

# The Aerospace Corporation

Financial Statements as of and for the  
Years Ended September 30, 2023 and 2022,  
Schedule of Expenditures of Federal Awards and  
OMB Uniform Grant Guidance Compliance Reports  
for the Year Ended September 30, 2023 and  
Independent Auditor's Report

# THE AEROSPACE CORPORATION

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
The Aerospace Corporation:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of The Aerospace Corporation (the "Corporation"), which comprise the balance sheets as of September 30, 2023 and 2022, and the related statements of operations, changes in corporate equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of September 30, 2023, and 2022, and the results of its operations, changes in its corporate equity, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (Government Auditing Standards). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, effective October 1, 2022, the Corporation adopted Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), using the modified retrospective transition method. Our opinions are not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2023, 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. 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 Corporation'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 Corporation's internal control over financial reporting and compliance.

*Deloitte & Touche LLP*

December 15, 2023

# THE AEROSPACE CORPORATION

## BALANCE SHEETS AS OF SEPTEMBER 30, 2023 AND 2022

	2023	2022
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 61,784,000	\$ 71,034,000
Short-term investments (Note 11)	<u>22,118,000</u>	<u>21,599,000</u>
	<u>83,902,000</u>	<u>92,633,000</u>
Receivables:		
Accounts receivable—net of allowance of \$1,302,000 and \$819,000 as of September 30, 2023 and 2022, respectively	35,228,000	15,760,000
Reimbursable costs and fees	53,363,000	61,070,000
Noncontractual receivables and other assets	<u>4,558,000</u>	<u>3,105,000</u>
Total receivables	<u>93,149,000</u>	<u>79,935,000</u>
Construction servicing funds	<u>5,509,000</u>	<u>5,365,000</u>
Prepaid expenses and deposits	<u>27,694,000</u>	<u>25,404,000</u>
Investments held in trust for nonqualified benefit plans (Notes 4 and 11)	<u>5,538,000</u>	<u>3,779,000</u>
Total current assets	<u>215,792,000</u>	<u>207,116,000</u>
INVESTMENTS HELD IN TRUST FOR NONQUALIFIED BENEFIT PLANS—Net of current portion (Notes 4 and 11)	<u>24,797,000</u>	<u>20,304,000</u>
EMPLOYEE BENEFIT ASSETS—Aerospace Retiree Medical Plan (Note 5)	<u>76,837,000</u>	<u>32,824,000</u>
PROPERTY AND EQUIPMENT—Net (Notes 2, 7, and 8)	<u>613,161,000</u>	<u>602,161,000</u>
RIGHT-OF-USE ASSETS—Operating Leases (Note 9)	<u>97,839,000</u>	<u>                    </u>
OTHER ASSETS (Note 3)	<u>14,661,000</u>	<u>19,125,000</u>
TOTAL	<u>\$ 1,043,087,000</u>	<u>\$ 881,530,000</u>

(Continued)

# THE AEROSPACE CORPORATION

## BALANCE SHEETS AS OF SEPTEMBER 30, 2023 AND 2022

	2023	2022
<b>LIABILITIES AND CORPORATE EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 48,470,000	\$ 57,541,000
Accrued payroll	12,088,000	10,820,000
Accrued vacation	65,068,000	63,776,000
Other accrued liabilities	14,227,000	15,030,000
Long-term debt—current portion (Notes 8 and 11)	13,740,000	14,080,000
Lease liabilities—current portion (Note 9)	<u>16,399,000</u>	<u>                    </u>
	<u>169,992,000</u>	<u>161,247,000</u>
Accrued employee benefit obligations—current:		
Corporate Officers’ Retirement Plan (Note 4)	5,236,000	3,508,000
Aerospace Deferred Compensation 457(b) Plan (Note 4)	<u>302,000</u>	<u>271,000</u>
Total accrued employee benefit obligations—current	<u>5,538,000</u>	<u>3,779,000</u>
Total current liabilities	<u>175,530,000</u>	<u>165,026,000</u>
LONG-TERM DEBT—Net of current portion (Notes 8 and 11)	<u>116,931,000</u>	<u>130,611,000</u>
ACCRUED EMPLOYEE BENEFIT OBLIGATIONS:		
Aerospace Employees’ Retirement Plan (Note 4)	267,324,000	334,192,000
Corporate Officers’ Retirement Plan (Note 4)	20,706,000	23,398,000
Aerospace Deferred Compensation 457(b) Plan (Note 4)	<u>9,943,000</u>	<u>6,976,000</u>
Total accrued employee benefit obligations	<u>297,973,000</u>	<u>364,566,000</u>
LEASE LIABILITIES—Net of current portion (Note 9)	<u>97,482,000</u>	<u>                    </u>
OTHER LONG-TERM LIABILITIES	<u>                    </u>	<u>4,280,000</u>
Total liabilities	<u>687,916,000</u>	<u>664,483,000</u>
COMMITMENTS AND CONTINGENCIES (Notes 6 and 9)		
CORPORATE EQUITY (DEFICIT):		
Corporate equity (Note 7)	540,079,000	507,540,000
Accumulated charge to corporate equity (Notes 4 and 5)	<u>(184,908,000)</u>	<u>(290,493,000)</u>
Total corporate equity	<u>355,171,000</u>	<u>217,047,000</u>
TOTAL	<u>\$ 1,043,087,000</u>	<u>\$ 881,530,000</u>

See notes to financial statements.

(Concluded)

# THE AEROSPACE CORPORATION

## STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
REVENUE FROM CONTRACTS	<u>\$1,297,391,000</u>	<u>\$1,196,766,000</u>
REIMBURSABLE COSTS:		
Direct labor	501,582,000	462,746,000
Indirect support and administrative costs	622,488,000	595,779,000
Other direct costs	96,407,000	89,543,000
Direct travel	<u>16,778,000</u>	<u>11,012,000</u>
Total reimbursable costs	<u>1,237,255,000</u>	<u>1,159,080,000</u>
CONTRACT EARNINGS	<u>60,136,000</u>	<u>37,686,000</u>
OTHER NONREIMBURSABLE COSTS	<u>8,250,000</u>	<u>7,748,000</u>
EARNINGS FROM OPERATIONS BEFORE PENSION AND RETIREE MEDICAL (EXPENSE) INCOME AND OTHER INCOME (EXPENSE)	<u>51,886,000</u>	<u>29,938,000</u>
PENSION AND RETIREE MEDICAL (EXPENSE) INCOME—Net of service cost (Notes 4 and 5)	<u>(13,826,000)</u>	<u>10,589,000</u>
OTHER INCOME (EXPENSE):		
Interest and amortization expense on long-term debt (Note 8)	(5,787,000)	(5,744,000)
Interest expense on lines of credit borrowings (Note 6)	(660,000)	(415,000)
Realized and unrealized gain (loss) on investments held in trust for nonqualified benefit plans—net	2,012,000	(3,267,000)
Other income (expense)	<u>1,613,000</u>	<u>(1,172,000)</u>
Total other expense—net	<u>(2,822,000)</u>	<u>(10,598,000)</u>
CHANGE IN CORPORATE EQUITY	<u>\$ 35,238,000</u>	<u>\$ 29,929,000</u>

See notes to financial statements.

## THE AEROSPACE CORPORATION

### STATEMENTS OF CHANGES IN CORPORATE EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	Corporate Equity	Accumulated Charge to Corporate Equity	Total
BALANCE—September 30, 2021	\$ 477,611,000	\$(423,647,000)	\$ 53,964,000
Change in corporate equity	29,929,000		29,929,000
Credit to corporate equity for pension and retiree medical plans (Notes 4 and 5)	<u>                    </u>	<u>133,154,000</u>	<u>133,154,000</u>
BALANCE—September 30, 2022	507,540,000	(290,493,000)	217,047,000
Change in corporate equity	35,238,000		35,238,000
Adoption of new lease accounting standard	(2,699,000)		(2,699,000)
Credit to corporate equity for pension and retiree medical plans (Notes 4 and 5)	<u>                    </u>	<u>105,585,000</u>	<u>105,585,000</u>
BALANCE—September 30, 2023	<u>\$ 540,079,000</u>	<u>\$(184,908,000)</u>	<u>\$ 355,171,000</u>

See notes to financial statements.

# THE AEROSPACE CORPORATION

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in corporate equity	\$ 35,238,000	\$ 29,929,000
Adjustments to reconcile change in corporate equity to net cash provided by operating activities:		
Depreciation and amortization	50,034,000	46,644,000
Noncash lease expense	409,000	
Loss on disposal and write-off of property and equipment	2,836,000	419,000
Realized and unrealized (gain) loss on investments held in trust for nonqualified benefit plans—net	(2,012,000)	3,267,000
Unrealized loss on short-term investments	111,000	1,378,000
Changes in operating assets and liabilities:		
Accounts receivable	(19,468,000)	16,830,000
Reimbursable costs and fees	7,707,000	(8,880,000)
Noncontractual receivables and other assets	3,011,000	(15,060,000)
Employee benefit assets	(44,013,000)	(20,051,000)
Prepaid expenses and deposits	(2,290,000)	(5,380,000)
Accounts payable and accrued expenses	(1,258,000)	5,446,000
Accrued payroll	1,268,000	(6,555,000)
Accrued vacation	1,292,000	319,000
Other accrued liabilities	(804,000)	6,568,000
Accrued employee benefit obligations	40,751,000	10,037,000
Other long-term liabilities	<u>                    </u>	<u>1,497,000</u>
Net cash provided by operating activities	<u>72,812,000</u>	<u>66,408,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments held in trust for nonqualified benefit plans	(7,800,000)	(4,175,000)
Sales of investments held in trust for nonqualified benefit plans	3,560,000	5,199,000
Purchases of short-term investments	(630,000)	(220,000)
Increase in construction servicing funds	(144,000)	(34,000)
Release from construction servicing funds		32,016,000
Acquisition of property and equipment	(62,983,000)	(90,943,000)
Proceeds from sale of property and equipment	<u>15,000</u>	<u>11,000</u>
Net cash used in investing activities	<u>(67,982,000)</u>	<u>(58,146,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit borrowings	130,000,000	97,000,000
Repayment of lines of credit borrowings	(130,000,000)	(97,000,000)
Repayment of long-term debt	<u>(14,080,000)</u>	<u>(10,624,000)</u>
Net cash used in financing activities	<u>(14,080,000)</u>	<u>(10,624,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,250,000)	(2,362,000)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>71,034,000</u>	<u>73,396,000</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 61,784,000</u>	<u>\$ 71,034,000</u>

See notes to financial statements.

