



Universities Space Research Association

Financial Statements (Uniform Guidance) and Supplementary Information

Years Ended September 30, 2020 and 2019



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Independent Auditors' Report

Board of Trustees
Universities Space Research Association
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Universities Space Research Association (the Organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, expenses by function, and cash flows for the year 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 these 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 these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the auditors' 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, the auditors consider internal control relevant to the entity'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 entity'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 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 Universities Space Research Association as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Prior Period Financial Statements

The financial statements of the Organization for the year ended September 30, 2019 were audited by other auditors whose report dated February 19, 2020 expressed an unmodified opinion on those statements.

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, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2021 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Tysons, VA
May 4, 2021

Universities Space Research Association
 Statements of Financial Position
 September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,010,726	\$ 9,181,997
Accounts receivable, net	25,424,290	29,331,897
Prepaid expenses and other current assets	<u>1,465,257</u>	<u>581,457</u>
Total current assets	40,900,273	39,095,351
Property and equipment, net	19,368,762	20,040,644
Other assets		
Long-term investments	<u>6,384,930</u>	<u>6,511,843</u>
Total assets	<u><u>\$ 66,653,965</u></u>	<u><u>\$ 65,647,838</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 12,480,991	\$ 15,297,096
Accrued salaries and related liabilities	7,525,023	6,803,123
Billings in excess of cost	1,159,889	210,011
Bonds payable, current portion	<u>423,876</u>	<u>411,185</u>
Total current liabilities	<u>21,589,779</u>	<u>22,721,415</u>
Long-term liabilities:		
Bonds payable, net of current portion and bond issuance costs	9,283,368	9,670,429
Interest rate swap liability	<u>823,509</u>	<u>573,151</u>
Total long-term liabilities	<u>10,106,877</u>	<u>10,243,580</u>
Total liabilities	<u>31,696,656</u>	<u>32,964,995</u>
Commitments and contingencies (Notes 11 and 14)		
Net Assets:		
Without donor restrictions	34,410,054	32,142,503
With donor restrictions	<u>547,255</u>	<u>540,340</u>
Total net assets	<u>34,957,309</u>	<u>32,682,843</u>
Total liabilities and net assets	<u><u>\$ 66,653,965</u></u>	<u><u>\$ 65,647,838</u></u>

Universities Space Research Association
Statement of Activities
Year Ended September 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Contracts, grants and cooperative agreements	\$ 149,221,182	\$ -	\$ 149,221,182
Direct costs:			
Labor	63,536,856	-	\$ 63,536,856
Subcontracts	31,720,264	-	31,720,264
Other direct costs	34,851,166	-	34,851,166
Travel	1,099,971	-	1,099,971
Total direct contract costs	<u>131,208,257</u>	<u>-</u>	<u>131,208,257</u>
Indirect costs	<u>15,619,567</u>	<u>-</u>	<u>15,619,567</u>
Operating income	<u>2,393,358</u>	<u>-</u>	<u>2,393,358</u>
Operating income (expense)			
Investment income, net	347,515	6,915	354,430
Donation income	121,764	-	121,764
Other income	27,109	-	27,109
Unrealized loss on interest rate swap	(250,358)	-	(250,358)
Interest expense	<u>(371,837)</u>	<u>-</u>	<u>(371,837)</u>
Total other expense, net	(125,807)	6,915	(118,892)
Change in net assets	2,267,551	6,915	2,274,466
Net assets, beginning of year	<u>32,142,503</u>	<u>540,340</u>	<u>32,682,843</u>
Net assets, end of year	<u>\$ 34,410,054</u>	<u>\$ 547,255</u>	<u>\$ 34,957,309</u>

See accompanying notes.

Universities Space Research Association
Statement of Activities
Year Ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Contracts, grants and cooperative agreements	\$ 160,092,676	\$ -	\$ 160,092,676
Direct costs:			
Labor	61,966,268	-	61,966,268
Subcontracts	39,246,759	-	39,246,759
Other direct costs	37,345,579	-	37,345,579
Travel	3,014,253	-	3,014,253
Total direct contract costs	<u>141,572,859</u>	<u>-</u>	<u>141,572,859</u>
Indirect costs	<u>15,898,029</u>	<u>-</u>	<u>15,898,029</u>
Operating income	2,621,788	-	2,621,788
Operating income (expense):			
Investment income, net	349,754	(13,149)	336,605
Donation income	248,593	300,000	548,593
Other income	34,188	-	34,188
Loss on disposal of property and equipment	(22,383)	-	(22,383)
Unrealized loss on interest rate swap	(523,803)	-	(523,803)
Interest expense	(531,376)	-	(531,376)
Net assets realized from restrictions:			
Satisfaction of donor restrictions	<u>20,000</u>	<u>(20,000)</u>	<u>-</u>
Total other expense, net	(425,027)	266,851	(158,176)
Change in net assets	2,196,761	266,851	2,463,612
Net assets, beginning of year	<u>29,945,742</u>	<u>273,489</u>	<u>30,219,231</u>
Net assets, end of year	<u>\$ 32,142,503</u>	<u>\$ 540,340</u>	<u>\$ 32,682,843</u>

Universities Space Research Association
Statement of Functional Expenses
Year Ended September 30, 2020

