

Parallax Advanced Research
Corporation and Affiliate
Consolidated Financial Statements

As of and for the Years Ended
June 30, 2023 and 2022



Rea & associates

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Parallax Advanced Research Corporation and Affiliate
Dayton, Ohio

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Parallax Advanced Research Corporation and Affiliate (collectively, the "Organization") which comprise the consolidated statements of financial position as of June 30, 2023 and 2022; the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for the period of one year from the date this report is issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Organization'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2023, on our consideration of the Organization'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 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 Organization'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 Organization's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
December 18, 2023

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
	<u> </u>	<u> </u>
REVENUE:		
Contract and grant revenue	\$ 44,903,640	\$ 38,802,564
Commercial revenue	1,718,954	433,708
Service contracts	3,315,888	-
Consortia	56,201	-
Membership	49,637	-
Rental income	182,349	-
Registration fees	27,715	-
Miscellaneous income	203,019	1,497,000
Interest and other income	24,859	56
	<u>50,482,262</u>	<u>40,733,328</u>
CONTRIBUTION OF OHIO AEROSPACE INSTITUTE	3,007,909	-
NET ASSETS RELEASED FROM RESTRICTION	64,610	-
EXPENSES:		
Program services	32,043,182	25,323,731
Support services	18,759,763	15,295,052
	<u>50,802,945</u>	<u>40,618,783</u>
Changes in net assets without donor restrictions	2,751,836	114,545
NET ASSETS WITH DONOR RESTRICTION:		
Contribution of Ohio Aerospace Institute	3,661,234	-
Net assets released from restrictions	(64,610)	-
	<u>3,596,624</u>	<u>-</u>
Changes in net assets with donor restrictions	3,596,624	-
CHANGES IN NET ASSETS	6,348,460	114,545
NET ASSETS, beginning of the year	3,183,339	3,068,794
NET ASSETS, end of the year	<u>\$ 9,531,799</u>	<u>\$ 3,183,339</u>

The accompanying notes are an integral part of these financial statements.

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	Program Services	Support Services	Total Expenses
	<u> </u>	<u> </u>	<u> </u>
EXPENSES:			
Personnel cost	\$ 9,675,561	\$ 12,727,395	\$ 22,402,956
Education facilitation	188,403	-	188,403
Grants	721,634	-	721,634
Subcontracting cost	14,251,858	2,915,272	17,167,130
Travel and entertainment	347,164	234,746	581,910
Occupancy and depreciation	410,242	283,299	693,541
Postage, telephone, and supplies	44,974	1,253,180	1,298,154
Insurance	94,454	464,958	559,412
Equipment and material	1,550,317	-	1,550,317
Miscellaneous	4,758,575	880,913	5,639,488
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 32,043,182</u>	<u>\$ 18,759,763</u>	<u>\$ 50,802,945</u>

The accompanying notes are an integral part of these financial statements.

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services	Support Services	Total Expenses
	<u> </u>	<u> </u>	<u> </u>
EXPENSES:			
Personnel cost	\$ 5,606,706	\$ 8,968,404	\$ 14,575,110
Subcontracting cost	14,421,302	2,865,925	17,287,227
Travel and entertainment	177,185	109,587	286,772
Occupancy and depreciation	431,157	246,708	677,865
Postage, telephone, and supplies	28,679	929,678	958,357
Insurance	-	154,967	154,967
Equipment and material	1,440,379	-	1,440,379
Miscellaneous	3,218,323	2,019,783	5,238,106
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 25,323,731</u>	<u>\$ 15,295,052</u>	<u>\$ 40,618,783</u>

The accompanying notes are an integral part of these financial statements.

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 6,348,460	\$ 114,545
Net adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	392,825	396,812
Noncash contribution of OAI	(4,433,427)	-
Gain on extinguishment of debt	-	(1,497,000)
Lease expense	2,054,109	-
(Increase) decrease in operating assets:		
Funds held for others	(95,259)	-
Billed accounts receivable	(4,703,631)	1,250,487
Unbilled accounts receivable	2,758,400	(4,457,096)
Prepaid expenses and other current assets	(249,957)	(79,629)
Increase (decrease) in operating liabilities:		
Accounts payable	3,410,635	(418,461)
Due to others	319,190	-
Funds held for others	95,259	-
Accrued payroll	552,730	912,900
Other accrued expenses	365,070	6,611
Deposits	5,085	-
Deferred revenue	(3,388,715)	1,785,475
Lease liabilities - operating leases	(1,945,897)	-
Total adjustments	(4,863,583)	(2,099,901)
Net cash provided by (used in) operating activities	1,484,877	(1,985,356)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for the purchase of property and equipment	(89,665)	(100,807)
Payments for the purchase of construction in progress	(955,572)	-
Net cash used in investing activities	(1,045,237)	(100,807)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	3,172,000	1,275,000
Payments on line of credit	(2,290,000)	(570,000)
Principal payments on note payable	(78,165)	-
Net cash provided by financing activities	803,835	705,000
Net increase (decrease) in cash and cash equivalents	1,243,475	(1,381,163)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	273,917	1,655,080
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 1,517,392	\$ 273,917
SUPPLEMENTARY CASH FLOW DATA:		
Cash paid during the year for:		
Interest	\$ 137,147	\$ 50,007

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: NATURE OF OPERATIONS

Parallax Advanced Research Corporation (Parallax) is a nonprofit Ohio corporation headquartered in Dayton, Ohio. Parallax delivers solutions that improve the performance and decision-making of individuals and teams by integrating human factors design with innovative visualization and computing technologies. Parallax's principal operations are sponsored research, under contracts or grants. Research sponsors for Parallax are primarily government agencies, and include federal government agencies of the United States of America (collectively, U.S. Government).

