The MITRE Corporation

Report on Federal Awards in Accordance with
OMB Uniform Guidance
For the Year Ended September 30, 2018
EIN: 04-2239742

The MITRE Corporation
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For the Year Ended September 30, 2018

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Part I

Financial Statements and
Schedule of Expenditures of Federal Awards

Report of Independent Auditors

To the Board of Trustees
The MITRE Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of The MITRE Corporation (the "Corporation"), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of operations and changes in net assets and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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; this includes 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.

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2018 and 2017 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.

Other Matters

Other 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 for the year then ended September 30, 2018 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. The 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 taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year then ended September 30, 2018. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

McLean, VA
December 28, 2018

The MITRE Corporation
Balance Sheets
As of September 30, 2018 and 2017

(in thousands)		**2018**		**2017**
Assets				
Current assets				
Cash and cash equivalents	$	99,831	$	72,174
Accounts receivable, less allowance of $642 and $261 in 2018 and 2017, respectively, for potentially unrealizable amounts		75,334		62,624
Unbilled costs and fees, less allowance of $2,529 and $1,441 in 2018 and 2017, respectively, for potentially unrealizable amounts		167,810		166,238
Prepaid expenses and other current assets		8,545		11,086
Total current assets	$	351,520	$	312,122
Property and equipment, net		544,308		544,701
Investments		5,338		4,950
Other long-term assets		65		285
Total assets	$	901,231	$	862,058
Liabilities and Unrestricted Net Assets				
Current liabilities				
Accounts payable and accrued expenses	$	50,919	$	40,286
Accrued compensation and related expenses		131,742		126,012
Deferred revenue		42,595		39,242
Debt, short-term portion		8,333		8,333
Other current liabilities		1,400		1,310
Total current liabilities	$	234,989	$	215,183
Accrued benefits	$	13,654	$	14,514
Debt, long-term portion		52,778		61,111
Other long-term liabilities		654		1,145
Total liabilities	$	302,075	$	291,953
Unrestricted net assets		599,156		570,105
Total liabilities and unrestricted net assets	$	901,231	$	862,058

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

The MITRE Corporation
Statements of Operations and Changes in Net Assets
For the years ended September 30, 2018 and 2017

(in thousands)		2018		2017
Revenue from operations	$	1,732,215	$	1,636,061
Interest income		831		280
Total revenue	$	1,733,046	$	1,636,341
Contract costs		1,635,244		1,556,960
Internal research and development		55,423		49,634
Interest expense, net of amounts capitalized		2,711		2,316
Realized/unrealized loss on foreign currency		63		113
Other (income)/expense		10,554		(3,199)
Total contract costs, expenses, and other income	$	1,703,995	$	1,605,824
Net revenue over costs, expenses, and other income		29,051		30,517
Unrestricted net assets, beginning of year		570,105		539,588
Unrestricted net assets, end of year	$	599,156	$	570,105

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

The MITRE Corporation
Statements of Cash Flows
For the years ended September 30, 2018 and 2017

(in thousands)	2018	2017
Cash flows from operating activities		
Net revenue over costs, expenses, and other income	$ 29,051	$ 30,517
Adjustments to reconcile net revenue over costs, expenses, and other income to net cash and cash equivalents provided by operating activities:		
Changes in reserves	9,191	(3,634)
Depreciation and amortization	47,805	44,234
Loss on disposal of property and equipment	1,321	348
Unrealized gain on foreign currency	(426)	(25)
Underfunded post-retirement health care plan	2,244	193
Debt issuance costs not deferred	125	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(12,710)	(9,159)
Unbilled costs and fees, net	(1,572)	(31,832)
Prepaid expenses and other current assets	2,541	(3,118)
Other long-term assets	(46)	(285)
Accounts payable and accrued expenses	1,928	2,383
Accrued compensation and related expenses	5,730	5,953
Deferred revenue	3,353	1,874
Accrued benefits	(3,549)	1,449
Other current liabilities	25	323
Other long-term liabilities	266	(2)
Net cash and cash equivalents provided by operating activities	$ 85,277	$ 39,219
Cash flows from investing activities		
Purchases of property and equipment	(49,219)	(73,234)
Purchases of investments	(907)	(710)
Sales of investments	964	1,467
Net cash and cash equivalents used in investing activities	$ (49,162)	$ (72,477)
Cash flows from financing activities		
Payments on notes payable	(8,333)	(5,556)
Payments on debt issuance costs	(125)	-
Net cash and cash equivalents used in financing activities	$ (8,458)	$ (5,556)
Net increase/(decrease) in cash and cash equivalents	27,657	(38,814)
Effects of exchange rate on cash and cash equivalents	-	(9)
Cash and cash equivalents at beginning of year	72,174	110,997
Cash and cash equivalents at end of year	$ 99,831	$ 72,174
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 2,695	$ 2,316

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

1. Description of business and summary of significant accounting policies

Description of business

The MITRE Corporation (the Corporation) is a private, not-for-profit corporation that is chartered in the public interest and provides systems engineering, research and development, and information technology support to the federal government for some of the nation's most critical challenges. The Corporation operates federally funded research and development centers for the Department of Defense, the Federal Aviation Administration, the Internal Revenue Service and Department of Veterans Affairs, the Department of Homeland Security, the Administrative Office of the U.S. Courts, the Centers for Medicare & Medicaid Services, and the National Institute of Science and Technology.

