



Concurrent Technologies Corporation

Consolidated Financial Statements,
Independent Auditor's Report and Reports
Required by *Government Auditing Standards*
and the Uniform Guidance
Years Ended June 30, 2020 and 2019

Concurrent Technologies Corporation

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Reports Required by *Government Auditing Standards*
and the Uniform Guidance
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Concurrent Technologies Corporation

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Independent Auditor's Report

Board of Directors
Concurrent Technologies Corporation
Johnstown, Pennsylvania

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Concurrent Technologies Corporation and subsidiaries (collectively, the Corporation), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Concurrent Technologies Corporation and subsidiaries as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

2019 Consolidated Financial Statements

The 2019 consolidated financial statements of Concurrent Technologies Corporation and subsidiaries were audited by other auditors, whose report dated September 16, 2019 expressed an unmodified opinion on those consolidated financial statements.

Other 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. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 October 9, 2020 on our consideration of the Corporation'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 Corporation'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 Corporation's internal control over financial reporting and compliance.

BDO USA, LLP

McLean, Virginia
October 9, 2020

Consolidated Financial Statements

Concurrent Technologies Corporation
Consolidated Statements of Financial Position

<i>June 30,</i>	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 5,325,000	\$ 1,488,000
Investments	14,791,000	16,586,000
Contract receivables, net	12,067,000	13,178,000
Prepaid expenses and other current assets	1,302,000	1,284,000
Inventory	4,156,000	4,030,000
Deferred project costs	618,000	889,000
Total current assets	38,259,000	37,455,000
Property and equipment, net	12,939,000	15,685,000
Other assets	895,000	1,282,000
Total assets	\$ 52,093,000	\$ 54,422,000
Liabilities and Net Assets		
Current liabilities		
Bank lines-of-credit	\$ -	\$ 7,929,000
Accounts payable and accrued expenses	4,906,000	5,302,000
Accrued compensation and related liabilities	3,882,000	3,789,000
Contract liabilities	2,558,000	2,405,000
Current portion of notes payable	3,249,000	-
Total current liabilities	14,595,000	19,425,000
Notes payable	4,143,000	-
Other liabilities	623,000	991,000
Total liabilities	19,361,000	20,416,000
Net assets		
Without donor restrictions	32,593,000	33,843,000
With donor restrictions	139,000	163,000
Total net assets	32,732,000	34,006,000
Total liabilities and net assets	\$ 52,093,000	\$ 54,422,000

See accompanying notes to the consolidated financial statements.

Concurrent Technologies Corporation

Consolidated Statements of Activities and Change in Net Assets

<i>Years ended June 30,</i>	2020	2019
Contract revenue	\$ 75,550,000	\$ 73,351,000
Costs of revenue		
Direct costs	43,447,000	45,418,000
Selling, general and administrative expenses	30,598,000	31,104,000
Depreciation and amortization	2,345,000	2,305,000
Total costs of revenue	76,390,000	78,827,000
Loss from operations	(840,000)	(5,476,000)
Non-operating activities		
Investment (loss) return, net	(48,000)	646,000
Other income	76,000	191,000
(Loss) gain on disposal of property and equipment	(255,000)	16,000
Interest expense	(201,000)	(290,000)
Total non-operating activities	(428,000)	563,000
Change in net assets before provision for income taxes	(1,268,000)	(4,913,000)
Provision for income taxes	(6,000)	(478,000)
Change in net assets	(1,274,000)	(5,391,000)
Net assets at the beginning of the year	34,006,000	39,397,000
Net assets at the end of the year	\$ 32,732,000	\$ 34,006,000

See accompanying notes to the consolidated financial statements.

Concurrent Technologies Corporation

Consolidated Statements of Cash Flows

Years ended June 30,	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (1,274,000)	\$ (5,391,000)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in allowance for doubtful accounts	(19,000)	44,000
Depreciation and amortization	2,345,000	2,316,000
Write down of inventory	-	1,100,000
Net realized and unrealized losses (gains) on investments	453,000	(294,000)
Loss (gain) on disposal of property and equipment	255,000	(16,000)
Changes in operating assets and liabilities:		
Contract receivables, net	1,130,000	1,825,000
Prepaid expenses and other current assets	(18,000)	201,000
Inventory	(126,000)	(2,528,000)
Deferred project costs	271,000	(889,000)
Other assets and other liabilities	19,000	129,000
Accounts payable and accrued expenses	(396,000)	(1,338,000)
Accrued compensation and related liabilities	93,000	(1,602,000)
Contract liabilities	153,000	2,036,000
Net cash provided by (used in) operating activities	2,886,000	(4,407,000)
Cash flows from investing activities:		
Proceeds from sales of investments	20,939,000	18,230,000
Purchases of investments	(19,597,000)	(14,214,000)
Acquisition of property and equipment	(649,000)	(345,000)
Proceeds from sale of property and equipment	795,000	17,000
Net cash provided by investing activities	1,488,000	3,688,000
Cash flows from financing activities:		
Net (repayments) borrowings under bank lines-of-credit	(7,929,000)	1,279,000
Proceeds received from issuance of notes payable	7,392,000	-
Net cash (used in) provided by financing activities	(537,000)	1,279,000
Net increase in cash and cash equivalents	3,837,000	560,000
Cash and cash equivalents at the beginning of the year	1,488,000	928,000
Cash and cash equivalents at the end of the year	\$ 5,325,000	\$ 1,488,000
Supplemental cash flow information:		
Cash paid for interest	\$ 206,000	\$ 285,000
Cash paid for income taxes	\$ -	\$ -

See accompanying notes to the consolidated financial statements.

