

Analytic Services Inc. and Subsidiaries

Consolidated Financial Statements
Years Ended September 30, 2022 and 2021

Contents

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-24



Tel: 919-754-9370
Fax: 919-754-9369
www.bdo.com

421 Fayetteville Street
Suite 300
Raleigh, NC 27601

Independent Auditor's Report

Board of Directors
Analytic Services Inc. and Subsidiaries
Falls Church, Virginia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Analytic Services Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses 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 Analytic Services Inc. and subsidiaries as of September 30, 2022 and 2021, and the changes in their net assets and their 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 audit 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 audit. 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 issued or available to be issued.



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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2023 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

BDO USA, LLP

May 2, 2023

Analytic Services Inc. and Subsidiaries

Consolidated Balance Sheets

September 30, 2022 and 2021

(in thousands)

	2022	2021
Assets		
Cash and cash equivalents, including restricted cash of \$158,296 and \$129,801 as of September 30, 2022 and 2021, respectively	\$ 743,927	\$ 557,131
Investments, including restricted investments of \$621,601 and \$544,398 as of September 30, 2022 and 2021, respectively	751,374	956,008
457(b) plan deferred compensation investments	738	761
Receivables, net	98,414	89,493
Prepaid expenses and other assets	3,344	2,220
Property and equipment, net	2,830	3,731
Land and land development	5,359	5,359
Intangible assets, net	19,480	9,213
Goodwill	26,763	12,458
	<u>1,652,229</u>	<u>1,636,374</u>
Total Assets	\$ 1,652,229	\$ 1,636,374
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 608,821	\$ 722,407
457(b) plan deferred compensation obligation	738	761
Deferred revenue, including restricted amounts of \$779,897 and \$674,199 as of September 30, 2022 and 2021, respectively	785,288	676,003
Contingent consideration	4,728	-
Deferred rent	1,127	1,540
Leasehold tenant allowance deferred	966	1,416
Lines of credit	24,285	5,203
Total liabilities	<u>1,425,953</u>	<u>1,407,330</u>
Commitments and contingencies (Note 7)		
Net assets – without donor restrictions	<u>226,276</u>	<u>229,044</u>
	<u>\$ 1,652,229</u>	<u>\$ 1,636,374</u>
Total Liabilities and Net Assets	\$ 1,652,229	\$ 1,636,374

See notes to consolidated financial statements.

Analytic Services Inc. and Subsidiaries

Consolidated Statements of Activities Years Ended September 30, 2022 and 2021 (in thousands)

	2022	2021
Revenue	5,241,184	8,098,974
Expenses:		
Contract expenses	5,200,501	8,058,333
Corporate expenses	13,482	8,620
Total expenses	5,213,983	8,066,953
Change in net assets without donor restrictions from operations	27,201	32,021
Investment (loss) income, net	(29,969)	24,027
Change in net assets without donor restrictions	(2,768)	56,048
Net assets without donor restrictions, beginning of year	229,044	172,996
Net assets without donor restrictions, end of year	\$ 226,276	\$ 229,044

See notes to consolidated financial statements.

Analytic Services Inc. and Subsidiaries

Consolidated Statements of Functional Expenses

Years Ended September 30, 2022 and 2021

(in thousands)

Year Ended September 30, 2022	Directly Identifiable Contract Costs	Management and General	Total Expenses
Expenses			
Professional and contract services	\$ 5,066,595	\$ 4,625	\$ 5,071,220
Salaries, wages and other related costs	74,253	35,483	109,736
Facility operating costs	-	324	324
Rents and leases	-	5,062	5,062
Travel and relocation costs	1,947	711	2,658
General and administrative	4,418	5,179	9,597
Information technology	-	7,040	7,040
Depreciation and amortization	-	6,183	6,183
Interest expense	-	956	956
Change in fair value of contingent consideration	-	1,207	1,207
Total Expenses	\$ 5,147,213	\$ 66,770	\$ 5,213,983

Year Ended September 30, 2021	Directly Identifiable Contract Costs	Management and General	Total Expenses
Expenses			
Professional and contract services	\$ 7,961,206	\$ 3,712	\$ 7,964,918
Salaries, wages and other related costs	50,090	30,182	80,272
Facility operating costs	-	425	425
Rents and leases	-	4,718	4,718
Travel and relocation costs	759	294	1,053
General and administrative	1,608	3,792	5,400
Information technology	-	5,824	5,824
Depreciation and amortization	-	4,284	4,284
Interest expense	-	59	59
Total Expenses	\$ 8,013,663	\$ 53,290	\$ 8,066,953

See notes to consolidated financial statements.

Analytic Services Inc. and Subsidiaries

Consolidated Statements of Cash Flows Years Ended September 30, 2022 and 2021 (in thousands)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (2,768)	\$ 56,048
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,183	4,284
Change in fair value of contingent consideration	1,207	-
Realized and unrealized losses on investments, net	32,162	22,625
Deferred rent and leasehold tenant allowance deferred	(863)	(796)
Payments for contingent consideration in excess of amounts recorded at acquisition date	-	(4,626)
Changes in assets and liabilities:		
Receivables	(4,176)	(7,345)
Prepaid expenses and other assets	(958)	(197)
Accounts payable and accrued expenses	(116,308)	41,038
Deferred revenue	109,285	(421,612)
Net cash provided by (used in) operating activities	23,764	(310,581)
Cash flows from investing activities:		
Purchase of investments	(46,891)	(99,753)
Proceeds from sales of investments	219,363	245,254
Purchase of land and land development	-	(4)
Purchase of property and equipment	(603)	(804)
Cash paid for acquisition of businesses, net of cash acquired	(25,343)	-
Net cash provided by investing activities	146,526	144,693
Cash flows from financing activities:		
Proceeds from lines of credit	26,907	60
Repayment of lines of credit	(7,825)	(46)
Payments of contingent consideration	(2,576)	(2,700)
Net cash provided by (used in) financing activities	16,506	(2,686)
Net increase (decrease) in cash, cash equivalents and restricted cash	186,796	(168,574)
Cash, cash equivalents and restricted cash, beginning of year	557,131	725,705
Cash, cash equivalents and restricted cash, end of year	\$ 743,927	\$ 557,131
Supplemental Cash Flow Information		
Cash paid for interest	\$ 394	\$ 59

See notes to consolidated financial statements.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Nature of Activities and Significant Accounting Policies

Nature of activities: Analytic Services Inc. (“ANSER”) is a nonprofit corporation, chartered in California in July 1958 to provide studies and analyses for scientific, educational, and charitable purposes for the public welfare and national defense. ANSER is headquartered in Falls Church, Virginia.