During fiscal year 2015, MITRE established branches in Singapore and in Dubai, United Arab Emirates, to help each country's aviation authority to improve the safety, efficiency and capacity of its infrastructure. Both efforts were undertaken with the full support of MITRE's U.S. FFRDC Sponsor, the FAA. During fiscal year 2017, MITRE closed the branch in Dubai. During the fiscal year 2017, MITRE established a not-for-profit branch in Australia as part of MITRE's strategic effort to partner with the Commonwealth of Australia to serve as an objective, trusted advisor working in the public interest. This effort was undertaken with the full support of MITRE's U.S. FFRDC Sponsor, the United States Department of Defense.

Under its bylaws, the "trustees of the Corporation" have the power to dissolve the Corporation and wind up its affairs. In such a case, the remaining property and assets existing after the wind up would not inure to the benefit of any individual. A successor, charitable or nonprofit corporation would be designated to take over all or substantially all the functions and purposes of the Corporation or, if none were so designated, a charitable or nonprofit corporation would be designated to be the recipient of any property or assets remaining after the wind up.

Fiscal year end

The Corporation's fiscal year ends on September 30.

Basis of accounting

The Corporation's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 periods. Actual results could differ from those estimates.

Adoption of New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU will supersede the revenue recognition requirement in Topic 605, *Revenue Recognition,* and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018. A nonpublic entity may elect to applythis guidance earlier. The Corporation has elected not to early adopt the ASU and is in the process of evaluating the impact of this ASU.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This ASU establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The guidance results in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The ASU is effective for fiscal years beginning after December 15, 2019. A nonpublic entity may elect to apply this guidance earlier. The Corporation has elected not to early adopt the ASU and is in the process of evaluating the impact of this ASU.

In March 2017, the FASB issued ASU No. 2017-07, *Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (Topic 715). The ASU improves the presentation of net period pension and postretirement benefit costs. The ASU is effective for fiscal years beginning after December 15, 2017. A nonpublic entity may elect to apply the guidance earlier. The new guidance did not change the way that the Corporation disclosed details of postretirement benefit costs and, therefore the Corporation elected to adopt the ASU early.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General* (Subtopic 715-20). This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for fiscal years ending after December 15, 2021. A nonpublic entity may elect to apply the guidance earlier. The Corporation has elected not to early adopt the ASU.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other-Internal-Use Software* (Subtopic 350-40). This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The ASU is effective for fiscal years beginning after December 15, 2021. A nonpublic entity may elect to apply the guidance earlier. The Corporation has elected not to early adopt the ASU.

Concentration of credit risk

The Corporation’s financial instruments exposed to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and investments. The Corporation invests its excess cash and cash equivalents in money market funds and maintains its investments with high-quality financial institutions. Management regularly monitors the investment composition and maturity. The Corporation limits the amount of credit exposure to any one financial institution or commercial issuer. The accounts receivable are due predominantly from U.S. government agencies or other prime contractors to such agencies. The Corporation has not experienced any credit losses on its cash and cash equivalents or investments.

Accounts receivable and unbilled costs and fees

Accounts receivable include amounts that have been billed under the Corporation’s contracts. Unbilled costs and fees include amounts currently billable as well as other recoverable contract costs not yet billable under specific contract terms.

In accordance with industry practice, unbilled costs and fees relating to long-term contracts are classified as current assets. Billings for advance payment in excess of costs and fees are included in deferred revenue.

Payments for work performed on contracts sponsored by the United States Government are provisional, subject to audit by the Defense Contract Audit Agency (DCAA) and adjustment by the Corporate Administrative Contracting Officer (CACO). Audits through fiscal year 2014 have been completed and adjusted. In the opinion of management, any adjustments resulting from the pending year 2018, 2017, 2016, and 2015 audits are not expected to be material to the Corporation's financial position, results of operations, or cash flows.

Investments
Investments are reported at fair value as determined by quoted market prices. See fair value of financial instruments note 2.

Property and equipment
Property and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Maintenance and repairs are expensed as incurred. Improvements and additions that increase the value or extend the life of the related assets are capitalized. Upon retirement or sale of an asset, its cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the determination of the net revenue over costs and expenses.

Depreciation and amortization are computed: (a) for buildings and building improvements using the straight-line method over useful lives of 5 to 39 1/2 years, (b) for vehicles using the double-declining-balance method over useful lives of 5 years, (c) for equipment using the half-year convention, straight-line method over useful lives of 5 to 10 years, (d) for furniture and fixtures using the straight-line method over useful lives of 10 years, (e) for computers using the half-year convention, straight-line method over useful lives of 2.5 or 3 years, and, (f) for leasehold improvements using the straight-line method over the shorter of the useful life of the asset or the lease term.

In addition to the equipment purchased by the Corporation, which is included in the accompanying balance sheets, the Corporation also uses certain government-furnished equipment for which it is accountable to the United States Government. Government furnished equipment is excluded from the accompanying balance sheets.

Capitalized software costs
Eligible, internally developed software costs are capitalized subsequent to the completion of the preliminary project stage. Such costs include external, direct material and service costs. After all substantial testing and deployment is completed and the software is ready for its intended use, internally developed software costs are amortized over the estimated useful life of the software.

Capitalized interest

Interest is capitalized on major capital expenditures during the period of construction. Total interest costs incurred, and amounts capitalized were:

(in thousands)	2018	2017
Total interest expense	$ 2,996	$ 2,845
Interest capitalized	(285)	(529)
Net interest expense	$ 2,711	$ 2,316

Book overdrafts

Under the Corporation's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are classified with accounts payable and accrued expenses in the accompanying balance sheets.

