

**CUBRC, Inc. and Subsidiaries**

**Consolidated Financial Statements and  
Supplementary Information**

**December 25, 2020 and December 27, 2019**

**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

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 25, 2020 and December 27, 2019, and the related consolidated statements of activities and cash flows for the fiscal years then ended and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 25, 2020 and December 27, 2019, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with GAAP.

### ***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of activities as of and for the fiscal year ended December 25, 2020, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards for CUBRC, as required by *Title 2 U.S. Code of Federal Regulations* (“CFR”) *Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2021 on our consideration of CUBRC, Inc.’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CUBRC, Inc.’s internal control over financial reporting and compliance.

*Tranconi Segura & Associates LLP*

Williamsville, New York  
September 23, 2021

**CUBRC, Inc. and Subsidiaries**  
*Consolidated Balance Sheets*  
*December 25, 2020 and December 27, 2019*

	<u>December 25, 2020</u>	<u>December 27, 2019</u>
<b>Assets</b>		
<b><i>Current Assets</i></b>		
Cash	\$ 9,481,051	\$ 3,551,586
Accounts receivable	1,913,565	2,286,650
Unbilled accounts receivable	7,739,248	8,184,034
Inventory	328,144	206,378
Prepaid expenses	<u>516,552</u>	<u>435,722</u>
Total current assets	19,978,560	14,664,370
<b><i>Property and Equipment, net</i></b>	354,531	527,906
<b><i>Investments</i></b>	<u>3,382,046</u>	<u>3,524,389</u>
	<u>\$ 23,715,137</u>	<u>\$ 18,716,665</u>
<b>Liabilities and Net Assets</b>		
<b><i>Current Liabilities</i></b>		
Line of credit	\$ 0	\$ 1,100,000
Accounts payable	4,144,555	4,073,734
Current maturities of long-term debt	1,597,029	0
Capital lease obligations	47,186	45,339
Unearned revenue	136,505	73,786
Accrued expenses	<u>3,940,358</u>	<u>3,318,713</u>
Total current liabilities	9,865,633	8,611,572
<b><i>Long-term Liabilities</i></b>		
Accrued incentive compensation	200,000	191,667
Accrued decommissioning costs	395,000	395,000
Capital lease obligations, less current maturities	12,094	59,280
Long-term debt, less current maturities	<u>1,646,016</u>	<u>0</u>
Total long-term liabilities	<u>2,253,110</u>	<u>645,947</u>
Total liabilities	12,118,743	9,257,519
<b><i>Net Assets Without Donor Restrictions</i></b>	<u>11,596,394</u>	<u>9,459,146</u>
	<u>\$ 23,715,137</u>	<u>\$ 18,716,665</u>

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

**CUBRC, Inc. and Subsidiaries**  
*Consolidated Statements of Activities*  
for the fiscal years ended December 25, 2020 and December 27, 2019

	December 25, 2020	December 27, 2019
<b><i>Program Revenue, net</i></b>		
Contract revenue	\$ 47,019,277	\$ 44,073,386
Cost of revenue	44,866,738	42,229,811
Total program revenue, net	2,152,539	1,843,575
<b><i>Operating Expenses</i></b>		
Indirect costs		
Administration	15,157,365	14,198,092
Research and development	187,932	514,438
Facility expenses	3,192,033	2,192,255
Program development	2,588,210	1,944,812
Floor space rental	987,656	983,165
Proposal	671,131	327,704
Depreciation	98,859	117,398
Total indirect costs	22,883,186	20,277,864
Indirect cost reimbursements		
General and administrative	4,711,113	3,905,212
Facility usage	3,057,924	1,981,788
Professional technical expense	6,998,694	6,338,692
Fringe expense	7,308,451	6,892,972
Total indirect cost reimbursements	22,076,182	19,118,664
Total unreimbursed indirect costs	807,004	1,159,200
Income from operations	1,345,535	684,375
<b><i>Other Income (Expenses) - Non-Contract Related</i></b>		
Miscellaneous revenue	130,357	106,133
Investment income, net	1,293,064	54,600
Legislative pursuits	(74,255)	(78,882)
Interest expense	(62,264)	(13,449)
Unallowed	(495,189)	(445,620)
Total other income (expenses) - non-contract related, net	791,713	(377,218)
Increase in Net Assets Without Donor Restrictions	2,137,248	307,157
<b><i>Net Assets Without Donor Restrictions, beginning of year</i></b>	<b>9,459,146</b>	<b>9,151,989</b>
<b><i>Net Assets Without Donor Restrictions, end of year</i></b>	<b>\$ 11,596,394</b>	<b>\$ 9,459,146</b>

*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 25, 2020 and December 27, 2019*

