



SRC, Inc.

Report on Federal Awards in Accordance with  
Title 2 U.S. *Code of Federal Regulations* Part 200,  
*Uniform Administrative Requirements, Cost Principles,*  
*and Audit Requirements for Federal Awards* (Uniform  
Guidance)

September 30, 2023

**SRC, Inc.**

**Report on Federal Awards in Accordance with the Uniform Guidance**

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# Section

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## SRC, Inc. and Subsidiaries

Consolidated Financial Statements,  
Independent Auditor's Report and Reports  
Required by *Government Auditing Standards*  
and the Uniform Guidance  
Years Ended September 30, 2023 and 2022

## **SRC, Inc. and Subsidiaries**

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Consolidated Financial Statements, Independent Auditor's Report and  
Reports Required by *Government Auditing Standards* and the  
Uniform Guidance  
Years Ended September 30, 2023 and 2022

# SRC, Inc. and Subsidiaries

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## **Independent Auditor's Report**

Board of Directors  
SRC, Inc. and Subsidiaries  
Syracuse, New York

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

#### ***Opinion***

We have audited the consolidated financial statements of SRC, Inc. and Subsidiaries (collectively, the Company), which comprise the consolidated statements of financial position as of September 30, 2023 and 2022, and the related consolidated statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

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

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

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### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

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, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and



reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2023 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

BDO USA, P.C.

McLean, Virginia  
December 15, 2023, except for the schedule of expenditures  
of federal awards, for which the date is June 21, 2024

## Consolidated Financial Statements

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# SRC, Inc. and Subsidiaries

## Consolidated Statements of Financial Position

September 30,	2023	2022
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 30,853,940	\$ 29,373,954
Investments	159,189,293	148,500,379
Accounts receivable, net of reserve for uncollectible accounts of \$2,471,293 and \$2,777,570 for 2023 and 2022, respectively	43,457,990	41,327,730
Contract assets	33,900,281	41,884,722
Inventory, net	62,610,907	62,115,201
Deferred contract costs	4,992,012	8,884,445
Prepaid expenses and other assets	7,790,530	6,440,987
<b>Total current assets</b>	<b>342,794,953</b>	<b>338,527,418</b>
Property, buildings and equipment, net	79,314,536	83,642,906
Operating lease right-of-use assets	52,232,724	-
Other assets	4,876,502	4,729,074
Goodwill, net	463,018	695,150
Deferred income taxes	2,336,748	2,882,407
<b>Total assets</b>	<b>\$ 482,018,481</b>	<b>\$ 430,476,955</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Lines-of-credit	\$ 23,074,343	\$ 1,004,147
Margin loan	12,417,066	32,834,263
Accounts payable	12,247,159	6,772,318
Accrued expenses	29,348,187	46,141,391
Contract liabilities	11,443,481	16,979,373
Operating lease liabilities - current portion	4,511,217	-
Long-term debt - current portion	785,000	760,000
<b>Total current liabilities</b>	<b>93,826,453</b>	<b>104,491,492</b>
Long-term debt, net of current portion and unamortized debt issuance costs	7,002,692	7,755,000
Operating lease liabilities, net of current portion	50,697,529	-
Other long-term liabilities	6,655,107	4,681,018
<b>Total liabilities</b>	<b>158,181,781</b>	<b>116,927,510</b>
<b>Net assets without donor restrictions</b>	<b>323,836,700</b>	<b>313,549,445</b>
<b>Total liabilities and net assets</b>	<b>\$ 482,018,481</b>	<b>\$ 430,476,955</b>

*See accompanying notes to the consolidated financial statements.*

# SRC, Inc. and Subsidiaries

## Consolidated Statements of Activities and Change in Net Assets

<i>Years Ended September 30,</i>	2023	2022
<b>Operating activities</b>		
Revenue	\$ 365,870,873	\$ 341,383,962
<b>Costs of revenue</b>		
Direct costs	221,805,349	200,209,905
Indirect expenses	91,323,877	99,283,164
Administrative expenses	57,223,555	56,688,295
<b>Total operating expenses</b>	<b>370,352,781</b>	<b>356,181,364</b>
<b>Change in net assets from operations</b>	<b>(4,481,908)</b>	<b>(14,797,402)</b>
<b>Non-operating activities</b>		
Net investment return	17,885,175	(28,548,132)
Interest expense	(2,660,807)	(830,837)
Other (expense) income, net	(461,567)	3,746,965
Foreign currency translation adjustment	181,707	(1,126,529)
Health care and postretirement benefit adjustment	183,825	720,362
<b>Total non-operating activities, net</b>	<b>15,128,333</b>	<b>(26,038,171)</b>
<b>Change in net assets before income taxes</b>	<b>10,646,425</b>	<b>(40,835,573)</b>
Provision for income taxes	(359,170)	(818,361)
<b>Change in net assets after income taxes</b>	<b>10,287,255</b>	<b>(41,653,934)</b>
<b>Net assets at the beginning of the year</b>	<b>313,549,445</b>	<b>355,203,379</b>
<b>Net assets at the end of the year</b>	<b>\$ 323,836,700</b>	<b>\$ 313,549,445</b>

*See accompanying notes to the consolidated financial statements.*

# SRC, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

Years Ended September 30,	2023	2022
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 10,287,255	\$ (41,653,934)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	11,580,956	11,899,032
Reduction in operating lease right-of-use assets	4,806,276	-
Change in reserve for uncollectible accounts	(306,277)	(20,091)
Change in inventory reserve	224,173	(1,140,105)
Realized and unrealized (gain) loss on investments	(13,203,000)	35,505,000
Change in deferred income taxes	545,659	135,042
Changes in operating assets and liabilities:		
Accounts receivable	(1,823,983)	(7,159,420)
Contract assets	7,984,441	(10,141,728)
Inventory	(719,879)	9,423,256
Deferred contract costs	3,892,433	(3,151,285)
Prepaid expenses and other assets	(1,727,144)	3,144,964
Accounts payable, accrued expenses, and other liabilities	(6,836,274)	(803,612)
Contract liabilities	(5,535,892)	3,776,532
Operating lease liabilities	(4,338,254)	-
<b>Net cash and cash equivalents provided by (used in) operating activities</b>	<b>4,830,490</b>	<b>(186,349)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(12,381,761)	(22,336,821)
Sales of investments	14,895,847	23,958,091
Expenditures for property, buildings, and equipment	(6,757,589)	(15,438,302)
<b>Net cash and cash equivalents used in investing activities</b>	<b>(4,243,503)</b>	<b>(13,817,032)</b>
<b>Cash flows from financing activities:</b>		
Net borrowings (repayments) under lines-of-credit	22,070,196	(5,501,908)
Net (repayments) borrowings under margin loan	(20,417,197)	32,834,263
Repayments made under long-term debt	(760,000)	(870,000)
<b>Net cash and cash equivalents provided by financing activities</b>	<b>892,999</b>	<b>26,462,355</b>
Increase in cash and cash equivalents	1,479,986	12,458,974
Cash and cash equivalents at beginning of year	29,373,954	16,914,980
Cash and cash equivalents at end of year	\$ 30,853,940	\$ 29,373,954
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 2,694,263	\$ 830,837
Income taxes paid	\$ 924,058	\$ 1,315,785

*See accompanying notes to the consolidated financial statements.*

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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### 1. Organization and Summary of Significant Accounting Policies

SRC, Inc. (SRC) is a not-for-profit organization that provides services mainly to federal government organizations in a wide array of technology areas, including development and production of sensor systems, signal processing, information science and engineering, cybersecurity, and environmental chemistry and risk assessment.

SRC Ventures, Inc. (Ventures), a for-profit wholly-owned subsidiary pursuant to the laws of the State of New York, conducts activities that are generally not in the furtherance of SRC's exempt purposes as a 501(c)(3) organization under the Internal Revenue Code (the IRC), including, but not limited to, the management and execution of production contracts. Included in Ventures are its wholly-owned for-profit subsidiaries: SRCTec, LLC (SRCTec) and SAZE Technologies, LLC (SAZE). Effective September 1, 2022, the operations and activities of SAZE ceased and the entity was dissolved.

SRC International, Inc. (International) is a support organization of SRC, Inc. International has qualified as a tax-exempt not-for-profit corporation under Section 509(a)(2) of the IRC. International currently has three wholly-owned for-profit foreign subsidiaries: SRC AUS Pty Ltd (SRC AUS), SRC CAN Ltd (SRC CAN) and SRC UK Ltd. (SRC UK). These entities were established to provide services primarily to international government organizations in a wide array of technology areas, including information science and engineering.

The significant accounting policies followed by SRC, Ventures and International are described below.

#### ***Basis of accounting***

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

#### ***Principles of consolidation***

The consolidated financial statements include the accounts of SRC, Ventures, and International as listed above (collectively referred to as the Company). All intercompany balances and transactions have been eliminated in consolidation.

#### ***Foreign currency translation***

The functional currency of the Company's foreign subsidiaries (SRC AUS, SRC CAN and SRC UK) is their local currency. Net assets are translated at month-end exchange rates while income and expense items are translated at average exchange rates for the applicable period. Translation adjustments are recorded as other non-operating activities in the accompanying consolidated statements of activities and change in net assets. Realized gains and losses resulting from foreign currency denominated transactions are included as a component of costs of revenue in the accompanying consolidated statements of activities and change in net assets.

#### ***Use of estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Such estimates also affect the reported amounts of revenues and expenses during the

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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reporting period. Actual results may differ from estimates under different assumptions or conditions.

### ***Operating cycle***

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

### ***Revenue recognition***

The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*. ASC 606 outlines a five-step model whereby revenue is recognized as performance obligations within the contract are satisfied. The Company's revenues from contracts with customers are derived from offerings that include sales of products, engineering and research and development services substantially with the U.S. government and its agencies, and to a lesser extent, subcontractors. Generally, the Company provides services and products under various contract types which are determined by or negotiated with the U.S. government and may depend on certain factors, including the type and complexity of the work to be performed, degree and timing of the responsibility to be assumed by the contractor for the costs of performance and the extent of price competition and the amount. The Company generates revenues under several types of contracts, including the following:

- **Cost-Reimbursable Contracts:** Cost-reimbursable contracts provide for the payment of allowable costs incurred during performance of the contract, up to a ceiling based on the amount that has been funded, plus a fixed or award fee.
- **Time-and-Materials (T&M) Contracts:** Under T&M contracts, the Company charges a fixed hourly rate for each direct labor hour expended and is reimbursed for billable materials costs and billable out-of-pocket expenses, inclusive of allocable indirect costs. The Company assumes the financial risk on T&M contracts as costs of performance may exceed negotiated hourly rates.
- **Fixed-Price-Level-of-Effort (FP-LOE) Contracts:** Substantially similar to T&M contracts except such contracts require a specified level of effort over a stated period of time. This type of contract is generally used when the contractor is required to perform an investigation or study in a specific research and development area and to provide a report demonstrating the results achieved based on the level of effort. Payment is based on the effort expended rather than the results achieved.
- **Firm-Fixed-Price (FFP) Contracts:** Provide for a fixed price for specified products, systems and/or services. This type of contract is generally used when the government acquires products and services on the basis of reasonably definitive specifications and which have a determinable fair and reasonable price. These contracts offer potential increased profits if the Company can complete the work at lower costs than planned. While FFP contracts allow a benefit from cost savings, these contracts may also increase the Company's exposure to the risk of cost overruns.

The Company's earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract and the nature of services or products provided is finally determined.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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The Company recognizes revenue over time when there is a continuous transfer of control to the customer and, when applicable, no alternative use of the units in production. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay for costs incurred plus a reasonable profit and take control of any work in process. When control is transferred over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. Based on the nature of the products and services provided in the contract, the Company uses judgment to determine if an input measure or output measure best depicts the transfer of control over time. For service contracts, the Company typically satisfies performance obligations as services are rendered. The Company typically uses a cost-based input method to measure progress. Revenue is recognized proportionally as contract costs are incurred plus estimated fees. For T&M contracts, the Company bills the customer per labor hour and per material, and revenue is recognized in the amount invoiced as the amount corresponds directly to the value of performance to date. For certain fixed-price service contracts, a time-elapsed output method is used to measure progress, and revenue is recognized straight-line over the term of the contract.

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

Contract modifications are routine in the performance of contracts. Contracts are often modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct and, therefore, are accounted for as part of the existing contract and may result in an adjustment to cumulative revenue.

Accounting for long-term contracts involves the use of various techniques to estimate total contract revenue and costs. Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and availability of material, the performance of subcontractors and the availability and timing of funding from the customer. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the performance obligation level and is recorded to direct costs in the consolidated statements of activities and change in net assets in the period in which the loss is determined.

