
Net Assets - End of year	\$ 14,961,919	\$ 645,033	\$ 15,606,952	\$ 20,947,281	\$ 198,900	\$ 21,146,181

Statement of Functional Expenses

Year Ended December 31, 2023

	<u>Program Services</u>	<u>Support Services Management and General</u>	<u>Total</u>
Salaries and benefits	\$ 7,747,591	\$ 2,563,835	\$ 10,311,426
Consultants and contractors	3,677,087	507,587	4,184,674
Travel, meeting, and communications	536,802	356,598	893,400
Rent and utilities	1,745,841	9,451	1,755,292
Insurance	-	142,235	142,235
Banking, registration, and business fees	11,243	242,265	253,508
Software, equipment, and supplies	1,175,170	357,448	1,532,618
Depreciation	1,898,317	92,884	1,991,201
Pass-through program costs	9,407,101	-	9,407,101
Bad debt	344,269	100	344,369
Total functional expenses	\$ 26,543,421	\$ 4,272,403	\$ 30,815,824

Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services	Support Services Management and General	Total
Salaries and benefits	\$ 5,619,109	\$ 2,536,656	\$ 8,155,765
Consultants and contractors	1,399,210	232,360	1,631,570
Travel, meeting, and communications	411,143	270,302	681,445
Rent and utilities	1,761,742	-	1,761,742
Insurance	-	139,778	139,778
Banking, registration, and business fees	12,271	281,913	294,184
Software, equipment, and supplies	2,514,563	339,924	2,854,487
Depreciation	1,790,511	83,188	1,873,699
Pass-through program costs	10,504,147	-	10,504,147
Bad debt	482,501	-	482,501
Total functional expenses	\$ 24,495,197	\$ 3,884,121	\$ 28,379,318

Statement of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (5,539,229)	\$ (1,724,915)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	1,991,201	1,873,699
Bad debt expense	344,369	482,501
Capitalized in-kind contributions and nonmonetary transactions	(710,009)	(325,160)
Operating lease expense net of amortization of right-of-use asset and operating lease payments	537,898	776,955
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	550,162	(8,472,036)
Prepaid expenses and other current assets	(355,226)	1,920,606
Accounts payable and accrued expenses	107,816	1,092,930
Refundable advances	1,454,612	(905,826)
Contract liabilities - Deferred membership dues	<u>(63,618)</u>	<u>311,336</u>
Net cash used in operating activities	(1,682,024)	(4,969,910)
Cash Flows Used in Investing Activities - Purchase of fixed assets	<u>(324,202)</u>	<u>(268,501)</u>
Net Decrease in Cash	(2,006,226)	(5,238,411)
Cash - Beginning of year	<u>12,488,545</u>	<u>17,726,956</u>
Cash - End of year	<u>\$ 10,482,319</u>	<u>\$ 12,488,545</u>
Supplemental Cash Flow Information		
In-kind contributions and nonmonetary transactions	\$ 1,653,000	\$ 329,000
Right-of-use asset obtained for new lease liabilities (Note 9)	-	5,265,000

Note 1 - Nature of Business

UI LABS dba MXD USA (MxD), which is defined as "Manufacturing times Digital," is a Chicago-based research and commercialization collaborative, advancing economic prosperity and national security by strengthening United States manufacturing competitiveness through technology innovation, workforce development, and cybersecurity preparedness. In partnership with the Department of Defense (DOD), MxD convenes an ecosystem to solve critical manufacturing challenges by accelerating digital adoption, empowering a skilled workforce, and modernizing supply chains. MxD is also the National Center for Cybersecurity in Manufacturing as designated by the DOD.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of MxD have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

Adoption of New Accounting Pronouncement

As of January 1, 2023, MxD adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses*. This guidance requires entities to consider reasonable and supportable forecasts of future economic conditions in the estimate of expected credit losses. The ASU is applied using the modified retrospective transition method with an adjustment to opening net assets in the period of initial application. There was no impact on net assets as a result of adopting the new ASU.