	December 25, 2020	December 27, 2019
<b><i>Cash Flows from Operating Activities</i></b>		
Increase in net assets	\$ 2,137,248	\$ 307,157
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	266,700	314,264
Net unrealized gains on investments	54,225	(54,600)
Net realized gains on investments	(1,428,356)	
Interest income on investment	(126,042)	(103,133)
(Increase) Decrease in:		
Accounts receivable	373,085	1,143,815
Unbilled accounts receivable	444,786	(1,963,447)
Inventory	(121,766)	(35,103)
Prepaid expenses	(80,830)	(158,904)
Increase (Decrease) in:		
Accounts payable	70,821	1,778,419
Unearned revenue	62,719	(122,223)
Accrued expenses	621,645	41,886
Long-term accrued incentive compensation	8,333	(5,000)
	2,282,568	1,143,131
<b><i>Cash Flows from Investing Activities</i></b>		
Purchases of property and equipment	(93,325)	(73,731)
Purchases of investments	0	(200,000)
Proceeds from sales of investments	1,428,356	0
Proceeds from investment tax credits	214,160	0
	1,549,191	(273,731)
<b><i>Cash Flows from Financing Activities</i></b>		
Proceeds from note payable - Paycheck Protection Program	3,243,045	0
Net proceeds (repayments) on line of credit	(1,100,000)	1,100,000
Repayment of capital lease obligations	(45,339)	(43,564)
	2,097,706	1,056,436
Net cash provided by financing activities		
Net increase in cash	5,929,465	1,925,836
<b><i>Cash, beginning of year</i></b>	<b>3,551,586</b>	<b>1,625,750</b>
<b><i>Cash, end of year</i></b>	<b>\$ 9,481,051</b>	<b>\$ 3,551,586</b>
<b><i>Supplemental Disclosure of Cash Flow Information</i></b>		
Cash paid during the year for:		
Interest expense	\$ 39,735	\$ 13,449

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

# CUBRC, Inc. and Subsidiaries

## *Notes to Financial Statements*

### 1. Nature of Business and Summary of Significant Accounting Policies

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

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

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

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

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

***Accounting Period*** – The Company’s fiscal year ends on a Friday, based on a 4-week, 4-week, 5-week repeating accounting period. The fiscal years ended December 25, 2020 and December 27, 2019 each included 52 weeks of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

Additionally, CUBRC assesses for impairment, on at least an annual basis, those assets classified as investments on the accompanying balance sheets. A variety of factors are considered when determining if an impairment charge is warranted including, among other things, the financial condition and prospects of the investee, CUBRC’s investment intent, and additional capital infusions in the investees by other third parties. No impairment loss was recognized for the fiscal years ended December 25, 2020 and December 27, 2019.

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

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

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

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

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

***Net Assets with Donor Restrictions*** – Net assets with donor restrictions represent resources whose use relates to a specific program or purpose, and whose use by the Company is limited to donor-imposed stipulations that either expire by the passage of time or fulfillment of the purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported as net assets released from restriction. The Company had no net assets with donor restrictions in 2020 and 2019.

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

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

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

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

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

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

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

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

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

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

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

## **CUBRC, Inc. and Subsidiaries**

### *Notes to Financial Statements (continued)*

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

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

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

***Functional Expenses*** – The Company considers research, development, testing and integration, facilities, professional technical expense (overhead) and general and administrative costs to be its primary functional categories for purposes of expense classification. Functional expenses are shown net of indirect cost reimbursements, which are included within operating expenses in the consolidated statements of activities for the fiscal years ended December 25, 2020 and December 27, 2019. Research, development testing and integration represent the expenses incurred directly on the Company's contracts, including allocated overhead which is allocated based on rates across the various program expense categories. Facilities represents the expenses incurred to maintain the Company's facilities, including allocated overhead which is allocated based on rates across the various program expense categories.

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

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

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

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

## **CUBRC, Inc. and Subsidiaries**

### *Notes to Financial Statements (continued)*

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

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

**Recently Issued Accounting Standards** – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 applies to entities with contracts with customers and requires such entities to recognize revenue under a five-step model whereby the entity would first identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations, and recognize revenue when (or as) the entity satisfies the performance obligations. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, and ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients*, which amended certain aspects of ASU 2014-09 and addressed certain implementation issues identified by the FASB.

The Company adopted the provisions of ASC 606 using the modified retrospective approach for the fiscal year ended December 25, 2020. The adoption of ASC 606 did not have a material impact on the timing of the Company’s revenue recognition or changes in net assets.

**New Accounting Pronouncements** – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which will require organizations that lease assets to recognize on the balance sheet the assets and liabilities related to the rights and obligations created by those leases. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which delayed the effective date of ASU 2016-02.

ASU 2016-02 is scheduled to take effect for the Company for fiscal years beginning after December 15, 2021, with early adoption permitted. Management is in the process of evaluating the potential impact of this standard on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships, and other transactions affected by the anticipated transition away from LIBOR. ASU 2020-04 is effective for all entities, including the Company, from March 12, 2020 through December 31, 2022. The Company has evaluated the potential impact of this standard and does not expect it to materially impact its consolidated financial statements.