### ***Performance obligations***

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation within that contract and recognized as revenue when, or as, the performance obligation is satisfied. The majority of the Company's contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and is, therefore, not distinct. Some contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of the product lifecycle (development, production, maintenance and support). For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using management's best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which the Company forecasts expected costs of satisfying a performance obligation and then adding an appropriate margin for that distinct good or service.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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For arrangements with the U.S. Government, work on contracts generally does not begin until funding is appropriated by the customer. Billing timetables and payment terms on contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays when ownership transfers. The Company recognizes a liability for payments in excess of revenue recognized, which is presented as a contract liability on the accompanying consolidated statements of financial position. The portion of payments retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from the Company's failure to adequately complete some or all of the obligations under the contract. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract.

### ***Costs of revenue***

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

Deferred contract costs represent noninventory costs incurred on contracts that recognize revenue at a point in time due to the Company having an alternative use for the units in production and for which the units have not been accepted.

### ***Net assets***

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

#### ***Net assets without donor restrictions***

Net assets without donor restrictions generally result from net revenues derived from contracts, net investment return and other net inflows of assets whose use by the Company is not limited by donor-imposed restrictions.

#### ***Net assets with donor restrictions***

Net assets with donor restrictions would include contributions or other inflows of assets whose use by the Company is limited by donor-imposed stipulations. The Company does not have any net assets with donor restrictions as of September 30, 2023 and 2022.

### ***Cash equivalents***

The Company considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents, including money market funds.

### ***Investments***

The Company records its investments at fair value with net unrealized gains and losses included in non-operating activities. Investments held under the deferred compensation plan are classified as noncurrent other assets.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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### *Accounts receivable, contract assets and contract liabilities*

Accounts receivable are generated from prime and subcontracting arrangements with federal governmental agencies and various commercial entities. Management determines the reserve for uncollectible accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Management has recorded an allowance for accounts receivables that are considered to be uncollectible. Uncollectible amounts will be written off when all efforts to collect these receivables have been exhausted or when management receives notification that an amount will not be collected.

Contract assets represent costs and anticipated profits not yet billed or awaiting milestones to bill.

Contract liabilities represent interim contract billings in excess of costs and estimated earnings incurred on those contracts, or milestone billings ahead of the transfer of control to the customer.

### *Inventory*

Inventory is stated at the lower of cost or net realizable value with cost being determined using the weighted average cost basis. Inventory consists primarily of components and subassemblies and finished products held for sale. The Company capitalizes labor, material, subcontractor and overhead costs as work-in-process for contracts where control has not yet passed to the customer. Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory. To minimize this risk, the Company evaluates inventory levels and expected usage on a periodic basis and records adjustments as required.

### *Property, buildings and equipment*

The Company's policy is to capitalize property, buildings and equipment and software purchases in excess of \$5,000. Property, buildings and equipment and software are stated at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property, buildings and equipment and software are retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization of property, buildings, leasehold improvements, equipment and software is computed using the straight-line method over the estimated useful lives of the assets.

Estimated useful lives of the assets are as follows:

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Land	Indefinite
Buildings and building improvements	15-40 years
Machinery and equipment	5-10 years
Computer equipment and software	3-10 years
Leasehold improvements	Up to 15 years

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### *Leases*

The Company determines if a contract contains a lease at inception based on whether it conveys the right to control the use of an identified asset. All of the Company's leases are classified as operating leases. The Company records operating lease right-of-use (ROU) assets and lease liabilities in the consolidated statements of financial position. Lease expenses are recorded within indirect

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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expenses in the accompanying consolidated statements of activities and change in net assets. ROU assets and lease liabilities are recognized based on the net present value of future minimum lease payments over the lease term starting on the commencement date. The Company generally is not able to determine the rate implicit in its leases and, as such, applies an appropriate risk-free rate. Lease expense is recognized on a straight-line basis over the lease term. Lease agreements may include an option to extend or terminate a lease if it is reasonably certain that the Company will exercise such options. The Company has elected the practical expedients to not record a ROU asset or lease liability for leases which, at inception, have a term of twelve months or less and to utilize the written terms and conditions of a lease between entities under common control for purposes of assessing whether a lease exists and the classification of and accounting for that lease. Variable lease payments are recognized in the period in which the obligation for those payments is incurred.

### ***Goodwill***

Goodwill represents the excess of the purchase price over the net tangible and identifiable intangible assets as a result of business combinations. The Company made an accounting election to amortize goodwill over the lesser of a ten-year period or useful life in accordance with ASC 350-20, *Intangibles - Goodwill and Other*. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate a reduction in the fair value. No indicators of impairment were identified as of September 30, 2023 and 2022.

### ***Impairment of long-lived assets***

The Company reviews the valuation of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of the long-lived asset group is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. No indicators of impairment were identified as of September 30, 2023 and 2022.

### ***Intangible assets***

The Company capitalizes costs of software to be sold, leased, or marketed in accordance with ASC 985, *Software*. Included in other assets is approximately \$230,000 and \$460,000 of unamortized capitalized software as of September 30, 2023 and 2022, respectively. Amortization expense of approximately \$230,000 was recorded for each of the years ended September 30, 2023 and 2022.

Other intangible assets were acquired by the Company in 2016 and have a finite useful life of 15 years. Included in other assets is approximately \$1,543,000 of other intangible assets relating to a customer list with accumulated amortization of approximately \$772,000 and \$669,000 at September 30, 2023 and 2022, respectively. Amortization expense of approximately \$103,000 and \$114,000 was recorded for the years ended September 30, 2023 and 2022, respectively.

### ***Unfunded research and development***

Research and development costs are expensed in the year incurred and may or may not be funded by the federal government. Research and development costs not funded by the federal government totaled approximately \$6,008,000 and \$13,738,000 for the years ended September 30, 2023 and 2022, respectively, and are included as a component of indirect expenses in the consolidated statements of activities and change in net assets.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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### *Income taxes*

SRC, Inc. has qualified as a tax-exempt not-for-profit corporation under Section 509(a)(2) of the IRC and is exempt from federal income taxation on related income pursuant to Section 501(a) of the IRC. Ventures is a for-profit organization and is subject to federal income tax. The majority of SRC and Ventures' earnings are generated within the United States. International has qualified with the Internal Revenue Service (the IRS) for tax-exempt status as a supporting organization of SRC, Inc. International currently has three wholly-owned for-profit foreign subsidiaries. SRC AUS is an Australian for-profit organization and is subject to Australian income tax. SRC CAN is a Canadian for-profit organization and is subject to Canadian income tax. SRC UK is a United Kingdom for-profit organization and is subject to United Kingdom income tax.

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The provisions of ASC 740, *Income Taxes*, provide recognition criteria and a related measurement model for tax positions taken by the Company. In accordance with ASC 740, a tax position is a position in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions are recognized only when it is more likely than not (likelihood of greater than 50%), based on technical merits, that the position would be sustained upon examination. Tax positions that meet the more-likely-than-not threshold are measured using a probability-weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. No liability for uncertain tax positions was recorded by the Company as of September 30, 2023 and 2022. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years ended September 30, 2019 and prior. The foreign taxing authority rules differ by country. The foreign entities are no longer subject to income tax examinations by their federal or local tax authorities for years ended September 30, 2019 and prior.

### *Fair value of financial instruments*

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

### *Fair value measurements*

Certain assets are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Company's assets recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.
- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

If a financial instrument valuation uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation. The Company's financial assets measured at fair value on a recurring basis are cash equivalents that include a money market fund and short-term investments. The fair value determinations are based upon the unadjusted quoted prices for identical assets in active markets and inputs observable in the marketplace, techniques classified within Level 1 and Level 2, respectively, of the valuation hierarchy described above.

Assets measured at fair value on a recurring basis are summarized below (rounded to nearest thousand):

Description	As of September 30, 2023			
	Assets Measured At Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Investments:				
Money market funds	\$ 2,164,000	\$ 2,164,000	\$ -	\$ -
Commercial paper	634,000	634,000	-	-
Mutual funds	101,731,000	101,731,000	-	-
Fixed income funds	356,000	-	356,000	-
Equity and exchange traded funds	58,790,000	58,790,000	-	-
	\$ 163,675,000	\$ 163,319,000	\$ 356,000	\$ -

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

Description	As of September 30, 2022			
	Assets Measured At Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Investments:				
Money market funds	\$ 7,122,000	\$ 7,122,000	\$ -	\$ -
Commercial paper	648,000	648,000	-	-
Mutual funds	96,223,000	96,223,000	-	-
Fixed income funds	282,000	-	282,000	-
Equity and exchange traded funds	53,217,000	53,217,000	-	-
	\$ 157,492,000	\$ 157,210,000	\$ 282,000	\$ -

Of the above total investments for the years ended September 30, 2023 and 2022, approximately \$2,134,000 and \$7,093,000, respectively, is included in cash and cash equivalents; approximately \$159,189,000 and \$148,500,000, respectively, is classified as investments; and approximately \$2,352,000 and \$1,899,000, respectively, relates to assets held in the 457(b) Plan, 457(f) Plan and Deferred Compensation Plan (see Note 9) and is included in other assets in the accompanying consolidated statements of financial position. As described in Note 6, the availability and use of the investment portfolio is subject to certain restrictions imposed by any outstanding borrowings under the margin loan.

In determining the fair value of its assets and liabilities, the Company predominately uses the market approach. Securities included in Level 2 are valued by the Company's custodian, who uses independent trust accounting services. To determine the fair value of the Company's Level 2 investments, a variety of inputs are utilized, including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. The Company reviews the values generated by the independent pricing service for reasonableness. The Company has not adjusted the prices obtained from the independent pricing service.

Interest and dividend income and net realized and unrealized gains (losses) on investments were approximately \$17,885,000 and \$(28,548,000), respectively, for the years ended September 30, 2023 and 2022. Of these amounts, approximately \$4,682,000 and \$6,957,000 represents interest and dividend income and approximately \$13,203,000 and \$(35,505,000) represents realized and unrealized gains (losses) for the years ended September 30, 2023 and 2022, respectively.

### **Health care and postretirement benefits**

The Company recognizes a liability for its defined benefit postretirement plan's underfunded status in its consolidated statements of financial position. The postretirement plan's assets and obligations that determine its funded status are measured as of the end of the fiscal year. The Company reported the change in the funded status in its consolidated statements of activities and change in net assets.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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### *Shipping and handling*

Revenues and costs associated with shipping products to customers are included in revenues and direct costs, respectively, on the consolidated statements of activities and change in net assets.

### *Concentrations of credit risk*

The Company's assets that are exposed to credit risk consist primarily of cash and cash equivalents, investments, and contract receivables. Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has historically not experienced any losses related to these balances. Amounts on deposit in excess of insured limits at September 30, 2023 approximate \$30,246,000. Investment securities, including money market funds, are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the consolidated statements of financial position. Accounts receivable consist primarily of amounts due from various agencies of the federal government or prime contractors doing business with the federal government. Historically, the Company has not experienced significant losses related to contract receivables and, therefore, believes that the credit risk related to contract receivables is minimal.

### *Functional allocation of expenses*

The costs of providing the programs and other activities have been summarized on a functional basis in the table below. Accordingly, certain costs have been allocated among the activities benefited.

