



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, 2024

SRC, Inc.

Report on Federal Awards in Accordance with the Uniform Guidance

TABLE OF CONTENTS	SECTION	PAGE
Financial Information		
Independent Auditor's Report.....	1	1-3
<i>Basic Consolidated Financial Statements:</i>		
Consolidated Statements of Financial Position, September 30, 2024 and 2023.....	1	4
Consolidated Statements of Activities and Change in Net Assets, Years Ended September 30, 2024 and 2023	1	5
Consolidated Statements of Cash Flows, Years Ended September 30, 2024 and 2023.....	1	6
Notes to the Consolidated Financial Statements	1	7-27
Supplemental Information		
Schedule of Expenditures of Federal Awards, Year Ended September 30, 2024.....	1	28-35
Notes to the Schedule of Expenditures of Federal Awards, Year Ended September 30, 2024	1	36
Reports on Internal Control and Compliance		
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 <i>Government Auditing Standards</i>	1	37-38
Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance (for compliance requirements as noted within report)	1	39-42
Defense Contract Audit Agency Report on Compliance with Requirements for Each Major Federal Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance (for compliance requirements as noted within report).....	2	3-6
Schedule of Findings and Questioned Costs	1	43-44
.....	2	11-16
Summary Schedule of Prior Audit Findings.....	2	19-20
Management's Views and Corrective Action Plan Regarding Uniform Guidance Audit Findings for the Year Ending September 30, 2024.....	2	21

Section

1

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, 2024 and 2023

The report accompanying these financial statements was issued by BDO USA, P.C., a Virginia professional corporation, and the U.S. member of BDO International Limited, a UK company limited by guarantee



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, 2024 and 2023

SRC, Inc. and Subsidiaries

Contents

Independent Auditor's Report	1-3
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities and Change in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7-27
Schedule of Expenditures of Federal Awards	
Schedule of Expenditures of Federal Awards	28-35
Notes to the Schedule of Expenditures of Federal Awards	36
Independent Auditor's Reports Required by <i>Government Auditing Standards</i> and the Uniform Guidance	
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 <i>Government Auditing Standards</i>	37-38
Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	39-42
Schedule of Findings and Questioned Costs	43-44



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Independent Auditor's Report

Board of Trustees
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, 2024 and 2023, 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, 2024 and 2023, 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 13, 2024 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 13, 2024, except for the schedule of expenditures
of federal awards, for which the date is June 16, 2025

Consolidated Financial Statements

SRC, Inc. and Subsidiaries

Consolidated Statements of Financial Position

September 30,	2024	2023
Assets		
Current assets		
Cash and cash equivalents	\$ 41,353,206	\$ 30,853,940
Investments	168,546,504	159,189,293
Accounts receivable, net of reserve for expected credit losses of \$81,661 and \$2,471,293 for 2024 and 2023, respectively	47,635,237	43,457,990
Contract assets	41,890,600	33,900,281
Inventory, net	73,395,014	62,610,907
Deferred contract costs	4,633,376	4,992,012
Prepaid expenses and other assets	14,377,666	7,790,530
Total current assets	391,831,603	342,794,953
Property, buildings and equipment, net	78,313,730	79,314,536
Operating lease right-of-use assets	47,838,083	52,232,724
Other assets	4,590,337	4,876,502
Goodwill, net	249,525	463,018
Deferred income taxes	3,162,365	2,336,748
Total assets	\$ 525,985,643	\$ 482,018,481
Liabilities and Net Assets		
Current liabilities		
Lines-of-credit	\$ 43,421,689	\$ 23,074,343
Margin loan	8,417,821	12,417,066
Accounts payable	18,459,119	12,247,159
Accrued expenses	45,779,597	29,348,187
Contract liabilities	11,009,860	11,443,481
Operating lease liabilities - current portion	4,780,486	4,511,217
Long-term debt - current portion	805,000	785,000
Total current liabilities	132,673,572	93,826,453
Long-term debt, net of current portion and unamortized debt issuance costs	6,217,596	7,002,692
Operating lease liabilities, net of current portion	49,163,180	50,697,529
Other long-term liabilities	4,975,813	6,655,107
Total liabilities	193,030,161	158,181,781
Net assets without donor restrictions	332,955,482	323,836,700
Total liabilities and net assets	\$ 525,985,643	\$ 482,018,481

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>	2024	2023
Operating activities		
Revenue	\$ 406,048,854	\$ 365,870,873
Costs of revenue		
Direct costs	260,815,814	221,805,349
Indirect expenses	101,445,288	91,323,877
Administrative expenses	65,987,525	57,223,555
Total operating expenses	428,248,627	370,352,781
Change in net assets from operations	(22,199,773)	(4,481,908)
Non-operating activities		
Net investment return	34,666,565	17,885,175
Interest expense	(3,406,978)	(2,660,807)
Other expense, net	(402,236)	(461,567)
Foreign currency translation adjustment	211,833	181,707
Health care and postretirement benefit adjustment	(130,733)	183,825
Total non-operating activities, net	30,938,451	15,128,333
Change in net assets before income taxes	8,738,678	10,646,425
Benefit from (provision for) income taxes	380,104	(359,170)
Change in net assets after income taxes	9,118,782	10,287,255
Net assets at the beginning of the year	323,836,700	313,549,445
Net assets at the end of the year	\$ 332,955,482	\$ 323,836,700

See accompanying notes to the consolidated financial statements.