# THE AEROSPACE CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**General**—The Aerospace Corporation (the “Corporation”) is an independent, nonprofit corporation created in 1960 at the initiative of the Secretary of the United States Air Force (the “Air Force”) to meet special long-term research and development needs in establishing the nation’s military space program that cannot be satisfied by any government or contractor resource. The Corporation’s primary customers are the United States Space Force (USSF), Space Systems Command (SSC) and the National Reconnaissance Office; the Corporation also provides technical support to space related programs managed by other agencies, international organizations, and governments when in the national interest.

**Basis of Presentation**—The Corporation’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Cash and Cash Equivalents**—The Corporation considers bank deposits with maturities of 90 days or less at the date of purchase to be cash equivalents. As of September 30, 2023, the Corporation held approximately \$61,534,000 of deposits that were uninsured and uncollateralized. Cash accounts that are restricted as to use are not considered to be cash equivalents.

**Short-Term Investments**—The Corporation maintains short-term investments of highly liquid securities, such as money market funds or deposits that generally have an original maturity beyond 90 days and less than one year for liquidity purposes. These short-term investments are not considered cash equivalents. Short-term investments are accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320-958, *Investments—Debt and Equity Securities—Not-for-Profit Entities*. These investments are carried at fair market value.

**Accounts Receivable**—Accounts receivable consists of billed amounts due from customers.

**Reimbursable Costs and Fees**—Reimbursable costs and fees consist of unbilled amounts due from customers.

**Property and Equipment**—Property and equipment are recorded at cost. Major additions and betterments are capitalized; maintenance and repairs are expensed. The Corporation uses both straight-line and accelerated methods of depreciation over the following useful lives:

Buildings and improvements	10–39 years
Equipment	4–17 years

Leasehold improvements are amortized using the straight-line method over the estimated useful life of the asset or the term of the lease, whichever is shorter.

**Construction Servicing Funds**—These funds are restricted by the Corporation for use in constructing new facilities owned by the Corporation and are held in a money market account. Any remaining balance in the account upon completion of construction will be transferred to the Corporation’s unrestricted cash accounts.

**Impairment of Long-Lived Assets**—The Corporation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the future estimated cash flows (undiscounted and without interest charges) are less than the carrying value, a write-down is recorded to reduce the related asset to its estimated fair value. No impairment of long-lived assets was recorded during the years ended September 30, 2023 and 2022.

**Investments**—Investments, including investments held in trust for nonqualified benefit plans and investments included in the qualified defined benefit plans (see Notes 4, 5, and 11), are carried at fair value based upon quoted market prices, or based upon values provided by third-party pricing services for such securities, or the net asset values reported by the fund managers as of the financial statement dates and recent transaction prices. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

**Leases**—On October 1, 2022, the Corporation adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended (collectively, “ASC 842”). The most significant change ASC 842 required is for lessees to recognize on the balance sheets the present value of operating lease payments as right-of-use assets and lease liabilities, which represents the lessee’s right to use the underlying asset for the lease term and the lessee’s liability to make lease payments, respectively.

The Corporation adopted the new guidance using the modified retrospective transition method at the beginning of fiscal year 2023. Reporting periods beginning after October 1, 2022, are presented under the new guidance, while prior periods continue to be reported in accordance with our historical accounting.

The Corporation has elected the transition package of practical expedients that permit the Corporation to not reassess prior conclusions concerning: whether its contracts are or contain a lease, lease classification, and capitalization of initial direct costs. The adoption of ASC 842 resulted in the recognition of approximately \$109 million of right-of-use assets and \$120 million of lease liabilities on the balance sheet as of October 1, 2022. The cumulative effect of adopting ASC 842 included a decrease to opening corporate equity on the balance sheet of \$3 million as of October 1, 2022. At adoption, we reclassified deferred rent of approximately \$4 million and tenant improvement allowance of approximately \$4 million for operating leases at the end of fiscal year 2022 from accounts payable and accrued expenses and other long-term liabilities to the right-of-use assets in the balance sheets.

The Corporation’s operating leases are primarily comprised of office space, land, vehicles, and equipment. Fixed non-lease costs in office space and land leases, for example common area maintenance costs, are included in the measurement of the right-of-use asset and lease liability as the Corporation does not separate lease and non-lease components for these lease types. Options to extend or terminate a lease that may be in the lease agreements are included in determining the right-of-use asset and lease liability when it is reasonably certain the Corporation will exercise that option. A portfolio approach is utilized for vehicles and multifunction printers, whereby they are grouped by class (either vehicle or multifunction printer), year of lease commencement, and length of lease; and a single discount rate is applied to each grouping.

Operating lease assets and liabilities are recognized based on the present value of the remaining lease payments discounted using a risk-free rate, the United States Treasury’s treasury bill rate, for the period comparable with that of the lease term. Lease expense is recognized on a straight-line basis over

the lease term in indirect support and administrative costs in the statements of operations. See Note 9 for additional disclosures related to the Corporation's leases.

**Revenue Recognition**—In accordance with FASB ASC 606, *Revenue from Contracts with Customers*, the Corporation recognizes revenue for each separately identifiable performance obligation in a contract representing a promise to transfer a distinct good or service to a customer. Revenue from contracts is derived primarily from technical services provided to or for United States governmental agencies. The Corporation has primarily cost reimbursable contracts that are based on the Corporation providing technical services over the contracts' period of performance. Technical services, as defined by the Corporation's contracts, delivered over the respective contract period of performance are generally accounted for as single performance obligations because the promise to transfer the services is not separately identifiable from other promises in the contracts and, therefore, not distinct. The Corporation satisfies its performance obligations as services are rendered over time and uses the input method of costs incurred to date relative to estimated costs at completion (cost-to-cost method) to measure progress towards satisfaction of its performance obligations. Contract costs include direct labor, other direct costs, and allocable indirect costs. Revenue includes allowable costs incurred plus fees recorded as such costs are incurred.

The Corporation recognizes revenue over time as there is a continuous transfer of control to each customer, and this is the revenue from contracts in the statements of operations. In general, the Corporation's United States government contracts contain termination for convenience and/or other clauses that generally entitle the customer to work in process. Similarly, the non-United States government contracts generally contain contractual termination clauses that entitle the Corporation to payment for work performed to date for services that do not have an alternative use. As control is effectively transferred during performance on contracts, and the Corporation is typically entitled to cost plus a reasonable margin for work in process if the contract is terminated for convenience, revenue is recognized over time using the cost-to-cost method as the Corporation believes that this represents the most appropriate measurement towards satisfaction of its performance obligations.

The Corporation invoices its primary customer weekly, other customers are generally invoiced on a monthly basis, and there is no financing component to the contracts. Revenue under an annual Space Force contract was \$1,112,629,000 and \$1,043,472,000 for the years ended September 30, 2023 and 2022, respectively.

Receivables include the accounts receivable—net of allowance, and reimbursable costs and fees, which represent unbilled receivables, on the balance sheets. The Corporation maintains a reserve for receivables expected not to be collectible.

**Nonreimbursable Costs**—Nonreimbursable costs are composed of normal operating items that, by law, regulation, contract, or administrative agreement, are not reimbursable when paid under government contracts.

**Income and Excise Taxes**—The Corporation is a nonprofit corporation determined to be exempt from California and federal income taxes under Section 23701(d) of the California Revenue and Taxation Code and Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the Corporation is not a "private foundation" under the Tax Reform Act of 1969. Accordingly, no provision for federal or California income taxes or federal excise taxes has been made in the financial statements.

**Cash Flows**—Cash paid for interest during the years ended September 30, 2023 and 2022, amounted to \$6,385,000 and \$6,741,000, respectively.

As of September 30, 2023 and 2022, accounts payable and accrued expenses included \$7,935,000 and \$11,392,000, respectively, related to construction in progress and equipment purchases.

**Use of Estimates**—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Funded Status of Benefit Plans**—In accordance with ASC 715, *Compensation—Retirement Benefits*, the Corporation recognizes the overfunded or underfunded status of single-employer defined benefit postretirement plans as assets or liabilities in the balance sheets. Changes in the funded status of the defined benefit plans are recognized in corporate equity in the year in which the change occurs. Changes in the funded status are measured based on the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other postretirement plans.

Plan net actuarial gains or losses are amortized to expense on a plan-by-plan basis when they exceed the accounting corridor. The accounting corridor is a defined range within which amortization of net gains and losses is not required. The accounting corridor is equal to 10% of the greater of plan assets or benefit obligations. Gains or losses outside the corridor are subject to amortization over the average future lifetime of the plan populations. The Corporation's funding policy is to contribute the reimbursable amount under the Cost Accounting Standards (CAS), and where applicable, to meet any minimum required contribution levels.

**Liquidity and Availability of Resources**—The Corporation's financial assets that are available within one year of the balance sheet date consist of cash, short-term investments, accounts receivable, and reimbursable costs. None of these assets have restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Cash in excess of daily requirements is invested in money market or overnight accounts. In addition, the Corporation has \$110 million in a line of credit that is available to meet liquidity needs if required (see Note 6). The Corporation also has a \$727,000 Aerospace STEM Endowment Fund (see Notes 3 and 12) that is restricted (via Board of Trustees direction) from use for general expenditures. The Corporation has long-term debt (see Notes 8 and 11) which is subject to certain financial covenants. The Corporation was in compliance with these covenants as of September 30, 2023.