Classification of Net Assets

Net assets of MxD are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of MxD. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of MxD, the environment in which it operates, and the purposes specified in its articles of incorporation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of MxD or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

As of December 31, 2023 and 2022, net assets with donor restrictions were \$645,033 and \$198,900, respectively, and subject to the passage of time.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Note 2 - Significant Accounting Policies (Continued)

Accounts Receivable

A portion of MxD's accounts receivable balance consists of amounts due from its customers for membership dues, events, and other miscellaneous income streams. These are stated at invoice amounts. An allowance for credit losses is established for amounts expected to be uncollectible over the contractual life of the receivables. MxD collectively evaluates trade receivables to determine the allowance for credit losses based on contact with customers and external factors affecting MxD's relationship with the customers, including employee turnover, interest in MxD projects, inflation, and going concerns. MxD calculates the allowance using an expected loss model that considers MxD's actual historical loss rates adjusted for current economic conditions and reasonable and supportable forecasts. MxD considers historical receipts, contract type, contract value, and customer ability and motivation to maintain relationship when making adjustments for reasonable and supportable forecasts. Uncollectible amounts are written off against the allowance for credit losses in the period they are determined to be uncollectible. Recoveries of amounts previously written off are recognized when received.

MxD also has accounts receivables from its grantors for amounts earned but not yet collected. An allowance for uncollectible receivables from grantors is provided based upon management's judgment of potential defaults. It is the opinion of management that these receivables are collectible in full as of December 31, 2023 and 2022.

See Note 5 for further details.

Leases

MxD has an operating lease for its facility, as further described in Note 9. The lease results in the recognition of a right-of-use (ROU) asset and lease liability on the statement of financial position. The ROU asset represents the right to use an underlying asset for the lease term, and the lease liability represents the obligation to make lease payments arising from the lease, measured on a discounted basis. In evaluating its contract, MxD separately identifies lease and nonlease components, such as operating expenses, in calculating the ROU asset and lease liability, as they are separately stated amounts within the lease agreement.

MxD elected to use the risk-free rate as the discount rate for calculating the ROU asset and lease liability in place of the incremental borrowing rate for its rental space.

MxD recognizes expense for operating leases on a straight-line basis over the lease term.

Fixed Assets

Fixed assets are recorded at cost. The straight-line methodology is used for computing depreciation. Assets are depreciated over the estimated useful lives of the related assets, ranging from 3 to 10 years. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as support without donor restrictions and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets must be maintained. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Income Taxes

MxD is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

December 31, 2023 and 2022**Note 2 - Significant Accounting Policies (Continued)*****Operating and Nonoperating Activity***

Operating revenue and expenses are those directly related to the purpose and primary mission of MxD. As a result, other activity, such as bank interest revenue and gain or loss on sale of assets, is reported as nonoperating income and expense.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of useful lives of fixed assets, project accruals, and allowance for membership dues receivable. Actual results could differ from those estimates.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on the basis of time and effort. Expenses deemed to be indirect or nonprogrammatic, such as employee work, professional services, and insurance, are considered to be management and general expenses. Depreciation is allocated based on how the assets are utilized. Other general expenses, such as occupancy, utilities, and training, are also allocated on the basis of direct salary charges to the programs or administration. Costs have been allocated between the various program and support services based on estimates determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Membership Dues

MxD generates revenue from contracts with customers from membership dues. Membership dues are composed of goods and services that are bundled into a single performance obligation where the primary benefit is access to MxD's ecosystem and research pipeline. Memberships are billed annually, and revenue is recognized ratably over the membership period. MxD allows for members to provide assets in lieu of cash payment for membership dues. The nonmonetary assets are valued at fair market value based on the value the member would sell the item to a customer and reduce the amount owed by the member in cash for dues. If the value of the asset exceeds the cost of the membership dues, a gain is recognized on the exchange. There were no gains on exchange recognized during the years ended December 31, 2023 and 2022.

At January 1, 2022, membership fees billed but unpaid, which are included within receivables - net of allowances on the statement of financial position, were \$292,115. Membership fees collected in advance are recorded as contract liabilities - deferred membership dues. At January 1, 2022, contract liabilities - deferred membership dues were \$1,016,796.

Contributions

Unconditional promises to give cash and other assets to MxD are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the year in which the contributions are received are reported as contributions without donor restrictions in the accompanying financial statements.

Note 2 - Significant Accounting Policies (Continued)

MxD receives gift-in-kind contributions of tangible and intangible personal property and contributions of services, consisting primarily of software, consulting services, equipment, and other organizational support. Gift-in-kind contributions that are subject to donor restrictions or the passage of time are recorded as restricted and released as the donor stipulations or time has elapsed.