Expenses that can be identified with a specific program or support service are charged directly according to their natural expenditure classifications. Indirect costs common to multiple functions have been allocated among the various functions benefited based primarily on salaries and benefit costs incurred by functional expense category. Home office expenses represent other non-salary and benefit related general and administrative expenses not directly attributed to program activities but incurred in the general management of the Company's operations.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

Expenses by their functional and natural classification are as follows for the year ended September 30, 2023 (rounded to nearest thousand):

<i>Natural classification</i>	Program		Support	Total
	Research and Development	Manufacturing	Administrative	
Salaries and benefits	\$ 149,690,000	\$ 42,569,000	\$ 27,351,000	\$ 219,610,000
Subcontracts	11,974,000	21,915,000	-	33,889,000
Direct materials	8,984,000	45,471,000	-	54,455,000
Facilities and overhead	7,055,000	4,546,000	4,925,000	16,526,000
Engineering support	1,976,000	1,273,000	1,379,000	4,628,000
Home office	7,866,000	5,068,000	5,491,000	18,425,000
Strategic initiatives	1,060,000	683,000	741,000	2,484,000
Other	11,543,000	4,410,000	4,383,000	20,336,000
<b>Total operating expenses</b>	<b>200,148,000</b>	<b>125,935,000</b>	<b>44,270,000</b>	<b>370,353,000</b>
Interest expense	1,136,000	732,000	793,000	2,661,000
<b>Total</b>	<b>\$ 201,284,000</b>	<b>\$ 126,667,000</b>	<b>\$ 45,063,000</b>	<b>\$ 373,014,000</b>

Expenses by their functional and natural classification are as follows for the year ended September 30, 2022 (rounded to nearest thousand):

<i>Natural classification</i>	Program		Support	Total
	Research and Development	Manufacturing	Administrative	
Salaries and benefits	\$ 144,225,000	\$ 33,679,000	\$ 29,860,000	\$ 207,764,000
Subcontracts	19,004,000	13,560,000	-	32,564,000
Direct materials	8,369,000	39,618,000	-	47,987,000
Facilities and overhead	7,214,000	3,652,000	5,156,000	16,022,000
Engineering support	3,359,000	1,700,000	2,400,000	7,459,000
Home office	8,225,000	4,163,000	5,879,000	18,267,000
Strategic initiatives	1,548,000	784,000	1,106,000	3,438,000
Voluntary separation program	1,905,000	964,000	1,362,000	4,231,000
Other	8,141,000	5,889,000	4,419,000	18,449,000
<b>Total operating expenses</b>	<b>201,990,000</b>	<b>104,009,000</b>	<b>50,182,000</b>	<b>356,181,000</b>
Interest expense	380,000	192,000	259,000	831,000
<b>Total</b>	<b>\$ 202,370,000</b>	<b>\$ 104,201,000</b>	<b>\$ 50,441,000</b>	<b>\$ 357,012,000</b>

### ***Recently adopted authoritative guidance***

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which superseded the current lease guidance under *Leases* (Topic 840) and made several changes, such as requiring an entity to recognize a ROU asset and corresponding lease obligation on the statement of financial position, classified as financing or operating, as appropriate. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, to add clarity to certain areas within ASU 2016-02, ASU 2018-11, *Targeted*

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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*Improvements*, to add an additional and optional transition method to adopt the new leases standard by allowing recognition of a cumulative-effect adjustment to the opening balance of net assets in the period of adoption, and ASU 2023-01, *Common Control Arrangements*, to allow practical expedients in the assessment of leases between entities under common control. The Company adopted ASC 842 utilizing the modified retrospective method with a practical expedient through a cumulative-effect adjustment at October 1, 2022. As a result, on October 1, 2022, the Company recorded a noncash transaction to recognize operating lease liabilities totaling \$59,547,000 with operating lease ROU assets of \$57,039,000 in the accompanying consolidated statements of financial position. The initial operating lease ROU asset was reduced by the existing accumulated deferred rent balance of \$2,508,000. The adoption of this standard had no significant impact on the change in net assets in the accompanying consolidated statements of activities and change in net assets.

### ***Recent accounting pronouncements not yet adopted***

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

The Company has assessed other accounting pronouncements issued or effective during the years ended September 30, 2023 and 2022 and deemed they were not applicable to the Company or are not anticipated to have a material effect on the consolidated financial statements.

## **2. Availability and Liquidity**

The following represents the Company’s financial assets available within one year of the consolidated statements of financial position date that are expected to be used for general expenditures as of September 30 (rounded to nearest thousand):

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	\$ 30,854,000	\$ 29,374,000
Accounts receivable	43,458,000	41,328,000
Contract assets	33,900,000	41,885,000
<b>Total financial assets</b>	<b>\$ 108,212,000</b>	<b>\$ 112,587,000</b>

The Company’s budgeting model includes the input from various departments, including contracts and programs, accounting and finance, and executive management. The budget is approved annually by the Board of Trustees. Additionally, the Company has available an investment portfolio and various borrowing instruments (see Note 6) should liquidity needs arise.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### 3. Inventory

Inventory consists of the following at September 30 (rounded to nearest thousand):

	2023	2022
Work-in-progress and finished goods	\$ 18,374,000	\$ 17,410,000
Purchased parts	44,237,000	44,705,000
	\$ 62,611,000	\$ 62,115,000

As of September 30, 2023 and 2022, the Company recorded reserves for excess or obsolete inventory of approximately \$3,200,000 and \$2,976,000, respectively. As of September 30, 2023, \$2,563,000 was included with purchased parts and \$637,000 with work-in-progress and finished goods in the table above. As of September 30, 2022, \$2,626,000 was included with purchased parts and \$350,000 with work-in-progress and finished goods in the table above.

### 4. Property, Buildings and Equipment

Property, buildings and equipment consists of the following at September 30 (rounded to nearest thousand):

	2023	2022
Land	\$ 1,663,000	\$ 1,604,000
Building and building improvements	53,353,000	53,383,000
Machinery and equipment	89,720,000	87,838,000
Computer equipment and software	11,241,000	11,131,000
Leasehold improvements	21,802,000	21,886,000
	177,779,000	175,842,000
Less: accumulated depreciation and amortization	(98,464,000)	(92,199,000)
	\$ 79,315,000	\$ 83,643,000

Depreciation and amortization expense on property and equipment approximated \$11,213,000 and \$10,472,000 and includes \$230,000 related to internal-use capitalized software for the years ended September 30, 2023 and 2022.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### 5. Goodwill

The following is a summary of goodwill at September 30 (rounded to nearest thousand):

	2023	2022
Goodwill	\$ 2,317,000	\$ 2,317,000
Less: accumulated amortization	(1,854,000)	(1,622,000)
	\$ 463,000	\$ 695,000

Goodwill is amortized using the straight-line method over its useful life. Amortization expense related to goodwill totaled approximately \$232,000 and \$1,316,000 for the years ended September 30, 2023 and 2022, respectively. Future annual amortization of goodwill is as follows for the years ending September 30 (rounded to nearest thousand):

*Years ending September 30,*

2024	\$	232,000
2025		231,000
	\$	463,000

### 6. Lines-of-credit, Long-term Debt and Margin Loan

#### *Lines-of-credit*

SRC has available a \$10,000,000 line-of-credit with a bank. The outstanding amounts under the line-of-credit are unsecured and bear interest at 1.50% above one-month secured overnight financing rate (SOFR), adjusting daily (6.99% at September 30, 2023). No amounts were outstanding under the line-of-credit as of September 30, 2023 and 2022. There is no stated expiration date on the line-of-credit.

Ventures has available a \$50,000,000 line-of-credit with a bank, of which any outstanding amounts under this line-of-credit are unsecured and bear interest at 2.50% above the greater of (a) one-month SOFR, adjusting daily (7.99% at September 30, 2023) or (b) 1.00%. Amounts outstanding under the line-of-credit at September 30, 2023 and 2022 total approximately \$23,074,000 and \$1,004,000, respectively. There is no stated expiration date on the line-of-credit.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### *Long-term debt*

Long-term debt consists of the following at September 30 (rounded to nearest thousand):

	2023	2022
2005 Series Onondaga County Industrial Development Agency (IDA) Variable Rate Demand Civic Facility Revenue Bonds. Revenue Bonds, payable quarterly, commencing December 1, 2007 through December 2031, of principal plus interest, at a variable rate determined on a weekly basis using the Securities Industry and Financial Markets Association (SIFMA) index (3.98% at September 30, 2023) plus 0.05%. The obligation is collateralized by a letter-of-credit in the amount of \$8,038,000. The letter-of-credit expires, if not renewed, on December 14, 2024.	\$ 7,940,000	\$ 8,700,000
	7,940,000	8,700,000
Less: long-term debt - current portion	(785,000)	(760,000)
	7,155,000	7,940,000
Less: unamortized debt issuance costs	(152,000)	(185,000)
Long-term debt, net of unamortized debt issuance costs	\$ 7,003,000	\$ 7,755,000

As of September 30, 2023, debt obligation maturities are as follows (rounded to nearest thousand):

### *Years ending September 30,*

2024	\$	785,000
2025		805,000
2026		830,000
2027		855,000
2028		880,000
Thereafter		3,785,000
		\$ 7,940,000

The letters-of-credit collateralizing the 2005 Series IDA bonds contain a restrictive financial covenant pertaining to cash-to-debt ratio. The Company was in compliance with this covenant at September 30, 2023 and 2022.

### *Margin loan*

In January 2021, SRC entered into a margin loan agreement with the investment custodian to fund certain board approved initiatives while leaving funds invested. The margin loan allows SRC to draw funds against the assets within the investment portfolio not to exceed the maintenance margin requirement, which is defined as 70% of the balance of the securities held by the investment custodian. In the event the Company exceeds the maintenance margin requirement, the investment custodian has the ability to take certain actions in order to restore compliance with the requirement, including, but not limited to, liquidating assets within the portfolio or requiring the

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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Company to provide additional funds. The margin loan is due on demand and there are no specified repayment terms. Interest accrues at the federal funds rate plus a spread between 0.60% and 1.60%, depending on the balance of the margin loan (6.10% at September 30, 2023). The outstanding margin loan balance totaled approximately \$12,417,000 and \$32,834,000 as of September 30, 2023 and 2022, respectively.

### 7. Disaggregation of Revenue

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

Performance obligations related to the Company's contracts are satisfied over time as work progresses or at a point in time. Revenue from products and services transferred to customers over time totaled approximately \$289,096,000 and \$268,030,000 for the years ended September 30, 2023 and 2022, respectively. Costs incurred represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Revenue from services transferred to customers at a point in time totaled approximately \$76,775,000 and \$73,354,000 for the years ended September 30, 2023 and 2022, respectively.

#### *Performance obligations*

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

### 8. Income Taxes

Significant components of the provision for income taxes are as follows for the years ended September 30 (rounded to nearest thousand):

	2023	2022
Current income tax benefit (expense)	\$ 116,000	\$ (808,000)
Deferred income tax expense	(475,000)	(10,000)
Provision for income taxes	\$ (359,000)	\$ (818,000)

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

The net deferred taxes are comprised of the following for the years ended September 30 (rounded to nearest thousand):

	2023	2022
<b>U.S. operations</b>		
Deferred tax liability:		
Depreciation and amortization	\$ (1,842,000)	\$ (1,451,000)
<b>Total deferred tax liability</b>	<b>(1,842,000)</b>	<b>(1,451,000)</b>
Deferred tax assets:		
Allowances for inventory	672,000	625,000
Start-up costs	662,000	723,000
Inventory capitalization	499,000	602,000
Net operating loss	2,797,000	2,531,000
Warranty and other reserves	102,000	567,000
Benefits reserve	207,000	171,000
Charitable contributions	74,000	52,000
Research and development (R&D) capitalization	730,000	-
Other	45,000	36,000
<b>Total deferred tax assets</b>	<b>5,788,000</b>	<b>5,307,000</b>
Net deferred tax assets, before valuation allowance	3,946,000	3,856,000
Valuation allowance	(2,694,000)	(1,967,000)
<b>Net deferred tax assets</b>	<b>\$ 1,252,000</b>	<b>\$ 1,889,000</b>
	2023	2022
<b>Foreign operations</b>		
Deferred tax assets		
Net operating loss	\$ 317,000	\$ 230,000
Customer list	232,000	201,000
Contract liabilities	45,000	151,000
Lease incentive liability	560,000	635,000
Other	248,000	6,000
Valuation allowance	(317,000)	(230,000)
<b>Net deferred tax assets</b>	<b>\$ 1,085,000</b>	<b>\$ 993,000</b>

### ***U.S. operations***

The above deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases, as well as from net operating losses. Those balances are stated at the enacted tax rates expected to be in effect when the Company pays or recovers the taxes. Deferred income tax assets represent amounts available to reduce income taxes the Company will pay on taxable income in future years. The Company evaluates the ability

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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to realize these future tax deductions by assessing whether the Company expects to have sufficient future taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies to utilize these future deductions and credits. The Company establishes a valuation allowance when it no longer considers it more likely than not that a deferred tax asset will be realized. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. As of September 30, 2023 and 2022, management determined that sufficient positive evidence exists to conclude that it is more likely than not that the deferred tax assets are realizable for Ventures, and therefore, no valuation allowance is required. Conversely, as of September 30, 2023 and 2022, management determined that sufficient positive evidence does not exist to conclude that it is more likely than not that the deferred tax assets are realizable for SRC, and therefore, a full valuation allowance is required. A valuation allowance of \$2,694,000 and \$1,967,000 was recorded against the gross deferred tax asset balance for SRC as of September 30, 2023 and 2022, respectively.

As of September 30, 2023 and 2022, the Company has net operating loss carryforwards of approximately \$10,950,000 and 9,683,000, respectively, which will be available to offset future taxable income. The Tax Cuts and Jobs Act (TCJA) made significant changes to net operating loss (NOL) rules. For NOLs arising in tax years beginning after December 31, 2017, the NOL deduction is limited to 80% of taxable income and has an indefinite carryforward period. For NOLs generated in tax years ending on or prior to December 31, 2017, prior law still applies, where there is no limitation on the amount to offset current income and the NOL can be carried forward for 20 years. The net operating loss carryforwards expire, if not utilized, in fiscal years beginning 2037 and forward.

### ***Foreign operations***

In 2016, an Australian for-profit subsidiary of International was formed, SRC AUS. For the years ended September 30, 2023 and 2022, this foreign subsidiary resulted in taxable (loss) income of approximately \$(781,000) and \$6,485,000, respectively.

In 2016, a Canadian for-profit subsidiary of International was formed, SRC CAN. For the years ended September 30, 2023 and 2022, this foreign subsidiary resulted in a taxable loss of approximately \$317,000 and \$391,000, respectively. As of September 30, 2023 and 2022, SRC CAN has net operating loss carryforwards of approximately \$1,195,000 and \$869,000, respectively, which will be available to offset future taxable income. SRC CAN has recorded a full valuation allowance against this deferred tax asset.

