

CUBRC, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplementary Information**

December 29, 2023 and December 30, 2022

CUBRC, Inc. and Subsidiaries
Consolidated Financial Statements

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Independent Auditors' Report

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

Opinion

We have audited the accompanying consolidated financial statements of CUBRC, Inc. ("CUBRC") and its subsidiaries (collectively the "Company"), which comprise the consolidated balance sheets as of December 29, 2023 and December 30, 2022, and the related consolidated statements of activities and cash flows for the fiscal years then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 29, 2023 and December 30, 2022, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of activities as of and for the fiscal year ended December 29, 2023, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards for CUBRC, as required by *Title 2 U.S. Code of Federal Regulations* (“CFR”) *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. 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 June 27, 2024 on our consideration of CUBRC’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CUBRC’s internal control over financial reporting and compliance.

Tronconi Segarra & Associates LLP

Williamsville, New York
June 27, 2024

CUBRC, Inc. and Subsidiaries
Consolidated Balance Sheets
December 29, 2023 and December 30, 2022

	<u>December 29,</u> 2023	<u>December 30,</u> 2022
Assets		
<i>Current Assets</i>		
Cash	\$ 5,310,148	\$ 6,342,234
Accounts receivable	4,628,363	2,162,109
Unbilled receivables	6,879,979	6,474,000
Inventory	363,886	395,354
Prepaid expenses	1,186,465	932,270
	<hr/>	<hr/>
Total current assets	18,368,841	16,305,967
<i>Property and Equipment, net</i>	3,308,535	1,908,672
<i>Investments</i>	3,536,787	3,486,804
<i>Right of Use Assets - Operating Leases</i>	22,482,999	19,304,707
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	\$ 47,697,162	\$ 41,006,150
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Liabilities and Net Assets		
<i>Current Liabilities</i>		
Accounts payable	2,889,846	2,713,390
Unearned revenue	249,409	234,783
Accrued expenses	4,206,968	3,681,950
Operating lease obligations - current maturities	1,602,235	1,438,405
Finance lease obligations - current maturities	57,135	57,135
	<hr/>	<hr/>
Total current liabilities	9,005,593	8,125,663
<i>Long-Term Liabilities</i>		
Accrued decommissioning costs	395,000	395,000
Operating lease obligations - less current maturities	21,305,446	18,039,571
Finance lease obligations - less current maturities	124,130	175,244
	<hr/>	<hr/>
Total long-term liabilities	21,824,576	18,609,815
Total liabilities	30,830,169	26,735,478
<i>Net Assets Without Donor Restrictions</i>	16,866,993	14,270,672
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	\$ 47,697,162	\$ 41,006,150
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See independent auditors' report and notes to consolidated financial statements.

CUBRC, Inc. and Subsidiaries
Consolidated Statements of Activities
for the fiscal years ended December 29, 2023 and December 30, 2022

	December 29, 2023	December 30, 2022
<i>Program Revenue, net</i>		
Contract revenue	\$ 60,204,496	\$ 49,558,220
Cost of revenue	55,370,474	45,829,445
Total program revenue, net	4,834,022	3,728,775
<i>Operating Expenses</i>		
Indirect costs		
Administration	19,405,730	16,922,392
Research and development	818,026	424,480
Facility expenses	5,083,736	4,957,796
Program development	2,247,042	2,243,364
Floor space rental	1,173,341	1,098,235
Proposal	437,169	630,750
Depreciation	78,212	48,777
Total indirect costs	29,243,256	26,325,794
Indirect cost reimbursements		
General and administrative	5,970,632	4,970,779
Facility usage	4,996,712	3,445,390
Professional technical expense	8,164,654	7,241,247
Fringe expense	9,269,078	8,494,615
Total indirect cost reimbursements	28,401,076	24,152,031
Total unreimbursed indirect costs	842,180	2,173,763
Income from operations	3,991,842	1,555,012
<i>Other Income (Expenses) - Non-Contract Related</i>		
Miscellaneous revenue	56,833	66,254
Legislative pursuits	(67,641)	(76,561)
Interest expense	(12,031)	(11,806)
Unallowed	(1,372,682)	(1,038,278)
Total other expenses - non-contract related, net	(1,395,521)	(1,060,391)
Increase in net assets without donor restrictions	2,596,321	494,621
<i>Net Assets Without Donor Restrictions, beginning of year</i>	14,270,672	13,613,795
<i>Cumulative-effect adjustment to equity for ASC 842 implementation</i>	-	162,256
<i>Net Assets Without Donor Restrictions, end of year</i>	\$ 16,866,993	\$ 14,270,672

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

CUBRC, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
for the fiscal years ended December 29, 2023 and December 30, 2022

	December 29, 2023	December 30, 2022
<i>Cash Flows from Operating Activities</i>		
Increase in net assets	\$ 2,596,321	\$ 494,621
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	336,856	256,630
Interest income on investment	(49,983)	(56,000)
(Increase) Decrease in:		
Accounts receivable	(2,466,254)	(706,873)
Unbilled receivables	(405,979)	3,032,104
Inventory	31,468	(45,801)
Prepaid expenses	(254,195)	(178,505)
Right of use assets - operating leases	1,893,428	1,581,321
Increase (Decrease) in:		
Accounts payable	89,831	(1,986,606)
Unearned revenue	14,626	57,503
Accrued expenses	525,018	(581,883)
Long-term accrued incentive compensation	-	(68,333)
Operating lease liabilities	(1,642,015)	(1,408,052)
Net cash provided by operating activities	669,122	390,126
<i>Cash Flows from Investing Activities</i>		
Purchases of property and equipment	(1,650,094)	(752,465)
Net cash used in investing activities	(1,650,094)	(752,465)
<i>Cash Flows from Financing Activities</i>		
Repayments on Paycheck Protection Program loan	-	(968,212)
Repayment of finance lease obligations	(51,114)	(41,865)
Net cash used in financing activities	(51,114)	(1,010,077)
Net decrease in cash	(1,032,086)	(1,372,416)
<i>Cash, beginning of year</i>	6,342,234	7,714,650
<i>Cash, end of year</i>	\$ 5,310,148	\$ 6,342,234
<i>Supplemental Disclosure of Cash Flow Information</i>		
Cash paid during the year for:		
Interest expense	\$ 12,031	\$ 11,806
Noncash operating, investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 5,071,720	\$ 20,886,028
Equipment purchases in accounts payable	\$ 86,625	\$ 621,422
Right-of-use asset obtained in exchange for finance lease liability	\$ -	\$ 262,150

