

The Charles Stark Draper Laboratory, Inc.

**Report on State Awards in Accordance with State
of Florida Rules of the Auditor General**

July 2, 2010

The Charles Stark Draper Laboratory, Inc.
Summary of Reports
Year Ended July 2, 2010

Report Title

Report of Independent Auditors

Consolidated Financial Statements and Notes to Consolidated Financial Statements

Schedule of Expenditures of State Financial Assistance

Notes to Schedule of Expenditures of State Financial Assistance

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*

Report of Independent Auditors on Compliance with Requirements That Could Have Direct Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with Chapter 10.650 of the Rules of the Auditor General, State of Florida

Schedule of Findings and Questioned Costs



Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and changes in net assets, and cash flows present fairly, in all material respects, the financial position of The Charles Stark Draper Laboratory, Inc. and its subsidiaries (collectively referred to as the "Laboratory") at July 2, 2010 and June 26, 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Laboratory's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2010, on our consideration of the Laboratory's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended July 2, 2010. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of State Financial Assistance for the year ended July 2, 2010 is presented for purposes of additional analysis as required by *Florida Single Audit Act*, Audits Nonprofits and For-Profits Organizations, Chapter 10.650, Rules of the Auditor General, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", is written over a dotted line.

September 29, 2010

The Charles Stark Draper Laboratory, Inc.
Consolidated Balance Sheets
July 2, 2010 and June 26, 2009

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 31,381,460	\$ 39,501,336
Accounts receivable - net of allowance of \$336,525 and \$71,022 in 2010 and 2009, respectively	23,916,649	17,297,731
Unbilled contract costs and fees, net of allowance of \$554,346 and \$416,922 in 2010 and 2009, respectively	54,377,814	42,137,037
Note receivable	-	2,753,008
Other current assets	4,527,465	6,849,569
Total current assets	<u>114,203,388</u>	<u>108,538,681</u>
Long-term investments	130,232,242	109,320,041
Deferred charges and other assets	8,459,595	7,818,242
Deferred financing costs, net	633,265	664,666
Prepaid pension benefits	4,367,984	3,882,816
Property and equipment, net	195,135,553	196,496,688
Total assets	<u>\$ 453,032,027</u>	<u>\$ 426,721,134</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued contract costs	\$ 36,768,936	\$ 37,095,879
Accrued compensation and related expenses	20,433,580	19,029,279
Other accrued expenses	9,018,205	8,630,057
Total current liabilities	<u>66,220,721</u>	<u>64,755,215</u>
Accrued post retirement benefits	37,515,362	26,260,497
Bonds payable	79,077,553	79,029,054
Deferred revenue and other long term liabilities	7,918,733	7,081,452
Total liabilities	<u>190,732,369</u>	<u>177,126,218</u>
Commitments and contingencies	-	-
Unrestricted net assets	262,299,658	249,594,916
Total liabilities and net assets	<u>\$ 453,032,027</u>	<u>\$ 426,721,134</u>

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

The Charles Stark Draper Laboratory, Inc.
Consolidated Statements of Activities and Changes in Net Assets
Years Ended July 2, 2010 and June 26, 2009

	2010	2009
Operating revenues		
Reimbursement of contract costs	\$ 466,308,131	\$ 406,433,269
Contract fees and capital facilities allowances	26,891,363	25,897,976
Other income	44,229	46,774
Total operating revenues	<u>493,243,723</u>	<u>432,378,019</u>
Operating expenses		
Direct costs		
Subcontracts	210,780,390	163,609,577
Salaries and wages	88,678,766	81,457,311
Employee benefits	25,724,291	23,145,104
Materials, services and rentals	20,237,755	26,622,271
Other, principally travel and equipment	24,314,465	21,092,569
	<u>369,735,667</u>	<u>315,926,832</u>
Indirect costs		
Salaries and wages	53,742,910	49,762,571
Employee benefits and vacations	27,222,535	24,796,435
Materials, services and rentals	13,856,980	11,814,751
Depreciation and amortization	18,822,665	16,831,242
Other	8,171,197	7,047,303
	<u>121,816,287</u>	<u>110,252,302</u>
Interest expense and fees	<u>4,464,445</u>	<u>5,096,197</u>
Total operating expenses	<u>496,016,399</u>	<u>431,275,331</u>
Increase/(decrease) in unrestricted net assets from operations	<u>(2,772,676)</u>	<u>1,102,688</u>
Non-operating gains (losses)		
Dividend and interest income	1,222,317	4,077,741
Realized and change in net unrealized gains/(losses) on long-term investments	15,466,251	(34,025,739)
Realized and unrealized losses on interest rate swap	-	(1,621,590)
Other non-operating income, net	8,427,261	8,576,557
Other changes in pension and post retirement benefits	(9,638,411)	(24,235,283)
Total non-operating gains/(losses), net	<u>15,477,418</u>	<u>(47,228,314)</u>
Increase/(decrease) in unrestricted net assets	12,704,742	(46,125,626)
Unrestricted net assets, beginning of year	<u>249,594,916</u>	<u>295,720,542</u>
Unrestricted net assets, end of year	<u>\$ 262,299,658</u>	<u>\$ 249,594,916</u>