**Functional Expenses**—Reimbursable costs included in the statements of operations are presented by natural classification. All direct costs are considered contract related costs. Included in indirect support and administrative costs are \$65 million of management and general costs for the year ended September 30, 2023. Certain costs included in indirect support and administrative costs, such as labor, depreciation, and occupancy, are allocated based on employee headcount, estimated usage, or square footage, depending upon the type of cost. Also, indirect support and administrative costs included \$14 million related to the service cost component of net periodic pension expense for the year ended September 30, 2023 (see Note 4).

**Subsequent Events**—The Corporation reports subsequent events in accordance with ASC 855, *Subsequent Events*, which establishes principles and requirements for evaluating and reporting

subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements.

For the year ended September 30, 2023, subsequent events were evaluated by management through December 15, 2023, the date these financial statements were available for release.

**Recent Accounting Pronouncements**—In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which adds an impairment model that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. In November 2019, the FASB issued ASU No. 2019-10, which deferred the effective date of ASU No. 2016-13 to annual reporting periods beginning after December 15, 2022, for private entities. Early adoption is permitted. The Corporation is in the process of assessing ASU No. 2016-13 and has not yet determined the impact the adoption of this ASU will have on its financial statements, if any.

## 2. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2023 and 2022, consist of the following:

	<b>2023</b>	<b>2022</b>
Land and improvements	\$ 66,121,000	\$ 66,121,000
Buildings and improvements	588,397,000	536,884,000
Equipment	628,731,000	612,242,000
Construction in progress	<u>74,659,000</u>	<u>100,174,000</u>
 Total property and equipment	 1,357,908,000	 1,315,421,000
Accumulated depreciation	<u>(744,747,000)</u>	<u>(713,260,000)</u>
 Property and equipment—net	 <u>\$ 613,161,000</u>	 <u>\$ 602,161,000</u>

During the years ended September 30, 2023 and 2022, the Corporation disposed of approximately \$20 million and \$16 million, respectively, of fixed assets that were nearly fully depreciated.

## 3. OTHER ASSETS

Other assets as of September 30, 2023 and 2022, consist of the following:

	<b>2023</b>	<b>2022</b>
Other assets	\$ 13,177,000	\$ 17,615,000
STEM Endowment Fund (Notes 1 and 12)	727,000	753,000
Prepaid land infrastructure costs	<u>757,000</u>	<u>757,000</u>
 Total other assets	 <u>\$ 14,661,000</u>	 <u>\$ 19,125,000</u>

#### 4. RETIREMENT PLANS

Net periodic pension and retiree medical expense for the years ended September 30, 2023 and 2022, consists of the following:

	<b>2023</b>	<b>2022</b>
Aerospace Employees' Retirement Plan	\$ 31,082,000	\$ 9,901,000
Corporate Officers' Retirement Plan	2,482,000	3,221,000
Aerospace Retiree Medical Plan	<u>(5,290,000)</u>	<u>(4,086,000)</u>
Pension and retiree medical expense	<u>\$ 28,274,000</u>	<u>\$ 9,036,000</u>

Components of net periodic pension expense for the years ended September 30, 2023 and 2022, consist of the following:

	<b>2023</b>	<b>2022</b>
Service cost	\$ 14,448,000	\$ 19,625,000
Interest cost	135,405,000	128,910,000
Expected return on plan assets	(124,090,000)	(144,361,000)
Amortization of prior service credit	(51,000)	(791,000)
Amortization of net actuarial loss	2,562,000	5,310,000
Settlement loss recognized	<u>                    </u>	<u>343,000</u>
Net periodic pension expense	<u>\$ 28,274,000</u>	<u>\$ 9,036,000</u>

Service cost is included in indirect support and administrative costs in the statements of operations. Non-service cost components are included in pension and retiree medical expense—net of service cost in the statements of operations.

The credit to corporate equity for pension and retiree medical plans for the years ended September 30, 2023 and 2022, consists of the following:

	<b>2023</b>	<b>2022</b>
Aerospace Employees' Retirement Plan	\$ (66,976,000)	\$(109,679,000)
Corporate Officers' Retirement Plan	114,000	(7,510,000)
Aerospace Retiree Medical Plan	<u>(38,723,000)</u>	<u>(15,965,000)</u>
Credit to corporate equity	<u>\$(105,585,000)</u>	<u>\$(133,154,000)</u>

Employer contributions to the qualified benefit plan (Aerospace Employees' Retirement Plan (AERP)) and transfers to the investments held in trust for the nonqualified benefit plans (Corporate Officers' Retirement Plan (CORP)) for the years ended September 30, 2023 and 2022, consist of the following:

	<b>2023</b>	<b>2022</b>
Aerospace Employees' Retirement Plan	\$ 30,974,000	\$ 13,580,000
Corporate Officers' Retirement Plan	<u>4,802,000</u>	<u>4,446,000</u>
Total employer contributions and transfers	<u>\$ 35,776,000</u>	<u>\$ 18,026,000</u>

The expected employer contributions to the qualified benefit plan and transfers to the investments held in trust for the nonqualified benefit plans for the year ending September 30, 2024, consist of the following:

Aerospace Employees' Retirement Plan	\$ 19,143,000
Corporate Officers' Retirement Plan	<u>3,492,000</u>
Total expected employer contributions and transfers	<u>\$ 22,635,000</u>

As of September 30, 2023 and 2022, the Corporation's retirement plans, using a plan measurement date of September 30, are summarized as follows:

**AERP**—The Corporation has a defined benefit retirement plan, AERP, covering substantially all employees hired prior to January 1, 1993. The Corporation amended AERP effective October 1, 2005, to include employees hired after that date at a lower benefit accrual rate; employees hired after January 1, 1993, were given the opportunity to elect to participate in AERP at the same lower accrual rate beginning on October 1, 2005. The Corporation currently funds the higher of the minimum required contribution under Employee Retirement Income Security Act of 1974 (ERISA) or the amount allowable under the CAS. Actuarial gains and losses and past service costs have been amortized over periods prescribed by law ranging from 5 to 30 years. Effective October 1, 2008, these amounts are amortized over seven years in accordance with the Pension Protection Act for the purpose of determining the minimum required ERISA contribution.

Effective October 1, 2018, the Corporation amended AERP to cease benefit accruals to participants who entered AERP beginning January 1, 1993. Benefit accruals to participants who entered AERP prior to January 1, 1993, were significantly reduced and such participants ceased to accrue benefits on October 1, 2023. Consequently, AERP is closed to new participants. This amendment triggered a pension curtailment which required a remeasurement of the benefit obligation as of September 30, 2018.

Net periodic pension expense for the years ended September 30, 2023 and 2022, includes the following components:

	<b>2023</b>	<b>2022</b>
Service cost	\$ 10,604,000	\$ 12,933,000
Interest cost	126,647,000	122,191,000
Expected return on plan assets	(113,410,000)	(132,649,000)
Amortization of prior service credit	(59,000)	(868,000)
Amortization of net actuarial loss	<u>7,300,000</u>	<u>8,294,000</u>
Net periodic pension expense	<u>\$ 31,082,000</u>	<u>\$ 9,901,000</u>

Changes in plan assets and benefit obligations recognized in charge to corporate equity for the years ended September 30, 2023 and 2022, include the following components:

	<b>2023</b>	<b>2022</b>
Net gain arising during period	\$ (59,735,000)	\$(102,253,000)
Amortization of prior service credit	59,000	868,000
Amortization of net loss	<u>(7,300,000)</u>	<u>(8,294,000)</u>
Total recognized in charge to corporate equity	<u>\$ (66,976,000)</u>	<u>\$(109,679,000)</u>

AERP's funded status and amounts reflected in the balance sheets as of September 30, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Changes in benefit obligation:		
Benefit obligation—beginning of year	\$2,188,159,000	\$2,915,803,000
Service cost	10,604,000	12,933,000
Interest cost	126,647,000	122,191,000
Benefits and expenses paid	(170,808,000)	(186,034,000)
Actuarial loss (gain) <sup>(1)</sup>	<u>3,595,000</u>	<u>(676,734,000)</u>
Benefit obligation—end of year	<u>\$2,158,197,000</u>	<u>\$2,188,159,000</u>
Changes in plan assets:		
Fair value of plan assets—beginning of year	\$1,853,967,000	\$2,468,253,000
Employer contributions	30,974,000	13,580,000
Actual return on plan assets	176,690,000	(441,887,000)
Plan participants' contributions	50,000	55,000
Benefits and expenses paid	<u>(170,808,000)</u>	<u>(186,034,000)</u>
Fair value of plan assets—end of year	<u>\$1,890,873,000</u>	<u>\$1,853,967,000</u>
Funded status (accrued employee benefit obligation)	<u>\$ (267,324,000)</u>	<u>\$ (334,192,000)</u>
Amounts not yet reflected in net periodic benefit cost and included in accumulated charge to corporate equity consist of:		
Prior service credit	\$ -	\$ 59,000
Net loss	<u>(306,274,000)</u>	<u>(373,309,000)</u>
Accumulated charge to corporate equity	(306,274,000)	(373,250,000)
Cumulative employer contributions in excess of net periodic benefit cost	<u>38,950,000</u>	<u>39,058,000</u>
Net obligation recognized in the balance sheets	<u>\$ (267,324,000)</u>	<u>\$ (334,192,000)</u>

<sup>(1)</sup> The actuarial gain for the fiscal year ended September 30, 2022, was primarily due to a change in the discount rate assumption used in measuring plan obligations.

The accumulated benefit obligation for AERP was \$2,158,197,000 and \$2,186,640,000 as of September 30, 2023 and 2022, respectively.

AERP provides both fixed and variable benefits. Variable benefits increase (decrease) each year based on the excess (deficit) of actual return on variable plan assets over 4%. Variable benefits are assumed to increase each year based on the assets' earning the expected rate of return and are then discounted at the expected rate of return. AERP is not subject to investment risk or interest rate risk with respect to the variable benefits as these are borne by AERP participants. Variable benefit obligations comprise approximately 59% of AERP obligations.