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

CUBRC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Nature of Business and Summary of Significant Accounting Policies

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

Oriana, Inc. (“Oriana”) was formed in December 2008 as a wholly owned subsidiary of CUBRC. Oriana was formed primarily to hold investments in limited liability companies.

Avarint, LLC (“Avarint”) was formed in November 2013 as a wholly owned subsidiary of CUBRC. Avarint was formed to qualify as a “small-business concern” and to bid on government contract awards that are “set-aside” for eligible small business concerns.

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

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

Accounting Period – The Company’s fiscal year ends on a Friday, based on a 4-week, 4-week, 5-week repeating accounting period. The fiscal years ended December 29, 2023 and December 30, 2022 both included 52 weeks of operations.

Cash – Cash balances held at a financial institution potentially subjects the Company to concentration of credit risk, as cash may exceed federally insured limits at various times throughout the year. The maximum loss of cash that would result from that risk totals \$6,949,742 and \$7,134,710 at December 29, 2023 and December 30, 2022, respectively. This amount represents the excess of the deposit liabilities reported by the broker over the amount that would be covered by the Securities Investor Protection Corporation (“SIPC”). The SIPC protects against the loss of cash and securities of up to \$500,000, which includes a \$250,000 limit for cash.

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

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

Accounts Receivable – Accounts receivable are recorded at net realizable value. Management considers all accounts receivables outstanding for greater than the terms specified in each contract to be past due and uses factors such as customer history, age of accounts receivable, and existing economic conditions to determine collectability. Upon management’s determination of uncollectability, such accounts are directly written off to credit loss expense. At December 29, 2023 and December 30, 2022, there were no amounts determined to be uncollectible by management.

Unbilled Receivables – Unbilled receivables primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. Contract costs consist of labor, subcontractor and consultant costs, materials, purchased services and other direct costs, parts and supplies, equipment purchased specifically for particular contracts, and reimbursable indirect costs. These costs are stated at the allowed billable value determined by each respective contract. The costs associated with these projects are recorded as cost of sales when revenue is recognized in accordance with the Company’s revenue recognition policy discussed in the ensuing. General and administrative expenses are charged to expense as incurred. Revenues associated with indirect cost reimbursements are presented as a reduction of the related costs to arrive at net indirect costs.

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

Property and Equipment, net – Property and equipment is recorded at cost, net of accumulated depreciation. Major renewals and betterments are capitalized. The costs of maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over estimated useful lives, which range from 3 to 20 years. Depreciation of leasehold improvements is computed over the shorter of the lease term or the useful lives of the improvements.

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

Investments – CUBRC holds investments that are comprised of equity interests in separate closely-held companies (see Note 3). The interests in the closely-held companies are accounted for as equity investments without readily determinable fair values.

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

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

CUBRC's investments without readily determinable fair values are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue.

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

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

Additionally, CUBRC assesses for impairment, on at least an annual basis, those assets classified as investments on the accompanying consolidated balance sheets. A variety of factors are considered when determining if an impairment charge is warranted including, among other things, the financial condition, and prospects of the investee, CUBRC's investment intent, and additional capital infusions in the investees by other third parties. No impairment loss was recognized for the fiscal years ended December 29, 2023 and December 30, 2022.

Accrued Expenses – Accrued expenses primarily represent costs incurred for payroll and payroll related expenses as of the end of the year and future anticipated decommissioning costs related to a lease agreement (see Note 5).

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

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

Leases – The Company leases its technical research facilities, office spaces, and research equipment under the terms of operating and finance leases through February 2042. The Company assesses service arrangements to determine if an asset is explicitly or implicitly specified in the agreement and if the Company has the right to control the use of the identified asset.

The right-of-use asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs and lease payments at or before the lease commencement date, less any lease incentives received, and is amortized on a straight-line basis over the remaining lease term. All right-of-use assets are reviewed periodically for impairment. The lease liability is initially measured at the present value of lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, an appropriate risk-free interest rate. The Company elected to recognize expenses for leases with a term of 12 months or less on a straight-line basis over the lease term and not to recognize these short-term leases on the balance sheet.

The right-of-use asset and lease liability are calculated including options to extend or to terminate the lease when management determines that it is reasonably certain that the Company will exercise those options. In making that determination, management considers various existing economic and market factors, business strategies as well as the nature, length, and terms of the agreement.

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

Net Assets With Donor Restrictions – Net assets with donor restrictions represent resources whose use relates to a specific program or purpose, and whose use by the Company is limited to donor-imposed stipulations that either expire by the passage of time or fulfillment of the purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported as net assets released from restriction. The Company had no net assets with donor restrictions in 2023 and 2022.

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

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

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

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

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

The Company determines the transaction price for each contract based on the consideration the Company expects to receive for the goods or services to be provided under the contract. When a contract is to be incrementally funded, the transaction price allocated to the contract is not to exceed the authorized funding value. In contracts where price may vary, the Company estimates consideration at the most likely amount to be received to the extent it is not probable that a material reversal of revenue recognized would be necessary. At a contract's inception, the Company will estimate the transaction price based on the Company's known rights and does not consider impending modifications, unexercised options, or follow-on contracts until these items are considered valid. Contracts may be subsequently modified for various reasons, such as changes in scope, period of performance, price, or otherwise, which may create new or change existing rights and obligations. Depending on the nature of the modification, the Company considers whether to account for the modification as a continuation of the original contract or as a new contract. Generally, modifications to the Company's contracts are not separately identifiable distinct performance obligations from those within the initial contract, therefore, such modifications are mainly accounted for as a continuation of the original contract.