Parallax was initially incorporated on July 26, 2004, under the name of Wright Center of Innovation for Advanced Data Management and Analysis, Inc. (WCI). On March 30, 2011, WCI changed its name to Wright State Applied Research Corporation (WSARC). WSARC was the contracting entity for the Wright State Research Institute, a department of Wright State University (University) under an affiliation agreement. On October 23, 2020, the affiliation agreement with the University expired. Because WSARC was no longer affiliated with the University, Parallax's board of directors amended the articles of incorporation to change Parallax's name to Parallax Advanced Research Corporation as of October 23, 2020.

On January 1, 2023, Parallax entered into an affiliation agreement with the Ohio Aerospace Institute (OAI) and its wholly owned affiliate Great Lakes Biomimcry, Inc. (GLB), collectively OAI. Within the affiliation agreement, Parallax was named the sole member of OAI. The fair value of the net assets that was contributed by OAI to Parallax was \$6,669,143. The following assets and liabilities were recognized as of January 1, 2023 with the affiliation transaction (at fair value):

Cash and cash equivalents acquired	\$ 2,235,716
Non-cash assets and liabilities acquired	
Funds held for others	74,742
Accounts receivable – net	1,426,706
Prepays and deposits	105,214
Property, plant, and equipment – net	6,140,819
Current portion of note payable	(160,985)
Accounts payable	(90,540)
Accrued expenses	(70,473)
Accrued salaries and vacation	(419,352)
Funds held for others	(74,742)
Deferred revenue	(2,282,935)
Note payable	(215,027)
Total non-cash assets and liabilities, net	<u>4,433,427</u>
Total assets and liabilities acquired	<u>\$ 6,669,143</u>

OAI was incorporated on May 23, 1989, as a not-for-profit corporation. Its mission is to build Ohio's aerospace economy through research and technology development, education and training, and collaboration and information exchange. GLB provides and promotes aerospace and aeronautical education.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Parallax and its affiliate, OAI. All material intercompany account balances and transactions have been eliminated in the preparation of the consolidated financial statements. This consolidated group is collectively referred to as the “Organization.”

Basis of Accounting

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

Use of Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are reflected for both billed and unbilled amounts based upon the work completed for a particular grant or contract. The Organization uses the allowance method to estimate uncollectible accounts. The allowances, if any, are based on prior experience and management’s analysis of specific contracts. Interest is not charged on any past due balances. An allowance for accounts receivable of \$946,547 and \$908,818 are recorded as of June 30, 2023 and 2022, respectively.

Funds Held For Others

OAI holds funds in both commingled and separate bank accounts and acts as fiscal agent for one Entity. At the conclusion of the relationship, OAI will remit all remaining cash to the Entity.

Leases

The Organization determines if a contract contains a lease when the contract conveys the right to control the use of identified assets for a period in exchange for consideration. Upon identification and commencement of a lease, the Organization establishes a Right of Use (ROU) asset and a lease liability. Operating leases, if any, are included in ROU assets – operating leases, current portion of lease liabilities – operating leases, and lease liabilities – operating leases on the accompanying statements of financial position. Finance leases, if any, are included in property and equipment, current portion of lease liabilities – finance leases and lease liabilities – finance leases.

The total lease term is determined by considering the initial term per the lease agreement, which is adjusted to include any renewal options that the Organization is reasonably certain to exercise as well as any period that the Organization has control over the asset before the stated initial term of the agreement. If the Organization determines a reasonable certainty of exercising termination or early buyout options, then the lease terms are adjusted to account for these facts. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Organization does not separate non-lease components from lease components for the vehicle ROU asset class. This election has been made to significantly reduce the administrative burden, which would be imposed on the Organization.

The Organization uses the risk-free rate as the discount rate for all classes of underlying assets when the interest rate is not implicitly or explicitly stated in the lease agreement at commencement date.

The Organization does not recognize ROU assets and lease liabilities for leases with a term of 12 months or less.

Property and Equipment

Property and equipment purchased are recorded at cost less accumulated depreciation. The Organization's capitalization policy threshold is \$5,000 for property and equipment. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 40 years. Depreciation for leasehold improvements is provided on the straight-line method over the lesser of the asset's estimated useful life or the lease term.

The Organization continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision. In evaluating whether these long-lived assets are recoverable, the Organization estimates the sum of the expected future cash flows, undiscounted and without interest charge derived from such assets over their remaining useful life. Management believes that there was no impairment of long-lived assets for the years ended June 30, 2023 and 2022.

Construction in progress is property and equipment that has been capitalized, but not yet placed in service. Property and equipment under construction in progress are not depreciated until placed in service.

Contingencies

The Organization receives significant assistance from numerous federal and state agencies in the form of grants and contracts. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the sponsor. Any disallowed claims resulting from such audits could become a liability. Management believes that any potential disallowance of claims would not have a material effect on the financial statements.