On January 31, 2017, ANSER closed on the acquisition of Advanced Technology International, a not-for-profit company based in Summerville, SC that organizes and manages research and development collaborations on behalf of the federal government and industry. ATI was organized as a private nonprofit corporation on May 18, 1998 as a controlled affiliate of the South Carolina Research Authority (“SCRA”). SCRA is a South Carolina public nonprofit corporation established in 1983 by an act of the South Carolina General Assembly. Subsequent to ANSER’s acquisition of ATI from SCRA, ATI became a wholly-owned subsidiary of ANSER. On December 6, 2021, ATI, through its subsidiary TechConnect LLC (“TC”), a South Carolina limited liability company, acquired a portion of a business from NSTI LLC, a Delaware limited liability company (“NSTI”). All references to “ATI” herein refer to the consolidated operations of ATI, TC and NSTI.

On June 30, 2018, ANSER closed on the acquisition of Innovative Analytics & Training (“IAT”), a company that provides advanced analytic methods for data collection, information analysis and decision making to the U.S. Intelligence Community. IAT was organized as a privately owned Maryland limited liability company established in 2004. Subsequent to ANSER’s acquisition of IAT, IAT became a wholly-owned subsidiary of ANSER.

On October 31, 2018, ANSER closed on the acquisition of Domain X Technologies, LLC (“DXT”), a company that provides enhanced modeling and simulation capability. DXT was organized as a privately owned Virginia limited liability company established in 2008. Subsequent to ANSER’s acquisition of DXT, DXT became a wholly owned subsidiary of ANSER. In 2022, DXT was dissolved as a legal entity with operations subsumed by ANSER.

On July 31, 2020, ANSER closed on the acquisition of Professional, Acquisition, and Technical Services, Inc. (“PATS”), a company that delivers professional services in the areas of international and foreign military sales, program management support and acquisition program support. PATS was organized in New Hampshire in 2020 as a spin-off of Windmill International, Inc. Subsequent to ANSER’s acquisition of PATS, PATS became a wholly owned subsidiary of ANSER.

On December 15, 2021, ANSER closed on the acquisition of InTec, LLC (“ITG”), a company that delivers technical and management expertise to advance intelligence and federal civilian customer missions. ITG was organized as a privately owned Virginia limited liability company established in 2004. Subsequent to ANSER’s acquisition, ITG became a wholly owned subsidiary of ANSER. See note 12 Business Combinations for additional information.

All references to the “Company” herein refer to the consolidated operations of ANSER, ATI, IAT, DXT, PATS, and ITG. A summary of the Company’s significant accounting policies follows:

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (“GAAP”).

Basis of presentation: The Company follows the Not-for-Profit Entities topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Under this topic, the Company is required to report information regarding its consolidated financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Intercompany transactions between ANSER, ATI, IAT, DXT, PATS, and ITG if any, have been eliminated within the consolidated financial statements.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Restricted assets: Cash and cash equivalents and certain investments, as recorded, include funds received for contract agreements and grants that are held until such time that expenditures related to those contract agreements and grants are incurred. The cash and cash equivalents balances and the investment balances become unrestricted as the costs underlying the contract agreements and grants are incurred and are expected to become unrestricted within the upcoming year.

Concentrations of credit risk: The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of investments and accounts receivable from contracts.

The Company's cash and cash equivalents are invested in highly liquid securities placed with financial institutions. The Company's investment practice limits exposure to concentrations of credit risk, with a majority of the investments being held in treasury bills.

The Company's accounts receivable result from work completed on contracts which are primarily with the U.S. government. The Company does provide credit to commercial customers in the normal course of business and performs ongoing credit evaluations on certain of its customers' financial condition, but generally does not require collateral to support such receivables.

The Company invests in a professionally managed portfolio that contains various securities. Such investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could affect investment balances and the amounts reported in the financial statements.

Financial risk: The Company is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; injuries to employees; and natural disasters. The Company carries commercial insurance for these risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

Cash and cash equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at September 30, 2022, include funds in commercial analyzed checking accounts, insured cash sweep accounts, money market funds invested in U.S. Government obligations and repurchase agreements collateralized by U.S. Treasury Bills held through a trust services arrangement with a financial institution. At times, these balances exceeded the federally insured amounts. The Company has not experienced any losses in such accounts. Due to timing of receipt of customer payments, as well as payments to subcontractors and suppliers, portions of the Company's bank balances may have been uncollateralized at various times during the years ended September 30, 2022 and 2021.

Investments: Investments with readily determinable fair values and all investments in debt securities are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to investment income within the consolidated statements of activities. All cash and cash equivalents held by the investment advisors, regardless of maturity, are considered investments.

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. The majority of the Company's receivables are comprised of amounts billed on federal contracts and costs in excess of amounts billed on federal contracts. Such recoverable costs are billable when expenditures are incurred. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A receivable is considered past due if any portion of the receivable balance is outstanding for more than 45 days. Unbilled accounts receivable are included in receivables and consist of services performed prior to billing to the federal government. Billings usually occur in the month after the services are performed or in accordance with specific contractual provisions.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Property, equipment, land, and land development: The Company capitalizes all property and equipment with a cost of \$5,000 or more. Property and equipment is recorded at cost and depreciated on the straight-line basis over estimated lives of three to seven years.

Leasehold improvements are amortized over the lesser of the remaining life of the lease or the estimated useful life of the improvements. Land, including its development, is recorded at cost.

The Company has entered into an operating lease agreement for its corporate office, which contains provisions for future rent increases or periods in which rent payments are reduced (abated). In accordance with GAAP, the Company records rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent, which is reflected as a separate line item in the accompanying consolidated balance sheets.

The Company's lease agreement for its corporate office also contains provisions for a tenant improvement allowance. In accordance with GAAP, the amounts related to payment received and the landlord improvements made are recognized as a reduction in rent expense and an increase in depreciation expense, respectively, over the life of the lease. These amounts are recorded as a tenant leasehold allowance within property and equipment, net and as leasehold tenant allowance deferred in the accompanying consolidated balance sheets.

The above GAAP presentation is for financial reporting purposes only and is not included in the Company's indirect rate structure.

Intangible assets: Intangible assets are recorded at estimated fair value, upon acquisition in a business combination. These assets consist of customer contracts, non-compete agreements, and trade names. These assets are amortized over their remaining useful lives.