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

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

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

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

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

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

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

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

Functional Expenses – The Company considers testing and integration research and development, facilities, professional technical expense (overhead) and general and administrative costs to be its primary functional categories for purposes of expense classification. Functional expenses are shown net of indirect cost reimbursements, which are included within operating expenses in the consolidated statements of activities for the fiscal years ended December 29, 2023 and December 30, 2022. Testing and integration research and development represent the expenses incurred directly on the Company’s contracts, including overhead which is allocated based on rates across the various program

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

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

expense categories. Facilities represents the expenses incurred to maintain the Company's facilities, including overhead which is allocated based on rates across the various program expense categories.

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

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

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

Oriana, Inc. was incorporated on December 16, 2008 under the laws of the State of Delaware and is treated as a separate corporation for income tax purposes. No income tax expense was incurred during the fiscal years ended December 29, 2023 and December 30, 2022.

Recently Adopted Accounting Standard – On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard replaces the incurred loss model with the current expected credit loss ("CECL") model to estimate credit losses for financial assets measured at amortized cost, such as accounts receivable. Under the CECL model, the Company estimates credit losses expected over the life of the financial assets based on historical experience, current conditions and reasonable and supportable forecasts. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Management 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, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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

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

Subsequent Events – Management of the Company has evaluated subsequent events, for recognition or disclosure, through June 27, 2024, the date the accompanying consolidated financial statements were available to be issued.

Effective April 3, 2024, CUBRC entered into a Securities Purchase Agreement (the “Agreement”) to purchase 100% of the equity interests of Ahmic Aerospace LLC (“Ahmic”). Pursuant to the Agreement, in consideration of the sale and transfer of the securities of Ahmic, CUBRC agreed to pay to the seller an aggregate amount equal to \$2,756,535 subject to post-closing adjustments and any earn-out payments. Under the terms of the Agreement, CUBRC paid \$750,000 in cash, plus certain adjustments, with the balance of the purchase price paid in accordance with a promissory note carrying interest at 5% per annum. CUBRC will also pay additional consideration based on the future performance of Ahmic. The purchase price allocation for this acquisition has not been finalized.

2. Liquidity and Availability of Financial Assets

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

	December 29, 2023	December 30, 2022
Current assets excluding non-financial assets:		
Cash	\$ 5,310,148	\$ 6,342,234
Accounts receivable	4,628,363	2,162,109
Unbilled receivables	6,879,979	6,474,000
Financial assets available to meet cash needs for general expenditures within one year	\$ 16,818,490	\$ 14,978,343

Additionally, the Company has an available line of credit with a maximum borrowing capacity of up to \$4,000,000 (see Note 6).

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

3. Investments

The Company continues to actively pursue strategic equity investments in outside entities. The following is a summary of investments held by the Company at December 29, 2023 and December 30, 2022:

	December 29, 2023			
	Cost	Fair Value	Ownership	Related-Party Ownership
Equity investments without readily determinable fair values				
Akonni Biosystems, Inc.	\$ 2,194,202	n/a	4.85%	CEO, VP
Prosetta Biosciences Inc.	1,342,585	n/a	4.18%	CEO
	\$ 3,536,787			
	December 30, 2022			
	Cost	Fair Value	Ownership	Related-Party Ownership
Equity investments without readily determinable fair values				
Akonni Biosystems, Inc.	\$ 2,144,219	n/a	4.85%	CEO, VP
Prosetta Biosciences Inc.	1,342,585	n/a	4.18%	CEO
	\$ 3,486,804			

As of December 29, 2023 and December 30, 2022, key officers of the Company held personal investments of 1% or less in each respective company noted above.

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

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

3. Investments (continued)

On June 4, 2019, CUBRC purchased a 14% secured note of Akonni Biosystems, Inc. with a principal amount of \$400,000, at a discount, for \$200,000. Although the maturity date was December 31, 2020, the note, including interest and principal, will ultimately become due upon a liquidity event. Interest continues to accrue on this note, which totaled \$49,983 and \$56,000 for the fiscal years ended December 29, 2023 and December 30, 2022, respectively.

Fair Value Method Investments – The Company’s investment in Genocea Biosciences, Inc. (“Genocea”) was carried at fair value, with realized and unrealized gains (losses) reported as increases (decreases) in net assets in the accompanying consolidated statements of activities. Effective May 24, 2022, the Company’s vested stock options in Genocea officially expired and were not exercised, therefore, the Company’s investment value in Genocea was reduced to \$0 as of December 30, 2022.

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

4. Property and Equipment, net

Property and equipment, net, consisted of the following at December 29, 2023 and December 30, 2022:

	December 29, 2023	December 30, 2022
Furniture, fixtures and equipment	\$ 5,034,109	\$ 3,907,509
Leasehold improvements	1,248,377	262,834
	6,282,486	4,170,343
Less accumulated depreciation	3,338,665	3,001,809
	2,943,821	1,168,534
Construction-in-progress	364,714	740,138
	\$ 3,308,535	\$ 1,908,672

Depreciation expense totaled \$336,856 and \$256,630 for the fiscal years ended December 29, 2023 and December 30, 2022, respectively.