SRC, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended September 30,	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 9,118,782	10,287,255
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	11,787,397	11,580,956
Reduction in operating lease right-of-use assets	7,435,412	4,806,276
Change in reserve for expected credit losses	(2,389,632)	(306,277)
Change in inventory reserve	160,932	224,173
Realized and unrealized gains on investments	(29,502,000)	(13,203,000)
Change in deferred income taxes	(825,617)	545,659
Changes in operating assets and liabilities:		
Accounts receivable	(1,787,615)	(1,823,983)
Contract assets	(7,990,319)	7,984,441
Inventory	(10,945,039)	(719,879)
Deferred contract costs	358,636	3,892,433
Prepaid expenses and other assets	(6,531,144)	(1,727,144)
Accounts payable, accrued expenses, and other liabilities	22,051,602	(6,836,274)
Contract liabilities	(433,621)	(5,535,892)
Operating lease liabilities	(5,693,377)	(4,338,254)
Net cash and cash equivalents (used in) provided by operating activities	(15,185,603)	4,830,490
Cash flows from investing activities:		
Purchases of investments	(23,285,089)	(12,381,761)
Sales of investments	43,429,878	14,895,847
Expenditures for property, buildings, and equipment	(10,023,021)	(6,757,589)
Net cash and cash equivalents provided by (used in) investing activities	10,121,768	(4,243,503)
Cash flows from financing activities:		
Net borrowings under lines-of-credit	20,347,346	22,070,196
Net repayments under margin loan	(3,999,245)	(20,417,197)
Repayments made under long-term debt	(785,000)	(760,000)
Net cash and cash equivalents provided by financing activities	15,563,101	892,999
Increase in cash and cash equivalents	10,499,266	1,479,986
Cash and cash equivalents at beginning of year	30,853,940	29,373,954
Cash and cash equivalents at end of year	\$ 41,353,206	\$ 30,853,940
Supplemental disclosure of cash flow information:		
Interest paid	\$ 3,480,111	\$ 2,694,263
Income taxes paid	\$ 272,126	\$ 924,058

See accompanying notes to the consolidated financial statements.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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 (IRC), including, but not limited to, the management and execution of production contracts. Included in Ventures is its wholly-owned for-profit subsidiary SRCTec, LLC (SRCTec).

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

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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.

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

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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.

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

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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 without donor restrictions may also include net assets with board-designations. During the year ended September 30, 2024, the board designated up to \$25,000,000 for product investment and incurred \$15,000,000 of expenditures against the designation, leaving \$10,000,000 of board-designated net assets as of September 30, 2024. Any unspent amounts will be released from the board designation on September 30, 2025. There were no such designations or expenditures for 2023.

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, 2024 and 2023.

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.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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.

Accounts receivable, contract assets and contract liabilities

Accounts receivable are generated from prime and subcontracting arrangements with federal governmental agencies and various commercial entities. 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 milestones billed ahead of the transfer of control to the customer.

Allowance for Expected Credit Losses

Effective October 1, 2023, as required by ASC 326, *Financial Instruments - Credit Losses*, the Company recognizes an allowance for expected credit losses for financial assets carried at amortized cost to present the net amount expected to be collected as of the date of the consolidated statements of financial position. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term). In determining such allowance, management considers historical loss rates and adjusts for current economic conditions, where applicable. Assets are written off when the Company determines that such financial assets are uncollectible. The Company pools accounts receivable and contract assets in estimating the expected credit losses. The difference in the allowance for doubtful accounts prior to the implementation of ASC 326 and the revised allowance for expected credit losses at September 30, 2024, and as of the implementation date was determined by management to be insignificant given the Company's historical loss rates and customer base.

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.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

Estimated useful lives of the assets are as follows:

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

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 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, 2024 and 2023.

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, 2024 and 2023.

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 of unamortized capitalized software as of September 30, 2023. As of September 30, 2024, the asset was fully amortized.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

Amortization expense of approximately \$230,000 was recorded for each of the years ended September 30, 2024 and 2023.

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 \$822,000 and \$772,000 at September 30, 2024 and 2023, respectively. Amortization expense of approximately \$50,000 and \$103,000 was recorded for the years ended September 30, 2024 and 2023, 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 \$23,377,000 and \$6,008,000 for the years ended September 30, 2024 and 2023, respectively, and are included as a component of indirect expenses in the consolidated statements of activities and change in net assets.

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 (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, 2024 and 2023. 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, 2020 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, 2020 and prior.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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 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.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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

Description	As of September 30, 2024			
	Assets Measured At Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Investments:				
Money market funds	\$ 2,192,000	\$ 2,192,000	\$ -	\$ -
Commercial paper	835,000	835,000	-	-
Mutual funds	104,092,000	104,092,000	-	-
Fixed income funds	392,000	-	392,000	-
Equity and exchange traded funds	66,280,000	66,280,000	-	-
	\$ 173,791,000	\$ 173,399,000	\$ 392,000	\$ -

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	\$ -

Of the above total investments for the years ended September 30, 2024 and 2023, approximately \$2,184,000 and \$2,134,000, respectively, is included in cash and cash equivalents; approximately \$168,547,000 and \$159,189,000, respectively, is classified as investments; and approximately \$3,060,000 and \$2,352,000, 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 and board designations, as applicable.

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

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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 on investments were approximately \$34,667,000 and \$17,885,000, respectively, for the years ended September 30, 2024 and 2023. Of these amounts, approximately \$5,165,000 and \$4,682,000 represents interest and dividend income and approximately \$29,502,000 and \$13,203,000 represents realized and unrealized gains for the years ended September 30, 2024 and 2023, 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.

