

# **Riverside Research Institute and Subsidiary**

Consolidated Financial Statements  
and Supplementary Information

For the Period From December 1, 2018 To December 31, 2019

# **Riverside Research Institute and Subsidiary**

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## **Independent Auditors' Report**

To the Board of Trustees of  
Riverside Research Institute and Subsidiary

We have audited the accompanying consolidated financial statements of Riverside Research Institute and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities and changes in net assets, retained earnings and noncontrolling interest and cash flows for the period from December 1, 2018 to December 31, 2019, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 entities' 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 entities' 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 basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Riverside Research Institute and Subsidiary as of December 31, 2019, and the changes in their net assets, retained earnings and noncontrolling interest and their cash flows for the period from December 1, 2018 to December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

## Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented on pages 22 and 23 is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, retained earnings and noncontrolling interest and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

New York, New York  
May 18, 2020

## Riverside Research Institute and Subsidiary

### Consolidated Statement of Financial Position

(In Thousands)

December 31, 2019

#### Assets

##### Current Assets

Cash	\$	17,334
Investments		32,161
Accounts receivable, net		64,488
Contract assets		4,241
Prepaid expenses and other current assets		1,977

Total current assets 120,201

Property and equipment, net		16,736
Deferred tax assets		90
Other assets		432

Total assets \$ 137,459

#### Liabilities and Net Assets, Retained Earnings and Noncontrolling Interest

##### Current Liabilities

Accounts payable and accrued expenses	\$	57,087
Cash overdrafts		2,816
Contract liabilities		2,582
Deferred rent, current portion		360
Bond payable, current portion		357

Total current liabilities 63,202

Deferred rent, net of current portion		1,635
Deferred compensation		200
Interest rate swap		79
Bond payable, net of current portion		7,187

Total liabilities 72,303

##### Net Assets and Retained Earnings

Net assets without donor restrictions		61,856
Retained earnings		2,605

Total net assets and retained earnings 64,461

##### Noncontrolling Interest

695

Total liabilities and net assets, retained earnings  
and noncontrolling interest \$ 137,459

See notes to consolidated financial statements

## Riverside Research Institute and Subsidiary

### Consolidated Statement of Activities and Changes in Net Assets, Retained Earnings

and Noncontrolling Interest

(In Thousands)

Period From December 1, 2018 To December 31, 2019

#### Operating Revenue

Contracts revenue	\$ 201,792
Grants revenue	2,440
Total operating revenue	<u>204,232</u>

#### Operating Expenses

Direct labor	84,799
Subcontractors and other direct costs	67,439
Indirect costs	41,895
Total operating expenses	<u>194,133</u>

Changes in net assets and retained earnings from operations	10,099
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#### Nonoperating Activities

Interest income	18
Interest and fee expense	(257)
Investment income, net of fees	4,401
Unrealized loss on interest rate swap	(222)
Other income	16
Total nonoperating activities	<u>3,956</u>

Increase in net assets and retained earnings before provision for income taxes	14,055
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Provision for income taxes	<u>869</u>
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Increase in net assets and retained earnings	<u>13,186</u>
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<b>Net Assets and Retained Earnings, December 1, 2018</b>	51,906
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Changes in net assets and retained earnings attributable to: Riverside Research Institute	<u>12,555</u>
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<b>Net Assets and Retained Earnings, December 31, 2019</b>	<u><u>\$ 64,461</u></u>
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<b>Noncontrolling Interest, December 1, 2018</b>	\$ 64
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Changes in retained earnings attributable to: Noncontrolling interest	<u>631</u>
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<b>Noncontrolling Interest, December 31, 2019</b>	<u><u>\$ 695</u></u>
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See notes to consolidated financial statements

## Riverside Research Institute and Subsidiary

### Consolidated Statement of Cash Flows

(In Thousands)

Period From December 1, 2018 To December 31, 2019

#### Cash Flows From Operating Activities

Increase in net assets and retained earnings	\$ 13,186
Adjustments to reconcile increase in net assets and retained earnings to net cash flows from operating activities:	
Depreciation and amortization	2,335
Interest expense, debt issuance costs	23
Unrealized loss on interest rate swap	222
Net realized and unrealized gains on investments	(3,208)
Increase in allowance for doubtful accounts	15
Increase in deferred rent	497
Increase in deferred tax assets	(43)
Increase in accounts receivable	(47,714)
Increase in contract assets	(2,917)
Increase in prepaid expenses and other current assets	(893)
Increase in other assets	(37)
Increase in accounts payable and accrued expenses	44,744
Increase in contract liabilities	2,062
Increase in deferred compensation	63
Decrease in long term incentive plan	(635)
Net cash flows from operating activities	<u>7,700</u>

#### Cash Flows From Investing Activities

Purchases of investments	(2,804)
Sales of investments	1,901
Capital expenditures	(3,055)
Net cash flows from investing activities	<u>(3,958)</u>

#### Cash Flows From Financing Activities

Increase in cash overdrafts	2,816
Principal payments made on bond payable	(397)
Net cash flows from financing activities	<u>2,419</u>
Net change in cash	6,161

Cash, December 1, 2018	<u>11,173</u>
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Cash, December 31, 2019	<u><u>\$ 17,334</u></u>
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#### Supplemental Disclosures of Cash Flow Information

Cash paid for interest	<u><u>\$ 257</u></u>
Cash paid for income taxes	<u><u>\$ 873</u></u>

See notes to consolidated financial statements

# Riverside Research Institute and Subsidiary

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## Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019

(Dollars in Thousands)

### 1. Organizations

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

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

### 2. Summary of Significant Accounting Policies

The significant accounting policies followed by Riverside Research Institute and Subsidiary (together, the Organization) in preparing the accompanying consolidated financial statements are as follows:

#### Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements and notes to the consolidated financial statements are presented in thousands, except for the number of shares in Note 12.

