

VMI Research Laboratories
Financial Statements
and Independent Auditors' Report
for the Years Ended June 30, 2024 and 2023

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For the Years Ended
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Independent Auditors' Report

The Board of Directors
VMI Research Laboratories
Virginia Military Institute
Lexington, Virginia 24450

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of VMI Research Laboratories, which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, of cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of VMI Research Laboratories as of June 30, 2024, and the changes in its net assets and its cash flows for the year 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 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 Financial Statements section of our report. We are required to be independent of VMI Research Laboratories 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 opinions.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the 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 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 VMI Research Laboratories' ability to continue as a going concern within one year after the date that the financial statements are 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 generally accepted auditing standards 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 generally accepted auditing standards 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 VMI Research Laboratories' 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 VMI Research Laboratories' 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 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 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 March 31, 2025, on our consideration of VMI Research Laboratories' 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 VMI Research Laboratories' 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 VMI Research Laboratories' internal control over financial reporting and compliance.



March 31, 2025

VMI Research Laboratories
Statements of Financial Position
June 30, 2024 and 2023

<u>Assets</u>	2024	2023
Cash	\$ 395,217	\$ 294,462
Grants and Contributions Receivable	700,505	698,845
Receivable from VMI	121,710	96,172
Prepaid Expenses	6,196	2,649
Investments	494,348	405,663
Equipment, net of depreciation	<u>56,792</u>	<u>95,057</u>
 Total Assets	 <u><u>1,774,768</u></u>	 <u><u>1,592,848</u></u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts Payable	\$ 102,809	\$ 105,205
Accrued Expenses	21,836	11,924
Payable to VMI	<u>812,533</u>	<u>682,688</u>
 Total Liabilities	 937,178	 799,817
 Net Assets:		
Without Donor Restrictions	613,959	610,344
With Donor Restrictions	<u>223,631</u>	<u>182,687</u>
Total Net Assets	<u>837,590</u>	<u>793,031</u>
 Total Liabilities and Net Assets	 <u><u>1,774,768</u></u>	 <u><u>1,592,848</u></u>

The accompanying notes are an integral part of these financial statements

VMI Research Laboratories
Statements of Activities
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Changes in Net Assets without Donor Restrictions:		
Revenue, Gains and Other Support:		
Grants, Contributions and Contracts	\$ 2,849,639	\$ 2,307,585
Indirect Cost Reimbursement	85,986	60,448
Investment Income	76,464	49,525
Other Income	-	20,933
Net Assets Released from Restrictions	<u>79,047</u>	<u>260,375</u>
Total Revenue, Gains and Other Support without Donor Restrictions	3,091,136	2,698,866
Expenses and Losses:		
Research Expenses	2,151,725	1,930,303
Education Programs Expense	849,676	652,882
Management and General Expenses	<u>86,120</u>	<u>60,863</u>
Total Expenses and Losses	<u>3,087,521</u>	<u>2,644,048</u>
Change in Net Assets without Donor Restrictions	3,615	54,818
Change in Net Assets with Donor Restrictions:		
Grants, Contributions and Contracts	107,624	18,412
Investment Income	12,367	7,972
Net Asset Releases	<u>(79,047)</u>	<u>(260,375)</u>
Change in Net Assets with Donor Restrictions	<u>40,944</u>	<u>(233,991)</u>
Change in Net Assets	44,559	(179,173)
Net Assets, Beginning	<u>793,031</u>	<u>972,204</u>
Net Assets, Ending	<u><u>837,590</u></u>	<u><u>793,031</u></u>

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

VMI Research Laboratories
Statements of Cash Flows
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<u>Cash Flows from Operating Activities:</u>		
Change in net assets	\$ 44,559	\$ (179,173)
Adjustments to reconcile the change in net assets to cash flows from operating activities:		
Depreciation expense	38,265	38,265
Net unrealized investment (gains) losses	(81,002)	(50,342)
Change in grants and contributions receivable	(1,660)	(15,741)
Change in receivable from VMI	(25,538)	(60,448)
Change in prepaid expenses	(3,547)	739
Change in accounts payable	(2,396)	70,822
Change in accrued expenses	9,912	(18,128)
Change in payable to VMI	<u>129,845</u>	<u>185,425</u>
Net operating cash flows	108,438	(28,581)
<u>Cash Flows from Investing Activities:</u>		
Purchase investment securities	<u>(7,683)</u>	<u>(6,827)</u>
Net investing cash flows	(7,683)	(6,827)
Net change in cash and cash equivalents	<u>100,755</u>	<u>(35,408)</u>
Cash and cash equivalents, beginning of year	<u>294,462</u>	<u>329,870</u>
Cash and cash equivalents, end of year	<u><u>395,217</u></u>	<u><u>294,462</u></u>

