

The Charles Stark Draper Laboratory, Inc.

**Report on Federal Awards in Accordance with the
Uniform Guidance**

E.I.N. #042505372

June 29, 2018

The Charles Stark Draper Laboratory, Inc.
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June 29, 2018

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Report of Independent Auditors

To the Board of Directors of
The Charles Stark Draper Laboratory, Inc.:

We have audited the accompanying financial statements of The Charles Stark Draper Laboratory, Inc., ("Draper") which comprise the statements of financial position as of June 29, 2018 and June 30, 2017, and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Charles Stark Draper Laboratory, Inc. as of June 29, 2018 and June 30, 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 29, 2018 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of Draper's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 29, 2018. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Draper's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Vincent L. Draper" followed by the initials "LZD".

September 24, 2018

The Charles Stark Draper Laboratory, Inc.
Statements of Financial Position
June 29, 2018 and June 30, 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 28,154,118	\$ 21,397,856
Accounts receivable, net of allowance of \$3,465,923 and \$518,047 in 2018 and 2017, respectively	53,585,267	52,840,029
Unbilled contract costs and fees, net of allowance of \$2,228,896 and \$2,396,184 in 2018 and 2017, respectively	55,556,597	56,017,657
Other current assets	13,937,076	11,349,799
Total current assets	151,233,058	141,605,341
Long-term investments	242,728,936	248,707,569
Long-term accounts receivable	18,224,415	4,537,961
Notes receivable, net of allowance of \$0 and \$2,000,000 for 2018 and 2017, respectively	1,337,193	455,307
Capital leases, net of allowance of \$0 and \$6,500,000 for 2018 and 2017, respectively	3,369,990	3,500,000
Deferred charges and other assets	1,564,076	2,037,424
Deferred financing costs, net	148,288	-
Prepaid pension benefits	11,506,377	9,327,859
Property and equipment, net	233,373,259	203,003,323
Total assets	\$ 663,485,592	\$ 613,174,784
Liabilities and Net Assets		
Current liabilities		
Line of credit	\$ 13,000,000	\$ -
Accounts payable and accrued contract costs	47,163,842	38,777,382
Accrued compensation and related expenses	32,902,496	30,882,744
Current portion of notes payable	948,581	-
Current portion of bonds payable	2,820,000	2,790,000
Other accrued expenses	10,575,942	9,872,523
Total current liabilities	107,410,861	82,322,649
Accrued post-retirement benefits	26,068,916	42,248,184
Notes payable - long term	6,045,881	-
Bonds payable, net of deferred financing costs	104,607,797	42,392,050
Deferred revenue and other long-term liabilities	27,943,349	43,545,182
Total liabilities	272,076,804	210,508,065
Unrestricted net assets	391,408,788	402,666,719
Total liabilities and net assets	\$ 663,485,592	\$ 613,174,784

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

The Charles Stark Draper Laboratory, Inc.
Statement of Activities
June 29, 2018 and June 30, 2017

	2018	2017
Operating revenues		
Gross revenue	\$ 592,570,655	\$ 571,485,600
Other income	1,347,177	340,050
Total operating revenues	<u>593,917,832</u>	<u>571,825,650</u>
Operating expenses		
Direct costs		
Subcontracts	183,955,860	190,118,941
Salaries and wages	117,022,219	113,972,761
Employee benefits	34,991,089	33,773,693
Materials, services and rentals	42,542,774	31,459,044
Other, principally travel and equipment	49,100,250	43,808,015
Total direct costs	<u>427,612,192</u>	<u>413,132,454</u>
Indirect costs		
Salaries and wages	90,672,013	84,507,553
Employee benefits and vacations	40,045,127	37,096,552
Materials, services and rentals	28,903,581	28,927,639
Depreciation and amortization	21,823,089	15,345,524
Facilities, communications, unallowables, and other	27,515,977	32,690,713
Total indirect costs	<u>208,959,787</u>	<u>198,567,981</u>
Interest expense and fees	<u>2,058,954</u>	<u>1,332,956</u>
Total operating expenses	<u>638,630,933</u>	<u>613,033,391</u>
Increase/(decrease) in unrestricted net assets from operations	<u>(44,713,101)</u>	<u>(41,207,741)</u>
Non-operating gains/(losses)		
Dividend and interest income	2,659,756	3,841,098
Realized and change in net unrealized gains on long-term investments	11,296,456	31,353,358
Other non-operating income, net	2,873,388	2,092,300
Other changes in pension and post-retirement benefits	16,625,570	27,450,135
Total non-operating gains/(losses), net	<u>33,455,170</u>	<u>64,736,891</u>
Increase/(decrease) in unrestricted net assets	(11,257,931)	23,529,150
Unrestricted net assets, beginning of year	402,666,719	379,137,569
Unrestricted net assets, end of year	<u>\$ 391,408,788</u>	<u>\$ 402,666,719</u>

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

The Charles Stark Draper Laboratory, Inc.
Statements of Cash Flows
June 29, 2018 and June 30, 2017

	2018	2017
Cash flows from operating activities		
Increase/(decrease) in unrestricted net assets	\$ (11,257,931)	\$ 23,529,150
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation and amortization	21,823,089	15,345,524
Realized and net change in unrealized gains on long-term investments	(11,296,456)	(31,353,358)
Other changes in pension and post-retirement benefits	(16,625,570)	(27,450,135)
(Gain)/loss on disposal of property and equipment	2,135,391	2,682,874
Other non-cash adjustments	366,474	85,579
Changes in operating assets and liabilities		
Accounts receivable	(745,236)	(19,033,033)
Long term accounts receivable	(13,686,515)	(4,537,961)
Note receivable	(1,112,132)	1,858,596
Capital lease	232,831	8,666,667
Prepaid pension	(2,178,518)	(1,687,027)
Unbilled contract costs and fees	461,060	13,536,086
Other current assets	(2,816,008)	(1,582,703)
Deferred charges and other assets	188,381	749,230
Accounts payable and accrued contract costs	3,344,277	(10,987,202)
Accrued compensation and related expenses	2,412,610	12,479,308
Deferred revenue	(15,480,108)	9,863,418
Other accrued expenses	(1,022,721)	(1,601,984)
Net cash used by operating activities	<u>(45,257,082)</u>	<u>(9,436,971)</u>
Cash flows from investing activities		
Additions to property and equipment	(49,519,391)	(73,654,324)
Proceeds from sale of property and equipment	624,152	21,979
Timing differences on purchases and sales	5,239,659	28,613,807
Purchase of investment securities	(44,855,760)	(76,282,691)
Loan	-	(300,000)
Proceeds from sale of investment securities	<u>58,316,216</u>	<u>103,528,000</u>
Net cash used by investing activities	<u>(30,195,124)</u>	<u>(18,073,229)</u>
Cash flows from financing activities		
Proceeds from line of credit	130,000,000	55,000,000
Repayments on line of credit	(117,000,000)	(55,000,000)
Repayment of debt	(2,790,000)	(2,770,000)
Payment of debt issuance costs	(510,997)	-
Proceeds from issuance of debt	<u>72,509,465</u>	<u>-</u>
Net cash (used)/provided by financing activities	<u>82,208,468</u>	<u>(2,770,000)</u>
Net increase/(decrease) in cash and cash equivalents	6,756,262	(30,280,200)
Cash and cash equivalents, beginning of year	<u>21,397,856</u>	<u>51,678,056</u>
Cash and cash equivalents, end of year	<u>\$ 28,154,118</u>	<u>\$ 21,397,856</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 1,468,459	\$ 1,295,095
Property and Equipment in accounts payable and accrued contract costs	\$ 8,655,152	\$ 3,564,082

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

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

1. Background and Summary of Significant Accounting Policies

Corporate Organization and Purpose

The Charles Stark Draper Laboratory, Inc. ("Draper") is a membership (nonstock), nonprofit Massachusetts Corporation. Draper engages in activities that contribute to the support and advancement of scientific research, technology and development, and in educational activities in the sciences and related subjects. Draper's customers are primarily agencies of the U.S. Government.

Draper intends to continue to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In the event of either liquidation or dissolution of Draper its net assets would be distributed to one or more charitable tax-exempt organizations or governmental agencies.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America.

Fiscal Calendar

Draper's fiscal calendar ("FY") ends on the Friday closest to June 30th. Due to this policy, the fiscal calendar may result in the last day of a fiscal year falling on a date other than on June 30.

Approximately every fifth year, Draper's fiscal year will contain 53 weeks. There are 52 weeks in FY2018 and in FY2017.

Capitalized Software

Certain costs, as they relate to purchased hardware, software, and implementation activities have been capitalized in accordance with ASC 350-40, *Intangibles – Goodwill and Other – Internal-Use Software*.

Revenue Recognition

Draper performs research under a variety of contract types for its various customers. Costs are reimbursed and recognized as revenue as they are incurred. Contract fees are recognized in proportion to costs incurred as the contracts are performed or otherwise as specified in the contract.

Some contracts are long term, meaning that the projects will continue for one year or more. For long-term contracts, generally accepted accounting practices ("GAAP") allows revenue to be recognized on a percentage-of-completion basis if circumstances are such that total profit can be estimated with reasonable accuracy and ultimate realization is reasonably assured.

Current income recognized under the percentage-of-completion method is based upon (a) the total income projected for the contract at the time of completion and (b) the expenses incurred to date. The percentage-of-completion can be measured using the proportion of costs incurred versus the total estimated cost to complete the contract. Draper receives advances and performance-based payments from customers that may exceed costs incurred on certain contracts. Draper classifies advance payments and billings in excess of costs incurred as deferred revenue. Costs incurred in excess of billings are classified as unbilled contract costs and fees, net.

Draper receives royalty payments in accordance with the terms of technology agreements. Royalty payments are recorded as other income in the Statements of Activities.

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

Net Assets

The net assets of Draper primarily consist of the excess of operating revenues over operating expenses since commencement of operations, the changes in gains and losses on investments and other non-operating income. All net assets are unrestricted in nature.

Use of Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Deferred Financing Costs

The costs of securing financing are capitalized and amortized, on the straight-line method, over the life of the associated indebtedness. This method approximates the expense that would have been recognized using the effective interest method.

Deferred Charges

Draper recovers overhead costs associated with projects under construction in accordance with Cost Accounting Standards ("CAS"). As permitted under CAS, overhead costs associated with the development of software systems are recorded as deferred charges and amortized, on the straight-line method, over five years. The Supplemental Retirement Plan for Corporate Officers ("SRPCO") will expense any paid charge in the year of retirement.

Property and Equipment

Depreciation of owned equipment (including data processing equipment and software) is computed on the straight-line method using three to five year lives. Leasehold improvements are amortized on the straight-line method over the shorter of the useful lives of the assets or the lease term. Building costs are depreciated on the straight-line method over lives of thirty-nine to forty-two-years. Building improvements are depreciated over fifteen years. Items with a unit cost of more than \$5,000 and having a useful life of one year or more are capitalized.

When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in the Statement of Activities.

In addition to the equipment and buildings acquired by Draper and investments it makes in leasehold improvements, all of which are reflected in the accompanying statements of financial position, Draper also uses certain government furnished equipment for which it is accountable to the U.S. Government. Equipment purchased with government funds are not reflected in our statements of financial position as we do not hold title to those assets.

Independent Research

Draper engages in independent research programs authorized by its Board of Directors ("BOD"). The expenses of such programs are charged to operations as incurred.

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on hand and highly liquid investments with maturities of three months or less when purchased. Draper maintains the majority of its cash and cash equivalents at two institutions.

Long-Term Investments

Investments in equity securities and mutual funds with readily determinable fair values are based on quoted market prices. Insurance contracts utilize unobservable data points for fair market value. The fair value of the comingled funds are based on net asset value ("NAV") as a practical expedient. The investment goal for the various portfolios is capital preservation while generating returns sufficient to offset the impact of inflation. Realized gains and losses on investment securities are determined by the specific identification method. Dividends are recorded on the ex-dividend date and interest income is recorded on the accrual basis.

Accounts Receivable

Generally, Draper's payment terms with its customers is between thirty and forty-five days. All receivables older than 150 days are fully reserved. However, there are certain contracts that contain contractual arrangements that delay payment beyond one fiscal year and those delayed payments are classified as long-term accounts receivable.

Advertising

Draper does engage in general advertising. Such costs are expensed as incurred and not when advertising program takes place.

Reclassification of Prior Year Presentation

Certain prior year amounts within unrestricted net assets have been reclassified to conform to current year presentation. This change has no impact on total unrestricted net assets.

New Accounting Pronouncement

On June 30, 2017, Draper adopted FASB ASU 2015-03, *Interest – Imputation of Interest*.

The amendments in this update require deferred financing costs previously presented as a deferred charge in the Statement of Position to be now presented as a reduction from the face amount of the bond payable to which these costs relate. Draper has reflected this adoption retrospectively in the statements of financial position.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this update increase comparability and transparency among organizations by recognizing most lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for annual reporting periods beginning after December 15, 2019. Draper is evaluating the impact that the ASU may have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*; a principles-based standard to recognize revenue from customer contracts. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. Draper is in the process of evaluating the financial impact.

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, Presentation of Financial Statements of Not-for-Profit Entities. This update is the result of the FASB's efforts in the first of two phases of its project. The project is designed to improve the current net asset classification requirements and the information presented in the financial statements and notes of not-for-profit entities. The main provisions of this update require a not-for-profit entity to present on the face of the statements two classes of net assets instead of three, no longer require the presentation, or disclosure of the indirect method (reconciliation) if using the direct method to report operating cash flows, report investment return net of external and direct internal investment expenses, and enhanced liquidity and expense disclosures. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. Currently, Draper only has unrestricted net assets.

In January 2016, the FASB issued ASU 2016-01, (*Subtopic 825-10*) *Financial Instruments- Overall*. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update are effective for annual reporting periods beginning after December 15, 2018 with early adoption permitted for certain aspects of the update. Draper has adopted the elimination of the requirement to disclose the fair value of debt for the year ending June 30, 2017.

In March 2017, FASB issued ASU 2017-07 *Compensation-Retirement Benefits (Topic 715); Improving the Presentation of Net Periodic Cost and Net Periodic Postretirement Cost*. The ASU requires entities to report the service cost component of the pension costs in the section as other compensation costs. Other components of the pension cost are required to be reported in the non-operating section of the income statement. ASU 2017-07 is effective for reporting periods beginning after December 15, 2018. Draper is evaluating the impact the ASU may have on its financial statements.

2. Long-Term Investments

Draper's investment portfolio is managed by Perella Weinberg Partners ("PWP") Agility, acting as Draper's outsourced chief investment officer. In this capacity, PWP Agility invests with full discretion on Draper's behalf, adhering to the investment guidelines set forth in the investment policy statement approved by the Finance Committee of Draper's BOD. Investments in global equity, real assets and global fixed income holdings are held in a PWP Agility separately managed account with Bank of New York Mellon acting as Draper's custodian. There are comingled global equity, real assets and fixed income investments which have their own individual custodian. Additional investments in private capital, real assets, absolute return, and global equities are held in a comingled account managed by Agility Comprehensive Solutions Feeder Fund LP with periodic reporting by fund administrator, HedgeServ Limited.

As of June 29, 2018 and June 30, 2017 there were uncalled commitments to private equity of \$9,044,915, and \$12,541,188, respectively, which are funded from the existing long-term investment assets.

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

Draper's long-term investment portfolio consists of the following at June 29, 2018 and June 30, 2017:

	2018	2017
Investment securities		
Cash and money market mutual funds	\$ 1,938,294	\$ 1,767,795
Global equity funds	64,097,459	77,222,503
Global fixed income	21,123,415	28,177,794
Comingled funds	78,121,549	68,532,370
Comingled funds of funds	74,638,031	71,036,859
Insurance contracts and other	307,950	382,763
Total investment securities at fair value	<u>\$ 240,226,698</u>	<u>\$ 247,120,084</u>
Other investments	2,502,238	1,587,485
Total investment securities at amortized cost	<u>\$ 2,502,238</u>	<u>\$ 1,587,485</u>
Total long-term investments	<u>\$ 242,728,936</u>	<u>\$ 248,707,569</u>

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

The following tables present information about the assets that are measured at fair value on a recurring basis as of June 29, 2018 and June 30, 2017 and indicate the fair value hierarchy of valuation techniques we utilized to determine such fair value. Draper had no transfers between levels in the current year.

	June 29, 2018	Level 1 Assets	Level 2 Assets	Level 3 Assets	NAV as Practical Expedient
Investment securities					
Cash and money market mutual funds	\$ 1,938,294	\$ 1,938,294	\$ -	\$ -	\$ -
Global equity funds	64,097,459	12,198,488	51,898,971	-	-
Global fixed income	21,123,415	-	21,123,415	-	-
Comingled funds	78,121,549	-	-	-	78,121,549
Comingled funds of funds	74,638,031	-	-	-	74,638,031
Insurance contracts and other	307,950	-	22,823	285,127	-
	<u>\$ 240,226,698</u>	<u>\$ 14,136,782</u>	<u>\$ 73,045,209</u>	<u>\$ 285,127</u>	<u>\$ 152,759,580</u>

	June 30, 2017	Level 1 Assets	Level 2 Assets	Level 3 Assets	NAV as Practical Expedient
Investment securities					
Cash and money market mutual funds	\$ 1,767,795	\$ 1,767,795	\$ -	\$ -	\$ -
Global equity funds	77,222,503	9,589,995	67,632,508	-	-
Global fixed income	28,177,794	-	28,177,794	-	-
Comingled funds	68,532,370	-	-	-	68,532,370
Comingled funds of funds	71,036,859	-	-	-	71,036,859
Insurance contracts and other	382,763	-	118,437	264,326	-
	<u>\$ 247,120,084</u>	<u>\$ 11,357,790</u>	<u>\$ 95,928,739</u>	<u>\$ 264,326</u>	<u>\$ 139,569,229</u>

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, are permitted.

A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Draper's Level 1 assets consist of equity holdings and money market funds. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Draper's Level 2 investments consist of global equities and global fixed income measured at the NAV provided by PwP. The NAV provided by the investment companies are published and are readily available, but not actively traded. The commingled funds are recorded at NAV as a practical expedient.

Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability, and include situations where there is little, if any, observable market activity for the asset or liability. Draper's Level 3 assets as of June 29, 2018 consist of insurance contracts associated with the deferred compensation plan. There are no liquidity restrictions associated with Level 3 assets.

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

The change in the fair value of Draper's investments with unobservable data points is shown below:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
Insurance Contracts		
	2018	2017
Balance at beginning of year	\$ 264,326	\$ 233,137
Transfers to Level 2	-	-
Unrealized appreciation of deferred compensation	20,801	31,189
Balance at end of year	<u>\$ 285,127</u>	<u>\$ 264,326</u>

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

The below tables represent the redemption terms and restrictions on Draper's investments measured at the NAV as a practical expedient as of June 29, 2018 and June 30, 2017, respectively.

