

# **The MITRE Corporation**

**Report of Independent Auditors on Financial  
Statements and Schedule of Expenditures of  
Federal Awards in Accordance with OMB  
Uniform Guidance  
September 30, 2019  
EIN: 04-2239742**

**The MITRE Corporation**  
**Index**  
**For the Year Ended September 30, 2019**

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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 Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of The MITRE Corporation and its subsidiary ("the Corporation"), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The MITRE Corporation and its subsidiary as of September 30, 2019 and 2018, and the results of their consolidated statements of operations and changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



### ***Emphasis of Matter***

As discussed in Note 1 to the consolidated financial statements, the Corporation changed the manner in which it presents net assets and reports certain aspects of its consolidated financial statements as a not-for-profit entity. Our opinion is not modified with respect to this matter.

### ***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 ended September 30, 2019 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. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements 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 20, 2019 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 ended September 30, 2019. 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

McLean, Virginia  
December 20, 2019

**The MITRE Corporation and Subsidiary**  
**Consolidated Balance Sheets**  
**As of September 30, 2019 and 2018**

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*(in thousands)*

	2019	2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 165,619	\$ 99,831
Accounts receivable, less allowance of \$991 and \$642 in 2019 and 2018, respectively	60,288	75,334
Unbilled costs and fees	172,041	167,810
Prepaid expenses and other current assets	12,746	8,545
Total current assets	<u>\$ 410,694</u>	<u>\$ 351,520</u>
Property and equipment, net	535,950	544,308
Investments	5,029	5,338
Other long-term assets	1,956	65
Total assets	<u>\$ 953,629</u>	<u>\$ 901,231</u>
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 48,118	\$ 47,608
Accrued compensation and related expenses	150,105	131,742
Deferred revenue	42,782	42,595
Debt, short-term portion	8,333	8,333
Other current liabilities	4,786	4,711
Total current liabilities	<u>\$ 254,124</u>	<u>\$ 234,989</u>
Accrued benefits, long term	\$ 29,307	\$ 13,654
Debt, long-term portion	44,444	52,778
Other long-term liabilities	167	654
Total liabilities	<u>\$ 328,042</u>	<u>\$ 302,075</u>
Net assets without donor restrictions	<u>625,587</u>	<u>599,156</u>
Total liabilities and net assets without donor restrictions	<u>\$ 953,629</u>	<u>\$ 901,231</u>

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

**The MITRE Corporation and Subsidiary**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**For the years ended September 30, 2019 and 2018**

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<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Revenue from operations	\$ 1,836,620	\$ 1,732,215
Contract costs	1,756,535	1,635,244
Internal research and development	56,979	55,423
Interest expense, net of amounts capitalized and interest income	(240)	1,880
Realized/unrealized (gain)/loss on foreign currency	(153)	63
Other (income)/expense	(2,932)	10,554
Total contract costs, expenses, and other income	<u>\$ 1,810,189</u>	<u>\$ 1,703,164</u>
Net revenue over costs, expenses, and other income	26,431	29,051
Net assets without donor restrictions, beginning of year	<u>599,156</u>	<u>570,105</u>
Net assets without donor restrictions, end of year	<u>\$ 625,587</u>	<u>\$ 599,156</u>

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

**The MITRE Corporation and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**For the years ended September 30, 2019 and 2018**