MxD receives conditional contributions that are not recognized as revenue within the statement of activities and changes in net assets until the conditions are met. Conditional contributions are received from foundations, universities, and federal agencies. MxD grants revenue is derived from advance-funded and cost-reimbursable contracts, grants that are conditioned upon certain performance requirements, and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue in the statement of activities and changes in net assets as grants when MxD has incurred expenditures in compliance with specific contract or grant provisions. Grants and awards received in excess of those earned are recorded as refundable advances.

MxD has grant revenue pledged through conditional contributions not yet recognized as revenue of approximately \$27,221,000 and \$34,706,000 as of December 31, 2023 and 2022, respectively.

Miscellaneous Revenue

Miscellaneous revenue consists primarily of facility rental revenue, as MxD allows members to rent portions of its facility for a fixed daily, monthly, or annual fee. Rental income is recognized as revenue when earned. Rental payments received in advance are deferred until earned. Future minimum rent payments to be received are \$964,058 in 2024, \$863,200 in 2025, and \$596,458 in 2026.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including July 2, 2024, which is the date the financial statements were available to be issued.

Note 3 - Concentration of Credit Risk

Throughout the year, certain financial instruments subject MxD to credit risk. Those financial instruments consist primarily of cash and accounts receivable. MxD maintains its cash in a high credit quality financial institution. At times, these balances may be in excess of the Federal Deposit Insurance Corporation insurance limit. MxD has not experienced any losses in such accounts.

Note 4 - Concentration of Revenue

As detailed in Note 2, a substantial amount of MxD's funding is derived from consortium members, grantors, and agencies of the federal government.

For the years ended December 31, 2023 and 2022, program consortium members provided 19 and 21 percent, respectively, two agencies of the federal government provided 80 and 78 percent, respectively, and various outside parties provided 1 percent of MxD's revenue in each year.

Note 5 - Accounts Receivable

The following is the detail of accounts receivable:

	2023	2022
Grants	\$ 10,014,192	\$ 9,722,110
Membership dues	332,924	1,722,410
Events and other	27,016	563,375
Less allowance for credit losses	(153,769)	(893,001)
Total accounts receivable - Net	\$ 10,220,363	\$ 11,114,894

Notes to Financial Statements

December 31, 2023 and 2022

Note 5 - Accounts Receivable (Continued)

Approximately 96 percent and 79 percent of accounts receivable were due from one federal agency as of December 31, 2023 and 2022, respectively. The remainder of the accounts receivable was due from various program consortium members or another federal agency.

The activity in the allowance for credit losses is as follows:

	2023	2022
Balance - January 1	\$ 893,001	\$ 456,149
Additions charged to expense	192,257	493,001
Deductions/Write-offs	(931,489)	(56,149)
Balance - December 31	<u>\$ 153,769</u>	<u>\$ 893,001</u>

The credit losses described above relate to the membership dues and events and other receivables. Management believes that grant-related receivables are fully collectible as of December 31, 2023 and 2022.

Note 6 - In-kind Contributions

Donated items received by MxD and used in its programs have been reflected in the financial statements at their estimated fair values.

In-kind donations recognized by MxD for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Software and equipment	\$ 693,746	\$ 268,160
Consulting services	607,778	-
Other	-	3,529
Total in-kind donations	<u>\$ 1,301,524</u>	<u>\$ 271,689</u>

During the years ended December 31, 2023 and 2022, MxD received in-kind contributions of software and equipment to be used for program-related activities valued at \$693,746 and \$268,160, respectively. The value of the software and equipment was determined based on the list prices of comparable software and equipment.

During the year ended December 31, 2023, MxD received an in-kind contribution of consulting services to be used for program-related activities with a value of \$607,778. The value of the services received is based on standard fees charged for the type of services provided.

Note 7 - Indirect Expenses

The DOD annually approves the provisional and final rates that are used to allocate indirect expenses, based on a percentage of direct costs, to contracts and grants.

Note 8 - Fixed Assets

Property and equipment are summarized as follows:

	2023	2022
Furniture and fixtures	\$ 2,583,313	\$ 2,385,796
Computer equipment and software	87,176,893	86,690,753
Leasehold improvements	15,338,727	15,329,077
Total cost	105,098,933	104,405,626
Accumulated depreciation	101,873,122	99,930,079
Net property and equipment	<u>\$ 3,225,811</u>	<u>\$ 4,475,547</u>

Depreciation expense for 2023 and 2022 was \$1,991,201 and \$1,873,699, respectively.