Annual leave

Under the Corporation's annual leave policy, employees are permitted to accumulate unused annual leave up to certain limits. The policy provides for payment to employees of unused leave at termination or retirement. The Corporation accrues annual leave as it is earned.

Unrestricted net assets

Unrestricted net assets represents the accumulated excess, since inception in 1958, of contract revenue and other income over total costs and expenses. The Corporation has no restricted net assets.

Revenue recognition

The Corporation generally performs cost-type contracts sponsored by the United States Government and receives contract fees in addition to reimbursement of contract costs. The Corporation records contract costs and fees as effort is expended. Contract costs are recorded on the basis of direct cost. Overhead and general and administrative expenses are recorded as incurred. When it is probable that a contract will result in a loss, and that loss can be reasonably estimated, the entire estimated loss is recognized in the statement of operations and changes in net assets.

Internal research and development

As part of its activities, the Corporation conducts an Internal Research and Development (IR&D) program. The progress and outcome of this program is reviewed by the Technology Committee of the Board of Trustees. The costs of this program are charged to operations as incurred**.**

Income taxes

Under provisions of the Internal Revenue Code Section 501(c)(3), the Corporation is exempt from taxes on income other than unrelated business income. Since the Corporation has insignificant unrelated taxable business income, no provision for income taxes was required for the fiscal years ended September 30, 2018 and 2017.

2. Fair value of financial instruments

The Corporation measures the fair value of its financial instruments using observable and unobservable inputs. The hierarchy established by Fair Value Measurements gives the highest priority to assets and liabilities with readily available quoted prices on an active market and gives the lowest priority to unobservable inputs that require a higher degree of judgment when measuring fair value. There were no changes in methodology used between the fiscal years ended September 30, 2018 and 2017 and no transfers between categories. The three categories of the fair value hierarchy are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities as of the measurement date;

Level 2 – Quoted prices in markets that are not active or other pricing inputs that are either directly or indirectly observable as of the measurement date;

Level 3 – Prices or valuation techniques in which one or more significant value drivers are unobservable as of the measurement date. The determination of fair value for these financial instruments requires one or more inputs subject to significant management judgment or estimation

Items not subject to fair value reporting include cash deposits of $2.8 million and $32.2 million as of September 30, 2018 and 2017, respectively.

In cases where inputs used to measure fair value fall into different categories within the fair value hierarchy, an investment's level is based on the lowest level of input that is significant to fair value measurement.

The carrying value of accounts receivable, unbilled costs and fees, accounts payable and accruals approximate their fair value.

The following estimates and assumptions were used to determine the fair value of each class of financial instrument held by the Corporation at September 30, 2018 and 2017:

Cash Equivalents – Money Market - Cash equivalents include, but are not limited to, investments in money market funds that are actively traded. These are priced by independent market prices in the primary trading market and are classified as Level 1.

Deferred Compensation Plan Assets:

Money market funds - Publicly-traded funds purchased to provide returns similar to those of portfolios of employees who are participating in the Corporation's deferred compensation plan. These assets are classified as Level 1.

Small cap funds - Include commingled mutual funds that invest in the stocks of companies with small market capitalizations. Mutual funds have daily quotes that were deployed to support observable data. These assets are classified as Level 1.

Bond mutual funds - Include commingled mutual funds that invest in investment grade bonds. These assets are classified as Level 1.

All other - Other mutual funds include but are not limited to commingled funds that track US and non-US index funds as well as invest in international equities. Mutual funds have daily quotes that were deployed to support observable data. These assets are classified as Level 1.

Foreign Currency Contracts – Derivative financial instruments are comprised entirely of foreign exchange contracts entered into during the normal course of business. These derivatives are classified as Level 2.

The following table represents the Corporations' assets and liabilities that are measured at fair value by level within the hierarchy as of September 30, 2018:

(in thousands)	**Level 1**	**Level 2**	**Total**
Assets:			
Investments			
Cash Equivalents - Money Market	$ 97,000	$ -	$ 97,000
Deferred Compensation:			
Money Market	1,858	-	1,858
Small Cap	307	-	307
Bonds	521	-	521
All Other	2,652	-	2,652
Total Assets	$ 102,338	$ -	$ 102,338
Liabilities:			
Foreign currency contracts	$ -	$ (1,055)	$ (1,055)
Total Liabilities	$ -	$ (1,055)	$ (1,055)

The following table represents the Corporations' assets and liabilities that are measured at fair value by level within the hierarchy as of September 30, 2017:

(in thousands)	**Level 1**	**Level 2**	**Total**
Assets:			
Investments			
Cash Equivalents - Money Market	$ 40,000	$ -	$ 40,000
Deferred Compensation:			
Money Market	1,798	-	1,798
Small Cap	282	-	282
Bonds	321	-	321
All Other	2,549	-	2,549
Total Assets	$ 44,950	$ -	$ 44,950
Liabilities:			
Foreign currency contracts	$ -	$ (1,481)	$ (1,481)
Total Liabilities	$ -	$ (1,481)	$ (1,481)

There were no level 3 investments as of September 30, 2018 and 2017.

The net change in unrealized losses as of September 30, 2018 and 2017 related to investments in foreign currency contracts were gains of $0.4 million and $0.1 million, respectively.