#### Principles of Consolidation

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

#### Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

#### Net Asset Classification

**Net Assets Without Donor Restrictions** - Net assets that are not subject to donor-imposed stipulations.

**Net Assets With Donor Restrictions** - Net assets that are subject to donor-imposed stipulations that will be met either by the actions of the Organization and/or the passage of time. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the accompanying consolidated statement of activities and changes in net assets, retained earnings and noncontrolling interest as net assets released from restrictions. Net assets with donor restrictions can also include net assets required to be held in perpetuity. As of December 31, 2019, there are no net assets with donor restrictions.

#### Use of Estimates

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

## **Riverside Research Institute and Subsidiary**

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### **Notes to Consolidated Financial Statements**

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019  
(Dollars in Thousands)

#### **Cash**

Cash includes currency on hand and demand deposits with financial institutions. Interest and noninterest bearing deposits with financial institutions in aggregate are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250 as of December 31, 2019. The Organization maintains its cash in bank deposit accounts which at times may exceed the federally insured limits. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk.

#### **Investments**

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

The financial markets' volatility may significantly impact the subsequent valuation of the Organization's investments. Accordingly, the valuation of investments may not necessarily be indicative of amounts that could be realized in a current market exchange.

#### **Accounts Receivable**

Billed accounts receivable represent amounts due under various contracts from the U.S. Government and commercial entities for services rendered or reimbursable direct and indirect costs incurred but unpaid as of each year end. Management performs an analysis of accounts receivable to determine if any allowance for doubtful accounts is required. Factors considered in this analysis include aging of receivables and credit worthiness of the customers. Management arrives at an estimate of a reserve for any amounts not probable of collection at year end. As of December 31, 2019, the allowance for doubtful accounts was \$25.

#### **Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets primarily consist of prepayments for insurance and other services. As of December 31, 2019, prepaid expenses and other current assets also include \$373,977, net of accumulated amortization of \$28,767, of deferred implementation costs for a hosting arrangement related to the Company's accounting software that is accounted for as a service contract in accordance with Financial Accounting Standards Board's (FASB's) Accounting Standards Update (ASU) No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. These deferred implementation costs are being amortized over the term of the associated hosting arrangement, which is five years, on a straight-line basis.

## Riverside Research Institute and Subsidiary

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### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019  
(Dollars in Thousands)

#### Property and Equipment

The Organization capitalizes expenditures for property and equipment in excess of \$5 with estimated useful lives greater than one year. Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the individual assets. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The Organization evaluates the remaining useful lives and recoverability of such assets on a continual basis.

The estimated useful lives of the assets are as follows:

Building	39 years
Building improvements	15 years
Furniture and fixtures	5 years
Computers and equipment	3 years
Leasehold improvements	2-10 years

#### Impairment of Long-Lived Assets

The Organization evaluates all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. Recoverability is evaluated by comparing the undiscounted future net cash flows resulting from the use of the asset and its eventual disposition to the carrying value of an asset. When the undiscounted future cash flows are less than the carrying value, impairment is deemed present. Management has concluded that no impairment to the Organization's long-lived assets was present as of December 31, 2019.

#### Income Taxes

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

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

The Organization recognizes the tax benefit for uncertain tax positions when it is more likely than not the position will be sustained upon examination based on the technical merits of the position. The benefit is measured as the largest benefit that is more likely than not to be realized upon ultimate settlement. The Organization has not identified any material uncertain tax positions. The Organization is not currently under audit by any taxing jurisdiction.

## **Riverside Research Institute and Subsidiary**

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### **Notes to Consolidated Financial Statements**

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019  
(Dollars in Thousands)

#### **Other Assets**

Other assets consist of security deposits for the Organization's operating leases.

#### **Cash Overdrafts**

The Company reclassifies cash overdraft positions to liabilities when the legal right of offset does not exist. As checks are presented for payment from the Organization's primary disbursement bank account, monies are automatically drawn against cash collections for the day and, if necessary, are drawn against its line of credit facilities (Note 6). As of December 31, 2019, cash overdrafts represent outstanding checks, net of any deposits in transit that had not yet been presented for payment.

#### **Debt Issuance Costs**

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

#### **Deferred Compensation Agreement**

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

#### **Deferred Rent**

Several of the Organization's operating leases contain predetermined rent escalations payable during the respective terms of the leases. For these leases, rent expense is recognized on a straight-line basis over the lease terms. The difference between the expense recognized and amounts payable under the leases during the year is recorded as deferred rent.

#### **Revenue Recognition**

As required by the FASB's ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and all related amendments, the Organization adopted Topic 606 on December 1, 2018 with no material impact to its revenue recognition. As allowed under Topic 606, the Organization elected to use the modified retrospective transition method, whereas the Organization's initial adoption of Topic 606 was only applied to contracts which were not complete as of January 1, 2019.