Concurrent Technologies Corporation

Notes to the Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Concurrent Technologies Corporation (CTC) is an independent, nonprofit, applied scientific research and development professional services organization providing innovative management and technology-based solutions. As a nonprofit organization, CTC conducts impartial, in-depth assessments and delivers reliable, unbiased solutions that emphasize increased quality, enhanced effectiveness, and rapid technology transition and deployment.

CTC is headquartered in Johnstown, Pennsylvania and conducts operations in various corporate, client and offsite locations throughout the United States.

The consolidated financial statements also include the following affiliates: CTC Foundation (CFN) and CTC Enterprise Ventures Corporation (EVC). EVC was established by the CTC in fiscal year 2001. EVC is a wholly-owned for-profit subsidiary of the CTC established with the objective to further the purpose of the Corporation through investments and other activities, designed to encourage the development and commercialization of advanced technologies.

CFN was established by the CTC in fiscal year 1998 and CTC is its sole member. CFN's objective is to draw together expertise and multi-faceted capabilities to tangibly enhance the lives of people. CFN meets that goal by engaging individual and institutional donors to help advance the development and application of innovative scientific, technological and humanistic principles to enhance economic progress and the quality of life. CFN utilizes the competencies of the CTC, academia and other institutions, matching capabilities with solutions. Five primary areas of focus are: advanced information technology, education and workforce training, manufacturing excellence, energy and the environment, and regional development. CFN also serves as the Corporation's philanthropic arm. CFN's grants are made to charitable groups, educational institutions, and to the arts.

The significant accounting policies followed by CTC, EVC and CFN 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 CTC, EVC, and CFN as described above (collectively referred to as the Corporation). All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concurrent Technologies Corporation

Notes to the Consolidated Financial Statements

Operating cycle

The Corporation'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 Corporation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU), 2014-09, *Revenue from Contracts with Customers (Topic 606)*, including all subsequent amendments (collectively, Accounting Standards Codification (ASC) 606) and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* effective July 1, 2019. See Recently Adopted Authoritative Guidance section for further information regarding the adoption of ASC 606 and ASU 2018-08.

The effect of ASC 606 and ASU 2018-08 on the Corporation's consolidated financial statements was examined in conjunction with one another. The majority of the Corporation's revenue-producing arrangements meet the definition of a contract under ASC 606, as the customer receives commensurate value.

The Corporation adopted ASC 606 using the modified retrospective method applied to those contracts that were not substantially complete as of July 1, 2019. ASC 606 outlines a five-step model whereby revenue is recognized as performance obligations within the contract are satisfied. The Corporation's performance obligations are satisfied over time as work progresses or at a point in time. ASC 606 also requires new, expanded disclosures regarding revenue recognition. There was no change to revenue for the year ended June 30, 2020 as a result of applying ASC 606.

Generally, the Corporation 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, the extent of price competition and the amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals. The Corporation 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 fee or award fee.
- **Time-and-Materials (T&M) Contracts:** Under contracts in this category, the Corporation charges a fixed hourly rate for each direct labor hour expended and is reimbursed for billable material costs and billable out-of-pocket expenses inclusive of allocable indirect costs. The Corporation assumes the financial risk on time-and-materials contracts because costs of performance may exceed negotiated hourly rates.

Concurrent Technologies Corporation

Notes to the Consolidated Financial Statements

- Fixed-Price-Level-of-Effort (FP-LOE) Contracts: substantially similar to T&M contracts except they require a specified level of effort over a stated period of time on work that can be stated only in general terms. 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 showing 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 U.S. 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 Corporation can complete the work at lower costs than planned. While FFP contracts allow a benefit from cost savings, these contracts also increase the Corporation's exposure to the risk of cost overruns.
- EVC sells software under arrangements that include hardware and services. The software is configured together with the hardware prior to delivery. Revenue is recognized ratably over the period the services are delivered.

The Corporation's earnings and profitability may vary depending on changes in the proportionate amount of revenues derived from each type of contract and the nature of services or products provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive fee and award fee contracts, is finally determined.

The Corporation recognizes revenue over time when there is a continuous transfer of control to the customer. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the U.S. government to unilaterally terminate the contract for convenience, pay for costs incurred plus a reasonable profit and take control of any work in process. When control is transferred over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. Based on the nature of the products and services provided in the contract, the Corporation uses judgment to determine if an input measure or output measure best depicts the transfer of control over time. For services contracts, the Corporation typically satisfies performance obligations as services are rendered. The Corporation typically uses a cost-based input method to measure progress. Revenue is recognized proportionally as contract costs are incurred plus estimated fees. For time-and-material contracts, the Corporation bills the customer per labor hour and per material, and revenue is recognized in the amount invoiced because 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 Corporation 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

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Notes to the Consolidated Financial Statements

modifications are for goods or services that are not distinct and, therefore, are accounted for as part of the existing contract.

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 contract level and is recorded 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 Corporation'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 Corporation 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 Corporation 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 contracts with the U.S. Government provide that the customer pays either performance-based payments (PBPs) based on the achievement of contract milestones or progress payments based on a percentage of costs that are incurred. The Corporation 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 Corporation'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.

Contributions

Contributions may be conditional or unconditional transactions. If the contribution is determined to be unconditional, the Corporation recognizes revenue at the earlier of the period received or promised. If the contribution is determined to be conditional, the Corporation recognizes revenue when the condition has been met. Contributions received are considered to be without donor

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restriction unless specifically restricted by the donor. Amounts received that are designated for a future period or are restricted by the donor for specific purposes are reported as net assets with donor restrictions. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as net assets with donor restrictions. When the donor-imposed restrictions are met, the funds are released with an offset to net assets without donor restrictions.

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.

Cash equivalents

The Corporation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Currently, all interest bearing and non-interest bearing U.S. deposit accounts maintained by the Corporation are insured up to \$250,000 by either the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). At June 30, 2020, the Corporation held deposits of \$1.9 million in excess of FDIC limits. At times, the Corporation also maintains cash in sweep accounts that invest primarily in securities backed by U.S. Treasuries and U.S. Government Agencies. The Corporation has not experienced losses in the deposit accounts or sweep accounts and believes it is not exposed to significant credit risk associated with those accounts.