**CUBRC, Inc. and Subsidiaries**  
*Notes to 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 September 23, 2021, the date the accompanying consolidated financial statements were available to be issued. See Notes 3 and 6.

**2. Liquidity and Availability of Financial Assets**

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

	December 25, 2020	December 27, 2019
Current assets excluding non-financial assets:		
Cash	\$ 9,481,051	\$ 3,551,586
Accounts receivable	1,913,565	2,286,650
Unbilled accounts receivable	7,739,248	8,184,034
Financial assets available to meet cash needs for general expenditures within one year	\$ 19,133,864	\$ 14,022,270

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

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

**3. Investments**

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 25, 2020 and December 27, 2019:

	December 25, 2020			
	Cost	Fair Value	Ownership	Related-Party Ownership
Equity investments without readily determinable fair values				
Akonni Biosystems, Inc.	\$ 2,029,786	n/a	4.85%	CEO, VP
Prosetta Biosciences Inc.	<u>1,342,585</u>	n/a	3.05%	CEO
	<u>\$ 3,372,371</u>			

Equity investment with readily determinable fair values

Genocea Biosciences Inc.	\$ <u>563</u>	\$ <u>9,675</u>	n/a	n/a
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	December 27, 2019			
	Cost	Fair Value	Ownership	Related-Party Ownership
Equity investments without readily determinable fair values				
Akonni Biosystems, Inc.	\$ 2,117,904	n/a	4.85%	CEO, VP
Prosetta Biosciences Inc.	1,342,585	n/a	3.05%	CEO
Harker Holding Company LLC	0	n/a	4.92%	n/a
TROVE Predictive Data Science, LLC	<u>0</u>	n/a	17.80%	n/a
	<u>\$ 3,460,489</u>			

Equity investment with readily determinable fair values

Genocea Biosciences Inc.	\$ <u>4,500</u>	\$ <u>63,900</u>	n/a	n/a
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As of December 25, 2020 and December 27, 2019, key officers of the Company held personal investments of less than 1% in each respective company noted above.

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

**3. Investments (continued)**

**Investment Activity** – CUBRC’s Board of Directors approved a motion at its December 2015 Board of Directors meeting to contribute \$500,000 over the next three years in exchange for Trove Class A membership units. The funds were to be contributed in equal quarterly installments of approximately \$41,700, with a total of \$500,000 contributed by Oriana as of the years ended December 25, 2020 and December 27, 2019. In addition, CUBRC assigned its membership interest in Trove to Oriana during the year ended December 30, 2016.

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

On June 4, 2019, CUBRC purchased a 14% secured note of Akonni Biosystems, Inc. with a principal amount of \$400,000, at a discount, for \$200,000. Although the maturity date was December 31, 2020, the note, including interest and principal, will ultimately become due upon a liquidity event.

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

Oriana entered into a Series A Common Unit Purchase Agreement with Harker Holding Company LLC (“Harker”) in July 2016. As part of the agreement, Oriana contributed \$250,000 to Harker in exchange for 250,000 Series A Common Units. As of December 27, 2019, this investment had been fully impaired to a cost basis of \$0 and no longer exists at December 25, 2020.

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

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

**3. Investments (continued)**

***Fair Value Method Investments*** – The Company’s investment in Genocea Biosciences, Inc. (“Genocea”) is carried at fair value, with realized and unrealized gains (losses) reported as increases (decreases) in net assets in the accompanying consolidated statements of activities. As of December 25, 2020 and December 27, 2019, the Company’s investment in Genocea is classified as a Level 1 investment within the fair value hierarchy, with fair value being determined by quoted market prices. Net unrealized gains (losses) from marketable securities amounted to \$(54,225) and \$54,600 for the fiscal years ended December 25, 2020 and December 27, 2019, respectively, and are recorded in the accompanying consolidated statements of activities.

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

**4. Property and Equipment, net**

Property and equipment, net, at December 25, 2020 and December 27, 2019 consists of the following:

	December 25, 2020	December 27, 2019
Furniture, fixtures and equipment	\$ 2,948,835	\$ 2,855,510
Less accumulated depreciation	2,594,304	2,327,604
	\$ 354,531	\$ 527,906

Depreciation expense totaled \$266,700 and \$314,264 for the fiscal years ended December 25, 2020 and December 27, 2019, respectively.

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

**5. Line of Credit**

CUBRC has available a \$4,000,000 bank demand line of credit with interest payable at 3% plus the greater of one-month LIBOR, adjusting daily, or one-day LIBOR. The line is secured by substantially all assets, is subject to terms and conditions applied by the bank for working capital financing, and is annually reviewed for renewal. There was \$0 and \$1,100,000 outstanding against this line at December 25, 2020 and December 27, 2019, respectively.