In 2019, a United Kingdom for-profit subsidiary of International was formed, SRC UK. For the year ended September 30, 2023 and 2022, this foreign subsidiary resulted in taxable income of approximately \$1,226,000 and \$288,000, respectively.

## **9. Benefit Plans**

### ***Defined Contribution Retirement Plans***

All employees of the Company are covered under the TIAA and CREF plans. Participation in the plans is mandatory on the date of hire for all employees age 18 and older. Participants are required to contribute, at a minimum, 5% of compensation. The Company makes contributions to the plan on a periodic basis equal to 10% of the eligible employees' compensation. During the years ended September 30, 2023 and 2022, the amount contributed by the Company to the defined contribution retirement plans was approximately \$14,315,000 and \$14,682,000, respectively.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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### ***457(b) Plan***

The Company provides an unfunded 457(b) deferred compensation plan (the 457(b) Plan) that allows for participation by board-approved senior management. Participants may contribute a portion of their compensation up to the maximum IRS limitations each year. Plan contributions are held in investment funds with TIAA CREF. The 457(b) plan assets are owned by the Company until the participant has a distributable event. Participant contributions were approximately \$193,000 and \$164,000 in 2023 and 2022, respectively. As of September 30, 2023 and 2022, the 457(b) Plan assets and obligations totaled approximately \$751,000 and \$609,000, respectively, and are included in long-term other assets and other long-term liabilities in the accompanying consolidated statements of financial position.

### ***457(f) Plan***

The Company provides a funded 457(f) nonqualified restoration plan (the 457(f) Plan) that allows for participation by board-approved senior management. The Company contributes 10% of annual compensation above the IRS compensation limits each year. The Company contributed approximately \$387,000 and \$226,000 during the years ended September 30, 2023 and 2022, respectively. Plan contributions are held in investment funds with TIAA CREF. The 457(f) Plan assets are owned by the Company until the participant has reached the selected vesting date. As of September 30, 2023 and 2022, the 457(f) Plan assets and obligations totaled approximately \$691,000 and \$427,000, respectively, and are included in long-term other assets and other long-term liabilities in the accompanying consolidated statements of financial position.

### ***Deferred Compensation Plan***

The Company provides a deferred compensation plan (the Deferred Compensation Plan) to certain employees. To be eligible, an employee must be a Vice President or above. The Company contributes 10% of annual compensation above the IRS compensation limits each year. The Company contributed approximately \$24,000 and \$16,000 during the years ended September 30, 2023 and 2022, respectively. Participants may contribute a portion of their compensation up to the maximum IRS limitations each year. Deferred Compensation Plan contributions are held in investment funds with Wilmington Trust. The Deferred Compensation Plan assets are owned by the Company until the participant has reached the elected distribution date. As of September 30, 2023 and 2022, the Deferred Compensation Plan assets and obligations totaled approximately \$910,000 and \$863,000, respectively, and are included in long-term other assets and other long-term liabilities in the accompanying consolidated statements of financial position.

### ***Health Care and Postretirement Benefit Plan***

The Company provides the SRC Total Care Plan (the Plan) to provide welfare benefits, including medical, dental, prescription drugs, and life insurance, to substantially all currently active employees as well as life insurance benefits to retired employees. The postretirement life insurance plan eligibility criteria is the Rule of 72 (the sum of age and years of service must be at least 72), with a minimum age of 55 and minimum of 10 years of service on or after age 62 with at least ten years of continuous service as a full-time employee.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

The following table presents the change in the postretirement and health care benefit obligation in the consolidated statements of financial position for the years ended September 30 (rounded to nearest thousand):

	2023	2022
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 1,405,000	\$ 2,069,000
Service cost	59,000	119,000
Interest cost	70,000	60,000
Actuarial gain	(144,000)	(823,000)
Benefits paid	(20,000)	(20,000)
<b>Benefit obligation at end of year</b>	<b>\$ 1,370,000</b>	<b>\$ 1,405,000</b>

The underfunded status is recorded in other long-term liabilities in the accompanying consolidated statements of financial position as follows as of September 30 (rounded to nearest thousand):

	2023	2022
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	20,000	20,000
Benefits paid	(20,000)	(20,000)
<b>Fair value of plan assets at end of year</b>	<b>-</b>	<b>-</b>
<b>Underfunded status</b>	<b>\$ (1,370,000)</b>	<b>\$ (1,405,000)</b>

As of September 30, 2023 and 2022, the Plan had unamortized actuarial net gains of approximately \$327,000 and \$187,000, respectively, and unamortized prior service cost of \$151,000 and \$195,000, respectively.

Weighted average assumptions used to calculate the benefit obligation are as follows as of September 30:

	2023	2022
Expected return on plan assets	0.00%	0.00%
Discount rate	5.66%	5.17%

Weighted average assumptions used to calculate the net periodic benefit (income) cost are as follows for the years ended September 30:

	2023	2022
Expected return on plan assets	0.00%	0.00%
Discount rate	5.17%	2.91%

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

Components of net periodic benefit (income) cost are as follows for the years ended September 30 (rounded to nearest thousand):

	2023	2022
<hr/>		
Components of net periodic benefit (income) cost		
Service cost	\$ 59,000	\$ 119,000
Interest cost	70,000	60,000
Amortization of prior service credit	44,000	(133,000)
Amortization of net (gain) loss	(4,000)	31,000
	<hr/>	
	\$ 169,000	\$ 77,000

Components of net periodic benefit cost recognized in non-operating activities in the accompanying consolidated statements of activities and change in net assets for the years ended September 30 are as follows (rounded to nearest thousand):

	2023	2022
<hr/>		
Actuarial gain	\$ (144,000)	\$ (822,000)
Amortization of prior service cost	(44,000)	133,000
Amortization of actuarial gain	4,000	(31,000)
	<hr/>	
	\$ (184,000)	\$ (720,000)

Expected benefit payments reflect expected future services. Shown below are the expected gross benefit payments for the following fiscal years (rounded to nearest thousand).

	Net Payments
<hr/>	
2024	\$ 33,000
2025	36,000
2026	39,000
2027	42,000
2028	46,000
Years 2029-2033	302,000

### ***Voluntary Separation Program***

On September 7, 2022, the Company announced a voluntary separation program (VSP). The VSP is an opportunity for employees to voluntarily separate from the Company while receiving certain severance benefits to which they may not have otherwise been entitled. The goal of the VSP is to reduce indirect expenses. Employees were required to apply to participate in the VSP by September 21, 2022 and were notified of acceptance or denial of participation in the VSP by September 30, 2023. Most accepted applicants' employment ended on October 28, 2022 with payouts of severance benefits 60 days after employment has ended. In accordance with ASC 712, *Compensation - Nonretirement Postemployment Benefits*, the Company recognized \$4,231,000 of accrued severance benefits in fiscal year 2022 as the acceptance of the termination benefits by both the employee and the Company had occurred by September 30, 2022. These accrued benefits are included in accrued expenses in the accompanying consolidated statements of financial position as of September 30, 2022. There was no VSP expense in fiscal year 2023.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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### 10. Major Customers

For the years ended September 30, 2023 and 2022, customers within the U.S. Federal Government (principally Army, Air Force, and Department of Defense organizations within the intelligence community and Environmental Protection Agency) accounted for 80.0% and 87.9%, respectively, of the Company's revenue. As of September 30, 2023 and 2022, the U.S. Federal Government represents 74.5% and 85.0%, respectively, of the total accounts receivable balance.

### 11. Commitments and Contingencies

#### *Commitments*

The Company leases office space under the terms of noncancelable operating leases that expire at various dates through January 2032. The Company is reasonably certain to exercise lease options that extend some operating leases to various dates through June 2042. Some of the leases provide for annual increases to the base rent and require the Company to reimburse the landlord for its pro-rata share of the increases in annual operating expenses and real estate taxes.

The Company recognizes the total cost of its leases ratably over the respective lease periods. The Company recorded lease costs totaling \$8,019,000, which is inclusive of \$122,000 of short-term lease costs and \$210,000 of variable lease costs, for the year ended September 30, 2023.

In addition to the initial right-of-use assets and lease liabilities recognized as part of the adoption of ASC 842 (see Note 1), during the year ended September 30, 2023, the Company recognized operating lease right-of-use assets totaling \$23,000 acquired in exchange for operating lease liabilities totaling \$23,000.

The following is a schedule by year of the maturities of the operating lease liability required under these leases as of September 30, 2023:

#### *Years Ending September 30,*

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2024	\$	6,484,000
2025		6,052,000
2026		6,136,000
2027		6,021,000
2028		5,842,000
Thereafter		39,994,000
		<hr/>
Total operating lease payments		70,529,000
Less: imputed interest		(15,320,000)
		<hr/>
		\$ 55,209,000

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The weighted average remaining lease term and discount rates for operating leases were approximately 12.96 years and 3.71% at September 30, 2023, respectively.

# SRC, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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*Transitional disclosure - previous lease standard - fiscal year 2022*

The following is a schedule by year of the future minimum lease payments required under these leases which have initial or remaining terms in excess of one year as of September 30, 2022 (rounded to nearest thousand):

<i>Years ending September 30,</i>	Operating Leases
2023	\$ 6,704,000
2024	6,451,000
2025	6,026,000
2026	6,117,000
2027	5,981,000
Thereafter	46,446,000
<b>Total minimum payments</b>	<b>\$ 77,725,000</b>

Rent expense for all office space for the years ended September 30, 2022 totaled \$7,851,000.

### 12. Subsequent Events

The Company has evaluated its September 30, 2023 consolidated financial statements for subsequent events through December 15, 2023, the date the consolidated financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

## Schedule of Expenditures of Federal Awards

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## SRC, Inc. and Subsidiaries

### Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2023 Federal Expenditures	Amounts Provided to Subrecipients
<b>Research &amp; Development Cluster:</b>				
<b>U.S. Department of Defense</b>				
Direct Programs Department of the Air Force	12.RD		\$ 39,665,907	\$ 1,289,929
Pass Through Programs From:				
AEVEX Aerospace, LLC	12.RD	AT23-0045	187,986	-
Alion Science & Technology	12.RD	SUB1163925 - 002	428,914	-
Battelle Memorial	12.RD	849645	497,693	-
Black River Systems	12.RD	1725-S01-BRSC	37,161	-
CACI TECH	12.RD	P000078597	2,111,856	-
Defense Engineering Corp	12.RD	10437	7,424	-
DYNETICS	12.RD	DI-SC-20-73	4,976,028	-
Intuitive Research & Tech	12.RD	TE-T-SRC-001	239,670	-
LEIDOS, INC	12.RD	P010191561	498,098	-
LEIDOS, INC	12.RD	PO10247352	1,413,363	-
Northrop Grumman	12.RD	5300052617	1,079,575	-
Northrop Grumman	12.RD	7500175371	231,067	-
PARSONS	12.RD	PO-0014091	9,093	-
Radiance Technologies	12.RD	22S-2771 TO 00320	98,405	-
SECURBORATION, INC.	12.RD	Genesis-IMD Phase II	45,613	-
SIERRA NEVADA CORP	12.RD	650414	3,526	-
SRCTec, LLC	12.RD	I100609	1,692,356	-
SRCTec, LLC	12.RD	I100755	5,096	-
SRCTec, LLC	12.RD	I100757	5,352	-
SRCTec, LLC	12.RD	I100779	1,349	-
SRCTec, LLC	12.RD	I100809	1,997	-
SRCTec, LLC	12.RD	I100810	1,693	-
SRCTec, LLC	12.RD	I100821	1,501	-
SRCTec, LLC	12.RD	I100822	9,499	-
SRCTec, LLC	12.RD	I100827	543	-
SRCTec, LLC	12.RD	I100828	554	-
SRCTec, LLC	12.RD	I100836	307	-
<b>Total Department of the Air Force</b>			<b>53,251,626</b>	<b>1,289,929</b>