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

The Charles Stark Draper Laboratory, Inc.
Consolidated Statements of Cash Flows
Years Ended July 2, 2010 and June 26, 2009

	2010	2009
Cash flows from operating activities		
Increase/(decrease) in unrestricted net assets	\$ 12,704,742	\$ (46,125,626)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation and amortization	18,822,665	16,831,242
Realized and net change in unrealized losses/(gains) on long-term investments	(15,466,251)	34,025,739
Other changes in pension and post retirement benefits	9,638,411	24,235,283
Gain on disposal of property and equipment	(73,647)	(10,505)
Other non-cash adjustments	514,974	1,239,557
Changes in operating assets and liabilities		
Accounts receivable - sponsors	(6,618,918)	2,383,982
Note receivable	2,753,008	-
Unbilled contract costs and fees	(12,240,777)	(93,323)
Other current assets	2,322,103	(3,425,977)
Deferred charges and other assets	(1,217,732)	(1,635,306)
Accounts payable and accrued contract costs	(326,943)	11,025,038
Accrued compensation and related expenses	2,501,359	2,566,519
Deferred revenue	620,516	6,973,070
Other accrued expenses	590,318	1,670,282
Net cash provided by operating activities	<u>14,523,828</u>	<u>49,659,975</u>
Cash flows from investing activities		
Additions to property and equipment	(17,373,771)	(29,860,603)
Proceeds from sale of property and equipment	78,695	94,605
Purchase of investment securities	(52,600,416)	(99,956,615)
Proceeds from NTV investments	380,617	30,783
Proceeds from sale of investment securities	<u>46,822,672</u>	<u>96,367,590</u>
Net cash used in investing activities	<u>(22,692,203)</u>	<u>(33,324,240)</u>
Cash flows from financing activities		
Proceeds from line of credit	-	7,734,555
Payments on line of credit	-	(7,734,555)
Repayment of debt	-	(75,138,210)
Proceeds from issuance of debt	-	80,000,000
Change in bond discount	<u>48,499</u>	<u>(970,946)</u>
Net cash provided by financing activities	<u>48,499</u>	<u>3,890,844</u>
Net increase in cash and cash equivalents	(8,119,876)	20,226,579
Cash and cash equivalents, beginning of year	<u>39,501,336</u>	<u>19,274,757</u>
Cash and cash equivalents, end of year	<u>\$ 31,381,460</u>	<u>\$ 39,501,336</u>
Supplemental disclosure of cash flow information		
Interest paid, including settlement costs under the interest rate swap agreement	\$ 4,376,972	\$ 3,941,180

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

The Charles Stark Draper Laboratory, Inc.

Notes to Consolidated Financial Statements

July 2, 2010 and June 26, 2009

1. Summary of Significant Accounting Policies

Corporate Organization and Purpose

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

In 2001, the Laboratory formed Navigator Technology Ventures ("NTV"), a majority-owned subsidiary. NTV was formed for the purpose of making the Laboratory's research and technology available for use by the general public through venture capital and technology transfer. NTV's results are fully consolidated in the financial statements of the Laboratory. All intercompany accounts are eliminated in consolidation.

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

Fiscal Calendar

The Laboratory's fiscal calendar (the "DFY") ends on the Friday closest to June 30th. Due to this policy, the fiscal calendar may result in the last day of a fiscal year falling on a date other than on June 30. Approximately every fifth year the Laboratory's fiscal year will contain 53 weeks. There are 53 weeks in fiscal year 2010 and 52 weeks in fiscal year 2009.

Capitalized Software

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

Revenue Recognition

The Laboratory primarily performs research under cost-type contracts for its various sponsors. Under these contracts, reimbursement is received for direct and indirect contract costs plus a fixed or incentive fee. Costs are reimbursed and recognized as revenue as they are incurred. Contract fees are recognized in proportion to costs incurred as contracts are performed or otherwise as specified in the contract.