Realized/unrealized losses included in net revenue over costs, expenses, and other income for the year ended September 30, 2018 and 2017 are reflected in the accompanying Statement of Operations and Changes in Net Assets.

3. Cash

As of September 30, 2018, and 2017, net book overdrafts classified in accounts payable and accrued expenses were $1.1 million and $1.7 million, respectively.

4. Property and equipment

Property and equipment consisted of the following as of September 30, 2018 and 2017:

(in thousands)	**2018**	**2017**
Land	$ 61,476	$ 61,476
Buildings and building improvements	570,255	573,861
Furniture, equipment and leasehold improvements	344,609	331,663
Construction in progress	15,208	10,400
Computer software	22,114	21,242
	1,013,662	998,642
Less accumulated depreciation and amortization	(469,354)	(453,941)
	$ 544,308	$ 544,701

Depreciation and amortization expense was approximately $47.8 million and $44.2 million for the fiscal years ended September 30, 2018 and 2017, respectively.

5. Investments

Investments were as follows as of September 30, 2018 and 2017:

(in thousands)	**2018**	**2017**
Rabbi Trust	$ 5,338	$ 4,950

The Corporation has a deferred-compensation plan invested in a Rabbi Trust for executive officers. Rabbi Trust assets are invested in Fidelity mutual funds, which invest primarily in stocks, bonds and money market accounts. Rabbi Trust investment increases and decreases are offset by increases and decreases in the liability (see note 7). Unrealized investment gains were $0.1 million and $0.3 million for the fiscal years ended September 30, 2018 and 2017, respectively.

6. Debt

Senior unsecured notes

On May 29, 2013 the Corporation entered into an agreement with New York Life Insurance Company to purchase $50 million in MITRE Senior Unsecured Notes (“Notes”) and an uncommitted Master Note Facility (“MNF”) to purchase up to an additional $25 million. The $50 million in Notes carry an interest rate of 3.08% per annum due monthly. Principal payments commenced on May 31, 2017 with a final maturity date of May 31, 2025. Under the MNF, on August 1, 2013, the Corporation exercised the option to borrow an additional $25 million effective January 31, 2014 at an interest rate of 3.99% per annum due monthly. Principal payments commenced on January 31, 2018 with a final maturity date of January 31, 2026.

Future principal payments on notes are as follows as of the year ended September 30:

(in thousands)

2019	$	8,334
2020		8,334
2021		8,334
2022		8,334
2023		8,334
Thereafter		19,441
Total	$	61,111

Interest expense gross of capitalized interest was $2.2 million and $2.5 million for the fiscal years ended September 30, 2018 and 2017, respectively.

Line of credit

Effective May 29, 2013 the Corporation entered into a five-year renewal of its committed revolving credit agreement. Under the terms of the renewal, the revolving credit agreement allowed for maximum borrowings of $250 million from November 1st through April 30th and $210 million for any other time during the fiscal year. Based on varying leverage ratios, interest on borrowings under the line of credit could vary based upon LIBOR plus 1.25% up to 1.75% or the prime rate plus 0.0% to 0.5%, at the choice of the Corporation, with annual commitment fees ranging from 0.15% to 0.25% of the daily unused amount available. Interest on the prime loans was due monthly and interest on LIBOR loans was due at maturity, unless the Corporation defaulted on a borrowing outstanding, in which case both principal and any unpaid interest were due immediately. The terms of this renewal were subsequently superseded through the renewal noted below.

Effective May 18, 2018 the Corporation entered into a five-year renewal of its committed revolving credit agreement. Under the terms of the renewal, the revolving credit agreement allows for maximum borrowings of $250 million from November 1st through April 30th and $210 million for any other time during the fiscal year. Under the credit agreement, the Corporation had up to $210 million available at September 30, 2018. Based on varying leverage ratios, interest on borrowings under the line of credit varies based upon LIBOR plus 1.25% up to 1.75% or the prime rate plus 0.0% to 0.5%, at the choice of the Corporation, with annual commitment fees ranging from 0.18% to 0.28% of the daily unused amount available. Interest on the prime loans is due monthly, and interest on LIBOR loans is due the earlier of the loan's maturity or three months after the original borrowing date, unless the Corporation defaults on a borrowing outstanding, in which case both principal and any unpaid interest is due immediately.

Under the renewed agreement, the Corporation may issue letters of credit against the line of credit up to $5 million. The Corporation had a total of $1.2 million in letters of credit under the line of credit as of September 30, 2018. Letters of credit expire in October 2018 through August 2022. The Corporation had no borrowings outstanding under the line of credit for the fiscal years ended September 30, 2018 and 2017.

Interest expense was $0.8 million and $0.4 million for the fiscal years ended September 30, 2018 and 2017, respectively.

Both the Notes and the line of credit contain certain restrictive covenants, most notably leverage ratio and minimum debt service coverage. As of September 30, 2018, the Corporation was in compliance with all covenants.

7. Employee benefit plans

Employee retirement plan

The Corporation has a defined-contribution employee retirement program covering substantially all employees. Employees may elect to contribute a percentage of their annual base salary and the Corporation will contribute a percentage of the participant's base salary, subject to certain limits. The Corporation contributed \$98.7 million and \$91.2 million to the plan for the fiscal years ended September 30, 2018 and 2017, respectively.