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<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Net revenue over costs, expenses, and other income	\$ 26,431	\$ 29,051
Adjustments to reconcile net revenue over costs, expenses, and other income to net cash and cash equivalents provided by operating activities:		
Changes in reserves	(3,215)	9,191
Depreciation and amortization	49,870	47,805
Loss on disposal of property and equipment	282	1,321
Unrealized gain on foreign currency	(87)	(426)
Underfunded post-retirement health care plan	15,704	2,244
Debt issuance costs not deferred	-	125
Changes in assets and liabilities:		
Accounts receivable, net	15,046	(12,710)
Unbilled costs and fees, net	(4,231)	(1,572)
Prepaid expenses and other current assets	(4,201)	2,541
Other long-term assets	(1,867)	(46)
Accounts payable and accrued expenses	5,559	1,928
Accrued compensation and related expenses	18,363	5,730
Deferred revenue	187	3,353
Accrued benefits	(121)	(3,549)
Other current liabilities	(324)	25
Other long-term liabilities	(24)	266
Net cash and cash equivalents provided by operating activities	<u>\$ 117,372</u>	<u>\$ 85,277</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(43,629)	(49,219)
Purchases of investments	(571)	(907)
Sales of investments	950	964
Net cash and cash equivalents used in investing activities	<u>\$ (43,250)</u>	<u>\$ (49,162)</u>
<b>Cash flows from financing activities</b>		
Payments on notes payable	(8,334)	(8,333)
Payments on debt issuance costs	-	(125)
Net cash and cash equivalents used in financing activities	<u>\$ (8,334)</u>	<u>\$ (8,458)</u>
Net increase in cash and cash equivalents	65,788	27,657
Cash and cash equivalents at beginning of year	99,831	72,174
Cash and cash equivalents at end of year	<u>\$ 165,619</u>	<u>\$ 99,831</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 1,740	\$ 2,695

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



# **The MITRE Corporation and Subsidiary**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2019 and 2018**

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#### **1. Description of business and summary of significant accounting policies**

##### **Description of business**

The MITRE Corporation (the “Corporation” or “MITRE”) 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 US federal government in order to solve some of the nation’s most critical challenges. The Corporation operates federally funded research and development centers (“FFRDCs”) for the Department of Defense (“DOD”), Federal Aviation Administration (“FAA”), Internal Revenue Service and Department of Veterans Affairs, Department of Homeland Security, Administrative Office of the US Courts, Centers for Medicare & Medicaid Services, and National Institute of Science and Technology.

During fiscal year 2015, MITRE established a branch in Singapore to help the country’s aviation authority to improve the safety, efficiency and capacity of its aviation infrastructure. This effort was undertaken with the full support of MITRE’s pertinent US FFRDC sponsor, the FAA. 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 Australian public interest. This effort was undertaken with the full support of MITRE’s pertinent FFRDC sponsor, the DOD.

During fiscal year 2019, MITRE Engenuity, Incorporated (“Engenuity”) was created as a private, not-for profit corporation chartered in the public interest and in order to provide research and development services to commercial customers in order to solve some of the nation’s most critical challenges. MITRE is the sole member of Engenuity.

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 consolidated financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and includes affiliated entities that MITRE has control and economic interest over. All intercompany accounts and transactions have been eliminated in consolidation.

##### **Reclassification of Prior Year Presentation**

Certain prior year amounts have been reclassified to be consistent with the current year presentation. These reclassifications had no effect on the reported results of operations

##### **Use of estimates**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

# **The MITRE Corporation and Subsidiary**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2019 and 2018**

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#### **Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). For exchange transactions, this ASU will supersede the revenue recognition requirement in Topic 605, *Revenue Recognition*, as well as some industry-specific guidance. 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 ASU, as amended, is effective for annual reporting periods beginning after December 15, 2018. The Corporation will adopt the ASU for the year ending September 30, 2020. The Corporation is in the process of evaluating the impact of the ASU but expects that it will not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This ASU revises the accounting for operating leases and requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. This update also requires certain qualitative and specific quantitative disclosures. ASU 2016-02 does not significantly change the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee. The ASU is effective for fiscal years beginning after December 15, 2020. 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 on the consolidated financial statements of adopting it.

In August 2016-14, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958). This ASU improves the information presented in the consolidated financial statements about not-for-profit organizations. The Corporation has adopted the ASU this year. These changes include specifying whether net assets are restricted (either by a donor or governing board), disclosing expenses by natural classification (note 10), and disclosing qualitative and quantitative liquidity information (note 11).

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, 2018. A nonpublic entity may elect to apply the guidance earlier. The Corporation has elected not to early adopt the ASU and is in the process of evaluating the impact on the consolidated financial statements of adopting it.

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 and is in the process of evaluating the impact on the consolidated financial statements of adopting it.

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. The Corporation has elected to early adopt the ASU and has capitalized an immaterial amount of eligible implementation costs as other long-term assets in the consolidated balance sheets as of September 30, 2019.