Redemptions as of June 29, 2018

Assets	Fair Value	Redemption Terms	Redemption Restrictions
Comingled Funds	\$ 78,121,549	Daily, Monthly, Quarterly, and Annual liquidity depending on the fund	
Comingled Funds of Funds	74,638,031	The Fund has quarterly liquidity with 90 days notice up to 25% of the liquid balance	Fund includes private capital investment of \$6,337,754 that is designated as illiquid.
	<u>\$ 152,759,580</u>		

Redemptions as of June 30, 2017

Assets	Fair Value	Redemption Terms	Redemption Restrictions
Comingled Funds	\$ 68,532,370	Daily, Monthly, Quarterly, and Annual liquidity depending on the fund	
Comingled Funds of Funds	71,036,859	The Fund has quarterly liquidity with 90 days notice up to 25% of the liquid balance	Fund includes private capital investment of \$2,419,267 that is designated as illiquid.
	<u>\$ 139,569,229</u>		

The Charles Stark Draper Laboratory, Inc.
Notes to Financial Statements
June 29, 2018 and June 30, 2017

3. Property and Equipment

Property and equipment are stated at cost. The following is a summary of property, plant and equipment at cost, less accumulated depreciation, at June 29, 2018 and June 30, 2017:

	2018	2017
Data processing equipment	\$ 41,349,252	\$ 30,532,481
Lab and other equipment	129,090,489	122,482,201
Building and leasehold improvements	152,081,133	75,793,579
Building	69,266,323	73,133,205
Land	32,495,864	32,495,864
Construction in progress	18,829,543	59,790,929
	<u>443,112,604</u>	<u>394,228,259</u>
Less: Accumulated depreciation	209,739,345	191,224,936
Property and equipment, net	<u>\$ 233,373,259</u>	<u>\$ 203,003,323</u>

Depreciation expense was \$21,703,553 and \$15,225,988 for the years ending June 29, 2018 and June 30, 2017, respectively, while amortization expense was \$119,536 in each of the years ending June 29, 2018 and June 30, 2017. Draper capitalizes interest cost incurred during the period of construction of capital assets. Interest costs capitalized during the years ended June 29, 2018 and June 30, 2017 were \$386,771 and \$163,828, respectively. Draper recognized \$2,127,031, and \$2,701,725 in FY2018 and FY2017, respectively, loss on its headquarters' building due to continuing core renovations.

Draper also maintains a 48% ownership in One Hampshire at Kendall Square Condominium ("Hill Building"). In total, 27% of Draper's share in the condominium is leased to third parties and Draper occupies the remaining space it owns in the Hill Building. Rental income, including parking revenue, included within other non-operating income in the Statements of Activities was \$3,632,843 and \$3,536,591 for the years ending June 29, 2018 and June 30, 2017, respectively. In addition, Draper incurred \$684,457 and \$1,216,403 for its share of common area maintenance costs for the year ended June 29, 2018 and June 30, 2017, respectively. GAAP requires lease income to be recognized on a straight-line basis, which differs from the timing of rental payments in certain of Draper's lease agreements. Revenue recorded in advance of rental payments was \$230,926 as of June 29, 2018 and is included in deferred charges and other assets in the accompanying statements of financial position.

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Minimum future rental payments on non-cancelable leases to be received as of June 29, 2018 are as follows:

Year	
2019	\$ 4,182,577
2020	2,262,677
2021	758,333
2022	758,333
2023	233,333
Thereafter	-
	<u>\$ 8,195,253</u>

4. Capital Facilities Allowances and Unreimbursable Expenses

Capital facilities allowance is an imputed cost related to the cost of Draper's capital committed to facilities used to support sponsored work. Capital facilities allowance of \$2,510,689 in FY2018 and \$2,512,737 in FY2017 is included in the Statements of Activities.

In FY2018 and FY2017, certain expenses were either subsidized by Draper or were not reimbursed under the terms of Draper's contracts with its various customers. Total unreimbursed expenses included in indirect costs were \$26,197,995 and \$19,797,073 for FY2018 and FY2017, respectively, and consist principally of otherwise allowable overhead costs as well as unallowable personnel related and administrative expenses and charges incurred in excess of funded contract amounts. Total Draper-funded projects and cost sharing were approximately \$41,786,133 and \$37,954,071 in FY2018 and FY2017, respectively.

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5. Commitments and Contingencies

Draper leases office space, laboratory facilities and certain equipment. Such leases expire at various dates through FY2024, with options to extend for additional periods. The office space and laboratory facility lease payments are subject to escalation for increases in real estate taxes and operating expenses. Certain equipment is also rented on a short-term basis and charged to contracts. Total rent paid (exclusive of certain equipment rentals which are charged directly to contracts) was \$4,313,030 and \$2,869,338 in FY2018 and FY2017, respectively.

Minimum annual rental commitments under such leases (subject to certain escalation provisions) are as follows:

Year	Building	Equipment	Total
2019	\$ 4,770,470	\$ 238,816	\$ 5,009,286
2020	3,375,235	238,816	3,614,051
2021	2,032,664	-	2,032,664
2022	524,957	-	524,957
2023	509,973	-	509,973
Thereafter	42,601	-	42,601
	<u>\$ 11,255,900</u>	<u>\$ 477,632</u>	<u>\$ 11,733,532</u>

All payments to Draper for work performed on contracts with agencies of the U.S. Government are provisional payments which are subject to adjustment upon audit by the Defense Contract Audit Agency ("DCAA"). Our FY2016 rates are not yet finalized. DCAA questioned costs of \$9.5 million with penalties of \$6.5 million for a maximum exposure of \$16 million. Defense Contract Management Agency ("DCMA") has conducted fact finding diligence on the results of DCAA's findings and has not yet begun settlement discussions. In our assessment, we believe we have submitted the costs in accordance with the FAR regulations. Audits through FY2017 have been completed and rates through FY2015 have been finalized and recorded in the financials. Draper received a subpoena from the DOD Office of the Inspector General on April 9th, 2018 requesting additional information. Draper fulfilled this request by the intended dates.

Draper is subject to routine legal proceedings incidental to its business. While the ultimate liability from the proceedings is difficult to determine, in the opinion of management, the results of these proceedings will not have a material adverse effect on Draper's financial position or results of operations.

In FY2018, Draper entered into a new capital equipment line and collateralized \$6,994,462 of capital equipment related to that financing.

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6. Pension and Other Post-retirement Benefit Plans

Draper has three defined benefit pension plans and one post-retirement benefit plan providing health care benefits to retired employees. The current period cost of administering these benefit plans is included within operating activities as an indirect cost. The remaining changes to the benefit obligations are recorded in other changes in pension and post-retirement benefits as a part of non- operating activities in the Statements of Activities. Draper measures benefit obligations and plan assets using a month end date closest to Draper's fiscal year end date.

The following schedules provide summary information concerning Draper's benefit plans for the years ending June 29, 2018 and June 30, 2017:

	Pension Benefits		Medical Benefits	
	2018	2017	2018	2017
Benefit obligation at end of year	\$ 126,123,022	\$ 135,091,339	\$ 21,530,386	\$ 24,329,604
Fair value of plan assets at end of year	112,952,977	107,482,482	19,930,894	19,007,053
Unfunded status of the plans	<u>\$ (13,170,045)</u>	<u>\$ (27,608,857)</u>	<u>\$ (1,599,492)</u>	<u>\$ (5,322,551)</u>
Consolidated balance sheets				
Current liabilities	\$ -	\$ -	\$ -	\$ -
Noncurrent assets	11,506,377	9,327,859	-	-
Noncurrent liabilities	<u>(24,676,422)</u>	<u>(36,936,716)</u>	<u>(1,599,492)</u>	<u>(5,322,551)</u>
Unfunded status of the plans	<u>\$ (13,170,045)</u>	<u>\$ (27,608,857)</u>	<u>\$ (1,599,492)</u>	<u>\$ (5,322,551)</u>
Net period benefit cost	<u>\$ 884,995</u>	<u>\$ 8,026,037</u>	<u>\$ (1,056,593)</u>	<u>\$ (477,239)</u>
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets:				
Accumulated actuarial loss (gain)	\$ 3,939,681	\$ 17,956,642	\$ (7,214,897)	\$ (3,676,509)
Prior service costs (benefits)	-	618	2,070,842	1,035,421
Transition Obligation	<u>210,047</u>	<u>315,071</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,149,728</u>	<u>\$ 18,272,331</u>	<u>\$ (5,144,055)</u>	<u>\$ (2,641,088)</u>

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	RPE	RPDE	SRPCO	Pension Benefits
At June 29, 2018				
Benefit obligation at end of year	\$108,205,517	\$ 15,715,973	\$ 2,201,532	\$ 126,123,022
Fair value of plan assets at end of year	85,730,627	27,222,350	-	112,952,977
Unfunded status of the plans	<u>\$ (22,474,891)</u>	<u>\$ 11,506,377</u>	<u>\$ (2,201,532)</u>	<u>\$ (13,170,046)</u>

	RPE	RPSM	SRPCO	Pension Benefits
At June 30, 2017				
Benefit obligation at end of year	\$116,289,350	\$ 15,770,769	\$ 3,031,220	\$ 135,091,339
Fair value of plan assets at end of year	82,383,854	25,098,628	-	107,482,482
Unfunded status of the plans	<u>\$ (33,905,496)</u>	<u>\$ 9,327,859</u>	<u>\$ (3,031,220)</u>	<u>\$ (27,608,857)</u>

The Retirement Plan for Employees (“RPE”) provides retirement benefits paid from the net assets available in the plan for plan benefits. Retirement benefits are paid to participants in equal monthly payments beginning in the month following retirement and continue until death. Payments to a surviving spouse, if elected, are made at a reduced level. This plan comprises approximately 73% of Draper’s pension benefit obligations as of June 29, 2018.

In January 2017, BOD approved the implementation of a risk transfer initiative related to the RPE due to underfunded status. The risk transfer was to occur in two parts: (1) offer a lump sum or immediate annuity to terminated vested employees, and (2) sell a portion of retirees’ annuitized benefit to an insurance company. During this same meeting, the BOD also approved the proposed freezing of the RPE and the transfer of active RPE participants to Draper’s defined contribution plan, the Retirement Plan for Staff Members (“RPSM”). In March 2017, employees were informed of the change. The freeze date of the RPE was later established as December 31, 2017. In FY2018, the RPSM was renamed Retirement Plan for Draper Employees (“RPDE”) and the active employees in the RPE plan were moved into the RPDE plan in January, 2018.

In June 2017, the plan made lump sum payouts totaling \$10,398,879 to 149 vested terminated participants, and purchased annuities in the amount of \$19,168,800 for 391 retired participants. Draper recognized \$1,851 prior service cost related to the curtailment and a \$4,450,616 loss on the settlement in FY2017. The gain of \$228,102 related to the curtailment eliminated future salary increases after December 2017, thereby reducing the under-funded status. After the curtailment and the settlement, the underfunded status decreased from \$50,036,339 in FY2016 to an underfunded status of \$33,905,496 in FY2017.

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The RPSM provides a Surviving Spouse's Benefit, which provides a supplement for married participants who transferred to Draper from the Massachusetts Institute of Technology prior to July 2, 1976; and a Minimum Pension Benefit, which provides a minimum level of retirement benefits based upon years of service and final average salary, through a group annuity. The plan was frozen during 2009. This plan, together with the SRPCO and the Retiree Medical Benefit Plan ("RMP"), comprises the remainder of Draper's benefit obligations and plan assets.

SRPCO is an unfunded, nonqualified, retirement plan for corporate officers. The purpose of the SRPCO is to assure that the corporate officers receive a reasonable level of retirement compensation in relation to their level of compensation and length of service at Draper. This payment is made as a lump sum once the corporate officer retires. In FY2018, Draper had a payout for \$751,203.

The RMP provides post-retirement Medicare supplemental health insurance and prescription drug benefits. Draper will continue to provide the same (capped) level of contribution for each participant in the post-retirement medical plan.

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Benefit Obligations

The components of the change in total benefit obligation and the applicable assumptions for determining benefit obligations are shown below:

	Pension Benefits		Medical Benefits	
	2018	2017	2018	2017
Benefit obligation at beginning of year	\$ 135,091,339	\$ 172,586,760	\$ 24,329,604	\$ 25,118,127
Actuarial loss/(gain)	-	17,612	-	-
Service cost	1,521,894	2,765,615	753,158	886,056
Interest cost	4,548,210	5,473,975	806,632	835,227
Plan participants' contributions	-	-	208,382	292,303
Change in assumptions	(11,323,917)	(11,278,661)	(3,383,256)	(1,504,713)
Settlements	-	(29,567,679)	-	-
Benefits paid	<u>(3,714,504)</u>	<u>(4,906,283)</u>	<u>(1,184,134)</u>	<u>(1,297,396)</u>
Benefit obligation at end of year	<u>\$ 126,123,022</u>	<u>\$ 135,091,339</u>	<u>\$ 21,530,386</u>	<u>\$ 24,329,604</u>
Accumulated benefit obligation	<u>\$ 125,285,293</u>	<u>\$ 134,166,584</u>		
Weighted-average assumptions				
Discount rate	3.99%	3.64%	4.05%	3.70%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

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Benefit Cost

The components of the net periodic benefit cost recognized in the Statements of Activities, and the applicable assumptions for determining benefit costs are shown below:

	Pension Benefits		Medical Benefits	
	2018	2017	2018	2017
Service cost	\$ 1,521,894	\$ 2,765,615	\$ 753,158	\$ 886,056
Interest cost	4,548,210	5,473,975	806,632	835,227
Expected return on plan assets	(6,030,604)	(7,764,621)	(1,312,579)	(1,163,101)
Loss on Settlement	149,271	4,450,616	-	-
Loss on Curtailment	-	1,851	-	-
Amortization of prior service cost	618	1,236	(1,035,421)	(1,035,421)
Amortization of transition obligation	105,024	105,024	-	-
Amortization of net actuarial loss	590,582	2,992,341	(268,383)	-
Net periodic benefit cost	<u>\$ 884,995</u>	<u>\$ 8,026,037</u>	<u>\$ (1,056,593)</u>	<u>\$ (477,239)</u>
Changes in plan assets and benefit obligations recognized in unrestricted net assets				
Net loss (gain)	\$ (13,277,108)	\$ (18,201,545)	\$ (3,806,771)	\$ (2,732,943)
Amortizations:				
RPE	(542,550)	(7,342,078)	-	-
RPSM	-	-	-	-
SRPCO	(302,327)	(208,990)	-	-
RMP	-	-	1,035,421	1,035,421
Total Amortizations	<u>(844,877)</u>	<u>(7,551,068)</u>	<u>1,035,421</u>	<u>1,035,421</u>
Total recognized in unrestricted net assets	<u>\$ (14,121,985)</u>	<u>\$ (25,752,613)</u>	<u>\$ (2,771,350)</u>	<u>\$ (1,697,522)</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (13,236,990)</u>	<u>\$ (17,726,576)</u>	<u>\$ (3,827,943)</u>	<u>\$ (2,174,761)</u>
Weighted-average assumptions				
Discount rate	3.64%	3.34%	3.70%	3.40%
Expected long-term return on plan assets	7.00%	7.00%	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

Amortizations of pension benefit prior service costs, transition obligations and actuarial gains and losses in FY2019 are expected to be \$0, \$105,024, and (\$104,679), respectively. Amortization of medical prior service costs and gains and losses in FY2019 are expected to be \$1,035,421 and \$401,735, respectively.

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Assumptions

The discount rate is determined annually based on census information, the timing of future benefit payments and yield curve data from the Citigroup Yield Curve, as this is used for Retiree Plan for Employees, Retirement Plan for Staff Employees, and Supplemental Retirement Plan for Corporate Officers. The Retirement Medical discount rate is estimated comparing the single equivalent rate such that the present value of the plan's cash flows using the single rate equals the present value of those cash flows, using both the Mercer Yield Curve and the Citigroup Pension Discount Curve, averaging those single equivalent rates and rounding to 5 basis points.

The expected long-term rate of return assumption represents the expected average rate of return on current and future funds invested to provide for benefit obligations. This assumption is determined based on a number of factors, including historical market index returns, historical plan return data, and anticipated long-term asset allocation of the plans and plan expenses. Draper recognizes differences between the expected return on assets and the actual return over the remaining service life of the applicable participants. This amount is included in net periodic pension cost as a component of the amortization of actuarial gains and losses and is expected to be (\$104,679) in FY2019.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (providing Medicare Part D – Prescription Drug benefits) was reflected in Draper's accounting results assuming that Draper will continue to provide the same (capped) level of contributions for each participant of the post-retirement medical plan. However, any federal subsidy received will be applied to reduce the retiree participants' share of the cost.

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Plan Assets

The components of the change in total plan assets are shown below:

	Pension Benefits	
	2018	2017
Fair value of plan assets at beginning of year	\$ 107,482,482	\$ 127,251,327
Actual return on plan assets	7,937,906	14,223,874
Employer contributions	438,684	-
Plan participants' contributions	-	-
Benefits paid	(2,963,301)	(34,473,962)
Fair value adjustments	57,206	481,243
Fair value of plan assets at end of year	<u>\$ 112,952,977</u>	<u>\$ 107,482,482</u>

The investment objectives for the assets of the plan are to meet or exceed current and future benefit payments while minimizing employer contributions. Investment policies and strategies governing the assets of the plans are designed to achieve investment objectives within the constraints of a prudent level of portfolio risk and diversification. Risk management practices include the use of investment managers and maintenance of a portfolio diversified by asset class, investment approach and securities holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

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Draper's pension plans weighted-average asset allocations by asset category are as follows:

	RPE			RPDE			Total Pension
	Fair Value	Asset Allocation		Fair Value	Asset Allocation		
		Range	Actual		Range	Actual	
June 29, 2018							
Global fixed income	\$ 22,333,739	16-45%	26%	\$ -	-	0%	\$ 22,333,739
Global equity funds	51,748,278	45-60%	60%	14,898,984	40-60%	55%	66,647,262
U.S. real estate fund	8,468,413	5-10%	10%	-	-	0%	8,468,413
Insurance contracts	3,180,197	0-20%	4%	12,323,366	40-60%	45%	15,503,563
	<u>\$ 85,730,627</u>			<u>\$ 27,222,350</u>			<u>\$ 112,952,977</u>
	RPE			RPSM			Total Pension
	Fair Value	Asset Allocation		Fair Value	Asset Allocation		
		Range	Actual		Range	Actual	
June 30, 2017							
Global fixed income	\$ 21,662,045	16-30%	26%	\$ -	-	0%	\$ 21,662,045
Global equity funds	46,073,950	45-60%	56%	13,265,274	40-60%	53%	59,339,224
U.S. real estate fund	8,061,628	5-10%	10%	-	-	0%	8,061,628
Insurance contracts	6,586,231	15-30%	8%	11,833,354	40-60%	47%	18,419,585
	<u>\$ 82,383,854</u>			<u>\$ 25,098,628</u>			<u>\$ 107,482,482</u>

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The following tables present information about the assets that are measured at fair value on a recurring basis as of June 29, 2018 and June 30, 2017 respectively, and indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair value.

