

# **The MITRE Corporation**

**Report of Independent Auditors on Financial  
Statements and Schedule of Expenditures  
of Federal Awards in Accordance with  
OMB Uniform Guidance  
For the 15-month Fiscal Period from  
October 1, 2020 – December 31, 2021  
EIN: 04-2239742**

**The MITRE Corporation**  
**Index**

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	<b>Page(s)</b>
<b>Part I – Financial Statements and Schedule of Expenditures of Federal Awards</b>	
Report of Independent Auditors .....	1-3
Consolidated Balance Sheet.....	4
Consolidated Statement of Activities.....	5
Consolidated Statement of Cash Flows.....	6
Notes to the Consolidated Financial Statements.....	7-20
Schedule of Expenditures of Federal Awards.....	21-22
Notes to Schedule of Expenditures of Federal Awards .....	23
<b>Part II – Reports on Compliance and Internal Control</b>	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	24-25
Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance .....	26-28
<b>Part III - Findings</b>	
Schedule of Findings and Questioned Costs.....	29-30
Summary Schedule of Prior Audit Findings .....	31-32
Management’s Views and Corrective Action Plan .....	33

**Part I**

**Financial Statements and  
Schedule of Expenditures of Federal Awards**



## Report of Independent Auditors

To the Board of Trustees  
The MITRE Corporation and its subsidiaries

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the accompanying consolidated financial statements of The MITRE Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of activities and of cash flows for the period from October 1, 2020 to December 31, 2021 (fiscal period ended December 31, 2021), including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of December 31, 2021, and the changes in its net assets and its cash flows for the fiscal period ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Consolidated Financial Statements*

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

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



### ***Auditors' Responsibilities for the Audit of the Consolidated 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 auditors' 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 US GAAS and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

### ***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the fiscal period ended December 31, 2021, 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional



procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the fiscal period ended December 31, 2021. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

Washington, DC  
April 22, 2022

**The MITRE Corporation and Subsidiaries**  
**Consolidated Balance Sheet**  
**As of December 31, 2021**

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<i>(in millions)</i>	<b>December 31, 2021</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 158
Accounts receivable, net	148
Unbilled receivables, net	139
Prepaid expenses and other current assets	37
<b>Total current assets</b>	<u>482</u>
Property and equipment, net	535
Other long-term assets	20
<b>Total assets</b>	<u>1,037</u>
<b>Liabilities and net assets</b>	
Current liabilities:	
Accounts payable and accrued expenses	55
Accrued compensation and related expenses	154
Line of credit	63
Deferred revenue	32
Long-term debt, current portion	8
Other current liabilities	4
<b>Total current liabilities</b>	<u>316</u>
Postretirement benefit plan liabilities	17
Long-term debt, net of current portion	28
Other long-term liabilities	4
<b>Total liabilities</b>	<u>365</u>
Net assets	672
<b>Total liabilities and net assets</b>	<u>\$ 1,037</u>

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

**The MITRE Corporation and Subsidiaries**  
**Consolidated Statement of Activities**  
**For the 15-month Fiscal Period ended December 31, 2021**

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<i>(in millions)</i>	<b>Fiscal Period from October 1, 2020 to December 31, 2021</b>
Revenue from operations	\$ 2,559
Cost of revenues	2,225
General and administrative	308
<b>Total operating expenses</b>	<u>2,533</u>
<b>Operating income</b>	<u>26</u>
Other income (expense)	
Unallowable expenses	(22)
Postretirement health benefits gain	11
Interest expense	(3)
Other income, net	2
<b>Change in net assets</b>	<u>14</u>
Net assets - October 1, 2020	<u>658</u>
Net assets - December 31, 2021	<u>\$ 672</u>

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

**The MITRE Corporation and Subsidiaries**  
**Consolidated Statement of Cash Flows**  
**For the 15-month Fiscal Period ended December 31, 2021**

<i>(in millions)</i>	<b>Fiscal Period from October 1, 2020 to December 31, 2021</b>
<b>Cash flows used in operating activities</b>	
Change in net assets	\$ 14
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	58
Underfunded postretirement benefit plan	(11)
Changes in reserves	1
Loss on disposal of property and equipment	1
Changes in assets and liabilities:	
Accounts receivable and unbilled receivables, net	(90)
Accrued compensation and related expenses	(25)
Prepaid expenses and other current assets	(17)
Other net assets	(4)
<b>Net cash used in operating activities</b>	<u>(73)</u>
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	(69)
Purchases of investments	(3)
Sales of investments	1
<b>Net cash used in investing activities</b>	<u>(71)</u>
<b>Cash flows from financing activities</b>	
Draws on revolving line of credit	986
Repayments on revolving line of credit	(923)
Payments of long-term debt	(8)
<b>Net cash provided by financing activities</b>	<u>55</u>
<b>Net decrease in cash and cash equivalents</b>	(89)
Cash and cash equivalents at October 1, 2020	247
Cash and cash equivalents at December 31, 2021	<u>\$ 158</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest, net of amounts capitalized	\$ 3

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

# The MITRE Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### For the 15-month Fiscal Period ended December 31, 2021

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#### 1. Description of business and basis of presentation

##### Description of business

The MITRE Corporation (referred to in this report as “we,” “our,” the “Corporation,” or “MITRE”) is a private, not-for-profit corporation that is chartered in the public interest and provides systems engineering, research and development, and information technology support to the United States (“U.S.”) federal government to solve some of the nation’s most critical challenges. The Corporation operates federally funded research and development centers (“FFRDCs”) for the Department of Defense (“DOD”), Federal Aviation Administration (“FAA”), Internal Revenue Service and Department of Veterans Affairs, Department of Homeland Security, Centers for Medicare & Medicaid Services, and National Institute of Science and Technology.