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

VMI Research Laboratories
Statement of Functional Expenses
For the Year Ended June 30, 2024

Description	Research Expenses	Educational Program Expenses	Management & General Expenses	Total Expenses
Salaries	\$ 894,920	\$ 176,728	\$ 45,575	\$ 1,117,223
Payroll taxes	187,264	15,983	3,478	206,725
Indirect costs	422,711	66,312	-	489,023
Materials and supplies	87,369	9,183	3,996	100,548
Equipment and software	14,476	-	18,853	33,329
Conferences & Meals	12,470	-	-	12,470
Travel	60,929	10,326	-	71,255
Licenses and permits	22,360	-	-	22,360
Printing	2,508	-	405	2,913
Postage and freight	-	-	105	105
Insurance	-	8,929	1,726	10,655
Contract Services	307,073	14,150	-	321,223
Professional fees	-	-	11,525	11,525
Depreciation	38,265	-	-	38,265
Infrastructure	80,664	-	-	80,664
Awards and scholarships	353	546,895	-	547,248
Miscellaneous	20,363	1,170	457	21,990
	<u>2,151,725</u>	<u>849,676</u>	<u>86,120</u>	<u>3,087,521</u>

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

VMI Research Laboratories
Statement of Functional Expenses
For the Year Ended June 30, 2023

Description	Research Expenses	Educational Program Expenses	Management & General Expenses	Total Expenses
Salaries	\$ 800,293	\$ 94,452	\$ 34,040	\$ 928,785
Payroll taxes	183,902	12,163	2,565	198,630
Indirect costs	278,137	36,373	-	314,510
Materials and supplies	131,324	2,380	3,340	137,044
Equipment and software	13,421	-	1,964	15,385
Conferences & Meals	20	-	-	20
Travel	76,869	11,068	-	87,937
Licenses and permits	45,788	780	16,500	63,068
Printing	9,351	-	405	9,756
Postage and freight	-	38	92	130
Insurance	-	-	1,686	1,686
Contract Services	241,431	9,500	180	251,111
Depreciation	38,265	-	-	38,265
Infrastructure	87,644	-	-	87,644
Awards and scholarships	3,424	485,352	-	488,776
Miscellaneous	20,434	776	91	21,301
	<u>1,930,303</u>	<u>652,882</u>	<u>60,863</u>	<u>2,644,048</u>

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

VMI Research Laboratories
Notes to Financial Statements
June 30, 2024 and 2023

Note 1 - Description of the Entity:

VMI Research Laboratories (VMIRL) was incorporated in September 1963 to administer contract and grant research at the Virginia Military Institute (VMI). VMIRL is a Virginia nonprofit nonstock corporation that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). VMIRL conducts various research projects in science and humanities using grant and contract funding.

Note 2 - Statement of Significant Accounting Policies:

The accompanying financial statements of the VMI Research Laboratories have been prepared in accordance with generally accepted accounting principles promulgated in the United States of America. The accounting policies described below have been applied in preparation of the accompanying financial statements.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose, for use in a particular future period or for investment into perpetuity. The organization's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the amounts from donor restricted net assets to net assets without donor restrictions in the statement of activities. Net assets with donor restrictions include resources whose use by the organization is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net income, gains and losses on endowment investments are reported as changes in net assets with donor restrictions.

VMI Research Laboratories
Notes to Financial Statements
June 30, 2024 and 2023

Note 2 - Continued:

Revenue Recognition

VMIRL reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, VMIRL reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donor or grantor restricted contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions. In the circumstances when an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is VMIRL's policy to first apply restricted resources.

Grants Receivable

Grants receivable are amounts due from grantors when costs exceed collections up to the grant amount. Management evaluates all outstanding grants for collectability.