#### **Contracts Revenue**

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

The Organization considers a contract with a customer to exist under Topic 606, when there is approval and commitment from both the Organization and the customer, the rights of the parties and payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. The Organization also will consider whether two or more contracts entered into with the same customer should be combined and accounted for as a single contract.

## Riverside Research Institute and Subsidiary

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### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019

(Dollars in Thousands)

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

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

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

The Organization measures its progress towards complete satisfaction of each performance obligation based on the method the Organization believes best depicts the transfer of control to the customer. Under fixed-price contracts, the Organization recognizes revenue over time using a contract cost-based input method to measure progress as the contracts typically involve a continuous transfer of control to the customer. Under a contract cost-based input method, revenue is recognized based on the proportion of contract costs incurred to the total estimated costs expected to be incurred upon completion of the underlying performance obligation. Contract costs include direct costs such as materials, labor and subcontract costs, as well as indirect costs identifiable with, or allocable to, a specific contract that are expensed as incurred. The Organization includes generally both funded and unfunded portions of customer contracts in this estimation process.

## **Riverside Research Institute and Subsidiary**

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### **Notes to Consolidated Financial Statements**

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019

(Dollars in Thousands)

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

Many of the Organization's contracts recognize revenue under a contract cost-based input method and require an Estimate-at-Completion (EAC) process, which management uses to review and monitor the progress towards the completion of the performance obligations. Estimating the total cost at completion of performance obligations is an accounting estimate and requires management to make assumptions that may affect the timing of revenue recognition. Changes in these estimates can occur for a variety of reasons and, if significant, may impact the profitability of the Organization's contracts. Changes in estimates related to contracts accounted for under the EAC process are recognized in the period when such changes are made on a cumulative catch-up basis. If the estimate of contract profitability indicates an anticipated loss on a contract, the Organization recognizes the total loss at the time it is identified. Provisions for contract losses were not material to the consolidated financial statements as of December 31, 2019. For the period from December 1, 2018 to December 31, 2019, the aggregate impact of adjustments in contract estimates was not material.

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

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

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

### **Grants Revenue**

Grants received by the Organization to provide services to the U.S. government are deemed to be exchange transactions and, as such, grants revenue is recognized under the provisions of Topic 606. Grants received by the Organization typically function in a similar nature to the Organization's reimbursable cost contracts, as described above, therefore revenue is recognized over time when the Organization incurs expenditures in compliance with restrictions designated in the grant documents.

### **Growth and Outreach Program**

In accordance with RRI's not-for-profit status, during 2014, RRI began a program called Growth and Outreach as a vehicle for the Organization to reinvest earnings to further its mission to advance scientific research in the public interest and to extend its presence in the communities in which it operates. For the period December 1, 2018 to December 31, 2019, Growth and Outreach expenses of \$3,620 are included in indirect costs on the accompanying consolidated statement of activities and changes in net assets, retained earnings and noncontrolling interest.

## Riverside Research Institute and Subsidiary

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### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019

(Dollars in Thousands)

#### Allocation of Expenses on a Functional Basis

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting function. The preference and priority is to directly charge the program or supporting function where the service or expense item is used. When an expense provides benefit to multiple programs and it cannot be directly charged, it may be necessary to allocate the cost. Those expenses are allocated on a reasonable basis that is consistently applied. The majority of salaries and employee benefits are classified as direct charges, while some are allocated based upon estimated of time and effort. Equipment rentals and information technology costs (computer software, maintenance, network and support) are allocated based upon head-count. Insurance costs are allocated based upon underwriters' premiums and head-count.

#### Measure of Operations

The Organization includes in its definition of operations all revenues and expenses associated with research and program support services. Interest income, interest and fee expense, investment income, unrealized loss on interest rate swap and other income are excluded from the measure of operations and are reported as nonoperating activities.

#### Recent Accounting Pronouncements

During February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. During 2018, the FASB also issued ASU No. 2018-01, *Land Easement Practical Expedient*, which permits an entity to elect an optional transition practical expedient to not evaluate land easements that existed or expired before the entity's adoption of Topic 842 and that were not previously accounted for under Accounting Standards Codification 840; ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which addresses narrow aspects of the guidance originally issued in ASU No. 2016-02; ASU No. 2018-11, *Targeted Improvements*, which provides entities with an additional (and optional) transition method whereby an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of net assets and retained earnings in the period of adoption and also provides lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component; and ASU No. 2018-20, *Narrow-Scope Improvements for Lessors*, which addresses sales and other similar taxes collected from lessees, certain lessor costs and the recognition of variable payments for contracts with lease and non-lease components. Topic 842 (as amended) is effective for annual periods beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Organization is currently assessing the effect that the adoption of Topic 842 (as amended) will have on its consolidated financial statements.

During August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted ASU No. 2016-14 in the accompanying consolidated financial statements.

The new standard changes the following aspects of the Organization's consolidated financial statements:

- (a) The unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;
- (b) The consolidated financial statements include a disclosure about liquidity and availability of resources (Note 17);

## Riverside Research Institute and Subsidiary

### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019  
(Dollars in Thousands)

- (c) Additional disclosure of the Organization's operating measure has been provided.
- (d) Expenses are disclosed by both nature and function and the disclosure of specific methodologies used to allocate costs among program and support functions is provided (Note 16).

During June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The Organization adopted ASU No. 2018-08 in the accompanying consolidated financial statements. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The adoption of ASU No. 2018-08 on the modified prospective basis did not impact the Organization's consolidated financial statements.

