Universities Space Research Association

Independent Auditor's Report, Financial Statements (Uniform Guidance) and Supplementary Information

September 30, 2022 and 2021

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FORVIS

Independent Auditor's Report

Board of Trustees
Universities Space Research Association
Washington, District of Columbia

We have audited the accompanying financial statements of Universities Space Research Association (the Organization), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Universities Space Research Association as of September 30, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and GAS, we:

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

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

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* (GAS), we have also issued our report dated September 19, 2023, on our consideration of Universities Space Research Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Universities Space Research Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Universities Space Research Association's internal control over financial reporting and compliance.

FORVIS, LLP

Tysons, Virginia
September 19, 2023

Universities Space Research Association
Statements of Financial Position
September 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 7,379,984**	$ 9,561,920
Accounts receivable, net	**7,570,806**	10,533,048
Contract assets	**21,697,287**	19,702,064
Prepaid expenses and other current assets	**600,930**	742,402
Short-term investments	**4,038,044**	-
Interest rate swap asset	**162,327**	-
Total current assets	**41,449,378**	40,539,434
Property and equipment, net	**17,667,253**	18,429,431
Other assets		
Long-term investments	**2,484,682**	7,061,981
Total assets	**$ 61,601,313**	$ 66,030,846
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	**$ 8,115,039**	$ 11,299,857
Accrued salaries and related liabilities	**5,618,776**	7,267,080
Billings in excess of cost	**985,981**	309,014
Deferred rent	**68,099**	-
Bonds payable, current portion	**661,186**	436,960
Total current liabilities	**15,449,081**	19,312,911
Long-term liabilities:		
Bonds payable, net of current portion and bond issuance costs	**8,258,939**	8,883,225
Interest rate swap liability	**-**	526,779
Total long-term liabilities	**8,258,939**	9,410,004
Total liabilities	**23,708,020**	28,722,915
Commitments and contingencies (Notes 11 and 14)		
Net Assets:		
Without donor restrictions	**37,320,305**	36,671,779
With donor restrictions	**572,988**	636,152
Total net assets	**37,893,293**	37,307,931
Total liabilities and net assets	**$ 61,601,313**	$ 66,030,846

See accompanying notes.

Universities Space Research Association
Statement of Activities
Year Ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Contracts, grants and cooperative agreements	$ 111,123,251	$ -	$ 111,123,251
Direct costs:			
Labor	49,119,017	-	49,119,017
Subcontracts	17,384,912	-	17,384,912
Other direct costs	27,465,916	-	27,465,916
Travel	1,595,625	-	1,595,625
Total direct contract costs	95,565,470	-	95,565,470
Indirect costs	14,718,537		14,718,537
Operating income	839,244	-	839,244
Non-operating income (expense)			
Investment income (expense), net	(574,883)	(63,164)	(638,047)
Donation income	35,000	-	35,000
Other income	11,593	-	11,593
Unrealized gain on interest rate swap	689,106	-	689,106
Interest expense	(351,534)	-	(351,534)
Total non-operating expense, net	(190,718)	(63,164)	(253,882)
Change in net assets	648,526	(63,164)	585,362
Net assets, beginning of year	36,671,779	636,152	37,307,931
Net assets, end of year	$ 37,320,305	$ 572,988	$ 37,893,293

Universities Space Research Association
Statement of Activities
Year Ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Contracts, grants and cooperative agreements	$ 147,511,679	$ -	$ 147,511,679
Direct costs:			
Labor	61,232,561	-	61,232,561
Subcontracts	30,064,696	-	30,064,696
Other direct costs	36,956,668	-	36,956,668
Travel	982,551	-	982,551
Total direct contract costs	129,236,476	-	129,236,476
Indirect costs	16,420,437	-	16,420,437
Operating income	1,854,766	-	1,854,766
Non-operating income (expense):			
Investment income, net	488,329	88,897	577,226
Donation income	39,763	-	39,763
Other income	10,871	-	10,871
Loss on disposal of property and equipment	(88,481)	-	(88,481)
Unrealized gain on interest rate swap	296,731	-	296,731
Interest expense	(340,254)	-	(340,254)
Total non-operating income, net	406,959	88,897	495,856
Change in net assets	2,261,725	88,897	2,350,622
Net assets, beginning of year	34,410,054	547,255	34,957,309
Net assets, end of year	$ 36,671,779	$ 636,152	$ 37,307,931

Universities Space Research Association
Statement of Functional Expenses
Year Ended September 30, 2022

	Program Services	Supporting Services			
	Research Programs	Management and General	Fundraising	Total Supporting Services	Total Expenses
Expenses:					
Grants	$ 24,572,556	$ -	$ -	$ -	$ 24,572,556
Salaries and Wages	38,411,152	6,799,472	-	6,799,472	45,210,624
Pension	3,603,544	314,074	-	314,074	3,917,618
Employee Benefits	3,058,788	382,156	-	382,156	3,440,944
Payroll Taxes	2,967,994	258,682	-	258,682	3,226,676
Legal	-	2,436,468	-	2,436,468	2,436,468
Accounting	-	36,301	-	36,301	36,301
Other Professional Fees	888,060	1,277,272	-	1,277,272	2,165,332
Subcontractors	16,597,546	126,703	-	126,703	16,724,249
Office Expense	105,776	250,663	-	250,663	356,439
Information Technology	192,682	1,086,430	-	1,086,430	1,279,112
Occupancy	-	710,590	-	710,590	710,590
Travel	1,864,348	155,641	-	155,641	2,019,989
Conferences, and meetings	1,039,150	525,620	-	525,620	1,564,770
Interest	-	351,534	-	351,534	351,534
Depreciation/Amortization	-	811,314	-	811,314	811,314
Insurance	105,100	316,356	-	316,356	421,456
Equipment	36,697	56,735	-	56,735	93,432
Research Expenses	108,821	140	-	140	108,961
Other Direct Costs	932,394	7,255	-	7,255	939,649
Miscellaneous Expenses	-	247,527	-	247,527	247,527
Total expenses	$ 94,484,608	$ 16,150,933	$ -	$ 16,150,933	$ 110,635,541