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

5. Lease Commitments

Finance lease right-of-use assets are included in property and equipment, net on the consolidated balance sheets. At December 29, 2023 and December 30, 2022, the gross amount of equipment and related accumulated depreciation recorded under these finance leases are as follows:

	December 29, 2023	December 30, 2022
Equipment	\$ 262,150	\$ 262,150
Less accumulated depreciation	<u>79,978</u>	<u>26,659</u>
	<u>\$ 182,172</u>	<u>\$ 235,491</u>

The components of total lease costs are as follows:

	December 29, 2023	December 30, 2022
Operating lease cost	\$ 2,391,938	\$ 1,939,483
Finance lease cost:		
Amortization of right-of-use asset	53,319	26,659
Interest on lease liability	6,021	3,557
Short-term lease cost	<u>37,067</u>	<u>128,548</u>
	<u>\$ 2,488,345</u>	<u>\$ 2,098,247</u>

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

5. Lease Commitments (continued)

As of December 29, 2023, operating and finance lease liability maturities for each of the five succeeding fiscal years and thereafter are as follows:

<u>Fiscal year ending</u>	<u>Operating Leases</u>	<u>Finance Lease</u>
December 27, 2024	\$ 2,196,774	\$ 57,135
December 26, 2025	2,102,877	55,746
December 25, 2026	1,463,226	54,754
December 31, 2027	1,389,277	22,814
December 29, 2028	1,419,657	-
2029 and thereafter	20,360,472	-
Total lease payments	<u>28,932,283</u>	<u>190,449</u>
Less amount representing interest	<u>6,024,602</u>	<u>9,184</u>
Total lease obligations	<u>\$ 22,907,681</u>	<u>\$ 181,265</u>

Supplemental information:

	<u>December 29, 2023</u>	<u>December 30, 2022</u>
Weighted-average remaining lease term:		
Operating leases	16.81 years	17.00 years
Finance lease	3.34 years	4.34 years
Weighted-average discount rate:		
Operating leases	2.66%	2.16%
Finance lease	2.88%	2.88%

The Company currently leases building space to conduct research and development for certain government agencies. In accordance with the terms of the lease agreement, the Company is responsible for decommissioning costs in the event the leased area is no longer used for such research. As of December 29, 2023 and December 30, 2022, the Company had accrued \$395,000 for this obligation, which is included in long-term liabilities within the accompanying consolidated balance sheets.

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

6. Line of Credit

CUBRC has available a \$4,000,000 bank demand line of credit with interest payable at the Secured Overnight Financing Rate (“SOFR”) plus 3%. The line is secured by substantially all assets, is subject to terms and conditions applied by the bank for working capital financing and is annually reviewed for renewal. The balance of the line of credit was \$0 at both December 29, 2023 and December 30, 2022.

The bank requires that the balance on the line of credit be zero for at least 30 consecutive calendar days in any 12-month period. The Company was in compliance with this covenant as of and for the fiscal years ended December 29, 2023 and December 30, 2022.

7. Contract Revenue

Contract revenue from the federal government approximated 95% and 93% of total contract revenue for the fiscal years ended December 29, 2023 and December 30, 2022, respectively. Accounts receivable from the federal government approximated 87% and 88% of total accounts receivable as of December 29, 2023 and December 30, 2022, respectively.

8. Employee Benefit Plan

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

All employees receive safe-harbor contributions from the Company equal to 3% of their compensation. Additionally, the Company makes profit-sharing contributions equal to 7% of employee compensation for all employees who worked for the Company for seven years or more. Employees who worked for the Company for more than one year, but less than seven years, receive profit-sharing contributions equal to 5% of their compensation. The Company made \$1,810,713 and \$1,707,901 of contributions into the Plan during the fiscal years ended December 29, 2023 and December 30, 2022, respectively.

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

9. Functional Expenses

The functional breakdown of expense incurred by the Company for the fiscal years ended December 29, 2023 and December 30, 2022 are as follows:

December 29, 2023	Testing and Integration Research and Development	Facilities	Professional Technical Expense	General & Administrative Costs	Total
Salaries	\$ 11,505,032	\$ 476,114	\$ 2,948,821	\$ 3,055,013	\$ 17,984,980
Fringe applied	5,348,504	224,628	1,403,791	1,454,285	8,431,208
Travel	645,926	-	11,331	1,475	658,732
Purchased services	11,879,888	256,754	116,197	80,300	12,333,139
Consultants	368,278	-	-	-	368,278
Materials, supplies, repairs & maintenance	1,616,996	2,613,531	394,138	605,710	5,230,375
Subcontracts	5,292,184	-	-	-	5,292,184
Space rental	-	1,254,065	987,733	185,608	2,427,406
Depreciation expense	-	258,644	44,321	33,891	336,856
Professional services	-	-	-	331,779	331,779
IT supplies and services	-	-	393,645	643,366	1,037,011
Security supplies & services	-	-	77,506	7,616	85,122
Bid & proposal salaries	-	-	-	191,558	191,558
Bid & proposal fringe applied	-	-	-	90,813	90,813
Bid & proposal other costs	-	-	-	12,765	12,765
IR&D salaries	-	-	-	140,993	140,993
IR&D fringe benefits	-	-	-	66,831	66,831
IR&D other costs	-	-	-	397,936	397,936
Program development salaries	-	-	1,343,631	-	1,343,631
Program development fringe	-	-	637,986	-	637,986
Program development other costs	-	-	265,425	-	265,425
Total	<u>36,656,808</u>	<u>5,083,736</u>	<u>8,624,525</u>	<u>7,299,939</u>	<u>57,665,008</u>
Indirect expense allocations	<u>18,713,666</u>	<u>(4,990,762)</u>	<u>(8,018,415)</u>	<u>(5,704,489)</u>	<u>-</u>
Total expenses	<u>\$ 55,370,474</u>	<u>\$ 92,974</u>	<u>\$ 606,110</u>	<u>\$ 1,595,450</u>	<u>\$ 57,665,008</u>