The Organization is subject to investigations by government agencies, which may have adverse financial or operational impacts upon final resolution. The expected time of final resolution and any potential impacts of these investigations on the Organization are unknown at this time.

The Organization is periodically involved as a defendant or codefendant in various matters of litigation. Management believes that the ultimate disposition of any current matters would not have a material adverse effect upon the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Parallax and OAI are exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, both Parallax and OAI may be subjected to tax on unrelated business income. For the years ended June 30, 2023 and 2022, Parallax and OAI earned no unrelated business income. Accordingly, no provision for income taxes has been recorded.

Generally accepted accounting principles require the Organization to evaluate the level of uncertainty related to whether tax positions taken will be sustained upon examination. Any positions taken that do not meet the more-likely-than-not threshold must be quantified and recorded as a liability for unrecognized tax benefits in the accompanying statement of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management believes that none of the tax positions taken would materially impact the financial statements and no such liabilities have been recorded.

Net Assets and Financial Statement Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction – Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes. From time to time, the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

Net Assets With Donor Restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor imposed, time and/or purpose restrictions. The Organization reports revenue with donor restrictions, if the revenue has stipulations that limit the use of the assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statements of activities as net assets released from restrictions.

As of June 30, 2023, the donor restrictions on net assets relates to the net building investment from NASA and the investment with the restriction is reflected as with donor restriction. See Note 8 for the terms of the land lease with NASA, on which the building stands. As of June 30, 2022, there are no donor restrictions on the net assets of the Organization and, therefore, all net assets are reflected as without donor restrictions.

Revenue Recognition

In accordance with Topic 606, the Organization recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Organization expects to receive in exchange for those goods or services.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

To determine revenue recognition for the arrangements that the Organization determines are within the scope of Topic 606, the Organization performs the following five steps:

- Identify the contract(s) with a customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Substantially, all contract and grant revenue is derived from services provided to the U.S. Government and state government agencies. The Organization derives most of its revenue from grants and four different types of contractual arrangements: cost plus fixed fee, cost reimbursable, time and materials, and fixed-price contracts.

Grant revenue consists of cost-reimbursable grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures.

Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position.

Revenue on cost plus fixed fee is recognized over time as services are performed, generally based on the allowable costs incurred during the period, plus any recognizable earned fees.

Revenue on cost reimbursable contracts is recognized over time as services are performed, generally based on the allowable costs incurred during the period.

Revenue under time and materials contracts is recognized over time as labor hours are worked based on contractually billable rates to the client. Direct costs on time and materials contracts are expensed as incurred.

Revenue on fixed-price contracts is primarily recognized over time based on actual costs incurred (input method) relative to total estimated costs for the contract. Periodically, the estimated costs are updated during the term of the contract and may result in revision of recognized revenue and estimated costs in the period in which the changes in estimated costs are identified.

Contract accounting requires significant judgment relative to assessing risks, estimating contract revenue and costs, making assumptions for schedule and technical issues, and assessing the probability of funding by the contracting agency. Due to the size and nature of many contracts, developing total revenue and cost at completion estimates requires the use of significant judgment. Estimates of total contract revenue and costs are monitored during the term of the contract and are subject to revision as the contract progresses. Anticipated losses on contracts are recognized in the period they are deemed probable and can be reasonably estimated.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Revenue on service-based contracts is recognized primarily over time as there is continuous transfer of control to the customer over the duration of the contracts as the Organization performs the promised services. For U.S. Government contracts, continuous transfer of control to the customer is evidenced by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay for costs incurred and take control of any work-in-process. Anticipated losses on service based contracts are recognized when known.

Contracts with the U.S. Government are subject to Federal Acquisition Regulation (FAR) and priced on estimated or actual costs of providing services. The FAR provides guidance on types of costs that are allowable in establishing prices for goods and services provide to the U.S. Government. Pricing for state agencies and commercial customers is based on specific negotiations with each customer.

Contract costs on U.S. Government contracts, including indirect costs, are subject to audit by the federal government and adjustment pursuant to negotiations between the Organization and government representatives. The Organization's federal contract indirect costs have been agreed upon through fiscal year 2022. Contract revenue on U.S. Government contracts has been recorded in amounts that are expected to be realized upon final settlement. In the opinion of management, the outcome of these matters will not have a material effect on the financial statements in subsequent periods for federal government audits not yet started.

The Organization's contracts, the timing of revenue recognition, customer billings and cash collections result in a net contract asset or liability at the end of year. Contract assets include billed receivables and unbilled receivables, which represent the amount of revenue earned and recognized that exceeds the amount billed to the customer. Contract liabilities consist of deferred revenue, which are advance payments from customers that have been provided prior to the associated revenue being earned.