The Laboratory receives royalty payments in accordance with the terms of technology agreements. Royalty payments are recorded as other income in the statements of activities and changes in net assets.

Net Assets

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

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

Use of Accounting Estimates

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

Deferred Financing Costs

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

Deferred Charges

The Laboratory recovers overhead costs associated with U.S. Government-sponsored projects under construction in accordance with Cost Accounting Standards (CAS). As permitted under CAS, overhead costs associated with the development of software systems are recorded as deferred charges and amortized, on the straight-line method, over five years. In addition, the Laboratory has elected to recognize the expense of the Supplemental Retirement Plan for Corporate Officers (SRPCO) over 15 years.

Property and Equipment

Depreciation of owned equipment (including data processing equipment and software) is computed on the straight-line method using three- to five-year lives. Leasehold improvements are amortized on the straight-line method over the shorter of the useful lives of the assets or the lease term. Building costs are depreciated on the straight-line method over lives of thirty-nine to forty-two-years.

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

In addition to the equipment and buildings acquired by the Laboratory and investments it makes in leasehold improvements, all of which are reflected in the accompanying balance sheets, the Laboratory also uses certain government-furnished equipment for which it is accountable to the U.S. Government.

Independent Research

The Laboratory engages in independent research programs authorized by its Board of Directors. The expenses of such programs are charged to operations as incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on hand and highly liquid investments with maturities of three months or less when purchased.

Long-Term Investments

Investments, except for the investments of NTV, are primarily in equity securities and mutual funds with readily determinable fair values based on quoted market prices and collective trust funds. The fair value of the collective trust funds are based on net asset value as determined by the investment company. Certain investments in debt securities are recorded at amortized cost as it is

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

the Laboratory's intent to hold these investments until maturity. The investment goal for the various portfolios is capital preservation while generating returns sufficient to offset the impact of inflation. Realized gains and losses on investment securities are determined by the specific identification method. Dividends are recorded on the ex-dividend date and interest income is recorded on the accrual basis.

Through its NTV subsidiary, the Laboratory has made a series of investments in start-up companies (collectively referred to as the "NTV investments"). The NTV investments are carried at the lower of cost or market using the equity method depending upon the Laboratory's percentage ownership of each company and the specific facts and circumstances underlying each investment. Equity method gains (losses) are included in realized and unrealized gains (losses) on long-term investments in the consolidated statements of activities and changes in net assets.

New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), now codified as ASC 820, which effectively defines fair value for purposes of accounting principles generally accepted in the United States and expands disclosures of fair value for our financial instruments. There was no material impact on our financial condition upon adoption of ASC 820 for the Laboratory's financial assets and liabilities.

In DFY 2010, the Laboratory adopted the disclosure requirements of ASC 820 for its pension and retiree medical plan assets.

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

2. Long-Term Investments

The Laboratory's long-term investment portfolio consists of the following at July 2, 2010 and June 26, 2009:

	2010	2009
Investment securities		
Cash and money market mutual funds	\$ 2,790,924	\$ 419,891
U.S. investment-grade fixed income funds	51,428,633	43,505,310
U.S. large cap equity holdings	41,635,340	38,439,632
U.S. small cap mutual fund	5,707,757	4,885,976
Global equity funds	25,169,500	21,087,003
Insurance contracts and other	369,304	365,987
Total investment securities at fair value	<u>127,101,458</u>	<u>108,703,799</u>
U.S. Treasury and agency notes	3,000,000	-
Other investments	118,770	101,053
Total investment securities at amortized cost	<u>3,118,770</u>	<u>101,053</u>
NTV investments	12,014	515,189
Total long-term investments	<u>\$ 130,232,242</u>	<u>\$ 109,320,041</u>

NTV investments at July 2, 2010 and June 26, 2009 were valued at \$12,014 and \$515,189, respectively, net of impairment write-downs and losses of \$618,170 in 2010 and \$2,046,949 in 2009.

The Laboratory adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures*, as of fiscal year 2009 for financial assets and liabilities that are re-measured and reported at fair value for each reporting period. The adoption of ASC 820 did not have a material impact on financial results.

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

The following tables present information about the assets that are measured at fair value on a recurring basis as of July 2, 2010 and June 26, 2009, and indicate the fair value hierarchy of valuation techniques we utilized to determine such fair value.