During August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The Organization adopted ASU No. 2018-15 in the accompanying consolidated financial statements. ASU No. 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance of Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement and apply the existing impairment guidance in Subtopic 350-40 to the capitalized implementation costs as if the costs were long-lived assets. Lastly, the amendment addresses the presentation of expenses in the statement of income, payments in the statement of cash flows, and capitalized implementation costs in the statement of financial position.

### Evaluation of Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements from the date of the consolidated statement of financial position through May 18, 2020, the date the consolidated financial statements were available for issuance. In April 2020, ARS' line of credit agreement (Note 6) was amended to increase the credit limit to \$15,000 and extend the expiration date through September 30, 2020.

### 3. Investments

Investments are summarized as follows as of December 31, 2019:

	Cost	Fair Value
Mutual funds:		
Short term bonds	\$ 2,748	\$ 2,761
Intermediate term bonds	7,885	8,096
Long-term bonds	1,565	1,600
Large blend	6,085	12,676
Foreign large blend	6,060	7,028
Total investments	<u>\$ 24,343</u>	<u>\$ 32,161</u>

## Riverside Research Institute and Subsidiary

### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019

(Dollars in Thousands)

The following schedule summarizes the net investment return reflected within the consolidated statement of activities and changes in net assets, retained earnings and noncontrolling interest for the period from December 1, 2018 to December 31, 2019:

Interest and dividends	\$	1,227
Realized gains		36
Unrealized (losses) gains		3,172
Investment fees		(34)
		<hr/>
Investment income, net of fees	\$	<u>4,401</u>

#### 4. Fair Value Measurements

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

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

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

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

Level 2 - inputs to the valuation methodology include:

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

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

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

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

## Riverside Research Institute and Subsidiary

### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019

(Dollars in Thousands)

The following is a description of the valuation methodologies used for the assets and a liability measured at fair value. There have been no changes in the methodologies used as of December 31, 2019:

Mutual funds valued at the daily closing price as reported by the fund. The mutual funds are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

Interest rate swap, the Organization utilizes a mid-market level market valuation that is modeled on Bloomberg based on the terms set forth in the Swap Confirmation Agreement. The model uses the percentage of the London Interbank Offered Rate (LIBOR) to forecast future cash flows over the remaining life of the swap.

The following tables present the fair value hierarchy for assets of the Organization measured at fair value as of December 31, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Mutual funds				
Short-term bonds	\$ 2,761	\$ -	\$ -	\$ 2,761
Intermediate term bonds	8,096	-	-	8,096
Long-term bonds	1,600	-	-	1,600
Large blend	12,676	-	-	12,676
Foreign large blend	7,028	-	-	7,028
Total investments	<u>\$ 32,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,161</u>
<b>Liabilities:</b>				
Interest rate swap	<u>\$ -</u>	<u>\$ 80</u>	<u>\$ -</u>	<u>\$ 80</u>

## 5. Property and Equipment

Property and equipment consists of the following as of December 31, 2019:

Land	\$ 698
Building and building improvements	13,446
Furniture and fixtures	6,895
Computers and equipment	1,143
Leasehold improvements	6,089
Construction-in-progress	<u>110</u>
	28,381
Less accumulated depreciation and amortization	<u>(11,645)</u>
Property and equipment, net	<u>\$ 16,736</u>

Depreciation and amortization expense charged to operations was approximately \$2,335 for the period from December 1, 2018 to December 31, 2019.

## Riverside Research Institute and Subsidiary

### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019  
(Dollars in Thousands)

#### 6. Notes Payable

During the year ended November 30, 2016, RRI obtained a line of credit facility with a commercial bank with a maximum limit of \$25,000. The line of credit is scheduled to expire on May 31, 2020. The line employs a borrowing base to calculate line balances in excess of \$3,000. The line has an interest rate of LIBOR plus 170 basis points (3.46 percent as of December 31, 2019). The line of credit is collateralized by all of the assets of RRI. The line was not utilized during the period from December 1, 2018 to December 31, 2019 and there were no balances as of December 31, 2019.

On June 25, 2017, ARS obtained a \$1,000 line of credit from a commercial bank. In May 2019, the line of credit agreement was amended to increase the credit limit to \$4,000. In October 2019, the line of credit agreement was again amended to increase the credit limit to \$8,000. The line of credit is scheduled to expire on May 31, 2020. The line bears interest at LIBOR plus 200 basis points (3.76 percent as of December 31, 2019). The line of credit is guaranteed by RRI. As of December 31, 2019, the entire balance of the line of credit was fully available.

Interest expense was approximately \$20 for the period from December 1, 2018 to December 31, 2019.

In accordance with the line of credit agreement, RRI and ARS are subject to certain financial covenants which require the Organization to maintain (on a consolidated basis) a funded debt ratio less than 65 percent of unrestricted net assets; at all times have a minimum unrestricted cash and investments of \$7,000; and a fixed coverage ratio of 1.20 to 1.00 at the end of each fiscal quarter. The Organization was in compliance with these covenants as of December 31, 2019.

#### 7. Bond Payable

On December 15, 2015, RRI entered into a tax-exempt bond financing agreement with the Greene County Port Authority and a banking institution as trustee, purchaser and fiscal agent. RRI received \$9,000 in proceeds from the issuance of the Greene County Port Authority Economic Development Revenue Bond Series 2015. The bond principal is payable over a 20-year amortization term with a maturity date of December 24, 2035. Bond interest is payable monthly at a floating rate of 70 percent of the 30-day LIBOR plus 1.4 percent (2.63 percent as of December 31, 2019). As of December 22, 2022 and annually thereafter, the banking institution may, at its option, tender the bond to RRI which will then have the option to pursue a refinancing transaction or otherwise obtain funds to pay the tender price.