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 accounts receivable. 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, 2024 approximate \$40,669,000. 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 accounts receivable and, therefore, believes that the credit risk related to accounts receivable 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, 2024 (rounded to nearest thousand):

<i>Natural classification</i>	Program		Support	Total
	Research and Development	Manufacturing	Administrative	
Salaries and benefits	\$ 162,715,000	\$ 44,449,000	\$ 29,701,000	\$ 236,865,000
Subcontracts	27,654,000	25,725,000	1,110,000	54,489,000
Direct materials	12,680,000	59,111,000	905,000	72,696,000
Facilities and overhead	6,822,000	4,344,000	4,676,000	15,842,000
Engineering support	2,428,000	1,546,000	1,665,000	5,639,000
Home office	9,335,000	5,944,000	6,399,000	21,678,000
Strategic initiatives	307,000	196,000	210,000	713,000
Other	8,700,000	6,873,000	4,754,000	20,327,000
Total operating expenses	230,641,000	148,188,000	49,420,000	428,249,000
Interest expense	1,467,000	934,000	1,006,000	3,407,000
Total	\$ 232,108,000	\$ 149,122,000	\$ 50,426,000	\$ 431,656,000

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
Total operating expenses	200,148,000	125,935,000	44,270,000	370,353,000
Interest expense	1,136,000	732,000	793,000	2,661,000
Total	\$ 201,284,000	\$ 126,667,000	\$ 45,063,000	\$ 373,014,000

Recently adopted authoritative guidance

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13 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 was effective for the Company on October 1, 2023 and was 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. The

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

adoption of this guidance did not have a material impact to the Company's consolidated financial results or disclosures.

Recent accounting pronouncements not yet adopted

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. For private business entities, the update requires the entity to disclose on an annual basis the amount of income taxes paid (net of refunds received) disaggregated by (i) federal, state or foreign taxes, and (ii) by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid, among certain other amended disclosure requirements. The update is effective for private business entities for annual and interim reporting periods beginning after December 15, 2025, and should be applied on a prospective basis, but retrospective application is permitted. Early adoption is permitted. The Company is evaluating the effect 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, 2024 and 2023 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):

	2024	2023
Financial assets at year-end:		
Cash and cash equivalents	\$ 41,353,000	\$ 30,854,000
Accounts receivable	47,635,000	43,458,000
Contract assets	41,891,000	33,900,000
Total financial assets	\$ 130,879,000	\$ 108,212,000

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.

3. Inventory

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

	2024	2023
Work-in-progress and finished goods	\$ 21,939,000	\$ 18,374,000
Purchased parts	51,456,000	44,237,000
	\$ 73,395,000	\$ 62,611,000

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

As of September 30, 2024 and 2023, the Company recorded reserves for excess or obsolete inventory of approximately \$3,360,000 and \$3,200,000, respectively. As of September 30, 2024, \$2,899,000 was included with purchased parts and \$461,000 with work-in-progress and finished goods in the table above. 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.

4. Property, Buildings and Equipment

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

	2024	2023
Land	\$ 1,663,000	\$ 1,663,000
Building and building improvements	54,309,000	53,353,000
Machinery and equipment	96,619,000	89,720,000
Computer equipment and software	11,559,000	11,241,000
Leasehold improvements	22,624,000	21,802,000
	186,774,000	177,779,000
Less: accumulated depreciation and amortization	(108,460,000)	(98,464,000)
	\$ 78,314,000	\$ 79,315,000

Depreciation and amortization expense on property and equipment approximated \$11,554,000 and \$11,213,000 and includes \$230,000 related to internal-use capitalized software for the years ended September 30, 2024 and 2023.

5. Goodwill

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

	2024	2023
Goodwill	\$ 2,317,000	\$ 2,317,000
Less: accumulated amortization	(2,067,000)	(1,854,000)
	\$ 250,000	\$ 463,000

Goodwill is amortized using the straight-line method over its useful life. Amortization expense related to goodwill totaled approximately \$213,000 and \$232,000 for the years ended September 30, 2024 and 2023, respectively. Future annual amortization of goodwill will be \$250,000 for the year ending September 30, 2025.

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 (6.49% at September 30, 2024). No amounts were outstanding under the

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

line-of-credit as of September 30, 2024 and 2023. 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 (7.49% at September 30, 2024) or (b) 1.00%. Amounts outstanding under the line-of-credit at September 30, 2024 and 2023 total approximately \$43,422,000 and \$23,074,000, respectively. There is no stated expiration date on the line-of-credit. Effective November 20, 2024, the Ventures line-of-credit was amended to increase the maximum capacity to \$80,000,000 and to update the interest rate formula to 2.10% above the greater of (a) SOFR, adjusting daily, or (b) 1.00%. Additionally, the amendment requires the maximum capacity on the line to reduce to \$50,000,000 on December 31, 2026.

Long-term debt

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

	2024	2023
2005 Series Onondaga County Industrial Development Agency (IDA) Variable Rate Demand Civic Facility 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 (3.15% at September 30, 2024) plus 0.05%. The obligation is collateralized by a letter-of-credit in the amount of \$7,243,000. The letter-of-credit expires, if not renewed, on December 14, 2025.	\$ 7,155,000	\$ 7,940,000
	7,155,000	7,940,000
Less: long-term debt - current portion	(805,000)	(785,000)
	6,350,000	7,155,000
Less: unamortized debt issuance costs	(132,000)	(152,000)
Long-term debt, net of unamortized debt issuance costs	\$ 6,218,000	\$ 7,003,000

As of September 30, 2024, debt obligation maturities are as follows (rounded to nearest thousand):

Years ending September 30,

2025	\$	805,000
2026		830,000
2027		855,000
2028		880,000
2029		905,000
Thereafter		2,880,000
	\$	7,155,000

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

The letter-of-credit collateralizing the 2005 Series IDA bonds contains a restrictive financial covenant pertaining to cash-to-debt ratio. The Company was in compliance with this covenant at September 30, 2024 and 2023.