Restricted cash

The Corporation has restricted cash in the amount of \$737,000 and \$508,000 at June 30, 2020 and 2019, respectively, which represents unexpended grant proceeds that will be used for grant expenditures during the next fiscal year. These amounts are included in cash and cash equivalents in the accompanying consolidated statements of financial position.

Contract receivables and contract liabilities

Contract receivables are generated from prime and subcontracting arrangements with federal governmental agencies and various commercial entities. Billed amounts represent invoices that have been prepared and sent to the customer. Contract assets represent costs and anticipated profits not yet billed or awaiting milestones to bill. Management determines reserve for uncollectible accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Management has recorded an allowance for contract receivables that are considered to be uncollectible. Uncollectible amounts will be written off when all efforts to collect these receivables have been exhausted or when management receives notification that an amount will not be collected.

Contract liabilities represent interim contract billings in excess of costs and estimated earnings incurred on those contracts.

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Notes to the Consolidated Financial Statements

Investments

Investments in marketable securities are measured and reported at fair value. Purchases and sales of securities are reflected on a trade-date basis. Interest is recorded when earned. Dividends are recorded as of the ex-dividend date.

Investment securities 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 could 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.

Inventory

The Corporation's inventory is stated at lower of cost or market value, with cost being determined on a weighted average basis. Management regularly reviews its inventory for obsolescence and provides for write downs when items are deemed to be unrealizable at their stated carrying value. Historically, any write downs have not been material as a substantial portion of inventory is purchased for specific contracts and placed into production soon after delivery. However, in fiscal 2019, EVC recorded a \$1.1 million reduction to the value of its inventory related to its water-reuse business to reduce the value of this inventory to its estimated market value.

Deferred project costs

EVC defers and amortizes the revenue and costs associated with its Advanced Guard for Information Security (AGIS) software product in accordance with the product's licensing and maintenance agreement.

Property and equipment

Property and equipment above \$5,000 and with an estimated useful life of at least two years are capitalized and stated at cost, and are depreciated on the straight-line method for both financial statement and tax purposes. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. The estimated useful life is three years for computer software, five years for computer equipment, twelve years for furniture and fixtures and 20 to 40 years for buildings, building improvements and land improvements. Leasehold improvements are amortized over the term of the lease or useful life, whichever is shorter. Construction-in-progress is stated at cost and is not depreciated. Such costs will be transferred to property and equipment upon completion. Land is not depreciated or amortized.

Impairment of long-lived assets

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined by comparing the carrying value of long-lived assets to an estimate of the future undiscounted cash flows expected to result from the assets and eventual disposition. In the event impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or valuation techniques such as discounted cash flow models, appraisals, or other pricing models.

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Notes to the Consolidated Financial Statements

Management believes that no events have occurred that would cause such an impairment for the fiscal years ended June 30, 2020 and 2019.

Net assets

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

Net assets without donor restrictions

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

Net assets with donor restrictions

CFN receives certain contributions designated by donors to be used for future stipulated purposes and future periods. As of June 30, 2020 and 2019, a total of \$139,000 and \$163,000 of contributions, respectively, were designated as net assets with donor restrictions.

Fair value of financial instruments

The fair value of the Corporation's cash and cash equivalents, contract receivables, contract liabilities, accounts payable and accrued expenses and accrued compensation and related liabilities approximate their carrying amounts due to the relatively short maturity of these items. The fair value of the Corporation's long-term debt approximates its carrying amount due to the variability of the applicable interest rates and potential for loan forgiveness.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

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Notes to the Consolidated Financial Statements

Research and development expenses

Expenditures for research and development costs are expensed as incurred and amounted to \$1,383,000 and \$1,693,000 during the years ended June 30, 2020 and 2019, respectively.

Advertising expenses

During the years ended June 30, 2020 and 2019, the Corporation incurred advertising expenses in the amount of \$148,000 and \$145,000, respectively. Such expenses are included in other operating expenses in the accompanying consolidated statements of activities and change in net assets. Advertising expenses are expensed as incurred and are not reimbursable to the Corporation under contracts with agencies of the U.S. Government.

Income taxes

The Corporation and its consolidated domestic nonprofit affiliate are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC) and are subject to tax only on activities which give rise to unrelated business income. The Corporation's subsidiary, EVC, is subject to income taxes and utilizes the liability method to measure the tax consequences of temporary differences between financial statement income and taxable income, the primary difference being the effects of a net operating loss carryforward.

The Corporation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Corporation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended June 30, 2016 and prior. The Corporation has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

The Corporation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

Recently adopted authoritative guidance

In May 2014, the FASB issued (ASU) 2014-09 (ASC 606) and related amendments, which superseded all prior revenue recognition methods and industry-specific guidance. The core principle of ASC 606 is an entity should recognize revenue to depict the transfer of control for promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity is required to identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (i.e., either over time or point in time). ASC 606 further requires that companies disclose sufficient information to enable users of

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Notes to the Consolidated Financial Statements

financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

ASC 606 provided companies an option of two transition methods: the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The ASU was effective for annual reporting periods beginning after December 15, 2018. In June 2020, the effective date of the ASU was extended an additional twelve months, though the Corporation elected to adopt in fiscal year 2020.