The Corporation’s consolidated financial statements include a subsidiary, MITRE Engenuity, LLC (“Engenuity” or “MITRE Engenuity”). MITRE Engenuity, a wholly-owned subsidiary of MITRE, is a single-member limited liability corporation with MITRE as the single member that provides research and development services to commercial customers in order to solve some of the nation’s most critical challenges. While Engenuity is a separate legal entity, financial information for Engenuity is consolidated under the Corporation and financial information is presented in these statements on a consolidated basis as such.

MITRE currently operates two international, not-for-profit branches; one in Singapore to help the country’s aviation authority to improve the safety, efficiency, and capacity of its aviation infrastructure, as well as a branch in Australia as part of MITRE’s strategic effort to partner with the Commonwealth of Australia to serve as an objective, trusted advisor working in the Australian public interest.

Under its bylaws, the Trustees of the Corporation have the power to dissolve the Corporation and wind up its affairs. In such a case, the remaining property and assets existing after the wind up would not inure to the benefit of any individual. A successor, charitable or not-for-profit corporation would be designated to take over all or substantially all the functions and purposes of the Corporation; if none were so designated, a charitable or nonprofit corporation would be designated to be the recipient of any property or assets remaining after the wind up.

##### Basis of presentation

The Corporation’s consolidated financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted (“GAAP”) in the U.S. and includes affiliated entities over which MITRE has economic control. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### Reporting period

During the year, the Corporation amended its year end for reporting purposes from September 30 to December 31. As a result of this change, the fiscal period presented in these consolidated financial statements is from October 1, 2020 to December 31, 2021 and will be referred to as the “15-month Fiscal Period ended December 31, 2021” herein. The prior year financial statement amounts are not presented, as they do not represent a comparable period due to the disparity in length between the two fiscal periods.

# The MITRE Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### For the 15-month Fiscal Period ended December 31, 2021

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## 2. Summary of significant accounting policies

### Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis. The results of any changes in accounting estimates are reflected in the consolidated financial statements in the period in which the changes become evident.

### Concentration of credit risk

Financial instruments that potentially subject MITRE to concentrations of credit risk consist primarily of cash equivalents, accounts receivable, and unbilled receivable. The Corporation's cash equivalents are generally invested in liquid money market deposit accounts with various high-credit-quality financial institutions. The Corporation believes any exposure to credit risk for either the accounts receivable balance or the unbilled receivable balance is limited, as the majority of these amounts are due from the U.S. government or prime contractors to the federal government.

### Cash and cash equivalents

Cash and cash equivalents are comprised of cash in banks and highly liquid instruments with original maturities of three months or less, and primarily consist of money market investments.

### Accounts receivable, net

Accounts receivable include amounts that have been billed under the Corporation's contracts. The Corporation maintains allowances for doubtful accounts against certain accounts receivable based upon the latest information regarding whether specific invoices are ultimately collectible. Assessing the recoverability of charges and collectability of customer receivables requires management judgment. As of December 31, 2021, the Corporation had recognized an allowance for doubtful accounts for billed receivables of \$0.5 million.

### Unbilled receivables, net

Unbilled receivables represent costs and fees that have not been billed to customers but have been recognized as revenue. Unbilled costs and fees include amounts currently billable, as well as other recoverable contract costs not yet billable under specific contract terms. Unbilled costs and fees relating to long-term contracts are classified as current assets. Billings for advance payments in excess of costs and fees are included in deferred revenue (a current liability) until the earnings process is complete. As of December 31, 2021, the Corporation had recognized an allowance for unbilled receivables of \$1.9 million.

### Property and equipment

Property and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses, if any. Maintenance and repairs are expensed as incurred. Improvements and additions that increase the operating functionality or extend the life of the related assets are capitalized. Upon retirement or sale of an asset, its cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the determination of the net revenue over costs and expenses.

Eligible internally developed software costs are capitalized during the application development phase. This phase occurs after preliminary project planning, but prior to the software being used in operations. Such costs may include costs related to design, coding, and testing of software. After all

# The MITRE Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### For the 15-month Fiscal Period ended December 31, 2021

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substantial testing and deployment is completed and the software is ready for its intended use, any capitalized costs are amortized over the estimated useful life of the software and any additional costs are expensed as incurred.

Depreciation and amortization are computed on the various classes of fixed assets as follows:

Type	Depreciation method	Estimated useful lives
Buildings and building improvements	Straight-line	5 - 39.5 years
Vehicles	Double-declining balance	5 years
Equipment	Straight-line, half-year convention	5 - 10 years
Furniture and fixtures	Straight-line	10 years
Computers	Straight-line, half-year convention	2.5 - 3 years
Leasehold improvements	Straight-line	Shorter of the useful life of the asset or the lease term
Land	Not depreciated	Indefinite

In addition to the equipment purchased by the Corporation, which is included in the accompanying consolidated balance sheets, the Corporation also uses certain government-furnished equipment for which it is accountable to the U.S. government.

#### Long-lived assets

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If the total of the expected undiscounted future net cash flows is less than the carrying amount of the asset, a loss is recognized for any excess of the carrying amount over the fair value of the asset. During the 15-month Fiscal Period ended December 31, 2021, the Corporation did not record any impairment losses.

#### Capitalized cloud software implementation costs

Eligible implementation costs associated with cloud-based services arrangements are capitalized during the application development stage. Such costs primarily include contractor costs; however, in certain instances, such costs may also include internal salaries, fringe costs. Once the project is complete, these items are included in the prepaid expenses and other current assets financial statement line. After all substantial testing and deployment is completed and the cloud-based arrangement is ready for its intended use, the capitalized implementation costs are amortized over the estimated term of the arrangement with the cloud service organization.

#### Net assets

Apart from an immaterial amount of net assets with donor restrictions for time or purpose, MITRE's net assets are not subject to donor restrictions. MITRE defines net asset types as:

- *Net assets without donor restrictions:* Represents the accumulated excess of contract revenue and other income over total costs and expenses that are not subject to donor-imposed stipulations. Any donor-restricted contributions would also be classified as such if the restrictions are met in the same fiscal year as the contribution is received.
- *Net assets with donor restrictions for time or purpose:* Also known as temporary restrictions, are net assets subject to donor-imposed stipulations that will be met either by the actions of MITRE in accordance with those stipulations and/or by the passage of time.