	Program Services		Supporting Services		Total Expenses
	Research Programs	Management and General	Fundraising	Total Supporting Services	
Expenses:					
Salary expense	\$ 50,714,521	\$ 8,804,297	\$ -	\$ 8,804,297	\$ 59,518,818
Sub-contract expenses	31,333,262	119,816	-	119,816	31,453,078
Grant expenses	32,790,481	-	-	-	32,790,481
Employee benefits	7,692,516	782,308	-	782,308	8,474,824
Travel	1,332,634	279,574	-	279,574	1,612,208
Payroll taxes	3,553,069	298,023	-	298,023	3,851,092
Professional fees	395,698	1,214,780	-	1,214,780	1,610,478
Conferences, conventions and meetings	418,765	286,137	-	286,137	704,902
Other direct cost	609,121	-	-	-	609,121
Information technology	203,722	1,189,621	-	1,189,621	1,393,343
Rent and occupancy	-	1,189,440	-	1,189,440	1,189,440
Depreciation and amortization expense	-	1,097,469	-	1,097,469	1,097,469
Legal	-	1,365,244	-	1,365,244	1,365,244
Interest	-	371,837	-	371,837	371,837
Insurance	131,191	296,123	-	296,123	427,314
Miscellaneous expenses	-	70,213	-	70,213	70,213
Equipment	289,757	51,376	-	51,376	341,133
Office expenses	133,210	138,026	-	138,026	271,236
Accounting	-	47,430	-	47,430	47,430
Total expenses	<u>\$ 129,597,947</u>	<u>\$ 17,601,714</u>	<u>\$ -</u>	<u>\$ 17,601,714</u>	<u>\$ 147,199,661</u>

Universities Space Research Association
Statement of Functional Expenses
Year Ended September 30, 2019

	<u>Program Serives</u>	<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Research Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Expenses:					
Salary expense	\$ 46,540,341	\$ 10,309,444	\$ -	\$ 10,309,444	\$ 56,849,785
Sub-contract expenses	37,189,048	-	-	-	37,189,048
Grant expenses	33,670,414	-	-	-	33,670,414
Employee benefits	8,439,494	1,027,652	-	1,027,652	9,467,146
Travel	4,031,427	767,057	-	767,057	4,798,484
Payroll taxes	3,484,791	333,005	-	333,005	3,817,796
Professional fees	1,035,434	999,308	251,424	1,250,732	2,286,166
Conferences, conventions and meetings	1,205,411	501,105	-	501,105	1,706,516
Other direct cost	1,644,805	-	-	-	1,644,805
Information technology	243,406	1,048,384	-	1,048,384	1,291,790
Rent and occupancy	1,231,612	23,815	-	23,815	1,255,427
Depreciation and amortization expense	-	1,195,304	-	1,195,304	1,195,304
Legal	-	582,552	-	582,552	582,552
Interest	-	531,376	-	531,376	531,376
Insurance	137,856	289,658	-	289,658	427,514
Miscellaneous expenses	-	361,775	-	361,775	361,775
Equipment	248,615	99,089	-	99,089	347,704
Office expenses	158,468	148,563	-	148,563	307,031
Accounting	-	181,631	-	181,631	181,631
Lobbying	-	90,000	-	90,000	90,000
Total expenses	<u>\$ 139,261,122</u>	<u>\$ 18,489,718</u>	<u>\$ 251,424</u>	<u>\$ 18,741,142</u>	<u>\$ 158,002,264</u>

Universities Space Research Association
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,274,466	\$ 2,463,612
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,060,653	1,158,488
Loss on disposal of property and equipment	41,309	22,383
Amortization of bond issuance costs	36,816	36,816
Realized gain on sale of investments	(67,325)	(51,391)
Unrealized gain on investments	(176,281)	(150,896)
Unrealized loss on interest rate swap	250,358	523,803
Bad debt expense (recovery)	(2,980)	214,010
Change in assets and liabilities:		
Accounts receivable	3,910,587	(1,443,100)
Prepaid expenses and other current assets	(883,800)	(161,196)
Accounts payable and accrued expenses	(2,816,105)	2,156,197
Accrued salaries and related liabilities	721,900	164,346
Billings in excess of cost	949,878	(425,541)
Cash flows provided by operating activities	<u>5,299,476</u>	<u>4,507,531</u>
Cash flows from investing activities:		
Purchases of property and equipment	(430,080)	(119,215)
Purchases of investments	(213,924)	(201,072)
Sale of investments	584,443	20,000
Cash flows used in investing activities	<u>(59,561)</u>	<u>(300,287)</u>
Cash flows from financing activities:		
Repayment on bonds payable	(411,186)	(398,874)
Cash flows used in financing activities	<u>(411,186)</u>	<u>(398,874)</u>
Net increase in cash and cash equivalents	4,828,729	3,808,370
Cash and cash equivalents, beginning of year	<u>9,181,997</u>	<u>5,373,627</u>
Cash and cash equivalents, end of year	<u>\$ 14,010,726</u>	<u>\$ 9,181,997</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 256,513</u>	<u>\$ 537,997</u>
Reconciliation of cash and restricted cash to the statements of financial position:		
Cash	\$ 13,710,726	\$ 8,881,997
Cash - restricted	<u>300,000</u>	<u>300,000</u>
	<u>\$ 14,010,726</u>	<u>\$ 9,181,997</u>

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

The Universities Space Research Association (the Organization) is a not-for-profit membership organization pursuant to the District of Columbia Non-Profit Corporation Act to provide the means by which universities and other organizations cooperate toward the development of knowledge associated with space science and technology. USRA's chartered purpose is to operate laboratories and other facilities under cost-reimbursable type contracts, fixed-price contracts, grants and cooperative agreements principally with the Federal government (primarily through the National Aeronautics and Space Administration) for research, development and education associated with space science and technology.

2. Significant Accounting Policies

Basis of accounting

The Organization reports on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and cash equivalents

For the purposes of the statements of cash flows, the Organization considers all money market accounts and highly liquid instruments with purchased maturities of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statements of financial position. Unrealized and realized gains and losses, interest and dividends are included in the change in net assets.

Accounts receivable

Accounts receivable are unsecured and are carried at original invoice amount, less an estimate made for doubtful receivables based on management's evaluation of the collectability of accounts receivable. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considered a customer's financial condition, credit history, and current economic conditions.

