

CUBRC, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplementary Information**

December 30, 2022 and December 31, 2021

CUBRC, Inc. and Subsidiaries
Consolidated Financial Statements

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Independent Auditors' Report

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

Opinion

We have audited the accompanying consolidated financial statements of CUBRC, Inc. ("CUBRC") and its subsidiaries (collectively the "Company"), which comprise the consolidated balance sheets as of December 30, 2022 and December 31, 2021, and the related consolidated statements of activities and cash flows for the fiscal years then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 30, 2022 and December 31, 2021, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

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

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of activities as of and for the fiscal year ended December 30, 2022, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards for CUBRC, as required by *Title 2 U.S. Code of Federal Regulations* (“CFR”) *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023 on our consideration of CUBRC’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CUBRC’s internal control over financial reporting and compliance.

Tronconi Segarra & Associates LLP

Williamsville, New York
September 28, 2023

CUBRC, Inc. and Subsidiaries
Consolidated Balance Sheets
December 30, 2022 and December 31, 2021

	December 30, 2022	December 31, 2021
Assets		
<i>Current Assets</i>		
Cash	\$ 6,342,234	\$ 7,714,650
Accounts receivable	2,162,109	1,455,236
Unbilled accounts receivable	6,474,000	9,506,104
Inventory	395,354	349,553
Prepaid expenses	932,270	753,765
	16,305,967	19,779,308
<i>Property and Equipment, net</i>	1,908,672	529,265
<i>Investments</i>	3,486,804	3,435,153
<i>Right of Use Assets - Operating Leases</i>	19,304,707	0
	\$ 41,006,150	\$ 23,743,726
Liabilities and Net Assets		
<i>Current Liabilities</i>		
Accounts payable	2,713,390	4,078,574
Current maturities of long-term debt	0	968,212
Unearned revenue	234,783	177,280
Accrued expenses	3,681,950	4,430,438
Operating lease obligations - current maturities	1,438,405	0
Finance lease obligations - current maturities	57,135	12,094
	8,125,663	9,666,598
<i>Long-Term Liabilities</i>		
Accrued incentive compensation	0	68,333
Accrued decommissioning costs	395,000	395,000
Operating lease obligations - less current maturities	18,039,571	0
Finance lease obligations - less current maturities	175,244	0
	18,609,815	463,333
Total long-term liabilities	18,609,815	463,333
Total liabilities	26,735,478	10,129,931
<i>Net Assets Without Donor Restrictions</i>	14,270,672	13,613,795
	\$ 41,006,150	\$ 23,743,726

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

CUBRC, Inc. and Subsidiaries
Consolidated Statements of Activities
for the fiscal years ended December 30, 2022 and December 31, 2021

	December 30, 2022	December 31, 2021
<i>Program Revenue, net</i>		
Contract revenue	\$ 49,558,220	\$ 56,788,439
Cost of revenue	45,829,445	52,971,864
Total program revenue, net	3,728,775	3,816,575
<i>Operating Expenses</i>		
Indirect costs		
Administration	16,922,392	16,191,744
Research and development	424,480	538,557
Facility expenses	4,957,796	4,779,712
Program development	2,243,364	2,224,842
Floor space rental	1,098,235	959,251
Proposal	630,750	514,774
Depreciation	48,777	89,092
Total indirect costs	26,325,794	25,297,972
Indirect cost reimbursements		
General and administrative	4,970,779	4,962,701
Facility usage	3,445,390	4,673,424
Professional technical expense	7,241,247	7,128,482
Fringe expense	8,494,615	8,110,171
Total indirect cost reimbursements	24,152,031	24,874,778
Total unreimbursed indirect costs	2,173,763	423,194
Income from operations	1,555,012	3,393,381
<i>Other Income (Expenses) - Non-Contract Related</i>		
Miscellaneous revenue	66,254	67,671
Investment loss, net	0	(2,773)
Legislative pursuits	(76,561)	(73,021)
Interest expense	(11,806)	(30,498)
Unallowed	(1,038,278)	(1,337,359)
Total other expenses - non-contract related, net	(1,060,391)	(1,375,980)
Increase in net assets without donor restrictions	494,621	2,017,401
<i>Net Assets Without Donor Restrictions, beginning of year</i>	13,613,795	11,596,394
<i>Cumulative-effect adjustment to equity for ASC 842 implementation</i>	162,256	0
<i>Net Assets Without Donor Restrictions, end of year</i>	\$ 14,270,672	\$ 13,613,795

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

CUBRC, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
for the fiscal years ended December 30, 2022 and December 31, 2021