See accompanying notes.

Universities Space Research Association
Statement of Functional Expenses
Year Ended September 30, 2021

	Program Services	Supporting Services			
	Research Programs	Management and General	Fundraising	Total Supporting Services	Total Expenses
Expenses:					
Salary expense	$ 47,672,346	$ 8,981,915	$ -	$ 8,981,915	$ 56,654,261
Sub-contract expenses	29,138,993	5,835	-	5,835	29,144,828
Grant expenses	34,531,046	-	-	-	34,531,046
Employee benefits	8,403,698	536,666	-	536,666	8,940,364
Travel	1,057,878	100,403	-	100,403	1,158,281
Payroll taxes	3,484,352	317,925	-	317,925	3,802,277
Professional fees	1,167,654	1,664,065	-	1,664,065	2,831,719
Conferences, conventions and meetings	303,722	134,519	-	134,519	438,241
Other direct cost	1,230,424	-	-	-	1,230,424
Information technology	192,247	1,057,855	-	1,057,855	1,250,102
Rent and occupancy	-	1,013,850	-	1,013,850	1,013,850
Depreciation and amortization expense	-	949,955	-	949,955	949,955
Legal	-	2,331,616	-	2,331,616	2,331,616
Interest	-	340,254	-	340,254	340,254
Insurance	105,628	301,606	-	301,606	407,234
Miscellaneous expenses	-	225,914	-	225,914	225,914
Equipment	152,554	40,382	-	40,382	192,936
Office expenses	115,667	95,337	-	95,337	211,004
Accounting	-	363,584	-	363,584	363,584
Total expenses	$ 127,556,209	$ 18,461,681	$ -	$ 18,461,681	$146,017,890

Universities Space Research Association
Statements of Cash Flows
Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 585,362	$ 2,350,622
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	774,498	913,139
Loss on disposal of property and equipment	-	88,481
Amortization of bond issuance costs	36,816	36,816
Realized gain on sale of investments	(31,894)	(12,149)
Unrealized gain on investments	738,332	(483,279)
Unrealized (gain) loss on interest rate swap	(689,106)	(296,731)
Bad debt expense (recovery)	101,393	(296,965)
Change in assets and liabilities:		
Accounts receivable	2,860,849	15,188,207
Contract assets	(1,995,223)	(19,702,064)
Prepaid expenses and other current assets	141,472	722,855
Accounts payable and accrued expenses	(3,184,818)	(1,181,134)
Accrued salaries and related liabilities	(1,648,304)	(257,943)
Deferred rent	68,099	-
Contract liabilities	676,967	(850,875)
Cash flows used in operating activities	(1,565,557)	(3,781,020)
Cash flows from investing activities:		
Purchases of property and equipment	(12,321)	(62,289)
Purchases of investments	(167,182)	(181,622)
Cash flows used in investing activities	(179,503)	(243,911)
Cash flows from financing activities:		
Repayment on bonds payable	(436,876)	(423,875)
Cash flows used in financing activities	(436,876)	(423,875)
Net decrease in cash and cash equivalents	(2,181,936)	(4,448,806)
Cash and cash equivalents, beginning of year	9,561,920	14,010,726
Cash and cash equivalents, end of year	$ 7,379,984	$ 9,561,920
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 351,534	$ 341,267
Reconciliation of cash and restricted cash to the statements of financial position:		
Cash	$ 7,079,984	$ 9,261,920
Cash, restricted	300,000	300,000
	$ 7,379,984	$ 9,561,920

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

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

2. Significant Accounting Policies

Basis of accounting

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

Cash and cash equivalents

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

Investments

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

Accounts receivable

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

Based on management's assessment, the Organization provides the estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Recoveries of accounts receivable previously written off are recorded when received. The allowance for doubtful accounts reflects management's best estimate of probable write-offs principally on the basis of history experience. At September 30, 2022 and 2021, management determined the need for an allowance for doubtful accounts of $24,284 and $23,100, respectively. Interest is not recorded on any past due balances.

Property and equipment

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

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

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

Bond issuance costs

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

Classification of net assets

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

> Net Assets without Donor Restrictions: Net assets without donor restrictions include undesignated and designated net assets. Net assets without donor restrictions consist of revenues and expenses associated with the principle mission of the Organization, which are not restricted by donor stipulations.
>
> Net Assets with Donor Restrictions: Net assets with donor restrictions include grants or gifts for which donor-imposed restrictions have not been met, include gifts that require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restriction. The use of funds held in perpetuity is limited to the expenditure of investment earnings. When such stipulations have been met, the net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. At September 30, 2022 and 2021, the Organization had net assets with donor restrictions of $572,988 and $636,152, respectively.