# **The MITRE Corporation and Subsidiary**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2019 and 2018**

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#### **Concentration of credit risk**

The Corporation's financial instruments which are 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 Corporation has not experienced any credit losses on its cash and cash equivalents or investments. The accounts receivable are due predominantly from US government agencies or other prime contractors to such agencies.

#### **Cash and cash equivalents**

The Corporation considers all highly liquid money market investments with an original maturity of three months or less to be cash equivalents.

#### **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.

Unbilled costs and fees relating to long-term contracts are classified as current assets. Billings for advance payments in excess of costs and fees are included in deferred revenue (a current liability) until the earnings process is complete.

Payments for work performed on contracts sponsored by the US government are provisional, and are 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. The Corporation has recorded reserves of estimated net amounts to be refunded to customers for potential adjustments of open years for indirect cost audits and audits of compliance with US government Cost Accounting Standards.

#### **Investments**

Investments are reported at fair value as determined by quoted market prices. See note 2 for the fair value disclosures.

#### **Property and equipment**

Property and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses, if any. Maintenance and repairs are expensed as incurred. Improvements and additions that increase the operating functionality 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 39.5 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.

# The MITRE Corporation and Subsidiary

## Notes to the Consolidated Financial Statements

### For the years ended September 30, 2019 and 2018

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In addition to the equipment purchased by the Corporation, which is included in the accompanying consolidated balance sheets, the Corporation also uses certain government-furnished equipment for which it is accountable to the US government. Government furnished equipment is expensed as incurred and the value is excluded from property and equipment since it is owned by the US government.

#### Capitalized software costs

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

#### Capitalized implementation costs

Eligible implementation costs associated with cloud based services arrangements are capitalized during the application development stage. Such costs include internal salaries, fringe costs, and contractor costs. After all substantial testing and deployment is completed and the cloud based arrangement is ready for its intended use, the capitalized implementation costs are amortized over the estimated term of the arrangement with the cloud service organization.

#### Capitalized interest

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

<i>(in thousands)</i>	2019	2018
Total interest expense	\$ 2,408	\$ 2,996
Interest capitalized	<u>(669)</u>	<u>(285)</u>
Net interest expense	<u>\$ 1,740</u>	<u>\$ 2,711</u>

#### Book overdrafts

Under the Corporation's cash management system, checks issued but not presented to banks for payment (net book overdrafts) are classified with accounts payable and accrued expenses in the consolidated 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.

#### Net assets without donor restrictions

Net assets without donor restrictions represents the accumulated excess of contract revenue and other income over total costs and expenses. The Corporation has no net assets with donor restrictions.

#### Revenue recognition

The Corporation generally performs on cost-type contracts sponsored by the US government and may receive contract fees (profit) in addition to reimbursement of contract costs. The Corporation records contract costs and fees as effort is expended. Revenue is recorded on the basis of direct cost as incurred and contract fee based on proportional performance. Direct costs and associated

# **The MITRE Corporation and Subsidiary**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2019 and 2018**

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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 consolidated 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 include salaries, fringe costs, overhead, and general and administrative costs and are charged to operations as incurred. The Corporation records IR&D in the same manner as costs are defined in the Corporation's disclosure statements required by the US government Cost Accounting Standards.

#### **Income taxes**

Under provisions of the US Internal Revenue Code Section 501(c)(3), the Corporation is exempt from taxes on income other than unrelated business income. Due to the Tax Cuts and Jobs Act of 2017, MITRE is now subject to unrelated business income tax associated with parking benefits provided to employees which are no longer deductible. Income taxes of \$0.6 million were recognized for the fiscal year ended September 30, 2019. No provision for income taxes was required for the fiscal year ended September 30, 2018.

## **2. Fair value of financial instruments**

The Corporation measures the fair value of its financial instruments using observable and unobservable inputs based on a hierarchy which 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. In cases where inputs used to measure fair value fall into different categories within the fair value hierarchy, an investment's fair value is based on the lowest level of input that is significant to fair value measurement. There were no changes in methodology used between the fiscal years ended September 30, 2019 and 2018 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 \$10.2 million and \$2.8 million as of September 30, 2019 and 2018, respectively.