The following is a schedule of future maturities of the bond payable as of December 31, 2019:

Years ending December:	
2020	\$ 380
2021	390
2022	402
2023	413
2024	425
Thereafter	<u>5,602</u>
	7,612
Less net debt issuance costs	<u>(68)</u>
Total	<u>\$ 7,544</u>

Interest expense was approximately \$222 for the period from December 1, 2018 to December 31, 2019.

## Riverside Research Institute and Subsidiary

### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019  
(Dollars in Thousands)

On December 23, 2015, RRI entered into an interest rate swap agreement with the same banking institution. The effect of the agreement is to fix the interest rate of the bond at 2.85 percent through December 22, 2022. For the period from December 1, 2018 to December 31, 2019, RRI recognized unrealized losses of \$222, which was as a result of fluctuations in the fair value of the interest rate swap.

In accordance with the tax-exempt bond financing agreement, RRI is subject to certain financial covenants which require RRI, on the last day of each fiscal quarter, to maintain (i) consolidated liquid assets consisting of cash and marketable securities of at least \$7,000; (ii) a ratio of funded debt to unrestricted net assets of not more than 0.65 to 1.00; and (iii) a consolidated fixed charge ratio of not less than 1.20:1.00. RRI was in compliance with these financial covenants as of December 31, 2019.

In addition, the bond proceeds were restricted for capital expenditures for the Dayton, Ohio facility. The bond proceeds have been spent in full for their intended purpose.

#### 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31, 2019:

Accrued salaries, bonus, and related payroll taxes	\$	8,019
Other accrued expenses		2,518
Accrued PTO payable		3,251
Accounts payable		41,156
Accrued pension payable		<u>2,143</u>
Total accounts payable and accrued expenses	\$	<u>57,087</u>

#### 9. Deferred Compensation

During the year ended November 30, 2016, RRI entered into a deferred compensation agreement with an officer. In accordance with the agreement, RRI established a deferred compensation reserve account for the individual and provides a fixed monthly credit plus a quarterly compounded interest accrual based on the current prime rate, to the reserve account. To be eligible for the benefit, the agreement requires continuing employment until a specified time, and the account balance is then distributed based on an established vesting schedule, over a four-year period. Compensation expense, including interest accrual, related to the deferred compensation agreements was approximately \$63 for the period from December 1, 2018 to December 31, 2019.

#### 10. Long-Term Incentive Plan

RRI had adopted a Long-Term Incentive Plan (LTIP) for key employees and other eligible management employees which were based upon each employee agreement/contract and may have included retention/sign-on bonuses. The LTIP incorporated a bonus compensation system based on performance measures that were aligned with RRI's strategic and operating goals, and were designed to promote the success of RRI. The LTIP award period was designed around a three-year period, and may have been established by the Board at the beginning of each fiscal year. In 2019, the LTIP was terminated with approval from the Board, with payment of the target awards for participants approved at full amounts as of the time of termination. Liabilities related to the LTIP exceed the amount of payments to participants, resulting in a reversal of LTIP expense recognized for the period from December 1, 2018 to December 31, 2019 of approximately \$416. As of December 31, 2019, there were no further liabilities related to the terminated LTIP.

## Riverside Research Institute and Subsidiary

### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019  
(Dollars in Thousands)

#### 11. Commitments

The Organization is obligated for laboratory and office space under operating leases expiring on various dates through September 2024.

The following is the approximate minimum aggregate rental commitments under the lease obligations as of December 31:

Years ending December 31:	
2020	\$ 2,331
2021	2,313
2022	2,378
2023	1,471
2024	756
	<hr/>
Total	<u>\$ 9,249</u>

Rent expense for the period from December 1, 2018 to December 31, 2019 was approximately \$2,118.

#### 12. Stock

During 2012, the Organization reactivated its subsidiary, ARS and, with approval of the Board of Trustees of RRI, ARS granted restricted stock in ARS to two of its employees. A summary of ARS' restricted stock activity and related information for the period from December 1, 2018 to December 31, 2019 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Restricted stock awards:		
Outstanding at beginning of period	2,000	\$ -
Granted	-	-
Forfeited	-	-
	<hr/>	<hr/>
Outstanding at end of period	<u>2,000</u>	<u>\$ -</u>

The restricted stock vests 25 percent per year for four years commencing with the first anniversary date of the grant as long as the employee remains employed by ARS. As of December 31, 2019, the two employees were 100 percent vested in the restricted stock.

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

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

## Riverside Research Institute and Subsidiary

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### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019  
(Dollars in Thousands)

At the grant date, the value of the shares was insignificant as ARS had no assets or revenue and projections of future free cash flows were uncertain. As a result, the Organization has not recognized stock compensation expense related to the restricted stock agreements and no value was given to the stock that was transferred to the noncontrolling shareholders.

As of December 31, 2019, ARS had 10,000 shares authorized, and 9,500 shares issued and outstanding. As of December 31, 2019, two of ARS's employees each held 1,000 shares of common stock, while RRI held the remaining 7,500 shares issued and outstanding. As a result, approximately 21 percent of ARS's net equity position is reflected as a noncontrolling interest in the consolidated financial statements.