The bank requires that the balance on the line of credit be zero for at least 30 consecutive calendar days in any 12-month period. The Company was in compliance with this covenant as of and for the fiscal years ended December 25, 2020 and December 27, 2019.

**6. Long-term Debt**

	<u>December 25, 2020</u>	<u>December 27, 2019</u>
CUBRC Payroll Protection Program ("PPP") loan dated April 16, 2020, for \$2,218,400, originally payable in monthly installments of \$282,075, including interest at a fixed rate of 1% through April 2022.	\$ 2,218,400	\$ 0
Avarint PPP loan dated April 14, 2020, for \$1,024,645, originally payable in monthly installments of \$130,286, including interest at a fixed rate of 1% through April 2022.	1,024,645	0
	<u>3,243,045</u>	<u>0</u>
Less current maturities	<u>1,597,029</u>	<u>0</u>
	<u>\$ 1,646,016</u>	<u>\$ 0</u>

CUBRC and Avarint applied and were approved for financial assistance through the U.S. Small Business Administration ("SBA") in the amounts of \$2,218,400 and \$1,024,645, respectively. These loans accrue interest at a fixed rate of 1.0% per annum and were initially payable over two years in monthly installments of \$282,075 and \$130,286, respectively, beginning in September 2021 and ending in April 2022. Although required payments were deferred for sixteen months, both companies made payments of \$900,000 and \$450,000, respectively, through the date of issuance of the financial statements. Accordingly, the loans are not payable in monthly installments of \$187,445 and \$83,003, respectively, beginning in September 2021 and ending in April 2022.

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

**7. Contract Revenue**

Contract revenue from the Federal Government approximated 98% of total contract revenue for the fiscal years ended December 25, 2020 and December 27, 2019. Accounts receivable from the Federal Government approximated 96% and 93% of total accounts receivable as of December 25, 2020 and December 27, 2019, respectively.

**8. Lease Obligations**

***Operating Leases***

The Company leases office, administrative, and testing space in various locations under the terms of various operating leases through January 2042. Rental expense for these leases amounted to \$1,637,956 and \$1,633,454 for the fiscal years ended December 25, 2020 and December 27, 2019, respectively.

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

<u>Fiscal year ending</u>	
2021	1,650,125
2022	1,756,994
2023	1,656,164
2024	1,647,171
2025	920,190
Thereafter	<u>17,991,747</u>
	<u>\$ 25,622,391</u>

The Company currently leases certain building space to conduct research and development for certain government agencies. In accordance with the terms of the lease agreement, the Company is responsible for certain decommissioning costs in the event the leased area is no longer used for such research. As of December 25, 2020 and December 27, 2019, the Company had accrued \$395,000, respectively, for this obligation.

***Capital Lease***

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

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

**8. Lease Obligations (continued)**

The capitalized cost of this equipment totaled \$217,847 at December 25, 2020 and December 27, 2019. The accumulated depreciation of this equipment totaled \$159,754 and \$116,185 at December 25, 2020 and December 27, 2019, respectively. The capitalized cost and accumulated depreciation are included in property and equipment, net in the accompanying consolidated statements of financial position.

Future minimum lease payments under this capital lease at December 25, 2020 are:

<u>Fiscal year ending</u>	
2021	49,773
2022	12,443
	62,216
Less amount representing interest	2,936
	59,280
Less current maturities	47,186
	\$ 12,094

**9. Employee Benefit Plan**

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

The Company’s discretionary contribution was equal to 7% of employee compensation for all employees who worked for the Company for seven years or more. Employees who worked for the Company for more than one year, but less than seven years, received discretionary contributions equal to 5% of their compensation. Additionally, all employees received safe-harbor contributions from the Company equal to 3% of their compensation. The Plan also allows the Company to make an additional discretionary profit-sharing contribution. The Company made \$1,465,149 and \$1,382,743 in contributions into the Plan in fiscal years ended December 25, 2020 and December 27, 2019, respectively.

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

**10. Functional Expenses**

The functional breakdown of expense incurred by the Company for the years ended December 25, 2020 and December 27, 2019 are as follows:

<u>2020</u>	<u>Research, Development, Testing &amp; Integration</u>	<u>Facilities</u>	<u>Professional Technical Expense (Overhead)</u>	<u>General &amp; Administrative Costs</u>	<u>Total</u>
Salaries	\$ 9,658,750	\$ 141,785	\$ 2,425,957	\$ 2,043,523	\$ 14,270,015
Fringe Applied	4,276,715	63,696	1,088,393	907,359	6,336,163
Travel	292,070	0	8,302	0	300,372
Purchased Services	3,450,897	153,769	27,785	19,742	3,652,193
Consultants	502,942	0	0	0	502,942
Materials, Supplies, Repairs & Maintenance	3,761,124	2,014,642	76,947	377,585	6,230,298
Subcontracts	8,518,973	0	0	0	8,518,973
Space Rental	0	650,300	809,561	178,095	1,637,956
Depreciation Expense	0	167,841	15,490	83,369	266,700
Professional Services	0	0	0	589,946	589,946
IT Supplies and Services	0	0	394,349	452,527	846,876
Security Supplies & Services	0	0	49,391	27,205	76,596
Bid & Proposal Salaries	0	0	0	302,427	302,427
Bid & Proposal Fringe Applied	0	0	0	135,749	135,749
Bid & Proposal Other Costs	0	0	0	3,216	3,216
IR&D Salaries	0	0	0	41,592	41,592
IR&D Fringe Benefits	0	0	0	18,503	18,503
IR&D Other Costs	0	0	0	67,790	67,790
Program Development Salaries	0	0	1,739,838	0	1,739,838
Program Development Fringe	0	0	775,555	0	775,555
Program Development Other Costs	0	0	72,817	0	72,817
Total	<u>30,461,471</u>	<u>3,192,033</u>	<u>7,345,323</u>	<u>5,387,690</u>	<u>46,386,517</u>
Indirect Expense Allocations	14,405,267	(3,049,424)	(7,114,595)	(4,241,248)	0
Total Expenses	<u>\$ 44,866,738</u>	<u>\$ 142,609</u>	<u>\$ 369,790</u>	<u>\$ 1,007,380</u>	<u>\$ 46,386,517</u>

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

**10. Functional Expenses (continued)**

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

## **Supplementary Information**

## CUBRC, Inc. and Subsidiaries

### Consolidating Balance Sheets

December 25, 2020

	CUBRC, Inc.	Avarint, LLC	Oriana, Inc.	Eliminating Entries	Consolidated Total
<b>Assets</b>					
<i>Current Assets</i>					
Cash	\$ 6,196,001	\$ 3,285,050	\$ 0	\$ 0	\$ 9,481,051
Accounts receivable	1,029,789	883,776	0	0	1,913,565
Due from affiliated companies	0	0	1,295,482	(1,295,482)	0
Unbilled accounts receivable	5,915,183	1,824,065	0	0	7,739,248
Inventory	328,144	0	0	0	328,144
Prepaid expenses	446,581	69,971	0	0	516,552
	13,915,698	6,062,862	1,295,482	(1,295,482)	19,978,560
<i>Property and Equipment, net</i>	167,057	187,474	0	0	354,531
<i>Investments</i>	7,129,996	0	0	(3,747,950)	3,382,046
	\$ 21,212,751	\$ 6,250,336	\$ 1,295,482	\$ (5,043,432)	\$ 23,715,137
<b>Liabilities, Net Assets and Member's Equity</b>					
<i>Current Liabilities</i>					
Accounts payable	\$ 3,589,405	\$ 555,150	\$ 0	0	4,144,555
Due to affiliated company	585,363	710,119	0	(1,295,482)	0
Capital lease obligations	0	47,186	0	0	47,186
Unearned revenue	43,403	93,102	0	0	136,505
Accrued expenses	2,864,786	1,075,572	0	0	3,940,358
Current maturities of long-term debt	1,092,445	504,584	0	0	1,597,029
	8,175,402	2,985,713	0	(1,295,482)	9,865,633
<i>Long-term Liabilities</i>					
Accrued incentive compensation	200,000	0	0	0	200,000
Accrued decommissioning costs	115,000	280,000	0	0	395,000
Capital lease obligations, less current maturities	0	12,094	0	0	12,094
Long-term debt, less current maturities	1,125,955	520,061	0	0	1,646,016
	1,440,955	812,155	0	0	2,253,110
Total long-term liabilities	1,440,955	812,155	0	0	2,253,110
Total liabilities	9,616,357	3,797,868	0	(1,295,482)	12,118,743
<i>Net Assets Without Donor Restrictions</i>	11,596,394	0	0	0	11,596,394
<i>Member's Equity</i>					
Capital contributions	0	786,116	751,000	(1,537,116)	0
Retained earnings	0	1,666,352	544,482	(2,210,834)	0
	0	2,452,468	1,295,482	(3,747,950)	0
Total member's equity	0	2,452,468	1,295,482	(3,747,950)	0
	\$ 21,212,751	\$ 6,250,336	\$ 1,295,482	\$ (5,043,432)	\$ 23,715,137

*See independent auditors' report.*

**CUBRC, Inc. and Subsidiaries**  
**Consolidating Statements of Activities**  
**for the fiscal year ended December 25, 2020**