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

# The MITRE Corporation and Subsidiary

## Notes to the Consolidated Financial Statements

### For the years ended September 30, 2019 and 2018

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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, 2019 and 2018:

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 capitalization 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 Corporation's assets and liabilities that are measured at fair value by level within the hierarchy as of September 30, 2019:

<i>(in thousands)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets:</b>			
Investments			
Cash Equivalents - Money Market	\$ 155,397	\$ -	\$ 155,397
Deferred Compensation:			
Money Market	1,999	-	1,999
Small Cap	511	-	511
Bonds	119	-	119
All Other	2,401	-	2,401
Total Assets	<u>\$ 160,426</u>	<u>\$ -</u>	<u>\$ 160,426</u>
<b>Liabilities:</b>			
Foreign currency contracts	<u>\$ -</u>	<u>\$ (467)</u>	<u>\$ (467)</u>
Total Liabilities	<u>\$ -</u>	<u>\$ (467)</u>	<u>\$ (467)</u>

**The MITRE Corporation and Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2019 and 2018**

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

<i>(in thousands)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets:</b>			
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
<b>Total Assets</b>	<b>\$ 102,338</b>	<b>\$ -</b>	<b>\$ 102,338</b>
<b>Liabilities:</b>			
Foreign currency contracts	\$ -	\$ (1,055)	\$ (1,055)
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ (1,055)</b>	<b>\$ (1,055)</b>

There were no level 3 investments as of September 30, 2019 and 2018.

The net change in unrealized losses as of September 30, 2019 and 2018 related to investments in foreign currency contracts were gains of \$0.6 million and \$0.4 million, respectively.

Realized/unrealized losses included in net revenue over costs, expenses, and other income for the year ended September 30, 2019 and 2018 are reflected in the accompanying consolidated statement of operations and changes in net assets.

### **3. Cash**

As of September 30, 2019, and 2018, net book overdrafts classified in accounts payable and accrued expenses were \$0.8 million and \$1.1 million, respectively.

### **4. Property and equipment**

Property and equipment consisted of the following as of September 30, 2019 and 2018:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Land	\$ 61,477	\$ 61,476
Buildings and building improvements	592,624	570,255
Furniture, equipment and leasehold improvements	353,077	344,609
Construction in progress	6,839	15,208
Computer software	22,101	22,114
	<u>1,036,118</u>	<u>1,013,662</u>
Less accumulated depreciation and amortization	<u>(500,168)</u>	<u>(469,354)</u>
	<b>\$ 535,950</b>	<b>\$ 544,308</b>

Depreciation and amortization expense was \$49.9 million and \$47.8 million for the fiscal years ended September 30, 2019 and 2018, respectively.

**The MITRE Corporation and Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2019 and 2018**

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**5. Investments**

Investments were as follows as of September 30, 2019 and 2018:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Rabbi Trust	\$ 5,029	\$ 5,338

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/(losses) were (\$0.5) million and \$0.1 million for the fiscal years ended September 30, 2019 and 2018, 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 for the years ended September 30:

<i>(in thousands)</i>	
2020	\$ 8,334
2021	8,334
2022	8,334
2023	8,334
2024	8,334
Thereafter	11,108
Total	<u>\$ 52,778</u>

Total interest expense (including capitalized interest) from the Notes was \$2.0 million and \$2.2 million for the fiscal years ended September 30, 2019 and 2018, 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



# **The MITRE Corporation and Subsidiary**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2019 and 2018**

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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 another five-year renewal of its committed revolving credit agreement ("Line of Credit"). 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, 2019 and 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 \$2.5 million in letters of credit under the Line of Credit as of September 30, 2019. Letters of credit expire in November 2019 through September 2022. The Corporation had no borrowings outstanding under the Line of Credit as of September 30, 2019 and 2018.

