

# Research Investment Cost Allocation Report

**Confidential Document - Nexus Intelligent Systems, Inc.**

## 1. Executive Summary

This Research Investment Cost Allocation Report ("Report") provides a comprehensive analysis of research and development (R&D) expenditures for Nexus Intelligent Systems, Inc. (the "Company") for the fiscal years ending December 31, 2022 and 2023, with specific focus on cost allocation methodologies, tax optimization strategies, and compliance with applicable regulatory frameworks.

## 2. Scope and Methodology

### 1 Document Objectives

- Provide detailed breakdown of R&D investment allocations
- Analyze tax credit eligibility and potential incentive structures
- Document research expenditure categorizations
- Establish substantive documentation for potential investor and regulatory review

### 2 Analytical Approach

The cost allocation methodology employed in this Report utilizes:

- Activity-based costing principles
- Direct and indirect cost segregation
- Comprehensive review of internal accounting records
- Alignment with GAAP and IRS research expenditure guidelines

## 3. Research Investment Breakdown

### 1 Total R&D Expenditures

Fiscal Year 2022: \$3,742,650

Fiscal Year 2023: \$4,986,225

### 2 Cost Category Allocation

Category	2022 Allocation	2023 Allocation	% Change
----------	-----------------	-----------------	----------

-----	-----	-----	-----
-------	-------	-------	-------

Personnel	\$2,145,300	\$2,893,550	+34.9%
-----------	-------------	-------------	--------

| Technology Infrastructure | \$687,500 | \$912,375 | +32.7% |

| Software & Tools | \$456,250 | \$608,350 | +33.3% |

| External Consulting | \$453,600 | \$571,950 | +26.1% |

#### **4. Tax Credit Qualification Analysis**

##### **1 Research Tax Credit Eligibility**

The Company's research activities demonstrate substantial qualification for federal and state R&D tax credits, specifically:

- Qualified research expenses meeting IRC Section 41 criteria
- Technological innovation in predictive AI maintenance platforms
- Systematic investigation of technological uncertainties

##### **2 Estimated Tax Credit Potential**

Estimated Federal R&D Tax Credit: \$624,500

Estimated State R&D Tax Credit: \$187,350

Total Potential Tax Credit: \$811,850

#### **5. Compliance and Documentation**

##### **1 Regulatory Compliance**

- Full compliance with Financial Accounting Standards Board (FASB) guidelines
- Adherence to IRS research expenditure documentation requirements
- Comprehensive contemporaneous documentation maintained

##### **2 Documentation Retention**

All supporting documentation, including:

- Detailed project logs
- Personnel time allocation records
- Technical design documentation
- Experimental protocol records

#### **6. Risk Mitigation Strategies**

##### **1 Identified Potential Risks**

- Potential audit scrutiny of research expenditure classifications

- Complexity of multi-year research project tracking
- Evolving regulatory landscape for technology R&D investments

## 2 Recommended Mitigation Approaches

- Maintain rigorous documentation protocols
- Implement quarterly internal review processes
- Engage specialized tax advisory services for ongoing compliance

## 7. Limitations and Disclaimers

### 1 Report Limitations

This Report represents management's best interpretation of research investment allocations based on available information as of the report date. Actual results may vary.

### 2 Professional Disclaimer

Prepared by internal financial analysis team. External independent verification recommended for comprehensive tax planning purposes.

## 8. Signatures

Dr. Elena Rodriguez  
Chief Executive Officer  
Nexus Intelligent Systems, Inc.

Michael Chen  
Chief Technology Officer  
Nexus Intelligent Systems, Inc.

Date: January 22, 2024

## 9. Confidentiality Notice

This document contains confidential and proprietary information. Unauthorized reproduction or distribution is strictly prohibited.