Revenue recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard during fiscal year 2021 using the modified retrospective approach. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures have been enhanced in accordance with the standard.

Substantially all the Organization's revenues are derived from cost reimbursable contracts, cost plus fixed fee contracts, cost plus award fee contracts, fixed price contracts, and time and materials contracts with the Federal Government or subcontracts with the Federal Government. Revenue on cost plus fixed-fee contracts is recognized to the extent of costs incurred plus a proportionate amount of the fee earned. Revenue on fixed-price contracts is recognized on the percentage of completion method based on costs incurred in relation to total estimated cost. Revenue on time-and-materials contracts is recognized to the extent of billable rates times hours delivered plus expenses incurred. Revenue on cost-reimbursable type contracts is recognized as allowable costs are incurred on the contract, at an amount equal to the allowable cost plus the estimated profit on those costs. The estimated profit on cost-reimbursable type contracts is fixed or variable based on the contractual fee arrangement. When it is probable that a contract will result in a loss, and that loss can be reasonably estimated, the entire estimated loss is recognized.

Contract costs for services provided to the U.S. government, including indirect expenses, are subject to audit and subsequent adjustment by negotiations between the Organization and government representatives. All contract revenues are recorded in amounts that are expected to be realized upon final settlement. The Organization is of the opinion that adjustments, if any, arising from such audits will not have a material effect on the accompanying d financial statements.

Acceptance of the organization's incurred cost submittals have been completed by the relevant cognizant government official through September 30, 2021, fiscal year 2022 is still subject to acceptance. Audits of the organization's incurred cost submissions have been completed through fiscal year 2013. At present fiscal years 2014 – 2016 are being reviewed by the government. The Organization is of the opinion that audit adjustments for such years, if any, will not have a material effect on the financial position, changes in net assets, or cash flows of the Organization.

Contract existence

The Organization considers a contract with a customer to exist under Topic 606, when there is approval and commitment from both the Organization and the customer, the rights of the parties and payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. The Organization also will consider whether two or more contracts entered into with the same customer should be combined and accounted for as a single contract. Furthermore, in certain transactions, the Organization may commence providing services prior to receiving a formal approval from the customer. In these situations, the Organization will consider the factors noted above, the risks associated with commencing the work and legal enforceability in determining whether a contract with the customer exists under Topic 606.

Customer contracts are often modified to change the scope, price, specifications or other terms within the existing arrangement. Contract modifications are evaluated by management to determine whether the modification should be accounted for as part of the original performance obligation(s) or as a separate contract. If the modification adds distinct goods or services and increases the contract value proportionate to the stand-alone selling price of the additional goods or services, it will generally be accounted for as a separate task within the contract. Generally, the Organization's contract modifications do not include goods or services which are distinct, and therefore are accounted for as part of the original performance obligation(s) with any impact on transaction price or estimated costs at completion being recorded as through a cumulative catch-up adjustment to revenue.

Performance obligation identification

The Organization evaluates each service deliverable contracted with the customer to determine whether it represents promises to transfer distinct goods or services. Under Topic 606, these are referred to as performance obligations. One or more service deliverables often represent a single performance obligation. This evaluation requires significant judgment and the impact of combining or separating performance obligations may change the time over which revenue from the contract is recognized. The Organization's contracts generally provide a set of integrated or highly interrelated tasks or services and are therefore accounted for as a single performance obligation. However, in cases where the Organization provides more than one distinct good or service within a customer contract and those distinct goods or services are identified in a standalone task, the contract is separated into individual performance obligations which are accounted for discretely.

Transaction price determination

Transaction prices for contracts and subcontracts with the U.S. government are typically determined through a competitive procurement process and are based on estimated or actual costs of providing the goods or services and/or hours in accordance with applicable regulations, primarily, the United States Office of Management and Budget (OMB) Uniform Guidance. Transaction prices may be based on rates negotiated on various government schedules utilizing estimated hours. Pricing for non-U.S. government agencies and commercial customers is based on discrete negotiations with each customer.

Variable consideration

Contracts may include various types of variable consideration, such as claims (for instance indirect rate or other equitable adjustments) or incentive fees. The Organization includes estimated amounts in the transaction price based on i) all of the information available, including historical information and future estimations, and ii) to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when any uncertainty associated with the variable consideration is resolved.

Historically, the majority of the Organization's contracts do not contain award fees, incentive fees, or other provisions that may increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and may be based upon customer discretion. In the event award or incentive fees exist, management would estimate variable consideration as the most likely amount expected to be achieved based on the assessment of the variable fee provisions within the contract, prior experience with similar contracts or clients, and management's evaluation of the performance on such contracts.

The Organization may perform work under a contract that has not been fully funded if the work has been authorized by the management and the customer to proceed.

Transaction price allocation

When distinct performance obligations exist, a contract's transaction price is allocated to each distinct obligation. The Organization generally estimates the stand-alone selling price of performance obligations based on an expected cost-plus margin approach as allowed under Topic 606. The Organization's U.S. government contracts generally contain OMB Uniform Guidance provisions that enable the customer to terminate a contract for default or for the convenience of the U.S. government.