Weighted-average assumptions used to determine benefit obligations as of September 30, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Discount rate for fixed benefits	6.00 %	5.50 %
Discount rate for variable benefits	6.70	6.40
Weighted-average discount rate	6.41	6.01
Rate of compensation increase	N/A	2.00
Rate of increase of variable benefits	2.60	2.31

Rate of compensation increase is not applicable for 2023 due to the cessation of benefit accruals as of September 30, 2023.

Weighted-average assumptions used to determine net cost for the years ended September 30, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Discount rate for fixed benefits	5.50 %	2.80 %
Discount rate for variable benefits	6.40	5.60
Weighted-average discount rate	6.01	4.35
Expected long-term rate of return on assets	6.40	5.60
Rate of compensation increase	2.00	2.03
Rate of increase of variable benefits	2.31	1.54

To develop the expected long-term rate of return on asset assumptions, the Corporation considered the historical returns and the future expectation for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Asset allocations for AERP by asset category as of September 30, 2023 and 2022, are as follows:

<b>Asset Category</b>	<b>2023</b>	<b>2022</b>
Equity	49 %	46 %
Fixed-income	46	49
Real estate	<u>5</u>	<u>5</u>
Total	<u>100 %</u>	<u>100 %</u>

The asset allocation in the investment policy aims to provide, over the long term, investment returns that allow AERP's variable benefit to meet or surpass inflation and keep AERP well-funded. The primary

asset classes used to attain these objectives were equity, fixed-income, and real estate. During 2023, the target asset class allocations were 51%, 45%, and 4%. During 2022, the target asset class allocations were 48%, 48%, and 4%.

**Alternative Investments in Benefit Plans**—The plan assets for AERP include alternative investments (see Note 11), consisting of an investment in a privately held real estate fund of \$93,830,000 and \$101,133,000 as of September 30, 2023 and 2022, respectively.

The Corporation expects to contribute \$19,143,000 to AERP for the fiscal year ending September 30, 2024. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<b>Years Ending September 30</b>	
2024	\$ 168,753,000
2025	170,482,000
2026	171,456,000
2027	172,266,000
2028	172,966,000
2029–2033	<u>854,876,000</u>
 Total	 <u>\$1,710,799,000</u>

**CORP**—The Corporation established CORP in 1981 to provide monthly retirement benefit payments to corporate officers based on salary and length of service. Payments to retirees are funded annually from the investments held in trust for nonqualified benefit plans, of which the Corporation, not CORP, is the beneficiary and to which the Corporation transfers assets annually. These assets are primarily invested in equity securities and fixed-income instruments and are included in investments held in trust for nonqualified benefit plans in the balance sheets.

Effective September 10, 2010, the Corporation established a new element of CORP, CORP IV. CORP IV currently has 15 officers as participants, and it is anticipated that future officers will participate in CORP IV. CORP IV is a nonqualified defined contribution plan with a fixed contribution rate equal to 25% prior to January 1, 2016, and 35% on or after January 1, 2016, of the participating officer’s annual salary plus certain bonuses. The Board of Trustees may also make discretionary contributions under CORP IV. Interest is credited at a rate equal to the average monthly Moody’s Aa long-term corporate bond yield for the 12 months immediately preceding the calendar year for which the interest is credited. Benefits under CORP IV generally vested as follows:

- 50% at 7 years of service as a participant
- 75% at 12 years of service as a participant
- 85% at 17 years of service as a participant or on 62nd birthday, if earlier
- 100% at age 65 or agreed upon retirement date

Effective September 30, 2018, the Corporation amended CORP IV. The fixed contribution rate became equal to 25% of the participating officer's annual salary plus certain bonuses since January 1, 2018, and of the participating officer's annual salary only since January 1, 2019. Benefits already earned under CORP IV vested 50% on the last business day of December 2018 and the remaining 50% vested on the last business day of December 2019. Benefits earned December 31, 2018, or later, will generally vest as follows:

- Awards at year 1 and 2 of service will vest in year 4
- Awards at year 3 and 4 of service will vest in year 6
- Awards at year 5 and 6 of service will vest in year 8
- Awards at year 7, 8, 9, and 10 of service will vest in year 10
- Awards at year 11 of service and thereafter will vest immediately
- In addition, participants 65 or older, will vest immediately after 4 years of service

Net periodic pension expense for the years ended September 30, 2023 and 2022, includes the following components:

	<b>2023</b>	<b>2022</b>
Service cost	\$ 1,089,000	\$ 1,361,000
Interest cost	1,385,000	1,024,000
Amortization of prior service cost	8,000	77,000
Amortization of net actuarial loss		416,000
Settlement loss recognized		343,000
	<u>                    </u>	<u>                    </u>
Net periodic pension expense	<u>\$ 2,482,000</u>	<u>\$ 3,221,000</u>

The settlement loss recognized for the year ended September 30, 2022, was caused by a distribution payment made to a participant during the year ended September 30, 2022.

Changes in plan assets and benefit obligations recognized in charge to corporate equity for the years ended September 30, 2023 and 2022, include the following components:

	<b>2023</b>	<b>2022</b>
Net loss (gain) arising during period	\$ 122,000	\$(6,674,000)
Amortization of prior service cost	(8,000)	(77,000)
Amortization of net loss		(759,000)
	<u>                    </u>	<u>                    </u>
Total recognized in charge to corporate equity	<u>\$ 114,000</u>	<u>\$(7,510,000)</u>

CORP's funded status and amounts reflected in the balance sheets as of September 30, 2023 and 2022, are set forth as follows:

	<b>2023</b>	<b>2022</b>
Changes in benefit obligation:		
Benefit obligation—beginning of year	\$ 26,906,000	\$ 36,394,000
Service cost	1,089,000	1,361,000
Interest cost	1,385,000	1,024,000
Benefits paid	(3,560,000)	(2,221,000)
Plan settlements		(2,978,000)
Actuarial loss (gain) <sup>(1)</sup>	<u>122,000</u>	<u>(6,674,000)</u>
Benefit obligation—end of year	<u>\$ 25,942,000</u>	<u>\$ 26,906,000</u>
Fair value of plan assets—end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status (accrued employee benefit obligation)	<u>\$(25,942,000)</u>	<u>\$(26,906,000)</u>
Accrued employee benefit obligation:		
Current liabilities	\$ (5,236,000)	\$ (3,508,000)
Noncurrent liabilities	<u>(20,706,000)</u>	<u>(23,398,000)</u>
Funded status recognized in the balance sheets	<u>\$(25,942,000)</u>	<u>\$(26,906,000)</u>
Amounts not yet reflected in net periodic benefit cost and included in accumulated charge to corporate equity consist of:		
Prior service cost	\$ (12,000)	\$ (20,000)
Net loss	<u>(1,131,000)</u>	<u>(1,009,000)</u>
Accumulated charge to corporate equity	(1,143,000)	(1,029,000)
Cumulative net periodic benefit cost in excess of employer-funded benefits paid	<u>(24,799,000)</u>	<u>(25,877,000)</u>
Net obligation recognized in the balance sheets	<u>\$(25,942,000)</u>	<u>\$(26,906,000)</u>

<sup>(1)</sup> The actuarial gain for the fiscal year ended September 30, 2022, was primarily due to a change in the discount rate assumption used in measuring plan obligations.

The accumulated benefit obligation for CORP was \$25,942,000 and \$26,906,000 as of September 30, 2023 and 2022, respectively.

Weighted-average assumptions used to determine benefit obligations as of September 30, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Discount rate	6.00 %	5.60 %
Rate of compensation increase	3.40	3.40
Interest crediting rate	5.11	4.15

Weighted-average assumptions used to determine net cost for the years ended September 30, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Discount rate	5.60 %	2.60 %
Rate of compensation increase	3.40	3.00
Interest crediting rate	4.15	2.88

The primary asset classes utilized in this plan are equity and fixed-income with target allocations of 60% and 40%, respectively. Asset allocations for CORP by asset category as of September 30, 2023 and 2022, are as follows:

<b>Asset Category</b>	<b>2023</b>	<b>2022</b>
Equity	59 %	58 %
Fixed-income	39	39
Short-term investments	<u>2</u>	<u>3</u>
Total	<u>100 %</u>	<u>100 %</u>

The Corporation expects to transfer \$3,492,000 to investments held in trust for nonqualified benefit plans during the fiscal year ending September 30, 2024. The Corporation expects to disburse \$5,236,000 from investments held in trust for nonqualified benefit plans to CORP for the fiscal year ending September 30, 2024. Benefit payments, which reflect expected future service, as appropriate, and which are expected to be paid from the assets held in trust for nonqualified benefit plans and other future transfers from the Corporation, are as follows:

<b>Years Ending September 30</b>	
2024	\$ 5,236,000
2025	3,455,000
2026	4,628,000
2027	4,085,000
2028	4,366,000
2029–2033	<u>13,200,000</u>
Total	<u>\$ 34,970,000</u>

**Aerospace Corporation 401(k) Plan (401(k) Plan)**—The Corporation operates a 401(k) plan covering substantially all employees. For eligible employees who are not accruing benefits in the AERP, the Corporation funded contribution rates are as follows:

- 5% of eligible compensation at less than 5 years of service
  - 7% of eligible compensation at 5 years of service through less than 25 years of service
  - 9% of eligible compensation at 25 years of service or more
- In addition, the Corporation provides a matching contribution that is 100% of a participant's 401(k) contribution for up to 3% of the participant's eligible compensation

The Corporation's expense relating to this plan amounted to \$63,839,000 and \$57,430,000 for the years ended September 30, 2023 and 2022, respectively, and is included in indirect support and administrative costs in the statements of operations. The 401(k) Plan's plan year-end is December 31.