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

9. Functional Expenses (continued)

December 30, 2022	Testing and Integration Research and Development	Facilities	Professional Technical Expense	General & Administrative Costs	Total
Salaries	\$ 10,581,513	\$ 498,690	\$ 2,636,949	\$ 2,553,998	\$ 16,271,150
Fringe applied	4,960,515	229,328	1,248,240	1,186,455	7,624,538
Travel	587,546	-	6,668	965	595,179
Purchased services	6,492,324	245,534	87,935	56,568	6,882,361
Consultants	528,512	-	-	-	528,512
Materials, supplies, repairs & maintenance	2,748,799	2,806,594	227,333	209,444	5,992,170
Subcontracts	4,684,452	-	-	-	4,684,452
Space rental	-	969,797	919,987	178,248	2,068,032
Depreciation expense	-	207,853	21,519	27,258	256,630
Professional services	-	-	-	367,306	367,306
IT supplies and services	-	-	238,852	601,819	840,671
Security supplies & services	-	-	78,740	2,373	81,113
Bid & proposal salaries	-	-	-	289,092	289,092
Bid & proposal fringe applied	-	-	-	135,621	135,621
Bid & proposal other costs	-	-	-	2,004	2,004
IR&D salaries	-	-	-	140,814	140,814
IR&D fringe benefits	-	-	-	66,018	66,018
IR&D other costs	-	-	-	60,826	60,826
Program development salaries	-	-	1,359,663	-	1,359,663
Program development fringe	-	-	634,768	-	634,768
Program development other costs	-	-	248,933	-	248,933
Total	<u>30,583,661</u>	<u>4,957,796</u>	<u>7,709,587</u>	<u>5,878,809</u>	<u>49,129,853</u>
Indirect expense allocations	<u>15,245,784</u>	<u>(3,438,690)</u>	<u>(7,222,510)</u>	<u>(4,584,584)</u>	<u>-</u>
Total expenses	<u>\$ 45,829,445</u>	<u>\$ 1,519,106</u>	<u>\$ 487,077</u>	<u>\$ 1,294,225</u>	<u>\$ 49,129,853</u>

A reconciliation of the total functional expenses above to the consolidated statements of activities for the years ended December 29, 2023 and December 30, 2022 is as follows:

	December 29, 2023	December 30, 2022
Cost of revenue	\$ 55,370,474	\$ 45,829,445
Total unreimbursed indirect costs	842,180	2,173,763
Legislative pursuits	67,641	76,561
Interest expense	12,031	11,806
Unallowed	<u>1,372,682</u>	<u>1,038,278</u>
	<u>\$ 57,665,008</u>	<u>\$ 49,129,853</u>

Supplementary Information

CUBRC, Inc. and Subsidiaries

Consolidating Balance Sheets

December 29, 2023

	CUBRC, Inc.	Avarint, LLC	Oriana, Inc.	Eliminating Entries	Consolidated Total
Assets					
<i>Current Assets</i>					
Cash	\$ 3,881,661	\$ 1,428,487	\$ -	\$ -	\$ 5,310,148
Accounts receivable	3,567,361	1,061,002	-	-	4,628,363
Due from affiliated companies	486,795	15,600	1,428,357	(1,930,752)	-
Unbilled receivables	5,544,539	1,335,440	-	-	6,879,979
Inventory	363,886	-	-	-	363,886
Prepaid expenses	999,512	186,953	-	-	1,186,465
	14,843,754	4,027,482	1,428,357	(1,930,752)	18,368,841
<i>Property and Equipment, net</i>	2,422,405	886,130	-	-	3,308,535
<i>Investments</i>	7,846,692	-	-	(4,309,905)	3,536,787
<i>Right of Use Assets - Operating Leases</i>	21,526,629	956,370	-	-	22,482,999
	\$ 46,639,480	\$ 5,869,982	\$ 1,428,357	\$ (6,240,657)	\$ 47,697,162
Liabilities, Net Assets and Member's Equity					
<i>Current Liabilities</i>					
Accounts payable	\$ 2,776,161	\$ 113,685	\$ -	\$ -	\$ 2,889,846
Due to affiliated companies	1,443,957	342,425	144,370	(1,930,752)	-
Unearned revenue	207,444	41,965	-	-	249,409
Accrued expenses	3,289,626	917,342	-	-	4,206,968
Operating lease obligations - current maturities	1,228,557	373,678	-	-	1,602,235
Finance lease obligations - current maturities	-	57,135	-	-	57,135
	8,945,745	1,846,230	144,370	(1,930,752)	9,005,593
<i>Long-Term Liabilities</i>					
Accrued decommissioning costs	115,000	280,000	-	-	395,000
Operating lease obligations - less current maturities	20,711,742	593,704	-	-	21,305,446
Finance lease obligations - less current maturities	-	124,130	-	-	124,130
	20,826,742	997,834	-	-	21,824,576
Total long-term liabilities	20,826,742	997,834	-	-	21,824,576
Total liabilities	29,772,487	2,844,064	144,370	(1,930,752)	30,830,169
<i>Net Assets Without Donor Restrictions</i>	16,866,993	-	-	-	16,866,993
<i>Member's Equity</i>					
Capital contributions	-	786,116	751,000	(1,537,116)	-
Retained earnings	-	2,239,802	532,987	(2,772,789)	-
	-	3,025,918	1,283,987	(4,309,905)	-
Total member's equity	-	3,025,918	1,283,987	(4,309,905)	-
	\$ 46,639,480	\$ 5,869,982	\$ 1,428,357	\$ (6,240,657)	\$ 47,697,162

See independent auditors' report.