Timing of revenue recognition

The Organization recognizes revenue for each performance obligation identified within its customer contracts when, or as, the performance obligation is satisfied by transferring the promised goods or services. The Organization recognizes revenue on its contracts over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, subcontractor costs and indirect expenses. This continuous transfer of control to the customer is supported by clauses in contracts with U.S. government customers whereby the customer may terminate a contract for convenience and then pay for costs incurred plus a profit, at which time the customer would take control of any work in process. For non-U.S. government contracts where the Organization performs as a subcontractor and the order includes similar Federal Acquisition Regulation (FAR) provisions as the prime contractor's order from the U.S. government, continuous transfer of control is likewise supported by such provisions. For other non-U.S. government customers, continuous transfer of control to such customers is also supported due to general terms in the contracts and rights to recover damages which would include, among other potential damages, the right to payment for the work performed to date plus a reasonable profit.

Due to the transfer of control over time, revenue is recognized based on progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the performance obligations. The Organization generally uses the cost-to-cost measure of progress on a proportional performance basis for the contracts because it best depicts the transfer of control to the customer which occurs as costs on contracts are incurred. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred. Contract estimates are based on various assumptions including labor and subcontractor costs, materials and other direct costs and the complexity of the work to be performed. A significant change in one or more of these estimates could affect the profitability of the contracts. Contract-related estimates are reviewed and updated regularly and recognize adjustments in estimated profit on contracts on a cumulative catch-up basis, which may result in an adjustment increasing or decreasing revenue to date on a contract in a particular period that the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

The Organization has identified that equal revenue increments can be taken on contracts where the anticipated level of work remains consistent over the stated period of performance.

Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term. There were no material adjustments recorded related to revised contract estimates for the years ended September 30, 2022 and 2021.

For certain time-and-materials, firm-fixed price level of effort contracts and cost-reimbursable plus fixed-fee contracts, revenue is recognized using the right-to-invoice practical expedient as the Organization is contractually able to invoice the customer in an amount that corresponds directly with the value received by the customer for the Organization’s performance completed to date.

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

<u>Contract assets and liabilities</u>

Contract assets are amounts that are invoiced as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Generally, revenue recognition occurs before billing, resulting in contract assets. Revenue recognized in advance of billings on cost-plus-fixed-fee contracts often represent the accumulated difference between billed provisional rates, which are reviewed and approved by the Department of the Interior, and actual incurred indirect rates. These rate variances resulting in revenue greater than or less than billing are classified as contracts assets or contract liabilities, respectively. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component due to the intent of the retainage being the customer’s protection with respect to full and final performance under the contract and are classified as contract assets. The Organization had $21,697,287 and $19,702,064 of contract assets at September 30, 2022 and 2021, respectively. associated with rate variances, accruals for subcontractors not yet invoiced and subsequent draws.

Billed receivables are amounts billed and due from customers that are classified as billed receivables and are reported within accounts receivable, net of reserve on the accompanying statements of financial position.

Contract liabilities are payments received in advance and milestone payments from customers on selected contracts that exceed revenue earned to date, resulting in contract liabilities. Contract liabilities typically are not considered a significant financing component because they are typically satisfied within one year and are used to meet working capital demands that can be higher in the early stages of a contract. Contract liabilities are reported on the accompanying statement of financial position on a net contract basis at the end of each reporting period. The Organization had $985,981 and $309,014 of contract liabilities at September 30, 2022 and 2021, respectively.

Refer to Note 3 for more information on receivables recognized from contracts accounted for under Topic 606.

Disaggregation of revenue from contracts with customers

The following table disaggregates the Organization's revenue based on timing of satisfaction of performance obligations for the year ended September 30, 2022:

	2022	**2021**
Performance obligations satisfied over time	**$ 111,123,251**	$ 147,511,679
Performance obligations satisfied at a point in time	**-**	-
	$ 111,158,251	$ 147,511,679

Functional expenses

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

Estimates

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

Income tax status

The Organization has been recognized by the Internal Revenue Service as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is required for the years ended September 30, 2022 and 2021 since the Organization had no taxable income from unrelated business activities. The Organization has determined that there are no material unrecognized tax benefits or obligations as of September 30, 2022 and 2021.

Derivative financial instrument and hedging

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

Concentrations of credit risk

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

Recently issued accounting standards

Leases

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

Subsequent events

In preparing these financial statements, the Organization has evaluated events and transaction for potential recognition or disclosure through September 19, 2023, the date the financial statements were available to be issued.

3. Accounts Receivable

Accounts receivable at September 30, 2022 and 2021, consist of amounts due under contracts, grants and cooperative agreements in progress with Federal government agencies. The components of accounts receivable are as follows at September 30:

	2022	2021
Billed receivables	**$ 7,386,222**	$ 10,411,595
Contract assets	**21,697,287**	19,702,064
Other receivables	**208,868**	144,553
	29,292,377	30,258,212
Allowance for doubtful collections	**(24,284)**	(23,100)
	$ 29,268,093	$ 30,235,112

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

As of September 30, 2022 and 2021, contract liabilities (formerly billings in excess of cost) totaled $985,981 and $309,014, respectively, and are included as current liabilities in the accompanying statements of financial position. These amounts are comprised of prepaid contracts and rate variances (i.e. actual indirect rates are lower than the provisional rates used for billing purposes), which are due upon contract completion and settlement.