Contract assets and contract liabilities opening balances consist of the following as of July 1:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contract assets:			
Accounts receivable, net – billed	\$ 11,833,357	\$ 6,477,574	\$ 7,728,061
Accounts receivable - unbilled	<u>3,423,852</u>	<u>5,407,698</u>	<u>950,602</u>
	<u>\$ 15,257,209</u>	<u>\$ 11,885,272</u>	<u>\$ 8,678,663</u>
Contract liabilities:			
Deferred revenue	<u>\$ 2,021,043</u>	<u>\$ 3,126,823</u>	<u>\$ 1,341,348</u>

Contribution Revenue

Contributions are recognized when the donor makes a promise to give to OAI that is, in substance, unconditional. Conditional promises to give, that is, those with measurable performance or other barrier and right of return, are not recognized until the conditions on which they depend have been met. All donor restricted support that was initially a conditional contribution and for which donor-imposed conditions and restrictions are met in the same reporting period are reported as increases in net assets without donor restrictions. All other donor restricted contributions are reported as increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)Rental Income

Rental income is recognized under Accounting Standard Codification (ASC) 842, *Leases*, and as such, ASC 606 does not apply. Rental income is recorded on a monthly basis as earned.

Advertising Expense

The Organization expenses advertising costs as incurred. For the years ended June 30, 2023 and 2022, advertising expenses were \$38,714 and \$13,389, respectively.

Allocation of Functional Expenses

Conditions are set under which the Organization allocates costs to program services and support services classifications. Cost allocation occurs whenever costs are associated with more than one activity. Costs are allocated based on estimated or actual amounts.

Related Parties

Related parties exist when an entity has the ability to significantly influence the management or operating policies of another entity to the extent that one of the transacting parties might be prevented from fully pursuing its own separate interest. Related parties include any affiliate of the Organization along with management and members of management's immediate family.

Recently Issued But Not Yet Effective Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which (1) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model and (2) provides for recording credit losses on available for sale debt securities through an allowance account. The update requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model. The guidance is effective for the Organization beginning July 1, 2023, with earlier adoption permitted. The Organization is currently evaluating the impact that this guidance may have on the financial statements.

Adoption of New Accounting Standard

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which specifies the accounting for leases. The objective is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. This ASU introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The guidance was effective for annual reporting periods beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. The adoption of the guidance impacted the Organization's statements of financial position by the creation of ROU assets and lease liabilities. Under the transition method selected by the Organization, leases existing at, or entered into after, July 1, 2022 were required to be recognized and measured.

Prior period amounts have not been adjusted and continue to be reflected in accordance with the Organization's historical reporting. The adoption of this standard resulted in the recording of ROU assets and operating lease liabilities of \$6,604,619 as of July 1, 2022 with no related material impact on the Organization's statements of activities and changes in net assets or statements of cash flows. See Note 8 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standard (Continued)

The Organization elected the package of practical expedients permitted under the transition guidance within the Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of Topic 842 on July 1, 2022.

In March 2023, the FASB issued ASU No. 2023-01, *Leases (Topic 842) Common Control Arrangements*, which amends certain provisions of Topic 842 that apply to arrangements between related parties under common control. The standard provides an optional practical expedient under which private companies can use the written terms and conditions of an arrangement between entities under common control to determine (1) whether a lease exists and (2) the subsequent accounting for (and classification of) the lease. This practical expedient can be applied on an arrangement-by-arrangement basis, and an entity is not required to consider the legal enforceability of such written terms and conditions.

The standard also amends the accounting for leasehold improvements in common-control arrangements and requires a lessee in a common-control lease arrangement to amortize leasehold improvements that the lessee owns over the improvements’ useful life to the common control group, regardless of the lease term, if the lessee continues to control the use of the underlying asset through a lease.

ASU No. 2023-01 is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years interim periods. Early adoption is permitted in any annual or interim period as of the beginning of the related fiscal year. The Organization early adopted the standard on July 1, 2022. The adoption of the guidance did not have a material impact on the Organization’s financial statements.

Subsequent Events

The Organization has evaluated subsequent events through December 18, 2023, the date on which the financial statements were available to be issued. Management has determined that there were no subsequent events requiring disclosure or recognition.

NOTE 3: RISKS AND UNCERTAINTIES

Uninsured Risk – Cash Deposits

The Organization maintains its cash and cash equivalents balances in financial institutions located in Ohio. Deposits in interest-bearing and non-interest-bearing accounts are collectively insured by the Federal Deposit Insurance Corporation (FDIC) up to a coverage limit of \$250,000 at each FDIC-insured depository institution. As a result, the Organization has balances that exceed the insured limit.

Revenue Sources

Substantially all contract and grant revenue is derived from services provided to the U.S. Government and state government agencies.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: NOTE RECEIVABLE

The Organization issued a note receivable to Advanced Technical Intelligence Center for Human Capital Development (ATIC) on December 1, 2016 for \$1,404,119. The note bears interest at a per annum rate of 1.29%. Monthly installment payments of \$2,500 are due until the earlier of December 31, 2021, or the date ATIC sells its real property located in Greene County, Ohio, at which time the entire then-remaining principal balance and accrued and unpaid interest are due in full. In 2018, the note became due upon ATC selling certain real property and is in default on the note. The parties have entered into a forbearance agreement whereby the Organization has agreed to forebear the exercising of its rights and remedies under the note in exchange for ATIC agreeing to certain terms and conditions including a payment schedule during the forbearance period, which originally expired on October 1, 2020.