**Aerospace Corporation Deferred Compensation 457(b) Plan (457(b) Plan)**—The Corporation established a nonqualified deferred compensation plan, 457(b) Plan, on October 1, 2016. The 457(b) Plan allows participants to set aside eligible compensation in a tax-deferred account for retirement and is a means for participants to supplement their retirement savings. Participation is limited to a select group of employees and is voluntary. The amount that can be set aside is subject to an annual limit established in the Internal Revenue Code. Participant deferrals and the associated earnings are 100% vested. Participant deferrals are invested in certain investment funds as directed by the participants. The balance of the participants’ savings is considered an asset of the Corporation, is included in investments held in trust for nonqualified benefit plans in the balance sheets, and is at risk in the event of the Corporation’s bankruptcy or insolvency.

The following table summarizes the 457(b) Plan amounts in the balance sheets for the years ended September 30, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Accrued employee benefit obligation:		
Current liabilities	\$ (302,000)	\$ (271,000)
Noncurrent liabilities	<u>(9,943,000)</u>	<u>(6,976,000)</u>
Total accrued employee benefit obligation	<u><u>\$ (10,245,000)</u></u>	<u><u>\$ (7,247,000)</u></u>

#### **5. AEROSPACE RETIREE MEDICAL PLAN**

**Aerospace Retiree Medical Plan (RMP)**—The Corporation sponsors RMP, which provides certain payments that are capped at amounts that are predetermined on an annual basis, towards health care premiums for retirees and eligible dependents. It is anticipated that this benefit will increase at a rate of 0.8% per year. Employees may become eligible for benefits if they retire after having attained specified service requirements while they worked for the Corporation.

Beginning in fiscal year 1987, the Corporation began accruing and funding annual amounts mutually agreed to by the Corporation and its principal customer, the Air Force.

During fiscal year 2023, the Corporation communicated its plan to amend, effective January 1, 2024, RMP to offer participants 65 and older, a broader range of medical insurance options, in an exchange that will be administered by a vendor. This amendment resulted in an increase in the benefit obligation as of September 30, 2023, of \$25,730,000.

Changes in plan assets and benefit obligations recognized in charge to corporate equity for the years ended September 30, 2023 and 2022, include the following components:

	<b>2023</b>	<b>2022</b>
Amortization of net gain	\$ 4,738,000	\$ 3,400,000
New prior service cost	25,730,000	
Net gain arising during period	<u>(69,191,000)</u>	<u>(19,365,000)</u>
Total recognized in charge to corporate equity	<u><u>\$ (38,723,000)</u></u>	<u><u>\$ (15,965,000)</u></u>

RMP's benefit obligation, plan participants' contributions, gross medical premiums, employer contributions, fair value of plan assets, funded status, and amounts not yet reflected in net periodic benefit cost and included in accumulated charge to corporate equity as of September 30, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Benefit obligation—end of year	<u>\$ 108,724,000</u>	<u>\$ 137,982,000</u>
Plan participants' contributions	<u>\$ 5,645,000</u>	<u>\$ 6,273,000</u>
Gross medical premiums	<u>\$ (11,811,000)</u>	<u>\$ (12,690,000)</u>
Employer contributions	<u>\$ -</u>	<u>\$ -</u>
Fair value of plan assets—end of year	<u>\$ 185,561,000</u>	<u>\$ 170,806,000</u>
Funded status (accrued retiree medical benefit asset)	<u>\$ 76,837,000</u>	<u>\$ 32,824,000</u>
Amounts not yet reflected in net periodic benefit cost and included in accumulated charge to corporate equity consist of:		
Prior service cost	<u>\$ (25,730,000)</u>	<u>\$ -</u>
Net gain	<u>148,239,000</u>	<u>83,786,000</u>
Accumulated credit to corporate equity	<u>\$ 122,509,000</u>	<u>\$ 83,786,000</u>

The actuarial gain related to changes in the benefit obligation for the fiscal year ended September 30, 2023, was primarily due to a change in the benefit rate increase assumption used in measuring plan obligations. The actuarial gain related to changes in the benefit obligation for the fiscal year ended September 30, 2022, was primarily due to the actual benefit rate increase differed from the anticipated benefit rate increase of 4%, and a change in the discount rate assumption used in measuring plan obligations.

Weighted-average assumptions used to determine benefit obligations as of September 30, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Discount rate	6.00 %	5.50 %

Weighted-average assumptions used to determine net cost for the years ended September 30, 2023 and 2022, are as follows:

	<b>2023</b>	<b>2022</b>
Discount rate	5.50 %	2.90 %
Expected long-term rate of return on assets	6.40	5.60

To develop the expected long-term rate of return on asset assumptions, the Corporation considered the historical returns and the future expectation for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Asset allocations for RMP by asset category as of September 30, 2023 and 2022, are as follows:

<b>Asset Category</b>	<b>2023</b>	<b>2022</b>
Equity	60 %	59 %
Fixed-income	<u>40</u>	<u>41</u>
Total	<u>100 %</u>	<u>100 %</u>

The asset allocation in the investment policy aims to keep the RMP well-funded over the long term. The primary asset classes utilized to attain these objectives are equity and fixed-income, with target allocations of 60% and 40%, respectively.

The Corporation does not expect to contribute to RMP for the fiscal year ending September 30, 2024. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<b>Years Ending September 30</b>	
2024	\$ 9,085,000
2025	8,383,000
2026	8,350,000
2027	8,301,000
2028	8,248,000
2029–2033	<u>40,641,000</u>
Total	<u>\$ 83,008,000</u>

## 6. CREDIT FACILITIES

The Corporation has a revolving line of credit available from a financial institution; aggregate maximum borrowings under this line is \$110 million (see Note 1). The line of credit is unsecured and expires on July 31, 2028. At the Corporation's option, interest on each borrowing is calculated at either the greater of 0% or the financial institution's prime rate (which was 8.5% as of September 30, 2023), minus 1.00%; or the greater of 0% or the Term Secured Overnight Financing Rate (SOFR), plus 1.35%, for periods of one to three months. As of September 30, 2023, the one- and three-month Term SOFR was 5.32% and 5.39%, respectively. The line of credit contains restrictive covenants, including the ratio of total debt to cash flow and the ratio of cash flow to debt service payments; charges to corporate equity for pension and retiree medical plans and pension and retiree medical expense and income are excluded from corporate equity and change in corporate equity for purposes of the covenants. There were no outstanding borrowings under the lines of credit as of September 30, 2023 and 2022.

As of September 30, 2023, the Corporation had issued four irrevocable letters of credit totaling \$1,974,000 as security for performance under various agreements (see Note 9). The letters of credit expire at various dates through January 9, 2026, and contain automatic extensions that are exercisable at the option of the beneficiary of the letters of credit. Should these irrevocable letters of credit expire without the terms of the related agreements being satisfied, or in the event of default of the terms of

the related agreements, the beneficiary of the letters of credit may draw upon them. Annual fees on outstanding letters of credit are 1.25% of the face value of each letter of credit. Should the letters of credit be drawn upon, interest on the borrowings is calculated at SOFR, plus 1.80%, depending upon date of issuance, and are due upon demand.

## **7. SPECIAL RESTRICTIONS**

The Corporation is incorporated in the state of California as a nonprofit corporation. The Articles of Incorporation and contracts with the Air Force place certain restrictions on the Corporation.

### **Excerpts from the Articles of Incorporation:**

**SECOND**—“The purposes of the Corporation are exclusively scientific, as herein set forth: to engage in, assist, and contribute to the support of scientific activities and projects for, and to perform and engage in research, development, and advisory services to or for, the United States government.”

**SIXTH**—“Upon the dissolution or winding-up of the Corporation, after adequately providing for its debts and obligations, the Trustees or person or persons in charge of liquidation shall turn over any remaining assets to the United States of America as the Secretary of the Air Force may direct.”

**Excerpt from the Air Force Prime Contract**—“The Aerospace Corporation will not dispose, transfer, or assign real property without first obtaining the consent of the Secretary of the Air Force. The Aerospace Corporation’s Trustees shall have the right in time of financial need to employ The Aerospace Corporation’s vested property as security in borrowing to meet its obligations within the purposes set forth in its Articles of Incorporation. In order to provide the USAF with the opportunity to eliminate the need for such action, at least sixty (60) days prior to any such planned borrowing, the SMC Commander and the contracting officer shall be notified in writing setting forth the purpose and the amount of the borrowing.”

## 8. LONG-TERM DEBT

Long-term debt as of September 30, 2023 and 2022, consists of the following (see Notes 1 and 11):

	2023	2022
6.51% notes payable	\$ 25,919,000	\$ 30,102,000
4.76% notes payable	12,400,000	13,870,000
4.84% notes payable	12,645,000	14,120,000
3.90% notes payable	7,440,000	8,322,000
3.85% notes payable	7,440,000	8,322,000
3.50% notes payable	4,960,000	5,548,000
3.50% notes payable	4,960,000	5,548,000
2.90% notes payable	13,913,000	14,916,000
2.90% notes payable	13,913,000	14,916,000
2.90% notes payable	13,913,000	14,916,000
2.90% notes payable	<u>13,913,000</u>	<u>14,916,000</u>
Total long-term debt	131,416,000	145,496,000
Less debt issuance costs	(745,000)	(805,000)
Less current portion	<u>(13,740,000)</u>	<u>(14,080,000)</u>
Long-term debt—net of current portion and debt issuance costs	<u>\$ 116,931,000</u>	<u>\$ 130,611,000</u>

Principal maturities of long-term debt (in thousands) as of September 30, 2023, are as follows:

	Years Ending September 30						
	2024	2025	2026	2027	2028	Thereafter	Total
6.51% notes payable	\$ 4,083	\$ 3,983	\$ 3,883	\$ 3,783	\$ 3,683	\$ 6,504	\$ 25,919
4.76% notes payable	1,440	1,410	1,380	1,350	1,320	5,500	12,400
4.84% notes payable	1,445	1,415	1,385	1,355	1,325	5,720	12,645
3.90% notes payable	864	846	828	810	792	3,300	7,440
3.85% notes payable	864	846	828	810	792	3,300	7,440
3.50% notes payable	576	564	552	540	528	2,200	4,960
3.50% notes payable	576	564	552	540	528	2,200	4,960
2.90% notes payable	973	943	913	883	853	9,348	13,913
2.90% notes payable	973	943	913	883	853	9,348	13,913
2.90% notes payable	973	943	913	883	853	9,348	13,913
2.90% notes payable	<u>973</u>	<u>943</u>	<u>913</u>	<u>883</u>	<u>853</u>	<u>9,348</u>	<u>13,913</u>
Total	<u>\$ 13,740</u>	<u>\$ 13,400</u>	<u>\$ 13,060</u>	<u>\$ 12,720</u>	<u>\$ 12,380</u>	<u>\$ 66,116</u>	131,416
Debt issuance costs							<u>(745)</u>
Net carrying value							<u>\$130,671</u>

The issuance costs related to the notes payable are being amortized on a straight-line basis, which approximates the effective interest method over the term of the related notes.