Margin loan

SRC has available 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 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 (5.60% at September 30, 2024). The outstanding margin loan balance totaled approximately \$8,418,000 and \$12,417,000 as of September 30, 2024 and 2023, 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 \$312,471,000 and \$289,096,000 for the years ended September 30, 2024 and 2023, 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 \$93,578,000 and \$76,775,000 for the years ended September 30, 2024 and 2023, 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 benefit from (provision for) income taxes are as follows for the years ended September 30 (rounded to nearest thousand):

	2024	2023
Current income tax (expense) benefit	\$ (396,000)	\$ 116,000
Deferred income tax benefit (expense)	776,000	(475,000)
Benefit from (provision for) income taxes	\$ 380,000	\$ (359,000)

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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

	2024	2023
U.S. operations		
Deferred tax liability:		
Depreciation and amortization	\$ (1,674,000)	\$ (1,842,000)
Total deferred tax liability	(1,674,000)	(1,842,000)
Deferred tax assets:		
Allowances for inventory	706,000	672,000
Goodwill / start-up costs	600,000	662,000
Inventory capitalization	543,000	499,000
Net operating loss	2,767,000	2,797,000
Warranty and other reserves	178,000	102,000
Benefits reserve	244,000	207,000
Charitable contributions	74,000	74,000
Research and development (R&D) capitalization	3,594,000	730,000
Section 163(j) (business interest)	544,000	-
Other	54,000	45,000
Total deferred tax assets	9,304,000	5,788,000
Net deferred tax assets, before valuation allowance	7,630,000	3,946,000
Valuation allowance	(5,830,000)	(2,694,000)
Net deferred tax assets	\$ 1,800,000	\$ 1,252,000
<hr/>		
	2024	2023
Foreign operations		
Deferred tax liability:		
Prepayment liability	\$ (907,000)	\$ -
Total deferred tax liability	(907,000)	-
Deferred tax assets		
Net operating loss	194,000	317,000
Customer list	283,000	232,000
Contract liabilities	917,000	45,000
Lease incentive liability	683,000	560,000
Other	386,000	248,000
Total deferred tax assets	2,463,000	1,402,000
Net deferred tax assets, before valuation allowance	1,556,000	1,402,000
Valuation allowance	(194,000)	(317,000)
Net deferred tax assets	\$ 1,362,000	\$ 1,085,000

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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 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, 2024 and 2023, 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, 2024 and 2023, 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 \$5,830,000 and \$2,694,000 was recorded against the gross deferred tax asset balance for SRC as of September 30, 2024 and 2023, respectively.

As of September 30, 2024 and 2023, the Company has net operating loss carryforwards of approximately \$10,306,000 and \$10,950,000, 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, 2024 and 2023, the operating activity of this foreign subsidiary resulted in taxable income (loss) of approximately \$1,004,000 and \$(781,000), respectively.

In 2016, a Canadian for-profit subsidiary of International was formed, SRC CAN. For the years ended September 30, 2024 and 2023, this foreign subsidiary resulted in a taxable income (loss) of approximately \$123,000 and \$(317,000), respectively. As of September 30, 2024 and 2023, SRC CAN has NOLs of approximately \$732,000 and \$1,195,000, respectively, which will be available to offset future taxable income. SRC CAN has recorded a full valuation allowance against the deferred tax asset resulting from the NOLs.

In 2019, a United Kingdom for-profit subsidiary of International was formed, SRC UK. For the year ended September 30, 2024 and 2023, the operating activity of this foreign subsidiary resulted in taxable income of approximately \$475,000 and \$1,226,000, respectively.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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, 2024 and 2023, the amount contributed by the Company to the defined contribution retirement plans was approximately \$15,540,000 and \$14,315,000, respectively.

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 \$83,000 and \$193,000 in 2024 and 2023, respectively. As of September 30, 2024 and 2023, the 457(b) Plan assets and obligations totaled approximately \$986,000 and \$751,000, respectively, and are included in long-term other assets and other long-term liabilities in the accompanying consolidated statements of financial position. Effective February 1, 2024, the Company elected to freeze the 457(b) Plan for new participants and additional participant contributions for existing participants.

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 \$420,000 and \$387,000 during the years ended September 30, 2024 and 2023, 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, 2024 and 2023, the 457(f) Plan assets and obligations totaled approximately \$1,119,000 and \$691,000, 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 \$28,000 and \$24,000 during the years ended September 30, 2024 and 2023, 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, 2024 and 2023, the Deferred Compensation Plan assets and obligations totaled approximately \$955,000 and \$910,000, respectively, and are included in long-term other assets and other long-term liabilities in the accompanying consolidated statements of financial position.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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.

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):

	2024	2023
<hr/>		
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 1,370,000	\$ 1,405,000
Service cost	52,000	59,000
Interest cost	74,000	70,000
Actuarial loss (gain)	159,000	(144,000)
Benefits paid	(10,000)	(20,000)
<hr/>		
Benefit obligation at end of year	\$ 1,645,000	\$ 1,370,000

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):

	2024	2023
<hr/>		
Change in plan assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	10,000	20,000
Benefits paid	(10,000)	(20,000)
<hr/>		
Fair value of plan assets at end of year	-	-
<hr/>		
Underfunded status	\$ (1,645,000)	\$ (1,370,000)

As of September 30, 2024 and 2023, the Plan had unamortized actuarial net gains of approximately \$152,000 and \$327,000, respectively, and unamortized prior service cost of \$107,000 and \$151,000, respectively.

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

	2024	2023
<hr/>		
Expected return on plan assets	0.00%	0.00%
Discount rate	4.94%	5.66%

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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

	2024	2023
Expected return on plan assets	0.00%	0.00%
Discount rate	5.66%	5.17%

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

	2024	2023
Components of net periodic benefit cost		
Service cost	\$ 52,000	\$ 59,000
Interest cost	74,000	70,000
Amortization of prior service credit	44,000	44,000
Amortization of net gain	(16,000)	(4,000)
	\$ 154,000	\$ 169,000

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):

	2024	2023
Actuarial loss (gain)	\$ 159,000	\$ (144,000)
Amortization of prior service cost	(44,000)	(44,000)
Amortization of actuarial gain	16,000	4,000
	\$ 131,000	\$ (184,000)

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

	Net Payments
2025	\$ 34,000
2026	38,000
2027	41,000
2028	45,000
2029	49,000
Years 2030-2034	327,000

10. Major Customers

For the years ended September 30, 2024 and 2023, customers within the federal government (principally Army, Air Force, and Department of Defense organizations within the intelligence community and the Environmental Protection Agency) accounted for 85.3% and 80.0%, respectively, of the Company's revenue. As of September 30, 2024 and 2023, the federal government represents 78.7% and 74.5%, respectively, of the total accounts receivable balance.