# The MITRE Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### For the 15-month Fiscal Period ended December 31, 2021

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MITRE does not have any assets with permanent donor restrictions (restrictions in perpetuity).

#### Revenue recognition

The Corporation provides engineering, research and development, and IT services, primarily under long-term service arrangements with the U.S. government. The Corporation recognizes revenue from a customer only when a contract is legally enforceable such that the contract is approved by all parties, the rights of the parties are identified, payment terms are identified, and collectability is probable.

The Corporation evaluates whether two or more contracts should be combined and accounted for as a single contract, including the task orders issued under an indefinite delivery/indefinite quantity ("IDIQ") award. MITRE assesses contract modifications to determine whether changes to the existing contracts should be accounted for as a part of the original contract or a separate contract. The majority of the Corporation's contracts are comprised of the following types:

- *Cost reimbursable*: Under cost reimbursable, customers are billed for the Corporation's costs, including both direct and indirect costs, plus, in certain cases a fixed negotiated fee.
- *Firm fixed-price*: Under fixed-price contracts, the Corporation's customers are billed at defined milestones for an agreed-upon amount negotiated in advance for a specified scope of work.
- *Time-and-materials*: Under the Corporation's time-and-materials contracts, the Corporation negotiates hourly billing rates and charges the customer based on the actual time that is expended, in addition to other direct costs incurred in connection with the contract.

A performance obligation reflects promises that the Corporation must transfer a distinct good or service to the customer. We identify performance obligations when contractual promises are capable of being distinct and distinct within the context of the contract.

The majority of the Corporation's contracts contain a single performance obligation involving a significant integration of various activities that are performed together to deliver a combined service or solution. Performance obligations may be satisfied over time or at a point in time, but virtually all of the Corporation's performance obligations are satisfied over time. The Corporation selects the appropriate measure of progress for revenue recognition based on the nature of the performance obligation, contract type, and other pertinent contract terms.

The Corporation generally recognizes revenue over time, as there is a continuous transfer of control to the customer over the duration of the contract as the promised services are performed. For the Corporation's cost reimbursable and time-and-materials contracts, revenue is generally recognized using the right-to-invoice practical expedient, given that the Corporation is contractually able to invoice the customer based on the control transferred to the customer. For the Corporation's firm fixed-price contracts, progress is measured on performance obligations using a cost input measure (cost to cost), whereby revenue is recognized based on the ratio of costs incurred to total estimated costs.

Recognizing revenue on long-term contracts involves significant estimates and judgments. The transaction price is the estimated amount of consideration expected to be received for performance under contracts. Contract terms may include variable consideration, such as reimbursable costs, fees, or other provisions that can either increase or decrease the transaction price. The Corporation includes variable consideration in the transaction price only to the extent it is probable and reasonably estimable. Provisions for estimated losses on uncompleted contracts are recorded during the period in which such losses become evident.

# The MITRE Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### For the 15-month Fiscal Period ended December 31, 2021

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In addition to the contract types above, the Corporation also receives contributions from donors, primarily through MITRE Engenuity, and are recognized when received.

#### **Contract assets and contract liabilities**

The Corporation may record contract assets and contract liabilities arising from delivery of contracts with customers. Typically, contract assets represent amounts earned through delivery of contracts but not yet billed to the customer (unbilled receivable). These amounts not yet billed to the customer are not contingent on any event other than the passage of time until the next billing cycle. Typically, contract liabilities represent amounts billed to customers but not yet earned via contract delivery (deferred revenue).

#### **Internal research and development**

As part of its activities, the Corporation conducts an Internal Research and Development (“IR&D”) program. The progress and outcome of this program is reviewed by the Technology Committee of the Board of Trustees. The costs of this program include salaries, fringe costs, overhead, and general and administrative costs and are charged to operations as incurred. These costs are included in the general and administrative financial statement line. The Corporation records IR&D in the same manner as costs are defined in the Corporation’s disclosure statements required by the U.S. government Cost Accounting Standards (“CAS”).

#### **Fair value**

The Corporation measures the fair value of its financial instruments using observable and unobservable inputs based on a hierarchy which gives the highest priority to assets and liabilities with readily available quoted prices in an active market and gives the lowest priority to unobservable inputs that require a higher degree of judgment when measuring fair value. In cases where inputs used to measure fair value fall into different categories within the fair value hierarchy, an investment’s fair value is based on the lowest level of input that is significant to fair value measurement. The three categories of the fair value hierarchy are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities as of the measurement date.

Level 2 – Quoted prices in markets that are not active or other pricing inputs that are either directly or indirectly observable as of the measurement date.

Level 3 – Prices or valuation techniques in which one or more significant value drivers are unobservable as of the measurement date. The determination of fair value for these financial instruments requires one or more inputs subject to significant management judgment or estimation.

Most investments are carried at estimated fair value using the valuation hierarchy framework or based on the equity method of accounting. Certain investments without readily determinable fair value are presented using the initial investment in the underlying investment adjusted for impairment and observable price changes.

#### **Income taxes**

Under provisions of the U.S. Internal Revenue Code Section 501(c)(3), the Corporation is exempt from taxes on income other than unrelated business income. For the 15-month Fiscal Period ended December 31, 2021, the Corporation had no unrelated taxable business income and, therefore, no provision for income taxes was made. The Corporation takes no tax positions that it considers to be uncertain.