	December 30, 2022	December 31, 2021
	<u> </u>	<u> </u>
<i>Cash Flows from Operating Activities</i>		
Increase in net assets	\$ 494,621	\$ 2,017,401
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	256,630	218,306
Net unrealized loss on investments	0	5,325
Interest income on investment	(56,000)	(58,432)
(Increase) Decrease in:		
Accounts receivable	(706,873)	458,329
Unbilled accounts receivable	3,032,104	(1,766,856)
Inventory	(45,801)	(21,409)
Prepaid expenses	(178,505)	(237,213)
Right of use assets - operating leases	1,581,321	0
Increase (Decrease) in:		
Accounts payable	(1,986,606)	(65,981)
Unearned revenue	57,503	40,775
Accrued expenses	(581,883)	490,080
Long-term accrued incentive compensation	(68,333)	(131,667)
Operating lease liabilities	<u>(1,408,052)</u>	<u>0</u>
Net cash provided by operating activities	390,126	948,658
<i>Cash Flows from Investing Activities</i>		
Purchases of property and equipment	<u>(752,465)</u>	<u>(393,040)</u>
Net cash used in investing activities	(752,465)	(393,040)
<i>Cash Flows from Financing Activities</i>		
Repayments on Paycheck Protection Program loan	(968,212)	(2,274,833)
Repayment of finance lease obligations	<u>(41,865)</u>	<u>(47,186)</u>
Net cash used in financing activities	<u>(1,010,077)</u>	<u>(2,322,019)</u>
Net decrease in cash	(1,372,416)	(1,766,401)
<i>Cash, beginning of year</i>	<u>7,714,650</u>	<u>9,481,051</u>
<i>Cash, end of year</i>	<u>\$ 6,342,234</u>	<u>\$ 7,714,650</u>
<i>Supplemental Disclosure of Cash Flow Information</i>		
Cash paid during the year for:		
Interest expense	\$ 11,806	\$ 30,498
Noncash operating, investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 20,886,028	\$ 0
Equipment purchases in accounts payable	\$ 621,422	\$ 0
Right-of-use asset obtained in exchange for finance lease liability	\$ 262,150	\$ 0

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

CUBRC, Inc. and Subsidiaries

Notes to Financial Statements

1. Nature of Business and Summary of Significant Accounting Policies

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

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

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

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

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

Accounting Period – The Company’s fiscal year ends on a Friday, based on a 4-week, 4-week, 5-week repeating accounting period. The fiscal years ended December 30, 2022 and December 31, 2021 both included 52 weeks of operations.

Cash – Cash balances held at a financial institution potentially subjects the Company to concentration of credit risk, as cash may exceed federally insured limits at various times throughout the year. The maximum loss of cash that would result from that risk totals \$7,134,710 and \$8,883,412 at December 30, 2022 and December 31, 2021, respectively. This amount represents the excess of the deposit liabilities reported by the broker over the amount that would be covered by the Securities Investor Protection Corporation (“SIPC”). The SIPC protects against the loss of cash and securities of up to \$500,000, which includes a \$250,000 limit for cash.

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

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

Accounts Receivable – Accounts receivable are recorded at net realizable value. Management considers all accounts receivables outstanding for greater than the terms specified in each contract to be past due and uses factors such as customer history and existing economic conditions to determine collectability. Upon management’s determination of uncollectability, such accounts are directly written off to bad debt expense. At December 30, 2022 and December 31, 2021, there were no amounts determined to be uncollectible by management.

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

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

Property and Equipment, net – Property and equipment is recorded at cost, net of accumulated depreciation. Major renewals and betterments are capitalized. The costs of maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over estimated service lives, which range from 3 to 7 years.

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

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

CUBRC, Inc. and Subsidiaries

Notes to Financial Statements (continued)

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

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

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

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

Additionally, CUBRC assesses for impairment, on at least an annual basis, those assets classified as investments on the accompanying consolidated balance sheets. A variety of factors are considered when determining if an impairment charge is warranted including, among other things, the financial condition, and prospects of the investee, CUBRC’s investment intent, and additional capital infusions in the investees by other third parties. No impairment loss was recognized for the fiscal years ended December 30, 2022 and December 31, 2021.

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

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

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

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

Net Assets With Donor Restrictions – Net assets with donor restrictions represent resources whose use relates to a specific program or purpose, and whose use by the Company is limited to donor-imposed stipulations that either expire by the passage of time or fulfillment of the purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported as net assets released from restriction. The Company had no net assets with donor restrictions in 2022 and 2021.

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

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

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

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

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

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

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

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

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

Most contracts entered into with the Federal government include standard Federal Acquisition Regulation and/or Defense Federal Acquisition Regulation Supplement ("FAR and/or DFARS") clauses. These clauses give the customer ownership of work-in-progress

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

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

or allow for contract termination for convenience, which entitles the Company to be paid for work performed prior to the termination date. Similar contract clauses, such as termination for convenience are typically included in non-governmental (i.e. commercial type contracts), despite not being governed by FAR/DFARS. Such contract clauses would imply satisfaction of criterion required to recognize revenue over-time.

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

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

Functional Expenses – The Company considers research, development, testing and integration, facilities, professional technical expense (overhead) and general and administrative costs to be its primary functional categories for purposes of expense classification. Functional expenses are shown net of indirect cost reimbursements, which are included within operating expenses in the consolidated statements of activities for the fiscal years ended December 30, 2022 and December 31, 2021. Research, development testing and integration represent the expenses incurred directly on the Company’s contracts, including allocated overhead which is allocated based on rates across the various program expense categories. Facilities represents the expenses incurred to maintain the Company’s facilities, including allocated overhead which is allocated based on rates across the various program expense categories.

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

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

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

CUBRC, Inc. and Subsidiaries

Notes to Financial Statements (continued)

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

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

Recently Adopted Accounting Standard— In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities related to the rights and obligations created by those leases. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which deferred the effective date of ASU 2016-02 for the Company for fiscal years beginning after December 15, 2021.

The Company adopted the guidance of ASU 2016-02 on January 1, 2022 using the modified retrospective approach. Accordingly, prior period balances and disclosures have not been restated. The Company elected the package of transition practical expedients for expired or existing contracts, which retains prior conclusions regarding lease identification, classification, and initial direct costs incurred.

The adoption of this guidance resulted in the recognition of operating lease right-of-use assets and operating lease liabilities of \$3,936,672 as well as finance lease right-of-use assets and finance lease liabilities of \$262,150 as of January 1, 2022, and did not have a material impact on the Company's results of operations or liquidity. See Note 5 for further detail.