Interest expense from the Line of Credit was \$0.5 million and \$0.8 million for the fiscal years ended September 30, 2019 and 2018, 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, 2019, 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 \$99.0 million and \$98.7 million to the plan for the fiscal years ended September 30, 2019 and 2018, 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 \$0.6 million and \$0.9 million in 2019 and 2018, respectively. Plan assets, which are invested in a Rabbi Trust, were \$5.0 million and \$5.3 million as of September 30, 2019 and 2018, respectively. Accrued plan benefits of \$5.0 million and \$5.3 million were included in long-term accrued benefits as of September 30, 2019 and 2018, 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

**The MITRE Corporation and Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2019 and 2018**

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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 October 1, 2019.

The post-retirement health care plan is accounted for under the provisions of accounting for non-retirement, post-employment benefits topic of the Accounting Standards Codification. The Corporation recognized the unfunded portion of \$23.0 million in accrued benefits as of September 30, 2019 and the unfunded portion of \$7.3 million in accrued benefits as of September 30, 2018. The change in the unfunded status of the accumulated post-retirement benefit obligation is included as contract costs in the consolidated statement of operations and changes in net assets. The change in the unfunded status is included in the consolidated statement of cash flows in the line item unfunded post-retirement health care plan. The increase in the accumulated post-retirement benefit obligation for the fiscal year 2019 is \$15.7 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 2019.

The net periodic post-retirement benefit cost for the years ended September 30, 2019 and 2018 consists of the following:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Service cost - benefits earned during the year	\$ 4,058	\$ 4,069
Interest cost on projected benefit obligation	3,118	2,348
Expected return on plan assets	<u>(3,982)</u>	<u>(3,959)</u>
Net period post-retirement benefit cost	<u>\$ 3,194</u>	<u>\$ 2,458</u>

The following table sets forth the plan's funded status as of September 30, 2019 and 2018 and the amount of accrued benefit cost recognized in the 2019 and 2018 consolidated financial statements:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 70,043	\$ 67,187
Service cost	4,058	4,069
Interest cost	3,118	2,348
Participant contributions	1,550	944
Actuarial gain	11,417	(479)
Benefits paid	<u>(6,329)</u>	<u>(4,026)</u>
Projected benefit obligation for services rendered to date, end of year	<u>\$ 83,857</u>	<u>\$ 70,043</u>
Change in plan assets		
Plan assets at fair value at beginning of year	\$ 62,731	\$ 62,119
Employer contribution	-	-
Actual return on plan assets	2,889	3,694
Participant contributions	1,550	944
Benefits paid	<u>(6,329)</u>	<u>(4,026)</u>
Plan assets at fair value at end of year	<u>\$ 60,841</u>	<u>\$ 62,731</u>
Funded status (accrued benefit cost)	<u>\$ (23,016)</u>	<u>\$ (7,312)</u>

**The MITRE Corporation and Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2019 and 2018**

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

	2019	2018
Discount rate at end of year	3.00%	4.32%
Expected return on plan assets during the year	6.50%	6.50%
Health care cost trend rates during the year	7.75%	8.00%

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:

<i>(in thousands)</i>	1-percentage-point increase	1-percentage-point decrease
Increase (decrease) in total service and interest cost components	\$ 816	\$ (707)
Increase (decrease) in postretirement obligation	8,208	(7,236)

**Plan assets**

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

Asset Category	2019	2018
Equity Investments	61%	60%
Debt Investments	39%	38%
Cash / Other	0.4%	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 2020.

# The MITRE Corporation and Subsidiary

## Notes to the Consolidated Financial Statements

### For the years ended September 30, 2019 and 2018

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#### *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 for the years ending September 30:

*(in thousands)*

2020	\$ 3,899
2021	4,746
2022	5,663
2023	6,115
2024	6,762
Thereafter	<u>41,095</u>
Total	<u>\$ 68,280</u>

#### **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 reductions in expense related to post-employment benefits, as required by the post-employment benefit topic of the FASB Accounting Standards Codification, of \$1.0 million and \$3.5 million for the fiscal years ended September 30, 2019 and 2018, respectively. The Corporation's liability for post-employment benefits for the fiscal years ended September 30, 2019 and 2018 was \$1.0 million and \$2.0 million, respectively. The current portion of the Corporation's liability is included in other current liabilities of \$0.7 million and \$1.0 million for the fiscal years ended 2019 and 2018. The long-term portion of the Corporation's liability is included in accrued benefits of \$0.3 million and \$1.0 million for the fiscal year ended 2019 and 2018.