# The MITRE Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### For the 15-month Fiscal Period ended December 31, 2021

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#### 3. Recently issued accounting pronouncements

##### *Accounting pronouncements not yet adopted*

Accounting Standards Update (“ASU”) 2016-02 “Leases” (Topic 842). ASU 2016-02 revises the accounting for operating leases and requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. The new guidance requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application and requires increased transparency and disclosures. The new guidance will be effective for our annual periods beginning after December 15, 2021. Adoption of the standard is expected to have an impact of approximately \$50.0 million and \$60.0 million on the Corporation’s balance sheet for the addition of right-of-use assets and lease liabilities, respectively.

ASU 2016-13 “Financial Instruments – Credit Losses” (Topic 326). This guidance requires companies to record an allowance for expected credit losses over the contractual term of certain financial assets, including trade receivables and contract assets, and expands disclosure requirements for credit quality of financial assets. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022. The Corporation does not expect the adoption of this standard to have a material impact on the consolidated financial statements and disclosures.

ASU 2020-04 “Reference Rate Reform” (Topic 848). In March 2020, the FASB issued ASU 2020-04 which provides companies with optional expedients and exceptions to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. This update provides optional expedients for applying accounting guidance to contracts, hedging relations, and other transactions that reference the London Interbank Offered Rate (“LIBOR”). The amendments in this update are effective for all entities as of March 2020 and can be adopted using a prospective approach no later than December 31, 2022. The Corporation does not expect the adoption of this standard to have a material impact on the consolidated financial statements or disclosures.

#### 4. Revenue recognition

The following table presents our revenues disaggregated by contract type for the 15-month Fiscal Period ended December 31, 2021:

*(in millions)*

Cost-reimbursable	\$	2,503
Firm fixed-price and time-and-materials		41
Memberships		8
Contributions		7
<b>Total revenue</b>	<b>\$</b>	<b><u>2,559</u></b>

Contract assets which consisted of net unbilled receivables were \$139.2 million and contract liabilities which consisted of deferred revenue was \$32.2 million as of December 31, 2021. There were no significant impairment losses related to our contract assets during the 15-month Fiscal Period ended December 31, 2021.

**The MITRE Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the 15-month Fiscal Period ended December 31, 2021**

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**5. Fair value of financial instruments**

The following estimates and assumptions were used to determine the fair value of each class of financial instrument held by the Corporation as of December 31, 2021:

Cash Equivalents – Money Market: Cash equivalents include, but are not limited to, investments in money market funds that are actively traded. These are priced by independent market prices in the primary trading market and are classified as Level 1.

Deferred Compensation Plan Assets: These plan assets include money market funds, small capitalization funds, bond mutual funds, and other funds. Mutual funds have daily quotes that are able to support observable data. These assets are classified as level 1. As of December 31, 2021, the fair value of these assets was \$6.9 million.

Foreign Currency Contracts: Derivative financial instruments are comprised entirely of foreign exchange contracts entered into during the normal course of business. These derivatives are classified as Level 2. As of December 31, 2021, the fair value of these assets was not material.

The Corporation held no financial instruments classified as Level 3 as of December 31, 2021 or during any part of the Fiscal Period.

**6. Property and equipment**

Property and equipment consists of the following as of December 31, 2021:

*(in millions)*

Buildings, building improvements, and leasehold improvements	\$	657
Machinery and equipment		343
Land		61
Construction in progress		32
Computer software		22
		<u>1,115</u>
Less accumulated depreciation and amortization		<u>(580)</u>
<b>Total net property and equipment</b>	<b>\$</b>	<b><u>535</u></b>

Depreciation and amortization expense was \$57.8 million for the 15-month Fiscal Period ended December 31, 2021.

**7. Debt**

**Senior unsecured notes**

MITRE holds \$75.0 million in Senior Unsecured Notes (“Notes”) and an additional \$150.0 million in a Master Note Facility (“MNF”). \$50.0 million of the Notes (“Series A”) carry an interest rate of 3.08% per annum and \$25.0 million of the Notes (“Series B”) carry an interest rate of 3.99% per annum, all of which is due monthly. The effective interest on Series A and Series B at December 31, 2021 was 3.12% and 4.06%, respectively. Principal payments of \$5.5 million on Series A are paid annually in May, with a final maturity date of May 29, 2025. Principal payments of \$2.8 million on Series B are paid annually in January, with a final maturity date of January 31, 2026.

# The MITRE Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### For the 15-month Fiscal Period ended December 31, 2021

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#### Line of credit

The Corporation holds a \$300.0 million revolving line of credit (“Line of Credit”) with a five-year term through May 18, 2023. The Line of Credit has a \$25.0 million accordion we are charged interest based on varying leverage ratios. The interest on borrowings under the Line of Credit varies based upon LIBOR, floor at 1.00% plus 1.50% up to 2.00% or the prime rate 0.50% to 1.00%, at the choice of the Corporation, with annual commitment fees ranging from 0.18% to 0.28% of the daily unused amount available. Interest on the prime loans is due monthly, and interest on LIBOR loans is due the earlier of the loan’s maturity or three months after the original borrowing date, unless the Corporation defaults on a borrowing outstanding, in which case both principal and any unpaid interest is due immediately.

The Corporation may issue letters of credit against the Line of Credit up to \$5.0 million. We had a total of \$2.2 million in letters of credit under the Line of Credit as of December 31, 2021. Letters of credit expire at various dates through December 31, 2022. The Corporation had \$63.0 million of borrowings outstanding under the Line of Credit as of December 31, 2021.

The debt agreements outlined above contain certain financial covenants, including a leverage ratio and a minimum debt service coverage. The Corporation was in compliance with all covenants as of December 31, 2021.

Maturities of long-term debt as of December 31, 2021 are as follows:

*(in millions)*

2022	\$	8
2023		8
2024		8
2025		9
2026		3
<b>Total maturities of long-term debt</b>	<b>\$</b>	<b><u>36</u></b>

Total interest expense (including capitalized interest) for the 15-month Fiscal Period ended December 31, 2021 was as follows:

*(in millions)*

Total interest expense	\$	3
Interest capitalized		-
<b>Net interest expense</b>	<b>\$</b>	<b><u>3</u></b>

Interest expense from the Notes and Line of Credit was \$1.9 million and \$0.9 million, respectively, for the 15-month Fiscal Period ended December 31, 2021.