Deferred-compensation plan for officers

The Corporation has a deferred-compensation plan providing deferred compensation for executive officers. The cost of these benefits was \$0.9 million and \$0.7 million in 2018 and 2017, respectively. Plan assets, which are invested in a Rabbi Trust, were approximately \$5.3 million and \$5.0 million as of September 30, 2018 and 2017, respectively. Accrued plan benefits of approximately \$5.3 million and \$5.0 million were included in long-term accrued benefits as of September 30, 2018 and 2017, respectively.

Post-retirement health benefits

The Corporation sponsors a post-retirement Voluntary Employee Beneficiary Association (VEBA) trust plan. The plan provides post-retirement health benefits terminating at age 65 and is contributory, with retiree contributions adjusted annually. A small group of grandfathered retirees have coverage until age 70. Effective January 1, 2016, new employees are no longer eligible for subsidized retiree medical coverage. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the Corporation's expressed intent to maintain a fixed level of proportionate cost sharing between the Corporation and retirees. The current year estimates were based on census and claims data collected as of April 30, 2018.

The post-retirement health care plan is accounted for under the provisions of accounting for non-retirement, post-employment benefits topic of the FASB Accounting Standards Codification. The Corporation recognized the unfunded portion of \$7.3 million in accrued benefits as of September 30, 2018 and the unfunded portion of \$5.1 million in accrued benefits as of September 30, 2017. The change in the unfunded status of the accumulated post-retirement benefit obligation is included as contract costs in the Statement of Operations and Changes in Net Assets. The change in the unfunded status is included in the Statement of Cash Flows in the line item unfunded/overfunded post-retirement health care plan. The increase in the accumulated post-retirement benefit obligation for the fiscal year 2018 is \$2.2 million. The Corporation uses a 501(c)(9) Trust (the Trust) as a funding vehicle for plan assets. The Corporation did not fund the post retirement benefit plan in fiscal year 2018.

The net periodic post-retirement benefit cost for the years ended September 30, 2018 and 2017 consists of the following:

(in thousands)	**2018**	**2017**
Service cost - benefits earned during the year	$ 4,069	$ 4,653
Interest cost on projected benefit obligation	2,348	2,082
Expected return on plan assets	(3,959)	(3,696)
Net period post-retirement benefit cost	$ 2,458	$ 3,039

The following table sets forth the plan's funded status as of September 30, 2018 and 2017 and the amount of accrued benefit cost recognized in the 2018 and 2017 financial statements:

(in thousands)	**2018**	**2017**
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 67,187	$ 62,302
Service cost	4,069	4,653
Interest cost	2,348	2,082
Participant contributions	944	928
Actuarial (gain)/loss	(479)	(6)
Benefits paid	(4,026)	(2,772)
Projected benefit obligation for services rendered to date, end of year	$ 70,043	$ 67,187
Change in plan assets		
Plan assets at fair value at beginning of year	$ 62,119	$ 57,427
Employer contribution	-	-
Actual return on plan assets	3,694	6,536
Participant contributions	944	928
Benefits paid	(4,026)	(2,772)
Plan assets at fair value at end of year	$ 62,731	$ 62,119
Funded status (accrued benefit cost)	$ (7,312)	$ (5,068)

The assumptions used in determining the projected benefit obligation are as follows:

	2018	**2017**
Discount rate at end of year	4.32%	3.61%
Expected return on plan assets during the year	6.50%	6.50%
Health care cost trend rates during the year	8.00%	7.25%

The discount rate assumption is based primarily on the results of a cash flow matching analysis which matches the future cash outflows to a yield curve based on the future expected performance of above average bonds. Benefit payments are discounted at the rates on the curve to determine the year-end obligation.

The assumed healthcare trend rate has a significant effect on the amounts reported for health-care plans. A one-percentage-point change in the assumed healthcare trend rate would have the following effect:

(in thousands)	**1-percentage-point increase**	**1-percentage-point decrease**
Increase (decrease) in total service and interest cost components	$ 784	$ (688)
Increase (decrease) in postretirement obligation	6,622	(5,863)

Plan assets
The post-retirement health care plan's weighted-average asset allocation by asset category is as follows:

Asset Category	**2018**	**2017**
Equity Investments	60%	64%
Debt Investments	38%	34%
Cash / Other	2%	2%
Total	100%	100%

The fundamental investment policies of the plan have been formulated so they balance the primary objectives of (1) achieving long-term growth sufficient to fund future obligations and (2) supporting the short-term requirement of meeting current benefit payments. Assets maintained under the plan are priced by independent market prices in the primary trading market and are classified as Level 1 investments.

Overall, the plan's policies have traditionally emphasized the maximization of long-term returns in a manner consistent with an asset base that consists of high quality investments as a means of enhancing capital preservation, is broadly diversified and generates a relatively high level of investment income in accordance with the level of risk incurred.

Cash Flows (unaudited)

Contributions
The Corporation does not intend to fund the postretirement benefit plan in fiscal year 2019.

Expected Future Benefit Payments

The following benefit payments reflect expected future service and are presented net of participant contributions. Benefit payments are expected to be paid as follows as of the year ending September 30:

(in thousands)

2019	$	4,218
2020		5,070
2021		5,902
2022		6,001
2023		6,514
Thereafter		39,113
Total	$	66,818

Post-employment benefit plans

The Corporation provides certain post-employment disability health care benefits to former or inactive employees who are not retirees. The Corporation recorded expense changes related to post-employment benefits, as required by the post-employment benefit topic of the FASB Accounting Standards Codification, of ($3.5 million) and $2.5 million for the fiscal years ended September 30, 2018 and 2017, respectively. The reduction in the liability of $3.5 million was the primarily the result of Medicare becoming the primary payor effective January 1, 2018 and other plan changes. The Corporation's liability for post-employment benefits for the fiscal years ended September 30, 2018 and 2017 was $2.0 million and $5.5 million, respectively. The current portion of the Corporation's liability is included in other current liabilities of $1.0 million for both fiscal years ended 2018 and 2017. The long-term portion of the Corporation's liability is included in accrued benefits of $1.0 million and $4.5 million for the fiscal year ended 2018 and 2017.