On December 12, 2016, RRI entered into a subscription agreement with ARS to purchase 250 shares of preferred stock, no par value per share, of ARS at a purchase price of \$10 per share. ARS utilized the proceeds from this preferred stock transaction to pay off in full the amounts outstanding on its line of credit and note payable during the year ended November 30, 2017.

The preferred stock does not entitle RRI any additional voting rights. In the event of any liquidation, dissolution or winding up of ARS, whether voluntary or involuntary, RRI as the "holder of each share of the preferred stock shall be entitled, prior to the common stock holders, to be paid out of the assets of ARS available for distribution" in amount equal to \$10 per share, plus all accrued and unpaid dividends (whether or not declared).

The preferred stock shall be redeemable, in whole or in part, at the discretion of ARS, at a price per share of \$10 per share, plus all accrued and unpaid dividends (with certain limits and restrictions). The preferred stock may not be reissued, however it may be issued in one or more series, from time to time within three (3) years from the date of first issuance of the shares.

As the holder of the preferred stock, RRI, is entitled to receive cumulative cash dividends at a rate of \$.6 per annum per share, payable quarterly on the first day of January, April, July and October each year. All accrued and accumulated dividends on the preferred stock shall be paid prior and in preference to any dividend on any common stock and any other class of securities. For the period from December 1, 2018 to December 31, 2019, accumulated cash dividends (dividends expense) amounted to \$163. All payments and balances were eliminated on the consolidated financial statements.

### 13. Employee Benefit Plans

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

RRI also maintains a defined-contribution plan covering all full-time employees of RRI who have at least one year of service and are at least age twenty-one years of age. RRI makes a contribution each year equal to a percentage of all participants' compensation. The contribution is dependent upon each employee's years of service. Participants are not permitted to contribute to this plan. Amounts contributed to this plan and recorded as pension expense for the period from December 1, 2018 to December 31, 2019 was approximately \$5,723.

ARS sponsors a 401(k) savings plan (the Plan). All ARS employees are eligible to participate after meeting certain age and service requirements as defined in the Plan document. ARS may make discretionary contributions to the Plan. Vesting of ARS contributions is graduated based on years of service. Contributions to the Plan was \$530 for the period from December 1, 2018 to December 31, 2019.

## Riverside Research Institute and Subsidiary

### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019

(Dollars in Thousands)

#### 14. Income Taxes

The ARS provision for income taxes consists of the following for the period from December 1, 2018 to December 31, 2019:

Current:	
Federal	\$ 846
State	66
	<u>912</u>
Deferred:	
Federal	(43)
State	-
	<u>(43)</u>
Total provision for income taxes	<u>\$ 869</u>

Deferred tax assets (liabilities) consist of the following as of December 31, 2019:

Depreciation	\$ (51)
Accrued payroll	141
	<u>90</u>
Deferred tax assets, net	<u>\$ 90</u>

Deferred tax assets are provided for those items for which the reporting period for income tax purposes is different than the reporting period for financial statement purposes.

#### 15. Contingency

The majority of the Organization's revenues are generated from prime contracts or subcontracts for which the U.S. government is the ultimate customer. Changes in federal government budgetary priorities, domestic and international economic conditions and political circumstances, among other factors, could impact the status of the Organization's current contracts and the Organization's ability to win new or follow-on contract awards. In the event of unilateral early termination by the customer or expiration without renewal, the loss of one or more of the Organization's significant contracts could have a material and adverse impact on the Organization's future financial results. As of December 31, 2019, the Organization's contracts expire from 2020 to 2024.

#### Customer Concentrations

For the period from December 1, 2018 to December 31, 2019, the Organization generated revenues under prime or subcontracts with three customers that collectively approximated 60 percent of total revenues: 13 percent from Customer A, 17 percent from Customer B and 30 percent from Customer C.

#### Litigation

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

## Riverside Research Institute and Subsidiary

### Notes to Consolidated Financial Statements

As of December 31, 2019 and For the Period From December 1, 2018 To December 31, 2019

(Dollars in Thousands)

#### 16. Functional Expenses

The Organization allocates its expenses on a functional basis among its program and support services. Expenditures which can be identified with program or support services are allocated directly, according to their natural expenditure. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by management.

The functional expenses below exclude ARS's expenses of \$73,659 for the period from December 1, 2018 to December 31, 2019 as the functional expense disclosure requirement only applies to RRI as a not-for-profit organization.

RRI's operating expenses grouped by functional classification for the period from December 1, 2018 to December 31, 2019 are as follows:

	<b>Program</b>	<b>Management and General</b>	<b>Total</b>
Compensation and benefits	\$ 81,112	\$ 7,739	\$ 88,851
Professional fees	14,871	2,318	17,189
Information technology	4,015	42	4,057
Occupancy	2,651	147	2,798
Travel	5,135	252	5,387
Meetings, events and memberships	320	13	333
Interest	-	268	268
Depreciation and amortization	1,181	105	1,286
Insurance	172	316	488
Other	193	321	514
Total expenses	<u>\$ 109,650</u>	<u>\$ 11,521</u>	<u>\$ 121,171</u>

#### 17. Liquidity and Availability of Resources

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

Cash	\$ 17,334
Investments	32,161
Accounts receivable	64,488
Contract assets	<u>4,241</u>
Total financial assets available	<u>\$ 118,224</u>

There were no financial assets unavailable within one year of the consolidated statement of financial position date for general expenditures. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization's main source of liquidity is contracts and grants revenue from federal government agencies. The Organization also have two lines of credit available for short-term cash needs (Note 6).