## SRC, Inc. and Subsidiaries

### Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2023 Federal Expenditures	Amounts Provided to Subrecipients
<b>Research &amp; Development Cluster:</b>				
Direct Programs Department of the Army	12.RD		67,991,890	-
Pass Through Programs From:				
Agile Defense, Inc.	12.RD	SRC-02005	995,374	-
Artis, LLC	12.RD	FC34-01A-45/2	234,117	-
ATI	12.RD	2018-359	3,530,945	-
Battelle Memorial	12.RD	0000864857	220,043	-
BOOZ-ALLEN	12.RD	A38397	5,948	-
BOOZ-ALLEN	12.RD	S905030BAH	522,284	-
CACI TECH	12.RD	P000074370	43,409	-
CACI TECH	12.RD	P000083973	150,186	-
CACI TECH	12.RD	P000114783	1,520,919	-
CACI TECH	12.RD	P000127732	360,569	-
CACI, INC.-FEDERAL	12.RD	P000166786	6,130	-
DHPC TECHNOLOGIES	12.RD	SD01921	346,409	-
Georgia Institute of Technology	12.RD	D8487-S2	535,943	-
Georgia Institute of Technology	12.RD	D84ZM-S1	48,712	-
Georgia Institute of Technology	12.RD	D9617-S2	682,592	-
IS4S	12.RD	103248.0001.0001-0002	234,811	-
IS4S	12.RD	103248.0002	688,705	-
LEIDOS, INC	12.RD	PO10226853	1,022,221	-
LEIDOS, INC	12.RD	PO10233069	736,076	-
Lockheed Martin	12.RD	4105737955	662,709	-
SAVIT Corp	12.RD	9P97-N-5115	10,515	-
SAVIT Corp	12.RD	DOTC-19-01-INIT0203	95,402	-
SOSSEC, Inc	12.RD	SCEC-PLA-0056	4,754,650	-
SRCTec, LLC	12.RD	I100790	77,273	-
SRCTec, LLC	12.RD	I100839	9,972	-
SRCTec, LLC	12.RD	I100590	1,362	-
SRCTec, LLC	12.RD	I100533	25,423	-

## SRC, Inc. and Subsidiaries

### Schedule of Expenditures of Federal Awards

*Year Ended September 30, 2023*

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2023 Federal Expenditures	Amounts Provided to Subrecipients
<b>Research &amp; Development Cluster:</b>				
SRCTec, LLC	12.RD	I100591	3,276	-
SRCTec, LLC	12.RD	I100594	875,817	-
SRCTec, LLC	12.RD	I100685	7,578	-
SRCTec, LLC	12.RD	I100708	1,722	-
SRCTec, LLC	12.RD	I100714	242,966	-
SRCTec, LLC	12.RD	I100717	16,655	-
SRCTec, LLC	12.RD	I100734	2,585,894	-
SRCTec, LLC	12.RD	I100744	339,821	-
SRCTec, LLC	12.RD	I100842	14,603	-
SRCTec, LLC	12.RD	I100845	528	-
<b>Total Department of the Army</b>			<b>89,603,449</b>	<b>-</b>
Direct Programs Department of the Navy	12.RD		6,090,018	-
<b>Pass Through Programs From:</b>				
Alaire Tech Inc.	12.RD	SRC-25OCT22	165,650	-
Amewas, Inc.	12.RD	2019-SRCI0054	124,670	-
DELPHINUS ENGINEERING	12.RD	3006-SC-2201	65,473	-
SDL/USURF	12.RD	CP0078026	267,681	-
SRCTec, LLC	12.RD	I100754	3,408	-
SRCTec, LLC	12.RD	I100758	12,321	-
SRCTec, LLC	12.RD	I100837	1,697	-
<b>Total Department of the Navy</b>			<b>6,730,918</b>	<b>-</b>

## SRC, Inc. and Subsidiaries

### Schedule of Expenditures of Federal Awards

*Year Ended September 30, 2023*

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2023 Federal Expenditures	Amounts Provided to Subrecipients
<b>Research &amp; Development Cluster:</b>				
Direct Programs Department of the Marines	12.RD		414,409	-
Pass Through Program From: Northrop Grumman	12.RD	5300015500	40,485	-
Total Department of the Marines			454,894	-
National Reconnaissance Organization				
Pass Through Programs From:				
Analex Corporation	12.RD	TC-0002730	99,705	-
BAE Systems	12.RD	41-7062127-0	841,220	-
Parsons	12.RD	PO-0009856	449,859	-
Total National Reconnaissance Organization			1,390,784	-
Defense Intelligence Agency				
Pass Through Program From: Colsa Corporation	12.RD	HS-170298	398,308	-
Total Defense Intelligence Agency			398,308	-
Direct Programs Defense Advanced Research Projects Agency				
Pass Through Program From: SDL/USURF	12.RD	CP0069236	280,448	-
Total Defense Advanced Research Projects Agency			319,141	-

## SRC, Inc. and Subsidiaries

### Schedule of Expenditures of Federal Awards

*Year Ended September 30, 2023*

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2023 Federal Expenditures	Amounts Provided to Subrecipients
<b>Research &amp; Development Cluster:</b>				
Direct Programs Defense Threat Reduction Agency	12.RD		150,815	-
Pass Through Programs From:				
Applied Research Associates	12.RD	S-004923-02-SRC	204,472	-
Applied Research Associates	12.RD	S-D00189-01-25-SRC	337,857	-
CACI NSS, Inc.	12.RD	P000116251	2,486,492	-
SRCTec, LLC	12.RD	I100840	344	-
SRCTec, LLC	12.RD	I100689	310	-
SRCTec, LLC	12.RD	I100711	37,071	-
<b>Total Defense Threat Reduction Agency</b>			<b>3,217,361</b>	<b>-</b>
<b>Defense Logistics Agency</b>				
Pass Through Programs From:				
SRCTec, LLC	12.RD	I100424	10,926	-
SRCTec, LLC	12.RD	I100575	304	-
SRCTec, LLC	12.RD	I100716	84	-
SRCTec, LLC	12.RD	I100743	7,168	-
SRCTec, LLC	12.RD	I100765	281	-
SRCTec, LLC	12.RD	I100772	374	-
SRCTec, LLC	12.RD	I100773	374	-
SRCTec, LLC	12.RD	I100778	7,689	-
SRCTec, LLC	12.RD	I100781	9,833	-
SRCTec, LLC	12.RD	I100829	4,854	-
<b>Total Defense Logistics Agency</b>			<b>41,887</b>	<b>-</b>

## SRC, Inc. and Subsidiaries

### Schedule of Expenditures of Federal Awards

*Year Ended September 30, 2023*

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2023 Federal Expenditures	Amounts Provided to Subrecipients
<b>Research &amp; Development Cluster:</b>				
Office of the Secretary of Defense				
Pass Through Programs From:				
Johns Hopkins University	12.RD	175445	132,485	-
PRKK, LLC	12.RD	SRC-GFII-002	407,256	-
Total Office of the Secretary of Defense			539,741	-
Defense Technical Information Center				
Pass Through Program From:				
Alion Science & Technology	12.RD	SUB1159003	732,048	-
Total Defense Technical Information Center			732,048	-
Washington Headquarters Services				
Pass Through Program From:				
The Boeing Company	12.RD	2101866-01	565,376	-
Total Washington Headquarters Services			565,376	-
Direct Programs United States Special Operations Command				
Total United States Special Operations Command			24,569	-
Other Contracts				
Total U.S. Department of Defense			157,686,938	1,289,929

## SRC, Inc. and Subsidiaries

### Schedule of Expenditures of Federal Awards

*Year Ended September 30, 2023*

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2023 Federal Expenditures	Amounts Provided to Subrecipients
<b><i>Research &amp; Development Cluster:</i></b>				
<b><i>Environmental Protection Agency</i></b>				
Direct Programs Environmental Protection Agency	66.RD		7,971,716	-
Pass Through Program From: SUMMITEC Corporation	66.RD	22-10-012	46,319	-
Total Environmental Protection Agency			8,018,035	-
<b><i>U.S. Department of Health and Human Services</i></b>				
Direct Programs Center for Disease Control and Prevention	93.RD		1,858,521	-
Total U.S. Department of Health and Human Services			1,858,521	-
<b><i>U.S. Department of Energy</i></b>				
Pass Through Program From: Spyros	81.RD	267041-722	464,967	-
Total U.S. Department of Energy			464,967	-
<b><i>U.S. Department of Homeland Security</i></b>				
Pass Through Program From: Trident Systems	97.RD	ICS-22-03	34,745	-
Total U.S. Department of Homeland Security			34,745	-

## SRC, Inc. and Subsidiaries

### Schedule of Expenditures of Federal Awards

*Year Ended September 30, 2023*

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2023 Federal Expenditures	Amounts Provided to Subrecipients
<b><i>Research &amp; Development Cluster:</i></b>				
<b><i>U.S. Department of State</i></b>				
Pass Through Program From: General Dynamics	19.RD	7SK0020SL	17,240	-
Total U.S. Department of State			17,240	-
<b><i>U.S. Department of Transportation</i></b>				
Pass Through Program From: The Ohio State University	20.RD	60067168	27,214	-
Total U.S. Department of Transportation			27,214	-
<b><i>National Aeronautics and Space Administration</i></b>				
Direct Programs National Aeronautics and Space Administration	43.RD		18,575	-
Pass Through Program From: SRCTec, LLC	43.RD	I100825	12,333	-
Total National Aeronautics and Space Administration			30,908	-
<b>Total Research &amp; Development Cluster Expenditures of Federal Awards</b>			<b>\$ 168,138,568</b>	<b>\$ 1,289,929</b>

*The accompanying notes are an integral part of the schedule.*

# SRC, Inc. and Subsidiaries

## Notes to the Schedule of Expenditures of Federal Awards

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### 1. Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards (the Schedule) are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. CFR Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown in the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

### 2. Indirect Cost Rate

Direct and indirect costs are charged to awards in accordance with cost principles contained in the Federal Acquisition Regulations (FAR) Part 31 and the Cost Accounting Standards.

The Company recovers indirect costs under contracts and grants at provisional rates negotiated between itself and the cognizant agency (U.S. Department of Defense). Separate indirect cost rates are negotiated for fringe benefits, management overhead, facilities overhead, bid and proposal/independent research and development costs, general and administrative costs, material handling, subcontracting, laboratory, and facilities capital cost of money (FCCOM). Final indirect costs for each fiscal year are determined by the Defense Contract Audit Agency (DCAA) upon subsequent annual audits at which point cost reimbursement contracts are settled at actual rates. A detailed schedule of indirect cost rates is included in the DCAA annual incurred cost report for the year ended September 30, 2023.

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

### 3. Basis of Presentation

The accompanying Schedule includes the federal award activity of SRC, Inc. and Subsidiaries (SRC or the Company) under programs of the federal government for the year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Company.

All of the Company's federal awards were in the form of cash assistance for the year ended September 30, 2023. The Company had no federally funded insurance programs or loan guarantees during the year ended September 30, 2023.

### 4. Other Contracts

Other contracts, referred to in the Schedule, primarily consist of federal contracts the Company has entered into that are of a sensitive nature which were subject to audit by a branch of the DCAA that monitors classified contracts.

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

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8401 Greensboro Drive, Suite 800  
McLean, VA 22102

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

Board of Directors  
SRC, Inc. and Subsidiaries  
Syracuse, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of SRC, Inc. and Subsidiaries (the Company) which comprise the Company's consolidated statement of financial position as of September 30, 2023, and the related consolidated statement of activities and change in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 15, 2023.

### **Report on Internal Control Over Financial Reporting**

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

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

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



## Report on Compliance and Other Matters

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

BDO USA, P.C.

McLean, Virginia  
December 15, 2023



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

Board of Directors  
SRC, Inc. and Subsidiaries  
Syracuse, New York

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

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

In connection with the coordinated audit of SRC, Inc. and Subsidiaries (the Company) as provided for in the U.S. Office of Management and Budget (OMB) *Compliance Supplement*, the U.S. Defense Contract Audit Agency (DCAA) and BDO USA, P.C. (BDO) each performed certain tasks.

Responsibilities under the coordinated audit approach were assigned as follows:

1. BDO performed specific audit procedures over all federal awards of the research and development cluster major federal program for the cash management compliance requirements as described in the *OMB Compliance Supplement*.
2. BDO performed specific audit procedures over non-classified federal awards of the research and development cluster major federal program for all federal agencies for the following compliance requirements as described in the *OMB Compliance Supplement*:
  - Equipment and Real Property Management
  - Matching, Level of Effort and Earmarking
  - Procurement, Suspension and Debarment
  - Program Income
  - Reporting
  - Subrecipient Monitoring
  - Special Tests and Provisions
3. BDO performed specific audit procedures over the direct costs of federal awards from the U.S. Environmental Protection Agency (EPA) for the following compliance requirements as described in the *OMB Compliance Supplement*:
  - Activities Allowed or Unallowed
  - Allowable Costs/Cost Principles
  - Period of Performance
4. BDO tested the internal control over compliance with respect to the above listed compliance requirements described as BDO's responsibility as they relate to the federal awards of the research and development cluster major federal program.



5. DCAA performed all audit procedures over the classified federal awards from all agencies of the research and development cluster major federal program for the following compliance requirements as described in the *OMB Compliance Supplement*:
  - Equipment and Real Property Management
  - Matching, Level of Effort and Earmarking
  - Procurement, Suspension and Debarment
  - Program Income
  - Reporting
  - Subrecipient Monitoring
  - Special Test and Provisions
  
6. DCAA performed all audit procedures over all federal awards (indirect and direct costs) from all federal agencies, except for direct costs of federal awards from the EPA, for the following compliance requirements in the *OMB Compliance Supplement* as they relate to the research and development cluster major program:
  - Activities Allowed or Unallowed
  - Allowable Costs/Cost Principles
  - Period of Performance
  
7. DCAA tested the internal control over compliance with respect to the above listed compliance requirements described as DCAA's responsibility as they relate to the federal awards of the research and development cluster major program.