	June 29, 2018	Level 1 Assets	Level 2 Assets	Level 3 Assets
Investment securities				
U.S. fixed income	\$ 22,333,739	\$ -	\$ 22,333,739	\$ -
Global equity fund	66,647,262	-	66,647,262	-
U.S. real estate fund	8,468,413	-	8,468,413	-
Insurance contracts	15,503,563	-	-	15,503,563
	<u>\$ 112,952,977</u>	<u>\$ -</u>	<u>\$ 97,449,414</u>	<u>\$ 15,503,563</u>

	June 30, 2017	Level 1 Assets	Level 2 Assets	Level 3 Assets
Investment securities				
U.S. fixed income	\$ 21,662,045	\$ -	\$ 21,662,045	\$ -
Global equity fund	59,339,224	-	59,339,224	-
U.S. real estate fund	8,061,628	-	8,061,628	-
Insurance contracts	18,419,585	-	-	18,419,585
	<u>\$ 107,482,482</u>	<u>\$ -</u>	<u>\$ 89,062,897</u>	<u>\$ 18,419,585</u>

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets and liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Draper's Level 2 assets consist of variable annuities, all of which are measured at the NAV provided by the investment company. The NAV provided by the investment company is published and readily available, but not actively traded, which supports Draper's Level 2 assessment.

Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability and include situations where there is little, if any, observable market activity for the asset or liability. Draper's Level 3 assets as of June 29, 2018 consist of insurance contracts, the value of which were provided by the insurance company and reviewed for reasonableness by Draper. There are no liquidity restrictions associated with Level 3 assets.

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The change in the fair value of Draper's benefit plan assets with unobservable data points is shown below:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Insurance Contracts	
	2018	2017
alance at beginning of year	\$ 18,419,585	\$ 32,049,831
Purchases	-	382
Total gains	762,950	1,674,534
Benefits paid	(3,678,972)	(15,305,162)
alance at end of year	<u>\$ 15,503,563</u>	<u>\$ 18,419,585</u>

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Draper's Retiree Medical Benefit Plan weighted-average asset allocations by asset categories are as follows:

All of the Retiree Medical Benefit Plan assets are mutual funds traded in active markets for identical assets (Level 1 assets).

		<u>Asset Allocation</u>	
	Fair Value	Range	Actual
June 29, 2018			
Investment-grade fixed income fund	\$ 3,904,251	12-26%	20%
High-yield bond fund	1,227,382	3-11%	6%
Domestic equity funds	10,649,254	33-73%	53%
International equity funds	2,547,897	3-24%	13%
Real estate securities fund	1,602,110	5-11%	8%
	<u>\$ 19,930,894</u>		

		<u>Asset Allocation</u>	
	Fair Value	Range	Actual
June 30, 2017			
Investment-grade fixed income fund	\$ 3,490,166	12-26%	18%
High-yield bond fund	1,313,690	3-11%	7%
Domestic equity funds	10,159,924	33-73%	53%
International equity funds	2,814,033	3-24%	15%
Real estate securities fund	1,229,240	5-11%	7%
	<u>\$ 19,007,053</u>		

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Contributions and Benefits

Draper does not anticipate making any contributions to the RPSM, SRPCO or the RPE in FY2019. The Retiree Medical Plan was funded on a “pay as you go” basis in FY2018 and FY2017.

Estimated future benefit payments, which reflect future service as appropriate, are as follows:

	Pension Benefits	Medical Benefits
FY2019	\$20,017,060	\$ 1,059,187
FY2020	4,302,559	1,116,612
FY2021	5,436,268	1,164,845
FY2022	4,830,052	1,211,621
FY2023	6,069,180	1,247,383
FY2024-FY2028	32,096,335	6,753,124

7. Line of Credit

Draper has short-term lines of credit with Bank of America and BNY Mellon. The lines of credit may be renewed annually. Draper has a line of credit for \$15,000,000 with Bank of New York Mellon secured by investments. Draper also has an unsecured line of credit for \$25,000,000 with Bank of America for a total limit on the lines of credit of \$40,000,000. At June 29, 2018, Draper had an outstanding balance of \$13,000,000 on the Bank of America line of credit and at June 30, 2017, there was no balance outstanding under the credit facilities.

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8. Notes Payable

On May 11, 2018, Draper entered into a new capital equipment financing arrangement with Banc of America Leasing & Capital, LLC with a maximum borrowing limit of \$15,000,000. Notes payable are secured by equipment and are summarized as of June 29, 2018 and June 30, 2017.

	FY2018	FY2017
4.09% notes payable to Banc of America Leasing & Capital, LLC, principal & interest payable \$87,373 per month with final payment due May, 2025	\$ 6,366,397	\$ -
4.09% notes payable to Banc of America Leasing & Capital, LLC, principal & interest payable \$8,610 per month with final payment due June, 2025	628,065	-
	<u>\$ 6,994,462</u>	<u>\$ -</u>

Interest paid was \$0 during the year ended June 29, 2018.

9. Bonds Payable

In March 2018, Draper issued \$65,515,000 of Series 2018 taxable bonds ("2018 Bonds"). The proceeds were used to finance and refinance certain capital projects and for other general corporate purposes and to pay certain costs of issuance. The 2018 Bonds are interest only until September 1, 2031, mature in two tranches in 2038 and 2048, and bear interest at 4.19% and 4.39%, respectively. Draper incurred \$510,997 in bond issuance costs which have been deferred and are amortized over the life of the bonds. The 2018 Bonds have no restrictive covenants of a financial nature.

In January 2015, Draper issued \$50,000,000 in taxable Series 2015 bonds ("2015 Bonds"). The \$50,000,000 proceeds, together with other available funds, were used by Draper to advance refund, redeem, and defease the 2008 Series Bonds and to pay certain costs of issuance. The 2015 Bonds mature in 16 separate tranches on September 1 of each year 2015 to 2030 and bear interest at various rates between 0.40% and 3.59%.

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The following is a summary of Draper's bonds payable at June 29, 2018 and June 30, 2017:

	2018	2017
Outstanding bonds	\$ 108,325,000	\$ 45,600,000
Less: Deferred Financing Costs	(897,203)	(417,950)
Total bonds payable	<u>\$ 107,427,797</u>	<u>\$ 45,182,050</u>

2015 Bond Series

Maturity Date	Interest Rate	Maturity Amount
September, 2018	1.65%	\$ 2,820,000
September, 2019	1.98%	2,870,000
September, 2020	2.28%	2,925,000
September, 2021	2.49%	2,990,000
September, 2022	2.69%	3,065,000
Thereafter	2.89% - 3.59%	28,140,000
		<u>\$ 42,810,000</u>

2018 Bond Series

Maturity Date	Interest Rate	Amount
September, 2018		\$ -
September, 2019		-
September, 2020		-
September, 2021		-
September, 2022		-
Thereafter	4.19% - 4.39%	65,515,000
		<u>\$ 65,515,000</u>

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10. Asset Retirement and Environmental Remediation Obligations

ARO is the financial liability associated with environmental remediation costs related to the eventual retirement of long-lived fixed assets. In FY2018 and FY2017, Draper recognized the following changes to the fair value of its conditional asset retirement obligations (“ARO”):

	2018	2017
Fair value of liability at beginning of year	\$ 7,757,424	\$ 7,378,493
Liabilities settled	(450,762)	(82,225)
Accretion of fair value	484,839	461,156
Fair value of liability at end of year	<u>\$ 7,791,501</u>	<u>\$ 7,757,424</u>

In FY2018, there were no changes in the assumptions used to develop the ARO liability. Due to the ongoing construction work, Draper will reexamine the assumptions in FY2019. Currently, 28% of the headquarters’ building has been remediated.

In 2007, Draper established a liability for environmental cleanup costs associated with soil contamination at the Bedford test facility under the requirements of ASC 410-30, *Asset Retirement and Environmental Obligations – Environmental Obligations*. Draper has compiled estimates of the cleanup costs under various scenarios and will update those estimates as conditions change in future periods. Due to the long-term nature of the remediation activities, Draper has discounted the expected future expenditures to the current period, using a rate of 6.98%. At June 29, 2018, Draper’s recorded liability was \$789,403.

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11. Florida, Aurora Semiconductor LLC, and other

Florida

On June 30, 2008, Draper entered into agreements with the State of Florida Office of Tourism, Trade and Economic Development. These agreements were entered into as part of an overall plan to gain a presence in the State of Florida. The State of Florida agreed to provide \$15,000,000, all of which was substantially received by the close of FY2012. The terms of the award stipulated that Draper needed to create a specified number of salaried positions (165 net new jobs paying an average annual wage of at least 130% of both Hillsborough & Pinellas county wage), generate a specified level of proposals, and incur costs related to equipment purchases.

Draper also entered into agreement for an additional \$15,000,000 of matching awards with Pinellas and Hillsborough counties, the Florida High Tech Corridor Counsel ("FHTCC") and the University of Florida Research Foundation ("USF"). The matching awards were in the form of equipment, donated facilities, and rent incentives over the next ten years as follows:

1. Pinellas County provided \$2,000,000 to be used by Draper for the purchase of equipment;
2. FHTCC provided \$985,873 worth of equipment to Draper;
3. USF provided \$2,000,000 to Draper to be used for the purchase of leasehold improvements;
4. Hillsborough County agreed to fund \$976,000 of rent obligation as well as \$2,920,398 for the purchase of equipment and an additional \$2,000,000 for leasehold improvements;
5. The State of Florida has a security interest in approximately \$4,400,000 of equipment purchased in FY2009. This is the original cost of the equipment. Draper was in discussion with the State of Florida concerning how to release the security interest in the equipment.

In FY2015, Draper commenced restructuring of its Florida operations and concurrently entered into negotiations with all of the interested parties. As part of this restructuring, Draper paid the County of Hillsborough \$3,000,000 in amounts due under the contract. The State of Florida had determined that Draper had not met its obligations under the above agreements and served Draper with a demand letter for \$14,000,000 at which time, Draper accrued a liability for \$1,800,000.

In FY2016, Draper and Pinellas County determined that the equipment security interest had expired, and no amendment was needed. The final headcount measurement was determined in August 2016 and a payment was made. The FHTCC granted Draper the option of purchasing 4 of the 5 pieces of multi-chip module process equipment funded by their \$1,000,000 grant in 2009. The agreed upon purchase price was \$270,000, which was paid this year and completes the FHTCC transaction. Draper terminated its lease with USF by paying a \$968,981 termination fee. Draper derecognized \$402,309 in outstanding rent liability and recognized a \$566,672 loss on the transaction. Draper retired the leasehold

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improvement assets granted by USF and Hillsborough County for loss of \$1,881,448 which was offset by the reversal of \$1,796,240 from related deferred revenue, resulting in a net loss of \$85,208.

The Hillsborough granted assets were retired for a loss of \$860,210 which was offset by a gain of \$860,210 from derecognizing the related deferred revenue, resulting in no loss.

In FY2018, Draper settled litigation with the state of Florida for \$3,500,000. Draper booked an additional \$1,700,000 reserve and total settlement was paid on August 20, 2018. This settlement covers the original agreement with the State of Florida as well as releasing the security interest in the equipment; finalizing Draper's outstanding litigation with the State of Florida.

Aurora

Aurora Semiconductor LLC ("Aurora") is an independent, for-profit company. Draper entered into a multi-part agreement for multi-chip module facility in Florida.

In January 2016, Draper loaned a third-party operating partner, Aurora \$2,000,000. This was a two year, 2.75% interest bearing note with interest payments due to Draper on a quarterly basis.

In January 2016, Draper leased to Aurora the land, building, and equipment at its St. Petersburg, Florida location. At the end of the lease term, Aurora has the option to purchase the aforementioned assets provided an event of default has not occurred. Draper accounted for the transaction as a Sales- Type lease using classification criteria under ASC 842-10-25-2. Under ASC 842-30-40-1 and ASC 842-30-25-1 guidance, Draper derecognized the leased assets and recognized a \$4,934,454 gain.

In FY2017, Aurora's financial condition deteriorated significantly. On August 7, 2017, Draper sent notice of default to Aurora with respect to multiple deficiencies under the agreements related to the original 2016 transaction.

In FY2017, Draper recorded a reserve for the potential loss of \$4.3 million related to the capital lease of the equipment, \$2.2 million related to the capital lease of the building, and \$2.0 million for an allowance for doubtful accounts related to the loan in accordance with ASC 310 Receivable and ASC 450-20 Loss contingencies. As a result, Draper recorded total losses for \$8.5 million in FY2017 reflected in the facilities, communications, unallowables, and other section on the Statement of Activities.

In FY2018, Draper terminated its capital lease with Aurora. The building and equipment that was leased was rerecorded at fair market value, the capital lease was derecognized, and resulted in a gain of \$178,143 on the lease termination. In addition, Draper wrote off the notes receivable, unpaid interest due from Aurora, and additional payments made to Aurora related to the termination, resulting in a net \$459,038 loss.

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Other

In January 2018, Draper entered into a capital lease with a new third-party operating partner to lease the equipment and building that was previously leased by Aurora. As per ASC 840-30-40-1 and ASC 8420-30-30-1, Draper booked the investment in the lease at the fair market value of the equipment and building and derecognized the leased assets equal to the capital lease. At the end of the lease term, the third-party operating partner has the option to purchase the aforementioned assets providing an event of default has not occurred.

12. Results of Operations

Total operating revenue is \$593,917,832 in FY2018 and \$571,825,650 in FY2017. The majority of Draper's revenue is with the U.S. Government and related agencies. Contract change orders are included in the operating revenue total. There are pending change orders that total approximately \$6,957,892 at the end of FY2018 compared to \$2,029,411 at the end of FY2017.

Direct expenses are \$427,612,192 in FY2018 compared to \$413,132,454 in FY2017. Indirect costs are \$208,959,787 in FY2018 and \$198,567,981 in FY2017.

13. Subsequent Events

Draper has performed an evaluation of subsequent events through September 24, 2018, which is the date the financial statements were available to be issued. There are no events that occurred after June 29, 2018, that have a material impact on Draper's financial statements.

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	CFDA Number	Direct	Pass-through	Awarding/Pass-Through Entity	Pass-Through Entity Identifying Number	Primary Awarding Identifying Number	Total	Passed to Sub-Recipients
Department of Defense:								
Department of the Air Force	12.RD	\$ 226,881	\$ -	AIR FORCE RESEARCH LABORATORY - ROME NY	FA8750-12-C-0261	FA8750-12-C-0261	\$ 226,881	\$ 220,081
	12.RD	2,394,060	-	AIR FORCE RESEARCH LABORATORY - ROME NY	FA8750-15-C-0242	FA8750-15-C-0242	2,394,060	-
	12.RD	1,206,326	-	AIR FORCE RESEARCH LABORATORY - ROME NY	FA8750-17-C-0205	FA8750-17-C-0205	1,206,326	-
	12.RD	-	3,234	ALION SCIENCE & TECH	SUB1139913 TO 02	FA8075-14-D-0014 DO 0005	3,234	-
	12.RD	-	30,217	BAE SYSTEMS	31-5147301-1	FA8214-13-C-0001	30,217	-
	12.RD	-	1	BAE SYSTEMS	926944	FA8616-14-D-6060	1	-
	12.RD	-	59,055	BAE SYSTEMS	41-7001394	W911NF-15-D-0001-0002	59,055	-
	12.RD	-	993	BAE SYSTEMS	781390-2	F33657-99-D-0028	993	-
	12.RD	378	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	FA8651-14-C-0121	FA8651-14-C-0121	378	-
	12.RD	333,952	-	EGLIN AIR FORCE BASE	FA8651-16-F-1003	FA8651-12-D-0342	333,952	11,116
	12.RD	2,148,985	-	EGLIN AIR FORCE BASE	FA8651-17-C-0019	FA8651-17-C-0019	2,148,985	918,907
	12.RD	43,093	-	EGLIN AIR FORCE BASE	FA8651-17-F-1040	FA8651-17-F-1040	43,093	-
	12.RD	234,428	-	HQ United States Air Force / A2I	IPA	IPA	234,428	-
	12.RD	-	1,872	LEIDOS, INC.	P010155442	FA9451-09-C-0384	1,872	-
	12.RD	-	8,590	NORTHROP GRUMMAN MISSION SYSTEMS	7500098936	F42610-98-C-0001	8,590	3,974
	12.RD	-	145,226	NORTHROP GRUMMAN MISSION SYSTEMS	7500154396	FA8750-17-C0041	145,226	-
	12.RD	-	46	PAR Government Systems Corporation	SC-111715-200	W911QY-13-D-0100	46	-
	12.RD	-	2,243	PAR Government Systems Corporation	SC-111733-300	W911QY-13-D-0100	2,243	-
	12.RD	-	(34)	RAYTHEON - TEWKSBURY	P.O. 53-HBG9-BB-0004	F05604-02-F-0166	(34)	-
	12.RD	-	17	RAYTHEON BBN TECHNOLOGIES CORP	PO# 9500010753	FA8750-11-C-0074	17	-
	12.RD	-	1	RT LOGIC	RTL-SC1108-C	F04701-96-C-0025	1	-
	12.RD	1,935,925	-	Space & Missile Systems Center	FA8807-12-C-0005	FA8807-12-C-0005	1,935,925	826,059
	12.RD	1,482,318	-	Space & Missile Systems Center	FA8807-18-C-0001	FA8807-18-C-0001	1,482,318	392,305
	12.RD	124,600	-	STRATEGIC SYSTEMS PROGRAMS	N00030-14-G-0050	N00030-14-G-0050	124,600	15,579
	12.RD	82,436	-	WRIGHT LABORATORY	FA8650-13-C-7325	FA8650-13-C-7325	82,436	6,835
	12.RD	2,593,435	-	WRIGHT LABORATORY	FA8650-15-C-7543	FA8650-15-C-7543	2,593,435	926,284
	12.RD	2,050	-	AIR FORCE MATERIAL COMMAND - HANSCOM	FA8726-16-C-0012	FA8726-16-C-0012	2,050	

The accompanying notes are an integral part of the Supplemental Schedule of Expenditures of Federal Awards