Recently Issued Accounting Standard— In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*, which aims to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supporting information to inform credit loss estimates. The standard also requires additional disclosures to reflect this change. ASU 2016-13 is effective for the Company beginning in 2023. The Company is currently assessing the impact of this standard on its consolidated financial statements.

Management Estimates— The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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

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

Subsequent Events – Management of the Company has evaluated subsequent events, for recognition or disclosure, through September 28, 2023, the date the accompanying consolidated financial statements were available to be issued, and determined that no additional recognition or disclosure was necessary.

2. Liquidity and Availability of Financial Assets

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

	<u>December 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Current assets excluding non-financial assets:		
Cash	\$ 6,342,234	\$ 7,714,650
Accounts receivable	2,162,109	1,455,236
Unbilled accounts receivable	<u>6,474,000</u>	<u>9,506,104</u>
Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 14,978,343</u>	 <u>\$ 18,675,990</u>

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

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

3. Investments

The Company continues to actively pursue strategic equity investments in outside entities. The following is a summary of investments held by the Company at December 30, 2022 and December 31, 2021:

	December 30, 2022			
	Cost	Fair Value	Ownership	Related-Party Ownership
Equity investments without readily determinable fair values				
Akonni Biosystems, Inc.	\$ 2,144,219	n/a	4.85%	CEO, VP
Prosetta Biosciences Inc.	<u>1,342,585</u>	n/a	4.18%	CEO
	<u>\$ 3,486,804</u>			
	December 31, 2021			
	Cost	Fair Value	Ownership	Related-Party Ownership
Equity investments without readily determinable fair values				
Akonni Biosystems, Inc.	\$ 2,088,218	n/a	4.85%	CEO, VP
Prosetta Biosciences Inc.	<u>1,342,585</u>	n/a	3.05%	CEO
	<u>\$ 3,430,803</u>			
Equity investment with readily determinable fair values				
Genocea Biosciences Inc.	<u>\$ 563</u>	<u>\$ 4,350</u>	n/a	n/a

As of December 30, 2022 and December 31, 2021, key officers of the Company held personal investments of 1% or less in each respective company noted above.

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

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

3. Investments (continued)

On June 4, 2019, CUBRC purchased a 14% secured note of Akonni Biosystems, Inc. with a principal amount of \$400,000, at a discount, for \$200,000. Although the maturity date was December 31, 2020, the note, including interest and principal, will ultimately become due upon a liquidity event. Interest continues to accrue on this note, which totaled \$56,000 for both of the fiscal years ended December 30, 2022 and December 31, 2021.

Fair Value Method Investments – The Company’s investment in Genocea Biosciences, Inc. (“Genocea”) was carried at fair value, with realized and unrealized gains (losses) reported as increases (decreases) in net assets in the accompanying consolidated statements of activities. Effective May 24, 2022, the Company’s vested stock options in Genocea officially expired and were not exercised, therefore, the Company’s investment value in Genocea was reduced to \$0 as of December 30, 2022. As of December 31, 2021, the Company’s investment in Geneoca was classified as a Level 1 investment within the fair value hierarchy, with fair value being determined by quoted market prices. Net unrealized losses from marketable securities amounted to \$0 and \$5,325 for the fiscal years ended December 30, 2022 and December 31, 2021, respectively, and are recorded in the accompanying consolidated statements of activities.

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

4. Property and Equipment, net

Property and equipment, net, consisted of the following at December 30, 2022 and December 31, 2021:

	December 30, 2022	December 31, 2021
Furniture, fixtures and equipment	\$ 4,170,343	\$ 3,074,705
Less accumulated depreciation	3,001,809	2,745,180
	1,168,534	329,525
Construction-in-progress	740,138	199,740
	\$ 1,908,672	\$ 529,265

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

4. Property and Equipment, net (continued)

Depreciation expense totaled \$256,630 and \$218,306 for the fiscal years ended December 30, 2022 and December 31, 2021, respectively.

5. Lease Commitments

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

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

The Company elected to recognize expenses for leases with a term of 12 months or less on a straight-line basis over the lease term and not to recognize these short-term leases on the consolidated balance sheet.

Finance lease right-of-use assets are included in property and equipment, net on the consolidated balance sheets. At December 30, 2022 and December 31, 2021, the gross amount of equipment and related accumulated depreciation recorded under these finance leases are as follows:

	December 30, 2022	December 31, 2021
Equipment	\$ 262,150	\$ 217,847
Less accumulated depreciation	26,659	203,324
	\$ 235,491	\$ 14,523

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

5. Lease Commitments (continued)

The components of total lease costs are as follows:

	<u>2022</u>
Operating lease cost	\$ 1,939,483
Finance lease cost:	
Amortization of right-of-use asset	26,659
Interest on lease liability	3,557
Short-term lease cost	<u>128,548</u>
	<u>\$ 2,098,247</u>

As of December 30, 2022, operating and finance lease liability maturities for each of the five succeeding fiscal years and thereafter are as follows:

<u>Year ending December 31,</u>	<u>Operating Leases</u>	<u>Finance Lease</u>
2023	\$ 1,843,802	\$ 57,135
2024	1,832,577	57,135
2025	1,714,562	55,746
2026	1,082,738	54,754
2027	1,012,064	22,814
2028 and thereafter	<u>16,288,799</u>	<u>0</u>
Total lease payments	23,774,542	247,584
Less amount representing interest	<u>4,296,566</u>	<u>15,205</u>
Total lease obligations	<u>\$ 19,477,976</u>	<u>\$ 232,379</u>

Supplemental information:

Weighted-average remaining lease term:

Operating leases	17.00 years
Finance lease	4.34 years

Weighted-average discount rate:

Operating leases	2.16%
Finance lease	2.88%

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

5. Lease Commitments (continued)

The Company currently leases building space to conduct research and development for certain government agencies. In accordance with the terms of the lease agreement, the Company is responsible for decommissioning costs in the event the leased area is no longer used for such research. As of December 30, 2022 and December 31, 2021, the Company had accrued \$395,000 for this obligation, which is included in long-term liabilities within the accompanying consolidated balance sheets.