	<u>CUBRC, Inc.</u>	<u>Avarint, LLC</u>	<u>Oriana, Inc.</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<b>Program Revenue, net</b>					
Contract revenue	\$ 30,126,255	\$ 17,498,549	\$ 0	\$ (605,527)	\$ 47,019,277
Cost of revenue	<u>29,004,746</u>	<u>16,467,519</u>	<u>0</u>	<u>(605,527)</u>	<u>44,866,738</u>
Total program revenue, net	1,121,509	1,031,030	0	0	2,152,539
<b>Operating Expenses</b>					
Indirect costs					
Administration	9,739,324	5,418,041	0	0	15,157,365
Research and development	184,812	3,120	0	0	187,932
Facility expenses	2,715,210	476,823	0	0	3,192,033
Program development	2,003,367	584,843	0	0	2,588,210
Floor space rental	727,060	260,596	0	0	987,656
Proposal	507,892	163,239	0	0	671,131
Depreciation	<u>74,555</u>	<u>24,304</u>	<u>0</u>	<u>0</u>	<u>98,859</u>
Total indirect costs	15,952,220	6,930,966	0	0	22,883,186
Indirect cost reimbursements					
General and administrative	3,351,410	1,359,703	0	0	4,711,113
Facility usage	2,604,899	453,025	0	0	3,057,924
Professional technical expense	4,405,333	2,593,361	0	0	6,998,694
Fringe expense	<u>5,010,428</u>	<u>2,298,023</u>	<u>0</u>	<u>0</u>	<u>7,308,451</u>
Total indirect cost reimbursements	15,372,070	6,704,112	0	0	22,076,182
Total unreimbursed indirect costs	<u>580,150</u>	<u>226,854</u>	<u>0</u>	<u>0</u>	<u>807,004</u>
Income from operations	541,359	804,176	0	0	1,345,535
<b>Other Income (Expenses) - Non-Contract Related</b>					
Miscellaneous revenue	129,004	1,353	0	0	130,357
Investment gains (losses), net	(54,225)	0	1,347,289	0	1,293,064
Legislative pursuits	(74,255)	0	0	0	(74,255)
Interest expense	(50,674)	(11,590)	0	0	(62,264)
Unallowed	<u>(187,990)</u>	<u>(294,019)</u>	<u>(13,180)</u>	<u>0</u>	<u>(495,189)</u>
Total other income (expenses) - non-contract related, net	<u>(238,140)</u>	<u>(304,256)</u>	<u>1,334,109</u>	<u>0</u>	<u>791,713</u>
Increase in net assets without donor restrictions	303,219	499,920	1,334,109	0	2,137,248
Income from subsidiaries, net	<u>1,834,029</u>	<u>0</u>	<u>0</u>	<u>(1,834,029)</u>	<u>0</u>
Increase in net assets	<u>\$ 2,137,248</u>	<u>\$ 499,920</u>	<u>\$ 1,334,109</u>	<u>\$ (1,834,029)</u>	<u>\$ 2,137,248</u>

*See independent auditors' report.*

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of CUBRC, Inc. ("CUBRC") and Subsidiaries (collectively the "Company"), which comprise the consolidated balance sheet as of December 25, 2020, and the related consolidated statements of activities and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 23, 2021.

***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Tronconi Segura & Associates LLP*

Williamsville, New York  
September 23, 2021

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

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

### ***Report on Compliance for Each Major Federal Program***

We have audited CUBRC, Inc.'s ("CUBRC") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of CUBRC's major federal programs for the fiscal year ended December 25, 2020. CUBRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of CUBRC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CUBRC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, CUBRC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended December 25, 2020.

### ***Report on Internal Control Over Compliance***

Management of CUBRC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered CUBRC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on the internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CUBRC's internal control over compliance.