For the year ended September 30, 2022, three customers represented 62% of total revenue and one customer represented 91% of total accounts receivable. For the year ended September 30, 2021, three customers represented 74% of total revenue and 88% of total accounts receivable.

4. Investments

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

	2022	2021
Investment income, net:		
Interest and dividends	**$ 89,306**	$ 102,522
Investment fees	**(20,915)**	(20,724)
Realized and unrealized gains (losses)	**(706,438)**	495,428
Total investment income (loss), net	**$ (638,047)**	$ 577,226

5. Fair Value Measurements

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

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

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

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices (such as interest rate and yield curves);

Level 3: Uses inputs that are unobservable, supported by little or no market activity and reflect significant management judgment.

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

The following is a description of the valuation methodologies used for asset measurements at fair value. There have been no changes in the methodologies used at September 30, 2022 and 2021.

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

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

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

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

The tables below summarize investments, by level, for items measured at fair value at September 30, 2022 and 2021:

	Assets at Fair Value as of September 30, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Mutual funds:				
Equity mutual funds	$ **272,989**	$ **-**	$ **-**	$ **272,989**
Total mutual funds	**272,989**	**-**	**-**	**272,989**
Exchange-traded funds:				
Fixed income exchange-traded funds	**699,338**	**-**	**-**	**699,338**
Equity exchange-traded funds	**1,471,913**	**-**	**-**	**1,471,913**
Total exchange-traded funds	**2,171,251**	**-**	**-**	**2,171,251**
Fixed income:				
Commercial	**891,158**	**-**	**-**	**891,158**
Certificates of deposit	**219,773**	**-**	**-**	**219,773**
Total fixed income	**1,110,931**	**-**	**-**	**1,110,931**
Cash held in investment account	**2,967,555**	**-**	**-**	**2,967,555**
	$ 6,522,726	**$ -**	**$ -**	**$ 6,522,726**

	Assets at Fair Value as of September 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Mutual funds:				
Fixed income mutual funds	$ 267,280	$ -	$ -	$ 267,280
Equity mutual funds	336,152	-	-	336,152
Total mutual funds	603,432	-	-	603,432
Exchange-traded funds:				
Fixed income exchange-traded funds	482,561	-	-	482,561
Equity exchange-traded funds	1,822,455	-	-	1,822,455
Total exchange-traded funds	2,305,016	-	-	2,305,016
Fixed income:				
Commercial	-	1,049,066	-	1,049,066
Certificates of deposit	-	727,925	-	727,925
Total fixed income	-	1,776,991	-	1,776,991
Cash held in investment account	2,376,542	-	-	2,376,542
	$ 5,284,990	$ 1,776,991	$ -	$ 7,061,981

	Assets at Fair Value as of September 30, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap	**$ -**	**$ 162,327**	**$ -**	**$ 162,327**

	Liabilities at Fair Value as of September 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap	$ -	$ (526,779)	$ -	$ (526,779)

6. Property and Equipment

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

	2022	2021
Land	**$ 5,546,244**	$ 5,546,244
Building	**19,181,396**	19,181,396
Furniture and equipment	**6,140,331**	6,113,046
Leasehold improvements	**219,574**	219,574
Construction in progress	**-**	13,643
	31,087,545	31,073,903
Less, accumulated depreciation	**(13,420,292)**	(12,644,472)
	$ 17,667,253	$ 18,429,431

Depreciation expense on property and equipment was $774,498 and $913,139 for 2022 and 2021, respectively.

7. Bonds Payable

On June 1, 2013, the Organization entered into an agreement with Maryland Economic Development Corporation (the Original Trustee) who issued Series 2013A tax-exempt and Series 2013T taxable bonds of $11,825,858 and $498,301, respectively, which were for the purchase of land and a building in Columbia, Maryland, together with any necessary capital improvements. On June 1, 2013, the bonds were purchased from the Original Trustee by a bank (the Bank). The Organization has signed a credit agreement with the Bank that stipulates payment terms relating to principal and interest. As of September 30, 2022 and 2021, the Organization had drawn $12,324,159. During the years ended September 30, 2022 and 2021, the Organization made principal payments of $436,876 and $423,875, respectively, on the outstanding balance.

The Series 2013A tax-exempt bonds mature on June 1, 2025 and the Series 2013T taxable bond mature on June 1, 2023. Interest is based on LIBOR plus 1.65% multiplied by 70% and a margin rate factor (as determined by the Bank). LIBOR was 2.92305% and 0.0838% as of September 30, 2022 and 2021, respectively. The effective interest rates were 4.02% and 1.73% as of September 30, 2022 and 2021, respectively. The bonds are secured by the land and building located in Columbia, Maryland.

Future payments of principal on the bonds payable are as of September 30, 2022:

	Series 2013A	Series 2013T	Total
2023	$ 415,958	$ 239,373	$ 655,331
2024	428,867	-	428,867
2025	7,888,433	-	7,888,433
	$ 8,733,258	$ 239,373	$ 8,972,361

Bond issuance costs related to the bonds payable totaling $393,053 have been capitalized. Amortization expense is recognized using the straight-line method over the lives of the related bonds and totaling $33,523 for the years ended September 30, 2022 and 2021. Borrowings under the bonds payable are recorded net of unamortized bond issuance costs totaling $54,236 and $89,322 for the years ended September 30, 2022 and 2021, respectively.