## **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 are as follows for the years ending September 30:

*(in thousands)*

2020	\$ 15,313
2021	15,971
2022	15,512
2023	14,141
2024	11,712
Thereafter	<u>11,180</u>
Total	<u>\$ 83,829</u>

**The MITRE Corporation and Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2019 and 2018**

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Total rent expense during the fiscal years ended September 30, 2019 and 2018 was \$14.3 million and \$14.8 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, 2019 and 2018 consist of:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Research and development costs, provided to customers	\$ 1,610,089	\$ 1,524,282
Support costs, principally general and administrative	146,446	110,962
Internal research and development	56,979	55,423
	<u>\$ 1,813,514</u>	<u>\$ 1,690,667</u>

**10. Natural classification of expenses**

The Corporation classifies contract costs and IR&D in the same manner as costs are defined in the Corporation's disclosure statements required by US government Cost Accounting Standards. The following table represents these costs summarized by their natural classification for the fiscal year ended September 30, 2019:

<i>(in thousands)</i>	<b>Contract Costs</b>	<b>Internal Research and Development</b>	<b>Total</b>
Salary and Wages	\$ 972,547	\$ 26,268	\$ 998,815
Benefits	433,021	14,065	447,086
Subcontractors	121,987	5,850	127,837
Depreciation and Amortization	48,212	1,566	49,778
Travel	44,100	2,612	46,712
Equipment	31,435	1,295	32,730
Utilities, Repairs, and Maintenance	27,212	886	28,098
Software	35,485	1,473	36,958
Professional Services	9,271	574	9,845
Taxes	8,352	271	8,623
Memberships and Subscriptions	7,684	916	8,600
Conference, Meetings, and Trainings	7,174	481	7,655
Supplies	6,753	608	7,361
Miscellaneous	3,302	114	3,416
Total Expenses	<u>\$ 1,756,535</u>	<u>\$ 56,979</u>	<u>\$ 1,813,514</u>

**The MITRE Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2019 and 2018**

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The following table represents the Corporation's contract costs and IR&D expenses summarized by their natural classification for the fiscal year ended September 30, 2018:

*(in thousands)*

	<b>Contract Costs</b>	<b>Internal Research and Development</b>	<b>Total</b>
Salary and Wages	\$ 913,272	\$ 25,608	\$ 938,880
Benefits	394,878	13,522	408,400
Subcontractors	112,818	6,504	119,322
Depreciation and Amortization	46,221	1,583	47,804
Travel	42,433	2,432	44,865
Equipment	31,179	1,273	32,452
Utilities, Repairs, and Maintenance	27,584	948	28,532
Software	26,182	1,292	27,474
Professional Services	10,676	532	11,208
Memberships and Subscriptions	7,557	542	8,099
Taxes	7,399	253	7,652
Conference, Meetings, and Trainings	6,427	396	6,823
Supplies	5,485	540	6,025
Miscellaneous	3,133	(2)	3,131
Total Expenses	<u>\$ 1,635,244</u>	<u>\$ 55,423</u>	<u>\$ 1,690,667</u>

## 11. Liquidity and availability

As of September 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consists of the following:

*(in thousands)*

Financial assets:

Cash and cash equivalents	\$ 165,619
Accounts receivable, net	60,288
Unbilled costs and fees	<u>172,041</u>
Total financial assets available within one year	<u>\$ 397,948</u>

Liquidity resources:

Line of credit	<u>\$ 210,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 607,948</u>

To manage liquidity, the Corporation maintains a line of credit that is drawn upon as necessary during the year to manage cash flows. Refer to note 6 for additional details.

**The MITRE Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2019 and 2018**

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**12. Subsequent events**

The Corporation has evaluated its September 30, 2019 consolidated financial statements for subsequent events through December 20, 2019 which is the date the consolidated financial statements were available to be issued, noting no subsequent events which require recognition or disclosure in the consolidated financial statements.