Note 9 - Leases

MxD is obligated under an operating lease for its facility, which began in February 2015 with the opening of its facility on Goose Island in Chicago, Illinois and continues through January 31, 2025. The agreement includes a renewal option for two additional five-year terms per the original agreement, which MxD was reasonably certain to renew at commencement. On February 17, 2022, the lease was modified due to a change to reduce the lease term of the original lease to end on December 31, 2024. Additionally, a new lease was signed with the new landlord for the exact same space to extend the lease through December 31, 2034, which is accounted for as a lease modification, as there is no additional right of use granted in the new lease agreement. As a result of the lease modification, MxD recognized an additional lease liability and ROU asset of approximately \$5,265,000 during 2022. As a benefit to extending the lease through December 31, 2034, MxD received a lease incentive payment totaling approximately \$308,000 in May 2022.

The right-of-use asset and related lease liability have been calculated using a discount rate of 2 percent through February 16, 2022 and 2.34 percent from February 17, 2022 through December 31, 2023. The leases require MxD to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under this lease was \$1,389,568 and \$1,294,672 for 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, cash paid in relation to the lease was \$843,105 and \$828,357, imputed interest expense was \$343,487 and \$325,839, and nonlease components were \$202,976 and \$140,476, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2024	\$ 857,854
2025	1,397,392
2026	1,432,327
2027	1,468,135
2028	1,504,838
Thereafter	<u>9,852,824</u>
Total	16,513,370
Less amount representing interest	<u>2,106,608</u>
Present value of net minimum lease payments	<u>\$ 14,406,762</u>

Notes to Financial Statements

December 31, 2023 and 2022

Note 10 - Line of Credit

Under a line of credit agreement with a bank, MxD has available borrowings of \$2 million maturing on August 1, 2024. Interest is payable monthly at the prime rate minus 50 base points, subject to a floor of 1.5 percent. The line of credit is collateralized by substantially all of the assets of MxD.

There was \$2 million of unused borrowings on the line of credit as of December 31, 2023 and 2022. Under the line of credit agreement with the bank, MxD is subject certain financial and nonfinancial covenants.

Note 11 - Liquidity and Availability of Resources

MxD's working capital and cash flows fluctuate during the year due to the timing of expense obligations. To manage liquidity, MxD maintains cash reserves in money market savings accounts. Grant contracts and awards expenses are projected out for the upcoming quarter on a monthly basis and submitted to the DOD for advancement. Once received, funds are deposited into a money market account. Expenses are reimbursed from the DOD monthly and transferred from an account separated for government funds to the operating account. If vendor invoices become due prior to a review and approval of the expense reimbursement invoice, reserve cash balances may be utilized to cover operations. Vendor invoices are tracked against available funds in the operating account, with payments processed weekly. Additionally, MxD maintains a line of credit up to \$2 million to cover unforeseen obligations.

MxD's financial assets available within one year of December 31, 2023 and 2022 for general expenditure are as follows:

	2023	2022
Cash and cash equivalents	\$ 10,482,319	\$ 12,488,545
Accounts receivable	10,220,363	11,114,894
Total	\$ 20,702,682	\$ 23,603,439

Note 12 - Retirement Plans

MxD sponsors a 401(k) plan for substantially all employees. The plan provides for MxD to make a required matching and a discretionary contribution. MxD's contributions to the plan totaled \$234,403 and \$190,919 for the years ended December 31, 2023 and 2022, respectively.

UI LABS dba MXD USA

**Federal Awards Supplemental Information
December 31, 2023**

Independent Auditor's Reports

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 1

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government
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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
UI LABS dba MXD USA

We have audited the financial statements of UI LABS dba MXD USA as of and for the year ended December 31, 2023 and have issued our report thereon dated July 2, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to July 2, 2024.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

July 2, 2024



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

Independent Auditor's Report

To Management and the Board of Directors
UI LABS dba MXD USA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of UI LABS dba MXD USA (MXD USA), which comprise the statement of financial position as of December 31, 2023 and the related statements of activities and changes in net assets, functional expenses, and cash flows, for the year then ended, and the related notes to the financial statements and have issued our report thereon dated July 2, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MXD USA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MXD USA's internal control. Accordingly, we do not express an opinion on the effectiveness of MXD USA'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 MXD USA's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MXD USA's 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 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*.