Goodwill: Goodwill arising from acquisitions is recognized as an asset at the acquisition date and is measured as the excess of the sum of the consideration transferred less the acquisition-date amounts of the identifiable assets acquired net of the liabilities assumed. Goodwill is not amortized but is reviewed for impairment at September 30 or more frequently if events or changes in circumstances indicate that impairment might exist. The Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of the goodwill is less than its carrying amount. The Company determined, based on the qualitative assessment, that it was not more likely than not that the fair value of the goodwill was less than its carrying amount. No impairment was identified or recorded during the years ended September 30, 2022 or 2021.

Valuation of long-lived assets: The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. 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 reportable at the lower of the carrying amount or fair value, less costs to sell. No impairment was identified or recorded on long-lived assets for the years ended September 30, 2022 or 2021.

Deferred revenue: The Company receives advance payments on various contract agreements and grants. These payments are recorded as deferred revenue and recognized as income during the periods in which the work is performed, and the related actual costs are incurred in accordance with the Company's revenue recognition practices and contract terms.

Contract revenue: The Company's most significant revenues are derived from contracts under which ATI fulfills the role of consortium management firm for industry consortia consisting of large firms, small companies, and academic and research organizations. In this role, ATI facilitates and manages applied

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

research and development efforts among the consortia members and with the federal government in specified technology areas. The objectives of the consortia include introduction and implementation of disruptive and innovative technologies which enhance current capabilities and leverage resources of the participants. ATI provides services pursuant to contracts and jointly manages work performed by participants through subcontracts and similar agreements. Under these agreements ATI may receive payment for services from the consortia and from the federal government. The Company also has time and materials, cost-plus-fixed fee and fixed-price contracts.

Revenue is accounted for under Accounting Standards Codification 606 ("ASC 606"). ASC 606 includes a framework for analyzing potential revenue transactions by identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the Company satisfies a performance obligation. ATI's performance obligations associated with its management of the applied research and development efforts include overall management of the research project program during the solicitation, review and selection process, overall management of the research project program during the execution of the project award; and the individual research project agreement awards. The Company's performance obligation for its non-consortium management role are the individual project agreement awards.

Contracts with the government, as well as subcontracts under government awards, include both cost type and fixed price agreements, and may be under Other Transaction Agreements ("OTA"), Indefinite Delivery Indefinite Quantity Contracts ("IDIQ") or another contracting mechanism that provides high level terms and conditions that are exercised with individual documents such as purchase orders, delivery orders, task orders, etc. which are issued to further define the enforceable rights and obligations of each party. Contracts with commercial customers are typically cost-plus fixed fee.

The Company satisfies its performance obligations and thus recognizes revenue under cost type agreements as costs are incurred during the period, plus fees earned where applicable, in accordance with contract terms.

Under cost type OTAs, the government funds ATI's costs in the execution of its responsibilities for research operations through a consortium management rate which is calculated as a percentage of funding for research project awards, exclusive of the anticipated non-federal portion. The consortium management rate is a funding mechanism under the OTAs, and as noted above, revenue is recognized based on cost plus fixed fee, in accordance with the terms of the OTAs.

Revenue from fixed-price contracts is generally recognized using an input method based on costs incurred to date as compared to expected total costs.

Revenue from time-and-materials contracts is recognized using an input method on the basis of man-hours utilized, plus other reimbursable contract costs incurred during the period.

Under the fixed price OTA's, ATI is compensated for services performed using a Fixed Management Rate ("FMR") applied to all funding obligated to project level performer agreements. ATI recognizes a portion of the total FMR revenue at the time the research project award is made and the remaining portion is recognized ratably as costs are incurred over the life of the research project or at completion or termination of the research project award. Each research project selected and awarded by the government forms the basis of a distinct performance obligation. The government is responsible for technical oversight of the projects and approving performer costs as progress is made or milestone deliverables are completed. Costs are incurred and revenue is recognized as government acceptance is received. Total revenue from goods and services transferred over time was \$5.2 and \$8.1 billion for the years ended September 30, 2022 and 2021.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Payment under the OTAs is typically received prior to the revenues being recorded via cash advances from the government. Payment under other agreement types is typically due within 45 days of invoice submission date.

Certain of ATI's contracts are considered to be collaborative arrangements in accordance with Accounting Standards Codification ("ASC") 808 *Collaborative Arrangements* ("ASC 808"). Payments received by ATI from other participants in the collaborative arrangements are accounted for in accordance with ASC 808 which states, "Payments between participants pursuant to a collaborative arrangement that are within the scope of other authoritative accounting literature on income statement classification should be accounted for using relevant provisions of that literature." Because the counterparty is a customer, current ATI contracts pursuant to collaborative arrangements are accounted for as exchange transactions and gross amounts are recorded for both revenue and related expenses in accordance with ASC 606.

Income Taxes: The Company has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under state legislation. The Company is subject to income tax on unrelated business income under Section 511 of the Internal Revenue Code. PATS is structured as a for-profit subsidiary of ANSER and is subject to federal and state income tax.

Functional allocation of expense: The functional cost incurred for providing services on various programs and other activities has been summarized in the consolidated statements of functional expenses. Direct costs are categorized based on type of expense incurred. Indirect costs have been allocated among the categories based on causal beneficial relationship of fringe benefits with their associated labor. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Company.

Net Assets Classifications: The Company's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as follows:

- Net assets without donor restrictions are available for use in general operations and result from revenues that were not restricted by donors or revenues for which the donor-imposed restrictions have been met by the passage of time or by actions of the Company. The Company's net assets without donor restrictions are not designated by the Board of Directors.
- Net assets with donor restrictions result from contributions and other inflows of assets (such as investment income and gains) whose use by the Company is limited by the donor-imposed stipulations that require the Company use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of the Company. This category also results from contributions and other inflows of assets whose use by the Company is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Board of Directors pursuant to those stipulations. However, donors may release the restrictions on net assets restricted in perpetuity.

At September 30, 2022 and 2021, the Company's net assets consisted entirely of net assets without donor restrictions.