For the BDO responsibilities described above, we have audited the Company's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Company's major federal program for the year ended September 30, 2023. The Company's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements which were the responsibility of BDO, referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2023.

***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.



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

### ***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

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

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

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



## Report on Internal Control Over Compliance

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

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

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

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

BDO USA, P.C.

McLean, Virginia  
June 21, 2024

# SRC, Inc. and Subsidiaries

## Schedule of Findings and Questioned Costs Year Ended September 30, 2023

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### Section I - Summary of Auditor's Results

#### *Consolidated Financial Statements*

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

Unmodified

Internal control over financial reporting:

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

Noncompliance material to consolidated financial statements noted?

Yes  No

#### *Federal Awards*

Internal control over the major federal program:

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

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

Unmodified

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

Yes  No

Identification of the major federal program:

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

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

\$3,000,000

Auditee qualified as low-risk auditee?

Yes  No

# **SRC, Inc. and Subsidiaries**

## **Schedule of Findings and Questioned Costs Year Ended September 30, 2023**

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### **Section II - Financial Statement Findings**

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

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

There were no findings or questioned costs for federal awards (as defined in Section 2 CFR 200.516(a) of the Uniform Guidance) that are required to be reported.

# Section

# 2



# **Audit Report No. 3441-2023S10110001**

Upstate New York Branch Office

90 Curtwright Drive, Suite 1

Williamsville, NY 14221-7096

June 20, 2024

## **Independent Audit Report on SRC, Inc.'s Compliance with Requirements Applicable to its Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance at 2 CFR Part 200 for Fiscal Year Ended September 30, 2023**

Controlled by: Upstate New York Branch  
Office

**CUI Categories:** PROPIN, PROCURE

**POC:** Joel Verstraete,

dcaa.belvoir.hq.mbx.dcaa-

fao3441@mail.mil

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## EXECUTIVE SUMMARY

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### ABOUT SRC, INC.

SRC, Inc. (SRC) (CAGE Code 28541) is a not-for-profit research and development firm chartered by the State of New York. SRC specializes in Research and Development (R&D) for the Federal Government. SRC is headquartered at 7502 Round Pond Road in Syracuse, NY. SRC also has sites in Arlington, VA; Chantilly, VA; Charlottesville, VA; Dayton, OH; Herndon, VA; Rome, NY; San Antonio, TX; and several support locations throughout the country. SRC had sales of \$277 million for its Fiscal Year Ended (FYE) September 30, 2023. SRC's Fiscal Year (FY) 2023 sales were 86 percent related to Federal Government, and the Government sales were predominately flexibly priced. In FY 2023, the primary customers consisted of the US Air Force and US Army, which represented approximately 71 percent of the total claimed costs. SRC has approximately 1,144 employees (SRC 883 and SRC Home Office 261).

SRC's Federal Awards fall under the designation of a R&D Cluster. Federal Programs with different Assistance Listing numbers that are closely related programs that share common compliance requirements are defined as a cluster of programs. Since all of SRC's Federal awards fall under the R&D cluster, SRC is considered to only have one major Federal Program.

### ABOUT THIS AUDIT

In accordance with Code of Federal Regulations, Title 2, Part 200 (2 CFR 200), the Defense Contract Audit Agency (DCAA) and BDO USA, P.C. (BDO) performed a coordinated audit of SRC's R&D Cluster. DCAA's audit responsibility included testing SRC's compliance with three compliance requirements in the OMB 2023 *Compliance Supplement*. These parts were (A) activities allowed or unallowed; (B) allowable cost/cost principles; and (H) period of performance. The Other Government, National Reconnaissance Organization (NRO), Defense Intelligence Agency (DIA), Defense Technical Information Center (DTIC), Defense Threat Reduction Agency (DTRA), Office of the Secretary of Defense (OSD), and Washington Headquarter Service (WHS) awards were audited for compliance with the following additional requirements in parts (I) procurement and suspension and debarment; (M) subrecipient monitoring; (N) and special tests and provisions.



Our work included auditing SRC's proposed direct and indirect amounts for reimbursement on Federal awards contained in its FY 2023 final indirect cost proposal, dated March 1, 2024. In addition, we tested SRC's internal control structure with respect to the six compliance requirements listed above as they related to the R&D Cluster. Our audit of the R&D cluster did not include Environmental Protection Agency (EPA) awards included in the Schedule of Expenditures of Federal Awards as BDO is responsible for these awards.

### WHAT WE FOUND

Our examination of SRC's internal controls and claimed costs for FYE September 30, 2023 disclosed findings related to internal control over compliance. We identified three internal control noncompliances related to capitalization and depreciation of tangible capital assets, the review and approval of internal purchase orders and non-subcontract invoices, and Strategic Corporate Investment (SCI) costs not in line with the contractor's Disclosure Statement (DS).

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM.**

We have audited SRC's compliance with the compliance requirements described in the 2023 2 CFR 200, Appendix XI, Compliance Supplement (OMB *Compliance Supplement*) that could have a direct and material effect on each of SRC's major Federal programs for the FYE September 30, 2023. SRC's major Federal programs are identified in the Schedule of Findings and Questioned Costs summary of auditor's results section (Exhibit).

We have audited SRC's compliance with three of the compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on R&D Cluster for FYE September 30, 2023. The compliance requirements audited by DCAA, excluding EPA, are as follows:

- Part A. Activities Allowed or Unallowed;
- Part B. Allowable Cost/Cost Principles; and
- Part H. Period of Performance.

In addition, the Other Government, NRO, DIA, DTIC, DTRA, OSD, and WHS awards were audited for compliance with the requirements of:

- Part I. Procurement, Suspension, and Debarment;
- Part M. Subrecipient Monitoring; and
- Part N. Special Tests and Provisions.

SRC's independent public accounting firm, BDO, is responsible for reviewing compliance with Part C. Cash Management, for all Federal awards, and with the following requirements for the R&D Cluster, excluding Other Government, NRO, DIA, DTIC, DTRA, OSD, and WHS awards:

- Part F. Equipment and Real Property Management;
- Part I. Procurement, Suspension, and Debarment;
- Part M. Subrecipient Monitoring; and
- Part N. Special Tests and Provisions.

In addition, BDO is responsible for reviewing SRC's compliance with Part A. Activities Allowed or Unallowable; Part B. Allowable Cost/Cost Principle; and Part H. Period of Performance for EPA awards.

We also audited SRC's direct and indirect amounts for contract reimbursement on unsettled flexibly priced contracts contained in its FY 2023 final indirect rate proposal, submitted on March 1, 2024, to determine if the proposed amounts comply with the terms of Federal awards pertaining to accumulating and billing incurred amounts. The proposed final rates apply to the Federal awards listed in Attachment 2. A copy of SRC's Certificate of Final Indirect Costs, dated March 1, 2024, is included as Appendix 1 to the report.

**Management's Responsibility**

SRC's management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs, including the design, implementation, maintenance of internal control to prevent or detect and correct noncompliance due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of SRC's 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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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

In performing an audit in accordance with GAAS, GAGAS, and Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding SRC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- obtain an understanding of SRC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform

Guidance, but not for the purpose of expressing an opinion on the effectiveness of SRC's internal control over compliance. Accordingly, no such opinion is expressed.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major Federal program. Our audit does not provide a legal determination of SRC's compliance with the compliance requirements referred to above.

We are required to be independent of SRC and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit.

### **Unmodified Opinion on SRC's Compliance with R&D Cluster**

In our opinion, SRC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended September 30, 2023. SRC's proposed amounts on unsettled flexibly priced contracts comply, in all material respects, with contract terms pertaining to accumulating incurred amounts.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

*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 for a Federal program that is less severe than a material weakness in

internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs (Exhibit) as items 2023-001, 2023-002, and 2023-003 to be significant deficiencies.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on SRC's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs (Exhibit) as well as SRC's Corrective Action Plan for Current Year Findings (Appendix 3). SRC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### AUDITOR'S COMMENTS ON SRC'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As part of our audit, we included procedures to assess the reasonableness of SRC's Summary of Prior Audit Findings, included as Appendix 2. Our audit disclosed that SRC adequately presented the status of its corrective action taken regarding prior audit Finding Number 2022-004 and 2022-003. Our audit disclosed that SRC materially misrepresented the status of its corrective action taken regarding prior audit Finding Number 2022-001, applicable to the R&D cluster. In addition, SRC only implemented a partial corrective action; therefore, we determined it was not adequate. We reported this as Finding Number 2023-001 in the Schedule of Findings and Questioned Costs (Exhibit). Our audit disclosed that SRC did not implement corrective action for Finding Number 2022-002 until FY 2024; therefore, we could not follow up on the corrective action in this area as part of the audit. Our audit disclosed the same issue regarding improper approval of Inter-Organizational Transfer (IOT) award eForms and IOT invoice approval eForms; therefore, we reported this as Finding Number 2023-002 in the Schedule of Findings and Questioned Costs (Exhibit).

#### *EXIT CONFERENCE*

We provided a draft copy of the report and discussed the results of our examination with Ms. Danielle Chabot, SRC Assistant Vice President Contracts, Compliance, and Internal Audit; and Ms. Tasha Haynes, SRC Senior Manager of Compliance, in an exit conference held on June 13, 2024. SRC concurred with all findings. The indirect rates were agreed to in the Indirect Cost Rate Agreement signed June 13, 2024, and documents the auditee's concurrence with our findings and recommendations. The complete text of the contractor's response appears

as Appendix 3. SRC's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response of the corrective action plan.

We are available to discuss the results of audit and participate in negotiations at your convenience.

The audit results and recommendations related to the indirect rates are summarized in Attachment 1 of this report. The Summary Schedule of Claimed Expenditures by Federal Sponsor is found in Appendix 4.

**DCAA PERSONNEL**

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General information on audit matters is available at <http://www.dcaa.mil/>.

**AUDIT REPORT AUTHORIZED BY:**



Digitally signed by  
VERSTRAETE.JOEL.D.1292959695  
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Joel Verstraete  
Branch Manager  
DCAA Upstate New York Branch Office

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**RESTRICTIONS**

1. The CUI (Controlled Unclassified Information) marking placed on this audit report is not a security marking. It is a marking required for unclassified information that requires safeguarding and dissemination controls pursuant to law, regulation, or Government-wide policy in accordance with Part 2002 of Title 32, CFR. The contents of this audit report are intended for persons whose official duties require access in accordance with Department of Defense (DoD) Instruction 5200.48, Controlled Unclassified Information, effective March 6, 2020. The audit report and supporting documentation may contain information exempt from mandatory disclosure under the Freedom of Information Act. Exemption 4, of the Freedom of Information Act, which addresses proprietary information, may apply. It is not practical to identify, during the conduct of the audit, all elements of the data that are proprietary. Proprietary determinations should be made considering the access to Uniform Guidance Audit Reports granted to the public. Unauthorized disclosure of proprietary information could violate Title 18 United States Code (U.S.C.) 93 §1905 and the violator could be subject to penalties such as fines, imprisonment, and/or removal from office or employment.
2. The Defense Contract Audit Agency has no objection to the auditee releasing this report, at their discretion for public inspection. DCAA also has no objection to the auditee excluding Attachments of this report from the filing with the Federal Clearinghouse due to the proprietary nature of the information included in an attachment.
3. This report is intended solely for the information and use by Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

**SRC, Inc.**  
**Fiscal Year Ended September 30, 2023**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION I: -- SUMMARY OF AUDITOR'S RESULTS:**

A. Financial Statements:

Information pertaining to the financial statements and the report on the Schedule of Expenditures of Federal Awards required by the Uniform Guidance are included in the independent public accountant's audit report.

B. Federal Awards:

Type of auditor's report issued on compliance for major programs:

Type of Audit Opinion	Research & Development Cluster
Unmodified	X
Qualified	
Adverse	
Disclaimer	

Internal control over major programs:

	Yes	None Reported
Material weaknesses were identified.		X
Significant deficiencies identified not considered to be material weaknesses.	X	

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

Yes	X
No	

Identification of Major Programs:

CFDA Number	Federal Program
N/A	Research & Development Cluster

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

\$3,000,000
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Auditee classified as a low-risk under 2 CFR 200 Subpart F:

Yes	X
No	

**SRC, Inc.**  
**Fiscal Year Ended September 30, 2023**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION II: -- FINDINGS RELATED TO FINANCIAL STATEMENTS:**

Information pertaining to the financial statements can be found in the independent public accountant's audit report.