CUBRC, Inc. and Subsidiaries
Consolidating Statements of Activities
for the fiscal year ended December 29, 2023

	CUBRC, Inc.	Avarint, LLC	Oriana, Inc.	Eliminating Entries	Consolidated Total
Program Revenue, net					
Contract revenue	\$ 46,825,467	\$ 13,616,232	\$ -	\$ (237,203)	\$ 60,204,496
Cost of revenue	42,899,649	12,708,028	-	(237,203)	55,370,474
Total program revenue, net	3,925,818	908,204	-	-	4,834,022
Operating Expenses					
Indirect costs					
Administration	13,074,012	6,331,718	-	-	19,405,730
Research and development	818,026	-	-	-	818,026
Facility expenses	4,529,150	554,586	-	-	5,083,736
Program development	1,727,155	519,887	-	-	2,247,042
Floor space rental	897,073	276,268	-	-	1,173,341
Proposal	380,379	56,790	-	-	437,169
Depreciation	44,473	33,739	-	-	78,212
Total indirect costs	21,470,268	7,772,988	-	-	29,243,256
Indirect cost reimbursements					
General and administrative	4,459,104	1,511,528	-	-	5,970,632
Facility usage	4,528,612	468,100	-	-	4,996,712
Professional technical expense	5,345,681	2,818,973	-	-	8,164,654
Fringe expense	6,624,962	2,644,116	-	-	9,269,078
Total indirect cost reimbursements	20,958,359	7,442,717	-	-	28,401,076
Total unreimbursed indirect costs	511,909	330,271	-	-	842,180
Income from operations	3,413,909	577,933	-	-	3,991,842
Other Income (Expenses) - Non-Contract Related					
Miscellaneous revenue	54,535	2,298	-	-	56,833
Legislative pursuits	(67,641)	-	-	-	(67,641)
Interest expense	(6,010)	(6,021)	-	-	(12,031)
Unallowed	(968,624)	(402,779)	(1,279)	-	(1,372,682)
Total other expenses - non-contract related, net	(987,740)	(406,502)	(1,279)	-	(1,395,521)
Increase (decrease) in net assets without donor restrictions	2,426,169	171,431	(1,279)	-	2,596,321
Income from subsidiaries, net	170,152	-	-	(170,152)	-
Increase (decrease) in net assets	\$ 2,596,321	\$ 171,431	\$ (1,279)	\$ (170,152)	\$ 2,596,321

See independent auditors' report.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of CUBRC, Inc. ("CUBRC") (a nonprofit organization) and Subsidiaries (collectively the "Company"), which comprise the consolidated balance sheet as of December 29, 2023, and the related consolidated statements of activities and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 27, 2024.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tronconi Segarra & Associates LLP

Williamsville, New York
June 27, 2024

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited CUBRC, Inc.'s ("CUBRC") compliance with the types of compliance requirements identified as subject to audit in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of CUBRC's major federal programs for the fiscal year ended December 29, 2023. CUBRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, CUBRC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended December 29, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to CUBRC, Inc.'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CUBRC, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CUBRC, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding CUBRC, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of CUBRC, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of CUBRC, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Tronconi Segarra & Associates LLP

Williamsville, New York
June 27, 2024

CUBRC, Inc.
Schedule of Expenditures of Federal Awards
for the fiscal year ended December 29, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal or Pass-Through Grantor's Number	Expenditures
Research and Development Program Cluster			
U.S. Department of Defense			
U.S. Army			
<i>Direct Programs</i>			
TO5 I2WD JTS LAB	12	W56KGU-17-D-0010	\$ 744,516
TO2 HWF Dev ODC AA	12	W31P4Q-20-D-0047	19,288
TO9 FAC Dev &Test P4 ODC	12	W31P4Q-20-D-0047	195,950
TO10 BLT Lab	12	W31P4Q-20-D-0047	1,474,562
TO11 HWF DEVELOP	12	W31P4Q-20-D-0047	6,669,347
TO12 WENRO Labor	12	W31P4Q-20-D-0047	787,358
TO13 HWF Labor	12	W31P4Q-20-D-0047	1,305,875
TO14 FAC Dev &Test P8 ODC	12	W31P4Q-20-D-0047	2,201,115
TO15 Diagnostics	12	W31P4Q-20-D-0047	10,553,940
TO16 Seneca	12	W31P4Q-20-D-0047	59,945
MDA Test Plan Labor	12	W31P4Q-20-D-0047	5,767
Huron Labor	12	W31P4Q-20-D-0047	36,899
TO 19 HWF Dev Labor	12	W31P4Q-20-D-0047	<u>1,478,218</u>
Total Direct Programs			\$ 25,532,780
<i>Pass-Through Programs From:</i>			
Ceria Therapeutics			
Ceria Prog Mgmt Srvs	12	HT94252310966	\$ 13,281
Consortium Management Group			
Consort Mgmt Advan	12	W15QKN-17-9-5555	622,581
MetroLaser, Inc			
MetroLaser Light Field	12	W31P4Q-19-C-0047	10,000
PAE National Security Solutions, LLC			
PAE TO HOTEL Lab Support	12	HHM402-17-D-0005	258,131
Sentient Corporation			
Sentient Corp Combustion	12	W31P4Q-18-C-0096	16,184
Texas A&M			
TAMU Wind Tunnel testing	12	W911NF22F0022	<u>58,381</u>
Total Pass-Through Programs			\$ 978,558
U.S. Air Force			
<i>Direct Programs</i>			
Freejet PM Design & Comp	12	FA8650-19-C-2423	\$ 1,712
Checkmate P2	12	FA8750-19-C-0214	3,268,478
AFRL RODEO	12	FA8750-20-C-0206	34,958
AFRL OpML C2	12	FA8750-20-C-1011	39,328
AFRL ATICS	12	FA8750-22-9-0160	<u>637,734</u>
Total Direct Programs			\$ 3,982,210
<i>Pass-Through Programs From</i>			
Ahmic Aerospace, LLC			
Ahmic CFD Data for Model	12	FA9451-22-P-A006	\$ 2,500
Avarint			
Avarint Test Planning L1	12	FA8075-18-D-0016	13,135
Avarint JEFs Test A0225	12	FA8075-18-D-0016	10,716
Avarint DIADS AF/A3 FY22	12	FA9304-20-D-0003	117,706
ATA Engineering Inc.			
ATA Advanced Material Tst	12	FA8650-18-P-5041	36,264
ATA High Fidel Laser Test	12	FA9451-20-C-0023	174,953
ATA Profile & Comp Disrupt	12	FA9422-22-C-0012	35,283
BAE Systems			
BAE HTP Context Aware	12	FA8750-19-F-0001	129,996
BAE HALLMARK Transition	12	FA8750-19-F-0001	
Ball Aerospace			
Ball Aerospace-Vulne	12	FA9451-20-C-0010	141,764