Fair value of financial instruments: The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses and lines of credit approximate fair value because of the short maturity of these instruments. The fair value of investments is determined using quoted market prices of the corporate equities, fixed income securities, and money market funds and the net asset values of hedge funds.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Liquidity and Availability of Financial Resources

As of September 30, 2022 and 2021, financial assets and liquidity resources available within one year for general expenditures, liabilities and other obligations as they come due are as follows (in thousands):

September 30,	2022	2021
Cash and cash equivalents, including restricted cash	\$ 743,927	\$ 557,131
Short-term investments	621,601	948,782
Receivables	98,414	89,493
Total financial assets and liquidity resources available within one year	\$ 1,463,942	\$ 1,595,406

To manage liquidity, the Company structures its financial assets to be available as general expenditures, liabilities, and other obligations come due. The Company also invests cash in excess of daily requirements in cash equivalents and short-term investments that earn interest income. Finally, ANSER has access to \$75.0 million in lines of credit and ATI has access to a \$10.0 million line of credit as further discussed in Note 7, of which \$60.7 million and \$69.8 million were unused in the aggregate at September 30, 2022 and 2021, respectively.

Note 3. Investments

Investments, including 457b plan deferred compensation investments, consist of the following (in thousands) at:

September 30, 2022	Cost	Cumulative Unrealized Gain / (Loss)	Fair Market Value
Treasury bills	\$ 620,839	\$ 763	\$ 621,602
Corporate equities	80,335	2,620	82,955
Fixed income securities	36,565	(2,862)	33,703
Money market funds	3,439	-	3,439
Hedge funds	9,821	592	10,413
\$ 750,999	\$ 1,113	\$ 752,112	

September 30, 2021	Cost	Cumulative Unrealized Gain	Fair Market Value
Treasury bills	\$ 791,680	\$ 155	\$ 791,835
Corporate equities	79,590	30,678	110,268
Fixed income securities	34,841	1,499	36,340
Money market funds	6,749	2	6,751
Hedge funds	9,461	2,114	11,575
\$ 922,321	\$ 34,448	\$ 956,769	

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Investment income for the years ended September 30, consists of the following (in thousands):

	2022		2021	
Interest and dividends	\$	2,939	\$	2,067
Net realized and unrealized (loss)/gain on investments		(32,162)		22,625
Investment fees		(746)		(665)
	\$	(29,969)	\$	24,027

Interest income includes interest on overnight repurchase investments of excess cash.

Note 4. Receivables

Receivables at September 30, consist of the following (in thousands):

	2022		2021	
Receivables from U.S. Government and Commercial Customers:				
Prime and subcontracts:				
Billed	\$	58,662	\$	45,294
Unbilled		39,752		44,359
Total gross receivables from U.S. Government and Commercial Customers		98,414		89,653
Less provision for doubtful accounts		-		(160)
Total receivables, net	\$	98,414	\$	89,493

Note 5. Property and Equipment

Property and equipment, accumulated depreciation, and depreciation expense as of and for the years ended September 30, 2022 and 2021 are as follows (in thousands):

Asset Category	Estimated Lives	2022			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Software	3-5 years	\$ 10,003	\$ 10,002	\$ 1	\$ 3
Furniture and equipment	3-7 years	10,204	9,020	1,184	764
Leasehold improvements	Life of lease	2,150	1,480	670	288
Tenant leasehold allowance	Life of lease	5,271	4,296	975	450
		\$ 27,628	\$ 24,798	\$ 2,830	\$ 1,505

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Asset Category	Estimated Lives	2021			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Software	3-5 years	\$ 10,003	\$ 9,999	\$ 4	\$ 91
Furniture and equipment	3-7 years	9,779	8,435	1,344	803
Leasehold improvements	Life of lease	2,156	1,198	958	288
Tenant leasehold allowance	Life of lease	5,271	3,846	1,425	450
		<u>\$ 27,209</u>	<u>\$ 23,478</u>	<u>\$ 3,731</u>	<u>\$ 1,632</u>

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, consist of the following (in thousands):

	2022	2021
Accounts payable	\$ 594,908	\$ 710,054
Accrued paid time off	5,196	4,187
Accrued salaries and payroll taxes	7,322	6,216
Other accrued expenses	1,395	1,950
	<u>\$ 608,821</u>	<u>\$ 722,407</u>

Note 7. Commitments and Contingencies

Operating leases: The Company leases office space and equipment under non-cancellable leases through July 2026. The corporate office consists of approximately 74,000 square feet and is located in the Skyline office park in Falls Church, VA. The Company also leases a 2,000 square foot facility in Colorado Springs, CO, a 5,600 square foot facility in Belcamp, MD, a 6,400 square foot facility in Fairfax, VA, and the ATI Summerville, SC office of approximately 64,000 square feet.

Total rent expense under the operating leases was approximately \$5.1 million and \$4.7 million for the years ended September 30, 2022 and 2021, respectively.

Future minimum rental payments for office space and equipment, as of September 30, 2022 (in thousands) were:

Years ending September 30:

2023	\$ 4,958
2024	4,994
2025	2,593
2026	1,542
2027	-
	<u>\$ 14,087</u>

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

U.S. Government contract audits: Costs billed by the Company to the U.S. government pursuant to Department of Defense contracts are subject to audit by the Defense Contract Audit Agency (“DCAA”). Government auditors have approved ANSER’s and ATI’s indirect cost recovery rates through September 30, 2021.

The Company is of the opinion that any adjustments as a result of the audits outstanding, will not have a significant effect on its consolidated financial position. Substantially all of the Company’s revenue and accounts receivable were derived from contracts or subcontracts with the U.S. Government. The Company’s federal programs are subject to financial and compliance audits by grantor agencies. Instances of material noncompliance may result in disallowed expenditures and affect the Company’s continued participation in specific programs. That amount of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Company expects such amounts, if any, to be immaterial.

Lines of credit: ANSER has had a line of credit with Morgan Stanley Bank, N.A. (the “Bank”) since 2013, which was increased to \$55 million on November 11, 2021. The agreement is a Liquidity Asset Line (originally a Portfolio Loan Account) and is secured by a portion of the long-term investment portfolio at Morgan Stanley. The interest rate is the 30-day London Interbank Offered Rate (“LIBOR”) market index rate plus 1.00% for an interest rate of 3.54% as of September 30, 2022. There is no fee for non-use. The line of credit can be terminated at any time by the Bank. ANSER had a balance outstanding of approximately \$24.2 million and \$5.2 million on the line of credit as of September 30, 2022 and 2021, respectively. Total interest expense related to this borrowing for the years ended September 30, 2022 and 2021 was approximately \$394,000 and \$59,000, respectively.