Functional Allocation of Expenses

The costs of providing the various research programs and other activities have been summarized on a functional basis in the statements of activities and presented separately in detail in the statement of functional expenses. Accordingly, certain costs, such as salaries, payroll taxes, printing, supplies, travel, postage and other generic operating expenses have been allocated among the programs and supporting services benefitted. Wherever possible, direct costs for specific functions were identified and assigned, for instances salaries were allocated based upon records of time spent by individual employees.

Property and Equipment

Property and equipment acquired with contract or grant funds are titled either to VMIRL or to the program sponsor depending on the terms of the contract. When property and equipment is titled to VMIRL, upon termination of the grant period, title is transferred from VMIRL to VMI. Equipment and facilities owned by VMI and used by VMIRL are factors in the determination of allowable project overhead. VMIRL equipment is stated at cost, net of accumulated depreciation, computed on the straight-line basis over estimated useful lives of five years.

Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment securities

The investment securities portfolio is stated at fair value. The fair value of open-end mutual fund units is determined by the published net asset value per unit at the end of the last trading day of the fiscal year.

Cash and cash investments

VMIRL considers cash and cash investments to include checking account balances and other short-term liquid investments which can be converted to a known amount of cash and carry an insignificant risk of change in value. VMIRL maintains substantially all of its cash and cash investments with two financial institutions and actively monitors the balances to ensure that they are not in excess of federally insured limits.

VMIRL Research Laboratories
Notes to Financial Statements
June 30, 2024 and 2023

Note 3 - Fair Value Measurements:

VMIRL reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by Generally Accepted Accounting Principles, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (e.g., interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or other means.
- *Level 3.* Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, VMIRL measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs may not be available for some of the assets and liabilities that the organization is required to measure at fair value.

The primary uses of fair value measures in VMIRL's financial statements are

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of investment securities.

Note 4 - Investment Securities:

As discussed in Note 3 to these financial statements, VMIRL is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the market place the inputs to the valuation techniques used. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of June 30, 2024 and 2023. Level 2 is for investments measured using inputs such as quoted prices for similar assets, quoted prices for the identical asset in inactive markets, and for investments measured at net asset value that can be redeemed in the near term. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, independent market activity for the investment.

VMI Research Laboratories
Notes to Financial Statements
June 30, 2024 and 2023

Note 4 - Continued:

The following table summarizes the levels in the fair value hierarchy of the VMIRL's investments at June 30, 2024:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Vanguard Group - Intermediate				
Term Treasury Fund	\$ 50,554	\$ 50,554	\$ -	\$ -
Vanguard Group - 500 Index Fund	443,794	443,794	-	-
	<u>494,348</u>	<u>494,348</u>	<u>-</u>	<u>-</u>

The following table summarizes the levels in the fair value hierarchy of the VMIRL's investments at June 30, 2023 :

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Vanguard Group - Intermediate				
Term Treasury Fund	\$ 49,219	\$ 49,219	\$ -	\$ -
Vanguard Group - 500 Index Fund	356,444	356,444	-	-
	<u>405,663</u>	<u>405,663</u>	<u>-</u>	<u>-</u>

There were no significant transfers between the levels during the year. Investment securities support the following classes of net assets:

	<u>2024</u>	<u>2023</u>
Net assets with donor restrictions	\$ 68,786	\$ 56,420
Net assets without donor restrictions	425,562	349,243
Total Investment Securities	<u>494,348</u>	<u>405,663</u>

Aggregate endowment net assets with donor restrictions included accumulated investment income in excess of the original donor restricted gift amount required to be maintained in perpetuity by the donor of \$58,786 and \$46,420 at June 30, 2024 and 2023, respectively. Changes in investments by net asset class for the fiscal years ended June 30, 2024 and 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Investments at June 30, 2022	\$ 300,046	\$ 48,448	\$ 348,494
Dividends & interest reinvested	5,875	952	6,827
Net appreciation	43,322	7,020	50,342
Investments at June 30, 2023	<u>349,243</u>	<u>56,420</u>	<u>405,663</u>
Dividends & interest reinvested	6,612	1,071	7,683
Net appreciation (depreciation)	69,707	11,295	81,002
Investments at June 30, 2024	<u>425,562</u>	<u>68,786</u>	<u>494,348</u>

VMI Research Laboratories
Notes to Financial Statements
June 30, 2024 and 2023

Note 4 - Continued:

The following schedule summarizes the investment income and its classification in the Statements of Activities:

	2024	2023
Interest on cash and cash investments	\$ 146	\$ 328
Dividends and interest	7,683	6,827
Unrealized appreciation (depreciation)	81,002	50,342
Investment Income (Loss)	<u>88,831</u>	<u>57,497</u>

Note 5 - Relations with Virginia Military Institute:

VMI Research Laboratories is closely affiliated with, but not controlled by, Virginia Military Institute (VMI). Substantially all of the Laboratories' activities are conducted by faculty, administrative staff, and student cadets of VMI. The Laboratories occupy facilities owned by VMI without separate charge and uses Institute equipment. A portion of management and general expenses of the Laboratories are reimbursed by VMI. Research and other program activities pay an overhead burden (referred herein as "indirect costs") to VMI based on direct labor costs.

Note 6 - Net Assets:

Net assets include the following classifications:

	2024	2023
Net Assets with Donor Restrictions:		
Hinman Fund, Educational Programs	\$ 68,786	\$ 56,420
Research Programs	154,845	126,267
Total Net Assets with Donor Restrictions	<u>223,631</u>	<u>182,687</u>
Net Assets without Donor Restrictions:		
Board Designated:		
Cadet research	-	443
Gift fund	60,241	58,869
Symposium fund	518,016	513,754
Undesignated	35,702	37,278
Total Net Assets without Donor Restrictions	<u>613,959</u>	<u>610,344</u>
Total Net Assets	<u>837,590</u>	<u>793,031</u>

Note 7 - Restriction Releases:

Net asset releases from restrictions were as follows for the fiscal years ending June 30:

	2024	2023
Research programs	\$ 79,047	\$ 260,375
Total Net Asset Releases	<u>79,047</u>	<u>260,375</u>

VMI Research Laboratories
Notes to Financial Statements
June 30, 2024 and 2023

Note 8 - Indirect Costs:

VMI Research Laboratories uses a predetermined and preapproved indirect cost rate calculated using the "simplified method". Indirect costs billed under federal and other programs for the fiscal years ended June 30, 2024 and 2023 were determined based on a rate that was computed using costs incurred in the fiscal year ended June 30, 2020. Overhead costs are combined with eligible activities of Virginia Military Institute for purposes of the rate calculation.

Note 9 - Cash and Cash Investments:

Cash and cash investments at June 30, 2024 and 2023 were comprised of the following:

	2024	2023
Wells Fargo Bank Checking	\$ 16,305	\$ 251,684
Wells Fargo Money Market Checking	378,912	42,778
	<u>395,217</u>	<u>294,462</u>

Note 10 - Equipment, Net of Accumulated Depreciation:

Details are as follows:

<u>Year Ended June 30, 2024</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Contributed to VMI</u>	<u>End of year</u>
Equipment at Cost	\$ 191,326	\$ -	\$ -	\$ 191,326
Accumulated Depreciation	(96,269)	(38,265)	-	(134,534)
	<u>95,057</u>	<u>(38,265)</u>	<u>-</u>	<u>56,792</u>
<u>Year Ended June 30, 2023</u>	<u>Beginning of year</u>	<u>Additions</u>	<u>Contributed to VMI</u>	<u>End of year</u>
Equipment at Cost	\$ 191,326	\$ -	\$ -	\$ 191,326
Accumulated Depreciation	(58,004)	(38,265)	-	(96,269)
	<u>133,322</u>	<u>(38,265)</u>	<u>-</u>	<u>95,057</u>

Note 11 - Subsequent Events:

VMIRL has evaluated subsequent events for disclosure and recognition through March 31, 2025, the date which these financial statements were available to be issued.

VMI Research Laboratories
Notes to Financial Statements
June 30, 2024 and 2023

Note 12 – Liquidity and Availability of Resources:

The VMI Research Laboratories financial assets that are available for expenditure within one year at June 30 are as follows:

	<u>2024</u>	<u>2023</u>
Cash & cash equivalents	\$ 395,217	\$ 294,462
Grants & contributions receivable	700,505	698,845
Receivable from VMI	121,710	96,172
Investment securities	425,562	349,243
Total	<u>1,642,994</u>	<u>1,438,722</u>

Items Required by “Government Auditing Standards”



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

To the Board of Directors
VMI Research Laboratories
Virginia Military Institute
Lexington, Virginia 24450

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited VMI Research Laboratories' 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 VMI Research Laboratories' major federal programs for the year ended June 30, 2024. VMI Research Laboratories' 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, VMI Research Laboratories complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding VMI Research Laboratories' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of VMI Research Laboratories' 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 VMI Research Laboratories' 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 instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

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

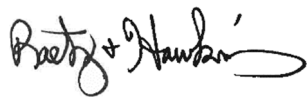
Report on Internal Control over Compliance

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.