## 8. Employee benefit plans

#### Defined contribution plan

The Corporation has a defined contribution employee retirement program covering substantially all employees. Employees may elect to contribute a percentage of their annual base salary and the Corporation will contribute a percentage of the participant’s base salary, subject to certain limits.

The Corporation contributed \$145.3 million to the plan for the 15-month Fiscal Period ended December 31, 2021.

**The MITRE Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the 15-month Fiscal Period ended December 31, 2021**

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**Deferred compensation plan for officers**

The Corporation has a deferred compensation plan providing deferred compensation for executive officers. The cost of these benefits was \$0.6 million for the 15-month Fiscal Period ended December 31, 2021. Plan assets, which are invested in a Rabbi Trust, were \$6.9 million as of December 31, 2021. Accrued plan benefits of \$6.9 million were included in the postretirement benefit plan liabilities financial statement line as of December 31, 2021.

**Postretirement health benefits**

The Corporation sponsors a postretirement Voluntary Employee Beneficiary Association (“VEBA”) trust plan. The plan provides postretirement health benefits terminating at age 65 and is contributory, with retiree contributions adjusted annually. A small group of grandfathered retirees have coverage until age 70. As of January 1, 2016, new employees are no longer eligible for subsidized retiree medical coverage. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the Corporation’s expressed intent to maintain a fixed level of proportionate cost sharing between the Corporation and retirees. The current year estimates were based on census and claims data collected as of December 31, 2021.

The postretirement health care plan is accounted for under the provisions of accounting for non-retirement, post-employment benefits topic of the Accounting Standards Codification. The Corporation recognized the unfunded portion of \$9.8 million in the postretirement benefit plan liabilities financial statement line as of December 31, 2021. The change in the unfunded status of the accumulated postretirement benefit obligation is included as cost of revenue in the consolidated statement of activities. The change in the unfunded status is included in the consolidated statement of cash flows in the line item: underfunded postretirement benefit plan. The decrease in the accumulated postretirement benefit obligation for the 15-month Fiscal Period ended December 31, 2021 is \$11.3 million. The Corporation uses a 501(c)(9) Trust (the Trust) as a funding vehicle for plan assets. The Corporation did not fund the postretirement benefit plan in the 15-month Fiscal Period ended December 31, 2021.

The net periodic postretirement benefit cost for the 15-month Fiscal Period ended December 31, 2021 consisted of the following:

*(in millions)*

Service cost - benefits earned during the year	\$	6
Interest cost on projected benefit obligation		3
Expected return on plan assets		(5)
<b>Net period postretirement benefit cost</b>	<b>\$</b>	<b><u>4</u></b>

**The MITRE Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the 15-month Fiscal Period ended December 31, 2021**

The following table sets forth the plan's funded status as of December 31, 2021:

*(in millions)*

Change in benefit obligation		
Projected benefit obligation at beginning of year	\$	86
Service cost		6
Interest cost		3
Participant contributions		3
Actuarial gain		(5)
Benefits paid		(6)
<b>Projected benefit obligation for services rendered to date, end of year</b>		<b>87</b>
Change in plan assets		
Plan assets at fair value at beginning of year		65
Actual return on plan assets		15
Participant contributions		3
Benefits paid		(6)
<b>Plan assets at fair value at end of year</b>		<b>77</b>
<b>Funded status (accrued benefit cost)</b>	<b>\$</b>	<b>(10)</b>

The assumptions used in determining the projected benefit obligation as of December 31, 2021, were as follows:

Discount rate at end of year	2.7%
Expected return on plan assets during the year	6.5%
Health care cost trend rates during the year	6.0%

The discount rate assumption is based primarily on the results of a cash flow matching analysis which matches the future cash outflows to a yield curve based on the future expected performance of above average bonds. Benefit payments are discounted at the rates on the curve to determine the year-end obligation.

The assumed healthcare trend rate has a significant effect on the amounts reported for healthcare plans. A one-percentage-point change in the assumed healthcare trend rate would have the following effect:

<i>(in millions)</i>	<b>1-percentage-point increase</b>	<b>1-percentage-point decrease</b>
Increase (decrease) in total service and interest cost components	\$ 1	\$ (1)
Increase (decrease) in postretirement obligation	8	(7)

**Plan assets**

The post-retirement health care plan's weighted-average asset allocation by asset category was as follows for the 15-month Fiscal Period ended December 31, 2021:

**The MITRE Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the 15-month Fiscal Period ended December 31, 2021**

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Asset category	
Equity investments	63%
Debt investments	37%
Total	<u>100%</u>

The fundamental investment policies of the plan have been formulated so they balance the primary objectives of (1) achieving long-term growth sufficient to fund future obligations and (2) supporting the short-term requirement of meeting current benefit payments. Assets maintained under the plan are priced by independent market prices in the primary trading market and are classified as Level 1 investments.

Overall, the plan's policies have traditionally emphasized the maximization of long-term returns in a manner consistent with an asset base that consists of high-quality investments as a means of enhancing capital preservation, is broadly diversified and generates a relatively high level of investment income in accordance with the level of risk incurred.

**Cash Flows**

*Contributions*

The Corporation did not fund the postretirement benefit plan in the 15-month Fiscal Period ended December 31, 2021 and does not intend to fund it in 2022.

*Expected Future Benefit Payments*

The following benefit payments reflect expected future service and are presented net of participant contributions. Benefit payments are expected to be paid as follows for the years ending December 31:

(in millions)

2022	\$	6
2023		7
2024		7
2025		7
2026		7
Thereafter		35
<b>Total expected future benefit payments</b>	<b>\$</b>	<b><u>69</u></b>

**9. Commitments and contingences**

**Litigation**

The Corporation is subject to litigation relating to matters in the ordinary course of business. Based upon the current information available, MITRE is not presently a party to any legal proceedings that, in the opinion of management, if determined adversely, would individually or taken together have a material adverse effect on our business, changes in net assets, or financial condition.