Based on management's assessment, the Organization provides the estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Recoveries of accounts receivable previously written off are recorded when received. The allowance for doubtful accounts reflects management's best estimate of probable write-offs principally on the basis of history experience. At September 30, 2020 and 2019, management determined the need for an allowance for doubtful accounts of \$44,430 and \$250,000, respectively. Interest is not recorded on any past due balances.

Property and equipment

Property and equipment purchased under contracts, grants, and cooperative agreements with the Federal government is recorded as an expenditure of the respective contract, grant, or cooperative agreement when acquired. Such assets are subject to regulations regarding accounting and disposition as promulgated by the Federal government.

Universities Space Research Association
Notes to Financial Statements

Property and equipment that are not purchased under such contracts, grants, and cooperative agreements are recorded at cost. Expenditures for additions, improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of activities.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, ranging from 3 to 39 years. Leasehold improvements are depreciated over the lesser of the lease term or the useful life of the asset. It is the Organization's policy to capitalize assets purchased with a cost in excess of \$5,000.

Bond issuance costs

Bond issuance costs consist of legal and other costs that have been incurred to execute debt agreements and amendments. Bond issuance costs are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs are presented in the statements of financial position as a reduction from the related debt liability.

Classification of net assets

The Organization classifies its resources for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions. A description of the two net asset categories is as follows:

Net Assets without Donor Restrictions: Net assets without donor restrictions include undesignated and designated net assets. Net assets without donor restrictions consist of revenues and expenses associated with the principle mission of the Organization, which are not restricted by donor stipulations.

Net Assets with Donor Restrictions: Net assets with donor restrictions include grants or gifts for which donor imposed restrictions have not been met, include gifts that require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restriction. The use of funds held in perpetuity is limited to the expenditure of investment earnings. When such stipulations have been met, the net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. At September 30, 2020 and 2019, the Organization had net assets with donor restrictions of \$547,255.

Revenue recognition

The majority of the Organization's contracts are cost-reimbursable type service contracts. Revenue on cost-reimbursable type contracts is recognized as allowable costs are incurred on the contract, at an amount equal to the allowable cost plus the estimated profit on those costs. The estimated profit on cost-reimbursable type contracts is fixed or variable based on the contractual fee arrangement.

The Organization also has fixed price and time-and-material type contracts. Revenue for services provided under fixed price arrangements is generally recognized on a straight-line basis over the contractual service period, unless evidence suggests that revenue is earned, or obligations are fulfilled, in a different manner. Revenue for services provided under time-and-material type contracts is recognized based on the hours incurred at the negotiated contract billings rates, plus the cost of any allowable material costs and out-of-pocket expenses.

Contract revenue recognition inherently involves estimation. To the extent that a revised estimate affects contract profit or revenue previously recognized, the Organization records the cumulative effect of the revision in the period in which the facts requiring the revision become known. The full amount of an anticipated loss on any type of contract is recognized in the period in which it becomes probable and can be reasonably estimated.

Universities Space Research Association
Notes to Financial Statements

The Organization may proceed with work based on client direction prior to the completion and signing of formal contract documents. Revenue associated with such work is recognized only when it can be reliably estimated and realization is probable. The Organization bases its estimates on previous experience with the client, communications with the client regarding funding status, and its knowledge of available funding for the contract or program.

The Organization has cost reimbursable-type contracts with the Federal government. Consequently, the Organization is reimbursed based on their direct expenses attributable to the contract, plus a percentage based upon indirect expenses. The indirect rates are provisional and, accordingly, if the actual rates as determined by the Defense Contract Audit Agency (DCAA) are below the provisional rates, a refund for the difference would be due to the Federal government. As of September 30, 2020, audits of the Organization's costs have been completed by DCAA through the year ended September 30, 2019.

Management is of the opinion that any audit adjustments for years subsequent to 2019 will not have a material effect on the financial position or results of operations of the Organization.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated on the basis of estimates of the portion of time expended and effort or headcount on the various functions.

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 disclosures of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Income tax status

The Organization has been recognized by the Internal Revenue Service as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is required for the years ended September 30, 2020 and 2019 since the Organization had no taxable income from unrelated business activities. The Organization has determined that there are no material unrecognized tax benefits or obligations as of September 30, 2020 and 2019.

Derivative financial instrument and hedging

The Organization has bonds payable with a variable rate of interest. To minimize the unpredictability of interest payments, the Organization has entered into an interest rate swap agreement to convert the interest portion of the majority of its obligation from a variable rate to a fixed rate (Note 9). Therefore, interest payments are calculated using the fixed interest rate and no other cash payments are required in relation to the interest rate swap agreement unless it is terminated prior to maturity. In the event of termination prior to maturity, the amount paid or received in termination would be calculated as the net present value, using current interest rates, of the remaining interest payments due through the end of the original term of the agreement.

Concentrations of credit risk

The Organization maintains its cash in various high credit quality financial institutions, which at times may exceed the federally insured limit. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

New accounting pronouncements

Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions (Topic 958)". Under this guidance, clarification is provided for determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional. The Organization adopted ASU 2018-08 on October 1, 2019, using the modified prospective approach, noting no material impact to the financial statements.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally restricted as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this update were effective for the Organization on October 1, 2019 using a retrospective transition method to each period presented. As a result of implementation of Topic 230, restricted cash of \$300,000 has been included in the cash and cash equivalents on the Statements of Cash Flows.

Recently issued accounting standards

Revenue from Contracts with Customers

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, "Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities", extending one-year delays to certain companies to provide immediate, near-term relief for whom these standards are not currently effective or imminently effective. The ASU permits private companies and not-for-profit organizations that have not yet issued (or made available) financial statements with ASC 606, Revenue from Contracts with Customers implemented to defer one year to annual reporting periods beginning after December 15, 2019. Therefore, the Organization has chosen to delay implementation of ASC 606 and will adopt this standard on its September 30, 2021 year-end financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases". Under the new standards, lessees will need to recognize a right-of-use asset and a lease liability for virtually all their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. For statement of activity purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. Extensive quantitative and qualitative disclosures will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The new standard will be effective for the Organization for the year beginning October 1, 2022, and the Organization is currently evaluating the effect this accounting standard may have on its financial statements.