8. Commitments and contingencies

Litigation and claims

The Corporation is subject to litigation relating to matters in the ordinary course of business. The Corporation believes that any ultimate liability resulting from these contingencies will not have a material adverse effect on the Corporation's financial position or results of operations.

Lease obligations

The Corporation occupies office space and other facilities under operating leases with original terms in excess of one year. Future minimum payments on non-cancelable operating leases were as follows as of the year ending September 30:

(in thousands)

2019	$	14,525
2020		12,896
2021		10,603
2022		9,799
2023		8,249
Thereafter		10,899
Total	$	66,971

Total rent expense during the fiscal years ended September 30, 2018 and 2017 was $14.8 million and $17.0 million, respectively. Certain leases require, in addition to minimum payments, expenditures for additional fees based on property taxes, insurance and other charges. Certain leases are expected to be renewed or replaced at expiration.

9. Functional classification of expenses

Total contract costs and expenses for the fiscal years ended September 30, 2018 and 2017 consist of:

(in thousands)		**2018**		**2017**
Research and development costs, provided to customers	$	1,524,282	$	1,450,198
Support costs, principally general and administrative		110,962		106,762
Internal research and development		55,423		49,634
	$	1,690,667	$	1,606,594

10. Subsequent events

The Corporation has evaluated its September 30, 2018 financial statements for subsequent events through December 28, 2018 which is the date the financial statements were available to be issued, noting no subsequent events which require recognition or disclosure in the financial statements.

Schedule of Expenditures of Federal Awards

The MITRE Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

Research and Development Cluster	Federal Grantor	CFDA	Direct Expenditures	Passthrough Expenditures	Pass Through Grantor (Pass Through Award No.)	Federal Expenditures	Passed to Subrecipients
National Security Engineering Center FFRDC							
DG-133E-12-CQ-0029/T 0004-0006	Department of Commerce - NOAA	11.RD	$ 525,800	$ -		$ 525,800	$ -
FA8702-15-C-0001 through 18-C-0001, W56KGU-15-C-0010 through 17-C-0010, 17-D-0211	Department of Defense	12.RD	862,331,927	-		862,331,927	-
SAQMMA13C0255	Department of State	19.RD	1,466,436	-		1,466,436	-
NNH16PB26P, 1469581	National Aeronautics and Space Administration	43.RD	26,869	80,968	Jet Propulsion Laboratory (1295026)	107,837	-
1233381, 822940	Department of Energy	81.RD	-	293,044	Sandia National Laboratory (DE-AC04-94AL85000)	293,044	-
HSSS01-12-C-0010	Department of Homeland Security-U.S. Secret Service	97.RD	48,847	-		48,847	-
CLASSIFIED	USGC/Special Projects (Classified)	99.RD	210,886,345	-		210,886,345	-
Total National Security Engineering Center FFRDC						**$ 1,075,660,236**	
National Institute of Standards and Technology FFRDC							
SB1341-14-CQ-0010/14, /16, /17	Department of Commerce - NIST	11.RD	$ 19,556,213	$ -		$ 19,556,213	$ -
Total National Institute of Standards and Technology FFRDC						**$ 19,556,213**	
Center for Advanced Aviation System Design FFRDC							
FAA-0080-10/11, FAA-0080-11	Department of Transportation - Federal Aviation Administration	20.RD	$ 156,041,481	$ -		$ 156,041,481	$ -
Total Center for Advanced Aviation System Design FFRDC						**$ 156,041,481**	

The accompanying notes are an integral part of this schedule.

The MITRE Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

Research and Development Cluster	Federal Grantor	CFDA	Direct Expenditures	Passthrough Expenditures	Pass Through Grantor (Pass Through Award No.)	Federal Expenditures	Passed to Subrecipients
Center for Enterprise Modernization FFRDC							
TIRNO99D00005, SAQMMA16-17, 2016000771, QPN-BQF, CORHQ-17	Department of the Treasury - IRS	21.RD	$ 95,427,201	$ -		$ 95,427,201	$ -
4600005243-AEROSP	National Aeronautics and Space Administration	43.RD	-	391,102	Aerospace Corporation (NNG11VHOOB)	391,102	-
NCUA-17-C-00034	National Credit Union Administration	44.RD	535,598	-		535,598	-
VA118A13D0037, VA118A15D0004	Veterans Administration	64.RD	65,094,467	-		65,094,467	-
Total Center for Enterprise Modernization FFRDC						**$ 161,448,368**	
Homeland Security Systems Engineering & Development Institute FFRDC							
HSHQDC09D0001, HSHQDC14D00006, HSHQDN16J, HSHQDC17J, HSBP1017	Department of Homeland Security	97.RD	$ 104,688,933	$ -		$ 104,688,933	$ -
Total Homeland Security Systems Engineering & Development Institute FFRDC						**$ 104,688,933**	
Centers for Medicare and Medicaid Services FFRDC							
HHSM500201200008I	Department of Health and Human Services	93.RD	$ 175,030,324	$ -		$ 175,030,324	$ -
Total Centers for Medicare and Medicaid Services FFRDC						**$ 175,030,324**	
Judiciary Engineering and Modernization Center FFRDC							
USCA16F, USCA17F, USCA18F	Administrative Office of the United States Courts	16.RD	$ 6,696,954	$ -		$ 6,696,954	$ -
Total Judiciary Engineering and Modernization Center FFRDC						**$ 6,696,954**	
Total FFRDC expenditures						**$ 1,699,122,509**	
Non - FFRDC Contracts							
HQ0034-14-D-0009, HQ003417F, HQ003418F	Office of the Undersecretary of Defense-JASON Program Office	12.RD	$ 7,411,751	$ -		$ 7,411,751	$ -
Total Non - FFRDC Contracts						**$ 7,411,751**	
Total Research and Development Cluster						**$ 1,706,534,260**	
Total Federal Expenditures			$ 1,705,769,146	$ 765,114		**$ 1,706,534,260**	$ -