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

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

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

*Tronconi Segura & Associates LLP*

Williamsville, New York  
September 23, 2021

**CUBRC, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**for the year ended December 25, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
<b>Research and Development Program Cluster</b>			
<b>U.S. Department of Defense</b>			
<b>U.S. Army</b>			
<i>Direct Programs</i>			
Ablation ODC AM acrn AE	12	W31P4Q-15-D-0015	2,113,867
HAWC ODC ACRN AB	12	W31P4Q-15-D-0015	361,507
HT Air & Ablation ODC AA	12	W31P4Q-15-D-0015	5,032,934
TO16 TBG Testing ODC AA	12	W31P4Q-15-D-0015	754,596
TO 17 Ablation ODC AA	12	W31P4Q-15-D-0015	5,297,640
Biometrics Travel	12	W56KGU-17-D-0010	4,888
TO 2 ROMA Mat & ODC	12	W56KGU-17-D-0010	172
TO 3 TBD Labor	12	W56KGU-17-D-0010	154,038
USG Cognitive Data TRV	12	W56KGU-17-D-0010	1,175,784
TO 1 ODC ACRN AA	12	W31P4Q-20-D-0047	1,183
TO2 HWF Dev ODC AA	12	W31P4Q-20-D-0047	4,020,215
Total Direct Programs			\$ <u>18,916,824</u>
<i>Pass-Through Programs From:</i>			
Charles River Analytics			
CR TAC-IRB	12	W911NF-19-C-0007	3,978
Leidos			
Leidos DYNAMIC PY2	12	W56KGU-15-D-0008	225,817
Silver Bullet Solutions			
Silver Bullet MathCyberOnt	12	W56KGU-15-C-0045	7,533
USA Med Research ACQ			
NOVBAIT 2, 3 and 4	12	W81XWH-06-C-0390	686
Total Pass-Through Programs			\$ <u>238,014</u>
<b>U.S. Air Force</b>			
<i>Direct Programs</i>			
InRITHM SSDP Maneuv Det	12	FA8750-17-C-0143	\$ 1,751,075
Model Instrument Purchase	12	FA8650-19-C-2423	508,131
NIWC C2X Lab Support	12	FA8750-19-C-0214	1,567,776
AFRL RODEO	12	FA8750-20-C-0206	453,947
AFRL OpML C2	12	FA8750-20-C-1011	180,285
Total Direct Programs			\$ <u>4,461,214</u>
<i>Pass-Through Programs From</i>			
Avarint			
Avarint JEFS SME	12	FA8075-14-D-0003	\$ 13,086
Avarint DIADS Kubernetes	12	FA9304-20-F-0016	236,618
ATA Engineering Inc.			
ATA Advanced Material Tst	12	FA8650-18-P-5041	183,670
ATA Fluid Struct Mat Inte	12	FA8204-20-C-0004	3,057
BAE Systems			
BAE Hallmark Phase II	12	FA8750-17-C-0065	28,394
Hallmark Transition	12	FA8650-19-F0001	33,734
Battelle Memorial Inst.			
Tox Tool Development	12	FA8075-14-D-0003 DO5	105,899
Battelle Comp Tox II	12	FA8075-14-D-0003	216,472

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

**CUBRC, Inc.**  
**Schedule of Expenditures of Federal Awards (continued)**  
**for the year ended December 25, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
Booz Allen			
BAH ORCA Option Year 1	12	FA8750-18-C-0016	131,288
Integration Innovation			
I3 T&E support SBIR II	12	N68936-20-C-0036	37,730
Massachusetts Institute			
MIT Optical Hyper Data Co	12	FA8702-15-D-0001	26,248
Texas A&M			
Texas A&M BOLT	12	FA9550-18-1-0010	306,655
Texas A&M BOLT II	12	FA9550-19-1-0154	469
Theofanous & Co., Inc.			
Theo T&E. Supprot SBIR II	12	N68936-20-C-0037	37,614
XAnalytics Systems			
XAnalyt APSIS II FFP	12	FA8750-16-C-0252	68
			<u>68</u>
Total Pass-Through Programs			\$ <u>1,361,002</u>
<b>U.S. Navy</b>			
<i>Direct Programs:</i>			
ONR PROBE	12	N00014-17-C-1018	\$ 4,961
ONR LIFT	12	N00014-19-C-2050	1,059,941
ONR LINKS - Core	12	N00014-20-C-2016	500,153
ONR SMILE	12	N00014-20-C-2045	797,500
NRL SMART(ATEAS)	12	N00017-32-C-6000	130,249
			<u>130,249</u>
Total Direct Programs			\$ <u>2,492,804</u>
<i>Pass-Through Programs From:</i>			
In-Depth Engineering Corp			
In-Depth Sliced P2 Opt2	12	N00024-16-P-4080	151,750
InDepth Big Data Opt 1	12	N68335-19-C-0436	32,905
ISEA TEK, LLC			
IseaTek INFOTON	12	N68335-18-C-0356	33,922
IseaTek INFOTON P-II Base	12	N68335-19-C-0302	353,699
Machina Cognita Technologies			
MCT SMARTS	12	N68835-20-C-0586	46,656
MTEC			
MTEC Pravibismane Suspens	12	W81XWH-15-9-0001	9,539
PMAT			
PMAT- ICED ICAP Int ODC	12	N68335-18-C-0028	33,705
PMAT TO 2	12	IWRP-19-LANT-0065-00	37,490
PMAT Data Link Bottleneck	12	N68335-21-C-0026	8,519
Science Applications International			
Leidos MTC2 TO 10	12	N66001-11-D-0034/010	1,166
Technical Support Working			
TSWG (0003)	12	N41756-04-D-4246 DO3	2,911
The Research Foundation			
RF MEDS	12	N00014-20-12242	39,842
			<u>39,842</u>
Total Pass-Through Programs			\$ <u>752,104</u>
<b>Defense Advance Research Projects Agency</b>			
<i>Direct Programs:</i>			
DARPA SAVER Subcontract	12	HR0011-21-90021	42,807
			<u>42,807</u>
Total Direct Programs			\$ <u>42,807</u>