To Management and the Board of Directors
UI LABS dba MXD USA

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

Plante & Moran, PLLC

July 2, 2024



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

Independent Auditor's Report

To the Board of Directors
UI LABS dba MXD USA

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited UI LABS dba MXD USA's (MXD USA) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on MXD USA's major federal program for the year ended December 31, 2023. MXD USA'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, MXD USA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on major federal program for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (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* (the "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 MXD USA and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of MXD USA'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 MXD USA's federal program.

To the Board of Directors
UI LABS dba MXD USA

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 MXD USA'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 MXD USA's compliance with the requirements of each 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 MXD USA'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 MXD USA'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 MXD USA's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

To the Board of Directors
UI LABS dba MXD USA

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.

Plante & Moran, PLLC

July 2, 2024

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number/Grant Number	Provided to Subrecipients	Federal Expenditures
Research and Development Cluster:				
U.S. Department of Defense:				
Army Contracting Command - New Jersey - Basic, Applied, and Advanced Research in Science and Engineering	12.630	W15QKN-19-3-0003	\$ 2,755,254	\$ 7,531,463
Passed through Advanced Regenerative Manufacturing Institute, Inc. - COVID-19 - Basic, Applied, and Advanced Research in Science and Engineering	12.630	W911NF-17-3-003	-	128,073
Washington Headquarters Services, Acquisition Directorate - Basic, Applied, and Advanced Research in Science and Engineering	12.630	W9132T-22-2-0017	353,063	1,456,826
Subtotal			3,108,317	9,116,362
Passed through National Center for Manufacturing Sciences - Basic and Applied Scientific Research	12.RD	2022011-142156	3,645,936	4,450,546
Passed through Office of Local Defense Community Cooperation - Basic and Applied Scientific Research	12.RD	2021-3072-04	-	1,263
Passed through LIFT (Lightweight Innovations for Tomorrow (aka ALMMII)) - Basic and Applied Scientific Research	12.RD	N00014-22-1-2451	218,208	757,983
Subtotal			3,864,144	5,209,792
Passed through Next Flex Learning Programs - Air Force Defense Research Sciences Program	12.800	FA8650-20-2-5506-P00052	-	19,242
Passed through National Center for Defense Manufacturing and Machining and the Department of Airforce - Air Force Defense Research Sciences Program	12.800	FA8650-20-2-5700	-	60,735
Subtotal			-	79,977
Passed through Next Flex Learning Programs Air Force Defense Research Sciences - Basic and Applied Scientific Research	12.300	N00014-20-1-2250	-	190,827
Passed through University of Maryland Baltimore County - Economic Adjustment Assistance for State Governments	12.617	ST1435-22-07	-	25,353
Passed through University of Rhode Island - Community Investment	12.600	HQ00052210065	-	47,660
Total U.S. Department of Defense			6,972,461	14,669,971

Schedule of Expenditures of Federal Awards (Continued)

Year Ended December 31, 2023

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number/Grant Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Commerce:				
National Institute of Standards and Technology (NIST) - COVID-19 - Arrangements for Interdisciplinary Research Infrastructure	11.619	70NANB22H013	\$ 1,302,019	\$ 1,391,634
National Institute of Standards and Technology (NIST) - COVID-19 - Arrangements for Interdisciplinary Research Infrastructure	11.619	70NANB22H011	<u>940,643</u>	<u>1,047,182</u>
Total U.S. Department of Commerce			<u>2,242,662</u>	<u>2,438,816</u>
Total Research and Development Cluster			<u>\$ 9,215,123</u>	<u>\$ 17,108,787</u>

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of UI LABS dba MXD USA under programs of the federal government for the year ended December 31, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of UI LABS dba MXD USA, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of UI LABS dba MXD USA.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The pass-through entity identifying numbers are presented where available.

UI LABS dba MXD USA has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster	Opinion
11.619, 12.RD, 12.300, 12.617, 12.630, 12.800	Research and Development Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Audit Findings

Reference Number	Finding
Current Year	None

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
Current Year	None	