SRC, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

11. Commitments and Contingencies

Commitments

The Company leases office space under the terms of noncancelable operating leases that expire at various dates through September 2036. 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 \$7,077,600, which is inclusive of \$70,000 of short-term lease costs and \$103,000 of variable lease costs, for the year ended September 30, 2024. 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.

During the year ended September 30, 2024, the Company recognized operating lease right-of-use assets totaling \$3,041,000 acquired in exchange for operating lease liabilities totaling \$4,428,000. 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, 2024:

Years Ending September 30,

2025	\$	6,566,000
2026		6,647,000
2027		6,579,000
2028		6,631,000
2029		5,235,000
Thereafter		34,741,000
		<hr/>
Total operating lease payments		66,399,000
Less: imputed interest		(12,455,000)
		<hr/>
	\$	53,944,000

The weighted average remaining lease term and discount rates for operating leases were approximately 11.91 years and 3.49% at September 30, 2024, respectively. 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.

12. Subsequent Events

The Company has evaluated its September 30, 2024 consolidated financial statements for subsequent events through December 13, 2024, the date the consolidated financial statements were available to be issued. Other than as described in Note 6, 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

SRC, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2024 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
U.S. Department of Defense				
Direct Programs Department of the Air Force	12.RD		\$ 44,256,017	\$ 1,612,632
Pass Through Programs From:				
AEVEX Aerospace, LLC	12.RD	AT23-0045	513,197	-
ALION SCIENCE AND TECHNOL	12.RD	SUB1163925 - 002	954,505	-
BATELLE MEMORIAL	12.RD	849645	438,889	-
CACI TECH	12.RD	P000078597	1,256,816	-
CACI TECH	12.RD	P000169837	855,651	-
DYNETICS	12.RD	DI-SC-20-73	3,601,218	-
INTUITIVE RESEARCH & TECH	12.RD	TE-T-SRC-001	232,165	-
KBR WYLE SERVICES, LLC	12.RD	LXS442-000	1,362,712	-
LEIDOS, INC	12.RD	P010191561	478,605	-
LEIDOS, INC	12.RD	PO10247352	1,461,290	-
LOCKHEED MARTIN	12.RD	4106260514	2,891,686	-
NORTHROP GRUMMAN	12.RD	5300052617	2,328,693	-
RADIANCE TECHNOLOGIES	12.RD	22S-2771 Task Order 003	308,732	-
RADIANCE TECHNOLOGIES	12.RD	22S-2841	149,158	-
SMARTRONIX, INC	12.RD	PO-0000361 R1	1,530	-
SRCTec, LLC	12.RD	I100609.02	1,134,508	-
SRCTec, LLC	12.RD	I100609.03	63,331	-
SRCTec, LLC	12.RD	I100708	4,555	-
SRCTec, LLC	12.RD	I100755	367	-
SRCTec, LLC	12.RD	I100809	224	-
SRCTec, LLC	12.RD	I100821	360	-
SRCTec, LLC	12.RD	I100822	98,788	-
SRCTec, LLC	12.RD	I100827	193	-
SRCTec, LLC	12.RD	I100828	352	-
SRCTec, LLC	12.RD	I100836	529	-
SRCTec, LLC	12.RD	I100852	8,644	-
SRCTec, LLC	12.RD	I100853	1,216,952	-
SRCTec, LLC	12.RD	I100875	578	-

SRC, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2024 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
SRCTec, LLC	12.RD	I100876	578	-
SRCTec, LLC	12.RD	I100883	19,192	-
SRCTec, LLC	12.RD	I100884	1,092	-
SRCTec, LLC	12.RD	I100897	8,423	-
SRCTec, LLC	12.RD	I100904	636	-
Total Department of the Air Force			63,650,166	1,612,632
Direct Programs Department of the Army	12.RD		82,611,456	-
Pass Through Programs From:				
AGILE DEFENSE, INC.	12.RD	SRC-02005	924,988	-
ATI	12.RD	2018-359	6,399,563	-
BOOZ-ALLEN	12.RD	A38397	1,423,490	-
BOOZ-ALLEN	12.RD	A840 (S905030BAH)	413,784	-
CACI TECH	12.RD	P000114783	207,959	-
CACI TECH	12.RD	P000127732	1,179	-
CACI TECH	12.RD	P000186952	87,283	-
CACI, INC.-FEDERAL	12.RD	P000166786	138,993	-
DHPC TECHNOLOGIES	12.RD	SD01921 TO 01	873,734	-
GEORGIA INSTITUTE OF TECH	12.RD	D84ZM-S1	667,608	-
GEORGIA INSTITUTE OF TECH	12.RD	D9617-S2	376,490	-
IS4S	12.RD	103248.0002	851,988	-
LEIDOS, INC	12.RD	P010233069	406,648	-
LEIDOS, INC	12.RD	P010320825-1	35,322	-
LEIDOS, INC	12.RD	PO10226853	851,487	-
LOCKHEED MARTIN	12.RD	4105737955	378,333	-
SAVIT CORP	12.RD	9P97-N-5115	32,203	-
SAVIT CORP	12.RD	DOTC-19-01-INIT0203	20,975	-
SOSSEC, Inc	12.RD	SCEC-PLA-0056	7,130,642	-
SRCTec, LLC	12.RD	I100790	293,536	-
SRCTec, LLC	12.RD	I100839	9,543	-
SRCTec, LLC	12.RD	I100878	9,879	-