8. Line of Credit

During June 2013, the Organization entered into a revolving line-of-credit agreement with the Bank (Note 7). The aggregate principal amount of advances under this line outstanding at any time should not exceed $10,000,000. The proceeds of the advances are to be used to fund accounts receivable and general working capital needs. Interest is based on the greater of LIBOR plus 1.5% multiplied by 70% and a margin rate factor (as determined by the Bank) or the Federal Funds rate plus 0.50%. The effective interest rates were 3.10% and 2.50% as of September 30, 2022 and 2021, respectively. The line is collateralized by the land and building located in Columbia, Maryland.

In August 2021, the line of credit was extended through September 30, 2023. At September 30, 2022 and 2021, the Organization had no outstanding balance on the line of credit. The agreement with the Bank contains various debt covenants, including requirements that the Organization maintain unrestricted liquidity no less than 0.40 and maintain a debt service ratio of no less than 1.15 to 1. The Organization was in compliance with the debt covenants at September 30, 2022 and 2021.

9. Interest Rate Swap Agreement

The Organization has an interest rate swap agreement which is intended to allow the Organization to minimize the risk of future interest rate fluctuations related to the bonds payable described above in Note 7. The agreement expires June 1, 2025 and has effectively fixed the interest rate of 3.27% on a notional amount of $8,767,264 and $9,169,676 as of September 30, 2022 and 2021, respectively. The Organization recorded a gain related to the change in fair value of the interest rate swap agreement of $689,106 for the year ended September 30, 2022 and a loss related to the change in fair value of the interest rate swap agreement of $(296,732) for the year ended September 30, 2021. The amounts are included in the accompanying statements of activities.

10. Retirement Plans

The Organization sponsors a tax deferred 401(k) profit sharing plan under the Internal Revenue Code to provide retirement benefits for all eligible employees. Participating employees may voluntarily contribute pre-tax salary deferral contributions, Roth deferral contributions, or a combination of both, up to limits provided by Internal Revenue Service regulations. The Organization will make a matching contribution equal to 100% on the first 3% of salary deferrals and 50% on the next 2% of salary deferrals of the employee's pre-tax or Roth salary deferral contributions up to a maximum of 4% of their annual compensation. The Organization will also make a non-elective contribution equal to 6% of their annual compensation. For the years ended September 30, 2022 and 2021, the Organization made matching contributions of $3,919,331 and $4,876,499, respectively.

The Organization also maintains a defined contribution pension plan (the Plan) covering all regular staff employees that work twenty or more hours per week. Effective January 1, 2012, the Plan was amended to no longer allow employee or employer contributions. There were no contributions to the Plan during the years ended September 30, 2022 and 2021.

11. Deferred Compensation Plan

The Organization provides a nonqualified deferred compensation plan for certain employees. The Deferred Compensation Plan is funded through a brokerage account that is invested in mutual funds. As of September 30, 2022 and 2021, assets of $313,431 and $208,067, respectively, are included in the accompanying statements of financial position under long-term investments. As of September 30, 2022 and 2021, a liability of $280,715 and $184,115, respectively, is included in the accompanying statements of financial position under accounts payable and accrued expenses.

12. Operating Leases

The Organization leases office space in Washington, DC under operating lease arrangements. The office space lease in Washington, DC expires in August 2025. The Organization also leases various office equipment under operating lease arrangements with terms from month-to-month through 2025.

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

2023	$ 137,067
2024	129,966
2025	125,087
2026	127,951
2027	120,129
Thereafter	-
	$ 640,200

Rent expense for the years ended September 30, 2022 and 2021 were $260,510 and $379,861, respectively.

13. Commitments and Contingencies

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

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

14. Net Assets with Donor Restrictions

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

	2022	**2021**
Scholarships	**$ 272,988**	$ 336,152
Students and early career scientists	**300,000**	300,000
Total net assets with donor restrictions	**$ 572,988**	$ 636,152

15. Endowment Net Assets

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

Interpretation of relevant law

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

Return objectives and risk parameters

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

Strategies employed for achieving objectives

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

Spending policy and how the investment objectives relate to spending policy

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

Funds with deficiencies

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that the donor requires the Organization to maintain as a fund of perpetual duration. There were no such deficiencies at September 30, 2022 and 2021. The endowment totaled $300,000 for the years ended September 30, 2022 and 2021.

16. Availability and Liquidity

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

	2022	2021
Financial assets:		
Cash	**$ 7,379,984**	$ 9,561,920
Accounts receivable, net	**7,570,806**	10,533,048
Contract assets	**21,697,287**	19,702,064
Short term investments	**4,038,044**	-
Prepaid expenses	**600,930**	742,402
Total financial assets	**41,287,051**	40,539,434
Less: donor-restricted cash	**(300,000)**	(300,000)
Financial assets available to general expenditures over the next twelve months	**$ 40,987,051**	$ 40,239,434

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

17. Employment Contract

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

18. Concentrations

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

19. Subsequent Events

The Organization sold their building with a net carrying value of approximately $15,000,000 in March of 2023. The building was sold for $8,325,000, and there was additional loss of contents for approximately 1,325,000, resulting in a total loss of approximately $8,000,000. The Bonds Payable, Series 2013A and 2013T, were paid off as of March 30, 2023. The Organization entered into a new lease agreement effective October 1, 2022 with monthly payments of $24,593 through August 31, 2027.