**6.51% Notes Payable**—On July 3, 2008, the Corporation issued notes payable of \$100,000,000 that are collateralized by the Corporation's properties in El Segundo, California.

The notes payable bear interest at a fixed rate of 6.51% and will mature on July 3, 2030. Principal payments are due monthly and began in August 2008.

**Notes Payable—Other**—The Corporation issued 10 notes payable that are collateralized by the Corporation’s properties in El Segundo, California, and Chantilly, Virginia. The notes payable amount (original issuance, in thousands), fixed rate, maturity date, principal payment beginning due date, and payment frequency are as follows:

	<b>4.76%</b> <b>Notes Payable</b> <b>(at Issuance)</b>	<b>4.84%</b> <b>Notes Payable</b> <b>(at Issuance)</b>	<b>3.90%</b> <b>Notes Payable</b> <b>(at Issuance)</b>	<b>3.85%</b> <b>Notes Payable</b> <b>(at Issuance)</b>	<b>3.50%</b> <b>Notes Payable</b> <b>(at Issuance)</b>	<b>3.50%</b> <b>Notes Payable</b> <b>(at Issuance)</b>
Issuance date	April 8, 2011	May 26, 2011	July 2, 2012	July 2, 2012	July 10, 2013	July 10, 2013
Notes payable amount	\$25,000	\$25,000	\$15,000	\$15,000	\$10,000	\$10,000
Fixed rate	4.76%	4.84%	3.90%	3.85%	3.50%	3.50%
Maturity date	April 8, 2033	May 26, 2033	April 2, 2033	April 2, 2033	April 2, 2033	April 2, 2033
Beginning payment due	October 2015	December 2015	October 2015	October 2015	October 2015	October 2015
Payment frequency	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly

  

	<b>2.90%</b> <b>Notes Payable</b> <b>(at Issuance)</b>	<b>2.90%</b> <b>Notes Payable</b> <b>(at Issuance)</b>	<b>2.90%</b> <b>Notes Payable</b> <b>(at Issuance)</b>	<b>2.90%</b> <b>Notes Payable</b> <b>(at Issuance)</b>
Issuance date	Sept. 24, 2020	Sept. 24, 2020	Feb. 18, 2021	Feb. 18, 2021
Notes payable amount	\$15,000	\$15,000	\$15,000	\$15,000
Fixed rate	2.90%	2.90%	2.90%	2.90%
Maturity date	Sept. 8, 2042	Sept. 8, 2042	Sept. 8, 2042	Sept. 8, 2042
Beginning payment due	Sept. 2022	Sept. 2022	Sept. 2022	Sept. 2022
Payment frequency	Monthly	Monthly	Monthly	Monthly

## 9. COMMITMENTS AND CONTINGENCIES

**Leases**—Future cash payments on operating leases as of September 30, 2023, are contractually required as follows:

### Years Ending September 30

2024	\$ 20,015,000
2025	20,485,000
2026	18,159,000
2027	17,417,000
2028	15,842,000
Thereafter	<u>78,482,000</u>
Total future minimum lease payments	<u>170,400,000</u>
Less imputed interest	<u>(56,519,000)</u>
Total operating lease liabilities	<u>\$ 113,881,000</u>

**2023**

Weighted-average remaining lease term	14.21 years
Weighted-average discount rate	3.54%

Supplemental disclosures of lease cost and cash flow information related to operating leases for the year ended September 30, 2023, are as follows:

	<b>2023</b>
Operating lease cost	\$ 21,476,000
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows used for operating leases	19,590,000
Right-of-use assets obtained in exchange for new lease liabilities	8,834,000

Total lease expense was \$22,501,000 for the fiscal year ended September 30, 2022 (see Note 1).

**Contingencies**—The Corporation is subject to various claims and contingencies associated with litigation, contract performance, and other issues arising in the normal course of business. The financial statements reflect the treatment of claims and contingencies based on management’s view of the expected outcome. If the likelihood of an adverse outcome is probable and the amount is estimable, the Corporation accrues a liability in accordance with FASB ASC 450, *Contingencies*.

The Corporation has entered into agreements with public works agencies to guarantee performance on certain environmental restoration commitments made pursuant to a long-term construction project. These agreements require that the Corporation post cash, letters of credit, or sureties that may be drawn upon should the Corporation fail to perform the environmental restorations as defined in the long-term construction project plans. The Corporation believes the restoration commitments will be fulfilled in the normal course of the construction projects and that the public works agencies will have no cause to draw upon these commitments. As of September 30, 2023, four irrevocable letters of credit expiring through January 9, 2026, had been issued totaling \$1,974,000, and cash deposits of \$25,000, included in prepaid expenses and other assets in the balance sheets, had been made to satisfy the terms of these public works agreements (see Note 6).

#### **10. SELF-INSURED MEDICAL PLAN**

During fiscal year 2014, the Corporation established a self-insured medical plan that covers employees that have selected certain benefit options. A stop-loss policy has been obtained that limits the Corporation’s claims per employee, per year, to \$400,000. This medical plan is administered through a contractual agreement with a third party. The Corporation is responsible for all claims incurred up to the amount of the stop-loss policy. The Corporation’s expense for the self-insured medical plan for the years ended September 30, 2023 and 2022, was \$42,493,000 and \$39,529,000, respectively, and is included in indirect support and administrative costs in the statements of operations. The Corporation has established a reserve for covered medical claims under the self-insured plan that have been incurred but not reported (IBNR). As of September 30, 2023 and 2022, the reserve for IBNR was \$5,931,000 and \$5,303,000, respectively, and is included in accounts payable and accrued expenses in the balance sheets.

#### **11. FAIR VALUE OF FINANCIAL INSTRUMENTS**

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a market-based framework for measuring fair value, and requires disclosures about fair value measurements. Additionally, in accordance with ASC 715-20-65, *Defined Benefit Plans—General*, the Corporation’s pension and postretirement assets have been included in the disclosure below.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed using a hierarchy based upon the inputs used to measure the fair value.

The Corporation uses valuation techniques based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by management to estimate the fair values of the assets and liabilities in the table below:

**Level 1 Fair Value Measurements**—Quoted prices for identical instruments in active markets. The fair value of investments is based on market quotes of such investments. Level 1 investments primarily include publicly traded common stock, publicly traded mutual funds, and money market funds.

**Level 2 Fair Value Measurements**—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable. Level 2 investments consist typically of fixed-income securities. The fair values for fixed-income securities are valued using third-party pricing services. These pricing services use, for example, recent broker-dealer quotations or model-based pricing methods that use significant observable inputs, such as relevant yield curves, credit information of the underlying security, prepayment projections, cash flows, and other security characteristics, to determine fair value as of the last trading day of the year.

**Net Asset Values**—The fair market values of commingled funds, short-term investment funds, and the real estate fund were based on the reported net asset value (NAV), which the Corporation uses as a practical expedient as of the balance sheet date. No adjustments were made to the NAV provided by the fund managers of the underlying funds for which NAV was used and none of the investments whose fair value was based upon NAV are expected to be sold at a value materially different from NAV. Investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the fair value hierarchy tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

Investments in commingled funds and short-term investment funds are valued based on the redemption price of the underlying fund assets. Unit values are determined by the financial institution sponsoring such funds by dividing the funds' net assets at fair value by its units outstanding at the valuation date, commonly referred to as NAV. As of September 30, 2023 and 2022, the fair values of short-term investments of \$38,324,000 and \$68,761,000, respectively, and commingled funds of \$1,482,667,000 and \$1,357,368,000, respectively, were based upon NAV. As of September 30, 2023 and 2022, there were no unfunded commitments, all had daily redemption frequencies, and redemption notice periods of five days or less for the short-term investments and the commingled funds, with the exception of one commingled fund with a value of approximately \$142,787,000 and \$106,389,000, respectively, for which redemptions are made with a 15-day notice period.

The fair value of the real estate fund is based upon the reported NAV. The fair value of the underlying properties of the real estate fund are estimated based upon third-party appraisals. As of September 30, 2023 and 2022, the fair values of the real estate fund of \$93,830,000 and \$101,133,000, respectively, were based upon NAV. There were no unfunded commitments. Redemptions for the real estate fund

may be requested on a full or partial basis each quarter. The redemption request is processed and payment is redeemed generally by the end of the next calendar quarter.

**Commingled Funds Strategies**—Commingled equity funds held by the employee benefit plans employ individual strategies that may invest broadly in the equity securities of US and non-US companies in a wide range of industries and market capitalizations. Commingled fixed-income funds held by the employee benefit plans may invest in US and non-US fixed-income products in a broad or narrow range of products or sectors (e.g., corporate, US or foreign governments, and mortgage or asset-backed). Fixed-income maturities range from short to long duration depending on individual fund strategy and generally the fixed-income holdings are investment grade.