The agreement was extended multiple times with a current expiration of October 1, 2024. At June 30, 2023 and 2022, principal amounts of approximately \$1,094,071 and \$1,111,800 were outstanding on this note, respectively. At June 30, 2023 and 2022, the allowance related to this note was approximately \$1,094,071 and \$1,111,800, respectively.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 751,085	\$ 751,085
Software for projects	715,049	715,049
Computers and hardware	2,582,135	2,582,135
Buildings and building improvements	8,830,909	2,730,907
Furniture and fixtures	1,458,861	1,328,680
Truck trailer	520,904	520,904
Equipment	<u>1,017,572</u>	<u>1,017,572</u>
Property and equipment, at cost	15,876,515	9,646,332
Less: accumulated depreciation	<u>(6,850,315)</u>	<u>(6,457,791)</u>
Property and equipment, net	<u>\$ 9,026,200</u>	<u>\$ 3,188,541</u>

NOTE 6: LINE OF CREDIT

In June 2021, Parallax established a new \$2,000,000 revolving line of credit with a bank which expired May 2023. As of May 2022, this line was amended to \$3,000,000 and was extended to May 2024. The line is collateralized by substantially all of the Parallax's assets, excluding the investment in OAI. Interest is payable monthly at the Bloomberg Short-Term Bank Yield Index (BSBY) daily floating rate or 1% (whichever is higher), plus 2.75% (BSBY daily rate was 5.15% at June 30, 2023). The balance on the line of credit was \$2,287,000 and \$1,405,000 as of June 30, 2023 and 2022, respectively.

OAI has available a line of credit with a bank in the amount of \$1,000,000, expiring on March 31, 2024. The line is secured by OAI's receivables and equipment. Interest is payable monthly at Bloomberg Short-Term Bank Yield Index (BSBY) daily floating rate or 1% (whichever is higher), plus 2.75% (BSBY daily rate was 5.15% at June 30, 2023). There was no balance on the line of credit as of June 30, 2023 and 2022, respectively.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: LINE OF CREDIT (CONTINUED)

The Organization is required to meet certain reporting, financial and operating covenants for these lines of credit. As of June 30, 2023 the Organization was in compliance with the financial and operating covenants.

NOTE 7: PAYCHECK PROTECTION PROGRAM

In connection with the Paycheck Protection Program (PPP) Loan Program under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), in March 2021, Parallax was approved for a term note of \$1,497,000. The term note charged interest at a fixed rate of 1% and included provisions allowing for full forgiveness of the principal and interest if the proceeds were used for eligible purposes. Parallax utilized the proceeds from the term note for eligible purposes and in April 2022, \$1,497,000 was forgiven. As a result, gain on forgiveness of debt of \$1,497,000 was recognized and is included within miscellaneous income in the accompanying financial statements of activities and changes in net assets for the year ended June 30, 2022.

OAI has a note payable to a bank with interest at 1%, maturing January 2025, guaranteed by the PPP loan program under the CARES Act. The PPP loan may be partially or fully forgiven in accordance with the CARES Act subject to the satisfaction of certain conditions, as defined in the loan agreement. Management met the requirements for partial forgiveness and in September 2021, partial forgiveness was granted by the Small Business Administration (SBA).

Future maturities of note payables as of June 30, 2023 are as follows:

Year Ended June 30,	Amount
2024	\$ 297,847
Total	<u>\$ 297,847</u>

NOTE 8: OPERATING LEASE OBLIGATIONS

The Organization has entered into several leases of office building spaces in direct support of U.S. Government contracts. Leases expire at various dates through February 2028, with various options to extend through May 2030. Monthly lease payments range from \$307 to \$91,708, including certain variable components and various time lapse rent increases. Rental expense incurred under these agreements during the years ended June 30, 2023 and 2022 was \$2,246,520 and \$2,126,643, respectively.

In February 2020, the Organization entered into a five year lease for office equipment. The lease stipulates monthly payments of \$1,873 per month plus applicable overages. After the initial lease term expires, the lease will renew for additional twelve month terms unless the office equipment is returned or purchased. Rental expense incurred under this agreement during the years ended June 30, 2023 and 2022 was \$17,820 and \$20,414, respectively.

OAI has a land lease with NASA. The lease requires that OAI use the premises for the conduct of aeronautical and space research, the education and training of aeronautical and space engineers and scientist, and the transfer of aeronautical and space technology between the United States public and private sectors. OAI must also maintain its not-for-profit status. The property that is the subject of the this lease is provided at no cost to OAI by NASA under the terms of the in-kind lease agreement. The original fifteen-year lease was renewed on April 2021, for an additional thirty-year period which will terminate in April 2051. As there is no rent charged with the lease, this lease is not recorded as an operating lease.

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: OPERATING LEASE OBLIGATIONS (CONTINUED)

The components of lease expense were as follows for the year ended June 30, 2023:

Fixed lease cost	\$ 2,234,253
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Supplemental cash flow information related to leases was as follows for the year ended June 30, 2023:

	2023
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 2,222,370
ROU assets obtained in exchange for new operating lease liabilities	\$ 10,599

Supplemental statement of financial position information related to leases was as follows:

	2023
Operating leases	
Operating lease ROU assets	\$ 6,615,218
Operating lease ROU assets accumulated amortization	(2,054,109)
Operating lease ROU assets, net	\$ 4,561,109
Operating lease liabilities	\$ 4,669,321

	2023
Other information:	
Weighted-average remaining lease term in years for operating leases	2.41
Weighted-average discount rate	2.86%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the statement of financial position are as follows as of June 30, 2023:

Years Ended June 30,	Amount
2024	\$2,224,862
2025	2,061,541
2026	211,649
2027	211,906
2028	117,969
Total future minimum lease payments	4,827,927
Less imputed interest	(158,606)
Total present value of lease liabilities	\$ 4,669,321

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: OPERATING LEASE OBLIGATIONS (CONTINUED)

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of June 30, 2022:

Years Ended June 30,	Amount
2023	\$ 2,107,591
2024	279,036
2025	186,425
2026	191,552
Thereafter	213,673
Total	<u>\$ 2,978,277</u>

NOTE 9: RETIREMENT PLANS

The Organization established and sponsors a retirement plan under the provisions of Section 401(k) of the Internal Revenue Code. This provides retirement benefits for certain eligible employees. Eligible employees may participate immediately. Employees may make pre-tax and Roth contributions, along with rollover and catch-up contributions.

At minimum, the Organization makes an annual contribution of 5% of eligible wages, even if the employee makes no contributions. In addition, the Organization may make discretionary contributions. As of June 30, 2023 and 2022, the Organization had discretionary match of 100% on the first 4% deferred and 50% on the next 2%. The Organization contributed \$1,492,931 and \$544,847 to the plan for the years ended June 30, 2023 and 2022, respectively.

OAI had two retirement plans, a Section 403(b) defined contribution (DC) plan and a supplementary plan, that were frozen as of June 2, 2023.

NOTE 10: LIQUIDITY AND FUNDS AVAILABLE

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of June 30, 2023, because of contractual or donor-imposed restrictions or internal designations.

The Organization's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

Financial assets:	2023	2022
Cash and cash equivalents	\$ 1,517,392	\$ 273,917
Billed accounts receivable	11,833,357	6,477,574
Unbilled accounts receivable	3,423,852	5,407,698
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,774,601</u>	<u>\$ 12,159,189</u>

Liquidity policy

As part of the Organization's liquidity management, it maintains a sufficient level of operating cash to be available as its general expenditures, liabilities, and other obligations come due.

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Contract Number	Assistance Listing Number	Total Expenditures	Passed Through to Subrecipients
U.S. DEPARTMENT OF DEFENSE				
Research & Development Cluster				
<i>Direct Award</i>				
11122 LEAP	N66001-17-2-4019	12.910	\$ 39,962	\$ 22,680
11186 APEX	FA8650-19-3-9341 / FA8650-19-3-9342	12.615	10,872,567	2,811,248
11076 HMT	FA8650-15-D-6583	12.RD	1,550,736	741,887
11222 META (Act 3)	FA8650-21-C-1164	12.RD	469,070	-
11205 F0002-F0004- Option 1	Classified	12.RD	8,856,108	-
11208 F0005 - TO4	Classified	12.RD	275,358	-
11236 MATRIX	FA8650-22-D-6401	12.RD	4,621,157	1,529,713
11238 EMSS	FA8650-22-D-6401	12.RD	85,456	-
11244 SCEPTER	FA86580-22-C-7217	12.RD	2,889,605	978,107
11245 STAT	FA8650-22-C-1046	12.RD	2,647,026	-
11255 IN THE MOMENT	FA8650-23-C-7317	12.RD	361,121	49,481
P-202370	FA8650-16-C-2644	12.RD	779,176	41,461
P-400331	FA8650-09-2-7929	12.RD	(1,080)	-
P-100458	FA8650-14-D-2410, D008	12.RD	(399)	-
P-100460	FA8650-22-2-5720	12.800	215,662	-
<i>Passed through HRL Laboratories</i>				
11248 GEOCOG	HM047622C006	12.RD	225,720	-
<i>Passed through Infoscitex</i>				
11207 IST MEAMS	FA8650-18-C-1669	12.RD	110,033	-
11210 ADMIRE	FA8650-20-D-6207	12.RD	(18,383)	-
11221 ASTRA-IST	FA8650-21-D-2602	12.RD	958,337	-
<i>Passed through Leidos</i>				
11196 DARPA M2T	HR001120C0019	12.RD	300,947	-
<i>Passed through Martin Defense Group</i>				
11231 TALONS	HR0011-21-C-0236	12.RD	271,280	-
<i>Passed through University of Dayton Research Institute</i>				
P-202373	FA8650-19-D-2242	12.RD	54,864	44,480
<i>Passed through ARCTOS Technology Solutions, LLC</i>				
P-100981	Prime Contract: FA8650-21-D-2014; Task Order: FA8650-21-F-2015	12.RD	(1,735)	464
<i>Passed through Inductive Ventures</i>				
P-100612	FA8649-22-P-1034	12.RD	34,120	15,627
Total U.S. Department of Defense			35,596,708	6,235,148
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
NASA-Goddard				
<i>Direct Award</i>				
P-370044	80NSSC19K1029	43.001	4,211	-
NASA-Glenn				
<i>Direct Award</i>				
P-140100	80NSSC22K0877	43.RD	231,408	-
NASA-Headquarters				
<i>Direct Award</i>				
P-370045	80NSSC19K0999	43.012	(863)	-
P-370046	80NSSC20K0466	43.001	5,112	-
P-370047	80NSSC21K0953	43.001	10,005	292
P-402080	80NSSC22M0307	43.008	80,803	47,143
NASA-Langley				
<i>Direct Award</i>				
P-402090	80NSSC20M0125	43.008	307,284	-