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent events

In preparing these financial statements, the Organization has evaluated events and transaction for potential recognition or disclosure through May 4, 2021, the date the financial statements were available to be issued.

3. Accounts Receivable

Accounts receivable at September 30, 2020 and 2019, consist of amounts due under contracts, grants and cooperative agreements in progress with Federal government agencies. The components of accounts receivable are as follows at September 30:

	<u>2020</u>	<u>2019</u>
Billed receivables	\$ 11,168,624	\$ 10,885,220
Unbilled receivables	14,148,460	18,494,385
Other receivables	<u>151,636</u>	<u>202,292</u>
	25,468,720	29,581,897
Allowance for doubtful collections	<u>(44,430)</u>	<u>(250,000)</u>
	<u>\$ 25,424,290</u>	<u>\$ 29,331,897</u>

The unbilled receivables include amounts due for services provided and revenues earned as of year-end, but not yet billed under the terms of the contract, as well as amounts billable upon final execution of contracts, contract completion, milestones or completion of indirect rate negotiations. All billed and unbilled receivable amounts are expected to be collected during the next fiscal year.

As of September 30, 2020 and 2019, billings in excess of cost totaled \$1,159,889 and \$210,011, respectively, and are included as current liabilities in the accompanying statements of financial position. These amounts are comprised of prepaid contracts and rate variances (i.e. actual indirect rates are lower than the provisional rates used for billing purposes), which are due upon contract completion and settlement.

For the year ended September 30, 2020, four customers represented 86% of total revenue and three customers represented 89% of total accounts receivable. For the year ended September 30, 2019, four customers represented 69% of total revenue and 66% of total accounts receivable.

4. Investments

Investment income, net consisted of the following for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Investment income, net:		
Interest and dividends	\$ 128,618	\$ 151,072
Investment fees	(17,794)	(16,754)
Realized and unrealized gains (losses)	<u>243,606</u>	<u>202,287</u>
Total investment income, net	<u>\$ 354,430</u>	<u>\$ 336,605</u>

5. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring and reporting financial assets and liabilities at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The codification establishes a three-level disclosure hierarchy to indicate the level of judgment used to estimate fair value measurements:

- Level 1:** Quoted prices in active markets for identical assets or liabilities as of the reporting date;
- Level 2:** Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices (such as interest rate and yield curves);
- Level 3:** Uses inputs that are unobservable, supported by little or no market activity and reflect significant management judgment.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurements at fair value. There have been no changes in the methodologies used at September 30, 2020 and 2019.

Mutual funds: Valued at the daily closing price as reported by the fund. These funds are registered with the Securities and Exchange Commission and are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds are deemed to be actively traded.

Exchange-traded funds: Valued at the daily closing price as reported by the fund. These funds are registered with the Securities and Exchange Commission and are required to publish their daily net asset value (NAV) and to transact at that price. The exchange-traded funds are deemed to be actively traded.

Fixed income: Valued at the quoted mark price or dealer quotes for similar instruments that are used to estimate the fair value.

Interest rate swap: Valued on current notional amount at One-Month London Interbank Offered Rate – British Bankers' Association (LIBOR-BBA).

Universities Space Research Association
Notes to Financial Statements

The tables below summarize investments, by level, for items measured at fair value at September 30, 2020 and 2019:

	Assets at Fair Value as of September 30, 2020			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Fixed income mutual funds	\$ 222,783	\$ -	\$ -	\$ 222,783
Equity mutual funds	<u>247,254</u>	-	-	<u>247,254</u>
Total mutual funds	<u>470,037</u>	-	-	<u>470,037</u>
Exchange-traded Funds:				
Fixed income exchange-traded funds	400,149	-	-	400,149
Equity exchange-traded funds	<u>1,452,096</u>	-	-	<u>1,452,096</u>
Total exchange-traded funds	<u>1,852,245</u>	-	-	<u>1,852,245</u>
Fixed income:				
Commercial	-	1,066,080	-	1,066,080
Certificates of deposit	-	<u>995,460</u>	-	<u>995,460</u>
Total fixed income	-	<u>2,061,540</u>	-	<u>2,061,540</u>
Cash held in investment account	<u>2,001,108</u>	-	-	<u>2,001,108</u>
	<u>\$ 4,323,400</u>	<u>\$ 2,061,540</u>	<u>\$ -</u>	<u>\$ 6,384,930</u>

	Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Fixed income mutual funds	\$ 210,016	\$ -	\$ -	\$ 210,016
Equity mutual funds	<u>401,328</u>	-	-	<u>401,328</u>
Total mutual funds	611,344	-	-	611,344
Exchange-traded Funds:				
Fixed income exchange-traded funds	409,780	-	-	409,780
Equity exchange-traded funds	<u>1,135,454</u>	-	-	<u>1,135,454</u>
Total exchange-traded funds	1,545,234	-	-	1,545,234
Fixed income:				
Commercial	-	1,550,959	-	1,550,959
Government bonds	-	219,970	-	219,970
Certificates of deposit	-	<u>1,725,934</u>	-	<u>1,725,934</u>
Total fixed income	-	3,496,863	-	3,496,863
Cash held in investment account	<u>858,402</u>	-	-	<u>858,402</u>
	<u>\$ 3,014,980</u>	<u>\$ 3,496,863</u>	<u>\$ -</u>	<u>\$ 6,511,843</u>

	Liabilities at Fair Value as of September 30, 2020			
	Level 1	Level 2	Level 3	Total
Interest rate swap	<u>\$ -</u>	<u>\$ 823,509</u>	<u>\$ -</u>	<u>\$ 823,509</u>

	Liabilities at Fair Value as of September 30, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swap	\$ -	\$ 573,151	\$ -	\$ 573,151

6. Property and Equipment

Property and equipment and accumulated depreciation at September 30 are as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 5,546,244	\$ 5,546,244
Building	19,181,396	19,181,396
Furniture and equipment	6,551,840	7,973,008
Leasehold improvements	191,527	212,008
Construction in progress	194,449	-
	<u>31,665,456</u>	<u>32,912,656</u>
Less, accumulated depreciation	<u>(12,296,694)</u>	<u>(12,872,012)</u>
	<u>\$ 19,368,762</u>	<u>\$ 20,040,644</u>

Depreciation expense on property and equipment was \$1,060,653 and \$1,158,488 for 2020 and 2019, respectively.