ANSER also established a \$5 million line of credit with Goldman Sachs on December 12, 2016. This line of credit was increased to \$20 million on September 27, 2021. Use of the line is collateralized by securities and other property owned by ANSER and held at Goldman Sachs and is subject to a borrowing base to determine the available borrowing amount at any time. The interest rate is variable and adjusts daily at the 30-day Secured Overnight Financing Rate (“SOFR”) plus 1.25% for an interest rate of 4.23% as of September 30, 2022. Goldman Sachs reserves the right to change the interest rate at any time in its sole discretion. There were no borrowings against this line of credit during the year ended September 30, 2022.

ATI has an unsecured revolving loan agreement with a bank which expires on July 5, 2023. Maximum borrowings are limited to \$10 million. There were no amounts outstanding at September 30, 2022. The interest rate as of September 30, 2022 was the SOFR plus 1.8%. No interest expense was incurred during the year ended September 30, 2022. This line of credit was terminated subsequent to September 30, 2022 in conjunction with the change of control agreement as further explained in Note 14.

Legal matters: From time to time, the Company may be subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of management, there are no legal proceedings to which the Company is a party which are expected to result in material monetary exposure for the Company.

Note 8. Retirement Plans

The Company has defined contribution retirement plans in which substantially all employees participate. Under the defined contribution retirement plan, ANSER makes contributions to the Teachers Insurance and Annuity Association (“TIAA”), based on a percentage of the payroll of participants in the plan. ATI also makes similar contributions to a retirement plan managed by the Principal Group. The Company’s policy is to fund accrued costs currently and to charge defined contribution retirement plan costs to operations as they accrue. The Company’s cost under the defined contribution retirement plans was approximately \$6.2 million and \$4.4 million for the fiscal years ended September 30, 2022 and 2021, respectively.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Post-Retirement Benefits

ANSER maintains a postretirement health and welfare plan (the "Plan"). Funding for the Plan is held in a trust. The Plan is administered by ANSER. Plan assets are invested according to an investment policy approved by the Board of Directors. Plan assets are held by a financial institution, as Trustee, and are managed by the Trustee's independent investment manager. Under the Plan, the annual contribution is the amount calculated by an actuary in order to meet the Employee Retirement Income Security Act ("ERISA") requirement. The funded status of the plan is included within prepaid expenses and other assets on the accompanying consolidated balance sheets.

The funded status, key assumptions, benefit costs and other required disclosures are as follows as of and for the years ended September 30 (in thousands):

	2022	2021
Accumulated postretirement benefit obligation	\$ 1,677	\$ 1,991
Plan assets at fair value	2,396	2,971
Funded status of the Plan	\$ 719	\$ 980
Weighted-average assumptions used to determine benefit obligation:		
Discount rate	5.11%	2.42%
Dental trend rate	3.00%	3.00%
Weighted-average assumptions used to determine net periodic postretirement benefit cost:		
Discount rate	2.42%	2.05%
Expected return on assets	7.50%	7.50%
Net periodic postretirement benefit cost:	\$ 56	\$ (29)
Retiree contributions	101	129
Benefits paid	168	183
Amounts included in net assets outside net periodic postretirement benefit cost *	\$ 676	\$ 360

* The amount to be amortized into cost in 2022 and 2021 is not significant.

The Plan is structured such that the employer portion of medical coverage is capped at a specific amount. The limit for the Plan was exceeded during the year ended September 30, 2008, and therefore ANSER's liability for the Plan is not affected by changes in health care costs. Accordingly, health care cost trend rates have been excluded from the calculation of the net period postretirement benefit cost for the year ended September 30, 2022 and 2021, and the benefit obligation at September 30, 2022 and 2021.

One investment objective of the Plan is to produce capital appreciation. Another important objective is the desire for preservation of capital. Both annual and five-year horizons are utilized for measuring performance, as there are inevitably short-run fluctuations which will cause variations in investment results. Based on experience and the known probabilities under all of the circumstances and recognizing that various uncertainties are involved in any investment program, the target has been to have a return objective of at least an increase of 7.50% over a five-year time horizon, and the assumption is accordingly made that a 7.50% overall long-term rate will be realized.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Plan assets are diversified between domestic exchange traded funds, mutual funds and money market funds. With this diversification and investment in broader market funds, there is reasonable assurance that no single security or class of securities will have a disproportionate impact on the Plan assets.

The Plan allocates its assets as follows at September 30:

Asset Category	2022	2021
ETF's – fixed income	4%	4%
ETF's – equities	57%	56%
Mutual funds – fixed income	19%	18%
Mutual funds – equities	17%	20%
Money market funds	3%	2%

Fair value, as defined in ASC 820, *Fair Value Measurement* (“ASC 820”), is described in Note 11 to the consolidated financial statements. In determining the appropriate levels for the Plan, ANSER performs a detailed analysis of the assets and liabilities that are subject to fair value disclosures.

The ETFs, money market funds and mutual funds are classified as Level 1 instruments due to the underlying assets having observable market-based inputs.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30 (in thousands):

	2022			
	Level 1	Level 2	Level 3	Total
Exchange traded funds – fixed income	\$ 96	\$ -	\$ -	\$ 96
Exchange traded funds – equities	1,365	-	-	1,365
Mutual funds – fixed income	453	-	-	453
Mutual funds – equities	407	-	-	407
Money market funds	75	-	-	75
	\$ 2,396	\$ -	\$ -	\$ 2,396

	2021			
	Level 1	Level 2	Level 3	Total
Exchange traded funds – fixed income	\$ 114	\$ -	\$ -	\$ 114
Exchange traded funds – equities	549	-	-	549
Mutual funds – fixed income	605	-	-	605
Mutual funds – equities	1,651	-	-	1,651
Money market funds	51	-	-	51
	\$ 2,970	\$ -	\$ -	\$ 2,970

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Estimated future benefit payments at September 30, 2022, are as follows (in thousands):

Years ending September 30:

2023	\$	90
2024		88
2025		100
2026		120
2027		132
2028-2031		737
	<u>\$</u>	<u>1,267</u>

Employer contributions for fiscal year 2022 are not required.

Note 10. Supplemental Employee Retirement Plan

ANSER has a Section 457(b) supplemental employee retirement plan (the “457(b) Plan” or “SERP”). Under the terms of the 457(b) Plan, eligible employees elect to deposit a percentage of their compensation into the 457(b) Plan. Employee deposits and accumulations are accounted for as an asset and offsetting liability on the Company’s balance sheet until they are distributed to the participants. The amount of deposits and related accumulations at September 30, 2022 and 2021 were \$738,000 and \$761,000, respectively.