**Government Contracting Matters**

The Corporation is routinely subject to audits and reviews relating to compliance with various laws and regulations with respect to its role as a contract to federal government customers. The Defense Contract Audit Agency ("DCAA"), routinely audit and review a contractor's performance on government contracts, indirect rates, pricing practices, internal control systems, and compliance with applicable contracting and procurement laws, regulations, and standards. During the course of these audits, auditors may question incurred costs if they believe the Corporation has accounted for such

# The MITRE Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### For the 15-month Fiscal Period ended December 31, 2021

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costs in a manner inconsistent with the requirements of the Federal Acquisition Regulations or the CAS and may recommend that certain costs be disallowed. Historically, MITRE has not experienced CAS significant disallowed costs as a result of these audits; however, management cannot provide assurance that future audits will not result in material disallowances of incurred costs.

The indirect cost audits by DCAA have been completed through 2019. Although the Corporation has recorded contract revenue based on an estimate of costs that the Corporation believes will be approved on final audit, MITRE does not know the outcome of any ongoing or future audits. Management has recorded reserves of estimated net amounts to be refunded to customers for potential adjustments of uncompleted audit years. As of December 31, 2021, the Corporation has recorded a total liability of \$3.6 million, which is included in the accounts payable and accrued expenses financial statement line.

#### **Lease obligations**

The Corporation occupies office space and other facilities under operating leases with original terms in excess of one year that expire at various dates through 2031. Most of the leases require the Corporation to pay maintenance and operation expenses such as taxes, insurance, and utilities and also contain renewal options to extend the lease and provisions for periodic rate escalations. Future minimum payments on non-cancelable operating leases are as follows for the years ending December 31:

*(in millions)*

2022	\$	15
2023		14
2024		10
2025		5
2026		4
Thereafter		9
<b>Total future minimum payments</b>	<b>\$</b>	<b>57</b>

Total rent expense during the 15-month Fiscal Period ended December 31, 2021 was \$18.9 million.

**The MITRE Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the 15-month Fiscal Period ended December 31, 2021**

**10. Natural classification of expenses**

The Corporation classifies costs of revenue, as well as general and administrative, in the same manner as costs are defined in the Corporation's disclosure statements as required by CAS. The following table represents these costs summarized by their natural classification for the 15-month Fiscal Period ended December 31, 2021:

<i>(in millions)</i>	<b>Costs of revenues</b>	<b>General and administrative</b>	<b>Total</b>
Salaries and wages	\$ 1,248	\$ 162	\$ 1,410
Benefits	574	4	578
Subcontractors	161	66	227
Software	53	14	67
Depreciation and amortization	54	-	54
Professional services	15	26	41
Equipment	37	6	43
Utilities, repairs and maintenance	35	-	35
Travel	15	7	22
Memberships and subscriptions	10	12	22
Supplies	6	8	14
Taxes	13	-	13
Conferences, meetings and trainings	4	2	6
Miscellaneous	-	1	1
<b>Total expenses</b>	<b>\$ 2,225</b>	<b>\$ 308</b>	<b>\$ 2,533</b>

**11. Liquidity and availability**

As of December 31, 2021, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consists of the following:

*(in millions)*

Financial assets:

Cash and cash equivalents	\$ 158
Accounts receivable, net	148
Unbilled receivables, net	139
<b>Total financial assets available within one year</b>	<b>445</b>

Liquidity resources:

Line of credit	237
<b>Total financial assets and liquidity resources available within one year</b>	<b>\$ 682</b>

To manage liquidity, the Corporation maintains a line of credit that is drawn upon as necessary during the year to manage cash flows. Refer to Note 7 for additional details.

**The MITRE Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the 15-month Fiscal Period ended December 31, 2021**

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**12. Subsequent events**

MITRE has evaluated subsequent events for disclosure and recognition through April 22, 2022, which is the date the consolidated financial statements were available to be issued. The Corporation did not have any subsequent events requiring disclosure.

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

**The MITRE Corporation**  
**Schedule of Expenditures of Federal Awards**  
**From October 1, 2020 to December 31, 2021**

Research and Development Cluster	Federal Grantor	Assistance Listing Number	Direct Expenditures	Passthrough Expenditures	Pass Through Grantor (Pass Through Award No.)	Federal Expenditures	Passed to Subrecipients
<b>National Security Engineering Center FFRDC</b>							
DG-133E-12-CQ-0029/T 0004-0006-0008	Department of Commerce - NOAA	11.RD	\$ 194	\$ -		\$ 194	\$ -
FA8702-13-C-0001 through 19-C-0001, FA8721-11-C-0001, 17-D-0211-0001 through 0024,W15P7T-04-C-D001-13-C-A802,FA8702-20-C-0001,W56KGLJ19F004	Department of Defense	12.RD	1,238,466,135	-		1,238,466,135	-
SAQMMA13C0255,SAQMMA09C0021	Department of State	19.RD	(930)	-		(930)	-
NNH16PB26P, 1469581	National Aeronautics and Space Administration	43.RD	13	42,199	Jet Propulsion Laboratory (1469581)	42,212	-
1233381, 2096769\0001	Department of Energy	81.RD	-	113	Sandia National Laboratory (DE-AC04-94AL85000)	113	-
HSS01-12-C-0010	Department of Homeland Security- U.S. Secret Service	97.RD	-	-		-	-
CLASSIFIED	USGC/Special Projects (Classified)	99.RD	225,480,873	-		225,480,873	-
<b>Total National Security Engineering Center FFRDC</b>						<b>1,463,988,598</b>	
<b>National Institute of Standards and Technology FFRDC</b>							
SB1341-14-CQ-0010;333ND19FNB775321	Department of Commerce - NIST	11.RD	33,671,487	-		33,671,487	-
<b>Total National Institute of Standards and Technology FFRDC</b>						<b>33,671,487</b>	
<b>Center for Advanced Aviation System Design FFRDC</b>							
FAA-0080-10/11, FAA-0080-11	Department of Transportation - Federal Aviation Administration	20.RD	205,535,249	-		205,535,249	-
<b>Total Center for Advanced Aviation System Design FFRDC</b>						<b>205,535,249</b>	
<b>Center for Enterprise Modernization FFRDC</b>							
TIRNO99D00005, SAQMMA16-17, 2016000771, QPN-BQF, CORHQ-17	Department of the Treasury - IRS	21.RD	166,420,123	-		166,420,123	-
4600005243-AEROSP	National Aeronautics and Space Administration	43.RD	-	650,628	Aerospace Corporation (NNG11VHOOB)	650,628	-
NCUA-17-C-00034	National Credit Union Administration	44.RD	-	-		-	-
VA118A13D0037, VA118A15D0004	Veterans Administration	64.RD	95,171,514	-		95,171,514	-
HHSN267200700506P	Department of Health	93.RD	(24)			(24)	-
19AQMM18C0215/19AQMM20C0206\0001	Department of State	19.RD	1,268,101			1,268,101	-
232964\0001	Department of Energy	81.RD	150,384	-		150,384	-
<b>Total Center for Enterprise Modernization FFRDC</b>						<b>263,660,725</b>	