In adopting ASC 606, the Corporation elected to use certain practical expedients permitted by the standard including using the portfolio approach where contracts with similar characteristics were assessed collectively to evaluate risk over the impact of ASC 606. The Corporation also elected to adopt the right-to-invoice practical expedient on certain cost-reimbursable contracts where the Corporation recognizes revenues as it is contractually able to invoice the customer based on the control transferred to the customer. The adoption of ASC 606 did not have a significant impact on the Corporation's revenue recognition policies or the timing and amounts of revenues recognized.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU assists in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. The ASU is effective for transactions in which the Corporation serves as the resource recipient beginning on July 1, 2019. The adoption of the new standard had no impact on the accompanying consolidated financial statements as it was determined that substantially all active contracts held by the Corporation qualified as exchange transactions and therefore follow ASC 606.

The Corporation adopted ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the consolidated statement of cash flows by providing guidance on eight specific cash flow issues. The ASU became effective for private companies for annual periods beginning after December 31, 2018, and for interim periods beginning after December 31, 2019, with early adoption permitted. The adoption of the ASU did not have a material effect on the Corporation's consolidated statement of cash flows in 2020.

Recent accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*, amending the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new leases standard was

Concurrent Technologies Corporation

Notes to the Consolidated Financial Statements

subsequently updated by ASUs 2018-01, 2018-10, 2018-11, 2018-20, 2019-01, 2019-10 and 2020-05. The new lease standard provides lessors with a practical expedient, by class of underlying asset, to elect not to separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (ASC 606) and both the timing and pattern of transfer of the nonlease component(s) and associated lease component are the same, and the lease component, if accounted for separately, would be classified as an operating lease. If the nonlease component or components associated with the lease component are the predominant component of the combined component, an entity is required to account for the combined component in accordance with ASC 606. Otherwise, the entity must account for the combined component as an operating lease in accordance with ASC 842. On November 15, 2019, the FASB issued an ASU to extend the effective date. For calendar-year private companies the new standard takes effect for annual periods beginning after December 15, 2020. On June 3, 2020, the FASB voted unanimously to further defer the effective date for implementation of this standard for an additional twelve months. The revised effective date for private companies is for annual periods beginning after December 15, 2021. Earlier application is permitted for all entities. Management is currently evaluating the effect that adoption of this new standard will have on the Corporation's consolidated financial statements.

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

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The update modifies certain disclosure requirements in Topic 820, *Fair Value Measurement*. The ASU is effective for the Company beginning July 1, 2020. Management is currently evaluating the effect that adoption of this new standard will have on the Corporation's consolidated financial statements.

The Corporation has assessed other accounting pronouncements issued or effective during the years ended June 30, 2020 and 2019 and deemed they were not applicable to the Corporation or are not anticipated to have a material effect on the consolidated financial statements.

Reclassifications

Certain amounts in the fiscal year 2019 consolidated financial statements have been reclassified to conform to the fiscal year 2020 presentation. There was no effect on beginning or ending net assets for 2019 as a result of the change.

Concurrent Technologies Corporation
Notes to the Consolidated Financial Statements

2. Liquidity and Availability

The following represents the Corporation'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 June 30:

	2020	2019
Financial assets:		
Cash and cash equivalents (net of restricted cash)	\$ 4,588,000	\$ 980,000
Contract receivables, net	12,067,000	13,178,000
Investments	14,791,000	16,586,000
Total financial assets	31,446,000	30,744,000
Adjustments for amounts not available for general expenditures within one year:		
Net assets with donor restrictions	(139,000)	(163,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 31,307,000	\$ 30,581,000

The Corporation has \$31,307,000 and \$30,581,000 of financial assets available as of June 30, 2020 and 2019, respectively, to meet cash needs for general expenditures to be made within one year. Other than cash restricted for a particular contract, none of the financial assets are subject to contractual restrictions that make them unavailable for general expenditures within one year of the consolidated statements of financial position dates. Receivables are subject to implied time restrictions but are expected to be collected within one year. All investments are readily convertible to cash in the open markets. In addition, there are no board designated restrictions on the Corporation's liquidity.

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Corporation invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Corporation has a committed bank line-of-credit which it could draw upon if necessary (see Note 8).

The management of investments is governed by the Corporation's investment policy which is reviewed by the Board of Directors at least annually. An investment policy Statement between the Corporation and the investment advisor provides detailed investment objectives, risk considerations, asset allocation guidelines and performance benchmarking of the respective investments. Asset allocations and investment returns are reviewed by the both the investment advisor and the Corporation on a continual basis.

3. Functional Allocation of Expenses

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

Concurrent Technologies Corporation

Notes to the Consolidated Financial Statements

and estimates made by management. Allocation of functional expenses consists of the following for the years ended June 30, 2020 and 2019:

Natural classification for the year ended

June 30, 2020	Program	Support	Total
Compensation and benefits	\$ 33,248,000	\$ 8,209,000	\$ 41,457,000
Professional fees	16,830,000	2,280,000	19,110,000
Program materials	933,000	-	933,000
Cost of sales	4,787,000	-	4,787,000
Information technology	1,658,000	530,000	2,188,000
Occupancy	2,351,000	154,000	2,505,000
Travel	1,176,000	123,000	1,299,000
Meetings/events/memberships	295,000	208,000	503,000
Interest/taxes/fees	346,000	601,000	947,000
Depreciation and amortization	2,040,000	305,000	2,345,000
Program services/general/corporate	271,000	230,000	501,000
Total expenses	\$ 63,935,000	\$ 12,640,000	\$ 76,575,000

Natural classification for the year ended

June 30, 2019	Program	Support	Total
Compensation and benefits	\$ 32,556,000	\$ 8,962,000	\$ 41,518,000
Professional fees	16,509,000	2,079,000	18,588,000
Program materials	1,951,000	-	1,951,000
Cost of sales	4,810,000	-	4,810,000
Information technology	1,772,000	511,000	2,283,000
Occupancy	3,185,000	231,000	3,416,000
Travel	1,635,000	231,000	1,866,000
Meetings/events/memberships	283,000	237,000	520,000
Interest/taxes/fees	191,000	1,128,000	1,319,000
Depreciation and amortization	1,998,000	307,000	2,305,000
Program services/general/corporate	269,000	272,000	541,000
Total expenses	\$ 65,159,000	\$ 13,958,000	\$ 79,117,000

The functional expenses for the years ended June 30, 2020 and 2019 above include all costs of revenue and interest expense as reported in the accompanying consolidated statements of activities and change in net assets.