SRC, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2024 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
SRCTec, LLC	12.RD	I100591	1,227	-
SRCTec, LLC	12.RD	I100685	409,572	-
SRCTec, LLC	12.RD	I100714	360,036	-
SRCTec, LLC	12.RD	I100734	965,306	-
SRCTec, LLC	12.RD	I100744	115,940	-
SRCTec, LLC	12.RD	I100842	600,983	-
SRCTec, LLC	12.RD	I100845	2,495	-
SRCTec, LLC	12.RD	I100860	84,373	-
SRCTec, LLC	12.RD	I100868	1,418	-
SRCTec, LLC	12.RD	I100868.02	28,390	-
SRCTec, LLC	12.RD	I100890	185	-
SRCTec, LLC	12.RD	I100895	148,518	-
STC	12.RD	24-05-9180	3,299	-
Total Department of the Army			106,868,825	-
Direct Programs Department of the Navy	12.RD		6,934,137	-
Pass Through Programs From:				
DELPHINUS ENGINEERING	12.RD	3006-SC-2201	105,113	-
SDL/USURF	12.RD	CP0078026	981,166	-
SDL/USURF	12.RD	CP0088037	65,077	-
SRCTec, LLC	12.RD	I100837	7,366	-
SRCTec, LLC	12.RD	I100905	6,053	-
VSolvit, LLC	12.RD	VS-SRC-1150-001-001	79,074	-
Total Department of the Navy			8,177,986	-

SRC, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2024 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
Direct Programs Department of the Marines	12.RD		774,782	-
Pass Through Programs From:				
Northrop Grumman	12.RD	5300015500	69,784	
Northrop Grumman	12.RD	5300089466	83,729	-
Total Department of the Marines			928,295	-
National Reconnaissance Organization				
Pass Through Program From:				
Parsons	12.RD	PO-0009856	636,717	-
Total National Reconnaissance Organization			636,717	-
Defense Intelligence Agency				
Pass Through Program From:				
Colsa Corporation	12.RD	HS-170298	599,686	-
Total Defense Intelligence Agency			599,686	-
Defense Advanced Research Projects Agency				
Pass Through Program From:				
SDL/USURF	12.RD	CP0069236	70,787	-
Total Defense Advanced Research Projects Agency			70,787	-

SRC, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2024 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
Defense Threat Reduction Agency				
Pass Through Programs From:				
Applied Research Associates	12.RD	S-004923-02-SRC	253,677	-
Applied Research Associates	12.RD	S-D00189-01-25-SRC	989,730	-
CACI NSS, Inc.	12.RD	P000116251	2,101,375	-
SRCTec, LLC	12.RD	I100840	1,568	-
Total Defense Threat Reduction Agency			3,346,350	-
Defense Logistics Agency				
Pass Through Programs From:				
SRCTec, LLC	12.RD	I100843	92	-
SRCTec, LLC	12.RD	I100909	159	-
SRCTec, LLC	12.RD	I100575	701	-
SRCTec, LLC	12.RD	I100778	116	-
SRCTec, LLC	12.RD	I100829	2,434	-
SRCTec, LLC	12.RD	I100850	684	-
SRCTec, LLC	12.RD	I100855	7,717	-
SRCTec, LLC	12.RD	I100885	18,252	-
Total Defense Logistics Agency			30,155	-
Office of the Secretary of Defense				
Pass Through Program From:				
PRKK, LLC	12.RD	SRC-GFII-002	583,081	-
Total Office of the Secretary of Defense			583,081	-

SRC, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2024 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
Defense Technical Information Center				
Pass Through Program From: Alion Science & Technology	12.RD	SUB1159003	658,860	-
Total Defense Technical Information Center			658,860	-
Washington Headquarters Services				
Pass Through Program From: The Boeing Company	12.RD	2101866-01	55	-
Total Washington Headquarters Services			55	-
Other Contracts		12.RD	73,587	-
Total U.S. Department of Defense			185,624,550	1,612,632
Environmental Protection Agency				
Direct Programs Environmental Protection Agency		66.RD	9,222,323	-
Pass Through Program From: SUMMITEC Corporation	66.RD	22-10-012	64,685	-
Total Environmental Protection Agency			9,287,008	-

SRC, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2024 Federal Expenditures	Amounts Provided to Subrecipients
Research & Development Cluster:				
U.S. Department of Health and Human Services				
Direct Programs Center for Disease Control and Prevention	93.RD		2,008,389	-
Total U.S. Department of Health and Human Services			2,008,389	-
U.S. Department of Energy				
Pass Through Program From: Spyros	81.RD	267041-722	9,814	-
Total U.S. Department of Energy			9,814	-
U.S. Department of Homeland Security				
Pass Through Program From: SRCTec, LLC	97.RD	I100912	295	-
Trident Systems	97.RD	ICS-22-03	13,110	-
Total U.S. Department of Homeland Security			13,405	-
U.S. Department of State				
Pass Through Programs From: General Dynamics	19.RD	7SK0020SL	9,981	-
SRCTec, LLC	19.RD	I100712	109	-
Total U.S. Department of State			10,090	-

SRC, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor / Pass through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Contract Number / Pass Through Entity	2024 Federal Expenditures	Amounts Provided to Subrecipients
<i>Research & Development Cluster:</i>				
<i>U.S. Department of Transportation</i>				
Pass Through Program From: The Ohio State University	20.RD	60067168	11,442	-
Total U.S. Department of Transportation			11,442	-
<i>National Aeronautics and Space Administration</i>				
Direct Programs National Aeronautics and Space Administration	43.RD		10,369	-
Pass Through Program From: SRCTec, LLC	43.RD	I100825	248	-
Total National Aeronautics and Space Administration			10,617	-
Total Research & Development Cluster Expenditures of Federal Awards			\$ 196,975,315	\$ 1,612,632

The accompanying notes are an integral part of the schedule.