	July 2, 2010	Level 1 Assets	Level 2 Assets	Level 3 Assets
Investment securities				
Cash and money market mutual funds	\$ 2,790,924	\$ 2,790,924	\$ -	\$ -
U.S. investment-grade fixed income funds	51,428,633	-	51,428,633	-
U.S. large cap equity holdings	41,635,340	41,635,340	-	-
U.S. small cap mutual fund	5,707,757	5,707,757	-	-
Global equity funds	25,169,500	25,098,200	71,300	-
Insurance contracts and other	369,304	-	52,125	317,179
	<u>\$ 127,101,458</u>	<u>\$ 75,232,221</u>	<u>\$ 51,552,058</u>	<u>\$ 317,179</u>
 June 26, 2009				
Investment securities				
Cash and money market mutual funds	\$ 419,891	\$ 419,891	\$ -	\$ -
U.S. investment-grade fixed income funds	43,505,310	-	-	43,505,310
U.S. large cap equity holdings	38,439,632	38,439,632	-	-
U.S. small cap mutual fund	4,885,976	4,885,976	-	-
Global equity funds	21,087,003	21,029,805	-	57,198
Insurance contracts and other	365,987	-	-	365,987
	<u>\$ 108,703,799</u>	<u>\$ 64,775,304</u>	<u>\$ -</u>	<u>\$ 43,928,495</u>

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. The Laboratory's Level 1 assets consist of equity holdings and mutual funds. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. The Laboratory's Level 2 assets consist of variable annuities and a collective trust fund, all of which are recorded at the net asset value (NAV) provided by the investment company. The variable annuities are a component of the Laboratory's deferred compensation plan and there is an offsetting liability recorded on the accompanying statements of financial position within current liabilities. The collective trust fund is comprised of investment-grade fixed income securities including U.S. Treasury and agency notes, corporate debt and mortgage-backed securities (primarily commercial mortgages). These same investments were categorized as Level 3 assets at June 26, 2009.

Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability, and include situations where there is little, if any, observable market activity for the asset or liability. The Laboratory's Level 3 assets as of July 2, 2010 consist of insurance contracts associated with the deferred compensation plan discussed above. There are no liquidity restrictions associated with any of the Laboratory's investments recorded at fair value.

During 2009, the Laboratory terminated an interest rate swap agreement in conjunction with the issuance of the Series 2008 bonds. The fair value of the interest rate swap was determined primarily through inputs provided by a third party.

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Insurance Contracts	Variable Annuities	Collective Trust	Debt and Preferred Stock	Total Investment Securities	
July 2, 2010						
Balance at beginning of year	\$ 304,742	\$ 142,900	\$43,480,853	\$ -	\$ 43,928,495	
Transfers to Level 2	-	(142,900)	(43,480,853)	-	(43,623,753)	
Changes in deferred compensation balances	12,437	-	-	-	12,437	
Balance at end of year	<u>\$ 317,179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 317,179</u>	
June 26, 2009						
Balance at beginning of year	\$ 231,122	\$ 257,451	\$ -	\$ 44,462,257	\$ 44,950,830	\$ 2,338,210
Total gains or losses	-	-	-	(5,528,522)	(5,528,522)	
Sales and exchanges	-	-	-	(38,933,735)	(38,933,735)	
Purchases and exchanges	-	-	43,480,853	-	43,480,853	
Changes in deferred compensation balances	73,620	(114,551)	-	-	(40,931)	
Net settlement	-	-	-	-	-	(2,338,210)
Balance at end of year	<u>\$ 304,742</u>	<u>\$ 142,900</u>	<u>\$43,480,853</u>	<u>\$ -</u>	<u>\$ 43,928,495</u>	<u>\$ -</u>

3. Property, Plant and Equipment

Property, plant and equipment are stated at cost. The following is a summary of property, plant and equipment, at cost less accumulated depreciation at July 2, 2010 and June 26, 2009:

	2010	2009
Data processing equipment	\$ 21,899,494	\$ 25,138,627
Other equipment	98,849,829	94,168,907
Building and leasehold improvements	47,116,927	37,707,848
Building	123,709,047	123,726,346
Land	32,984,487	32,984,487
Construction in progress	1,231,676	10,752,523
	<u>325,791,460</u>	<u>324,478,738</u>
Less: Accumulated depreciation	<u>130,655,907</u>	<u>127,982,050</u>
Property, plant and equipment, net	<u>\$ 195,135,553</u>	<u>\$ 196,496,688</u>

Depreciation and amortization expense was \$18,822,665 and \$16,831,242 for the years ended July 2, 2010 and June 26, 2009, respectively. The Laboratory capitalizes interest cost incurred on borrowed funds during the period of construction of capital assets. Interest costs capitalized during the years ended July 2, 2010 and June 26, 2009 were \$169,481 and \$207,742, respectively.