The accompanying notes are an integral part of this schedule.

**The MITRE Corporation**  
**Schedule of Expenditures of Federal Awards**  
**From October 1, 2020 to December 31, 2021**

Research and Development Cluster	Federal Grantor	Assistance Listing Number	Direct Expenditures	Passthrough Expenditures	Pass Through Grantor (Pass Through Award No.)	Federal Expenditures	Passed to Subrecipients
<b>Homeland Security Systems Engineering &amp; Development Institute FFRDC</b>							
HSHQDC09D0001, HSHQDC14D00006, HSHQDN16J, HSHQDC17J, HSBP1017,RAND-9920190028-29	Department of Homeland Security	97.RD	\$ 182,413,391	\$ -		\$ 182,413,391	\$ -
<b>Total Homeland Security Systems Engineering &amp; Development Institute FFRDC</b>						<b>182,413,391</b>	
<b>Centers for Medicare and Medicaid Services FFRDC</b>							
75FCMC18D0047, HHSM500201200008I	Department of Health and Human Services	93.RD	348,269,064	-		348,269,064	-
<b>Total Centers for Medicare and Medicaid Services FFRDC</b>						<b>348,269,064</b>	
<b>Judiciary Engineering and Modernization Center FFRDC</b>							
USCA16F, USCA17F, USCA18F, USCA19F,USCA20F,USCA21F6001	Administrative Office of the United States Courts	16.RD	5,493,102	-		5,493,102	-
<b>Total Judiciary Engineering and Modernization Center FFRDC</b>						<b>5,493,102</b>	
<b>Total FFRDC expenditures</b>						<b>2,503,031,616</b>	
<b>Non - FFRDC Contracts</b>							
HQ0034-14-D-0009, HQ003417F, HQ003418F	Office of the Undersecretary of Defense-JASON Program Office	12.RD	8,220,603	-		8,220,603	-
<b>Total Non - FFRDC Contracts</b>						<b>8,220,603</b>	
<b>Total Research and Development Cluster</b>						<b>2,511,252,219</b>	
<b>Total Federal Expenditures</b>			<b>\$2,510,559,278</b>	<b>\$ 692,941</b>		<b>\$ 2,511,252,219</b>	<b>\$ -</b>

The accompanying notes are an integral part of this schedule.

# The MITRE Corporation

## Notes to the Schedule of Expenditures of Federal Awards

### From October 1, 2020 to December 31, 2021

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#### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the federal expenditures of the Corporation to perform research and development activities for the federal government for the fiscal period ended December 31, 2021. The amounts reported as federal expenditures were obtained from the Corporation's general ledger. Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, the results of its operations and its cash flows of the Corporation.

In accordance with the provisions of the Office of Management and Budget Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*, the Corporation has one program, research and development, and receives awards under that program. The Schedule includes all contracts and grants awarded to the Corporation under its program by agencies and departments of the federal government.

Full assistance listing number and pass through numbers are not available for all grants and contracts on the Schedule.

#### 2. Summary of Significant Accounting Policies

For the purpose of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting. MITRE utilizes billing rates that have been negotiated with the Corporate Administrative Contracting Office (CACO) and did not elect to use the 10% de minimis rate as covered in §200.414 Indirect (F&A) costs.

#### 3. Other Contracts

The Corporation has \$225,480,873 of classified contracts, of which \$81,452,855 is included in the population of awards covered by this Uniform Guidance report. The remaining amount of \$144,028,018 can only be audited by sponsoring agencies due to the classified nature of the awards and are therefore not included in this Uniform Guidance report.

## **Part II**

### **Reports on Compliance and Internal Control**



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

To the Board of Trustees  
The MITRE Corporation and its subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The MITRE Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of activities and of cash flows for the period from October 1, 2020 to December 31, 2021 (fiscal period ended December 31, 2021), including the related notes (collectively referred to as the "consolidated financial statements"), and have issued our report thereon dated April 22, 2022.

**Report on Internal Control Over Financial Reporting**

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

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

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



### **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Washington, DC  
April 22, 2022



## **Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance**

To the Board of Trustees  
The MITRE Corporation

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited the MITRE Corporation's (the "Corporation") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the period from October 1, 2020 to December 31, 2021 (fiscal period ended December 31, 2021). The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal period ended December 31, 2021.

#### ***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 (US GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

#### ***Responsibilities of Management for Compliance***

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



The Corporation's schedule of expenditures of federal awards includes classified contracts, of which \$144,028,018 of expenditures is excluded from the scope of our audit procedures. Our audit, described below, did not include these classified contracts because these contracts can only be audited by sponsoring agencies due to the nature of the classified awards.