Concurrent Technologies Corporation
Notes to the Consolidated Financial Statements

4. Fair Value Measurements

Assets measured at fair value on a recurring basis consist of the following at June 30, 2020:

<i>Description</i>	Fair Value Hierarchy Level		Total
	Level 1	Level 2	
Mutual funds			
Exchange-traded funds	\$ 2,374,000	\$ -	\$ 2,374,000
U.S. stocks	4,754,000	-	4,754,000
International stocks	1,306,000	-	1,306,000
Total mutual funds	8,434,000	-	8,434,000
Government securities	-	4,523,000	4,523,000
Corporate bonds	-	1,834,000	1,834,000
Total investments	\$ 8,434,000	\$ 6,357,000	\$ 14,791,000

Assets measured at fair value on a recurring basis consist of the following at June 30, 2019:

<i>Description</i>	Fair Value Hierarchy Level		Total
	Level 1	Level 2	
Mutual funds			
Fixed income	\$ 3,743,000	\$ -	\$ 3,743,000
Global alternatives	1,832,000	-	1,832,000
Managed futures	350,000	-	350,000
Equities	1,642,000	-	1,642,000
Total mutual funds	7,567,000	-	7,567,000
Government securities	705,000	1,650,000	2,355,000
Stocks	5,243,000	-	5,243,000
Corporate bonds	1,421,000	-	1,421,000
Total investments	\$ 14,936,000	\$ 1,650,000	\$ 16,586,000

The following is a description of the valuation methodologies for financial instruments measured at fair value:

Government securities and corporate bonds with quoted prices available in an active market are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or other discounted cash flow models. The most significant inputs to the discounted cash flow model are the coupon, yield and expected maturity date. The fair values of government securities that are estimated using pricing models or matrix pricing based on observable market data are generally classified within Level 2 of the fair value hierarchy.

Concurrent Technologies Corporation
Notes to the Consolidated Financial Statements

Mutual funds and stocks are valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

5. Contract Receivables and Contract Liabilities

Contract receivables and contract liabilities consist of the following at June 30:

	2020	2019
Billed receivables	\$ 10,662,000	\$ 11,196,000
Contract assets	1,418,000	2,014,000
	12,080,000	13,210,000
Less: allowance for doubtful accounts	(13,000)	(32,000)
	\$ 12,067,000	\$ 13,178,000
Contract liabilities	\$ 2,558,000	\$ 2,405,000

Contract assets and contract liabilities include contract retentions, rate variances, contract costs not yet billable, and amounts arising from recognizing revenue on the percentage-of-completion basis. Such amounts may not be completely billed and collected in the following fiscal year but have been classified as a current in accordance with industry practice.

Management periodically reviews the status of outstanding receivables and establishes reserves when necessary.

6. Inventory

Inventory consists of the following at June 30:

	2020	2019
Raw materials	\$ 658,000	\$ 646,000
Work-in-process	3,498,000	3,384,000
	\$ 4,156,000	\$ 4,030,000

During fiscal year 2019, EVC recorded a write down to the value of its water reuse inventory in the amount of \$1.1 million to reduce the value of such inventory to estimated net realized market value. No substantial or unusual losses resulted from the application of lower of cost or market value accounting for inventory for the fiscal year 2020.

Concurrent Technologies Corporation
Notes to the Consolidated Financial Statements

7. Property and Equipment

Property and equipment, net consists of the following at June 30:

	2020	2019
Land	\$ 2,197,000	\$ 2,197,000
Buildings	18,415,000	18,379,000
Software	6,608,000	6,588,000
Equipment	14,638,000	14,935,000
Furniture and fixtures	7,735,000	7,800,000
Leasehold improvements	721,000	2,007,000
Construction-in-progress	279,000	-
	50,593,000	51,906,000
Less: accumulated depreciation and amortization	(37,654,000)	(36,221,000)
	\$ 12,939,000	\$ 15,685,000

During fiscal year 2020, EVC sold its Huntsville, Alabama lease and related property and equipment. The property and equipment, net of accumulated depreciation and amortization, of approximately \$1,030,000 was disposed of for total proceeds of approximately \$790,000. The net loss on disposal of property and equipment of approximately \$240,000 is included in the loss on disposal of property and equipment in the accompanying consolidated statements of activities and change in net assets.

8. Bank Lines-of-credit and Notes Payable

Lines-of-credit

Prior to March 2020, the Corporation maintained an operating line-of-credit agreement with a bank. The line-of-credit provided for borrowings up to \$11,250,000. Any borrowings are secured by the rights to and proceeds from the Corporation's investment portfolio. The interest rate on the line-of-credit was based upon the weekly London Interbank Offered Rate (LIBOR) rate plus 125 basis points. The outstanding balance on the line-of-credit at June 30, 2019 was \$7,929,000. In March 2020, the line-of-credit was closed.

In March 2020, the Corporation opened a new operating line-of-credit agreement with a bank. The new line-of-credit provides for borrowings up to \$11,250,000. Any borrowings are secured by the rights to and proceeds from the Corporation's investment portfolio. The interest rate on the line-of-credit is based upon an applicable spread based upon the weekly London Interbank Offered Rate (LIBOR) rate plus 75 basis points. The interest rate is 0.92% per annum at June 30, 2020. There is no outstanding balance under the new line-of-credit at June 30, 2020.