Note 11. Fair Value Measurements

ASC 820 establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. The Topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets, and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at September 30 (in thousands):

	2022				Total
	Level 1	Level 2	Level 3	Net Asset Value ("NAV")	
Assets at fair value:					
Corporate equities:					
Information technology	\$ 17,999	\$ -	\$ -	\$ -	17,999
Consumer discretionary	8,889	-	-	-	8,889
Financials	11,705	-	-	-	11,705
Health care	10,192	-	-	-	10,192
Industrials	9,457	-	-	-	9,457
REITs	4,872	-	-	-	4,872
Energy	2,455	-	-	-	2,455
Consumer staples	4,810	-	-	-	4,810
Materials	4,254	-	-	-	4,254
Communication services	4,936	-	-	-	4,936
Other	3,386	-	-	-	3,386
	82,955	-	-	-	82,955
Fixed income:					
Treasury bills	621,602	-	-	-	621,602
Corporate bonds	-	30,150	-	-	30,150
Government securities	-	3,553	-	-	3,553
	621,602	33,703	-	-	655,305
Money market funds					
	3,439	-	-	-	3,439
Hedge funds (a)					
	-	-	-	10,413	10,413
	\$ 707,996	\$ 33,703	\$ -	\$ 10,413	\$ 752,112
Liabilities at fair value:					
Contingent consideration	\$ -	\$ -	\$ 4,728	\$ -	4,728
Deferred compensation	-	738	-	-	738
	\$ -	\$ 738	\$ 4,728	\$ -	5,466

The contingent consideration is valued using a discounted cash flow model based on expected payment amounts. The changes in this liability during the year ended September 30, 2022 were related to new contingent consideration recorded of \$3.5 million and the change in the fair value of the contingent consideration during the year ended September 30, 2022 of \$1.2 million.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	2021				
	Level 1	Level 2	Level 3	Net Asset Value ("NAV")	Total
Assets at fair value:					
Corporate equities:					
Information technology	\$ 23,378	\$ -	\$ -	\$ -	23,378
Consumer discretionary	11,052	-	-	-	11,052
Financials	12,982	-	-	-	12,982
Health care	13,606	-	-	-	13,606
Industrials	11,403	-	-	-	11,403
REITs	6,177	-	-	-	6,177
Energy	2,281	-	-	-	2,281
Consumer staples	5,398	-	-	-	5,398
Materials	4,910	-	-	-	4,910
Communication services	8,383	-	-	-	8,383
Other	10,698	-	-	-	10,698
	110,268	-	-	-	110,268
Fixed income:					
Treasury bills	791,835	-	-	-	791,835
Corporate bonds	-	24,010	-	-	24,010
Government securities	-	12,330	-	-	12,330
	791,835	36,340	-	-	828,175
Money market funds	6,751	-	-	-	6,751
Hedge funds (a)	-	-	-	11,575	11,575
	\$ 908,854	\$ 36,340	\$ -	\$ 11,575	\$ 956,769
Liabilities at fair value:					
Deferred compensation	\$ -	\$ 761	\$ -	\$ -	761

Hedge funds recorded at NAV are not actively traded, and fair market values for similar assets are not readily attainable.

(a) Hedge funds – multi-strategy: This category of funds is characterized by their ability to dynamically allocate capital among a broad range of different asset classes and strategies that fall within several traditional hedge fund disciplines. Asset classes and strategies typically utilized in multi-strategy funds include, but are not limited to, relative value fundamental equity, event driven/merger arbitrage, statistical arbitrage, fixed income, and currency arbitrage. Provided that the participant has held its shares for at least 12 months, 25 percent of a participant's interest may be redeemed quarterly (entire balance may be redeemed over four quarters). The notice for redemption is required to be submitted within 90 calendar days plus five business days of the desired redemption date. Shares are redeemable at their net asset value as of the end of the respective quarter. Fair value is based on the information provided by the management of the fund, including audited financial statements, which reflects the fund's share of the fair value of the net assets of the fund, and any other relevant factors determined by its sponsor. The fund has applied the fair value guidance for measuring its investments, using the practical expedient. As such, the fund fair values its investments using its NAV without any further adjustment.

The deferred compensation is based on observable inputs of the related assets and is, therefore, considered a Level 2 liability.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The changes in assets measured at NAV on a recurring basis for the years ended September 30, are summarized as follows (in thousands):

	2022	2021
Beginning balance	\$ 11,575	\$ 6,987
Purchases	-	5,050
Redemptions	-	(861)
Total net (loss) gain	(1,162)	399
Ending balance	\$ 10,413	\$ 11,575

Note 12. Business Combinations

As discussed in Note 1, on December 15, 2021, ANSER closed on the acquisition of InTec, LLC (ITG) in order to expand its footprint in the intelligence community. Total cash of approximately \$ [REDACTED] was paid for the acquisition of ITG and a contingent consideration liability of approximately \$3.1 million was recorded as of the acquisition date. As of September 30, 2022, the Company maintained a contingent liability balance of approximately \$533,000 associated with the fair value of remaining contingent payments which expire in February 2024.

The total estimated purchase consideration was allocated to the estimated fair values of the assets acquired as follows (in thousands):

Cash and cash equivalents	\$ [REDACTED]
Receivables, net	[REDACTED]
Prepaid expenses and other assets	[REDACTED]
Intangible assets	[REDACTED]
Accounts payable and accrued expenses	[REDACTED]
Total identifiable net assets acquired	[REDACTED]
Goodwill	[REDACTED]
Total estimated purchase consideration	\$ [REDACTED]

The intangible assets above consist of customer contracts/relationships in the amount of \$9.2 million, the InTec trade name in the amount of \$1.6 million and a noncompete agreement in the amount of \$24,000.

The income approach was utilized to estimate the fair value of the acquired intangible assets. A discount rate of 20% which approximated ITG's weighted average cost of capital was used to calculate the present value of the anticipated excess earnings attributable to the customer contracts/relationships through the year 2026. A contributory assets charge of 3.1% was calculated based on the use of the economic attribution of the projected net working capital and ITG workforce. For the trade name, an economic life of 15-years was presumed. A royalty rate of 2% of gross profit was estimated based on an analysis of market royalty rates for trade names in the government contracting industry. For the non-compete valuation, a discount rate of 18% was used to calculate the present value of projected earnings with a 5% probability of annual revenue erosion through 2024.