Items measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of September 30, 2023, are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Corporate assets—current assets:				
Short-term investments <sup>(1)</sup>	\$ 22,118	\$	\$	\$ 22,118
Investments held in trust for nonqualified plans:				
Short-term investments <sup>(2)</sup>	1,022			1,022
Publicly traded mutual funds	9,606			9,606
Commingled funds measured at NAV	<u>          </u>	<u>          </u>	<u>          </u>	<u>19,707</u>
 Total corporate assets and investments held in trust for nonqualified plans	 <u>\$ 32,746</u>	 <u>\$</u>	 <u>\$</u>	 <u>52,453</u>
 Employee benefit plan assets:				
Short-term investments <sup>(3)</sup>	\$	\$ 301	\$	301
Common stock	63,539			63,539
Publicly traded mutual funds	203,102			203,102
Corporate bonds		100,967		100,967
Government and agency securities		110,937		110,937
Short-term investments measured at NAV <sup>(4)</sup>				38,324
Commingled funds measured at NAV				1,462,960
Real estate fund measured at NAV	<u>          </u>	<u>          </u>	<u>          </u>	<u>93,830</u>
 Total employee benefit plan assets	 <u>\$ 266,641</u>	 <u>\$ 212,205</u>	 <u>\$</u>	 2,073,960
 Accrued income/expense—net				3,537
Pending trades				<u>(1,063)</u>
 Total fair value of employee benefit plan assets				<u>2,076,434</u>
 Total fair value of assets as of September 30, 2023				<u>\$ 2,128,887</u>

(1) The short-term investments held by the Corporation consist of a mutual fund.

(2) The short-term investments held by the nonqualified plans consist of money market funds.

(3) The short-term investments held by the employee benefit plans primarily consist of short-term maturity fixed-income securities.

(4) The short-term investments held by the employee benefit plans primarily consist of short-term investment funds.

There were no purchases or transfers of financial instruments in to or out of Level 3 of the fair value hierarchy during the year ended September 30, 2023.

Items measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of September 30, 2022, are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Corporate assets—current assets:				
Short-term investments <sup>(1)</sup>	\$ 21,599	\$ -	\$ -	\$ 21,599
Investments held in trust for nonqualified plans:				
Short-term investments <sup>(2)</sup>	857			857
Publicly traded mutual funds	6,818			6,818
Commingled funds measured at NAV	<u>          </u>	<u>          </u>	<u>          </u>	<u>16,408</u>
Total corporate assets and investments held in trust for nonqualified plans	<u>\$ 29,274</u>	<u>\$ -</u>	<u>\$ -</u>	<u>45,682</u>
Employee benefit plan assets:				
Short-term investments <sup>(3)</sup>	\$ -	\$ 349	\$ -	349
Common stock	66,302			66,302
Publicly traded mutual funds	150,848			150,848
Corporate bonds		139,990		139,990
Government and agency securities		154,939		154,939
Short-term investments measured at NAV <sup>(4)</sup>				68,761
Commingled funds measured at NAV				1,340,960
Real estate fund measured at NAV	<u>          </u>	<u>          </u>	<u>          </u>	<u>101,133</u>
Total employee benefit plan assets	<u>\$ 217,150</u>	<u>\$ 295,278</u>	<u>\$ -</u>	2,023,282
Accrued income/expense—net				4,138
Pending trades				<u>(2,647)</u>
Total fair value of employee benefit plan assets				<u>2,024,773</u>
Total fair value of assets as of September 30, 2022				<u>\$ 2,070,455</u>

<sup>(1)</sup> The short-term investments held by the Corporation consist of a mutual fund.

<sup>(2)</sup> The short-term investments held by the nonqualified plans consist of money market funds.

<sup>(3)</sup> The short-term investments held by the employee benefit plans primarily consist of short-term maturity fixed-income securities.

<sup>(4)</sup> The short-term investments held by the employee benefit plans primarily consist of short-term investment funds.

There were no purchases or transfers of financial instruments in to or out of Level 3 of the fair value hierarchy during the year ended September 30, 2022.

**Financial Instruments at Fair Value**—The financial assets and liabilities recorded at fair value in the financial statements are short-term investments and investments held in trust for nonqualified benefit plans. The carrying values of cash and cash equivalents, receivables, restricted cash, accounts payable, and accrued expenses are at approximate fair value because of the short-term maturities of these instruments.

## 12. ENDOWMENT

In November 2015, the Corporation established the Aerospace STEM (science, technology, engineering, and math) Endowment Fund (the "Fund") (see Notes 1 and 3). Earnings from and further donations to the Fund will be used to provide student scholarships to qualified underrepresented and underprivileged students. As authorized by the Board of Trustees, the Corporation transferred \$500,000 to the Fund. It is anticipated that contributions to the Fund will be obtained from employees, retirees, and other sources, and such contributions and earnings thereon are restricted for STEM programs. The Fund is not guaranteed to continue indefinitely and may be terminated at any point in the future at the direction of the Board of Trustees.

\* \* \* \* \*

## **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**

To the Board of Trustees of  
The Aerospace Corporation:

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 (Government Auditing Standards), the financial statements of The Aerospace Corporation (the "Corporation"), which comprise the balance sheet as of September 30, 2023, and the related statements of operations, changes in corporate equity, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements and have issued our report thereon dated December 15, 2023.

### **Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 Corporation'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 or significant deficiencies may exist that were not 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 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.

**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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Deloitte & Touche LLP*

December 15, 2023



**Deloitte & Touche LLP**  
555 West 5th Street  
Suite 2700  
Los Angeles, CA 90013-1010  
USA

Tel: +1 213 688 0800  
Fax: +1 213 688 0100  
www.deloitte.com

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees of  
The Aerospace Corporation:

**Report on Compliance for a Major Federal Program**

***Opinion on Major Federal Program***

We have audited The Aerospace Corporation's (the "Corporation") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on its major federal program for the year ended September 30, 2023. 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.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2023.

***Basis for Opinion on Major Federal Program***

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

We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Corporation's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Corporation's federal program.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Corporation's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances
- obtain an understanding of the Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Report on Internal Control over Compliance***

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

***Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance***

We have audited the financial statements of the Corporation as of and for the year ended September 30, 2023, and have issued our report thereon dated December 15, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Deloitte & Touche LLP*

June 25, 2024

# THE AEROSPACE CORPORATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-Through Entity/ Program Title	Assistance Listing Number	Contract Number	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Federal Expenditures
Research and Development—Cluster					
Department of Agriculture Direct Programs INTEGRAL ECOLOGY RESEARCH CTR	10.RD	P21-004501-R2		\$ -	\$ 33,804
Total Department of Agriculture				\$ -	\$ 33,804
Department of Commerce Direct Programs U.S. Dept of Comm/NOAA/NESDIS/ U.S. Dept of Comm/NOAA/NEDIS/O	11.RD 11.RD	SP-133E-17-CQ-0020 1332KP22DNEEG0002		\$ -	\$ 3,551,642 8,859,460
Total Department of Commerce				\$ -	\$ 12,411,102
Department of Defense Direct Programs AIR FORCE/SSC/CAT1/CAT2—Current Year AIR FORCE/SSC/CAT1/CAT2—Prior Year (FY22) AIR FORCE/SSC/CAT1/CAT2—Prior Years (<FY22)	12.RD 12.RD 12.RD	FA8802-19-C-0001 FA8802-19-C-0001 FA8802-14-C-0001		\$ 146,578	\$1,077,922,463 5,000,131 1,804,244
Subtotal Department of Defense Direct Programs				146,578	1,084,726,838
Department of Defense Pass-Through Programs From:					
CARNEGIE MELLON UNIVERSITY	12.RD	1990695-436668	1990695-436668		18,090
CARNEGIE MELLON UNIVERSITY	12.RD	1990728-443150	1990728-443150		11,591
CARNEGIE MELLON UNIVERSITY	12.RD	1990805-461670	1990805-461670		10,677
CARNEGIE MELLON UNIVERSITY	12.RD	1990806-464124	1990806-464124		35,871
CARNEGIE MELLON UNIVERSITY	12.RD	1990826-466277	1990826-466277		21,524
CARNEGIE MELLON UNIVERSITY	12.RD	1990828-468492	1990828-468492		580
CARNEGIE MELLON UNIVERSITY	12.RD	1990831-468494	1990831-468494		23,040
TRUSTEES OF BOSTON COLLEGE	12.RD	5109841-1	5109841-1		136,370
UC Irvine	12.RD	2022-1681	2022-1681		176,370
UCLA	12.RD	0965 G XA196	0965 G XA196		32,876
University of Minnesota	12.RD	PO 0002453085	PO 0002453085		615
Subtotal Department of Defense Pass-Through Programs				-	467,604
Total Department of Defense				\$ 146,578	\$1,085,194,442
Department of Interior Direct Programs U.S. GEOLOGICAL SURVEY (USGS) U.S. GEOLOGICAL SURVEY (USGS) US FISH & WILDLIFE SERVICE	15.RD 15.RD 15.RD	140G0121C0001 140G0121C0002 140F0622P0099		\$ -	\$ 2,292,471 415,332 28,074
Total Department of Interior				\$ -	\$ 2,735,877
Department of State Direct Programs DEPT OF STATE	19.RD	19AQMM21C0023		\$ -	\$ 264,888
Total Department of State				\$ -	\$ 264,888

(Continued)