## **Schedule of Expenditures of Federal Awards**



# The MITRE Corporation

## Schedule of Expenditures of Federal Awards

### For the year Ended September 30, 2019

<u>Research and Development Cluster</u>	<u>Federal Grantor</u>	<u>CFDA</u>	<u>Direct Expenditures</u>	<u>Passthrough Expenditures</u>	<u>Pass Through Grantor (Pass Through Award No.)</u>	<u>Federal Expenditures</u>	<u>Passed to Subrecipients</u>
<b>National Security Engineering Center FFRDC</b>							
DG-133E-12-CQ-0029/T 0004-0007	Department of Commerce - NOAA	11.RD	\$ 114,196	\$ -		\$ 114,196	\$ -
FA8702-13-C-0001 through 19-C-0001, FA8721-11-C-0001 through 19-C-001, 17-C-0010, 17-D-0211-0001 through 0024, W15P7T-04-C-D001-13-C-A802	Department of Defense	12.RD	905,688,831	-		905,688,831	-
SAQMMA13C0255, SAQMMA09C0021	Department of State	19.RD	73,999	-		73,999	-
NNH16PB26P, 1469581	National Aeronautics and Space Administration	43.RD	-	119,945	Jet Propulsion Laboratory (1469581)	119,945	-
1233381, 822940	Department of Energy	81.RD	-	221,464	Sandia National Laboratory (DE-AC04-94AL85000)	221,464	-
HSSS01-12-C-0010	Department of Homeland Security- U.S. Secret Service	97.RD	-	-		-	-
CLASSIFIED	USGC/Special Projects (Classified)	99.RD	216,593,778	-		216,593,778	-
<b>Total National Security Engineering Center FFRDC</b>						<b>1,122,812,213</b>	<b>-</b>
<b>National Institute of Standards and Technology FFRDC</b>							
SB1341-14-CQ-0010/14, /16, /17	Department of Commerce - NIST	11.RD	22,204,523	-		22,204,523	-
<b>Total National Institute of Standards and Technology FFRDC</b>						<b>22,204,523</b>	<b>-</b>
<b>Center for Advanced Aviation System Design FFRDC</b>							
FAA-0080-10/11, FAA-0080-11	Department of Transportation - Federal Aviation Administration	20.RD	152,292,024	-		152,292,024	-
<b>Total Center for Advanced Aviation System Design FFRDC</b>						<b>152,292,024</b>	<b>-</b>
<b>Center for Enterprise Modernization FFRDC</b>							
TIRNO99D00005, SAQMMA16-17, 2016000771, QPN-BQF, CORHQ-17	Department of the Treasury - IRS	21.RD	94,063,503	-		94,063,503	-
4600005243-AEROSP	National Aeronautics and Space Administration	43.RD	-	428,915	Aerospace Corporation (NNG11VHOOB)	428,915	-
NCUA-17-C-00034	National Credit Union Administration	44.RD	-	-		-	-
VA118A13D0037, VA118A15D0004	Veterans Administration	64.RD	78,634,985	-		78,634,985	-
<b>Total Center for Enterprise Modernization FFRDC</b>						<b>173,127,403</b>	<b>-</b>