The Company recognized approximately \$1,256,000 of intangible asset amortization expense in the fiscal year ended September 30, 2022, based on a 60 month, 36 month and 180 month useful life of customer contract/relationships, non-compete agreement and trade name intangibles, respectively.

The revenue included in the Company's consolidated statement of activities for the fiscal year ended September 30, 2022 contributed from ITG was \$27,090,904. ITG also contributed net assets of \$2,262,008 over the same period.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

On December 6, 2021 ATI, through its subsidiary TechConnect LLC, a South Carolina limited liability company ("TC"), acquired a portion of a business from NSTI LLC, a Delaware limited liability company ("NSTI"). NSTI, dba TechConnect, was engaged in the business of connecting emerging technologies, identifying and recruiting non-traditional contractors, technology scouting, innovation challenges, technology sprints, licensing and technology transfer, event management for technology conferences, subscription services, and creating and maintaining catalogs, databases and lists of established and emerging technology companies (including in the space, defense, electronics, biotech, medical, energy and sustainability, advanced manufacturing, and aerospace industries). ATI completed the acquisition in order to acquire various synergies to further the services provided by ATI.

The acquisition was completed pursuant to an Asset Purchase Agreement dated December 6, 2021 by and among TC, NSTI and its members, and ATI. Under the agreement TC acquired substantially all the assets of NSTI, other than certain excluded assets and liabilities, in exchange for approximately \$4.4 million in cash and contingent consideration that was valued as of the acquisition date at approximately \$3.0 million. The fair value of NSTI's net assets at the acquisition date resulted in the recognition of approximately \$3.0 million of goodwill, \$4.1 million of intangible assets, \$278,000 of accounts receivable and \$59,000 of prepaid expenses and other assets. The intangible assets consisted of non-compete agreements valued at approximately \$292,000, the TechConnect tradename valued at \$1.2 million, and customer relationships valued at \$2.6 million.

Fair value of the non-compete agreements was calculated using a with and without method income approach based upon an (1) assumed discount rate of 20%, (2) an estimate of potential lost revenues in the absence of non-compete agreements, and (3) an additional 27% probability weighting to account for the probability that competition would occur. Fair value of the TechConnect tradename was calculated using a relief from royalty method approach and was based upon an (1) assumed discount rate of 20%, (2) a long-term growth rate between 3% and 15% over 15 years, and (3) a royalty rate on gross profit of 5.5%.

Fair value of the customer relationships was based upon an application of Network Value Theory, using NSTI's company and contact information and market comparisons. The purchase agreement includes a contingent consideration arrangement that may be payable in the future based upon (1) increases in future enrollment of qualifying nontraditional contractors as members of consortia managed by ATI, (2) one new OTA, or new Consortium Management Agreement, awarded to ATI, with a ceiling of \$100 million or more, and (3) 15% future growth of TC core business gross revenue and achievement of 15% EBIT over a four-year period. Amounts are payable annually after the close of each calculation period (the twelve-month periods ending December 31, 2022, 2023, 2024, and 2025). The range of undiscounted amounts ATI could pay under the contingent consideration agreement is between \$0 and \$5.55 million. The fair value of the contingent consideration recognized on the acquisition date of \$3.0 million was estimated by applying a 20% discount to the sum of the probability weighted present values of each earnout amount over the four-year calculation period.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Intangible Assets Other Than Goodwill

The following table contains information regarding the Company's intangible assets as of September 30, 2022 (in thousands):

	Customer Contracts	Non-Compete Agreements	Trade Names	Total
Acquired fair market value	\$ 30,999	\$ 1,647	\$ 5,131	\$ 37,777
Accumulated amortization	15,925	1,398	974	18,297
Balance at September 30, 2022	\$ 15,074	\$ 249	\$ 4,157	\$ 19,480
Weighted average amortization period months remaining	51	38	171	

The following table contains information regarding the Company's intangible assets as of September 30, 2021 (in thousands):

	Customer Contracts	Non-Compete Agreements	Trade Names	Total
Acquired fair market value	\$ 19,219	\$ 1,331	\$ 2,281	\$ 22,831
Accumulated amortization	11,608	1,331	679	13,618
Balance at September 30, 2021	\$ 7,611	\$ -	\$ 1,602	\$ 9,213
Weighted average amortization period months remaining	36	-	132	

Amortization expense was approximately \$4.7 million and \$2.7 million for the years ended September 30, 2022 and 2021, respectively.

Estimated aggregate amortization expense for the years ending September 30 is as follows (in thousands):

	Customer Contracts	Non-Compete Agreement	Trade Name	Total
2023	\$ 4,863	\$ 81	\$ 336	\$ 5,280
2024	4,863	81	336	5,280
2025	2,447	75	336	2,858
2026	2,356	12	336	2,704
2027	545	-	336	881
Thereafter	-	-	2,477	2,477

The amortization of customer contracts, non-competitive agreement and trade name is included in corporate expenses in the consolidated statements of activities.

Analytic Services Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14. Subsequent Events

The Company has evaluated subsequent events from September 30, 2022 through May 2, 2023 (the date of the audit report and the date the financial statements were ready to be issued).

On February 6, 2023, ATI and ANSER entered into a change of control agreement in which ATI agreed to provide consideration to ANSER in the amount of \$[REDACTED] and ANSER agreed to no longer appoint or approve ATI directors and agreed to relinquish control over governance of ATI. ATI and ANSER closed the change of control transaction on February 28, 2023. At the closing, ANSER overlapping directors resigned their positions on the ATI board and the non-overlapping directors provide governance under new organizational documents that have been approved by both boards of directors.

No other material subsequent events were noted.

Analytic Services Inc. and Subsidiaries

Schedule of Expenditures of Federal
Awards and Reports Required by
Government Auditing Standards and
the Uniform Guidance
Year Ended September 30, 2022

Contents

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 <i>Government Auditing Standards</i>	1-2
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3-5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-9



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
Analytic Services Inc. and Subsidiaries
Falls Church, Virginia

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 Analytic Services Inc. and its subsidiaries (the “Company”), which comprise the Company’s consolidated balance sheet as of September 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 2, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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



Purpose of This Report

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

BDO USA, LLP

May 2, 2023



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Directors
Analytic Services Inc. and Subsidiaries
Falls Church, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Compliance for Each Major Federal Program

We have audited Analytic Services Inc. and its subsidiaries’ (the “Company”) 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 each of the Company’s major federal programs for the year ended September 30, 2022. The Company’s major federal programs are 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 referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (“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* (the “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 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 the Company’s compliance with the compliance requirements referred to above.