Compliance Section

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

Board of Trustees
Universities Space Research Association
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Universities Space Research Association (the Organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Universities Space Research Association's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Universities Space Research Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Universities Space Research Association's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We identified two deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2022-002, which we consider to be a significant deficiency and item 2022-001, which we consider to be a material weakness.

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

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

FORVIS, LLP

Tysons, Virginia
September 19, 2023

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

Board of Trustees
Universities Space Research Association
Washington, D.C.

Report on Compliance for the Major Federal Programs

Opinion on The Major Federal Programs

We have audited Universities Space Research Association's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Universities Space Research Association's major federal programs for the year ended September 30, 2022. Universities Space Research Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Universities Space Research Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. We identified two deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2022-002, which we consider to be a significant deficiency and item 2022-001, which we consider to be a material weakness.

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

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

Purpose of this Report

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.

FORVIS, LLP

Tysons, Virginia
September 19, 2023

Supplementary Information

Universities Space Research Association
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2022 **(3 Pages)**

Cluster Title/Federal Grantor/Division	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
Research and Development Cluster:			
National Aeronautics and Space Administration Direct Program:			
Earth From Space Institute	43.RD		$ 461,928
Goddard Earth Sciences Technology and Research Projects (GESTAR)	43.RD		3,020,088
Lunar and Planetary Institute	43.RD		9,146,515
Marshall Space Flight Center Projects (MSFC)	43.RD		4,538,179
NASA Academic Mission Service Projects	43.RD		22,347,704
NASA Internship Projects (INTERN)	43.RD		17,509,733
NASA Post doctorate Program Projects	43.RD		6,670,926
Research Institute for Advanced Computer Science	43.RD		928,393
Stratospheric Observatory for Infrared Astronomy	43.RD		27,811,068
Subtotal Direct Programs:			92,434,534
Passthrough Programs From:			
Advanced Research and Technology Support			
HX5, LLC	43.RD	80GRC020D0003	4,324,314
Earth From Space Institute			
University of Maryland at College Park	43.RD	80NSSC22K0199	3,405
GESTAR			
EcoHealth Alliance	43.RD	HDTRA11910033	7,594
Montana State University	43.RD	80NSSC20M0042	8,967
Science Systems and Applications, Inc	43.RD	21702-21-025	822,738
Lunar and Planetary Institute			
Arizona State University	43.RD	NNG07EK00C	56,136
Brown University	43.RD	80NSSC20K0860	313
College of Charleston	43.RD	80NSSC21K1107	11,913
Jet Propulsion Laboratory	43.RD	1449038	78,515
Jet Propulsion Laboratory	43.RD	1638782	178,452
Jet Propulsion Laboratory	43.RD	80NM0018D0004	12,265
Jet Propulsion Laboratory	43.RD	80NM0018D0004	104,099
Jet Propulsion Laboratory	43.RD	80NM0018D0004	393
Jet Propulsion Laboratory	43.RD	NMO710846	16,324
JHU Applied Physics Lab	43.RD	80MSFC20D0004	13,032
JHU Applied Physics Lab	43.RD	80NSSC20K0152	3,545
JHU Applied Physics Lab	43.RD	80NSSC21K0080	409
SETI Institute	43.RD	SC 3340	1,331
Southwest Research	43.RD	NASW-02008	16,964
Southwest Research	43.RD	NNX16AP97G	5,559
Space Science Institute	43.RD	00938	30,786
Stanford University	43.RD	80NSSC20K1528	1,108
U. of Central FL	43.RD	80NSSC19K0523	141,046
Univ. of CA, Santa Cruz	43.RD	A19-0289-S002-P0707372	11,010
University of Arizona	43.RD	80MSFC20C0045	1,719
University of Arizona	43.RD	80NSSC20K0149	5,210
University of Arkansas	43.RD	80NSSC20K0227	9,097

See notes to schedule of expenditures of federal awards.

Cluster Title/Federal Grantor/Division	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
Washington University	43.RD	80NSSC20M0027	8,969
Marshall Space Flight Center Projects (MFSC)			
RTI International	43.RD	80NNSC21LK1167	45,945
RTI International	43.RD	888-17-13-04	61,135
UMBC	43.RD	80NNSC21K2038	7,398
Catholic University	43.RD	80NSSC21M0180	364,524
Manufacturing Tech Serv	43.RD	80MSFC21DA007	3,103
Smithsonian Astrophysical	43.RD	NAS8-03060	4,187
UAH	43.RD	80NSSC20K1560	3,764
UAH	43.RD	32213-22	6,444
Research Institute for Advanced Computer Science			
KBR Wiley	43.RD	NNA14AB82C	126,744
BAER Institute	43.RD	NASA-NNX12AD05A	43,688
Stratospheric Observatory for Infrared Astronomy			
Space Telescope	43.RD	HST-GO-16492.006-A	14,937
University of Arizona	43.RD	Y553724	73,307
Planetary Science Inst.	43.RD	1373-USRA	5,567
Subtotal Passthrough Programs			6,635,956
Total National Aeronautics and Space Administration			99,070,490
National Science Foundation			
Direct Programs:			
Research Institute for Advanced Computer Science	47.RD		27,842
Marshall Space Flight Center Projects (MSFC) (STI)	47.RD		2,754
Stratospheric Observatory for Infrared Astronomy	47.RD		122,993
Subtotal Direct Programs			153,589
Passthrough Programs From:			
Advanced Research and Technology Support			
Research Institute for Advanced Computer Science			
Stanford University	47.RD	1918549	299,449
Subtotal Passthrough Programs			299,449
Total National Science Foundation			453,038
Department of Defense			
Direct Programs:			
Interns Program	12.RD		4,433,035
Research Institute for Advanced Computer Science	12.RD		75,313
Subtotal Direct Programs			4,508,348
Total Department of Defense			4,508,348