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CFDA Number	Direct	Pass-through	Awarding/Pass-Through Entity	Pass-Through Entity Identifying Number	Primary Awarding Identifying Number	Total	Passed to Sub-Recipients
12.RD	-	112,189	AOSense, Inc.	AOS-16-002	FA9453-16-C-0491	112,189	-
12.RD	-	8,319	NORTHROP GRUMMAN SYSTEMS CORPORATION	No. 7500135607	FA8750-15-C-0140	8,319	-
12.RD	-	790	AXSYS TECHNOLOGIES INC	P.O. NO. 100964	F42610-98-C-0001	790	-
12.RD	-	1,436,706	NORTHROP GRUMMAN SPACE TECHNOLOGY	7600023795	FA8219-17-C-0002	1,436,706	-
12.RD	-	42,262	Intelligent Fusion Technology, Inc.	IFT032-01	FA8750-16-C-0246	42,262	-
12.RD	-	117,860	SP Global, Inc.	SPG-FD-18-C-002	FA8075-14-D-0014	117,860	-
12.RD	1,085,963	-	USAF/AFMC/AFLCMC	FA8620-17-C-3013	FA8620-17-C-3013	1,085,963	-
12.RD	-	15	UNIVERSAL TECHNOLOGY CORPORATION	14-S7506-05-C4	FA8650-11-D-5703	15	-
Subtotal Department of the Air Force	\$ 13,894,830	\$ 1,969,603				\$ 15,864,433	\$ 3,321,139
Department of the Army	\$	\$	APPLIED TECHNOLOGY ASSOCIATES	ATA-020154	W9124Q-08-C-0547	\$ 4,546	\$ -
12.RD	-	164,522	BATTELLE	704487	W911NF-18-F0002	164,522	-
12.420	-	(84)	CENTER INTEGRATION MED & INNOVATIVE TECH	CIMIT DOD 217223	W81XWH-09-2-001	(84)	-
12.420	-	30	CENTER INTEGRATION MED & INNOVATIVE TECH	217419	W81XWH-09-2-0001	30	-
12.RD	-	9	CENTER INTEGRATION MED & INNOVATIVE TECH	CIMIT DOD - Fund #218629-99271	DAMD17-02-2-0006	9	-
12.RD	-	(2,345)	CENTER INTEGRATION MED & INNOVATIVE TECH	CIMIT DOD - Fund #218656	DAMD17-02-2-0006	(2,345)	-
12.RD	-	(10)	CENTER INTEGRATION MED & INNOVATIVE TECH	CIMIT FUND #212139	DAMD17-02-2-0006	(10)	-
12.RD	-	10	CENTER INTEGRATION MED & INNOVATIVE TECH	CIMIT FUND #212154-992719	DAMD17-02-2-0006	10	-
12.RD	-	(193)	CENTER INTEGRATION MED & INNOVATIVE TECH	CIMIT FUND # 212555	DAMD17-02-2-0006	(193)	-
12.RD	-	1	CENTER INTEGRATION MED & INNOVATIVE TECH	MGH CA DAMD17-07-2-00	DAMD17-07-2-00	1	-
12.RD	-	(897)	CENTER INTEGRATION MED & INNOVATIVE TECH	MGH FUND 210954 ADMIN SUPPORT	DAMD17-99-2-9001	(897)	-
12.RD	-	2,368	Chemring Detection Systems	153772	W911SR-14-C-0045	2,368	-
12.RD	-	1,441	Chemring Detection Systems	153163	W911SR-14-C-0045	1,441	-
12.RD	-	309	HARVARD UNIVERSITY	01-130114-00	W81XWH-0702-0011	309	-
12.RD	-	1,576	HONEYWELL INC - MINNEAPOLIS MN	4200087189	DAAE30-01-9-0100	1,576	-
12.RD	-	(15)	HONEYWELL INC - MINNEAPOLIS MN	B54530612 / 4200047939	DAAE30-01-9-0100	(15)	-
12.RD	-	(172)	MASSACHUSETTS GENERAL HOSPITAL	Memorandum of Agreement	W91CRB-04-C-0025	(172)	-
12.RD	(1)	-	MATERIEL CMD ACQUISITION CTR - YUMA	W9124R-13-C-0006	W9124R-13-C-0006	(1)	-
12.RD	40,740	-	MATERIEL CMD ACQUISITION CTR - YUMA	W9124R-11-C-0005	W9124R-11-C-0005	40,740	-
12.RD	58	-	NATICK R&D CENTER	W911QY-15-P-0031	W911QY-15-P-0031	58	-
12.RD	1,443,692	-	NATICK R&D CENTER	W911QY-15-C-0006	W911QY-15-C-0006	1,443,692	132,735
12.RD	361,409	-	Natick Soldier Systems center	W911QY-15-C-0005	W911QY-15-C-0005	361,409	-

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12.RD	-	16	PAR Government Systems Corporation	SC-111924-001	W911QY-12-D-0010	16	-
12.431	-	1,685,841	Partners HealthCare Research Management	224785	W911NF-14-2-0045	1,685,841	-
12.RD	17	-	PICATINNY ARSENAL	W15QKN-12-C-0131	W15QKN-12-C-0131	17	-
12.RD	3,946	-	PICATINNY ARSENAL	W15QKN-14-C-0048	W15QKN-14-C-0048	3,946	-
12.RD	3,068,483	-	PICATINNY ARSENAL	W15QKN-15-C-0114	W15QKN-15-C-0114	3,068,483	-
12.RD	-	563,270	ProActive Technologies, Inc.	MSA-PAT-2015001-00044	W900KK-14-D-0001	563,270	335,711
12.RD	-	1,025	RADIANCE TECHNOLOGIES	14S-3048	W9113M-13-D-0006	1,025	-
12.RD	-	(373)	Sigmatech, Inc.	SIG-14-DA-0012-0001	W31P4Q-11-A-0009	(373)	-
12.RD	39,180	-	STRATEGIC SYSTEMS PROGRAMS	N00030-14-G-0050	N00030-14-G-0050	39,180	2,101
12.RD	508	-	US ARMY PEO STRI / ACQUISITION CENTER	W900KK-10-C-0025	W900KK-10-C-0025	508	508
12.RD	641,651	-	US ARMY RDECOM ACQ CTR	W911NF-15-D-0006	W911NF-15-D-0006	641,651	104,440
12.RD	4,788,793	-	US ARMY RDECOM ACQ CTR	W911NF-15-D-0006-0003	W911NF-15-D-0006	4,788,793	-
12.RD	1,811	-	US ARMY RDECOM CONT CTR - ADELPHI	W56KGU-14-C-0035	W56KGU-14-C-0035	1,811	-
12.RD	742,802	-	US ARMY RDECOM CONT CTR - ADELPHI	W911QX-17-C-0027	W911QX-17-C-0027	742,802	-
12.420	21,193	-	USA MEDICAL RESEARCH ACQUISITION ACTVTY	W81XWH-10-1-0785	W81XWH-10-1-0785	21,193	-
12.RD	-	7	WinTec Arrowmaker	ARL-DP.001/ ARL-DP.002	W91CRB-09-C-0126	7	-
12.RD	90	-	MISSILE COMMAND	W31P4Q-05-C-R201	W31P4Q-05-C-R201	90	-
12.RD	-	2,926	Dynetics	DI-SC-16-36	GS05Q15BMA0022	2,926	-
12.RD	834,155	-	ARMY RESEARCH LABORATORY	W911NF-15-D-0006-0002	W911NF-15-D-0006-0002	834,155	-
12.RD	449,936	-	ARMY RESEARCH LABORATORY	W911NF-15-D-0006-0004	W911NF-15-D-0006-0004	449,936	-
12.RD	-	289,988	EOIR TECHNOLOGIES, INC	S16-06066	DOTC-16-01-INIT509	289,988	-
12.RD	-	1,741,501	Advanced Technology International (ATI)	NSC BA 2017-312	NSC BA 2017-312	1,741,501	472,775
12.RD	-	2,728,286	Advanced Technology International (ATI)	DOTC-16-01-INIT0459	DOTC-16-01-INIT0459	2,728,286	5,970
12.RD	-	17,580	Advanced Technology International (ATI)	2016-328	W15QKN-16-9-1001	17,580	-
12.RD	-	792,948	Advanced Technology International (ATI)	DOTC-17-01-INIT0556	DOTC-17-01-INIT0556	792,948	13,389
12.341	-	76,458	Northeastern University	504081-78055	W911NF-15-2-0026	76,458	-
12.431	-	96	DESERT RESEARCH INSTITUTE	656.2203	W9124R-11-D0211	96	-
12.RD	-	2	THE METROHEALTH SYSTEM	215446	W81XWH-09-2-0001	2	-
12.RD	1,368,459	-	US Army - Aberdeen Proving Ground	W56KGU-17-C-0033	W56KGU-17-C-0033	1,368,459	-
12.RD	-	576	Edaptive Computing, Inc.	121012-Draper-01	W31P4Q-12-C-0129	576	-
Subtotal Department of the Army	\$ 13,806,922	\$ 8,071,245				\$ 21,878,167	\$ 1,067,629

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Department of the Navy	12.RD	\$ -	\$ (27,345)	JOHNS HOPKINS UNIV APPLIED PHYSICS LAB	131967	N00024-13-D-6400	\$ (27,345)	\$ -
	12.RD	-	15,033	LOCKHEED MARTIN - MITCHEL FIELD	4102094586	N00030-15-C-0045	15,033	-
	12.RD	-	291,343	LOCKHEED MARTIN - MITCHEL FIELD	4102396825	N00030-16-C-0045	291,343	202,507
	12.RD	-	2,460,483	LOCKHEED MARTIN - MITCHEL FIELD	4102856955	N00030-17-Q-0045	2,460,483	317,145
	12.RD	-	2,099,453	LOCKHEED MARTIN - MITCHEL FIELD	4103097345	N00030-16-C-0002	2,099,453	-
	12.RD	-	9,187,081	LOCKHEED MARTIN - MITCHEL FIELD	4103398278	N00030-17-C-0045	9,187,081	35,000
	12.RD	1,371,978	-	NAVAL UNDERSEA WARFARE CENTER NEWPORT	N66604-10-D-0215	N66604-10-D-0215	1,371,978	-
	12.RD	-	5,154	NAVMAR APPLIED SCIENCES CORPORATION	WM006596	N68335-10-G-0026/0015	5,154	-
	12.RD	-	43,087	NORTHROP GRUMMAN ELECTRONIC SYSTEMS	8140000892	N65236-16-C-8005	43,087	-
	12.RD	103,995	-	OFFICE OF NAVAL RESEARCH	N00014-14-C-0174	N00014-14-C-0174	103,995	-
	12.RD	239,573	-	OFFICE OF NAVAL RESEARCH	N00014-15-C-0038	N00014-15-C-0038	239,573	-
	12.RD	501,113	-	OFFICE OF NAVAL RESEARCH	N00014-16-C-3014	N00014-16-C-3014	501,113	-
	12.RD	33	-	OFFICE OF NAVAL RESEARCH	N00014-13-C-0207	N00014-13-C-0207	33	-
	12.RD	456,462	-	OFFICE OF NAVAL RESEARCH	N00014-17-C-1004	N00014-17-C-1004	456,462	39,062
	12.RD	-	(333)	SCIENCE APPLICATIONS INTERNATIONAL CORP	P010204259	N00178-04-D-4119	(333)	-
	12.RD	1,795	-	SPAWAR SYSTEMS CENTER SAN DIEGO	N66001-12-C-4033	N66001-12-C-4033	1,795	-
	12.RD	(338)	-	SPAWAR SYSTEMS CENTER SAN DIEGO	N66001-13-C-4011	N66001-13-C-4011	(338)	-
	12.RD	(19,107)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-07-C-0001	N00030-07-C-0001	(19,107)	(19,107)
	12.RD	(211,851)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-08-C-0010	N00030-08-C-0010	(211,851)	(211,851)
	12.RD	(108,881)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-09-C-0008	N00030-09-C-0008	(108,881)	(113,292)
	12.RD	(19,486)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-10-C-0015	N00030-10-C-0015	(19,486)	(278,187)
	12.RD	3,455,983	-	STRATEGIC SYSTEMS PROGRAMS	N00030-11-C-0005	N00030-11-C-0005	3,455,983	441,751
	12.RD	1,860	-	STRATEGIC SYSTEMS PROGRAMS	N00030-11-C-0014	N00030-11-C-0014	1,860	1,860
	12.RD	2,074,017	-	STRATEGIC SYSTEMS PROGRAMS	N00030-12-C-0005	N00030-12-C-0005	2,074,017	195,134
	12.RD	346,927	-	STRATEGIC SYSTEMS PROGRAMS	N00030-13-C-0005	N00030-13-C-0005	346,927	332,313
	12.RD	10,090,111	-	STRATEGIC SYSTEMS PROGRAMS	N00030-13-C-0007	N00030-13-C-0007	10,090,111	1,584,947
	12.RD	5,878,080	-	STRATEGIC SYSTEMS PROGRAMS	N00030-14-C-0001	N00030-14-C-0001	5,878,080	1,399,001
	12.RD	3,436,387	-	STRATEGIC SYSTEMS PROGRAMS	N00030-14-C-0054	N00030-14-C-0054	3,436,387	580,476
	12.RD	7,264,534	-	STRATEGIC SYSTEMS PROGRAMS	N00030-14-G-0050	N00030-14-G-0050	7,264,534	1,348,871
	12.RD	193,133	-	STRATEGIC SYSTEMS PROGRAMS	N00030-14-G-0050	N0003017F5003	193,133	-
	12.RD	29,732,090	-	STRATEGIC SYSTEMS PROGRAMS	N00030-15-C-0003	N00030-15-C-0003	29,732,090	20,050,801
	12.RD	(697)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-04-C-0003	N00030-04-C-0003	(697)	(697)
	12.RD	124,598,230	-	STRATEGIC SYSTEMS PROGRAMS	N00030-16-C-0014	N00030-16-C-0014	124,598,230	29,525,568

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12.RD	(1,319)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-84-C-0036	N00030-84-C-0036	(1,319)	-
12.RD	(2,363)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-05-C-0009	N00030-05-C-0009	(2,363)	(2,363)
12.RD	58,302,145	-	STRATEGIC SYSTEMS PROGRAMS	N00030-16-C-0008	N00030-16-C-0008	58,302,145	50,730,420
12.RD	62,971	-	STRATEGIC SYSTEMS PROGRAMS	N00030-17-PA-IPAPK	N00030-17-PA-IPAPK	62,971	-
12.RD	6,549,386	-	STRATEGIC SYSTEMS PROGRAMS	N00030-17-C-0008	N00030-17-C-0008	6,549,386	3,077,232
12.RD	(12,326)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-03-C-0014	N00030-03-C-0014	(12,326)	(12,326)
12.RD	103,000	-	STRATEGIC SYSTEMS PROGRAMS	N00030-17-PA-IPARB	N00030-17-PA-IPARB	103,000	-
12.RD	9,590,077	-	STRATEGIC SYSTEMS PROGRAMS	N00030-17-G-0050	N00030-17-G-0050	9,590,077	569,628
12.RD	179,191	-	STRATEGIC SYSTEMS PROGRAMS	N00030-18-PA-IPARB	N00030-18-PA-IPARB	179,191	-
12.RD	212,542	-	STRATEGIC SYSTEMS PROGRAMS	N00030-18-PA-IPAPK	N00030-18-PA-IPAPK	212,542	-
12.RD	(22,012)	-	STRATEGIC SYSTEMS PROGRAMS	N00030-04-C-0035	N00030-04-C-0035	(22,012)	(22,012)
12.RD	16,660	-	STRATEGIC SYSTEMS PROGRAMS	N00164-16-G-GM48	N00164-16-G-GM48	16,660	-
12.RD	-	768,451	SYSTEMS PLANNING AND ANALYSIS, INC.	SPA-SC-2219-0002	N00030-17-C-0011	768,451	-
12.RD	-	2,528	URS FEDERAL SERVICES	EGG0041590/003	N00178-04-D-4042/TO FC16	2,528	-
12.RD	-	(2,147)	BOOZ ALLEN & HAMILTON	100556SB0D	N00178-04-D-4024	(2,147)	-
12.RD	-	293,635	BOOZ ALLEN & HAMILTON	S901193BAH	FA807517F1324	293,635	-
12.RD	128,039	-	NAVAL SURFACE WARFARE CENTER DAHLGREN	N00178-16-D-0001	N00178-16-D-0001	128,039	-
12.RD	-	4,457,771	Advanced Technology International (ATI)	DOTC-17-01-INIT1079	DOTC-17-01-INIT1079	4,457,771	125,548
12.300	-	36,900	Purdue University	4104-74224	N00014-16-1-2398	36,900	-
12.RD	-	(1)	HEXCEL CORPORATION	06-03444	N00014-90-CA-0002/PO 0006	(1)	-
12.RD	-	65	Neany, Inc.	NICA-DRP-10-0037	N68335-10-C-0395	65	-
12.RD	-	1,575,360	LOCKHEED MARTIN - RIVIERA	4103249315	N0024-17-C-6308	1,575,360	-
12.300	-	143,614	North Carolina State University	2017-3245-01	N00014-17-1-3013	143,614	-
12.RD	15,871	-	NAVAL SURFACE WARFARE CENTER CARDEROCK	N00167-13-D-0008	N00167-13-D-0008	15,871	-
12.RD	-	(2,370)	THE PENNSYLVANIA STATE UNIVERSITY	LS12-23/S13-02	N00024-12-D-6402-0062	(2,370)	-
12.RD	11,539	-	NAVAL SURFACE WARFARE CENTER CRANE DIV	N00164-16-G-GM48	N00164-16-G-GM48	11,539	-
12.RD	277,407	-	Navy Engineering Logistics Office	N4175618C4030	N4175618C4030	277,407	-
12.RD	515,119	-	OFFICE OF NAVAL RESEARCH	N6833518C0107	N6833518C0107	515,119	-
Subtotal Department of the Navy	\$ 265,311,863	\$ 21,347,761				\$ 286,659,630	\$ 109,897,431