SRC, Inc. and Subsidiaries

Notes to the Schedule of Expenditures of Federal Awards

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, 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, 2024.

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, 2024. 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, 2024. The Company had no federally funded insurance programs or loan guarantees during the year ended September 30, 2024.

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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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 Trustees
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, 2024, and the related consolidated statement of activities and change in net assets, and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 13, 2024.

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 13, 2024



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 Trustees
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, 2024. 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, 2024.

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 16, 2025

SRC, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs Year Ended September 30, 2024

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, 2024

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

CUI



Audit Report No. 20241011000040

Upstate New York Branch Office (03441)
90 Curtwright Drive, Suite 1
Williamsville, NY 142217096

June 11, 2025

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, 2024

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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CUI

Supporting the **warfighter**. Protecting the **taxpayer**.



CONTENTS

	<u>Page</u>
Executive Summary	1
Report On Compliance For Each Major Federal Program Required By the Uniform Guidance (2 CFR Part 200)	3
Management’s Responsibility	4
Auditor’s Responsibility	4
Unmodified Opinion on Research & Development Cluster	5
Report On Internal Control Over Compliance Required By 2 CFR Part 200	5
DCAA Personnel and Report Authorization	8
Audit Report Distribution	9
Audit Report Restrictions	10
Exhibit	
Schedule of Findings and Questioned Costs	11
Appendixes	
1. Certificate of Final Indirect Costs	18
2. Summary Schedule of Prior Audit Findings	19
3. Corrective Action Plan for the Current Year Findings	21
4. Summary Schedule of Claimed Expenditures by Federal Sponsor	22
Attachments	
1. Summary Results of Audit	24
2. Schedule of Allowable Costs by Federal Award	25

EXECUTIVE SUMMARY

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, 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 reported sales of \$303 million for its Fiscal Year Ended (FYE) September 30, 2024. SRC's Fiscal Year (FY) 2024 sales were 92 percent related to Federal Government, with Government sales predominately flexibly priced. In FY 2024, the primary customers consisted of the US Air Force and US Army, which represented approximately 84 percent of the total claimed costs. SRC employs approximately 1,213 employees (SRC 935 and SRC Home Office 278).

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 the 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 responsibilities included testing SRC's compliance with three requirements in the OMB 2024 *Compliance Supplement*. These parts were (A) Activities Allowed or Unallowed; (B) Allowable Cost/Cost Principles; and (H) Period of Performance. SRC's restricted DoD 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 audit included examining SRC's proposed direct and indirect amounts for reimbursement on Federal awards contained in its FY 2024 final indirect cost proposal, dated February 28, 2025. 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 the 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, 2024 disclosed findings related to internal control over compliance. We identified two internal control noncompliances: one related to capitalization and depreciation of tangible capital assets, and another related to the review and approval of employee work arrangement requests.

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM.

We have audited SRC's compliance with the compliance requirements described in the 2024 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, 2024. 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, 2024. 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, SRC's restricted DoD 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 SRC's restricted DoD 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 2024 final indirect rate proposal, submitted on February 28, 2025, 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 February 28, 2025, 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, 2024. 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 conducted for the limited purpose described in the Auditor’s Responsibility section above. It 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 identified 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, as described in the accompanying Schedule of Findings and Questioned Costs (Exhibit), items 2024-001 and 2024-002 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 outline the scope and results of our testing based on Uniform Guidance requirements. 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 found that SRC adequately presented the status of its corrective action taken regarding prior audit Finding Number 2023-002 and 2023-003. Our audit disclosed that SRC materially misrepresented the status of its corrective action taken regarding prior audit Finding Number 2023-001, 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 2024-001 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 9, 2025. During the exit conference, SRC concurred with all findings. The indirect rates were agreed to in the Indirect Cost Rate Agreement signed June 10, 2025 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 the 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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AUDIT REPORT AUTHORIZED BY:



Digitally signed by
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Date: 2025.06.11 09:21:14 -04'00'

Joel Verstraete
Branch Manager
DCAA Upstate New York Branch Office

AUDIT REPORT DISTRIBUTION

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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, 2024

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

Auditee Classified as Low-Risk under 2 CFR 200 Subpart F:

Yes	X
No	

SRC, Inc.
Fiscal Year Ended September 30, 2024

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
2024-001	R&D Cluster	N/A	Misrepresentation of prior audit finding 2023-001; Compliance Requirements A & B; 48 CFR 9904.409; Federal Acquisition Regulations (FAR) 31.205-11(a)
2024-002	R&D Cluster	N/A	Compliance Requirements A, and B; DFARS 252.242-7006(c)(1)

A. INTERNAL CONTROL OVER COMPLIANCE:

2024-001 Internal Control and Compliance Finding Related to 48 CFR 9904.409, Depreciation of Tangible Capital Assets, and FAR 31.205-11(a), Depreciation

a. Condition

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

SRC claimed depreciation expenses exceeding the appropriate allocation for FY 2024. Our review of SRC's depreciable cost 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 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 9904.409-50(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.

c. Recommendation

SRC should comply with 48 CFR 9904.409 and FAR 31.205-11 regarding useful lives and residual value. Training should be provided to responsible employees to ensure compliance with 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.

2024-002 Internal Control and Compliance Finding Related to DFARS 252.242-7006(c)(1), Accounting System Administration, Sound Internal Control Environment

a. Condition

Our review of compliance and internal controls testing in accordance with OMB 2024 *Compliance Supplement* for Part A. Activities Allowed or Unallowed; and Part B. Allowable Cost/Cost Principles; identified an internal control deficiency relating to the review and approval of employee work arrangement requests.