6. Line of Credit

CUBRC has available a \$4,000,000 bank demand line of credit with interest payable at 3% plus the greater of one-month LIBOR, adjusting daily, or one-day LIBOR. The line is secured by substantially all assets, is subject to terms and conditions applied by the bank for working capital financing and is annually reviewed for renewal. There was \$0 outstanding against this line at both December 30, 2022 and December 31, 2021.

The bank requires that the balance on the line of credit be zero for at least 30 consecutive calendar days in any 12-month period. The Company was in compliance with this covenant as of and for the fiscal years ended December 30, 2022 and December 31, 2021.

7. Long-Term Debt

CUBRC and Avarint applied and were approved for financial assistance through the U.S. Small Business Administration (“SBA”) in the amounts of \$2,218,400 and \$1,024,645, respectively. These loans accrued interest at a fixed rate of 1.0% per annum and were originally payable over two years in monthly installments of \$282,075 and \$130,286, respectively, beginning in September 2021 and ending in April 2022. Although required payments were deferred for sixteen months, CUBRC and Avarint made payments of \$1,544,338 and \$730,495, respectively, during the fiscal year ended December 31, 2021. CUBRC and Avarint made additional payments of \$674,062 and \$294,150, respectively, to completely satisfy their respective outstanding loan balances during the fiscal year ended December 30, 2022.

8. Contract Revenue

Contract revenue from the federal government approximated 93% and 97% of total contract revenue for the fiscal years ended December 30, 2022 and December 31, 2021, respectively. Accounts receivable from the federal government approximated 88% and 94% of total accounts receivable as of December 30, 2022 and December 31, 2021, respectively.

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

9. Employee Benefit Plan

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

All employees receive safe-harbor contributions from the Company equal to 3% of their compensation. Additionally, the Company makes profit-sharing contributions equal to 7% of employee compensation for all employees who worked for the Company for seven years or more. Employees who worked for the Company for more than one year, but less than seven years, receive profit-sharing contributions equal to 5% of their compensation. The Company made \$1,707,901 and \$1,625,027 of contributions into the Plan during the fiscal years ended December 30, 2022 and December 31, 2021, respectively.

10. Functional Expenses

The functional breakdown of expense incurred by the Company for the fiscal years ended December 30, 2022 and December 31, 2021 are as follows:

December 30, 2022	Testing & Integration Research, Development	Facilities	Professional Technical Expense	General & Administrative Costs	Total
Salaries	\$ 10,581,513	\$ 498,690	\$ 2,636,949	\$ 2,553,998	\$ 16,271,150
Fringe applied	4,960,515	229,328	1,248,240	1,186,455	7,624,538
Travel	587,546	0	6,668	965	595,179
Purchased services	6,492,324	245,534	87,935	56,568	6,882,361
Consultants	528,512	0	0	0	528,512
Materials, supplies, repairs & maintenance	2,748,799	2,806,594	227,333	209,444	5,992,170
Subcontracts	4,684,452	0	0	0	4,684,452
Space rental	0	969,797	919,987	178,248	2,068,032
Depreciation expense	0	207,853	21,519	27,258	256,630
Professional services	0	0	0	367,306	367,306
IT supplies and services	0	0	238,852	601,819	840,671
Security supplies & services	0	0	78,740	2,373	81,113
Bid & proposal salaries	0	0	0	289,092	289,092
Bid & proposal fringe applied	0	0	0	135,621	135,621
Bid & proposal other costs	0	0	0	2,004	2,004
IR&D salaries	0	0	0	140,814	140,814
IR&D fringe benefits	0	0	0	66,018	66,018
IR&D other costs	0	0	0	60,826	60,826
Program development salaries	0	0	1,359,663	0	1,359,663
Program development fringe	0	0	634,768	0	634,768
Program development other costs	0	0	248,933	0	248,933
Total	<u>30,583,661</u>	<u>4,957,796</u>	<u>7,709,587</u>	<u>5,878,809</u>	<u>49,129,853</u>
Indirect expense allocations	<u>15,245,784</u>	<u>(3,438,690)</u>	<u>(7,222,510)</u>	<u>(4,584,584)</u>	<u>0</u>
Total expenses	<u>\$ 45,829,445</u>	<u>\$ 1,519,106</u>	<u>\$ 487,077</u>	<u>\$ 1,294,225</u>	<u>\$ 49,129,853</u>