Payroll Protection Program Loans

In April 2020, CTC and EVC received funding under the Paycheck Protection Program (PPP) totaling \$5,874,000 and \$1,518,000, respectively. While these loans are subject to forgiveness under the terms of PPP sections 1102 and 1106 of the Coronavirus Aid, Relief, and Economic Security

Concurrent Technologies Corporation

Notes to the Consolidated Financial Statements

(CARES) Act, there is no guarantee that forgiveness will occur. The application for these funds required CTC and EVC to, in good faith, certify that the current economic uncertainty made the loan requests necessary to support the ongoing operations of the respective companies. This certification further required the respective companies to take into account their current business activity and ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loans attendant to these funds, is dependent on the respective companies having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria. Both PPP loans accrue interest at a rate of 1.00% per annum. Any principal amounts that do not qualify for forgiveness, along with accrued interest, will be repaid in 18 equal monthly payments beginning November 2020. In accordance with ASC 470, *Debt*, no amounts for loan forgiveness will be recognized until a legal release is received.

Under current PPP regulations and should no forgiveness be granted for either PPP loan, future maturities of PPP loans would total \$3,249,000 in fiscal year 2021 and \$4,143,000 in fiscal year 2022.

9. Disaggregation of Revenue

The Corporation disaggregates revenue from contracts with customers by contract type, customer, as well as whether the Corporation acts as prime contractor or sub-contractor, as the Corporation 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 Corporation's contracts are satisfied over time as work progresses or at a point in time. Substantially all revenue from products and services were transferred to customers over time for the years ended June 30, 2020 and 2019. Incurred costs represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer.

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.

10. Income Taxes

CTC and CFN are exempt from federal income tax under IRC section 501(c)(3), though they are subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC.

The Corporation's subsidiary, EVC, is subject to income taxes and utilizes the liability method to measure the tax consequences of temporary differences between financial statement income and taxable income, the primary amount being related to net operating losses (NOL) carryforwards and Research and Development credit carryforwards of approximately \$13.5 million and \$0.4 million, respectively, as of June 30, 2020, for which the related deferred tax benefit is approximately \$4.4 million. As of June 30, 2020 and 2019, management evaluated factors surrounding its ability to utilize the EVC NOL and R&D credit carryforward and concluded that it is

Concurrent Technologies Corporation
Notes to the Consolidated Financial Statements

not likely that all or a portion of it will be utilized in the future and therefore provided for full valuation allowance against all of its NOL and R&D credit carryforward.

The provision for income taxes consists of the following for the years ended June 30:

	2020	2019
Current	\$ 6,000	\$ 110,000
Deferred	-	368,000
	\$ 6,000	\$ 478,000

On March 27, 2020, the CARES Act was signed into law in response to the coronavirus disease 2019 (COVID-19) pandemic. The CARES Act includes several significant income tax relief provisions. The income tax benefits include a favorable increase in the interest expense limitation under section 163(j), allowing for the current refund of AMT credit carryforward, allowing a five-year NOL carryback provision for certain NOLs, and increasing the amount of NOL corporations may use to offset income. The Corporation evaluated the income tax impacts of the CARES Act and included the benefit of the NOL carryback and AMT credit refund in the tax provision (\$123,000 income tax benefit) for the year ended June 30, 2020. In addition, the Corporation received funding under the Paycheck Protection Program (see Note 8).

11. Commitments and Contingencies

Leases

The Corporation has the following future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2020 and expire at various dates through June 2023. Certain of the Corporation's leases contain lease incentives or are subject to fixed rent escalations. Such items are amortized on a straight-line basis over the life of the lease. Deferred rent, which represents the difference between the scheduled rent payments and the straight-line rent, has been included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

<i>Years Ending June 30,</i>	Minimum Lease Payments	Sublease Income	Net Lease Commitments
2021	\$ 846,000	\$ (173,000)	\$ 673,000
2022	735,000	(5,000)	730,000
2023	323,000	-	323,000
	\$ 1,904,000	\$ (178,000)	\$ 1,726,000

Rent expense in connection with operating leases for the years ended June 30, 2020 and 2019, totaled \$1,259,000 and \$1,165,000, net of sublease income of \$594,000 and \$559,000, respectively.

Concurrent Technologies Corporation

Notes to the Consolidated Financial Statements

Government oversight and audits

The Corporation's government contracts activity is subject to oversight by the U.S. Government. In addition, contract costs including indirect costs, are subject to audit by agencies of the U.S. Government.

Risks and uncertainties

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The Corporation faces various risks related to the global outbreak of COVID-19. The Corporation is dependent on its workforce to deliver its services primarily to the U.S. Government and its agencies. If a significant portion of the Corporation's workforce are unable to work effectively, or if U.S. Government and its agencies and/or other customers' operations are curtailed due to illness, quarantines, government actions, facility closures, or other restrictions in connection with the COVID-19 pandemic, the Corporation's operations will likely be impacted. The Corporation may be unable to perform fully on its contracts and costs may increase as a result of the COVID-19 outbreak. These cost increases may not be fully recoverable or adequately covered by insurance.

At this time, the Corporation's management cannot predict the full impact of the COVID-19 pandemic, but management continues to monitor the situation, to assess further possible implications to operations, the supply chain, and customers, and to take actions in an effort to mitigate adverse consequences.

On March 27, 2020, President Trump signed into law the CARES Act. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

Management continues to examine the impact that the CARES Act may have on business. Other than the PPP loans received (see Note 8) and the CARES Act provisions already utilized (see Note 10), management is unable to determine the full impact that the CARES Act will have on the financial condition, results of operations, or liquidity.