The accompanying notes are an integral part of this schedule.

The MITRE Corporation
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the federal expenditures of the Corporation to perform research and development activities for the federal government for the year ended September 30, 2018. The amounts reported as federal expenditures were obtained from the Corporation's general ledger. Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, the results of its operations and its cash flows of the Corporation.

In accordance with the provisions of the Office of Management and Budget Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations,* the Corporation has one program, research and development, and receives awards under that program. The Schedule includes all contracts and grants awarded to the Corporation under its program by agencies and departments of the federal government.

Full CFDA and pass through numbers are not available for all grants and contracts on the Schedule.

2. Summary of Significant Accounting Policies

For the purpose of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting. MITRE utilizes billing rates that have been negotiated with the Corporate Adminsitrative Contracting Office (CACO) and did not elect to use the 10% de minimis rate as covered in §200.414 Indirect (F&A) costs.

3. Other Contracts

The Corporation has $210,886,345 of classified contracts, of which $77,835,633 is included in the population of awards covered by this Uniform Guidance report. The remaining amount of $133,050,712 can only be audited by sponsoring agencies due to the classified nature of the awards and are therefore not included in this Uniform Guidance report.

4. Reconciliation of financial statement amounts to the Schedule of Expenditures of Federal Awards

The following reconciles the amounts presented at September 30, 2018:

Reconciliation of Schedule of Federal Awards to Total MITRE Revenue:	
Revenue at draft final rates through September 30, 2018	$ 1,732,214,786
Less:	
Fixed price federal award expenditures	(2,433,479)
Non-federal contract expenditures	(23,247,047)
Expenditures reported in the Schedule of Expenditures of Federal Awards	$ 1,706,534,260

Part II

Reports on Compliance and Internal Control

Report of Independent Auditors 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 Trustees
The MITRE Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the MITRE Corporation (the "Corporation"), which comprise the balance sheet as of September 30, 2018 and the related statement of operations and changes in corporate equity and of cash flow for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's 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

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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.

PricewaterhouseCoopers LLP

McLean, VA
December 28, 2018

Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance

To the Board of Trustees
The MITRE Corporation

Report on Compliance for Each Major Federal Program

We have audited the MITRE Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended September 30, 2018. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

The Corporation's schedule of expenditures of federal awards includes classified contracts, of which $133,050,712 of expenditures is excluded from the scope of our audit procedures. Our audit, described below, did not include these classified contracts because these contracts can only be audited by sponsoring agencies due to the classified nature of the awards.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

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 item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The Corporation's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The Corporation’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

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

PricewaterhouseCoopers LLP

McLean, VA
June 28, 2019

Part III

Findings

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	___ yes	_X_ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes	_X_ None reported
Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	___ yes	_X_ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes	_X_ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) of OMB Uniform Guidance?	_X_ yes	___ no

Identification of major programs: **Major Program(s)** Research and Development Cluster	**CFDA Number(s)** Various	
Dollar threshold used to distinguish between type A and type B programs:	$5,119,603	
Auditee qualified as low-risk auditee?	_X_ yes	___ no

Section II – Financial Statement Findings

There are no matters to be reported.

Section III – Federal Award Findings and Questioned Costs

Finding 2018-001: Classified Contracts

Federal Agency: **Classified**

Program: **Research and Development Cluster**

CFDA#: **99.CLASSIFIED**

Contract Number(s): **Classified**

Contract Year(s): **October 1, 2017 to September 30, 2018**

Criteria
AICPA Statements of Auditing Standards AU-C Section 705.13

Condition
The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of $133,050,712 for the year ended September 30, 2018. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Insufficient access to classified contracts is a repeat finding noted in prior years (2017-001 and 2016-001).

Questioned Costs
Due to lack of sufficient review of these classified contracts, we are unable to determine whether or not there are any questioned costs associated with the related statements of work.

Cause
Each applicable federal funding agency has categorized the Statements of Work associated with these contracts as classified and not allowed PwC to access and review them.

Effect
Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

Recommendation
We recommend that the Corporation work with the DoD Inspector General and its funding agencies to resolve this matter and develop an audit plan to ensure compliance with 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).

Management's Views and Corrective Action Plan
Refer to Management's Views and Corrective Action Plan at the end of the report.