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

10. Functional Expenses (continued)

December 31, 2021	Testing & Integration Research, Development	Facilities	Professional Technical Expense	General & Administrative Costs	Total
Salaries	\$ 10,031,480	\$ 397,620	\$ 2,567,027	\$ 2,545,235	\$ 15,541,362
Fringe applied	4,600,035	185,996	1,216,914	1,190,624	7,193,569
Travel	474,616	0	2,963	0	477,579
Purchased services	10,449,667	185,854	41,426	28,124	10,705,071
Consultants	595,241	0	0	0	595,241
Materials, supplies, repairs & maintenance	3,741,643	3,192,596	213,854	409,923	7,558,016
Subcontracts	6,736,504	0	0	0	6,736,504
Space rental	0	688,321	780,970	178,281	1,647,572
Depreciation expense	0	129,214	12,544	76,548	218,306
Professional services	0	0	0	318,056	318,056
IT supplies and services	0	0	251,665	530,693	782,358
Security supplies & services	0	0	39,899	125,359	165,258
Bid & proposal salaries	0	0	0	239,241	239,241
Bid & proposal fringe applied	0	0	0	112,231	112,231
Bid & proposal other costs	0	0	0	1,760	1,760
IR&D salaries	0	0	0	182,035	182,035
IR&D fringe benefits	0	0	0	85,005	85,005
IR&D other costs	0	0	0	51,930	51,930
Program development salaries	0	0	1,464,099	0	1,464,099
Program development fringe	0	0	691,266	0	691,266
Program development other costs	0	0	69,477	0	69,477
Total	<u>36,629,186</u>	<u>4,779,601</u>	<u>7,352,104</u>	<u>6,075,045</u>	<u>54,835,936</u>
Indirect expense allocations	<u>16,342,789</u>	<u>(4,632,624)</u>	<u>(7,117,724)</u>	<u>(4,592,441)</u>	<u>0</u>
Total expenses	<u>\$ 52,971,975</u>	<u>\$ 146,977</u>	<u>\$ 234,380</u>	<u>\$ 1,482,604</u>	<u>\$ 54,835,936</u>

A reconciliation of the total functional expenses above to the consolidated statements of activities for the years ended December 30, 2022 and December 31, 2021 is as follows:

	December 30, 2022	December 31, 2021
Cost of revenue	\$ 45,829,445	\$ 52,971,864
Total unreimbursed indirect costs	2,173,763	423,194
Legislative pursuits	76,561	73,021
Interest expense	11,806	30,498
Unallowed	<u>1,038,278</u>	<u>1,337,359</u>
	<u>\$ 49,129,853</u>	<u>\$ 54,835,936</u>

Supplementary Information

CUBRC, Inc. and Subsidiaries
Consolidating Balance Sheets
December 30, 2022

	<u>CUBRC, Inc.</u>	<u>Avarint, LLC</u>	<u>Oriana, Inc.</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
Assets					
Current Assets					
Cash	\$ 4,408,663	\$ 1,933,571	\$ 0	\$ 0	\$ 6,342,234
Accounts receivable	1,556,968	605,141	0	0	2,162,109
Due from affiliated companies	687,258	13,048	1,428,357	(2,128,663)	0
Unbilled accounts receivable	4,768,250	1,705,750	0	0	6,474,000
Inventory	395,354	0	0	0	395,354
Prepaid expenses	750,935	181,335	0	0	932,270
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	12,567,428	4,438,845	1,428,357	(2,128,663)	16,305,967
Property and Equipment, net	1,245,206	663,466	0	0	1,908,672
Investments	7,626,557	0	0	(4,139,753)	3,486,804
Right of Use Assets - Operating Leases	18,203,774	1,100,933	0	0	19,304,707
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 39,642,965	\$ 6,203,244	\$ 1,428,357	\$ (6,268,416)	\$ 41,006,150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Liabilities, Net Assets and Member's Equity

Current Liabilities					
Accounts payable	\$ 2,473,309	\$ 240,081	\$ 0	\$ 0	\$ 2,713,390
Due to affiliated companies	1,441,169	544,403	143,091	(2,128,663)	0
Unearned revenue	232,782	2,001	0	0	234,783
Accrued expenses	2,737,340	944,610	0	0	3,681,950
Operating lease obligations - current maturities	1,080,592	357,813	0	0	1,438,405
Finance lease obligations - current maturities	0	57,135	0	0	57,135
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	7,965,192	2,146,043	143,091	(2,128,663)	8,125,663
Long-Term Liabilities					
Accrued decommissioning costs	115,000	280,000	0	0	395,000
Operating lease obligations - less current maturities	17,292,101	747,470	0	0	18,039,571
Finance lease obligations - less current maturities	0	175,244	0	0	175,244
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total long-term liabilities	17,407,101	1,202,714	0	0	18,609,815
Total liabilities	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	25,372,293	3,348,757	143,091	(2,128,663)	26,735,478
Net Assets Without Donor Restrictions	14,270,672	0	0	0	14,270,672
Member's Equity					
Capital contributions	0	786,116	751,000	(1,537,116)	0
Retained earnings	0	2,068,371	534,266	(2,602,637)	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total member's equity	0	2,854,487	1,285,266	(4,139,753)	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 39,642,965	\$ 6,203,244	\$ 1,428,357	\$ (6,268,416)	\$ 41,006,150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

See independent auditors' report.

CUBRC, Inc. and Subsidiaries
Consolidating Statements of Activities
for the fiscal year ended December 30, 2022