7. Bonds Payable

On June 1, 2013, the Organization entered into an agreement with Maryland Economic Development Corporation (the Original Trustee) who issued Series 2013A tax-exempt and Series 2013T taxable bonds of \$11,825,858 and \$498,301, respectively, which were for the purchase of land and a building in Columbia, Maryland, together with any necessary capital improvements. On June 1, 2013, the bonds were purchased from the Original Trustee by a bank (the Bank). The Organization has signed a credit agreement with the Bank that stipulates payment terms relating to principal and interest. As of September 30, 2020 and 2019, the Organization had drawn \$12,324,159. During the years ended September 30, 2020 and 2019, the Organization made principal payments of \$411,186 and \$398,874, respectively, on the outstanding balance.

The Series 2013A tax-exempt bonds mature on June 1, 2025 and the Series 2013T taxable bond mature on June 1, 2023. Interest is based on LIBOR plus 1.65% multiplied by 70% and a margin rate factor (as determined by the Bank). LIBOR was .1518% and 2.0432% as of September 30, 2020 and 2019, respectively. The effective interest rates were 1.53% and 2.58% as of September 30, 2020 and 2019, respectively. The bonds are secured by the land and building located in Columbia, Maryland.

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Future payments of principal on the bonds payable are as of September 30, 2020:

	<u>Series 2013A</u>	<u>Series 2013T</u>	<u>Total</u>
2021	\$ 391,295	\$ 32,581	\$ 423,876
2022	403,438	33,522	436,960
2023	415,958	239,374	655,332
2024	428,867	-	428,867
2025	<u>7,888,349</u>	<u>-</u>	<u>7,888,349</u>
	<u>\$ 9,527,907</u>	<u>\$ 305,477</u>	<u>\$ 9,833,384</u>

Bond issuance costs related to the bonds payable totaling \$393,053 have been capitalized. Amortization expense is recognized using the straight-line method over the lives of the related bonds and totaling \$36,816 for the years ended September 30, 2020 and 2019. Borrowings under the bonds payable are recorded net of unamortized bond issuance costs totaling \$126,138 and \$162,953.

8. Line of Credit

During June 2013, the Organization entered into a revolving line-of-credit agreement with the Bank (Note 7). The aggregate principal amount of advances under this line outstanding at any time should not exceed \$10,000,000. The proceeds of the advances are to be used to fund accounts receivable and general working capital needs. Interest is based on the greater of LIBOR plus 1.5% multiplied by 70% and a margin rate factor (as determined by the Bank) or the Federal Funds rate plus .50%. The effective interest rates were 5.50% and 5.50% as of September 30, 2020 and 2019, respectively. The line is collateralized by the land and building located in Columbia, Maryland.

In August 2020, the line of credit was extended through August 20, 2021. At September 30, 2020 and 2019, the Organization had no outstanding balance on the line of credit. The agreement with the Bank contains various debt covenants, including requirements that the Organization maintain unrestricted liquidity no less than 0.40 and maintain a debt service ratio of no less than 1.15 to 1. The Organization was in compliance with the debt covenants at September 30, 2020 and 2019.

9. Interest Rate Swap Agreement

The Organization has an interest rate swap agreement which is intended to allow the Organization to minimize the risk of future interest rate fluctuations related to the bonds payable described above in Note 7. The agreement expires June 1, 2025 and has effectively fixed the interest rate of 3.27% on a notional amount of \$9,833,384 and \$10,244,567 as of September 30, 2020 and 2019, respectively. The Organization recorded a loss related to the change in fair value of the interest rate swap agreement of \$250,358 and \$523,803 for the years ended September 30, 2020 and 2019, respectively. The amounts are included in the accompanying statements of activities.

10. Retirement Plans

The Organization sponsors a tax deferred 401(k) profit sharing plan under the Internal Revenue Code to provide retirement benefits for all eligible employees. Participating employees may voluntarily contribute pre-tax salary deferral contributions, Roth deferral contributions, or a combination of both, up to limits provided by Internal Revenue Service regulations. The Organization will make a matching contribution equal to 100% on the first 3% of salary deferrals and 50% on the next 2% of salary deferrals of the employee's pre-tax or Roth salary deferral contributions up to a maximum of 4% of their annual compensation. The Organization will also make a non-elective contribution equal to

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6% of their annual compensation. For the years ended September 30, 2020 and 2019, the Organization made matching contributions of \$4,915,731 and \$4,731,101, respectively.

The Organization also maintains a defined contribution pension plan (the Plan) covering all regular staff employees that work twenty or more hours per week. Effective January 1, 2012, the Plan was amended to no longer allow employee or employer contributions. There were no contributions to the Plan during the years ended September 30, 2020 and 2019.

11. Other Post-Retirement Benefit Plan

The Organization sponsors a defined benefit health care plan that provides post-retirement medical benefits to eligible employees who have worked 15 years and attained age 55 while in service with the Organization. Medical benefits terminate at age 65. Dental benefits are provided for life. The benefits are provided through certain insurance companies. The Organization established a Voluntary Employee Beneficiaries Association (VEBA) trust (the Trust) during 1997 and funds an amount equal to the paid benefits for each year. The Trust assets consist of cash equivalents maintained in an interest bearing account.