Universities Space Research Association
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2022 **(3 Pages)**

Cluster Title/Federal Grantor/Division	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
Department of Energy			
Passthrough Programs From:			
Goddard Earth Sciences Technology and Research Projects (GESTAR)			
Research Institute for Advanced Computer Science			
Idaho Projects			
Battelle Energy Alliance	81.RD	00043238	262,303
Subtotal Passthrough Programs			262,303
Total Department of Energy			262,303
Passthrough Programs From:			
Goddard Earth Sciences Technology and Research Projects (GESTAR)			
Univ of MD College Park	66.509	RD84001101	4,948
Subtotal Passthrough Programs			4,948
Total Environmental Protection Agency			4,948
National Oceanic and Atmospheric Administration			
Direct Programs:			
Earth From Space Institute (EFSI)	11.RD		11,498
Total National Oceanic and Atmospheric Administration			11,498
USGS			
Direct Programs:			
Lunar and Planetary Institute	15.RD		276
Research Institute for Advanced Computer Science	15.RD		527,964
Total USGS			528,240
Total Federal Expenditures - Research and Development Cluster			$ 104,838,865

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal award activity of Universities Space Research Association (the Organization), under programs of the federal government for the year ended September 30, 2022 in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Contingency

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:	unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_X_ yes	__ no
• Significant deficiency(ies) identified?	__ yes	_X_ none reported
Noncompliance material to financial statements noted?	__ yes	_X_ no

Federal awards

Internal control over major programs:		
• Material weakness(es) identified?	__ yes	_X_ no
• Significant deficiency(ies) identified?	_X_ yes	__ none reported
Type of auditor's report issued on compliance for major programs:	unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516a?	__ yes	_X_ no

Identification of major programs:

Name of Federal Program or Cluster:

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

Dollar threshold used to distinguish between type A and type B programs:	$ 3,000,000	
Auditee qualified as low-risk auditee?	__ yes	_X_ no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

Finding 2022-001 – Significant Audit Adjustments

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria: The Organization should have processes and procedures in place to reconcile balance sheet accounts.

Condition: During our audit, we noted errors, and proposed audit adjustments during substantive testing procedures.

Cause/Effect: Internal control processes over reconciling and reporting of balance sheet account balances were not operating effectively.

Questioned Costs: N/A

Recommendation: We recommend that procedures for reconciling all accounts on a monthly basis be strengthened.

Views of Responsible Officials and Correction Action:

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

Finding 2022-002 – Compliance Tracking

Type of Finding: Significant Deficiency in Internal Control over Compliance with Federal Awards

Criteria: The Organization should have processes and procedures in place to track compliance requirements noted in contracts.

Condition: During our audit, we noted that there is no tracking system in place to track compliance requirements.

Cause/Effect: Internal control processes over compliance were not operating effectively.

Questioned Costs: N/A

Recommendation: We recommend that procedures for tracking compliance be strengthened.

Views of Responsible Officials and Correction Action:

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

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None noted.

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September 9, 2023

Re: Management's Views and Corrective Action Plan

The Company maintains controls and procedures designed to ensure information is adequately tracked and disclosed. During the audit period ending September 30, 2022, there were two findings. As of the date of this letter, a corrective action plan has been developed and implemented to address each finding. The Company believes the results of these corrective action plans have strengthened our internal controls and will prevent any future occurrence.

In early 2022, USRA experienced an unusually high amount of turnover in key employees to include the CFO and Controller. As a result, several third-party consultants were hired to serve in these roles on a temporary basis. A new CFO was hired in September 2022 and after a long and exhaustive search a new Controller was hired in July 2023.

Finding 2022-001 – Significant Audit Adjustments
The Company agrees that complete and timely reconciliation of all balance sheet accounts is necessary to ensure the accuracy of its financial results. The Company's previous controller maintained internal control processes for the appropriate reconciliation and reporting of all balance sheet accounts. The third-party consultants did not follow those same processes consistently. We have modified all monthly close and reporting procedures to ensure consistent reconciliation of all balance sheet accounts with the appropriate oversight.

Finding 2022-002 – Compliance Tracking
The Company agrees that compliance tracking is pertinent. The Company's previous Controller tracked all compliance requirements with close cooperation between various departments in the organization. The third-party consultants did not continue tracking certain compliance data which led to the finding. The company has modified their process accordingly to ensure tracking of all compliance requirements.

Notwithstanding the two findings, the Company's management has concluded the financial statements fairly represent, in all material respects, the Company's financial position for the fiscal year ending September 2022.

/s/ Todd Bidwell

Todd Bidwell,
Chief Financial Officer
tbidwell@usra.edu