12. Employee Benefits Plans

Retirement programs

CTC sponsors a retirement program, which includes the Retirement Savings Plan (the Plan). The retirement program covers all eligible employees. CTC matches 100 percent of employee contributions up to 3 percent of eligible compensation and 50 percent on contributions from four percent to five percent, subject to limits. CTC matching contributions to the Plan totaled

Concurrent Technologies Corporation

Notes to the Consolidated Financial Statements

\$1,048,000 and \$966,000 for the years ended June 30, 2020 and 2019, respectively. No discretionary contributions were made to the Plan for the years ended June 30, 2020 and 2019.

EVC sponsors a 401(k) retirement plan (the 401k Plan) which covers all eligible employees. EVC matches 100 percent of employee contributions up to three percent of eligible compensation, subject to limits. EVC matching contributions to the 401(k) Plan totaled \$181,000 and \$195,000 for the years ended June 30, 2020 and 2019, respectively.

Health care program

The Corporation maintains a self-insurance program for employee health care claims. These risks are subject to various claims and an annual aggregate plan limit and an individual participant limit with excess liability coverage provided by an independent insurer. During the year ended June 30, 2020 the annual aggregate plan limit was \$4,257,000 and the individual participant limit was \$225,000. During the year ended June 30, 2019 the annual aggregate plan limit was \$4,910,000 and the individual participant limit was \$225,000. Liabilities related to this plan have been recorded by the Corporation at June 30, 2020 and 2019 in the amount of \$161,000 and \$259,000, respectively, for estimated amount of claims that have been incurred but not reported. The liabilities are included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position. The estimated liabilities are based on the Corporation's claims history.

Expenses related to employee health care coverage for the years ended June 30, 2020 and 2019 totaled \$1,681,000 and \$2,195,000, respectively.

13. Related Party Transactions

Certain members of the Board of Directors of the Corporation are members of the Board of Directors of certain financial institutions. The Corporation holds certain cash accounts at those financial institutions. Deposits held by the Corporation at the financial institutions amounted to \$114,000 and \$531,000 at June 30, 2020 and 2019, respectively.

Members of the Board of Directors and senior executive leadership team of the Corporation and their family members are members of the Board of Directors or are key employees of other organizations in which the Corporation engages in business activities. During the year ended June 30, 2020, costs incurred by the Corporation related to activities with these organizations totaled \$784,000, which included \$80,000 to nonprofit organizations in the form of charitable contributions, \$374,000 to a for-profit organization for legal services, and \$330,000 for expenses related to conference and meeting fees, membership fees, professional fees, subcontractor fees, software and sponsorships. During the year ended June 30, 2019, costs incurred by the Corporation related to activities with these organizations totaled \$846,000, which included \$84,000 to nonprofit organizations in the form of charitable contributions, \$242,000 to a for-profit organization for legal services, and \$520,000 for expenses related to conference and meeting fees, membership fees, professional fees, subcontractor fees, software and sponsorships.

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Notes to the Consolidated Financial Statements

14. Net Assets With Donor Restrictions

Net assets with donor restrictions arise from contributions received which are designated by the donors to be used for future stipulated purposes and future periods by CFN. The following is a summary of the activity at and for the fiscal years ended June 30, 2020 and 2019:

Balance at July 1, 2018	\$ 177,000
Contributions	20,000
Released from restrictions	(34,000)
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Balance at June 30, 2019	163,000
Contributions	-
Released from restrictions	(24,000)
<hr/>	
Balance at June 30, 2020	\$ 139,000

15. Major Customers

During the years ended June 30, 2020 and 2019, the Corporation derived 56% and 59% of its revenue from prime contracts with agencies of the U.S. Government. As of June 30, 2020 and 2019, 64% and 51% of billed contract receivables were due from such U.S. Government agencies. Such receivables are due from multiple departments and agencies of the U.S. Government and have been billed in accordance with contractual terms.

16. Subsequent Events

The Corporation has evaluated its June 30, 2020 consolidated financial statements for subsequent events through October 9, 2020, the date the consolidated financial statements were available to be issued. The Corporation is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

Schedule of Expenditures of Federal Awards

Concurrent Technologies Corporation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract Number / Pass-Through Entity	Amounts Provided To Subrecipients	2020 Federal Expenditures
Research and Development Cluster:				
U.S. Department of Defense				
Direct Programs Department of the Navy:	12.RD		\$	- \$ 12,753,974
Pass Through Programs From:				
Engility	12.RD	CTC-4143-2015	-	752,762
Georgia Tech Research Institute	12.RD	BOA-1022-4	-	58,769
Northeastern University	12.RD	555010	-	266,116
Enterprise Ventures Corporation	12.RD	PO2520	-	799,111
Kapruun Group	12.RD	KG-520005-IDIQ-CTC	-	123,382
Huntington Ingalls	12.RD	PO1067294/1	-	134,361
Huntington Ingalls	12.RD	PO1071918	-	248,300
Science Applications International Corp. (SAIC)	12.RD	PO10240622	-	2,241,109
Physical Sciences, Inc.	12.RD	88544-4307-46	-	9,601
EPS Corporation	12.RD	20-000470	-	99,276
SAIC	12.RD	PO10249071	-	2,807
Total Department of Navy			-	17,489,568
Direct Programs Department of the Army:	12.RD		-	7,897
Pass Through Programs From:				
Northrop Grumman	12.RD	7500126733	-	37,595
ATI	12.RD	2015-319	-	1,627,506
NAMC	12.RD	69-201531	-	127,434
The Outfit	12.RD	Work Order #0001	-	6,028
Northern University	12.RD	504109-78052	-	8,384
Northern University	12.RD	504108-78055	-	91,496
Cybex	12.RD	CBX-SC-18-110	-	6,040,948
Applied Research Associates	12.RD	S-836-D00097-CTC	-	1,953,114
MAG Aerospace	12.RD	1704-06-52	-	30,503
John Hopkins APL	12.RD	05-0120	-	17,649
Northeastern University	12.RD	PO504141-78051	-	21,233
Noblis	12.RD	19-SERDP-CTC	-	55,475
Northeastern University	12.RD	555033-78052	-	161,438
Total Department of the Army			-	10,186,700