During the year ended September 30, 2012, the Plan was amended to eliminate retiree benefits for employees who retire after December 31, 2012, thus shortening the duration of expected cash flows.

12. Deferred Compensation Plan

The Organization provides a nonqualified deferred compensation plan for certain employees. The Deferred Compensation Plan is funded through a brokerage account that is invested in mutual funds. As of September 30, 2020 and 2019, assets of \$103,359 and \$546,521, respectively, are included in the statements of financial position under long-term investments. As of September 30, 2020 and 2019, a liability of \$81,611 and \$239,921, respectively, is included in the statements of financial position under accounts payable and accrued expenses.

13. Operating Leases

The Organization leases office space in Washington, DC and California under operating lease arrangements. The office space lease in Washington, DC expires in August 2027. The office space lease in Mountain View, California expires in June 2021. The Organization also leases various office equipment under operating lease arrangements with terms from month-to-month through 2023.

The future minimum lease payments are as follows for the years ending September 30:

2021	\$	436,499
2022		119,570
2023		122,134
2024		124,776
2025		126,074
Thereafter		<u>237,593</u>
	\$	<u>1,166,646</u>

Rent expense for the years ended September 30, 2020 and 2019 were \$606,780 and \$593,837, respectively.

14. Commitments and Contingencies

The Organization is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial position or results of operations of the Organization.

The Organization receives a significant portion of its support under federal grants which are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These grants and contracts may be audited by the federal government, and the ultimate determination of the allowable costs is determined by such audits.

In March 2020, the World Health Organization declared the outbreak and spread of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations of a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering of certain nonessential businesses.

The COVID-19 pandemic has disrupted operational and financial performance of our business and there is significant uncertainty in the nature and degree of its continued effects on our business over time. The extent to which it will impact our business going forward will depend on a variety of factors including the duration and continued spread of the outbreak, impact on our customers, employees, and vendors, as well as governmental, regulatory and private sector responses. Further, the pandemic may have a significant impact on management's accounting estimates and assumptions.

15. Net Assets with Donor Restrictions

Available net assets with donor restrictions were restricted for the following purposes as of September 30:

	<u>2020</u>	<u>2019</u>
Scholarships	\$ 247,255	\$ 240,340
Students and early career scientists	<u>300,000</u>	<u>300,000</u>
Total net assets with donor restrictions	<u>\$ 547,255</u>	<u>\$ 540,340</u>

16. Endowment Net Assets

The Organization's endowment consists of donor-restricted endowment funds. Funds shall be used for the benefit of the students and early career lunar scientists. Funds distributed from the endowment shall be used to support travel for students and early career scientists to participate in lunar science conferences and workshops, notably those under auspices of the Lunar Exploration Analysis Group.

Interpretation of relevant law

The management of donor-restricted endowment funds is governed by state law under the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Directors has interpreted UPMIFA of Maryland as requiring the preservation of the fair value of the original gift as of the gift date, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions – permanent endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent

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gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the gift is added to the permanent endowment.

Return objectives and risk parameters

Endowment funds are invested under the Organization’s investment policies and are managed to generate additional resources to supplement annual income in support of the activities of the Organization. The primary objective is long-term capital appreciation. Under the investment policy, the endowment assets are invested primarily in cash equivalents, level one investments and U.S. Government Agency securities to assume a low level of investment risk. The Organization expects investment return to achieve the following objectives over a three-year moving time period: (a) the account’s total expected return will exceed the increase in the Consumer Price Index, and (b) the account’s total expected return will exceed the increase in the Treasury Bill Index by a minimum of two percentage points on an annual basis. Actual return in any given year may vary from these objectives.

Strategies employed for achieving objectives

The Audit and Risk Committee is in the process of evaluating and selecting one or more investment managers to directly manage the Organization’s investment portfolio of assets within general guidelines provided.

Spending policy and how the investment objectives relate to spending policy

Investment return related to endowment investments are considered temporarily restricted until appropriated for expenditure.

Funds with deficiencies

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that the donor requires the Organization to maintain as a fund of perpetual duration. There were no such deficiencies at September 30, 2020 and 2019.

The table below summarizes the changes in endowment net assets for the year ended September 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 300,000	\$ 300,000
Investment income:			
Investment return (net of fees)	-	-	-
Net appreciation (depreciation) (realized and unrealized)	-	-	-
Total investment income	-	-	-
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>

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The table below summarizes the changes in endowment net assets for the year ended September 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Investment income:			
Investment return (net of fees)	-	-	-
Net appreciation (depreciation) (realized and unrealized)	-	-	-
Total investment income	-	-	-
Contributions	-	300,000	300,000
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>

17. Availability and Liquidity

Financial assets available for general expenditure within one year of the statements of financial position consist of the following at September 30:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 14,010,726	\$ 9,181,997
Accounts receivable, net	25,416,855	29,331,897
Prepaid expenses	<u>1,465,257</u>	<u>581,457</u>
Total financial assets	<u>40,892,838</u>	<u>39,095,351</u>
Less: donor-restricted cash	<u>(300,000)</u>	<u>(300,000)</u>
Financial assets available to general expenditures over the next twelve months	<u>\$ 40,592,838</u>	<u>\$ 38,795,351</u>

The Organization's working capital and cash flows fluctuate during the year due to timing of collection of government receivables, operating expenses, capital expenditures, and other contributions. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

18. Employment Contract

The Organization's entered into an employment contract on November 26, 2019 with the Chief Executive Officer that extends through January 1, 2025. The contract provides for a minimum annual salary and incentive compensation.