# THE AEROSPACE CORPORATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-Through Entity/ Program Title	Assistance Listing Number	Contract Number	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Federal Expenditures
Department of Transportation Direct Programs FEDERAL AVIATION ADMINISTRATION	20.RD	693KA9-20-T-00004		\$ -	\$ 2,341,951
Department of Transportation Pass-Through Programs From: MIT	20.RD	855789	855789		24,399
Total Department of Transportation				\$ -	\$ 2,366,350
National Aeronautics and Space Administration Direct Programs					
N19 NASA-HQ	43.RD	80NSSC20K0725		\$ 14,652	\$ 116,152
NASA	43.RD	80NSSC17K0044		73,569	228,939
NASA	43.RD	80NSSC18K0973		35,043	104,442
NASA	43.RD	80NSSC21K0682			86,076
NASA	43.RD	80NSSC21K0689			29,805
NASA	43.RD	80NSSC21K1552		413	72,403
NASA	43.RD	80NSSC23K0685			76,617
NASA GODDARD (GSFC)	43.RD	80GSFC19D0011		950,628	94,074,262
NASA-HQ	43.RD	80NSSC19K0235			7,943
NASA-MSFC	43.RD	80NSSC17K0551			47,722
NASA-NSSC	43.RD	80NSSC18K1239			48,210
NASA-NSSC	43.RD	80NSSC18K1365			12,467
NASA-NSSC	43.RD	80NSSC20K1790			4,260
NASA-NSSC	43.RD	80NSCC22K0768		31,901	149,827
NR18 NASA-NSCC	43.RD	80NSSC19K1578			68,465
NR18-NASA-NSSC	43.RD	80NSSC18K1378			11,515
NR19-NASA-HQ	43.RD	80NSSC20K0550			19,281
NR22-NASA-GSFC	43.RD	80NSSC23K0696			40,827
Subtotal National Aeronautics and Space Administration Direct Programs				\$ 1,106,206	\$ 95,199,213

(Continued)

# THE AEROSPACE CORPORATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-Through Entity/ Program Title	Assistance Listing Number	Contract Number	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Federal Expenditures
National Aeronautics and Space Administration					
Pass-Through Programs From:					
CLEMSON UNIVERSITY	43.RD	2036-204-2012543	2036-204-2012543	\$ -	\$ 357
JET PROPULSION LABORATORY	43.RD	1582471	1582471		5,327,796
NATIONAL ACADEMY OF SCIENCES	43.RD	SCON-10000566	SCON-10000566		751,685
Princeton University	43.RD	P.O. 0000625460	P.O. 0000625460		106,695
Southwest Research Institute	43.RD	P99077JA	P99077JA		524,991
SOUTHWEST RESEARCH INSTITUTE	43.RD	792084N/E99017JD	792084N/E99017JD		294,516
The University of Texas Arling	43.RD	80GSFC22CA011	80GSFC22CA011		16,126
TOTALLY AWESOME	43.RD	22-0112 REV	22-0112 REV		32,205
UCLA	43.RD	80NSSC21K0954	80NSSC21K0954		109,678
UNIVERSITY NEW HAMPSHIRE	43.RD	L0061	L0061		11,540
UNIVERSITY NEW HAMPSHIRE	43.RD	L0098	L0098		8,355
UNIVERSITY NEW HAMPSHIRE	43.RD	L0152	L0152		329,008
University of Alaska	43.RD	UA 21-0102	UA 21-0102		592
UNIVERSITY OF IOWA	43.RD	S03228-01	S03228-01		11,626
University of Iowa	43.RD	2000013240	2000013240		362,783
UNIVERSITY OF NEW HAMPSHIRE	43.RD	11-106	11-106		156,508
Subtotal National Aeronautics and Space Administration Pass-Through Programs				-	8,044,461
Total National Aeronautics and Space Administration				\$ 1,106,206	\$103,243,674
National Science Foundation Direct Programs					
NATL SCIENCE FOUNDATION (NSF)	47.RD	2225405		\$ -	\$ 145,622
NATL SCIENCE FOUNDATION (NSF)	47.RD	AGS-1848730		39,913	132,847
NATL SCIENCE FOUNDATION (NSF)	47.RD	AGS1911952			34,735
Subtotal National Science Foundation Direct Programs				39,913	313,204
National Science Foundation Pass-Through Programs From:					
AUBURN UNIVERSITY	47.RD	22-PHYS-200851-AEROSPACE	22-PHYS-200851-AEROSPACE	\$ -	\$ 59,138
UNIVERSITY NEW HAMPSHIRE	47.RD	L0051	L0051		15,204
Subtotal National Science Foundation Pass-Through Programs				-	74,342
Total National Science Foundation				\$ 39,913	\$ 387,546

(Continued)

# THE AEROSPACE CORPORATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-Through Entity/ Program Title	Assistance Listing Number	Contract Number	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Federal Expenditures
Department of Energy Direct Programs DOE-NNSA	81.RD	89233120CNA000134		\$ -	\$ 26,943,056
Total Department of Energy				<u>\$ -</u>	<u>\$ 26,943,056</u>
Miscellaneous Direct Programs					
CLASSIFIED CUSTOMER	99.RD	2019-19091000402-002		\$ -	\$ 48,887
ODNI Task Order 002	99.RD	2021-21031700402-002			3,556,198
ODNI Task Order 003	99.RD	2021-21031700402-003			1,260,995
U.S. Government	99.RD	2019-19091000402-001			8,060,635
U.S. GOV'T-ODNI	99.RD	2021-21031700402-001			4,726,584
US GOVERNMENT	99.RD	2019-19091000402-006			164,205
Subtotal Miscellaneous Direct Programs				<u>-</u>	<u>17,817,504</u>
Miscellaneous Pass-Through Programs From:					
MIT LINCOLN LABORATORY	99.RD	PO7000561746	PO7000561746		12,612
MIT LINCOLN LABORATORY	99.RD	7100521773	7100521773		2,641
Subtotal Miscellaneous Pass-Through Programs				<u>-</u>	<u>15,253</u>
Total Miscellaneous Programs				<u>-</u>	<u>17,832,757</u>
Total Expenditures of Federal Awards				<u>\$1,292,697</u>	<u>\$1,251,413,496</u>

(Concluded)

# THE AEROSPACE CORPORATION

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2023

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### 1. BASIS OF ACCOUNTING

The Accompanying schedule of expenditures of federal awards includes the federal grant activity of The Aerospace Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

### 2. INDIRECT COST RATES

The Aerospace Corporation did not elect to use the 10% de minimis indirect cost rate as it does not apply to this entity because negotiated rates are used.

### 3. RELATIONSHIP TO FINANCIAL STATEMENTS

Amounts reported in the preceding schedule is reconciled to the annual financial statements for the Year Ended September 30, 2023 as follows:

Direct labor	\$ 501,582,000
Indirect support and administrative costs	622,488,000
Other direct costs	96,407,000
Direct travel	<u>16,778,000</u>
Total costs	1,237,255,000
Plus employer contribution to retirement and benefit plans	21,328,000
Plus other adjustments	<u>759,000</u>
Total reimbursable costs	1,259,342,000
Less nonfederal expenditures	<u>(7,929,000)</u>
Total expenditures of federal awards—as listed in the schedule of federal awards (rounded)	<u><u>\$1,251,413,000</u></u>

### 4. DEPARTMENT OF DEFENSE, AIR FORCE/SSC/CAT1/CAT2

The total of \$1,084,726,838 of Department of Defense—Air Force expenditures reported in the schedule of expenditures of federal awards for fiscal year 2023 includes \$1,077,922,463 in support of fiscal year 2023 contract modification, \$5,000,131 in support of fiscal year 2022 contract modification, \$770,852 in support of fiscal year 2021 contract modification, \$465,368 in support of fiscal year 2020 contract modification, \$568,024 in support of fiscal year 2019 contract modification.

**5. COST ACCOUNTING STANDARD 414 COST OF FUNDS**

The preceding federal expenditures do not include Cost Accounting Standard 414, Cost of Money as an Element of the Cost of Facilities Capital, cost of funds of \$12,251,505 for fiscal year 2023.

**6. SUBRECIPIENT AWARDS**

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards provided to subrecipients were as follows:

ALN	Grantor Agency	Contract	Subrecipient	Amount Provided to Subrecipient
12	Department of Defense	FA8802-19-C-0001	BOT OF SOUTHERN ILLINOIS UNIVERSITY	\$ 85,059
		FA8802-19-C-0001	REGENTS OF THE UNIV OF CALIF (REGENTS SA)	6,002
		FA8802-19-C-0001	REGENTS OF UNIVERSITY CA MERCED	8,021
		FA8802-19-C-0001	SEVENTH-DAY ADVENTIST LOMA LINDA	20,000
		FA8802-19-C-0001	THE UNIVERSITY CORPORATION—CSU NORTHRIDGE	12,496
		FA8802-19-C-0001	THE UNIVERSITY CORPORATION—CSU NORTHRIDGE	<u>15,000</u>
		Department of Defense Total		
43	National Aeronautics and Space Administration	80NSSC20K0725	BOSTON UNIVERSITY (BOSTON PO)	14,652
		80GSFC19D0011	BUTLER UNIVERSITY	61,024
		80NSSC18K0973	DIXIE STATE UNIVERSITY	21,823
		80NSSC21K1552	EMBRY-RIDDLE AERONAUTICAL	413
		80NSSC18K0973	JOHNS HOPKINS UNIVERSITY	13,220
		80GSFC19D0011	MITRE CORPORATION	882,509
		80GSFC19D0011	UNIVERSITY OF COLORADO	7,095
		80NSSC17K0044	UNIVERSITY OF NEW HAMPSHIRE	73,569
		80NSSC22K0768	UT-BATTELLE LLC (UT-BATTELLE)	<u>31,901</u>
National Aeronautics and Space Administration Total			<u>1,106,206</u>	
47	National Science Foundation	AGS-1848730	SPACE SCIENCE INSTITUTE	<u>39,913</u>
		National Science Foundation Total		
Total			<u>\$ 1,292,697</u>	

# THE AEROSPACE CORPORATION

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2023

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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:  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses:  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 that are not considered to be material weaknesses:  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 Section 510(a) of OMB Uniform Grant Guidance?  Yes  No

Identification of major programs:

ALN	Name of Federal Program or Cluster Number
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$3,754,240

Auditee qualified as a low-risk auditee?  Yes  No

See notes to schedule of findings and questioned costs.

**SECTION II—FINANCIAL STATEMENT FINDINGS**

No matters are reportable.

**SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters are reportable.

# **THE AEROSPACE CORPORATION**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND STATUS FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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There were no prior findings which require an update in this report.