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Contract Number	Assistance Listing Number	Total Expenditures	Passed Through to Subrecipients
NASA				
<i>Passed through HX5</i>				
P-520048	Sub #OAIIN20D03; Prime #80GRC02D0003	43.RD	60,221	-
P-520049	Sub #OAIIN20D03; Prime #80GRC02D0003	43.RD	115,857	-
P-520062	Sub #OAIIN20D03; Prime #80GRC02D0003	43.RD	91,651	-
P-520107	Sub #OAIIN20D03; Prime #80GRC02D0003	43.RD	161,539	-
P-520110	Sub #OAIIN20D03; Prime #80GRC02D0003	43.RD	111,300	-
P-520156	Sub #OAIIN20D03; Prime #80GRC02D0003	43.RD	74,015	-
<i>Passed through Paragon TEC, Inc.</i>				
P-390100	Prime #80GRC019D0001	43.RD	(4,257)	-
<i>Passed through Zin Technologies</i>				
P-100500	Sub #SpaceDOC-2020-004; Prime #NNC14CA02C	43.RD	41,873	-
Total National Aeronautics and Space Administration			<u>1,290,159</u>	<u>47,435</u>
Total Research & Development Cluster			<u>36,886,867</u>	<u>6,282,583</u>
SMALL BUSINESS ADMINISTRATION				
<i>Direct Award</i>				
Federal and State Technology Partnership Program	SBAOIIFT2000016-01-00	59.058	53,790	-
Total Small Business Administration			<u>53,790</u>	<u>-</u>
OFFICE OF ECONOMIC ADJUSTMENT (OEA)				
<i>Indirect Award</i>				
Ohio Defense Manufacturing Support Community	OEA-20-F-0004	12.600	24,751	-
Total Office of Economic Adjustment (OEA)			<u>24,751</u>	<u>-</u>
U.S. DEPARTMENT OF COMMERCE:				
<i>Direct Award</i>				
Economic Development Administration	ED21HDQ0240090	11.024	250,192	111,720
International Trade Administration	IT21INA1120008	11.112	98,528	-
<i>Passed through U.S Economic Development Administration</i>				
Economic Adjustment Assistance	ED21HDQ3070049	11.307	513,418	226,400
Cluster Grants	ED19HDQ0200061	11.020	329,950	149,037
Total U.S. Department of Commerce			<u>1,192,088</u>	<u>487,157</u>
TOTAL FEDERAL AWARDS			<u>\$ 38,157,496</u>	<u>\$ 6,769,740</u>

The accompanying notes are an integral part of this schedule.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Parallax Advanced Research Corporation and Affiliate (collectively, the Organization) prepares its consolidated financial information in accordance with accounting principles generally accepted in the United States of America (US GAAP). All intercompany accounts and transactions have been eliminated in consolidation for the Schedule of Expenditures and Federal Awards for the year ended June 30, 2023 unless otherwise stated.

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activities of Parallax Advanced Research Corporation and its affiliate under programs funded by the federal government for the year ended June 30, 2023. The Schedule has been prepared on the accrual basis in accordance with US GAAP and includes all federal awards and contracts entered into directly between the Organization and agencies and departments of the federal government, as well as funds passed through to the Organization by other recipients, and is in accordance with Uniform Guidance U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Negative amounts reported on the Schedule are adjustments or credits made in the normal course of business to amounts reported as expenditures in prior fiscal years. Because the Schedule presents only a selected portion of the Organization's operations, it is not intended to and does not present its financial position, changes in net assets, or cash flows.

Research and Development Cluster ("R&D cluster")

OMB Uniform Guidance defines research and development as follows: research is a systematic study directed toward fuller scientific knowledge or understanding of the subject studied; development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. The Organization's work is closely aligned with the R&D cluster of programs in accordance with 2 CFR 200.17 and 2 CFR 200.87. Accordingly, the schedule of expenditures of federal awards reports all reportable programs in the R&D cluster.

Subrecipient

Certain funds are passed through to subgrantee organizations by the Organization. Expenditures incurred by the subgrantees and reimbursed by the Organization are presented in the Schedule.

The Organization is also the subrecipient of funds, which have been reported as expenditures and listed as pass-through funds.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR PROGRAM EXPENDITURES

Expenditures consist of direct and indirect costs. Direct costs are those that can be identified specifically with a project. Indirect costs are costs of services and resources that benefit both sponsored and non-sponsored projects but are necessary for the operation of the Organization. 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.

The Organization uses indirect cost rates to charge indirect costs to individual projects. The rates are the result of a number of complex cost allocation procedures that the Organization uses to allocate its indirect costs to both sponsored and non-sponsored activities. These indirect rates are reviewed and approved by the applicable cognizant agencies for the funds.

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE C: CLASSIFIED INFORMATION

Due to the nature of research and development that the Organization performs on behalf of the federal government, various contracts and project information is considered classified, which includes "Top Secret," "Secret," or "Confidential." As a result, the Schedule reflects summarized data by agency in order to properly safeguard various information as required by the federal government.