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Defense Advanced Research Projects Agency	12.RD	\$ (165)	\$ -	AIR FORCE RESEARCH LABORATORY - ROME NY	FA8750-12-C-0293	FA8750-12-C-0293	\$ (165)	\$ -
	12.RD	784,880	-	AIR FORCE RESEARCH LABORATORY - ROME NY	FA8750-15-C-0088	FA8750-15-C-0088	784,880	225,226
	12.RD	669,088	-	AIR FORCE RESEARCH LABORATORY - ROME NY	FA8750-18-C-0021	FA8750-18-C-0021	669,088	-
	12.RD	-	(24,499)	Ball Aerospace And Technologies Corp.	14JKK00012	HR0011-15C-0021	(24,499)	-
	12.RD	268,561	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	HR0011-15-C-0009	HR0011-15-C-0009	268,561	-
	12.RD	65,419	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	IPA	IPA	65,419	-
	12.RD	1,446,435	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	HR0011-15-C-0110	HR0011-15-C-0110	1,446,435	401,502
	12.RD	901,425	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	HR0011-15-C-0138	HR0011-15-C-0138	901,425	384,685
	12.RD	77,152	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	#233	#233	77,152	-
	12.RD	732,139	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	HR0011-16-C-0036	HR0011-16-C-0036	732,139	-
	12.RD	1,523,947	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	HR0011-16-C-0118	HR0011-16-C-0118	1,523,947	941,982
	12.RD	879,846	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	HR001117C0114	HR001117C0114	879,846	206,152
	12.RD	162,840	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	0233	0233	162,840	-
	12.RD	166,228	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	0184	0184	166,228	-
	12.RD	828,020	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	HR0011-18-C-0011	HR0011-18-C-0011	828,020	106,628
	12.RD	2,197	-	DEFENSE ADVANCE RESEARCH PROJECTS AGENCY	HR001118C0090	HR001118C0090	2,197	-
	12.RD	87,852	-	EGLIN AIR FORCE BASE	FA8651-17-F-1003	FA8651-17-F-1003	87,852	-
	12.RD	1,071,752	-	EGLIN AIR FORCE BASE	FA8651-17-F-1032	FA8651-17-F-1032	1,071,752	-
	12.RD	-	(12)	HARVARD UNIVERSITY	123376-002	HR0011-06-1-0044	(12)	-
	12.RD	-	1	NORTHROP GRUMMAN ELECTRONIC SYSTEMS	8140000888	N65236-16-C-8005	1	-
	12.RD	-	98,580	NORTHROP GRUMMAN MISSION SYSTEMS	8140000966	HR0011-18-C-0026	98,580	-
	12.RD	-	2,185	RAYTHEON - TEWKSBURY	4200685253	HR0011-13-C-0039	2,185	-
	12.RD	-	1,289	Raytheon Integrated Defense Systems	4200903044	HR0011-14-C-0009	1,289	-
	12.RD	1,002,891	-	SPAWAR SYSTEMS CENTER SAN DIEGO	N66001-15-C-4019	N66001-15-C-4019	1,002,891	41,634
	12.RD	2,653	-	SPAWAR SYSTEMS CENTER SAN DIEGO	N66001-16-C-4020	N66001-16-C-4020	2,653	-
	12.RD	64,932	-	SPAWAR SYSTEMS CENTER SAN DIEGO	N66001-16-C-4002	N66001-16-C-4002	64,932	64,932
	12.RD	(271)	-	SPAWAR SYSTEMS CENTER SAN DIEGO	N66001-17-C-4001	N66001	(271)	-
	12.RD	874,548	-	SPAWAR SYSTEMS CENTER SAN DIEGO	N66001-17-C-4034	N66001-17-C-4034	874,548	219,351
	12.RD	-	844	TELEDYNE SCIENTIFIC & IMAGING, LLC	B9F535954	HR0011-09-C-0016	844	-
	12.RD	8,641	-	WRIGHT LABORATORY	FA8650-15-C-7532	FA8650-15-C-7532	8,641	-
	12.RD	-	277,872	Next Century Corporation	NC82817-DRAPER-GORDIAN	FA8750-17-C-0155	277,872	-

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	12.RD	-	203,222	Next Century Corporation	NC01772018-FORAGER-CPFF-TO1	FA8650-18-C-6901	203,222	-
	12.RD	-	1,817,949	LOCKHEED MARTIN - ORLANDO	MEB-170814	HR001-17-C-0042	1,817,949	-
	12.RD	-	1,720	UNIVERSITY OF MASSACHUSETTS WORCESTER	6143809/6135000/RFS2012018	HR0011-11-C-0095	1,720	-
	12.RD	-	11	LIVE DATA INC	PO 105204	W81XWH-08-C-0010	11	-
	12.RD	-	7,832	MICROSEMI FREQUENCY AND TIME CORPORATION	Letter Con: 10-C-A021	W15P7T-100-C-A021	7,832	-
	12.RD	-	788,201	NAVMAR APPLIED SCIENCES CORPORATION	N68335-14-G-0040-0003	J60-S3AL1	788,201	-
	12.RD	-	561,201	NAVMAR APPLIED SCIENCES CORPORATION	J63-S06AD	N68335-14-G-0040-0006	561,201	-
Subtotal Defense Advanced								
Research Projects Agency		\$ 11,621,009	\$ 3,736,397				\$ 15,357,406	\$ 2,592,091
Missile Defense Agency	12.RD	\$ -	\$ 81,761	JOHNS HOPKINS UNIV APPLIED PHYSICS LAB	121615	HQ0147-12-D-0004	\$ 81,761	\$ -
	12.RD	-	568,120	LINCOLN LABORATORY	7000299112	FA8721-05-C-0002	568,120	-
	12.RD	3,128,174	-	Missile Defense Agency	HQ0147-17-C-0046	HQ0147-17-C-0046	3,128,174	-
	12.RD	671,342	-	Missile Defense Agency	HQ0147-18-C-0009	HQ0147-18-C-0009	671,342	-
	12.RD	9,066	-	BALLISTIC MISSILE DEFENSE ORGANIZATION	HQ0006-09-C-0004	HQ0006-09-C-0004	9,066	-
Subtotal Missile Defense Agency		\$ 3,808,583	\$ 649,882				\$ 4,458,464	\$ 39,870
Intelligence Advanced Research Projects Activity	12.RD	31,005	-	SPAWARE SYSTEMS CENTER SAN DIEGO	N66001-18-C-4503	N66001-18-C-4503	31,005	-
	12.RD	-	328,130	Lockheed Martin Advanced Technology Labs	4103319476	2017-17042800004	328,130	-
Subtotal Intelligence Advanced Research Proj. Act.		\$ 31,005	\$ 328,130				\$ 359,135	\$ -
Other Government DoD	12.RD	\$ -	\$ 418,470	ASSETT, INC.	2017-002	H92222-17-C-0070	\$ 418,470	\$ -
	12.RD	-	(7)	CNRL / OSU UML	2014-CSDL-S447	Hxxxx-11-D-0004, DO 47	(7)	-
	12.RD	-	132	CUSTOM ANALYTICAL ENG SYSTEMS, INC.	06031406	xxx-xxx-xxx	132	-
	12.351	250,828	-	Defense Threat Reduction Agency	HDTRA1-11-1-0012	HDTRA1-11-1-0012	250,828	249,924
	12.RD	2,315,370	-	Defense Threat Reduction Agency	HDTRA1-16-C-0007	HDTRA1-16-C-0007	2,315,370	64,783
	12.RD	-	21,093	DIGITAL INFUZION	F-BAA-Analytics-3322014-03-Dra	HDTRA1-15-C-0003	21,093	-
	12.RD	-	(226)	DIGITAL INFUZION	F-BSVE-0513014-01-Draper	TSWG-14-C-3273	(226)	-
	12.RD	27	-	HQ USSOCOM SORDAC-K	H92222-12-C-0011	H92222-12-C-0011	27	-
	12.RD	512,116	-	HQ USSOCOM SORDAC-K	H92236-18-C-0002	H92236-18-C-0002	512,116	257,630
	12.RD	-	22,019	HQ USSOCOM SORDAC-K	ATP 4-11-18	Undisclosed	22,019	-
	12.RD	-	7,528,526	LEIDOS, INC.	P010166674	HDTRA1-14-D0008 DO 9	7,528,526	-
	12.RD	-	43	MRIGlobal	656-110903-1	HDTRA1-15-C-0013	43	-
	12.RD	-	714	OSU-UML, LLC	2016-CSDL-S467	H92236-11-D-0004	714	-
	12.RD	-	59,950	Neany, Inc.	4C FLOP ATP 4-11-18	W15QKN-15-9-1003	59,950	-
	12.RD	1,032	-	DoD MODELING SIMULATION COORDINATION OFC	Frank Mullen IPA	N/A	1,032	-
	12.RD	99,273	-	DOOLITTLE INSTITUTE, INC.	Undisclosed	Undisclosed	99,273	-

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	12.RD	-	465,731	ALION SCIENCE & TECH	SUB1138204-001	HDTRA1-14-D-0002 DO 0005	465,731	-
	12.RD	-	37,038	ALION SCIENCE & TECH	SUB1139913-001	FA8075-14-D-0014	37,038	-
	12.RD	-	270,458	Ball Aerospace And Technologies Corp.	18JKK00006	18-C-8665	270,458	-
	12.RD	-	1,129	BATTELLE	US001-601537-1	UML-2012-BATT-001	1,129	-
	12.RD	2,966,076	-	WRIGHT LABORATORY	FA8650-17-2-5507	fA8650-17-2-5507	2,966,076	487,264
	12.RD	-	703,871	NORTHROP GRUMMAN SYSTEMS CORPORATION	SS1103316S4B	Undisclosed	703,871	-
	12.617	-	336,430	State of Connecticut	15ECD0002PS	HQ00051410049	336,430	-
	12.RD	-	2,469	n-ask	2017-02	17-R-0238	2,469	-
	12.RD	-	13,115,172	RAYTHEON – TUSCON	PO4201429323	HQ0276-10-C-0005	13,115,172	4,208,825
Subtotal Other Gov DoD		\$ 6,144,723	\$ 22,983,013				\$ 29,127,736	\$ 5,268,425
Department of Defense		\$ 314,618,942	\$ 59,086,031				\$ 373,704,975	\$ 122,146,715
Department of the Interior	15.RD	\$ 10	\$ -	DEPT OF INTERIOR NATIONAL BUSINESS CTR	NBCHC040148	NBCHC040148	\$ 10	\$ -
Subtotal Department of the Interior		\$ 10	\$ -				\$ 10	\$ -
National Air and Space Administration	43.RD	\$ -	\$ 51,883	Analytical Mechanics Associates, Inc.	1601-TEAMS2-DRA	NNL12AA09C	\$ 51,883	\$ -
	43.RD	-	66,761	Analytical Mechanics Associates, Inc.	TEAMS3-CSDL	80LARC17C0003	66,761	-
	43.RD	-	1	Analytical Mechanics Associates, Inc.	T00280 FY14	NNL12AA09C	1	-
	43.RD	-	4	Analytical Mechanics Associates, Inc.	T00266 FY14	NNL12AA09C	4	-
	43.RD	-	(1)	AURORA FLIGHT SCIENCES CORPORATION	AFS14-1357	NNX14CJ16P	(1)	-
	43.RD	-	3,165	JACOBS TECHNOLOGY INC	ESSSA 040	NNM12AA41C	3,165	-
	43.RD	(10,541)	-	JOHNSON SPACE CENTER	NNJ11HA31C	NNJ11HA31C	(10,541)	-
	43.RD	4,039,800	-	JOHNSON SPACE CENTER	NNJ16HK08B	NNJ16HK08B	4,039,800	28,000
	43.001	(63)	-	NASA Shared Services Center	NNX12AH81G	NNX12AH81G	(63)	-
	43.003	191,880	-	NASA Shared Services Center	NNX15AP28G	NNX15AP28G	191,880	-
	43.003	184,334	-	NASA Shared Services Center	NNX16AO29G	NNX16AO29G	184,334	-
	43.RD	1	-	NASA Shared Services Center	NNA13AC79P	NNA13AC79P	1	-
	43.RD	2,332	-	NASA Shared Services Center	80NSSC18K0270	80NSSC18K0270	2,332	-
	43.RD	-	378	Sierra Nevada Corporation	S10CMG041	NNJ10TA04S JPL 975569 via NASA NNN06AA01C	378	-
	43.RD	-	32,695	SMITHSONIAN ASTROPHYSICAL OBSERVATORY	Letter Subcontract SV5-85006		32,695	-
	43.RD	64,752	-	AMES RESEARCH CENTER	NNA15BB07B	NNA15BB07B	64,752	-

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	43.RD	-	3,692	SPACE SYSEMS/LORAL, LLC	S702579	NNG17BC006	3,692	-
	43.RD	-	(1,754)	LOCKHEED MARTIN - DENVER	8100000923	NNJ06TA25C	(1,754)	-
Subtotal National Air and Space Administration		\$ 4,472,494	\$ 156,824				\$ 4,629,317	\$ 28,000
National Science Foundation	47.050	\$ 2,163	\$ -	THE NATIONAL SCIENCE FOUNDATION	AGS-1242889	AGS-1242889	\$ 2,163	\$ -
	47.RD	-	23,418	Pison Technology, Inc.	Pison NSF Subaward	1	23,418	-
Subtotal National Science Foundation		\$ 2,163	\$ 23,418				\$ 25,581	\$ -
Department of Energy	81.RD	\$ -	\$ 5,000	Radiation Monitoring Devices, Inc.	C16-03	DE-SC0011891	\$ 5,000	\$ -
	81.RD	-	52,492	Lawrence Livermore National Laboratory	B626674	DE-AC52-07NA27344	52,492	-
Subtotal Department of Energy		\$ -	\$ 57,492				\$ 57,492	\$ -
Department of Health and Human Services	93.396	\$ -	\$ 693	MASSACHUSETTS GENERAL HOSPITAL	217050	1UH2AR059655-01	\$ 693	\$ -
	93.350	-	(1)	MASSACHUSETTS INSTITUTE OF TECHNOLOGY	5710003216	1UH2TR000496-01	(1)	-
	93.389	(1,540)	-	NATIONAL INSTITUTES OF HEALTH	R21RR031253/R21GM1034535	R21RR031253	(1,540)	-
	93.867	216,764	-	NATIONAL INSTITUTES OF HEALTH	1R21EY026360-01	1R21EY026360-01	216,764	30,458
	93.846	-	4	Partners HealthCare Research Management	221448	UH3AR059655-03	4	-
	93.855	-	16	University of South Florida	6408-1066-00-B	1R21A103664-01A1	16	-
	93.173	-	73,777	Ak--ouos, LLC	R43DC016253	R43DC016253	73,777	-
	93.837	-	(358)	THE BRIGHAM AND WOMEN'S HOSPITAL INC	Subaward No. 112483	U54HL119145-02	(358)	-
Subtotal Department of Health and Human Services		\$ 215,223	\$ 74,132				\$ 289,355	\$ 30,458
Department of Homeland Security	97.RD	\$ 1,362,474	\$ -	DEPARTMENT OF HOMELAND SECURITY	HSHQDC-15-C-B0047	HSHQDC-15-C-B0047	\$ 1,362,474	\$ 341,089
Subtotal Department of Homeland Security		\$ 1,362,474	\$ -				\$ 1,362,474	\$ 341,089
Other Gov NonDoD	11.RD	\$ 210,732	\$ -	NOAA/National Weather Service	16IPA00SV	16IPA00SV	\$ 210,732	\$ -
Subtotal Other Gov NonDoD		\$ 210,732	\$ -				\$ 210,732	\$ -

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Other Contracts	99.RD	\$ 826,507	\$ -	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B14-2014200G001-004	B14-2014200G001-004	\$ 826,507	\$ -
	99.RD	454	-	IARPA R&D CONTRACTS	2014-14071000012	2014-14071000012	454	-
	99.RD	-	28,950	Next Century Corporation	16040001	2016-16041100002	28,950	-
	99.RD	-	923,064	SYSTEMS & TECHNOLOGY RESEARCH, LLC	2017-0009	2017-17032200003	923,064	-
	99.RD	56,593	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B14-2014200G001	B14-2014200G001	56,593	-
	99.RD	2,639	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	2009*1031708*000	2009*1031708*000	2,639	-
	99.RD	(11,819)	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	2010*0489228*000	2010*0489228*000	(11,819)	-
	99.RD	2,530	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B11-2011234G010	B11-2011234G010	2,530	-
	99.RD	3,776	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B12-2012030G004	B12-2012030G004	3,776	-
	99.RD	1,152,516	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B12-2012068G003	B12-2012068G003	1,152,516	-
	99.RD	2,755	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B12-2012077G002	B12-2012077G002	2,755	-
	99.RD	1,682	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B12-2012152G001	B12-2012152G001	1,682	-
	99.RD	972,157	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B12-2012157G010-004	B12-2012157G010-004	972,157	-
	99.RD	28,380	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-002	B13-201374G005-002	28,380	-
	99.RD	71,441	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-003	B13-2013074G005-003	71,441	-
	99.RD	2,118	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-005	B13-2013074G005-005	2,118	-
	99.RD	(14,223)	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-006	B13-2013074G005-006	(14,223)	-
	99.RD	98,792	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B15-2015028G003	B15-2015028G003	98,792	-
	99.RD	25,385	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B15-2015069G005	B15-2015069G005	25,385	-
	99.RD	(2,675)	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B15-2015190G013	B15-2015190G013	(2,675)	-
	99.RD	204,932	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-008	B13-2013074G005-008	204,932	-
	99.RD	(1,195)	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-009	B13-2013074G005-009	(1,195)	-
	99.RD	2,312	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B12-2012157G010-003	B12-2012157G010-003	2,312	-
	99.RD	1,527,748	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B16-2016195G002	B16-2016195G002	1,527,748	-
	99.RD	1,401,061	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B16-2016216G004	B16-2016216G004	1,401,061	-
	99.RD	191,608	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B14-2014200G001-003	B14-2014200G001-003	191,608	-
	99.RD	225,971	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-010	B13-2013074G005-010	225,971	-
	99.RD	15,064	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-011	B13-2013074G005-011	15,064	-
	99.RD	6,720,658	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B14-2014220G002-002	B14-2014220G002-002	6,720,658	-

The accompanying notes are an integral part of the Supplemental Schedule of Expenditures of Federal Awards

The Charles Stark Draper Laboratory, Inc.
Supplemental Schedule of Expenditures of Federal Awards
June 29, 2018

CFDA Number	Direct	Pass-through	Awarding/Pass-Through Entity	Pass-Through Entity Identifying Number	Primary Awarding Identifying Number	Total	Passed to Sub-Recipients
99.RD	483,269	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B16-2016228G005-001	B16-2016228G005-001	483,269	-
99.RD	1,050,994	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-002	B17-2016363G002-002	1,050,994	-
99.RD	505,711	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2017009G001	B17-2017037G002	505,711	-
99.RD	49,381	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2017037G002-001	B17-2017037G002-001	49,381	-
99.RD	822,069	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B14-2014220G002-003	B14-2014220G002-003	822,069	-
99.RD	567,869	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-003	B17-2016363G002-003	567,869	-
99.RD	1,393,620	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-001	B17-2016363G002-001	1,393,620	-
99.RD	663,621	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-004	B17-2016363G002-006	663,621	-
99.RD	84,890	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-006	B17-2016363G002-006	84,890	-
99.RD	71,016	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-005	B17-2016363G002-005	71,016	-
99.RD	334,570	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B16-2016228G005-003	B16-2016228G005-003	334,570	-
99.RD	164,544	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2017135G005	B17-2017135G005	164,544	-
99.RD	4,514,593	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-007	B17-2016363G002-007	4,514,593	-
99.RD	1	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	2004*U117040*000	2004*U117040*000	1	-
99.RD	5,318	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013074G005-001	B130291374G005-001	5,318	-
99.RD	321,448	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B16-2016228G005-002	B16-2016228G005-002	321,448	73,542
99.RD	2,735	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2017037G002-003	B17-2017037G002-003	2,735	-
99.RD	1,404,028	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2017198G001	B17-2017198G001	1,404,028	-
99.RD	839,626	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-008	B17-2016363G002-008	839,626	-
99.RD	1,082,972	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-009	B17-2016363G002-009	1,082,972	-
99.RD	548,481	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-010	B17-2016363G002-010	548,481	-
99.RD	1,029,081	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B17-2016363G002-011	B17-2016363G002-011	1,029,081	-
99.RD	187,085	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B16-2016228G005-005	B16-2016228G005-05	187,085	-
99.RD	545	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B12-2011343G007	B12-2011343G007	545	-
99.RD	38	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B13-2013205G001	B13-2013205G001	38	-
99.RD	246,585	-	BUDGET & FINANCE SYSTEMS ACTIVITY (BFSA)	B18-2018075G001	B18-2018075G001	246,585	-
99.RD	-	3	JOHNS HOPKINS UNIV APPLIED PHYSICS LAB	123690	14-D-0037	3	-
99.RD	-	308,378	Lockheed Martin IS&GS Hanover MD	4100908079	H98230-09-C0645	308,378	-