### ***Auditors' Responsibilities for the Audit of Compliance***

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

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

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

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

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on each major federal program is not modified with respect to these matters.



*Government Auditing Standards* requires the auditor to perform limited procedures on the Corporation's response to the noncompliance findings identified in our audit described in the accompanying corrective action plan. The Corporation's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 Auditors' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

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

Washington, DC  
April 22, 2022

**Part III**  
**Findings**

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

**The MITRE Corporation**  
**Schedule of Findings and Questioned Costs**  
**For the 15-month Fiscal Period ended December 31, 2021**

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**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

*Federal Awards*

Internal control over major programs:

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

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) of OMB Uniform Guidance?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
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Identification of major programs: <b>Major Program(s)</b> Research and Development Cluster	<b>Assistance Listing Number(s)</b> Various	
Dollar threshold used to distinguish between type A and type B programs:	\$7,533,757	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

**The MITRE Corporation**  
**Schedule of Findings and Questioned Costs**  
**For the 15-month Fiscal Period ended December 31, 2021**

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**Section II – Financial Statement Findings**

*There are no matters to be reported.*

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

**Finding 2021-001: Classified Contracts**

**Federal Agency:** Classified  
**Program:** Research and Development Cluster  
**CFDA#:** 99.CLASSIFIED  
**Contract Number(s):** Classified  
**Contract Year(s):** October 1, 2020 to December 31, 2021

**Criteria**

AICPA Statements of Auditing Standards AU-C Section 705.13

**Condition**

The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of \$144,028,018 for the fiscal period ended December 31, 2021. Additionally, the engagement team was also unable to observe certain fixed assets associated with these classified contracts as they were store within secure areas. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Insufficient access to classified contracts is a repeat finding noted in prior years.

**Questioned Costs**

Due to lack of sufficient review of these classified contracts, we are unable to determine whether or not there are any questioned costs associated with the related statements of work.

**Cause**

Each applicable federal funding agency has categorized the Statements of Work associated with these contracts as classified and not allowed PwC to access and review them.

**Effect**

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

**Recommendation**

We recommend that the Corporation work with the DoD Inspector General and its funding agencies to resolve this matter and develop an audit plan to ensure compliance with audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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

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

## **Summary Schedule of Prior Audit Findings**

# The MITRE Corporation

## Summary Schedule of Prior Audit Findings

### For the 15-month Fiscal Period ended December 31, 2021

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As required by the Uniform Guidance section 200.511, Audit Findings Follow-up, below is a summary listing of prior year(s) audit findings and questioned costs, organized in reverse chronological order, including original reference number. Also included is a status update, named coordinator and estimated completion date.

#### **2020-001 Classified Contracts:**

The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of \$105,746,026 for the year ended September 30, 2020. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

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

#### **2020-002 Equipment and Real Property Management:**

PwC selected a sample of twenty-five federal assets acquired with federal funds for equipment and real property management testing. One asset, property ID #AR100078 – Dell Monitor, was not located in the location specified on the asset listing.

Updated Status: MITRE conducted a company-wide internal property review in Fiscal Year 2021 and management updated the property database to reflect the correct location of the property referenced above.

- Issue Coordinator: Dave Kurowski, Douglas MacLennan
- Completion Date: Closed

#### **2019-001 Classified Contracts:**

The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of \$128,867,906 for the year ended September 30, 2019. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

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

#### **2018-001 Classified Contracts:**

The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of \$133,050,712 for the year ended September 30, 2018. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

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

**The MITRE Corporation**  
**Summary Schedule of Prior Audit Findings**  
**For the 15-month Fiscal Period ended December 31, 2021**

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**2017-001 Classified Contracts:**

The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of \$127,252,472 for the year ended September 30, 2017. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

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

**2016-001 Classified Contracts:**

The engagement team was unable to access and review the Statements of Work related to classified contracts with total expenditures of \$117,360,886 for the year ended September 30, 2016. As a result, we did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

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

**2015-016 Classified Contracts:**

The engagement team was unable to access and review the Statements of Work related to the classified contracts and as a result did not have sufficient documentation supporting the applicable types of compliance requirements as described in the OMB Compliance Supplement. We were not able to satisfy ourselves as to the Corporation's compliance with those requirements by other auditing procedures.

Due to the lack of access to the Statements of Work, we are unable to obtain appropriate evidence over certain compliance requirements as a result of this limitation.

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

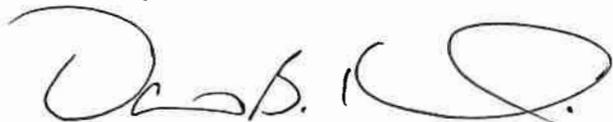
## **Management's Views and Corrective Action Plan**

**View of Responsible Officials:**

Auditor access to MITRE's classified contracts has been an ongoing audit finding. Contracts for work performed for several of MITRE's classified customers contain specific language that prohibits MITRE from releasing any contractual data, including the name of the customer, without express written consent from the Contracting Officer. Due to the lack of access to the classified Statements of Work, PwC is unable to obtain appropriate evidence over certain compliance requirements. MITRE has worked to gain this consent; however, the classified customers have each time denied our requests.

Because MITRE lacks the regulatory authority provided to the cognizant agency by the OMB, MITRE is unable to remove the access restrictions to secure the Uniform Guidance program review. MITRE has worked with DCAA, PwC, and the DoD. MITRE has requested DoD, as the cognizant agency, to take steps to work with MITRE and OMB to find a suitable resolution to this concern. In MITRE management's view, resolution of this issue is not likely, and this will remain an ongoing issue.

Sincerely

A handwritten signature in black ink, appearing to read 'Dave Kurowski', with a stylized flourish at the end.

Dave Kurowski  
Director, Operations and Business Systems  
The MITRE Corporation