	<u>CUBRC, Inc.</u>	<u>Avarint, LLC</u>	<u>Oriana, Inc.</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
Program Revenue, net					
Contract revenue	\$ 35,413,827	\$ 14,218,105	\$ 0	\$ (73,712)	\$ 49,558,220
Cost of revenue	<u>32,652,010</u>	<u>13,251,147</u>	<u>0</u>	<u>(73,712)</u>	<u>45,829,445</u>
Total program revenue, net	2,761,817	966,958	0	0	3,728,775
Operating Expenses					
Indirect costs					
Administration	10,973,348	5,949,044	0	0	16,922,392
Research and development	382,117	42,363	0	0	424,480
Facility expenses	4,415,860	541,936	0	0	4,957,796
Program development	1,757,547	485,817	0	0	2,243,364
Floor space rental	821,612	276,623	0	0	1,098,235
Proposal	462,985	167,765	0	0	630,750
Depreciation	<u>38,833</u>	<u>9,944</u>	<u>0</u>	<u>0</u>	<u>48,777</u>
Total indirect costs	18,852,302	7,473,492	0	0	26,325,794
Indirect cost reimbursements					
General and administrative	3,498,429	1,472,350	0	0	4,970,779
Facility usage	3,122,853	322,537	0	0	3,445,390
Professional technical expense	4,659,645	2,581,602	0	0	7,241,247
Fringe expense	<u>5,906,992</u>	<u>2,587,623</u>	<u>0</u>	<u>0</u>	<u>8,494,615</u>
Total indirect cost reimbursements	<u>17,187,919</u>	<u>6,964,112</u>	<u>0</u>	<u>0</u>	<u>24,152,031</u>
Total unreimbursed indirect costs	<u>1,664,383</u>	<u>509,380</u>	<u>0</u>	<u>0</u>	<u>2,173,763</u>
Income from operations	1,097,434	457,578	0	0	1,555,012
Other Income (Expenses) - Non-Contract Related					
Miscellaneous revenue	56,146	10,108	0	0	66,254
Legislative pursuits	(76,561)	0	0	0	(76,561)
Interest expense	(7,287)	(4,519)	0	0	(11,806)
Unallowed	<u>(687,549)</u>	<u>(343,635)</u>	<u>(7,094)</u>	<u>0</u>	<u>(1,038,278)</u>
Total other expenses - non-contract related, net	<u>(715,251)</u>	<u>(338,046)</u>	<u>(7,094)</u>	<u>0</u>	<u>(1,060,391)</u>
Increase (decrease) in net assets without donor restrictions	382,183	119,532	(7,094)	0	494,621
Income from subsidiaries, net	<u>112,438</u>	<u>0</u>	<u>0</u>	<u>(112,438)</u>	<u>0</u>
Increase (decrease) in net assets	<u>\$ 494,621</u>	<u>\$ 119,532</u>	<u>\$ (7,094)</u>	<u>\$ (112,438)</u>	<u>\$ 494,621</u>

See independent auditors' report.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of CUBRC, Inc. ("CUBRC") and Subsidiaries (collectively the "Company"), which comprise the consolidated balance sheet as of December 30, 2022, and the related consolidated statements of activities and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 28, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Tronconi Segarra & Associates LLP

Williamsville, New York
September 28, 2023

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited CUBRC, Inc.'s ("CUBRC") compliance with the types of compliance requirements identified as subject to audit in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of CUBRC's major federal programs for the fiscal year ended December 30, 2022. CUBRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, CUBRC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended December 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

Tronconi Segarra & Associates LLP

Williamsville, New York
September 28, 2023

CUBRC, Inc.
Schedule of Expenditures of Federal Awards
for the fiscal year ended December 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal or Pass-Through Grantor's Number	Expenditures
Research and Development Program Cluster			
U.S. Department of Defense			
U.S. Army			
<i>Direct Programs</i>			
TO5 SHOT LABOR	12	W56KGU-17-D-0010	\$ 358,799
TO2 HWF Dev Material AA	12	W31P4Q-20-D-0047	(5,638)
TO3 BLT Labor AA	12	W31P4Q-20-D-0047	2,136,237
TO4 DARPA Data Rec Lbr AA	12	W31P4Q-20-D-0047	59,104
TO6 HWF PS AA	12	W31P4Q-20-D-0047	1,989,808
TO7 Labor ACRN AA	12	W31P4Q-20-D-0047	56,340
TO8 DynCov Ejec Lab AA	12	W31P4Q-20-D-0047	403,685
TO9 FAC Dev & Test P4 LAB	12	W31P4Q-20-D-0047	3,991,117
TO10 BLT Lab	12	W31P4Q-20-D-0047	2,513,000
TO11 HWF DEVELOP	12	W31P4Q-20-D-0047	4,625,547
TO12 WENRO Labor	12	W31P4Q-20-D-0047	19,244
Total Direct Programs			\$ 16,147,243
<i>Pass-Through Programs From:</i>			
Consortium Management Group			
Consort Mgmt Advan Phase1	12	W15QKN-17-9-5555	\$ 24,116
Consort Mgmt Advan Phase2	12	W15QKN-17-9-5555	480,980
Consort Mgmt Advan Phase3	12	W15QKN-17-9-5555	240,611
Leidos			
Leidos DYNAMIC	12	W56KGU-15-D-0008	(303)
MetroLaser, Inc			
MetroLaser Light Field	12	W31P4Q-19-C-0047	25,000
PAE National Security Solutions, LLC			
PAE TO HOTEL Lab Support	12	HHM402-17-D-0005	1,850
Sentient Corporation			
Sentient Corp Combustion	12	W31P4Q-18-C-0096	1,450
Total Pass-Through Programs			\$ 773,704
U.S. Air Force			
<i>Direct Programs</i>			
ARA Mixed Oxidants Decon	12	FA4819-07-D-0001	\$ 384
Freejet PM Design & Comp	12	FA8650-19-C-2423	112,490
Checkmate P2	12	FA8750-19-C-0214	2,900,168
AFRL RODEO	12	FA8750-20-C-0206	209,959
AFRL OpML C2	12	FA8750-20-C-1011	274,113
AFRL RIKO	12	FA8751-21-P0011	2
Total Direct Programs			\$ 3,497,116
<i>Pass-Through Programs From</i>			
Avarint			
Avarint Test Planning L1	12	FA8075-18-D-0016	\$ 4,759
Avarint JEFS Test A0225	12	FA8075-18-D-0016	595
Avarint DIADS AF/A3 FY22	12	FA9304-20-D-0003	28,752
ATA Engineering Inc.			
ATA Advanced Material Tst	12	FA8650-18-P-5041	97,304
ATA Fluid Struct Mat Inte	12	FA8204-20-C-0004	134,894
ATA Profile & Comp Disrupt	12	FA9422-22-C-0012	3,851
Atrevida Science			
Atrevida AFWERX STTR	12	FA8649-20-P-0414	4
BAE Systems			
BAE AFRL IFU Task 0001	12	FA8750-09-D-0140	2,681
BAE HALLMARK Transition	12	FA8750-19-F-0001	59,961
Barnstorm Research Corp.			
Barnstorm Hierarchical An	12	FA8750-22-C-0266	78,144