**Riverside Research Institute and Subsidiary**

Consolidating Statement of Financial Position

(In Thousands)

December 31, 2019

	<b>Riverside Research Institute</b>	<b>Applied Research Solutions</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 17,334	\$ -	\$ -	\$ 17,334
Investments	34,853	-	(2,692)	32,161
Accounts receivable, net	16,025	48,602	(139)	64,488
Contract assets	4,168	73	-	4,241
Prepaid expenses and other current assets	1,715	262	-	1,977
Total current assets	74,095	48,937	(2,831)	120,201
Property and equipment, net	16,673	63	-	16,736
Deferred tax assets	-	90	-	90
Other assets	387	45	-	432
Total assets	<u>\$ 91,155</u>	<u>\$ 49,135</u>	<u>\$ (2,831)</u>	<u>\$ 137,459</u>
<b>Liabilities and Net Assets, Retained Earnings and Noncontrolling Interest</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 17,270	\$ 39,956	\$ (139)	\$ 57,087
Cash overdrafts	-	2,816	-	2,816
Contract liabilities	2,218	364	-	2,582
Deferred rent, current portion	360	-	-	360
Bond payable, current portion	357	-	-	357
Total current liabilities	20,205	43,136	(139)	63,202
Redeemable preferred stock	-	2,500	(2,500)	-
Deferred rent, net of current portion	1,628	7	-	1,635
Deferred compensation	200	-	-	200
Interest rate swap	79	-	-	79
Bond payable, net of current portion	7,187	-	-	7,187
Total liabilities	29,299	45,643	(2,639)	72,303
<b>Net Assets and Retained Earnings</b>				
Net assets without donor restrictions	61,856	-	-	61,856
Additional paid-in capital	-	192	(192)	-
Retained earnings	-	3,300	(695)	2,605
Total net assets and retained earnings	61,856	3,492	(887)	64,461
Noncontrolling Interest	-	-	695	695
Total liabilities and net assets, retained earnings and noncontrolling interest	<u>\$ 91,155</u>	<u>\$ 49,135</u>	<u>\$ (2,831)</u>	<u>\$ 137,459</u>

**Riverside Research Institute and Subsidiary**

Consolidating Statement of Activities and Changes in Net Assets, Retained Earnings and Noncontrolling Interest

(In Thousands)

Period From December 1, 2018 To December 31, 2019

	<b>Riverside Research Institute</b>	<b>Applied Research Solutions</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Operating Revenue</b>				
Contracts revenue	\$ 124,550	\$ 77,519	\$ (277)	\$ 201,792
Grants revenue	2,440	-	-	2,440
Total operating revenue	126,990	77,519	(277)	204,232
<b>Operating Expenses</b>				
Direct labor	66,536	18,263	-	84,799
Subcontractors and other direct costs	18,358	49,358	(277)	67,439
Indirect costs	36,020	5,875	-	41,895
Total operating expenses	120,914	73,496	(277)	194,133
Changes in net assets and retained earnings from operations	6,076	4,023	-	10,099
<b>Nonoperating Activities</b>				
Interest income	15	3	-	18
Interest and fee expense	(257)	-	-	(257)
Dividend expense	-	(163)	163	-
Investment income, net of fees	4,564	-	(163)	4,401
Unrealized loss on interest rate swap	(222)	-	-	(222)
Other income	16	-	-	16
Total nonoperating activities	4,116	(160)	-	3,956
Increase in net assets and retained earnings before provision for income taxes	10,192	3,863	-	14,055
<b>Provision for Income Taxes</b>	-	869	-	869
Increase in net assets and retained earnings	10,192	2,994	-	13,186
Changes in net assets and retained earnings attributable to:				
Riverside Research Institute	10,192	2,363	-	12,555
Noncontrolling interest	-	631	(631)	-
<b>Net Assets and Retained Earnings, December 1, 2018</b>	51,664	498	(256)	51,906
<b>Net Assets and Retained Earnings, December 31, 2019</b>	\$ 61,856	\$ 3,492	\$ (887)	\$ 64,461
<b>Noncontrolling Interest, December 1, 2018</b>	\$ -	\$ -	\$ 64	\$ 64
Changes in retained earnings attributable to:				
Noncontrolling interest	-	-	631	631
<b>Noncontrolling Interest, December 31, 2019</b>	\$ -	\$ -	\$ 695	\$ 695

# **Riverside Research Institute**

Federal Awards

For the Period From December 1, 2018  
to December 31, 2019

# Riverside Research Institute

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## **Independent Auditors' Report on Consolidated Financial Statements**

To the Board of Trustees of  
Riverside Research Institute and Subsidiary

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Riverside Research Institute and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities and changes in net assets, retained earnings and noncontrolling interest and cash flows for the period from December 1, 2018 to December 31, 2019, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 entities' 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 entities' 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 basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Riverside Research Institute and Subsidiary as of December 31, 2019, and the changes in their net assets, retained earnings and noncontrolling interest and their cash flows for the period from December 1, 2018 to December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

## **Report on Consolidating Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented on pages 22 and 23 of the consolidated financial statements is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, retained earnings and noncontrolling interest and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2020, on our consideration of Riverside Research Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Riverside Research Institute's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)  
New York, New York  
May 18, 2020

**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 Trustees of  
Riverside Research Institute

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Riverside Research Institute and Subsidiary (the Organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, retained earnings and noncontrolling interest and cash flows for the period from December 1, 2018 to December 31, 2019, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 18, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

**Compliance and Other Matters**

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

## **Purpose of This Report**

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

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The script is cursive and fluid, with the letters "B", "T", and "U" being particularly large and stylized.