The accompanying notes are an integral part of the Supplemental Schedule of Expenditures of Federal Awards

The Charles Stark Draper Laboratory, Inc.
Supplemental Schedule of Expenditures of Federal Awards
June 29, 2018

CFDA Number	Direct	Pass-through	Awarding/Pass-Through Entity	Pass-Through Entity Identifying Number	Primary Awarding Identifying Number	Total	Passed to Sub-Recipients
99.RD	-	47,578	n-ask	2016-02	16-C-0107	47,578	47,534
99.RD	-	42,816	SCIENCE APPLICATIONS INTERNATIONAL CORP	P010151053	B13-2012223G003	42,816	-
99.RD	288,230	-	U S GOVERNMENT	13-C-0067	13-C-0067	288,230	-
99.RD	8,171	-	U S GOVERNMENT	13-C-0551	13-C-0551	8,171	-
99.RD	6,352	-	U S GOVERNMENT	H-901-004	H-901-004	6,352	-
99.RD	494,693	-	U S GOVERNMENT	16-G-H001-001	16-G-H001-01	494,693	-
99.RD	(2)	-	U S GOVERNMENT	08-C-3134	08-C-3134	(2)	-
99.RD	4,521,255	-	U S GOVERNMENT	17-C-0161	17-C-0161	4,521,255	-
99.RD	918,135	-	U S GOVERNMENT	18-C-3113	18-C-3113	918,135	-
99.RD	396,968	-	UUV AA SPONSOR	13-C-5168	12-C-5168	396,968	-
99.RD	33,208	-	UUV AA SPONSOR	16-C-5005	16-C-5008	33,208	31,135
99.RD	7,748	-	UUV AA SPONSOR	16-C-5018	16-C-5018	7,748	-
99.RD	1,486,677	-	UUV AA SPONSOR	17-C-5047	17-C-5047	1,486,677	68,107
99.RD	-	2,891	Dynetics	DI-SC-16-36	GS05Q15BMA0022	2,891	-
99.RD	-	32,263	L-3 Advanced Programs	2014-SC-4-0180	NRO000-14-C-0090	32,263	-
99.RD	-	(174)	LOCKHEED MARTIN -INTERGRATED SYS & SOLUT	4101795926	Undisclosed	(174)	-
99.RD	-	267	Advanced Simulation Technology, Inc.	AST-PO-17-001	Undisclosed	267	-
99.RD	-	11,867	SES Government Solutions	PO-0001539	17-R-3153	11,867	-
99.RD	-	890,217	Confidential Industrial Partner	Confidential	Undisclosed	890,217	-
Subtotal Other Contracts	\$ 38,042,689	\$ 2,288,121				\$ 40,330,810	\$ 220,319
Total Non Department of Defense	\$ 44,305,785	\$ 2,599,987				\$ 46,905,772	\$ 619,867
Total R&D Cluster Expenditures	\$ 358,924,727	\$ 61,686,018				\$ 420,610,744	\$ 122,766,581
Total Federal Awards	\$ 358,924,727	\$ 61,686,018				\$ 420,610,744	\$ 122,766,581

The accompanying notes are an integral part of the Supplemental Schedule of Expenditures of Federal Awards

The Charles Stark Draper Laboratory, Inc.

Notes to Supplemental Schedule of Federal Expenditures of Federal Awards

June 29, 2018

1. Basis of Presentation

The accompanying Supplemental Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared in accordance with the Office of Management and Budget ("OMB") Uniform Guidance, using the accrual basis of accounting. The purpose of the Schedule is to present a summary of The Charles Stark Draper Laboratory, Inc.'s ("Draper") research programs for the year ended June 29, 2018, which have been funded by the U.S. Government ("federal awards"). For purposes of the Schedule, federal awards include all federal contracts entered into directly between Draper and the federal government and also between Draper and other primary recipients of Federal government funds (pass-through). Because the Schedule presents only the federal award activity of Draper, the Schedule is not intended to, and does not, present either the financial position or changes in net assets of Draper.

Negative expenditure amounts represent changes made to costs incurred and/or allocated to those awards in the normal course of business.

2. Indirect Costs

Draper recovers indirect costs under contracts and grants at provisional rates negotiated between the cognizant agency (Defense Contract Management Agency ("DCMA")) and Draper. Separate cost rates are negotiated for the following final indirect rates: Employee Benefits, General Overhead, Plant Overhead, Contract Personnel General Overhead Allocation, Contract Personnel Plant Overhead Allocation, and Cost of Money. Additionally, separate cost rates are negotiated for the following service centers: Machine Shop, Information Technology, Design Center, Simulation Laboratory, and Micro Fabrication. Final costs for each fiscal year are determined using Defense Contract Audit Agency (the "DCAA") annual audits and through negotiations with the DCMA Administrative Contract Officer. Draper has not elected to use the 10% de minimis indirect cost rate as described in Section 200.414 of the Uniform Guidance. A Forward Pricing Rate Recommendation letter dated August 16, 2017 from the Defense Contract Management Agency has established the indirect cost rates used by Draper. A schedule of cost rates is included in DCAA Audit Report No. 1151 820.5 2018C10110001 Independent Auditor's Report of Charles Stark Draper Laboratory's Compliance with Requirements Applicable to Major Program and on Internal Control over Compliance in Accordance with 2 CFR Part 200, Fiscal Year Ended June 29, 2018 (Report 3a).



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

To the Board of Directors of
The Charles Stark Draper Laboratory, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Charles Stark Draper Laboratory, Inc. ("Draper"), which comprise the statement of financial position as of June 29, 2018 and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Draper's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Draper's internal control. Accordingly, we do not express an opinion on the effectiveness of Draper's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP".

September 24, 2018



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

To the Board of Directors of
The Charles Stark Draper Laboratory, Inc.

Report on Compliance for Each Major Federal Program

We have audited The Charles Stark Draper Laboratory, Inc.'s ("Draper") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Draper's major federal programs for the year ended June 29, 2018. Draper's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In connection with the coordinated audit of Draper as provided for in U.S. Office of Management and Budget ("OMB") Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the U.S. Defense Contract Audit Agency ("DCAA") and PricewaterhouseCoopers LLP each performed certain tasks. Responsibilities under the coordinated audit approach were assigned as follows:

1. The DCAA performed specific audit procedures over Department of Defense contracts (DoD) with respect to the following compliance requirements included in the *OMB Compliance Supplement*: activities allowed or unallowed; allowable costs/cost principles; equipment and real property management; period of availability of federal funds; and procurement, suspension and debarment. In addition, the DCAA tested the internal control structure with respect to the above listed compliance requirements as they relate to the research and development cluster. The DCAA's reports on compliance and internal control are included in the Uniform Guidance Report 3a.
2. PricewaterhouseCoopers LLP performed specific audit procedures over DoD contracts and contracts not sponsored by the Department of Defense (non-DoD) with respect to the following compliance requirements included in the *OMB Compliance Supplement*: cash management; matching, level of effort, and earmarking; program income; reporting; subrecipient monitoring and special tests and provisions. In addition, PricewaterhouseCoopers LLP tested the internal control structure with respect to the above listed compliance requirements as they relate to the research and development cluster.
3. PricewaterhouseCoopers LLP also included within its scope for non-DoD contracts the following compliance requirements included in the *OMB Compliance Supplement*: activities allowed and unallowed; allowable costs/cost principles; equipment and real property management; period of availability of federal funds; and procurement, suspension and debarment. In addition, PricewaterhouseCoopers LLP tested the internal control structure with respect to the above listed compliance requirements as they related to the major research and development cluster.

Management's Responsibility

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



Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Draper complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 29, 2018.

Report on Internal Control Over Compliance

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

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



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

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

Priscilla A. Cooper LLP

March 29, 2019

**DCAA**

DEFENSE CONTRACT AUDIT AGENCY

Audit Report No. 1151-2018C10110001

Merrimack Valley Branch Office

100 Burt Road, Suite 116

Andover, MA 01810-5920

March 25, 2019

**Independent Audit Report of Charles Stark
Draper Laboratory's Compliance with
Requirements Applicable to its Major Program
and on Internal Control Over Compliance in
Accordance with 2 CFR Part 200 for Fiscal Year
Ended June 29, 2018**

SPECIAL WARNING - The contents of this audit report must not be released or disclosed, other than to those persons whose official duties require access in accordance with DoD regulations. This document may contain information exempt from mandatory disclosure under the Freedom of Information Act. Unauthorized disclosure of proprietary, contractor bid or proposal or source selection information may violate 18 U.S.C. 1905 and/or 41 U.S.C. 2102. Please see the Audit Report Distribution and Restrictions section of this report for further restrictions.

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Audit Report No. 1151-2018C10110001

March 25, 2019

EXECUTIVE SUMMARY

ABOUT CHARLES STARK DRAPER LABORATORY, INC.

Charles Stark Draper Laboratory, Inc. (Draper), located at 555 Technology Square, Cambridge, MA, is a not-for-profit research and development laboratory which predominantly focuses on the design, development, and deployment of advanced technological solutions for the Federal government's problems in security, space exploration, healthcare, and energy. Draper's Cage Code is 51993.

Draper's Federal awards fall under the designation of a Research and Development (R&D) Cluster. A cluster of programs means Federal programs with different CFDA numbers that are defined as a cluster of programs because they are closely related programs that share common compliance requirements. Since all of Draper's Federal awards fall under the R&D cluster, Draper is considered to only have one major Federal program (R&D).

Sales are mainly sole source procurements to the U.S. Government under Cost Plus-Fixed-Fee (CPFF) type contracts. Draper's total Federal award sales for the Fiscal Year Ended (FYE) June 29, 2018 were \$420.7 million.

ABOUT THIS AUDIT

In accordance with the 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the U.S. Defense Contract Audit Agency (DCAA) and PricewaterhouseCoopers LLP (PwC) performed a coordinated audit of Draper's R&D Cluster. DCAA's audit responsibility included testing Draper's compliance with the following compliance requirements included in the 2 CFR 200 Compliance Supplement: activities allowed or unallowed, allowable cost/cost principles, equipment and real property management, period of performance, and procurement and suspension and debarment. This included auditing Draper's proposed direct and indirect amounts for reimbursement on federal awards contained in its FY 2018 final indirect rate proposal, submitted on November 19, 2018. In addition, we also tested Draper's internal control structure with respect to the five compliance requirements listed above as they relate to Draper's R&D Cluster. However, our audit of Draper's R&D Cluster did not include non DoD Federal awards within the Schedule of Expenditures of Federal Awards because we do not have audit cognizance over those Federal awards (see Appendix 4, Page 31).



TRUSTED ADVISOR

SUPPORT

Audit Report No. 1151-2018C10110001

March 25, 2019

WHAT WE FOUND

We found instances of noncompliance with Compliance Requirement B (Allowable Costs and Cost Principles). Our audit disclosed \$7,384 of claimed costs that did not meet the requirements of DFARS 231.2015 18, Independent Research and Development, \$118,487 of Severance Costs that did not meet the requirements of FAR 31.205-6(g)(1) and \$309,647 of Unreasonable Executive Compensation that does not meet the requirements of FAR 31.205-6(b)(2). In addition, Draper did not comply with the procurement requirements relating to 2 CFR 200.319 and 48 CFR 52.244-5, which requires full and open competition when issuing procurements that exceeded \$3,500. See Exhibit B for additional details on all four audit findings.

INDEPENDENT

TEAM

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Draper's compliance with five of the applicable compliance requirements described in the 2018 Compliance Supplement that could have a direct and material effect on Draper's research and development program for the year ended June 29, 2018. The compliance requirements audited by DCAA are as follows:

- Activities allowed or unallowed,
- Allowable cost/cost principles,
- Equipment and real property management,
- Period of Availability of Federal Funds, and
- Procurement and suspension and debarment

Draper's independent public accounting firm of PricewaterhouseCoopers LLP (PwC) is responsible for auditing the remaining applicable compliance requirements.

Our audit of the Federal Research and Development cluster did not include \$49,139,186 of costs associated with non DoD Federal awards within the Schedule of Expenditures of Federal Awards. Draper's independent public accounting firm of PricewaterhouseCoopers LLP is responsible for auditing these costs. See Appendix 4, Page 31, for more details relating to the Federal awards that we audited and the ones that we excluded from our audit.

We also audited Draper's proposed direct and indirect amounts for reimbursement on federal awards contained in its FY 2018 final indirect rate proposal, submitted November 16, 2018, to determine if the proposed amounts comply with the terms of federal awards pertaining to accumulating and billing incurred amounts.

Management's Responsibility

Draper's management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs including the design, implementation, maintenance of internal control to prevent or detect and correct noncompliance due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Draper's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with the standards contained in Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States; auditing standards generally accepted in the United States of America; and 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Those standards and 2 CFR 200 require that we plan and perform the audit to obtain reasonable assurance

about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred and whether Draper's proposed amounts materially comply with the terms of federal awards pertaining to accumulating and billing costs. An audit includes examining, on a test basis, evidence about Draper's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. The nature, timing, extent of the procedures selected depend on our professional judgment, including an assessment of risks of material noncompliance, whether due to fraud or error, and involve examining evidence about the proposed amounts.

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

Unmodified Opinion on Draper's Compliance with the Research and Development Cluster

In our opinion, Draper complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 29, 2018.

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with 2 CFR 200 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 through 2018-004. Our audit disclosed proposed amounts that do not materially comply with the requirements of laws, regulations, contracts and grants applicable to its Research and Development program, as described below. Our opinion on the Research and Development cluster is not modified with respect to these matters.

Draper's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan for the Current Year, Appendix 3, Page 29. Draper's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Appendix 4, Page 31, includes a Summary Schedule of Claimed Expenditures and Fee by Federal Sponsor. It does not represent the final costs by Federal sponsor as it does not reflect final indirect costs as final indirect rates still have to be negotiated by the Administrative Contracting Officer (ACO). Final amounts will be adjusted after Draper settles its indirect rates with its ACO. Draper's Certificate of Final Indirect Cost is provided as Appendix 1, Page 23.

REPORT ON INTERNAL CONTROL

Management's Responsibility

Draper's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above for the requirements of laws, regulations, contracts, and grants applicable to its Research and Development program.

Auditor's Responsibility

In planning and performing our audit of compliance, we considered Draper's internal control over compliance for five of the compliance requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program, and to test and report on internal control over compliance in accordance with 2 CFR 200, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Draper's internal control over compliance.

Results of Internal Control over Compliance

We did not identify any reportable deficiencies in internal control. Our consideration of the internal control over compliance was for the limited purpose described above and was not designed to identify all deficiencies in the auditee's internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement for 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.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

AUDITOR'S COMMENTS ON SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

We included procedures to assess the reasonableness of Draper's Summary Schedule of Prior Audit Findings, included as Appendix 2, Page 24. We concluded that Draper adequately presented the status of its corrective action taken regarding our prior audit findings. The following is a summary of the prior audit findings that are still considered open:

<u>Audit Year</u>	<u>Audit Finding Reference</u>	<u>Description of Audit Finding</u>
FY 2016	2016-001	Opportunity Investment Projects (OPPTY)
FY 2016	2016-002	Independent Research and Development (IR&D) Projects
FY 2016	2016-003	Sembler Program
FY 2017	2017-001	Inadequate Support
FY 2017	2017-002	Independent Research and Development (IR&D) Projects
FY 2017	2017-003	Noncompliance with the Procurement Suspension and Debarment Compliance Requirement

EXIT CONFERENCE

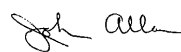
We provided a draft copy of the report and discussed the results of our audit with Mr. Jamie Pereira, Associate Director, Accounting & Government Compliance, and Mr. Randy Fowler, Director Government Relations & Corporate Assurance, in an exit conference held on March 21, 2019. Draper's current corrective action plan, which addresses the audit finding, is included as Appendix 3, Page 29. We did not audit Draper's corrective action plan, and accordingly, we express no opinion on it.

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General information on audit matters is available at <http://www.dcaa.mil/>.

AUDIT REPORT AUTHORIZED BY:


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RESTRICTIONS

1. The For Official Use Only (FOUO) marking placed on this audit report is not a security marking. It is a marking required by DoD Freedom of Information Act (FOIA) regulations. The marking provides notice that the report might contain information that is subject to withholding under FOIA. The FOUO marking is a notice limited to Department of Defense employees.
2. The Defense Contract Audit Agency has no objection to the auditee releasing this report at its discretion for public inspection. DCAA also has no objection to the auditee excluding Appendix 5 of this report from the filing with Federal Clearinghouse due to the proprietary nature of the information included in the appendix.
3. This report is intended solely for the information and use by federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOVERNMENT PARTICIPATION IN ALLOCATION BASES

<u>Indirect Category</u>	<u>Government</u>	<u>FFP</u>	<u>Total</u>
	<u>Flexibly Priced</u>	<u>Federal</u>	
	<u>Federal</u>	<u>Awards and</u>	
	<u>Awards</u>	<u>Commercial</u>	
		<u>Work</u>	
General Research Overhead	81.27%	18.73%	100%
Plant Overhead	80.89%	19.11%	100%
Employee Benefits	81.79%	18.21%	100%
Contract Personnel Overhead - General Research OH	78.57%	21.43%	100%
Contract Personnel Overhead - Plant Overhead	78.02%	21.98%	100%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS**Charles Stark Draper Laboratory, Inc.****Fiscal Year Ended June 29, 2018****SECTION I: SUMMARY OF AUDITOR'S RESULTS:****A. Financial Statements:**

Information pertaining to the financial statements and the report on the Schedule of Expenditures of Federal Awards can be found in the independent public accountant's audit report.