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

**CUBRC, Inc.**  
**Schedule of Expenditures of Federal Awards (continued)**  
**for the year ended December 25, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal or Pass-Through Grantor's Number	Expenditures
<i>Pass-Through Program From:</i>			
The Research Foundation			
Research Found MALAISE	12	HR0011-20-C-0124	2,495
Total Pass-Through Program			\$ <u>2,495</u>
<b>Defense Threat Reduction Agency</b>			
<i>Direct Program</i>			
Defense Threat Reduction			
DTRA Epivax Opt 3 CLIN 4	12	HDTRA1-17-1-0014	\$ 320,321
Total Direct Program			\$ <u>320,321</u>
Total U.S. Department of Defense			\$ <u>28,587,585</u>
<b>U.S. Department of Health and Human Services</b>			
<i>Direct Programs</i>			
PO PHASE 1-MAD	93	HHSN272201100028C	\$ 35,176
FDA EPIVAX Opt 1 Teripar	93	HHSF223201810186C	519,611
SeLux BARDA Opt 1	93	HHSO100201800013C	225,568
FDA Immunogen Risk Peptid	93	75F40120C00157	138,113
Total U.S. Department of Health and Human Services			\$ <u>918,468</u>
<b>National Aeronautics and Space Administration</b>			
<i>Direct Program</i>			
NASA SLS Ex Up St (EUS)	43	NNJ16HC07C	23
NASA TO2 SLS ATA-0003	43	NNJ16HC07C	787
NASA TO4 Model Shipment	43	NNJ16HC07C	1,714
TO 5 Fab High Freq/High T	43	NNJ16HC07C	374
Total Direct Program			\$ <u>2,898</u>
<b>Department of Energy</b>			
<i>Pass-Through Programs From:</i>			
Sonalysts, Inc.			
Sonalysts MetaphortesP2	81	DE-SC0018729	\$ 72,648
<b>USAID</b>			
<i>Pass-Through Programs From:</i>			
J.E. Austin Associates			
BY CLIN 3 Tech & Admin su	98	AID-OAA-C-15-00106	96,764
MERC III Base Year	98	47QRAA19D004J7200AA2	\$ 45,441
Total USAID			\$ <u>142,205</u>
		<b>Total Federal Awards</b>	\$ <u>29,723,804</u>

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

# CUBRC, Inc.

## *Notes to Schedule of Expenditures of Federal Awards*

### 1. Summary of Significant Accounting Policies

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

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

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

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

***Major Program Determination*** – All of CUBRC’s federally funded programs fall under the Research and Development Cluster as closely related programs that share common compliance requirements. Type A programs for CUBRC are those which equal or exceeded \$750,000 in expenditures for the fiscal year ended December 25, 2020. Type B programs for CUBRC are those which were less than \$750,000 in expenditures for the fiscal year ended December 25, 2020.

## 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 25, 2020, 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>
PO PHASE 1-MAD	HHSN272201100028C	\$ 35,176
HT Air & Ablation ODC AA	W31P4Q-15-D-0015	203,215
TO 17 Ablation ODC AA	W31P4Q-15-D-0015	1,163,698
DTRA Epivax Opt 3 CLIN 4	HDTRA1-17-1-0014	186,423
DTRA Epivax Opt 3 CLIN 4	HDTRA1-17-1-0014	71,922
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	74,403
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	362,776
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	150,949
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	40,867
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	20,042
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	44,000
InRITHM SSDP Maneuv Det	FA8750-17-C-0143	57,513
FDA EPIVAX Opt 1 Teripar	HHSF223201810186C	416,673
ONR LIFT	N00014-19-C-2050	58,870
NIWC C2X Lab Support	FA8750-19-C-0214	143,431
NIWC C2X Lab Support	FA8750-19-C-0214	43,668
NIWC C2X Lab Support	FA8750-19-C-0214	10,040
NIWC C2X Lab Support	FA8750-19-C-0214	254,536
NIWC C2X Lab Support	FA8750-19-C-0214	66,306
AFRL RODEO	FA8750-20-C-0206	89,098
ONR LINKS - Core	N00014-20-C-2016	36,000
ONR SMILE	N00014-20-C-2045	34,200
AFRL OpML C2	FA8750-20-C-1011	23,094
FDA Immunogen Risk Peptid	75F40120C00157	103,266
CCDC TO 2	W31P4Q-20-D-0047	49,088
DARPA SAVER Subcontract	HR00112190021	15,000
		<u>\$ 3,754,254</u>

**CUBRC, Inc.**  
*Schedule of Findings and Questioned Costs  
for the year ended December 25, 2020*

**Section I. Summary of Auditors' Results**

Consolidated Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
<ul style="list-style-type: none"> <li>• Material weakness(es) identified?</li> <li>• Significant deficiency(ies) identified that are not considered to be material weakness(es)?</li> </ul>	<p>No</p> <p>None reported</p>
Noncompliance material to the financial statements noted?	No

Federal Awards

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

**Section II. Financial Statement Findings**

No matters were reported.

**Section III. Federal Award Findings and Questioned Costs**

No matters were reported.

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

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

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

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