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)  
New York, New York  
May 18, 2020

**Independent Auditors' Report on Compliance for the  
Major Federal Program; Report on Internal Control Over  
Compliance Required by the Uniform Guidance; and  
Report on Schedule of Expenditures of Federal Awards  
Required by the Uniform Guidance**

To the Board of Trustees of  
Riverside Research Institute

**Report on Compliance for the Major Federal Program**

We have audited Riverside Research Institute's (the Organization) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Organization's major federal program for the period from December 1, 2018 to December 31, 2019. The Organization's major federal program is 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 requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

***Opinion on the Major Federal Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period from December 1, 2018 to December 31, 2019.

***Other Matters***

The Organization's schedule of expenditures of federal awards includes a classified contract in the amount of \$548,238, which could not be tested with respect to certain aspects of the compliance requirements applicable to the Research and Development Cluster. Our audit did not include all aspects of this classified contract because this contract can only be audited in its entirety by the sponsoring agency due to the classified nature of the award. Our opinion on the major federal program is not modified with respect to these matters.

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

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

### ***Purpose of This Report***

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.

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

We have audited the consolidated financial statements of Riverside Research Institute and Subsidiary as of December 31, 2019 and for the period from December 1, 2018 to December 31, 2019, and have issued our report thereon dated May 18, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)  
New York, New York  
September 10, 2020

**Riverside Research Institute**

## Schedule of Expenditures of Federal Awards

For the Period From December 1, 2018 to December 31, 2019

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Direct or Pass-Through Agency Identification</b>	<b>Federal Expenditures</b>	<b>Subrecipient Awards</b>
<b>Research and Development Cluster:</b>				
<b>United States Department of Health and Human Services, National Institutes of Health:</b>				
Direct Awards:				
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	1R01EB022950-01	\$ 599,833	\$ 415,922
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	1R03EB026233-01	100,048	-
Cancer Detection and Diagnosis Research	93.394	1R21CA212744-01	678	-
Cancer Detection and Diagnosis Research	93.394	1R01CA192407-01A1	457,140	199,381
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	1R21AR074668-01	148,971	63,600
Child Health and Human Development Extramural Research	93.865	1R21HD097485-01A1	18,017	-
Vision Research	93.867	GG008110	19,128	-
Vision Research	93.867	2(GG013362-01)	86,050	-
Total United States Department of Health and Human Services, National Institutes of Health			1,429,865	678,903
<b>United States Department of Defense:</b>				
Direct Awards:				
STARS IV (Classified)	N/A	****-14-C-4128	548,238	-
Direct Awards from United States Department of Defense Major Subdivisions:				
Department of the Air Force:				
DRAGON/ECP Phase 3	N/A	4102999681	17,357	-
DRAGON/ECP Phase 3B	N/A	4103812421	1,384,890	-
Total United States Department of Defense			1,950,485	-
Total Research and Development Cluster			3,380,350	678,903
Total Expenditures of Federal Awards			\$ 3,380,350	\$ 678,903
<b>Federal Award Totals by CFDA Number</b>				
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		\$ 699,881	
Cancer Detection and Diagnosis Research	93.394		\$ 457,818	
Vision Research	93.867		\$ 105,178	

See notes to schedule of expenditures of federal awards

# Riverside Research Institute

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Notes to Schedule of Expenditures of Federal Awards  
For the Period From December 1, 2018 to December 31, 2019

## 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal awards activity of Riverside Research Institute, Inc. (the Organization) under programs of the federal government for the period from December 1, 2018 to December 31, 2019. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements and Audit Requirements for Federal Awards* (Uniform Guidance). The Organization is exempt from the Subpart E - Cost Principles of Part 200 in accordance with Appendix VIII of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, retained earnings and noncontrolling interest or cash flows of the Organization.

## 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the Federal Acquisition Regulation, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (when applicable) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

## 3. Indirect Cost Rate

Management of the Organization has not elected to use the 10 percent de minimis indirect cost rate.

## 4. Classified Contract

A contract, STARS IV, with federal expenditures of \$548,238, was identified as classified national security information and could not be tested with respect to certain aspects of the compliance requirements applicable to the Research and Development Cluster.

# Riverside Research Institute

## Schedule of Findings and Questioned Costs

For the Period From December 1, 2018 to December 31, 2019

### Section I - Summary of Auditors' Results

#### Consolidated Financial Statements

Type of report the auditor issued on whether the financial statements audited were in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes   x   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes   x   no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes   x   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 2 CFR 200.516(a)?

\_\_\_\_\_ Yes   x   no

#### Identification of Major Program:

CFDA Number(s)

Name of Federal Program or Cluster

Various

Research and Development Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

  X   yes \_\_\_\_\_ no

### Section II - Financial Statement Findings

None.

### Section III - Federal Award Findings and Questioned Costs

None.

### Section IV - Summary Schedule of Prior Year's Findings

None.