**SECTION III: FINDINGS RELATED TO FEDERAL AWARDS:**

**SUMMARY OF FINDINGS RELATED TO FEDERAL AWARDS**

Finding Number	Major Federal Program	CFDA	Finding
2023-001	R&D Cluster	N/A	Misrepresentation of prior audit finding 2022-001; Compliance Requirements A & B; 48 CFR 9904.404 and 48 CFR 9904.409; Federal Acquisition Regulations (FAR) 31.205-11(a)
2023-002	R&D Cluster	N/A	Misrepresentation of prior audit finding 2022-002; Compliance Requirements A & B; FAR 42.202(e)(2)
2023-003	R&D Cluster	N/A	Compliance Requirements A & B; 48 CFR 9903.202-3

**A. INTERNAL CONTROL OVER COMPLIANCE:**

**2023-001 Internal Control and Compliance Finding Related to 48 CFR 9904.404, Capitalization of Tangible Assets, and 48 CFR 9904.409, Depreciation of Tangible Capital Assets**

a. Condition

Our review of compliance and internal control testing in accordance with OMB *Compliance Supplement* for Part A. Activities Allowed or Unallowed; Part B. Allowable Cost/Cost Principles; and Part H. Period of Performance identified a noncompliance related to the capitalization and depreciation of tangible assets as reported in DCAA Audit Report No. 03441-2022S19404001, dated January 23, 2023.

SRC claimed depreciation expenses in excess of what should be allocated to FY 2023. Our review of SRC's depreciable cost identified the following noncompliance with specific requirements of 48 CFR 9904.404. In addition, our review of SRC's depreciation costs identified the following noncompliance with specific requirements of 48 CFR 9904.409 and FAR 31.205-11, *Depreciation*:

- SRC does not document their analysis of historical asset service life in support of its estimated useful lives utilized as part of its depreciation calculation, which is in noncompliance with 48 CFR 9904.409-50(e)(1) and 48 CFR 9904.409-50(e)(2). SRC does not maintain records to support useful lives on its useful life matrix. The actual lives are longer than the estimated useful lives utilized, resulting in understated useful lives and overstated depreciation expense in the estimated useful life years.
- SRC does not estimate residual values; therefore, residual value in excess of ten percent is not considered in calculating the depreciable costs, which is in noncompliance with 48 CFR 9904.409-50(a)(1), 48 CFR 9904.409-50(h), FAR 31.205-11, and the contractor's written capital asset policy. The system automatically sets up residual value at zero percent. This results in overstated depreciation expense.
- The building purchase price includes the cost of the land and SRC depreciated land, which is in noncompliance with 48 CFR 9904.404-40(a) and the contractor's written capital asset policy. The policy was not consistently applied by the employee recording the cost of buildings in the books and records. Land costs were depreciated resulting in overstated depreciation expense.
- SRC's DS regarding the self-constructed assets is not in compliance with its actual practice, which is noncompliant with 48 CFR 9904.404-40(a). DS does not explain the application of the overhead and G&A rates for similar and non-similar products. Incorrectly calculated depreciable costs could result in additional depreciation expense charged to indirect pools, resulting in increased indirect costs charged to Government contracts.
- Assets are not all tagged by SRC, which is in noncompliance with the contractor's written capital asset policy. The policy is not consistently followed as assets did not have tags and some assets had virtual tags, not covered in the policy. The lack of asset tags results in issues with identifying assets.

The resolution of the CAS noncompliance is being handled through the resolution process specified in FAR 30.605, *Processing Noncompliances*. On January 31, 2023, the Administrative Contracting Officer issued an initial determination of noncompliance with 48 CFR 9904.404 and 48 CFR 9904.409. Therefore, we have not qualified our audit results or questioned any indirect costs. This noncompliance pertains to all Federal Contracts under SRC's R&D cluster.

## b. Criteria

We examined 48 CFR 9904.404-40(a) which states:

*The acquisition cost of tangible capital assets shall be capitalized. Capitalization shall be based upon a written policy that is reasonable and consistently applied.*

We examined 48 CFR 9904.409-50(a)(1) which states:

*The depreciable cost of a tangible capital asset shall be its capitalized cost less its estimated residual value.*

We examined 48 CFR 9904.409-50(e)(1) and (e)(2) which states:

*(1) The expected actual periods of usefulness shall be those periods which are supported by records of either past retirements or, where available, withdrawals from active use (and retention for standby or incidental use) for like assets (or groups of assets) used in similar circumstances appropriately modified for specifically identified factors expected to influence future lives.*

*(2) Supporting records shall be maintained which are adequate to show the age at retirement or if the contractor so chooses, at withdrawal from active use (and retention for standby or incidental use) for a sample of assets for each significant category. Whether assets are accounted for individually or by groups, the basis for estimating service lives shall be predicated on supporting records of experienced lives for either individual assets or any reasonable grouping of assets as long as that basis is consistently used.*

We examined 48 CFR 9904.409-50(h) which states:

*Estimated residual values shall be determined for all tangible capital assets (or groups of assets). For tangible personal property, only estimated residual values which exceed ten percent of the capitalized cost of the asset (or group of assets) need to be used in establishing depreciable costs. Where either the declining balance method of depreciation or the class life asset depreciation range system is used consistent with the provisions of this Standard, the residual value need not be deducted from capitalized costs to determine depreciable costs. No depreciation cost shall be charged which would significantly reduce book value of a tangible capital asset (or group of assets) below its residual value.*

In addition, we examined FAR 31.205-11(a) which states:

*a) Depreciation on a contractor's plant, equipment, and other capital facilities is an allowable contract cost, subject to the limitations contained in this cost principle. For tangible personal property, only estimated residual values that exceed 10 percent of the*

*capitalized cost of the asset need be used in establishing depreciable costs. Where either the declining balance method of depreciation or the class life asset depreciation range system is used, the residual value need not be deducted from capitalized cost to determine depreciable costs. Depreciation cost that would significantly reduce the book value of a tangible capital asset below its residual value is unallowable.*

We also examined SRC's Capital Asset Policy which states in part:

*Salvage (Residual) Value - Assets placed in service will follow FAR 31.205-11 whereby residual value will be used ONLY when it exceeds 10% of the capitalized cost of the asset. Otherwise, no salvage (residual) value will be assumed.*

*Land: Capitalized at original cost including readying the land for use.*

*All assets (except Land) will be depreciated monthly on the straight-line basis over the appropriate useful life.*

*The Facilities/Property department is responsible for ensuring all capital assets are properly identified and tagged.*

*The Company shall take all reasonable precautions to ensure that capital assets are properly maintained and kept in good, safe working order, are kept physically secure, and properly identified with a Company tag.*

We examined Item 4.5.0(d), Application of Overhead and G&A rates to specified Transactions or Costs-Self-constructed depreciable assets, of SRC's DS, Revision 22 and Revision 23, effective October 1, 2021 and October 1, 2022, respectively, which states in part:

*(d) Self-constructed depreciable assets. Costs for self-constructed assets consist of labor, non-labor and applicable indirect loadings accumulated in the shop supply and labor expense accounts by a unique project number. At the end of each month these costs are transferred to the balance sheet as a capital asset. At the completion of the project, the asset is placed in service so that depreciation of that asset can begin.*

There were no changes between the two DS revisions, the language used by SRC is identical.

c. Recommendation

SRC should comply with 48 CFR 9904.404 and its written policies regarding depreciable costs and self-constructed assets. In addition, SRC should comply with 48 CFR 9904.409 and FAR 31.205.11 regarding useful lives and residual value. The written capital asset policy should be followed regarding asset tags and revised for virtual tags. Training should be provided to responsible employees to ensure compliance with 48 CFR 9904.404, 48 CFR 9904.409, and FAR 31.205-11. For full details, see recommendations included in DCAA Audit Report No. 03441-2022S19404001.

## d. Contractor Response

SRC concurs to our findings. SRC's complete response is included in the Corrective Action Plan for Current Year Findings in Appendix 3.

**2023-002 Internal Control and Compliance Finding Related to Proper Review and Approval of Internal Purchase Orders and Invoices**

## a. Condition

Our review of compliance and internal controls testing in accordance with OMB *Compliance Supplement* for Part A. Activities Allowed or Unallowed; Part B. Allowable Cost/Cost Principles; and Part H. Period of Performance identified an internal control deficiency relating to the review and approval of internal purchase orders and non-subcontract invoices.

IOT costs are recorded to account number 5-4-080 – IOT from related LLCs . We performed transaction testing for claimed IOT costs under auditable contracts. We judgmentally selected two transactions totaling \$3,486,240 or 52 percent of the FY 2023 adjusted IOT auditable universe.

During our examination of the selected IOT costs, we examined invoices and invoice approval eForms to ensure the auditee complied with internal controls related to invoice approval and to ensure subcontract monitoring procedures were performed. The selected IOT transactions were incurred under two internal purchase orders (IPOs), of which a related entity is the performing company. One invoice approval eForm is applicable to each IPO. For both of the invoice approval eForms, no indication of review or approval by the SRC program manager was identified; instead, the eForms were approved by the program manager of the performing company. Additionally, during our examination of the selected IOT costs, we evaluated the IPO award eForms for the two selected IPOs to ensure the auditee complied with internal controls related to IPO approval. We identified for one of the IPOs, the IPO award eForm for the base and all change orders was approved by the related entity's program manager instead of an SRC program manager.

The SRC program manager is required to be involved in the monitoring, review, and approval of IOT costs claimed at the prime contract level. Having the related entity program manager reviewing and approving their own invoices, is a clear lack of segregation of duties. The delegation letter issued in FY 2023 which permitted the related entity's program managers to sign invoices on their own entity's purchase orders did not serve as adequate corrective action. This noncompliance pertains to all Federal Contracts under SRC's R&D cluster.

## b. Criteria

OMB *Compliance Supplement* for the requirements of Part A. Activities Allowed and Unallowed and Part B. Allowable Costs/Cost Principles, requires us to plan and perform tests of internal control including control activities, which requires policies and procedures to achieve

objectives and respond to risks in the internal control system which includes the entity's information system. We performed testing to determine if:

*"There is adequate segregation of duties established between entering/authorizing information, reviewing/approving the information, and for maintaining records supporting the information."*

*"Reports and communications include relevant, accurate, and complete information that is provided to appropriate individuals on a timely basis."*

*"Ongoing or recurring practices are demonstrated that monitor activities or results, and should be evidenced by adequate documentation of the monitoring activity, the results of the monitoring, and timely communication of any actions required due to observed deficiencies or deviations."*

*"Procedures are in place to ensure that monitoring is routinely performed."*

*"Appropriate levels of management review supporting documentation to ensure accuracy of the reported or billed allowable cost."*

FAR 42.202(e)(2) requires that: *"The prime contractor is responsible for managing its subcontracts."* This includes, but is not limited to, performing activities similar to that done by a Government contracting officer's representative (i.e., the billings from the subcontractor are consistent with the scope work performed, an analysis of the allowability of the costs on the subcontract billing, subcontractor billing rates are updated timely to reflect year-end actual allowable rates, resolving any subcontractor overpayments timely).

We examined SRC's CORP-P-100, *Approval and Signature Authority policy*, dated June 22, 2021, and SRC CORP-D-100, *Signature Authority Matrix Revisions* with effective dates of January 20, 2022; March 1, 2023; and September 15, 2023, which state and include in part:

*"The procedure defines signature authority as identified in our Signature Authority Matrix. A sound internal control environment requires that only officers of the Company and their designees approve financial and contractual transactions for the company."*

The Signatory Authority Matrix included in CORP-D-100 for Forms indicates that for no-subcontract invoices, approval by the program manager and review by the financial analyst is required. We additionally examined SRC's ACC-P-301, *Subcontractor and IPO Accounts Payable Process*, dated August 14, 2020, which includes a flowchart in line with CORP-D-100 requirements requiring approval by the program manager and financial analyst.

The Signatory Authority Matrix included in CORP-D-100 for Forms indicates that for IPO award forms, approval by the supervisor, program manager, financial analyst, contracts/subcontracts/purchasing manager, and materials program manager (if material) is required. We additionally examined SRC's SPP 10.1, *Internal Purchase Orders*, dated June 17, 2022, which state and include in part:

*"Once complete, the requestor shall route the IPO award eForm to the performing company's Contract Administrator...If determined to be correct and current, the Contracts Administrator shall route IPO award eForms containing Material to the Manufacturing Program Manager (MPM) group and service only IPOs directly to the Center Approver. For Material IPOs, the MPMs will review and confirm the information related to the Material and shipping, then route the eForm the Center Approver. The Center Approver shall review the eForm, approve, and route to the FA. The FA shall review and confirm the Accounting Information is correct, approve, and route to Subcontracts. "*

c. Recommendation

The auditee should comply with its formal policies and procedures and ensure the appropriate personnel are reviewing and approving the IPO invoices and the IPO award forms.

d. Contractor Response

SRC concurs to our findings. SRC's complete response is included in the Corrective Action Plan for Current Year Findings in Appendix 3.