19. Concentrations

The Organization's revenue and accounts receivable are mainly derived from contracts with the U.S. government or subcontractors funded by the U.S. government. Any cancellations or modifications of significant contracts or subcontracts by the U.S. government, or failure by the U.S. government to exercise an option period relating to those contracts or subcontracts, could adversely affect the Organization's financial condition and results of operations in the short-term and long-term. Additionally, U.S. government contracts can be terminated for convenience at any time by the U.S. government without cause. If such terminations occur, the Organization would be entitled to receive compensation for services provided and costs incurred through termination, plus, in certain circumstances, a negotiated amount of profit.



Compliance Section



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Universities Space Research Association
Columbia, MD

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Universities Space Research Association (the Organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, expenses by function and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 4, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Universities Space Research Association's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Universities Space Research Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Universities Space Research Association'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. We identified a deficiency in internal control over financial reporting, as described in accompanying schedule of findings and questioned costs as item 2020-001, which we consider to be a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Universities Space Research Association’s Response to Findings

The Universities Space Research Association’s response to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Organization’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 organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Tysons, VA
May 4, 2021



Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Universities Space Research Association
Columbia, MD

Report on Compliance for Each Major Federal Program

We have audited Universities Space Research Association's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Universities Space Research Association's major federal programs for the year ended September 30, 2020. Universities Space Research Association's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Universities Space Research Association'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 Universities Space Research Association'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 Universities Space Research Association's compliance.

Opinion on Each Major Federal Program

In our opinion, Universities Space Research Association 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, 2020.



Report on Internal Control over Compliance

Management of Universities Space Research Association 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 Universities Space Research Association'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 Universities Space Research Association'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 identified a deficiency in internal control over compliance, as described in accompanying schedule of findings and questioned costs as item 2020-001, which we consider to be a material weakness.

Universities Space Research Association's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Universities Space Research Association's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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

Dixon Hughes Goodman LLP

Tysons, VA
May 4, 2021



Supplementary Information

Cluster Title/Federal Grantor/Division	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
Research and Development Cluster:			
National Aeronautics and Space Administration			
Direct Program:			
Advanced Research and Technology Support	43.RD		\$ 5,261,234
Earth From Space Institute	43.RD		36,424
Goddard Earth Sciences Technology and Research Projects (GESTAR)	43.RD		25,273,277
Lunar and Planetary Institute	43.RD		8,462,281
Marshall Space Flight Center Projects (MSFC)	43.RD		3,995,787
NASA Academic Mission Service Projects	43.RD		36,646,325
NASA Internship Projects (INTERN)	43.RD		15,368,053
NASA Postdoctorate Program Projects	43.RD		17,794,349
Research Institute for Advanced Computer Science	43.RD		113,579
Stratospheric Observatory for Infrared Astronomy	43.RD		22,857,500
Technology R&D	43.RD		153,084
Subtotal Direct Programs:			135,961,893
Passthrough Programs From:			
Advanced Research and Technology Support			
Case Western Reserve	47.RD	1740478	5,522
HX5, LLC		80GRC020D0003	1,764,836
Earth From Space Institute			
University of Maryland at College Park	43.RD	80NSSC18K0678	56,850
NASA Shared Services	43.RD	80NSSC20K1083	54,926
GESTAR			
Cary Institute	43.RD	3,407,200.201.995	10,261
Jet Propulsion Laboratory	43.RD	1585438	16,244
Rutgers University	81.RD	DE-SC0018274	28,544
Univ. of MD College Park	66.RD	83587601	54,662
Lunar and Planetary Institute			
Arizona State University	43.RD	NNG07EK00C	51,038
Arizona State University	43.RD	80NSSC20K0260	6,545
JHU Applied Physics Lab	43.RD	NNA14AB02A	18,709
JHU Applied Physics Lab	43.RD	80MSFC20D0004	979
Jet Propulsion Laboratory	43.RD	NM0710846	887
Jet Propulsion Laboratory	43.RD	80NM0018D00004	150,651
Planetary Science Inst.	43.RD	80ARC017M005	174
Planetary Science Inst.	43.RD	NNX15AC12A	8,020
Planetary Science Inst.	43.RD	NNX17AF12G	1,660
SETI Institute	43.RD	80NSSC18K0549	18,185
Southwest Research	43.RD	NASW-02008	59,679
Southwest Research	43.RD	NNX16AP97G	19,485
NCSU	43.RD	80NSSC18K1450	16,361
Space Science Institute	43.RD	NNX16AE30A	54,864
U. of Central FL	43.RD	80NSSC19K0523	37,503
Univ. of CA, Santa Cruz	43.RD	80NSSC19K0551	9,851
University of Arizona		1576815	4,190
University of Arizona		80MSFC20C0045	2,313
University of Colorado Boulder	43.RD	NNHTOCCOAC	1,100
Washington University	43.RD	80NSSC20M0027	1,657
Marshall Space Flight Center Projects (MFSC)			
Meharry Medical College	66.RD	8927501	8,218
RTI International	43.RD	888-17-13-04	73,707
San Jose State University	43.RD	NNX15AQ02A	108,192