Concurrent Technologies Corporation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract Number / Pass-Through Entity	Amounts Provided To Subrecipients	2020 Federal Expenditures
Research and Development Cluster:				
<hr/>				
Direct Programs Department of the Air Force:	12.RD		-	1,836,493
Pass Through Programs From:				
E2 Technologies, LLC	12.RD	E2T-001	-	849,263
Alion S&T	12.RD	SUB1131654-007	-	3,020
Strategic Enterprise Solutions	12.RD	1840	-	1,211
University of Dayton Research Institute	12.RD	RSC18046	-	1,154
Georgia Institute of Technology	12.RD	D8319-S30	-	694
IBM	12.RD	5005266470/500527355	-	723,525
Strategic Enterprise National Center for Manufacturing Sciences (NCMS)	12.RD	PO1982	-	3,033
Physical Sciences, Inc.	12.RD	201959-140991	-	569,392
Dynamic Dimension Technologies	12.RD	88135-8017-46	-	93,651
Jones Lang Lasalle	12.RD	2019-CTC-001	-	810
		Subk Agmt June 20	-	3,237
<hr/>				
Total Department of the Air Force			-	4,085,483
<hr/>				
Pass-Through Program Department of the Marines:				
Tactical Edge	12.RD	S18-003	-	372,492
<hr/>				
Direct Programs National Security Agency	12.RD		-	7,193,673
Pass Through Programs From:				
Leidos	12.RD	PO10218679	-	145,069
Leidos	12.RD	PO10236282	-	159,319
<hr/>				
Total National Security Agency			-	7,498,061
<hr/>				
Pass Through Program National Geospatial Intelligence Agency:				
Booz Allen Hamilton	12.RD	S901620BAH	-	1,216,885
<hr/>				
Direct Program Uniformed Services University of the Health Sciences	12.RD		-	436,675
<hr/>				
Direct Program National	12.RD			773,308

Concurrent Technologies Corporation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract Number / Pass-Through Entity	Amounts Provided To Subrecipients	2020 Federal Expenditures
Research and Development Cluster:				
<u>Reconnaissance Office:</u>				
-				
Pass Through Programs Defense Intelligence Agency:				
Enterprise Ventures Corporation	12.RD	1890	-	5,067
Enterprise Ventures Corporation	12.RD	IWA-2951	-	25,186
Total Defense Intelligence Agency				30,253
Pass Through Programs Defense Logistics Agency:				
Technical Management Resources, Inc.	12.RD	SP470917D0051CTC	-	1,061
Other - Direct Awards:				
Undisclosed	12.RD		-	14,948
Total U.S. Department of Defense				42,105,434
Pass Through Programs General Services Administration:				
A2 Systems Engineering	39.RD	CTC-01-19	-	212,349
Enterprise Ventures Corporation	39.RD	MSA-CTC-EVC-0001	-	5,302
Total General Services Administration				217,651
Direct Program U.S. Department of Homeland Security				
	97.RD		-	1,759,281
Direct Program Department of the Interior				
	15.RD		-	5,014
Pass Through Program National Aeronautics and Space Administration:				
Physical Sciences, Inc.	43.RD	SC 82477-4113-46	-	7,299
Pass Through Program U.S. Department of Energy:				
Pacific Northwest National Laboratory	81.RD	DE-AC05-76RL01830	-	69,272
Pacific Northwest Nat'l	81.RD	PO500441	-	16,599
Jefferson Lab	81.RD	PO20-M0908	-	686

Concurrent Technologies Corporation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract Number / Pass-Through Entity	Amounts Provided To Subrecipients	2020 Federal Expenditures
Research and Development Cluster:				
<hr/>				
Total U.S. Department of Energy			-	86,557
<hr/>				
Direct Program U.S. Department of Health and Human Services	93.RD		-	16,696
<hr/>				
Pass Through Program Office of Personnel Management: Power Train	27.RD	PO180806-2	-	1,949
<hr/>				
Direct Program United States Postal Service Office of the Inspector General	NA.RD		-	39,767
<hr/>				
Direct Program - Undisclosed: Undisclosed	99.RD		-	52,016
<hr/>				
Total Research and Development Cluster Expenditures of Federal Awards			\$ -	\$ 44,291,664

The accompanying notes are an integral part of the schedule.

Concurrent Technologies Corporation

Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award and contract activity of Concurrent Technologies Corporation and subsidiaries (the Corporation) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Corporation.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Corporation has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**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 Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Concurrent Technologies Corporation
Johnstown, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Concurrent Technologies Corporation and subsidiaries (the Corporation), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 9, 2020.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 result 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

McLean, Virginia
October 9, 2020



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8401 Greensboro Drive
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McLean, VA 22102

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

Board of Directors
Concurrent Technologies Corporation
Johnstown, Pennsylvania

Report on Compliance for the Major Federal Program

We have audited Concurrent Technologies Corporation and subsidiaries (the Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended June 30, 2020. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2020.



Report on Internal Control over Compliance

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

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

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

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, LLP

McLean, Virginia
October 9, 2020

Schedule of Findings and Questioned Costs

Concurrent Technologies Corporation

Schedule of Findings and Questioned Costs Year Ended June 30, 2020

Section I - Summary of Independent Auditor's Results

Consolidated Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over the major program:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X 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 X No

Identification of major federal program:

CFDA / Contract Number	Name of Federal Program or Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs: \$1,328,749

Auditee qualified as low-risk auditee? X Yes No

Concurrent Technologies Corporation

Schedule of Findings and Questioned Costs Year Ended June 30, 2020

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) identified during the fiscal year 2020 audit.

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.