Other Matter - Federal Expenditures Not Included in the Compliance Audit

The Company’s consolidated financial statements include the operations of Advanced Technology International (“ATI”), which expended \$4,481,089,827 in federal awards which is not included in the Company’s schedule of expenditures of federal awards during the year ended September 30, 2022. Our compliance audit, described in the “Opinion on Each Major Federal Program”, does not include the operations of ATI because such expenditures are included in a stand-alone schedule of expenditures of federal awards that is issued in a separate report.



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 each 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.

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

We have audited the consolidated financial statements of the Company as of and for the year ended September 30, 2022 and have issued our report thereon dated May 2, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

May 2, 2023

Analytic Services Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2022

Program or Cluster Title/Federal Grantor/Pass-Through Grantor	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Research and Development Cluster:			
U.S. Department of Defense:			
Secretary of Defense	12.RD		\$ 20,989,183
Joint Military Service Organizations	12.RD		6,265,821
Army	12.RD		1,042,755
Navy	12.RD		336,312
Air Force	12.RD		25,035
Pass-Through Program From:			
American Systems	12.RD	S18025	355,973
Applied Research Associates, Inc.	12.RD	S-D00244-IDIQ-07-ANS	301,386
ARServices, Limited	12.RD	ANSER-20200106	198,663
Artlin Consulting	12.RD	AVCSIIANSER0002	159,148
Avantus	12.RD	2022-007	9,691
Barbaricum	12.RD	G2037.111.001.001	10,772
Booz Allen Hamilton	12.RD	107957SB31	1,147,493
Bowhead Logistics Solutions, LLC	12.RD	BTES-0090-17-ANSER-01	885,740
ByteCubed LLC (Intellibridge LLC)	12.RD	BC0026-05-01	17,137
Frontier Technology, Inc.	12.RD	ANS-17-208685-221	3,556,758
Huntington Ingalls Industries	12.RD	Letter Award 02.18.19	79,552
Integrity Management Consulting Inc.	12.RD	HQ PACAF/A4S	138,212
Interagency Readiness Solutions, LLC	12.RD	21-01	20,188
KPMG	12.RD	ANSER.USAF.AFSTS.TO.F0229.2020	5,538
Leidos	12.RD	P010263379	244,846
MHG	12.RD	2022-W15QKN22C0035_MHG_ANSER	3,717
Miracle Systems	12.RD	2019-JNL-1002	191,923
MIT Lincoln Lab	12.RD	PO7000495774	45,260
Patricio Enterprises	12.RD	SC-19-11776-ANSER	2,282,807
PM2 Strategies	12.RD	0302S-2021-01	16,040
Redhorse Corporation	12.RD	RHC-18-ANS-02	3,853
Science Applications International Corporation	12.RD	PO10259098	1,831,851
Soar Technology Inc.	12.RD	ONR	(12,495)
SOS International	12.RD	SA 21-101	240,828
Survive Engineering Co.	12.RD	S21-0850017	5,229
Systems Planning and Analysis, Inc	12.RD	SPA-SC-040023-ANSER-20-001	378,063
Whitney, Inc	12.RD	20GWRMS046	1,399,799
Total U.S. Department of Defense			42,177,078
Department of Homeland Security			
Department of Homeland Security	97.RD		5,864,025
Pass-Through Program From:			
Deloitte	97.RD	GS00Q14OADU204/70RSAT21FR00001	153,220
Total Department of Homeland Security			6,017,245
Non-Defense U.S. Government Agencies			
Non-Defense U.S. Government Agencies	93.RD		8,944,579
Pass-Through Program From:			
Booz Allen Hamilton	93.RD	107957SB31	3,549,375
C2 Technologies	93.RD	USMS – C2	312,861
Celestar Corporation	93.RD	HHM402-19-D-0010	616,900
Cherokee Nation	93.RD	28700-0176	112,758
Compass, Inc.	93.RD	NFE-InTec-0010	755,669
DEXIS	93.RD	2400-S-2018-002-T01	186,626
Manufacturing Technical Solutions	93.RD	CPSS-ANS-001	387,898
Perspecta	93.RD	CASES 2 ATF	5,370,926
Preting Consulting	93.RD	PC2021009	128,220
Raytheon	93.RD	ITDAS	79,224
S2 Analytical Solutions	93.RD	2018NGA001-INT	132,435
SAIC	93.RD	P010259098	1,450,620
Total Non-Defense U.S. Government Agencies			22,028,091
Independent Defense Agencies			
Independent Defense Agencies	12.RD		183,597
Pass-Through Program From:			
Chimera	12.RD	CEI-SUBK-0003-ANSER	808,026
Concord Crossroad	12.RD	C3R-ANSER	18,794
Total Independent Defense Agencies			1,010,417
Total Expenditures of Federal Awards – Research and Development Cluster			\$ 71,232,831

The accompanying notes are an integral part of this schedule.

Analytic Services Inc. and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2022

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Analytic Services Inc. and Subsidiaries (the "Company") under programs of the federal government for the year ended September 30, 2022. 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* (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.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting and are included within revenue in the consolidated statement of activities. 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.

Note 3. Indirect Cost Rate

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

Note 4. U.S. Government Contract Audits

Costs charged to federal awards are subject to audits by government auditors. An audit of these costs has not been completed for the year ended September 30, 2022. The Company is of the opinion that any adjustments of costs for the year ended September 30, 2022 will not have a significant effect on its federal awards.

Note 5. Total Expenditures of Federal Awards of Subsidiaries

Total expenditures per the Schedule include expenditures of the Company and its subsidiaries, with the exception of federal awards for Advanced Technology International ("ATI"), which is one of the Company's subsidiaries. Total expenditures of federal awards of \$4,481,089,827 for ATI are included in a stand-alone schedule of expenditures of federal awards that is issued in a separate report in accordance with the Uniform Guidance.

Analytic Services Inc. and Subsidiaries

Schedule of Findings and Questioned Costs Year Ended September 30, 2022

Section II - Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, and noncompliance with provisions of laws, regulations, contracts and grant agreements, related to the financial statements for which *Government Auditing Standards* require reporting.

No financial statement findings were identified as part of our audit procedures.

Section III - Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200.516(a) (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs and significant instances of abuse).

No federal award findings or questioned costs were identified as part of our audit procedures.