B. Federal Awards:**1. Type of auditor's report issued on compliance for major programs:**

Type of Audit Opinion	
Unmodified	X
Modified	
Adverse	
Disclaimer	

2. Internal control over major programs:

	Yes	None Reported
Material weaknesses were identified.		X
Significant deficiencies identified not considered to be material weaknesses.		X

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 Subpart F:

Yes	X
No	

4. Identification of Major Programs:

CFDA Number	Program
N/A	Research and Development Cluster

5. Dollar threshold used to distinguish between Type A and Type B programs:

\$3,000,000

6. Auditee classified as a low-risk under 2 CFR 200 Subpart F:

Yes	X
No	

SCHEDULE OF FINDINGS AND QUESTIONED COSTS**Charles Stark Draper Laboratory, Inc.****Fiscal Year Ended June 29, 2018****SECTION II: FINDINGS RELATED TO FINANCIAL STATEMENTS:**

Information pertaining to the financial statements and the report on the Schedule of Expenditures of Federal Awards can be found in the independent public accountant's audit report.

SECTION III: FINDINGS RELATED TO FEDERAL AWARDS:**A. INDIRECT EXPENSES (General Overhead Rate)**

FY 2018 Questioned Costs		
Audit Finding Number	Description	Questioned Costs
2018-001.	Independent Research & Development (IR&D) Projects	\$ 7,384
2018-002.	Executive Compensation – Severance Costs	118,487
2018-003.	Executive Compensation – Unreasonable Compensation	309,646
		<u>\$ 435,517</u>

2018-001. Independent Research and Development (IR&D) Projects.

a. Condition:

We determined that \$7,384 of IR&D costs claimed by Draper Laboratory in its General Overhead Pool did not meet the allowability criteria in accordance with DFARS 231.205.18 and are therefore considered unallowable. The following table summarizes the questioned IR&D projects:

Questioned IR&D Projects		
Project	Project Number	Amount Claimed
Draper Fellows	35505-028	\$ 1,633
Draper Fellows	35505-048	5,751
Total IR&D Questioned		<u>\$ 7,384</u>

We questioned the costs claimed under these two IR&D projects because Draper did not upload the proper documentation into the Defense Technical Information Center (DTIC) system as required by DFARS 231.205-18. When we inquired with Draper as to why the information was not uploaded into DTIC, they informed us that it was not their intent to claim these projects in its FY 2018 incurred cost submission. Instead, it was an oversight that led to the inadvertent inclusion of these two projects in the Draper FY 2018 incurred cost submission. Regardless of how these two projects ended up in the incurred cost submission, they represent expressly

unallowable costs because Draper did not follow the requirements for claiming IR&D costs per DFARS 231.205-18. The questioned costs represent indirect costs, which pertains to all Federal contracts under Draper's R&D program.

Draper's noncompliance with the DFARS also results in a noncompliance with compliance requirement B (Allowable Cost/Cost Principles) of 2 CFR Part 200 Appendix XI, Compliance Supplement.

We consider the questioned IR&D costs to be expressly unallowable and subject to level two penalty under FAR 42.709 because the cost principle DFARS 231.205-18 states in direct terms that the costs are unallowable and we had previously questioned similar costs under prior Uniform Guidance audits. See Exhibit C, Page 22 for the penalty calculation.

We previously reported similar audit findings as part of the FY 2016 and FY 2017 Uniform Guidance audits as detailed under audit finding numbers 2016-001, 2016-002 and 2017-002.

b. Criteria:

Per DFARS 231.205-18, Independent research and development and bid and proposal costs are allowable only if they meet the following requirements:

(c) Allowability.

(iii) For major contractors, the following limitations apply:

- (A) *The amount of IR&D/B&P costs allowable under DoD contracts shall not exceed the lesser of—*
 - (1) *Such contracts' allocable share of total incurred IR&D/B&P costs; or*
 - (2) *The amount of incurred IR&D/B&P costs for projects having potential interest to DoD.*
- (B) *Allowable IR&D/B&P costs are limited to those for projects that are of potential interest to DoD, including activities intended to accomplish any of the following:*
 - (1) *Enable superior performance of future U.S. weapon systems and components.*
 - (2) *Reduce acquisition costs and life-cycle costs of military systems.*
 - (3) *Strengthen the defense industrial and technology base of the United States.*
 - (4) *Enhance the industrial competitiveness of the United States.*
 - (5) *Promote the development of technologies identified as critical under 10 U.S.C. 2522.*

- (6) *Increase the development and promotion of efficient and effective applications of dual-use technologies.*
 - (7) *Provide efficient and effective technologies for achieving such environmental benefits as: improved environmental data gathering, environmental cleanup and restoration, pollution reduction in manufacturing, environmental conservation, and environmentally safe management of facilities.*
- (C) *For annual IR&D costs to be allowable—*
- (1) *The IR&D projects generating the costs must be reported to the Defense Technical Information Center (DTIC) using the DTIC's on-line input form and instructions at <http://www.defenseinnovationmarketplace.mil>;*
 - (2) *The inputs must be updated at least annually and when the project is completed; and*
 - (3) *Copies of the input and updates must be made available for review by the cognizant administrative contracting officer (ACO) and the cognizant Defense Contract Audit Agency auditor to support the allowability of the costs.*

Furthermore, in a Memorandum from the Office of the Under Secretary of Defense to the Director, Defense Contract Management Agency and Director, Defense Contract Audit Agency, dated February 3, 2014, clarification was provided concerning the DTIC filing requirement required by the DFARS. It stated that:

“Contractors must report projects generating IR&D costs by entering them into the secure portal at the Defense Innovation Marketplace no later than three months after the end of the CFY in which the contractors initially incur the cost.”

c. Recommendation:

We recommend that Draper reassess its procedures for claiming IR&D projects to ensure that only allowable IR&D costs are claimed in future incurred cost submissions.

d. Draper's Reaction:

Draper's reaction follows verbatim.

Draper concurs with DCAA's finding that these costs should not have been claimed and were therefore unallowable.

Draper does not agree that these costs should have been uploaded into DTIC, as these were not intended to be claimed. Therefore, we do not agree that the questioned amounts should be subject to penalty. Prior to submittal of the DFY 2019 Uniform Guidance Submission,

Draper will ensure that we perform a reconciliation of claimed IR&D projects against what is included within DTIC.

Issue Coordinator: Jamie Pereira, Associate Director, Accounting & Government Compliance

Est. Completion Date: December 31, 2019

e. Auditor's Response:

Although it may not have been Draper's intent to claim these costs, it doesn't change the fact that they were claimed. Therefore, Draper is required to follow the DFARS criteria for claiming these costs. If a contractor fails to follow the stated criteria then the questioned costs are considered expressly unallowable.

2018-002. Executive Compensation – Severance Costs

a. Condition:

Our evaluation of Draper's executive compensation disclosed an \$118,487 severance payment to a Vice President of the company who voluntarily left Draper. Per FAR 31.205-6(g)(1) allowable severance pay is a payment in addition to regular salaries and wages by contractors to workers whose employment is being involuntarily terminated. Therefore, the claimed severance costs for this Vice President is considered unallowable per the FAR reference above. The questioned costs represent indirect costs, which pertains to all Federal contracts under Draper's R&D program.

Draper's noncompliance with FAR also results in a noncompliance with compliance requirement B (Allowable Cost/Cost Principles) of 2 CFR Part 200 Appendix XI, Compliance Supplement.

We consider the questioned severance costs to be expressly unallowable and subject to level one penalty under FAR 42.709 because the cost principal FAR 31.205-6(g)(1) states in direct terms that the costs are unallowable. See Exhibit C, Page 22 for the penalty calculation.

This audit finding does not pertain to any prior year audit findings.

b. Criteria:

FAR 31.205-6(g) states the following:

(g) Severance pay.

(1) Severance pay is a payment in addition to regular salaries and wages by contractors to workers whose employment is being involuntarily terminated. Payments for early retirement incentive plans are covered in paragraph (j)(6) of this subsection.

- (2) *Severance pay is allowable only to the extent that, in each case, it is required by—*
- (i) *Law;*
 - (ii) *Employer-employee agreement;*
 - (iii) *Established policy that constitutes, in effect, an implied agreement on the contractor's part; or*
 - (iv) *Circumstances of the particular employment.*
- (3) *Payments made in the event of employment with a replacement contractor where continuity of employment with credit for prior length of service is preserved under substantially equal conditions of employment, or continued employment by the contractor at another facility, subsidiary, affiliate, or parent company of the contractor are not severance pay and are unallowable.*
- (4) *Actual normal turnover severance payments shall be allocated to all work performed in the contractor's plant. However, if the contractor uses the accrual method to account for normal turnover severance payments, that method will be acceptable if the amount of the accrual is—*
- (i) *Reasonable in light of payments actually made for normal severances over a representative past period; and*
 - (ii) *Allocated to all work performed in the contractor's plant.*
- (5) *Abnormal or mass severance pay is of such a conjectural nature that accruals for this purpose are not allowable. However, the Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Thus, the Government will consider allowability on a case-by-case basis.*
- (6) *Under 10 U.S.C. 2324(e)(1)(M) and 41 U.S.C. 4304(a)(13), the costs of severance payments to foreign nationals employed under a service contract performed outside the United States are unallowable to the extent that such payments exceed amounts typically paid to employees providing similar services in the same industry in the United States. Further, under 10 U.S.C. 2324(e)(1)(N) and 41 U.S.C. 4304(a)(14), all such costs of severance payments that are otherwise allowable are unallowable if the termination of employment of the foreign national is the result of the closing of, or the curtailment of activities at, a United States facility in that country at the request of the government of that country; this does not apply if the closing of a facility or curtailment of activities is made pursuant to a status-of-forces or other country-to-country agreement entered into with the government of that country before November 29, 1989. 10 U.S.C. 2324(e)(3) and 41 U.S.C. 4304(b) permit the head of the agency to waive these cost allowability limitations under certain circumstances (see 37.113 and the solicitation provision at 52.237-8).*

c. Recommendation:

We recommend that Draper evaluates its severance payments in future incurred cost submissions to ensure that only allowable severance costs are allocated to Federal government contracts.

d. Draper's Reaction:

Draper's reaction follows verbatim.

Draper concurs with DCAA's finding that these costs should not have been claimed and were therefore unallowable. We will ensure a thorough review of severance costs is performed prior to claiming these types of expenses in the future.

Draper disagrees with DCAA's determination that these costs are expressly unallowable, and therefore would not be subject to level one penalty. As defined within FAR Part 31.001-Definitions, an "Expressly unallowable cost" means a particular item or type of cost which, under the express provisions of an applicable law, regulation, or contract, is specifically named and stated to be unallowable." Draper does not agree that the cited clause (identified below) explicitly states that in order for severance costs to be allowable they must result from an involuntary termination. As a result, we do not agree with the determination that these costs are expressly unallowable.

The regulation DCAA questioned these costs against, FAR 31.205-6(g)(1), states:

(g) Severance pay- (1) Severance pay is a payment in addition to regular salaries and wages by contractors to workers whose employment is being involuntarily terminated. Payments for early retirement incentive plans are covered in subparagraph (j)(6) of this subsection..

Issue Coordinator: Jamie Pereira, Associate Director, Accounting & Government Compliance

Est. Completion Date: December 31, 2019

e. Auditor's Response:

A cost principle makes costs expressly unallowable if:

1. It states in direct terms that the costs are unallowable, or leaves little room for differences of opinion as to whether the particular cost meets the allowability criteria; and
2. It identifies the specific cost or type of costs in a way that leaves little room for interpretation.

In Draper's response, Draper agreed that the severance costs shouldn't have been claimed and that the costs are unallowable. We are not aware of any basis nor assertion that details a difference in opinion or interpretation of FAR that severance costs paid out in relation to voluntary terminations would be allowable. FAR 31.205-6(g)(1) clearly specifies that severance costs are payments to workers involuntarily terminated. Draper elected to provide severance to an employee that left voluntarily even though severance was not necessary. As a result, in this situation, we believe it is very clear that the claimed severance costs represent expressly unallowable costs.

2018-003. Executive Compensation – Unreasonable Compensation

a. Condition:

We evaluated Draper's executive compensation and concluded that \$309,646 of claimed indirect total compensation in FY 2018 is unreasonable in accordance with FAR 31.205-6(b)(2). For covered executives, our recommended amounts are less than or equal to the applicable compensation limitation and should be used as the measure of reasonableness. The questioned costs represent indirect costs, which pertains to all Federal contracts under Draper's R&D program.

Draper's noncompliance with FAR also results in a noncompliance with compliance requirement B (Allowable Cost/Cost Principles) of 2 CFR Part 200 Appendix XI, Compliance Supplement.

We do not consider Draper's unreasonable executive compensation to be subject to penalties in accordance with FAR 42.709.

This audit finding does not pertain to any prior year audit findings.

b. Criteria:

The contractor maintains written employee position descriptions for each of its executives.

Our evaluation focused on Draper's top paid executives and the associated amounts for base salary, bonus, 401k, severance, and other payments less voluntary deletions made by Draper. We requested information from Draper in order to understand and evaluate the basis of the claimed compensation costs and how the company establishes executive pay levels. This included written employee position descriptions for the executives in our evaluation. Draper asserts that its compensation is based on market pricing data (compensation surveys), 3rd Party (consultant) analysis and management judgement. Draper provided 3rd party compensation analysis performed by Mercer LLC for the top five executives and market pricing survey for other executives. We used the survey data from Mercer LLC for the top five executives in our evaluation; however, we were unable to consider the market pricing survey data for the other executives because the survey is not comparable to Draper. Draper did not assert high performance or any other factor impacting our evaluation. Based on prevalent market and contractor's practices, we determined the appropriate market percentile for Draper to be the median. Draper provided no other supporting documentation to demonstrate the reasonableness of the claimed compensation, including information on management judgements that impacted compensation amounts.

We utilized the executive position descriptions and executive titles in order to understand their job content (duties, scope of responsibilities, functions/activities). Based on our evaluation, we determined appropriate survey benchmarks for each position. We compared the claimed cash compensation for the top executives of Draper to amounts represented in the following reputable executive compensation surveys. The surveys used to determine reasonable cash compensation levels were:

- Economic Research Institute Executive Compensation Assessor; July 2018 Database;
- 2016 Management Compensation Report for Not-for-Profit Organizations by PRM Consulting Group; and
- Mercer (Contractor's 3rd Party Analysis): 2017 Draper Executive Remuneration Review by Mercer LLC.

We used the appropriate area, industry, positions, and time frame involved. The recommendations for the executive positions are the average of the reasonable amounts for cash compensation plus a 10% range of reasonableness (RoR) application in accordance with generally accepted compensation practices.

We also compared the claimed compensation for the covered executives to the FY 2018 compensation limitation of \$525,000 as set forth in FAR 31.205-6(p). No exceptions were noted regarding the comparison of Draper's executive salaries to the FAR compensation limitation.

c. Recommendation:

We recommend that Draper reevaluate its process for assessing reasonableness of its executive salaries in order to ensure that only reasonable executive salary costs are allocated to Federal government contracts.

d. Draper's Reaction:

Draper's reaction follows verbatim.

Draper does not concur with DCAA's finding and reserves the right to negotiate this issue with the ACO.

Issue Coordinator: Jamie Pereira, Assoc. Dir., Accounting & Government Compliance

Est. Completion Date: Pending DCMA Resolution

e. Auditor's Response:

We will attend negotiations to further support our audit findings with Draper's DCMA Administrative Contracting Officer.

B. NONCOMPLIANCE

2018-004. Noncompliance with the Procurement Suspension and Debarment Compliance Requirement.

a. Condition:

Per 2 CFR 200.319 and 48 CFR 52.244-5 contractors are required to use full and open competition when issuing procurements that exceed \$3,500. To test Draper's compliance with this requirement, we statistically sampled twenty-nine procurements made by Draper during FY 2018. The universe that we used to select our sample consists of FY 2018 equipment, material/supplies. Of the procurements tested, we concluded that eight did not include adequate documentation to demonstrate the:

- (1) Procurement was conducted in full and open competition according to 2 CFR section 200.319 or
- (2) Rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified per 2CFR sections 200.319 and 200.320(f) and 48 CFR section 52.244-5.

Based on our tests, we concluded that Draper did not comply with the Procurement Suspension and Debarment compliance requirements, which pertains to all Federal contracts under Draper's R&D program. This is the same audit finding as reported for the FY 2017 Uniform Guidance audit under audit finding number 2017-003.

b. Criteria:

Compliance Requirement I – Procurement, Suspension and Debarment. We tested Draper's compliance with this compliance requirement to provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the Uniform Guidance under 2 CFR 200 and/or other requirements, as applicable, and that covered transactions (as defined in the suspension and debarment rule) are not made with a debarred or suspended party.

2 CFR 200.319 Competition, states "(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section..." It then goes on to state that "(d) The non-Federal entity must ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, the non-Federal entity must not preclude potential bidders from qualifying during the solicitation period."

2 CFR 200.320 pertains to the method of procurements to be followed. Specifically it states that the non-Federal entity must use one of the following methods of procurement:

- (a) *Procurement by micro-purchases (under \$3,500). Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (\$200.67 Micro-purchase). To the extent*

practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

- (b) *Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold (\$150,000). If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.*
- (c) *Procurement by sealed bids (formal advertising)*
- (d) *Procurement by competitive proposals*
- (e) *Reserved*
- (f) *Procurement by noncompetitive proposals. Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:*
 - (1) *The item is available only from a single source;*
 - (2) *The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;*
 - (3) *The Federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-Federal entity; or*
 - (4) *After solicitation of a number of sources, competition is determined inadequate.*

c. Recommendation:

Draper needs to improve its policies and procedures to ensure that future procurement's contain sufficient documentation supporting the following:

- (1) Procurement was conducted in full and open competition according to 2 CFR section 200.319 or
- (2) The rationale where competition was limited and the determination that the limitation was justified per 2CFR sections 200.319 and 200.320(f) and 48 CFR section 52.244-5.

d. Draper's Reaction:

Draper's reaction follows verbatim.

Draper improved its policies and procedures to ensure Draper promotes full and open competition in accordance with 2 CFR section 200.319 and other regulations. The policy was updated on August 21, 2018. Draper conducted multiple trainings, weekly team meetings, and quarterly procurement meetings to increase awareness of Federal documentation requirements. In addition to training, Draper has also implemented quarterly PO file reviews to ensure sufficient documentation and justification to support full and open competition, sole source or single source procurements. As last years' audit finding was not disclosed to Draper until March of 2018, Draper did not have adequate time to correct this issue prior to Draper's fiscal year end 2018 (June of 2018). Draper's corrective action has been subsequently implemented.