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*

To the Board of Directors
Parallax Advanced Research Corporation and Affiliate
Dayton, Ohio

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 Parallax Advanced Research Corporation and Affiliate (the “Organization”), which comprise the consolidated statement of financial position as of June 30, 2023, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related consolidated notes to the financial statements (collectively, the “financial statements”), and have issued our report thereon dated December 18, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 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 Organization’s 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
December 18, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Parallax Advanced Research Corporation and Affiliate
Dayton, Ohio

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Parallax Advanced Research Corporation and Affiliate's (the "Organization") 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 Organization's major federal programs for the year ended June 30, 2023. The Organization'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 Organization 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 June 30, 2023.

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 (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questions costs as item 2023-001, to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Rea & Associates, Inc.

Rea & Associates, Inc.
Dublin, Ohio
December 18, 2023

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF AUDITOR'S RESULTS

<i>Financial Statements</i>		
	Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
	Internal control over financial reporting: Were there any material weakness identified?	No
	Were there any significant deficiency conditions identified?	None Reported
	Was there non-compliance material to the financial statements noted?	No

<i>Federal Awards</i>		
	Internal control over major federal programs: Were there any material weaknesses identified?	No
	Were there any significant deficiencies identified?	Yes – 2023-001
	Type of auditor's report issued on compliance for major federal programs:	Unmodified
	Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes – 2023-001
	Major Programs:	Research & Development Cluster ALN: 12.910, 12.615, 12.800, 12.RD, 43.001, 43.008, 43.012 and 43.RD
	Dollar threshold used to distinguish between type A and type B programs:	Type A: > \$1,144,725 Type B: All others
	Auditee qualifies as low risk?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None were noted

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2023-001 (repeat of prior year finding 2022-002)	
Federal Program:	Research and Development Cluster ALN: 12.910, 12.615, 12.RD, 43.001, 43.002, 43.008, 12.Unknown and 43.Unknown
Compliance Requirement:	Cash Management
Awarding Agency:	U.S. Department of Defense and National Aeronautics and Space Administration
Criteria or Specific Requirement:	For cost-reimbursement contracts under the Federal Acquisition Regulations (FAR), 52.216-7(b)(1), with relation to supplies and services purchased for use on the contract, “ordinary course of business” would be in accordance with the terms and conditions of a subcontract or invoice, and ordinarily within 30 days of the request to the federal government for reimbursement.
Condition:	The Organization did not have adequate documentation of extended payment terms in the ordinary course of business, and exceeded the typical 30 days.
Cause:	The Organization has been extending terms and conditions of payments of vendors beyond 30 days from the date of reimbursement request, as necessary for overall operations and its cash management needs.
Effect:	Subset of vendors were paid later than 30 days from the date of the request for reimbursement from the government.
Questioned costs:	None
Context:	It was noted that the Organization requested reimbursement from the federal agency for 20 expenditures; however, the subsequent payment to the vendor for those expenditures was not within 30 days of the requested reimbursement. While there may have been terms and conditions agreed to with the vendor, that exceed the 30 days of the request to the federal government for reimbursement, there was no formal documentation of these matters. We did observe that payment was made within 30 days of receipt of the cash from the federal agency, for seven of the 20 expenditures.
Recommendation:	The Organization should review its procedures and update as necessary.
Views of responsible officials:	The Organization will consider the observation and the risks associated, to determine action plan to address the finding. See corrective action plan.

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number	Finding	Status
2022-001	The Organization is responsible for establishing and maintaining effective control over financial reporting, including its information technology (IT) environment.	Remediated
2022-002	For cost-reimbursement contracts under the Federal Acquisition Regulations (FAR), 52.216-7(b)(1), with relation to supplies and services purchased for use on the contract, “ordinary course of business” would be in accordance with the terms and conditions of a subcontract or invoice, and ordinarily within 30 days of the request to the federal government for reimbursement.	Repeated as 2023-001. See Corrective Action Plan for recurrence documentation and corrective action

PARALLAX ADVANCED RESEARCH CORPORATION AND AFFILIATE

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2023**

2023-001 Cash Management Compliance (repeat of prior year finding 2022-002)

Anticipated Completion Date: March 31, 2024

Responsible Contact Person: Christopher Hocevar, CFO and Treasurer

Management's response

As a 501c3 non-profit organization with a significant portfolio of federally funded cost reimbursement awards, management of cash is of fundamental importance and one of the organizations highest priorities. Parallax has encountered some timing challenges as it pertains to cash collections from provisional vs. anticipated final billing rates in fiscal years 2022 and 2023. These challenges have resulted in significant timing delays in cash collections and Parallax is focused on taking a multipronged approach to providing more flexibility in our operations. As it pertains directly to billing rate management, Parallax has implemented more expansive internal controls to move faster in the event of material billing rates variances vs. anticipated final rates, including but not limited to, a mid-year formal management assessment and determination if an updated provisional rate would be appropriate. For fiscal year 2023, Parallax submitted an updated provisional rate package in June 2023 to expedite federal payments on estimated underpayments. The final billing rate for fiscal year 2022 is currently under review, which will provide additional cash collections from underpayments. Parallax will continue to refine rate management internal controls into fiscal year 2024 and beyond with a focus on continuous improvement and more expedient responses to any billing rate challenges.

In addition to rate management process refinement, Parallax has received approval from the board of directors to increase the organizations line of credit and is currently working with our bank to increase the line. The increase in the line of credit is anticipated to happen prior to the end of calendar year 2023.