Summary Schedule of Prior Audit Findings

The MITRE Corporation
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2018

As required by the Uniform Guidance section 200.511, Audit Findings Follow-up, below is a summary listing of prior year(s) audit findings and questioned costs, organized in reverse chronological order, including original reference number. Also included is a status update, named coordinator and estimated completion date.

2017-001 Classified Contracts:
The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of $127,252,472 for the year ended September 30, 2017. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

Action Plan: This is a recurring finding. Refer to the current year finding 2018-001.

2016-001 Classified Contracts:
The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of $117,360,886 for the year ended September 30, 2016. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

Action Plan: This is a recurring finding. Refer to current year finding 2018-001.

2015-001 Time Between Assignment Labor:
DCAA questioned $925,732 of claimed indirect labor charged to project codes designated for employee activities while between direct assignment on the basis of reasonability.

Updated Status: This item is expected to be discussed and negotiated with the Government

- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the Corporate Administrative Contracting Officer (CACO)

2015-002 Dues and Memberships (Sub-Account 1320):
DCAA questioned $201,369 of claimed professional and consulting expenses as unallowable expenses.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-003 Employee Relations Expenses (Sub-Account 1405):
DCAA questioned $34,414 of claimed Employee Relations Expenses and directly associated costs as unreasonable and/or unallowable expenses.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-004 Interview Costs (Sub-Account 1530):
DCAA questioned $241,000 of claimed Interview Costs as unreasonable and/or unallowable expenses.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-005 Meeting Expenses (Sub-Account 8057):
DCAA questioned $31,941 of claimed Meeting Expenses as unreasonable and/or unallowable expenses.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-006 Administrative Expenses (Sub-Account 8068):
DCAA questioned $96,473 of claimed Administrative Expenses and directly associated costs as unreasonable and/or unallowable expenses.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-007 Excessive Travel (Sub-Account 1610):
DCAA questioned $1,309,904 of Travel Costs as unreasonable in accordance with FAR 31.201-3, Determining Reasonableness.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-008 Underutilized Facilities - Occupancy:
DCAA questioned $2,760,011 of occupancy costs pertaining to underutilization of facilities.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-009 Lump Sum Merit (Subaccount 1450):
DCAA questioned $226,949 of the claimed Lump Sum Merit (LSM) payments, as unallowable and unallocable to Government contracts.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-010 Excess of Lowest Price Fare (Subaccount 1610):
DCAA questioned $364,065 of the claimed travel costs as unallowable per DCAA interpretation of FAR 31.205-46.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-011 Gallup, Inc (Subaccount 2440):
DCAA questioned $498,333 of claimed Gallup expenses as a component of the subcontract expenses as unallowable and/or unreasonable expenses.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-012 IR&D - CAS 420:
DCAA recommended transfer and reallocation of IR&D $4,292,596 costs between segments, and questioned $2,861,620 as being unallowable per specific agency supplement.

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Mark Patrick, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015–013 Internal Control over Signature Authorizations:
MITRE policy permits senior level management (Level 3 and above) to self-approve per-diem over published rates. The volume of such approvals historically is very small. DCAA contends a segregation of duties internal control weakness exists. (Same as prior year findings: 2014-18 2013-18, 12-N, 11-N and 10-S)

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Bob Guardino, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-015 Internal Control Deficiency – Preapproval of Travel:
MITRE travel policy requires pre-approval of travel. Project leaders, who are responsible for the the cost, schedule, and technical aspects of a project, can self-approve travel on projects for which they are the project leader. DCAA contends an internal control weakness exists. (Same as prior year findings: 2014-13 2013-12, 12-M, and 11-M)

- Updated Status: This item is expected to be discussed and negotiated with the Government
- Issue Coordinator: Bob Guardino, Patrick Hughes
- Completion Date: Awaiting fact finding and negotiation with the CACO

2015-016 Classified Contracts:
The engagement team was unable to access and review the Statements of Work related to the classified contracts and as a result did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

Action Plan: Refer to Management's Views and Corrective Action Plan at the end of the report.

08-F Mission Oriented Investigation and Experimentation (MOIE) & Capstone:
DCAA noted an internal control deficiency relating to the over-recovery or over payment of Mission Oriented and Experimentation (MOIE) and Capstone I&I costs (direct) in FY 2008.

- Updated status:
    - MITRE sucessfully negotiated the amounts inadvertently charged to the Air Force contracts for all periods prior to 2009.
    - MITRE successfully reached an agreement with the Army.
- Issue Coordinator: Patrick Hughes
- Completion Date: Completed

Management's Views and Corrective Action Plans

MITRE

View of Responsible Officials:

Auditor access to MITRE's classified contracts has been an ongoing audit finding. Contracts for work performed for several of MITRE's classified customers contain specific language that prohibits MITRE from releasing any contractual data, including the name of the customer, without express written consent from the Contracting Officer. Due to the lack of access to the classified Statements of Work, PwC is unable to obtain appropriate evidence over certain compliance requirements. MITRE has worked to gain this consent; however, the classified customers have each time denied our requests.

Because MITRE lacks the regulatory authority provided to the cognizant agency by the OMB, MITRE is unable to remove the access restrictions to secure the Uniform Guidance program review. MITRE has worked with DCAA, PwC, and the DoD. MITRE has requested DoD, as the cognizant agency, to take steps to work with MITRE and OMB to find a suitable resolution to this concern. In MITRE management's view, resolution of this issue is not likely, and this will remain an ongoing issue.

Sincerely

Mark D Patrick

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