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal or Pass-Through Grantor's Number	Expenditures
Massachusetts Institute MIT Optical Hyper Data Co	12	FA8702-15-D-0001	145,834
Northrop Grumman NGC Space GBSB EMD Phase	12	FA8219-20-C-0006	1,496,214
PMAT, Inc. PMAT STTR ST01 P1	12	H92405-22-P-0021	13,945
Texas A&M Texas A&M BOLT II	12.800	FA9550-19-1-0154	36,981
Xanalytix Xanalytix - PIED	12	FA8750-17-C-0221	900
Total Pass-Through Programs			\$ 2,104,819
U.S. Navy			
<i>Direct Programs:</i>			
ONR LINKS - Core	12	N00014-20-C-2016	\$ 1,491,607
ONR SMILE Opt 1 CLIN 0002	12	N00014-20-C-2045	1,106,290
NRL SMART(ATEAS) Base	12	N00173-21-C-6000	1,037,332
NIWC SAIL-ON	12	N66001-21-P-6597	140,543
NIWC Sail On P2 Base LAB	12	N66001-22-C-0058	145,308
Total Direct Programs			\$ 3,921,080
<i>Pass-Through Programs From:</i>			
Advanced Technology International ATI Prototype Grd Test	12	N00178-22-90004	\$ 789,507
Calspan Aero Systems Engineering, Inc. Calspan ASE	12	W50RAJ-21-9-0003	18,863
CFD Research Corporation CFD HAAWK	12	N68335-22-C-0053	15,447
Draper DRAPER HighEnth Emis	12	N00030-20-C-0004	781,626
Forward Slope, Inc. Forward Slope MTC2 MEIOG	12	N66001-22-F-0149	429,294
Forward Slope MTC2 Yr4	12	N00178-14-D-7718	843,907
In-Depth Engineering Corp InDepth -SWFTS SE&I Opt 1	12	N00024-19-C-6400	106,469
InDepth P-8	12	N68335-21-C-0002	158,198
InDepth Nails Base Yr	12	N68335-21-C-0589	33,956
InDepth DARE	12	N68335-21-C-0002	43,921
InDepth TASK Base Yr	12	N68335-21-C-0724	38,641
ISEA TEK, LLC IseaTek INFOTON P-II Base	12	N68335-19-C-0302	251,122
L-3 Communications Integrated Solutions L3 COM SSA JPM Guard. Int	12	N66001-07-D-0082/018	(94)
Machina Cognita Technologies MCT SMARTS	12	N68835-20-C-0586	3
MCT -Multi Model Evid	12	N68335-21-C-0581	21,145
MCT SMARTS Phase 2	12	N68335-22-C-0087	171,970
PMAT PMAT Data Link Bottleneck	12	N68335-21-C-0026	3
Raytheon Technologies Raytheon Flat BOLT	12	N00014-20-C-1086	386,057
The Research Foundation RF MEDS	12	N00014-20-12242	5,307
True Engineering Technology True NAV-TET-CUBRC-2021	12	N68335-21-C-0409	58,807
Total Pass-Through Programs			\$ 4,154,149

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal or Pass-Through Grantor's Number	Expenditures
<i>Defense Advance Research Projects Agency</i>			
<i>Direct Program:</i>			
DARPA SAVER Phase1 Base	12	HR0011-21-90021	\$ <u>330,715</u>
Total Direct Program			\$ 330,715
<i>Pass-Through Programs From:</i>			
Raytheon Technologies			
Raytheon Darpa Heat TA3	12	HR0011-21-C-0050	\$ 22,023
The Research Foundation			
Research Found MALAISE	12	HR0011-20-C-0124	826
University of Minnesota			
Univ of Minn- Hypers Boom	12.910	W911NF-21-10352	<u>28,688</u>
Total Pass-Through Programs			\$ 51,537
<i>Missile Defense Agency</i>			
<i>Pass-Through Programs From:</i>			
Kratos Defense			
KRATOS-Desgn Next Gen See	12	HQ0147-18-C-0025	\$ 345,568
KRATOS-Next GenSeekerTest	12	HQ0860-22-C-0001	178,453
The John Hopkins University			
JHU AGD Experiments	12	HQ0147-18-D-0004	<u>448,087</u>
Total Pass-Through Programs			\$ <u>972,108</u>
Total U.S. Department of Defense			\$ <u><u>31,952,471</u></u>
<i>U.S. Department of Health and Human Services</i>			
<i>Direct Program</i>			
FDA Immunogen Risk Peptid	93	75F40120C00157	\$ 395,603
BARDA- TP434	93	HHS0100201200002C	<u>(22,179)</u>
Total Direct Program			\$ 373,424
<i>Pass-Through Program From:</i>			
SeLux Diagnostics, Inc.			
SeLux BARDA Opt 2	93	HHSO100201800013C	<u>137,378</u>
Total Pass-Through Program			\$ <u>137,378</u>
Total U.S. Department of Health and Human Services			\$ <u><u>510,802</u></u>
<i>National Aeronautics and Space Administration</i>			
<i>Pass-Through Program From:</i>			
Science Applications International Corporation			
SAIC Knowledge Graph	43	GS00Q140ADU130	<u>32,307</u>
Total Pass-Through Program			\$ <u>32,307</u>
Total National Aeronautics and Space Administration			\$ <u><u>32,307</u></u>
<i>Department of Energy</i>			
<i>Pass-Through Programs From:</i>			
Sonalysts, Inc.			
Sonalysts MetaphortesP2	81	DE-SC0018729	<u>9</u>
Total Pass-Through Program			\$ <u>9</u>
Total Department of Energy			\$ <u><u>9</u></u>