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, 2019

<u>Research and Development Cluster</u>	<u>Federal Grantor</u>	<u>CFDA</u>	<u>Direct Expenditures</u>	<u>Passthrough Expenditures</u>	<u>Pass Through Grantor (Pass Through Award No.)</u>	<u>Federal Expenditures</u>	<u>Passed to Subrecipients</u>
<b>Homeland Security Systems Engineering &amp; Development Institute FFRDC</b>							
HSHQDC09D0001, HSHQDC14D00006, HSHQDN16J, HSHQDC17J, HSBP1017,RAND-9920190028-29	Department of Homeland Security	97.RD	\$ 115,812,531	\$ -		\$ 115,812,531	\$ -
<b>Total Homeland Security Systems Engineering &amp; Development Institute FFRDC</b>						<b>115,812,531</b>	<b>-</b>
<b>Centers for Medicare and Medicaid Services FFRDC</b>							
HHSM500201200008I	Department of Health and Human Services	93.RD	213,368,909	-		213,368,909	-
<b>Total Centers for Medicare and Medicaid Services FFRDC</b>						<b>213,368,909</b>	<b>-</b>
<b>Judiciary Engineering and Modernization Center FFRDC</b>							
USCA16F, USCA17F, USCA18F , USCA19F	Administrative Office of the United States Courts	16.RD	7,330,986	-		7,330,986	-
<b>Total Judiciary Engineering and Modernization Center FFRDC</b>						<b>7,330,986</b>	<b>-</b>
<b>Total FFRDC expenditures</b>						<b>1,806,948,589</b>	<b>-</b>
<b>Non - FFRDC Contracts</b>							
HQ0034-14-D-0009, HQ003417F, HQ003418F	Office of the Undersecretary of Defense-JASON Program Office	12.RD	4,196,141	-		4,196,141	-
<b>Total Non - FFRDC Contracts</b>						<b>4,196,141</b>	<b>-</b>
<b>Total Research and Development Cluster</b>						<b>1,811,144,730</b>	<b>-</b>
<b>Total Federal Expenditures</b>			<b>\$ 1,810,374,406</b>	<b>\$ 770,324</b>		<b>\$ 1,811,144,730</b>	<b>\$ -</b>

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, 2019**

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#### **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, 2019. 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 their operations and changes in their net assets and their cash flows.

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 Administrative 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 \$216,593,778 of classified contracts, of which \$87,725,871 is included in the population of awards covered by this Uniform Guidance report. The remaining amount of \$128,867,906 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.

## **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 consolidated financial statements of the MITRE Corporation and its subsidiary, (the "Corporation"), which comprise the consolidated balance sheets as of September 30, 2019, and the related consolidated statement of operations and changes in their net assets and of their cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2019, which includes an emphasis of matter paragraph as the Corporation changed the manner in which it presents net assets and reports certain aspects of its consolidated financial statements as a not-for-profit entity in 2019.

**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 the 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 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 up*

McLean, VA  
December 20, 2019



**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, 2019. The Corporation's major federal program is 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 program.

The Corporation's schedule of expenditures of federal awards includes classified contracts, of which \$128,867,906 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 of the Corporation's major federal program 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 the 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 its major federal program for the year ended September 30, 2019.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

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 up*

McLean, VA  
November 11, 2020

## **Schedule of Findings and Questioned Costs**

**The MITRE Corporation**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2019**

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**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?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

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?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
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Identification of major programs: <b>Major Program(s)</b> Research and Development Cluster	<b>CFDA Number(s)</b> Various	
Dollar threshold used to distinguish between type A and type B programs:	\$5,433,434	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

**The MITRE Corporation**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the Year Ended September 30, 2019**

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**Section II – Financial Statement Findings**

*There are no matters to be reported.*

**Section III – Federal Award Findings and Questioned Costs**

**Finding 2019-001: Classified Contracts**

**Federal Agency:** Classified

**Program:** Research and Development Cluster

**CFDA#:** 99.CLASSIFIED

**Contract Number(s):** Classified

**Contract Year(s):** October 1, 2018 to September 30, 2019

**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 \$128,867,906 for the year ended September 30, 2019. 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 (2018-001 and 2017-001).

**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, Continued**

### **For the Year Ended September 30, 2019**

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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.

#### **2018-001 Classified Contracts.**

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.

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.

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

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

#### **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: Closed

**The MITRE Corporation**  
**Summary Schedule of Prior Audit Findings, Continued**  
**For the Year Ended September 30, 2019**

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**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: Closed

**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: Closed

**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: Closed

**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: Closed

**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: Closed

**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: Closed

**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: Closed

**The MITRE Corporation**  
**Summary Schedule of Prior Audit Findings, Continued**  
**For the Year Ended September 30, 2019**

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**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: Closed

**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: Closed

**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: Closed



## **Management's Views and Corrective Action Plan**

**View of Responsible Officials:****Finding 2019-001: Classified Contracts**

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,

DocuSigned by:  
  
2F06F27B62C4424...  
Jamie Musson  
Assistant Controller  
The MITRE Corporation