*Issue Coordinator: Linda Connell, Associate Director, Procurement & Property
Completion Date: Draper considers this finding closed as of the date of the updated policy dated August 21, 2018.*

e. Auditor's Response:

We acknowledge that Draper did not have enough time to correct this noncompliance in time for the procurements that were made in FY 2018. However, we will retest this area again under the FY 2019 Uniform Guidance audit to ensure that Draper fully implemented its corrective action plan that was implemented in FY 19.

SCHEDULE OF UNALLOWABLE COSTS SUBJECT TO PENALTY

<u>General Overhead</u>	<u>Questioned Costs</u>	<u>Level One Penalty</u>	<u>Level Two Penalty</u>	<u>Reference</u>
Independent Research and Development (IR&D) Projects	\$ 7,384	\$ -	\$ 7,384	2018-001
Executive Compensation – Severance Costs	\$ 118,487	\$ 118,487	\$ -	2018-002
Total	<u>\$ 125,871</u>	<u>\$ 118,487</u>	<u>\$ 7,384</u>	

<u>Calculation of Penalty</u>	<u>Calculation of Questioned Costs Subject to Level One Penalty</u>	<u>Calculation of Questioned Costs Subject to Level Two Penalty</u>	<u>Not Subject to Penalty</u>
Percentage of General Overhead Base Subject/Not Subject to Penalty	88%	88%	<u>12%</u>
Multiplied by Federal Gov. Participation in the General Overhead Base	81%	81%	
Equals Percentage of Questioned Costs Subject to Penalty	71%	71%	

<u>Penalty</u>	<u>\$ 84,126</u>	<u>\$ 10,485</u>
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FY 2018 Incurred Cost Submission

ICE MANUAL

SCHEDULE N
ICE (version 2.0.1g)The Charles Stark Draper Laboratory
555 Technology Square
Cambridge, MA 02139Certificate of Final Indirect Costs
Fiscal Year Ended 06/30/2018

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in the FY 2018 Incurred Cost Submission to establish final indirect cost rates for July 1, 2017 through June 30, 2018 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Charles Stark Draper Laboratory

Signature: _____



Name of Certifying Official: Elizabeth Mora

Title: Chief Administrative Officer

Date of Execution: November 16, 2018

FAR Part 52.242-4— Certification of Final Indirect Costs.
As prescribed in 42.703-2(f), insert the following clause:
Certification of Final Indirect Costs (Jan 1997)

- (a) The Contractor shall —
- (1) Certify any proposal to establish or modify final indirect cost rates;
 - (2) Use the format in paragraph (c) of this clause to certify; and
 - (3) Have the certificate signed by an individual of the Contractor's organization at a level no lower than a vice president or chief financial officer of the business segment of the Contractor that submits the proposal.
- (b) Failure by the Contractor to submit a signed certificate, as described in this clause, may result in final indirect costs at rates unilaterally established by the Contracting Officer.
- (c) The certificate of final indirect costs shall read as follows: (see above)



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Cambridge, MA 02139-3563

Status of Prior Audit Findings**March 8, 2019****PwC**

There are no findings from prior years which require an update in this report.

DCAA**Findings from DCAA Audit Report Number 1151-2017T10110001 (Revised) dated March 20, 2018****Finding 2017-001- Inadequate Support (\$100,222)****Finding:**

DCAA found exceptions with costs claimed under project 22977 which represented costs associated with a Strategic Communication project. These costs were unintentionally claimed within the submission, therefore no documentation was provided by Draper in support of these costs. As a result, DCAA questioned the costs in accordance with FAR 31.201-2(d).

Recommendation:

DCAA recommends Draper take actions to ensure that all claimed costs in future incurred cost submissions are intended to be claimed and if claimed, meet the criteria in FAR 31.201-2(d). Otherwise, they will be unallowable.

Response/Action:

Draper concurs that it did not provide adequate support for project 22977. To ensure these types of costs do not get claimed in the future, Draper will go through the additional department code that these costs were claimed under in order to prevent these costs from being claimed, or it will ensure that the claimed strategic communication projects have readily available support if we choose to claim them. To address the questioned projects, prior to submission of the annual Uniform Guidance Incurred Cost Submission, Draper ensured all costs associated with Strategic Communications were represented in the appropriate budget organization. For DFY2018, Draper did not claim any costs associated with Strategic Communications.

Issue Coordinator:

Jamie Pereira, Associate Director, Accounting & Government Compliance

Completion Date:

Draper addressed this audit issue subsequent to the submittal of the DFY 2017 Uniform Guidance Submission, which was submitted on November 19, 2018. Resolution of the DFY 2017 questioned costs are pending DCMA negotiation.



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Finding 2017-002- Independent Research & Development (IR&D) Projects (\$190,725)

Finding:

DCAA questioned five claimed IR&D projects that it determined did not have potential interest to the Department of Defense (DoD).

Recommendation:

DCAA recommends improvement to IR&D policies and procedures through the addition of upfront reviews for interest to the DoD to ensure that only allowable IR&D costs are claimed in future incurred cost submissions.

Response/Action:

In DFY 2017, Draper implemented a process in which many indirect project types (including IR&D) are reviewed prior to opening the project in order to ensure appropriate classification of costs. In DFY 2018, Draper improved the process to ensure that support for DoD interest, technical readiness, and target customers are reviewed prior to uploading into DTIC. Additionally, Draper finalized its Indirect Project Policy and Procedures for General Users, effective October 5, 2018. All projects subject to this policy require a form to be completed and reviewed prior to opening the project. Draper believes that this process prevents projects that do not directly benefit the DoD from being loaded into the DTIC.

<u>Issue Coordinator:</u>	Jamie Pereira, Associate Director, Accounting & Government Compliance
<u>Completion Date:</u>	Draper addressed this audit issue as of the date of the finalized indirect project policy, October 5, 2018. Resolution of the DFY 2017 questioned costs are pending DCMA negotiation.

Finding 2017-003- Noncompliance with the Procurement Suspension and Debarment Compliance Requirement

Finding:

DCAA concluded that six procurements did not include adequate documentation to demonstrate the:

- (1) Procurement was conducted in full and open competition according to 2 CFR section 200.319 or
- (2) Rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified per 2CFR sections 200.319 and 200.320(f) and 48 CFR section 52.244-5.

Recommendation:

DCAA recommends that Draper improve its policies and procedures to ensure that future procurement's contain sufficient documentation to support the following: (1) Procurement was conducted in full and open competition according to 2 CFR section 200.319 or (2) The rationale where competition was limited and the determination that the limitation was justified per 2CFR sections 200.319 and 200.320(f) and 48 CFR section 52.244-5.



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Response/Action:

Draper improved its policies and procedures to ensure Draper promotes full and open competition in accordance with 2 CFR section 200.319 and other regulations. The policy was updated on August 21, 2018. Draper conducted multiple trainings, weekly team meetings, and quarterly procurement meetings to increase awareness of Federal documentation requirements. In addition to training, Draper has also implemented at least quarterly PO file reviews to ensure sufficient documentation and justification to support full and open competition, sole source or single source procurements.

Issue Coordinator:

Linda Connell, Associate Director, Procurement & Property

Completion Date:

Draper considers this finding closed as of the date of the updated policy dated August 21, 2018.

Findings from DCAA Audit Report Number 1151-2016T10110001 (Revised) dated March 29, 2017)

Finding 2016-001- Opportunity Investment Projects (OPPTY) \$5,573,042

Finding:

DCAA found exceptions to Draper projects classified as Opportunity Investment Projects that DCAA determined were misclassified IR&D costs, and therefore should have been uploaded into the Defense Technical Information Center.

Recommendation:

DCAA recommends that CSDL establish policies and procedures for OPPTY project costs as part of its internal controls to properly reflect the costs in its incurred cost submissions.

Response/Action:

Draper's DFY 2016 final indirect rate proposal has not yet been settled. It is Draper's position that claimed OPPTY project costs were appropriately classified and allowable per federal regulations. To address the questioned projects, Draper has initiated a process in which indirect projects are reviewed and classified prior to being opened. Further, Draper has filled multiple positions with individuals that have extensive knowledge and experience in Government accounting/compliance. Although Draper does not agree with the Government's position that the OPPTY projects are unallowable, Draper has voluntarily chosen not to claim OPPTY type projects within its DFY 2017 certified final indirect rate proposal.

Issue Coordinator:

Jamie Pereira, Associate Director, Accounting & Government Compliance

Completion Date:

Draper addressed this audit issue as of the date of the finalized indirect project policy, October 5, 2018. Resolution of the DFY 2016 questioned costs are pending DCMA negotiation.



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Finding 2016-002- Independent Research & Development (IR&D) projects \$3,133,858

Finding:

DCAA recommends that Draper improves internal controls and develops detailed IR&D policies and procedures to ensure that only allowable IR&D costs are claimed in future incurred cost submissions.

Recommendation:

DCAA identified certain claimed IR&D projects that it determined did not meet the DFARS 231.205-18 requirement for allowable IR&D costs. DCAA asserts that certain projects did not include appropriate level of detail to support DoD interest.

Response/Action:

Draper's DFY 2016 final indirect rate proposal has not yet been settled. It is Draper's position that claimed IR&D project costs met the DFARS requirement for IR&D costs to be. To address the questioned projects, Draper has initiated a process in which indirect projects are reviewed and classified prior to being opened. Further, Draper has filled multiple positions with individuals that have extensive knowledge and experience in Government accounting/compliance. Although Draper does not agree with the Government's position that the IR&D projects were unallowable, Draper has voluntarily chosen not to claim IR&D supervision nor IR&D administration type projects within its DFY 2017 certified final indirect rate proposal. In addition, Draper chose to separately upload IR&D projects for Draper fellows into the DTIC system.

Issue Coordinator:

Jamie Pereira, Associate Director, Accounting & Government Compliance

Completion Date:

Draper addressed this audit issue as of the date of the finalized indirect project policy, October 5, 2018. Resolution of the DFY 2016 questioned costs are pending DCMA negotiation.

Finding 2016-003- Sembler Program \$794,965

Finding:

DCAA identified one instance of a project that it determined was not allocable to Federal awards and therefore was not compliant with FAR 31.201-4.

Recommendation:

DCAA recommends that Draper reevaluate its internal programs to ensure the functions of said programs comply with the criteria in FAR 31.201-4.

Response/Action:

Draper's DFY 2016 final indirect rate proposal has not yet been settled. It is Draper's position that claimed Sembler project costs met the federal regulations and are allowable costs. To address the questioned projects, Draper has initiated a process in which indirect projects are reviewed and classified prior to being opened. Further, Draper has filled multiple positions that have extensive knowledge and experience in Government accounting/compliance.



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Although Draper does not agree with the Government's position that the Sembler costs were unallowable, Draper has voluntarily chosen not to claim costs associated with the Sembler project in DFY 2017.

Issue Coordinator: Jamie Pereira, Associate Director, Accounting & Government Compliance
Completion Date: Draper addressed this audit issue as of the date of the finalized indirect project policy, October 5, 2018. Resolution of the DFY 2016 questioned costs are pending DCMA negotiation.

Firm: The Charles Stark Draper Laboratory, Inc.

By:

A handwritten signature in green ink, appearing to read "Elizabeth Mora", written over a horizontal line.

Elizabeth Mora

Title: Chief Administrative Officer

Date: March 8, 2019



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Cambridge, MA 02139-3563

DCAA Current Year Audit Findings**March 21, 2019****Findings from DCAA Audit Report No. 1151-2018C10110001****2018-001. Independent Research and Development (IR&D) Projects****Response/Action:**

Draper concurs with DCAA's finding that these costs should not have been claimed and were therefore unallowable.

Draper does not agree that these costs should have been uploaded into DTIC, as these were not intended to be claimed. Therefore, we do not agree that the questioned amounts should be subject to penalty. Prior to submittal of the DFY 2019 Uniform Guidance Submission, Draper will ensure that we perform a reconciliation of claimed IR&D projects against what is included within DTIC.

Issue Coordinator: Jamie Pereira, Associate Director, Accounting & Government Compliance

Est. Completion Date: December 31, 2019

2018-002. Executive Compensation – Severance Costs**Response/Action:**

Draper concurs with DCAA's finding that these costs should not have been claimed and were therefore unallowable. We will ensure a thorough review of severance costs is performed prior to claiming these types of expenses in the future.

Draper disagrees with DCAA's determination that these costs are expressly unallowable, and therefore would not be subject to level one penalty. As defined within FAR Part 31.001-Definitions, an "Expressly unallowable cost" means a particular item or type of cost which, under the express provisions of an applicable law, regulation, or contract, is specifically named and stated to be unallowable." Draper does not agree that the cited clause (identified below) explicitly states that in order for severance costs to be allowable they must result from an involuntary termination. As a result, we do not agree with the determination that these costs are expressly unallowable.

The regulation DCAA questioned these costs against, FAR 31.205-6(g)(1), states:

(g) Severance pay- (1) Severance pay is a payment in addition to regular salaries and wages by contractors to workers whose employment is being involuntarily terminated. Payments for early retirement incentive plans are covered in subparagraph (j)(6) of this subsection..

Issue Coordinator: Jamie Pereira, Associate Director, Accounting & Government Compliance

Est. Completion Date: December 31, 2019



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2018-003. Executive Compensation – Unreasonable CompensationResponse/Action:

Draper does not concur with DCAA's finding and reserves the right to negotiate this issue with the ACO.

Issue Coordinator: Jamie Pereira, Assoc. Dir., Accounting & Government
Compliance
Est. Completion Date: Pending DCMA Resolution

2018-004. Noncompliance with the Procurement Suspension and Debarment Compliance Requirement.Response/Action:

Draper improved its policies and procedures to ensure Draper promotes full and open competition in accordance with 2 CFR section 200.319 and other regulations. The policy was updated on August 21, 2018. Draper conducted multiple trainings, weekly team meetings, and quarterly procurement meetings to increase awareness of Federal documentation requirements. In addition to training, Draper has also implemented quarterly PO file reviews to ensure sufficient documentation and justification to support full and open competition, sole source or single source procurements. As last years' audit finding was not disclosed to Draper until March of 2018, Draper did not have adequate time to correct this issue prior to Draper's fiscal year end 2018 (June of 2018). Draper's corrective action has been subsequently implemented.

Issue Coordinator: Linda Connell, Associate Director, Procurement & Property
Completion Date: Draper considers this finding closed as of the date of the updated policy dated August 21, 2018.

Firm: The Charles Stark Draper Laboratory, Inc.

By:

A handwritten signature in purple ink, appearing to read "Elizabeth Mora".

Elizabeth Mora

Title: Chief Administrative Officer

Date: March 21, 2019

Charles Stark Draper Laboratory, Inc.

Cambridge, MA

FY 2018 Summary Schedule of Expenditures of Federal Awards by Audit Responsibility

	Federal				
	CFDA/CSFA		Expenditures		
Major Program - R&D Cluster	Numbers	Direct	Pass-through	Total	
Department of Defense Federal Awards:					
Audited by DCAA					
Department of the Air Force	12	\$ 13,894,830	\$ 1,969,603	\$ 15,864,433	
Department of the Army	12	13,806,922	8,071,245	21,878,167	
Department of the Navy	12	265,311,869	21,347,761	286,659,630	
Defense Advanced Research Program Agency	12	11,621,009	3,736,397	15,357,406	
Missile Defense Agency	12	3,808,583	649,882	4,458,465	
Intelligence Advanced Research Projects Activity	12	31,005	328,130	359,135	
Other Government (DoD)	12	6,144,723	22,983,013	29,127,736	
Other Contracts	12	734,323	32,263	766,586	
Total Department of Defense Audited by DCAA		\$ 315,353,264	\$ 59,118,294	\$ 374,471,558	
Non DoD Federal Awards					
Audited by PwC					
NOAA/National Weather Service	11	\$ 210,732	\$ -	\$ 210,732	
Department of the Interior	15	10	-	10	
National Air and Space Administration	43	4,472,494	156,824	4,629,318	
National Science Foundation	47	2,163	23,418	25,581	
Department of Energy	81	-	57,492	57,492	
Department of Health and Human Services:				-	
National Institutes of Health	93	215,224	74,131	289,355	
Department of Homeland Security	97	1,362,474	-	1,362,474	
Other contracts	99	37,308,366	2,255,858	39,564,224	
Total Non DoD Federal Awards Audited by PwC		\$ 43,571,463	\$ 2,567,723	\$ 46,139,186	
Total Federal Awards		\$ 358,924,727	\$ 61,686,017	\$ 420,610,744	

The above schedule represents the costs and fee claimed by Draper on Federal awards during FY 2018. It does not represent the final costs by Federal sponsor because it does not reflect final indirect costs as final indirect rates still have to be negotiated by the Administrative Contracting Officer. Final amounts will be adjusted after Draper settles its indirect rates with the Administrative Contracting Officer.

I. Summary of PwC's Results¹

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 the financial statements noted? ☐ yes ☒ no

Federal Awards¹

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

PwC – Report 3

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

☐ Yes ☒ no

Identification of major programs

CFDA Numbers

Name of Federal Program or Cluster

Various

Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs

\$3,000,000

Auditee is qualified as low-risk auditee?

☒ yes ☐ no

¹ This summary represents a summary of work performed by PwC for the compliance requirements and awards within our scope of work as detailed in Report 3 of this coordinated audit. For a summary of work performed by DCAA for the compliance requirements and awards within their scope of work, refer to Report 3a in this Uniform Guidance report.

II. Financial Statement Findings

Finding 2018-001 – CAS Related Pension Curtailment Accounting

Condition

On December 31, 2017, Draper froze its Defined Benefit Pension Plan (RPE) for union and non-exempt employees resulting in an accounting curtailment. CAS (Cost Accounting Standard) 413.50(c)(12) requires Draper to determine if, at the time of the freeze, the plan was in a surplus or deficit position. If it is determined the plan is in a surplus, this amount is required to be returned to the government. The calculation of the surplus or deficit is different under CAS and US GAAP standards. Draper did not account for or disclose the estimated CAS surplus liability within their 2018 financial statements.

Criteria

ASC 450-25-2 requires that an estimated loss from a loss contingency shall be accrued by a charge to income if the loss is both probable and reasonably estimable. Further, ASC450 requires that the financial statements have appropriate disclosures surrounding the contingent liability.

Cause

It was subsequently determined that the impact of the pension curtailment under CAS standards on the 2018 financial statements was not fully understood or communicated to the relevant parties.

Effect

The effect of the finding noted above was that an accrual for the estimated amount due to the government was not recorded in the 2018 financial statements and the matter was not disclosed.

Recommendation

We recommend that management improve the internal controls surrounding the accounting for CAS related pension curtailment liabilities and related disclosures to be included in the financial statements.

III. Federal Award Findings and Questioned Costs

PwC

None Noted.

DCAA

The DCAA findings can be found in the accompanying DCAA report (Report 3a in this Uniform Guidance report).

PwC

There are no findings from prior years which require an update in this report.

DCAA

The DCAA update to prior audit findings can be found in the accompanying DCAA report (Report 3a in this Uniform Guidance report).