**2023-003 Internal Control and Compliance Finding Related to 48 CFR 9903.202-3 Amendments and Revisions**

a. Condition

Our review of compliance and internal control testing in accordance with OMB *Compliance Supplement* for Part A. Activities Allowed or Unallowed, Part B. Allowable Cost/Cost Principles noncompliance, Part H. Period of Performance, and 48 CFR 9903.202-3 *Amendments and Revisions*, identified an internal control deficiency regarding the written practices in the contractor's DS pertaining to SCI costs.

SRC has accounted for \$16,886,093 of SCI costs that are not included in the G&A Base. The contractor's DS Revision 23, Effective October 1, 2022 (Page 29), states that SCI costs should be represented in any "corporate bases such as fringe and G&A." We were able to trace specific SCI labor costs in the Fringe base but were unable to trace the total SCI costs to the G&A base.

We learned from the auditee that the DS was misstated on April 24th, 2024, and that the costs should not be in the G&A base. The auditee conceded that the DS was incorrectly described. The costs are akin to G&A and to eliminate the administrative burden of coding the costs to an unallowable account to then be removed as part of the claim, they are simply excluded from the Incurred Cost Submission as the costs would not be included in the Value-Added Base.

## b. Criteria

48 CFR 9903.202-3 Amendments and revisions states the following compliance requirements:

*“Contractors and subcontractors are responsible for maintaining accurate Disclosure Statements and complying with disclosed practices. Amendments and revisions to Disclosure Statements may be submitted at any time and may be proposed by either the contractor or the Government. Resubmission of complete, updated, Disclosure Statements is discouraged except when extensive changes require it to assist the review process.”*

## c. Recommendation

The auditee should revise its DS to provide visibility and clarification as to the actual practices of SCI costs.

## d. Contractor Response

SRC concurs to our findings. SRC’s complete response is included in the Corrective Action Plan for Current Year Findings in Appendix 3.

**APPENDIX 1**

CERTIFICATE OF FINAL INDIRECT RATES

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**APPENDIX 2**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2 Pages

**APPENDIX 3**

CORRECTIVE ACTION PLAN FOR CURRENT YEAR FINDINGS

1 Page

**APPENDIX 4**

SUMMARY SCHEDULE OF CLAIMED EXPENDITURES BY FEDERAL SPONSOR

1 Page

SRC, INC.  
North Syracuse, NY

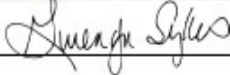
**CERTIFICATE OF FINAL INDIRECT RATES**

**SRC, Inc.**  
**Schedule N**  
**Certificate of Final Indirect Costs**  
**Fiscal Year Ended September 30, 2023**

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal dated March 1, 2024 to establish final indirect cost rates for Fiscal Year October 1, 2022 through September 30, 2023 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements

**Firm:** SRC Inc. \_\_\_\_\_

**Signature:**  \_\_\_\_\_

**Name of Certifying Official** **Gwendolyn Sykes** \_\_\_\_\_

**Title** **Executive Vice President, Finance & CFO** \_\_\_\_\_

**Date of Execution** **Friday, March 1, 2024** \_\_\_\_\_

**SRC, INC.**  
**North Syracuse, NY**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**Fiscal Year Ended September 30, 2023**



**SRC, Inc.**  
**Uniform Guidance Audit Report: Summary Schedule of Prior Audit Findings**  
**Year Ending September 30, 2022**

**Finding 2022-001**

**Summary of Prior Audit Finding:**

Internal Control and Compliance Finding Related to CAS 404 and 409 Noncompliance

**Recommendation:**

SRC should comply with 48 CFR 9904.404 and its written policies regarding depreciable costs and self-constructed assets. In addition, SRC should comply with 48 CFR 9904.409 and FAR 31.205-11 regarding useful lives and residual value. The written capital asset policy should be followed regarding asset tags and revised for virtual tags. Training should be provided to responsible employees to ensure compliance with 48 CFR 9904.404, 48 CFR 9904.409 and FAR 31.205-11. For full details, see recommendations included in DCAA Audit Report No. 03441-2022S19404001.

**Status of Finding:**

SRC has already partially implemented corrective action related to this finding as presented in the CAS non-compliance issued by DCAA and the Administrative Contracting Officer. SRC provided a detailed response to the Administrative Contracting Officer in a letter dated March 30, 2023. For the useful life finding, SRC is in the fourth year of an anticipated five-year period to verify the existence of tangible assets. SRC is incorporating into this review validation of active and withdrawn from active use status of tangible assets to identify differences between physical life and depreciable life. Once this is complete SRC will update policies and procedures to incorporate periodic analysis and review of our useful life matrix to analyze if adjustments are required.

SRC is also currently working through a cost impact analysis with DCAA and DCMA for these non-compliances as well as a formal response to the "Determination of Noncompliance with Cost Accounting Standards 404 and 409" letter from Brian Moeller, Administrative Contracting Officer, which was received on January 23, 2024.

**Finding 2022-002**

**Summary of Prior Audit Finding:**

Internal Control and Compliance Finding Related to Proper Review and Approval of Internal Purchase Orders, Invoices and Purchase Requisitions

**Recommendation:**

The auditee should comply with its formal policies and procedures and ensure the appropriate personnel are reviewing and approving the IPO Invoice approval eForms, the IPO award eForms, and the PR eForms related to direct material.

**Status of Finding:**

SRC implemented corrective action to address this finding by putting delegation letters in place. DCAA reviewed this corrective action as part of another audit engagement and in their audit memo determined that this corrective action was not sufficient. As a result,



management re-evaluated possible solutions and determined that going forward, approvals on all forms must be completed by an employee who works for the applicable company. A formal communication was sent to all program managers on March 5, 2024 notifying them of both the finding and the procedure change going forward.

**Finding 2022-003**

**Summary of Prior Audit Finding:**

Internal Control and Compliance Finding Related to Temporary Removal of Property

**Recommendation:**

The auditee should comply with its formal policies and procedures regarding the temporary removal of property. They should ensure the proper eForms are being filled out and approved by the appropriate personnel, and the contractor's asset management system tool (Sunflower) is being updated when materials are being temporarily transferred from one location to another.

The auditee should ensure that all responsible employees are properly trained and made aware of the requirements of its policies and procedures regarding the temporary removal of property.

**Status of Finding:**

Management updated MAT-P-540 with an effective date of December 8, 2023. After the procedure was updated, employees in the following groups were issued training on the procedure: Engineering, Program Management, Program Control Analysts and Operations BD. In addition, DCAA found no exceptions to this procedure as part of their FY 2023 review of materials (MAAR 13).

**Finding 2022-004**

**Summary of Prior Audit Finding:**

Internal Control and Compliance Finding Related to FAR 52.216-7. Allowable Cost and Payment

**Recommendation:**

SRC should strengthen its internal controls to ensure contract costs are liquidated within the requirements of FAR 52.216-7 for physically completed contracts. SRC should evaluate its process for monitoring subcontract costs to ensure related invoices are processed in a timely manner to meet the FAR 52.216-7 requirements and comply with its written procedure. We recommend that the auditee train appropriate employees on monitoring subcontract costs to ensure compliance.

**Status of Finding:**

To ensure costs are liquidated within 120 days as required, the Subcontracts department modified SRC's terms and conditions to allow for unilateral closeouts. In addition, procurement procedures (SPP 5.3) were updated so that the subcontract administrator will notify the SRC contracts administrator if we are unable to close out the subcontract within 60 days of the end of the period of performance to determine if an extension can be granted before the 120 day requirement.

**SRC, INC.**  
**North Syracuse, NY**

**CORRECTIVE ACTION PLAN FOR CURRENT YEAR FINDINGS**



SRC Inc.  
 Management's Views and Corrective Action Plan Regarding Uniform Guidance Audit  
 Findings for the  
 Year Ending September 30, 2023

Finding 2023-001

SRC has already partially implemented corrective action related to this finding as presented in the CAS non-compliance issued by DCAA and the Administrative Contracting Officer. SRC provided a detailed response to the Administrative Contracting Officer in a letter dated March 21, 2024. For the useful life finding, SRC is in the fourth year of an anticipated five-year period to verify the existence of tangible assets. This review includes validation of the status of active tangible assets as well as those withdrawn from active use to identify differences between physical life and depreciable life. Once this is complete SRC will update our policies and procedures to incorporate the process of periodically analyzing and reviewing our useful life matrix to determine whether useful lives are valid or if adjustments are required. SRC provides additional training to employees responsible for capital.

SRC's policy states that residual value will be recognized consistent with FAR 31.205-11 which states, "for tangible personal property, only estimated residual values that exceed ten percent of the capitalized cost of the asset need be used in establishing depreciable costs". SRC's capital asset policy and Disclosure Statement do not set a standard ten percent residual value. SRC demonstrated that there have been no instances of salvage value of any amount recovered at tangible asset disposition. SRC agrees the system defaults to zero percent salvage value but disagrees this is indicative of a deficiency as the system provides for the flexibility to adjust the salvage value to the appropriate amount, as applicable.

The overstated depreciation expense for the land costs were credited in the FY 2023 incurred cost submission.

SRC's disclosure statement was updated effective October 1, 2023 to include the clerical edits needed to clarify overhead rate application to self-constructed assets.

Remaining outstanding corrective action, which entails reviews of our policies and procedures will take place by September 30, 2025.

Contact Person Responsible for Corrective Action: Lisa Kennedy, Director, Corporate Controller

Completion Date: All corrective action will be implemented by September 30, 2025.

Finding 2023-002

SRC implemented corrective action to address this finding by putting delegation letters in place. DCAA reviewed this corrective action as part of another audit engagement and in their audit memo determined that this corrective action was not sufficient. As a result, management re-evaluated possible solutions and determined that going forward, approvals on all forms must be completed by an employee who works for the applicable company. A formal communication was sent to all program managers on March 5, 2024, notifying them of both the finding and the procedure change going forward.

Contact Person Responsible for Corrective Action: Tasha Haynes, Sr Manager, Compliance

Completion Date: Corrective Action has been implemented.

Finding 2023-003

SRC will review and revise the disclosure statement to provide clarification on the treatment of SCI costs in the next disclosure statement revision.

Contact Person Responsible for Corrective Action: Tasha Haynes, Sr Manager, Compliance

Completion Date: All corrective action will be implemented by September 30, 2024.

**SRC, INC.**  
**North Syracuse, NY**

**SUMMARY SCHEDULE OF CLAIMED EXPENSES BY FEDERAL SPONSOR  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2023**

Major Program-R&D Cluster	Assistance Listing Numbers	Expenditures Direct	Pass-Through	Total *	Amount Provided to Sub Recipients
Department of Defense:					
Department of the Air Force	12	\$ 39,665,907	\$ 13,585,719	\$ 53,251,626	\$ 1,289,929
Department of the Army	12	67,991,890	21,611,559	89,603,449	-
Department of the Navy	12	6,090,018	640,900	6,730,918	-
Department of the Marines	12	414,409	40,485	454,894	-
National Reconnaissance Organization	12	-	1,390,784	1,390,784	-
Defense Intelligence Agency	12	-	398,308	398,308	-
Defense Advanced Research Projects Agency	12	38,693	280,448	319,141	-
Defense Threat Reduction Agency	12	150,815	3,066,546	3,217,361	-
Defense Logistics Agency	12	-	41,887	41,887	-
Office of the Secretary of Defense	12	-	539,741	539,741	-
Defense Technical Information Center	12	-	732,048	732,048	-
Washington Headquarters Services	12	-	565,376	565,376	-
United States Special Operations Command	12	24,569	-	24,569	-
Other Contracts	12	416,836	-	416,836	-
Total Department of Defense *		<u>\$ 114,793,137</u>	<u>\$ 42,893,801</u>	<u>\$ 157,686,938</u>	<u>\$ 1,289,929</u>
Other Federal Agencies					
Environmental Protection Agency**	66	\$ 7,971,716	\$ 46,319	\$ 8,018,035	\$ -
Department of Health and Human Services**	93	1,858,521	-	1,858,521	-
Department of Energy**	81	-	464,967	464,967	-
Department of Homeland Security**	97	-	34,745	34,745	-
Department of State**	19	-	17,240	17,240	-
Department of Transportation **	20	-	27,214	27,214	-
National Aeronautics and Space Administration**	43	18,575	12,333	30,908	-
Total Other Federal Agencies *		<u>\$ 9,848,812</u>	<u>\$ 602,818</u>	<u>\$ 10,451,630</u>	<u>\$ -</u>
Total Federal Awards *		<u>\$ 124,641,949</u>	<u>\$ 43,496,619</u>	<u>\$ 168,138,568</u>	<u>\$ 1,289,929</u>

\* Minor differences due to rounding.

\*\* Contracts within these agencies are outside the purview of the Administrative Contracting Officer as they do not have inter-agency authority to close out non-Department of Defense contracts. These are audited by BDO USA, LLP as part of the coordinated audit of SRC's Research and Development (R&D) cluster.