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

CUBRC, Inc.
Schedule of Expenditures of Federal Awards (continued)
for the fiscal year ended December 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal or Pass-Through Grantor's Number	Expenditures
USAID			
<i>Direct Program</i>			
USAID MERC	98	EPP-D-00-09-00002	\$ <u>13</u>
Total Direct Program			\$ 13
<i>Pass-Through Program From:</i>			
J.E. Austin Associates MERC III	98	47QRAA19D004J7200AA2	\$ <u>184,061</u>
Total Pass-Through Program			\$ <u>184,061</u>
Total USAID			\$ <u><u>184,074</u></u>
		Total Federal Awards	\$ <u><u>32,679,663</u></u>

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

CUBRC, Inc.

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

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

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

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

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

Major Program Determination – All of CUBRC’s federally funded programs fall under the Research and Development Cluster as closely related programs that share common compliance requirements. Type A programs for CUBRC are those which equal or exceeded 3% of federal awards expended for the fiscal year ended December 30, 2022. Type B programs for CUBRC are those which were less than 3% of federal awards expended for the fiscal year ended December 30, 2022.

CUBRC, Inc.

Notes to Schedule of Expenditures of Federal Awards (continued)

2. Subrecipients

Of the federal expenditures presented in the Schedule for the fiscal year ended December 30, 2022, CUBRC provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal or Pass-through Grantor's Number</u>	<u>Amount Provided to Subrecipient</u>
ECCO	W56KGU-17-D-0010	\$ 13,212
E2MIDS - Support	FA8750-19-C-0214	6,182
E2MIDS - Support	FA8750-19-C-0214	407,301
E2MIDS - Support	FA8750-19-C-0214	19,522
E2MIDS - Support	FA8750-19-C-0214	1,570
E2MIDS - Support	FA8750-19-C-0214	16,354
E2MIDS - Support	FA8750-19-C-0214	66,667
NIWC C2X Lab Support	FA8750-19-C-0214	233,142
E2MIDS - Support	FA8750-19-C-0214	29,953
E2MIDS - Support	FA8750-19-C-0214	10,000
AFRL RODEO	FA8750-20-C-0206	4,354
ONR LINKS - Core	N00014-20-C-2016	63,000
AFRL OpML C2	FA8750-20-C-1011	64,987
FDA Immunogen Risk Peptid	75F40120C00157	275,477
CCDC TO 2	W31P4Q-20-D-0047	14
DEVCOM TO 6	W31P4Q-20-D-0047	160,242
DEVCOM TO 10	W31P4Q-20-D-0047	255,260
DEVCOM TO 11	W31P4Q-20-D-0047	481,891
DEVCOM TO 11	W31P4Q-20-D-0047	48,000
DARPA SAVER Subcontract	HR00112190021	109,521
Consort Mgmt Advan GIFTED	W15Qkn-17-9-5555	7,753
		\$ 2,274,402

CUBRC, Inc.
*Schedule of Findings and Questioned Costs
for the fiscal year ended December 30, 2022*

Section I. Summary of Auditors' Results

Consolidated Financial Statements

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

Federal Awards

Internal control over major programs:	
<ul style="list-style-type: none"> • Material weakness(es) identified? • Significant deficiency(ies) identified that are not considered to be material weakness(es)? 	<p>No</p> <p>None reported</p>
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with <i>Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards (Uniform Guidance)</i>	No
Identification of major program:	
Research and development cluster	
Dollar threshold used to distinguish between type A and type B programs:	\$ 980,390
Auditee qualified as a low-risk auditee?	Yes

Section II. Financial Statement Findings

No matters were reported.

Section III. Federal Award Findings and Questioned Costs

No matters were reported.

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

CUBRC, Inc.
*Schedule of Findings and Questioned Costs
for the fiscal year ended December 31, 2021*

Section I. Summary of Auditors' Results

Consolidated Financial Statements

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

Federal Awards

Internal control over major programs:	
<ul style="list-style-type: none"> • Material weakness(es) identified? • Significant deficiency(ies) identified that are not considered to be material weakness(es)? 	<p>No</p> <p>None reported</p>
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with <i>Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards (Uniform Guidance)</i>	No
Identification of major program:	
Research and development cluster	
Dollar threshold used to distinguish between type A and type B programs:	\$ 1,199,245
Auditee qualified as a low-risk auditee?	Yes

Section II. Financial Statement Findings

No matters were reported.

Section III. Federal Award Findings and Questioned Costs

No matters were reported.

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

CUBRC, Inc.
*Summary Schedule of Prior Audit Findings
for the fiscal year ended December 30, 2022*

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

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