March 31, 2025

VMI Research Laboratories
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Federal Grantor/Program Name	Pass Through Organization	Federal CFDA Number	Award Number	Total Expenditures
U.S. Department of Defense				
ROTC Language and Culture Training Grants	IIE	12.357	PGO1801-VMI-22-PGO-051-PO6	\$ 584,626
ROTC Language and Culture Training Grants	IIE	12.357	PGO1801-VMI-22-PGO-051-PO5	\$ 151,764
Subtotal				\$ 736,390
U.S. Department of Agriculture				
Synthesis of Semi Chemicals	Direct	10.025	AP22PPQS&T00C190	\$ 23,847
Synthesis of Semi Chemicals	Direct	10.025	AP23PPQS&T00C020	\$ 37,489
Subtotal				\$ 61,336
NASA				
Education	National Institute of Aerospace Associates	43.008	80LARC23DA.003 (Prime)	\$ 39,510
Subtotal				\$ 39,510
NSA/NFLC				
Language Grant Program	University of Maryland	12.900	L2020.183	\$ 65,418
Language Grant Program	University of Maryland	12.900	H98230-22-1-0093	\$ 59,775
				\$ 125,193
National Science Foundation				
Biological Sciences	The Ohio State University	47.074	SPC-1000006060/GR125721	\$ 5,663
U.S. Department of Defense				
Cybersecurity Core Curriculum	Norwich University	12.905	22343-RS016	\$ 320,151
Cybersecurity Core Curriculum	Norwich University	12.905	22342-RS016	\$ 1,420,226
Subtotal				\$ 1,740,377
Total Federal Awards Expended				\$ 2,708,469

VMI Research Laboratories
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Note 1 – Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of VMI Research Laboratories (VMIRL) under programs of the federal government for the year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of VMIRL, it is not Intended to and does not present the financial position, changes in net assets, or cash flows of VMIRL.

Note 2 – Summary of Significant Accounting Policies:

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

Note 3 – Indirect Cost Rate:

VMIRL uses a predetermined and preapproved indirect cost rate calculated using the “simplified method”. Overhead costs are combined with eligible activities of Virginia Military Institute for purposes of the rate calculation. Unless otherwise negotiated, indirect costs billed under federal programs were determined based on VMIRL’s rate.

VMI Research Laboratories
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

Section I - Summary of Independent Auditor's Results

Financial Statements:

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	Yes <u> </u>	No <u> X </u>
Significant deficiency(ies) identified?	Yes <u> </u>	None Reported <u> X </u>
Noncompliance material to financial statements noted?	Yes <u> </u>	No <u> X </u>

Federal Awards:

Internal control over major programs:		
Material weakness(es) identified?	Yes <u> </u>	No <u> X </u>
Significant deficiency(ies) identified?	Yes <u> </u>	None Reported <u> X </u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes <u> </u>	No <u> X </u>

Identification of major program(s):

CFDA Number	Name of Program
12.905	Cybersecurity Core Curriculum

Dollar Threshold used to distinguish between type A and type B programs	\$ 750,000
Auditee qualified as low-risk auditee?	Yes <u> </u> No <u> X </u>

Section II - Financial Statement Findings

No findings to report.

Section III - Federal Award Findings and Questioned Costs

No findings to report.

Section IV - Summary Schedule of Prior Audit Findings

No findings to report.



RAETZ & HAWKINS, P.C.
Certified Public Accountants

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BO HAYWOOD, CPA • LUCAS C. PENIX, CPA

The Board of Directors
VMI Research Laboratories
Virginia Military Institute
Lexington, Virginia 24450

Independent Auditors' Report

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

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 financial statements of VMI Research Laboratories as of and for the year ended June 30, 2024, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2025.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the VMI Research Laboratories' internal control over financial reporting (internal control) to determine 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 VMI Research Laboratories' internal control. Accordingly, we do not express an opinion on the effectiveness of VMI Research Laboratories' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the VMI Research Laboratories' 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Betty Hanks", with a stylized flourish at the end.

March 31, 2025

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