Cluster Title/Federal Grantor/Division	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
San Jose State University	43.RD	NNX16AQ91G	28,665
Smithsonian Astrophysical	43.RD	AR0-21013a	128
Smithsonian Astrophysical	43.RD	NAS8-03060	218
UCAR	43.RD	8100003006	12,941
Research Institute for Advanced Computer Science			
Jet Propulsion Laboratory	43.RD		84,909
Baylor College	43.RD	NNX16AO69A	161,252
Stanford University		1918549	11,175
Stratospheric Observatory for Infrared Astronomy			
University of Arizona	43.RD	NAS5-02105	64,148
Planetary Science Inst.	43.RD	NNX15AE02G	25,865
Subtotal Passthrough Programs			3,035,114
Total National Aeronautics and Space Administration			138,997,007
National Science Foundation			
Direct Programs:			
Lunar and Planetary Institute	47.RD		68,663
Research Institute for Advanced Computer Science	47.RD		75,372
Stratospheric Observatory for Infrared Astronomy	47.RD		138,409
Subtotal Direct Programs			282,444
Passthrough Programs From:			
Marshall Space Flight Center Projects (MSFC)			
Texas A&M University CC	47.RD	1519006	1,823
Subtotal Passthrough Programs			1,823
Total National Science Foundation			284,267
Department of Defense			
Direct Programs:			
Goddard Earth Sciences Technology and Research Projects (GESTAR)	12.RD		105,165
Interns Program	12.RD		3,767,496
Research Institute for Advanced Computer Science	12.RD		94,785
Subtotal Direct Programs			3,967,446
Passthrough Programs From:			
Research Institute for Advanced Computer Science			
USAF		FA8750-19-3-6101	640,351
Subtotal Passthrough Programs			640,351
Total Department of Defense			4,607,797
Department of Energy			
Passthrough Programs From:			
Idaho Projects			
Battelle Energy Alliance	81.RD	DEAC0705ID14517	117,938
Subtotal Passthrough Programs			117,938
Total Department of Energy			117,938

Cluster Title/Federal Grantor/Division	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
Department of Health and Human Services			
Passthrough Programs From:			
Research Institute for Advanced Computer Science DHHS	93.RD	U01CK000516	13,636
Subtotal Passthrough Programs			<u>13,636</u>
Total Environmental Protection Agency			<u>13,636</u>
National Oceanic and Atmospheric Administration			
Direct Programs:			
Goddard Earth Sciences Technology and Research Projects (GESTAR)	11.RD		83,477
Total National Oceanic and Atmospheric Administration			<u>83,477</u>
USGS			
Direct Programs:			
Research Institute for Advanced Computer Science	15.RD		122,543
Total USGS			<u>122,543</u>
Department of Commerce			
Direct Programs:			
Goddard Earth Sciences Technology and Research Projects (GESTAR)	11.RD		744
Total Department of Commerce			<u>744</u>
Total Federal Expenditures - Research and Development Cluster			<u><u>\$ 144,227,409</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal award activity of the Organization, under programs of the federal government for the year ended September 30, 2020 in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Contingency

The grant revenue amounts received and expenses (eligible for reimbursement) are subject to audit adjustment. If any expenses are disallowed by the grantor as a result of such audit, a claim for reimbursement to the grantor would become a liability of Universities Space Research Association. In the opinion of management, all grant expenses (eligible for reimbursement) are in compliance with the terms of the grant agreement and applicable federal and state laws and regulations.

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _yes _no
- Significant deficiency(ies) identified? _yes _none reported

Noncompliance material to financial statements noted? _yes _no

Federal awards

Internal control over major programs:

- Material weakness(es) identified? _yes _no
- Significant deficiency(ies) identified? _yes _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 2 CFR 200.516a? _yes _no

Identification of major programs:

Name of Federal Program or Cluster:

1. R&D Cluster CFDA: 43.RD, 47.RD, 81.RD, 66.RD, 12.RD, 11.RD, 93.RD, 15.RD

Dollar threshold used to distinguish between type A and type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? _yes _no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2020-001 – Export Controls

Type of Finding: Material Weakness in internal controls of financial reporting and compliance

Criteria: The Organization should have segregation of duties in place over export processes.

Universities Space Research Association
Schedule of Findings and Questioned Costs
Year Ended September 30, 2020

Condition: During fiscal year 2020, it was discovered that proper segregation of duties was not in place over export processes related to one program.

Cause/Effect: Proper segregation of duties were not in place allowing the same individual to create customers, collect funding and deliver goods resulting in unapproved goods being sold and the funds from the unapproved sales being diverted to a personal account.

Questioned costs: \$255,510

Recommendation: We recommend that management develop and place into effect policies, procedures and controls to ensure proper segregation of duties over exports. While the grant involving exports ended in June 2020, we recommend management incorporate proper controls in the policies and procedures manual in the event that new grants are received involving exports.

Views of Responsible Officials: Management's response is reported in "Management's Views and Corrective Action Plan" included at the end of this report.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2020-001 – Export Controls

Type of Finding: Material Weakness in internal controls of financial reporting and compliance

Criteria: The Organization should have segregation of duties in place over export processes.

Condition: During fiscal year 2020, it was discovered that proper segregation of duties was not in place over export processes related to one program.

Cause/Effect: Proper segregation of duties were not in place allowing the same individual to create customers, collect funding and deliver goods resulting in unapproved goods being sold and the funds from the unapproved sales being diverted to a personal account.

Questioned costs: \$255,510

Recommendation: We recommend that management develop and place into effect policies, procedures and controls to ensure proper segregation of duties over exports. While the grant involving exports ended in June 2020, we recommend management incorporate proper controls in the policies and procedures manual in the event that new grants are received involving exports.

Views of Responsible Officials:

Management's response is reported in "Management's Views and Corrective Action Plan" included at the end of this report.

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no findings reported in the prior year that would require comment.



RE: Management's Views and Corrective Action Plan

In response to the lapse for financial reporting and compliance for export processes discovered in FY20 related to a task order under one program, USRA is undertaking the actions described below:

USRA is implementing a new Program Transition policy which requires a comprehensive internal control review plan and sign-off for all functional areas e.g., Accounting, Export Control and Safety. The Executive Leadership Team approves the plan which will assess compliance for the program under transition to internal policies and procedures. Successful sign-off of each functional area is required prior to program go-live.

USRA's existing Program Management Review Program Policy was enhanced to address ongoing program specific export control related activities and enhanced risk register reviews to ensure program-specific compliance risks and mitigation plans are addressed as well as programmatic risks.

USRA's Export Control Program was strengthened to require an annual review of export control-related procedures, an annual transaction audit and external audits of export controls-related matters every three years.