We performed an analysis to identify employees that are not following their specific work arrangement and to determine if there was a material impact on the onsite/offsite allocations. For all 54 employees reviewed, we took no exceptions for the onsite/offsite labor charges when compared to the contractor's labor General Ledger (GL) detail. Therefore, we found no impact on the contractors onsite/offsite allocations.

However, during our analysis we found 49 employees working under unapproved work arrangements during FY 2024. The employees submitted work arrangement requests in the contractor's system and were found to be working the submitted work arrangement without supervisor approval. SRC's Hours of Work and Work Arrangements Policy states:

"Once approved by a supervisor, an employee can formally request remote work as a possible work arrangement by completing the work arrangement request. Approval is required by the supervisor with HR representative input for the WAR. All work arrangement requests must be reviewed prior to commencement and renewed upon changes to the previous request."

b. Criteria

We examined DFARS 252.242-7006(c)(1), *Accounting System Administration*, which states the following requirements:

“The contractor's accounting system shall provide for: (1) A sound internal control environment, accounting framework, and organizational structure.”

c. Recommendation

The auditee should comply with its formal policies and procedures and ensure the appropriate personnel are reviewing and approving the submitted employee work arrangements in the contractor's system.

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.

APPENDIXES

Appendix 1	CERTIFICATE OF FINAL INDIRECT RATES	Pg. 18
Appendix 2	SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	Pg. 19
Appendix 3	CORRECTIVE ACTION PLAN FOR CURRENT YEAR FINDINGS	Pg. 21
Appendix 4	SUMMARY SCHEDULE OF CLAIMED EXPENDITURES BY FEDERAL SPONSOR	Pg. 22

SRC, INC.
North Syracuse, NY

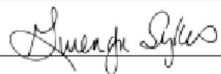
CERTIFICATE OF FINAL INDIRECT RATES

SRC, Inc.
Schedule N
Certificate of Final Indirect Costs
Fiscal Year Ended September 30, 2024

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 February 28, 2025 to establish final indirect cost rates for Fiscal Year October 1, 2023 through September 30, 2024 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, February 28, 2025** _____

SRC, INC.
North Syracuse, NY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Fiscal Year Ended September 30, 2024



SRC, Inc.
Uniform Guidance Audit Report: Summary Schedule of Prior Audit Findings
Year Ending September 30, 2024

Finding 2023-001

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 fifth 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. In Fiscal Year 2024, SRC also updated policies and procedures for virtual tags.

SRC submitted a revised cost impact analysis on June 3, 2024, to DCMA for these non-compliances.

Finding 2023-002

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 2023-003

Summary of Prior Audit Finding:

Internal Control and Compliance Finding Related to 48 CFR 9903.202-3

Recommendation:

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

Status of Finding:

SRC revised the Disclosure Statement to provide visibility and clarification of how SCI and Corporate Investment costs are treated with Revision 25 dated July 31, 2024, effective October 1, 2024.

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, 2024

Finding 2024-001

SRC is in the fifth 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.

Remaining outstanding corrective action, which entails reviews of our policies and procedures will take place by September 30, 2026.

Contact Person Responsible for Corrective Action: Lisa Kennedy, Director, Corporate Controller
Completion Date: All corrective action will be implemented by September 30, 2026.

Finding 2024-002

A review of SRC's policies and procedures will be completed and if necessary, will be updated to put additional controls in place to ensure appropriate personnel are reviewing and approving submitted employee work arrangements. Training will be provided, as applicable, for any changes that may be made.

Contact Person Responsible for Corrective Action: Janna Nelson, Director, Human Resources
Completion Date: Review of policy and procedures will be completed by September 30, 2025.

SRC, INC.
North Syracuse, NY

**SUMMARY SCHEDULE OF CLAIMED EXPENSES BY FEDERAL SPONSOR
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2024**

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	\$ 44,256,017	\$ 19,394,149	\$ 63,650,166	\$ 1,612,632
Department of the Army	12	82,611,456	24,257,369	106,868,825	-
Department of the Navy	12	6,934,137	1,243,849	8,177,986	-
Department of the Marines	12	774,782	153,513	928,295	-
National Reconnaissance Organization	12	-	636,717	636,717	-
Defense Intelligence Agency	12	-	599,686	599,686	-
Defense Advanced Research Projects Agency	12	-	70,787	70,787	-
Defense Threat Reduction Agency	12	-	3,346,350	3,346,350	-
Defense Logistics Agency	12	-	30,155	30,155	-
Office of the Secretary of Defense	12	-	583,081	583,081	-
Defense Technical Information Center	12	-	658,860	658,860	-
Washington Headquarters Services	12	-	55	55	-
Other Contracts	12	73,587	-	73,587	-
Total Department of Defense *		<u>\$ 134,649,979</u>	<u>\$ 50,974,571</u>	<u>\$ 185,624,550</u>	<u>\$ 1,612,632</u>
Other Federal Agencies					
Environmental Protection Agency**	66	\$ 9,222,323	\$ 64,685	\$ 9,287,008	\$ -
Department of Health and Human Services**	93	2,008,389	-	2,008,389	-
Department of Energy**	81	-	9,814	9,814	-
Department of Homeland Security**	97	-	13,405	13,405	-
Department of State**	19	-	10,090	10,090	-
Department of Transportation **	20	-	11,442	11,442	-
National Aeronautics and Space Administration	43	10,369	248	10,617	-
Total Other Federal Agencies *		<u>\$ 11,241,081</u>	<u>\$ 109,684</u>	<u>\$ 11,350,765</u>	<u>\$ -</u>
Total Federal Awards *		<u>\$ 145,891,060</u>	<u>\$ 51,084,255</u>	<u>\$ 196,975,315</u>	<u>\$ 1,612,632</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.