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 29, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal or Pass-Through Grantor's Number	Expenditures
Massachusetts Institute MIT Optical Hyper Data Co	12	FA8702-15-D-0001	512,608
Northrop Grumman NGC Space GBSB EMD Phase	12	FA8219-20-C-0006	26,223
PMAT, Inc. PMAT STTR ST01 P1	12	H92405-22-P-0021	31,069
Raytheon Technologies Raytheon HACM	12	FA8656-22-F-A071	384,400
Trusted Space, Inc. Trusted Space CAAST	12	FA8750-23-C-0504	44,897
Xanalytix Xanalytix - CROSS	12	FA8720-23-C-1015	82,200
Xanalytix - PIED	12	FA8750-17-C-0221	49,097
Xanalytix - RESCUE	12	FA8750-23-C-0266	86,539
Total Pass-Through Programs			\$ 1,879,350
U.S. Coast Guard			
<i>Pass-Through Programs From:</i>			
Zeteo Tech, Inc. ZeteoTech Agent Biodetec	12	70RWMD23C00000024	\$ 2,476
Total Pass-Through Programs			\$ 2,476
U.S. Navy			
<i>Direct Programs:</i>			
C2X Systems Eng	12	N66001-23-C-4700	\$ 1,337,040
ONR BOW Base Year Clin0001	12	N00014-24-C-2406	143,457
ONR LINKS - Core	12	N00014-20-C-2016	950,973
ONR SMILE	12	N00014-20-C-2045	1,152,810
NRL SMART(ATEAS)	12	N00173-21-C-6000	1,487,474
NIWC Sail On P2 Opt1 LAB	12	N66001-22-C-0058	389,272
Total Direct Programs			\$ 5,461,026
<i>Pass-Through Programs From:</i>			
Advanced Technology International ATI Prototype Grd Test	12	N00178-22-90004	\$ 366,359
CFD Research Corporation CFD HAAWK	12	N68335-22-C-0053	4,553
CFDR HAAWK	12	N68335-23-C-0244	11,066
Draper DRAPER HighEnth Emis	12	N00030-20-C-0004	13,824
DRAPER FY24 P2A Testing	12	N00030-22-C-6002	84,923
Forward Slope, Inc. Forward Slope MTC2 METOC	12	N66001-18-D-0321	482,243
Forward Slope MTC2 Base	12	N66001-18-D-0321	658,660
In-Depth Engineering Corp InDepth DARE P2 Base Yr	12	N68335-23-C-0200	133,826
InDepth KEEL	12	N68335-23-C-0651	37,925
InDepth Nails P2 Base Yr	12	N68335-23-C-0112	125,449
InDepth P-8	12	N68335-21-C-0002	12,884
InDepth TASK Base Yr	12	N68335-21-C-0724	40,759
ISEA TEK, LLC IseaTek INFOTON P-II Base	12	N68335-19-C-0302	190,613
Machina Cognita Technologies MEDUSA P2	12	N68335-23-C-0094	112,387
MTEC MTEC Pravibismane Suspens	12	W81XWH-15-9-0001	456,243
Raytheon Technologies Raytheon Flat BOLT	12	N00014-20-C-1086	27,056
The Research Foundation RF MEDS	12	N00014-20-12242	134,563
Total Pass-Through Programs			\$ 2,893,333

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 29, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal or Pass-Through Grantor's Number	Expenditures
Defense Advance Research Projects Agency			
<i>Pass-Through Programs From:</i>			
ATA Engineering, Inc.			
ATA Enhance Model & Sim	12	W912CG-23-C-0005	\$ 32,247
Boeing Company			
Boeing Glide Breaker P2	12	HR0011-23-C-0044	5,624
Raytheon Technologies			
Raytheon Darpa Heat TA3	12	HR0011-21-C-0050	34,114
University of Minnesota			
Univ of Minn- Hypers Boom	12.910	W911NF-21-10352	<u>106,074</u>
Total Pass-Through Programs			\$ 178,059
Missile Defense Agency			
<i>Pass-Through Programs From:</i>			
ATA Engineering, Inc.			
ATA Eng MDA STTR	12	HQ0860-23-C-7512	\$ 44,942
Control Vision, Inc.			
Contol Vis-Pathfind test	12	HQ0860-22-C-7149	2,000
The John Hopkins University			
JHU AGD Experiments	12	HQ0147-18-D-0004	526,795
Kratos Defense			
KRATOS-Next GenSeekerBase	12	HQ0860-22-C-0001	939,481
Mainstream Engineering, Co.			
Mainstream Eng Scaled Opt	12	HQ0860-20-C-7150	108,541
Northrop Grumman			
NGC MDA Glide Phase Inter	12	HQ0851-22-90002	598,820
Systema Technologies			
Systema Test Planning	12	HQ0860-21-C-7132	9,299
University of Rochester			
UnivRochester Laser Lab	12	HQ0860-2-C-6000	<u>50,762</u>
Total Pass-Through Programs			\$ 2,280,640
Total U.S. Department of Defense			\$ <u>43,188,432</u>
U.S. Department of Health and Human Services			
<i>Pass-Through Program From:</i>			
SeLux Diagnostics, Inc.			
SeLux BARDA Opt 2C	93	HHSO100201800013C	\$ <u>168,120</u>
Total Pass-Through Program			\$ <u>168,120</u>
Total U.S. Department of Health and Human Services			\$ <u>168,120</u>
National Aeronautics and Space Administration			
<i>Pass-Through Program From:</i>			
Jacobs Technology, Inc.			
Jacobs Hypersonic Support	43	80JSC022DA035	\$ 428,435
Jacobs Space High Speed	43	80MSFC18C0011	69,348
Science Applications International Corporation			
SAIC Knowledge Graph Base	43	GS00Q140ADU130	<u>139,318</u>
Total Pass-Through Program			\$ <u>637,101</u>
Total National Aeronautics and Space Administration			\$ <u>637,101</u>
Department of Energy			
<i>Pass-Through Programs From:</i>			
Lawrence Livermore National Laboratory			
LLNL Cone Shock	81	DE-AC52-07NA27344	\$ 47,033
Sandia National Laboratories			
SNL InfoFusion Course	81	DE-NA-0003525	<u>75,042</u>
Total Pass-Through Program			\$ <u>122,075</u>
Total Department of Energy			\$ <u>122,075</u>

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 29, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal or Pass-Through Grantor's Number	Expenditures
U.S. Department of Homeland Security			
<i>Pass-Through Programs From:</i>			
RTX Technology Research RTX DHS Core Ont Maritime	97	70RSAT23CB0000012	\$ <u>23,083</u>
Total Pass-Through Program			\$ <u>23,083</u>
Total Department of Homeland Security			\$ <u><u>23,083</u></u>
USAID			
<i>Pass-Through Program From:</i>			
J.E. Austin Associates MERC III	98	47QRAA19D004J7200AA2	\$ <u>172,879</u>
Total Pass-Through Program			\$ <u>172,879</u>
Total USAID			\$ <u><u>172,879</u></u>
General Services Administration			
<i>Pass-Through Program From:</i>			
Modern Technology Solutions, Inc. MTSI Lrg Core Arc Tunnel	99	GS00Q140ADS721	\$ <u>30,335</u>
Total Pass-Through Program			\$ <u>30,335</u>
Total General Services Administration			\$ <u><u>30,335</u></u>
United States Government - Classified			
<i>Pass-Through Program From:</i>			
Battelle Memorial Institute Battelle ASOS III Suppt	99	21D0003 TO 22F0062	\$ 212,244
L3Harris Technologies L3Harris Ontology Svcs	99	23-C-8356	15,027
Raytheon Technologies Raytheon Aerothermal Test	99	Classified	<u>15,818</u>
Total Pass-Through Program			\$ <u>243,089</u>
Total United States Government - Classified			\$ <u><u>243,089</u></u>
		Total Federal Awards	\$ <u><u>44,585,114</u></u>

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

CUBRC, Inc.

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

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

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

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

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

Major Program Determination – The majority of CUBRC’s federally funded programs fall under the Research and Development Cluster as closely related programs that share common compliance requirements. Type A programs for CUBRC are those which equal or exceeded 3% of federal awards expended for the fiscal year ended December 29, 2023. Type B programs for CUBRC are those which were less than 3% of federal awards expended for the fiscal year ended December 29, 2023.

CUBRC, Inc.

Notes to Schedule of Expenditures of Federal Awards (continued)

2. Subrecipients

Of the federal expenditures presented in the Schedule for the fiscal year ended December 29, 2023, CUBRC provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal or Pass-through Grantor's Number</u>	<u>Amount Provided to Subrecipient</u>
TO5 I2WD JTS LAB	W56KGU-17-D-0010	\$ 36,875
Checkmate P2	FA8750-19-C-0214	25,075
Checkmate P2	FA8750-19-C-0214	1,018,139
Checkmate P2	FA8750-19-C-0214	2,026
Checkmate P2	FA8750-19-C-0214	11,464
Checkmate P2	FA8750-19-C-0214	431,998
Checkmate P2	FA8750-19-C-0214	120,206
AFRL OpML C2	FA8750-20-C-1011	17,500
TO2 HWF Dev ODC AA	W31P4Q-20-D-0047	12,880
TO10 BLT Lab	W31P4Q-20-D-0047	63,141
TO11 HWF DEVELOP	W31P4Q-20-D-0047	518,095
TO11 HWF DEVELOP	W31P4Q-20-D-0047	92,000
TO14 FAC Dev &Test P8 ODC	W31P4Q-20-D-0047	297,471
TO14 FAC Dev &Test P8 ODC	W31P4Q-20-D-0047	66,620
TO15 Diagnostics	W31P4Q-20-D-0047	321,714
TO15 Diagnostics	W31P4Q-20-D-0047	52,000
TO 19 HWF Dev Labor	W31P4Q-20-D-0047	573,957
Consort Mgmt Advan	W15QKN-17-9-5555	1,054
C2X Systems Eng	N66001-23-C-4700	722,782
C2X Systems Eng	N66001-23-C-4700	82,400
PAE TO HOTEL Lab Support	HHM402-17-D-0005	92,756
		<u>\$ 4,560,153</u>

CUBRC, Inc.
*Schedule of Findings and Questioned Costs
for the fiscal year ended December 29, 2023*

Section I. Summary of Auditors' Results

Consolidated Financial Statements

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

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with <i>Title 2 U.S. Code of Federal Regulations (CFR) Part 200</i> , Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)	No
Identification of major program:	Research and development cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 1,337,624
Auditee qualified as a low-risk auditee?	Yes

Section II. Financial Statement Findings

No matters were reported.

Section III. Federal Award Findings and Questioned Costs

No matters were reported.

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

CUBRC, Inc.

*Summary Schedule of Prior Audit Findings
for the fiscal year ended December 29, 2023*

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

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