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

In December 2008, the Laboratory purchased a facility in St. Petersburg, Florida at a total cost of \$7,931,895. Certain costs to fit-out this location, as well as costs incurred to fit-out a leased facility at the University of South Florida in Tampa, Florida were recorded in construction in progress in DFY 2009 and were placed into service in DFY 2010. In addition, the Laboratory entered into a contract with Hillsborough County, Florida, wherein the County has agreed to fund \$976,000 of rent obligations pursuant to a ten year lease with the University of South Florida. The rent subsidies are stipulated to fund the rent obligations due in years 4 and 5 of the rental agreement (see Note 11). This pledge for future benefits has been classified as Deferred Charges on the Balance Sheet and will be recognized into revenue during years 4 and 5 of the lease.

In August 2005, the Laboratory sold three floors of the Hill Building in Cambridge, Massachusetts. The transaction was accounted for in accordance with ASC 360-20, *Property, Plant, and Equipment – Real Estate Sales*. Proceeds from the sale of \$32,053,037 included a noninterest-bearing note of \$2,368,665, net of a discount of \$384,343, due and paid in DFY 2010. Amortization of the note discount during the year ended June 26, 2009 was \$128,007.

In December 2006, the Laboratory completed an addition to the Hill Building at a total cost of \$64,383,119. The Hill Building and addition together comprise the One Hampshire at Kendall Square Condominium. In total, the Laboratory has leased 77.5 % of the space available in the combined Hill Building and addition. The Laboratory occupies the remainder of this space. Rental income, including parking revenue, included within non-operating income in the statement of activities and changes in net assets was \$8,681,294 and \$8,169,504 for the years ended July 2, 2010 and June 26, 2009, respectively. In addition, the Laboratory incurred \$3,256,303 for its share of common area maintenance costs for the year ended July 2, 2010. Generally accepted accounting principles require lease income to be recognized on a straight-line basis, which differs from the timing of rental payments in certain of the Laboratory's lease agreements. Revenue recorded in advance of rental payments was \$2,486,725 as of July 2, 2010 and is included in deferred charges and other assets in the accompanying consolidated balance sheets. Minimum future rental payments on noncancelable leases as of July 2, 2010 are as follows:

Year	
2011	\$ 8,014,854
2012	8,039,357
2013	6,315,093
2014	3,764,596
2015	3,562,754
Thereafter	44,764,768
	<u>\$ 74,461,422</u>

4. Capital Facilities Allowances and Unreimbursable Expenses

Capital facilities allowances of \$5,163,547 in 2010 and \$6,182,523 in 2009 are included in the statements of activities and changes in net assets.

During 2010 and 2009, certain expenses were either subsidized by the Laboratory or were not reimbursed under the terms of the Laboratory's contracts with its various sponsors. Total unreimbursed expenses included in indirect costs were \$4,845,782 and \$3,756,216 for 2010 and 2009, respectively, and consist principally of otherwise allowable overhead costs as well as

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

unallowable personnel related and administrative expenses and charges incurred in excess of funded contract amounts. Total Laboratory funded projects and cost sharing was approximately \$1,026,000 and \$1,347,000 in 2010 and 2009, respectively.

5. Commitments and Contingencies

The Laboratory leases office space, laboratory facilities and certain equipment. Such leases expire at various dates through the year 2019, with options to extend for additional periods. The office space and laboratory facility lease payments are subject to escalation for increases in real estate taxes and operating expenses. Certain equipment is also rented on a short-term basis and charged to contracts. Total rental expense (exclusive of certain equipment rentals which are charged directly to contracts) was \$1,655,299 and \$1,354,975 in 2010 and 2009, respectively.

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

Year	Building	Equipment	Total
2011	\$ 1,396,484	\$ 191,228	\$ 1,587,712
2012	1,277,062	8,388	1,285,450
2013	1,507,188	5,592	1,512,780
2014	1,455,702	-	1,455,702
2015	575,019	-	575,019
Thereafter	1,945,736	-	1,945,736
	<u>\$ 8,157,191</u>	<u>\$ 205,208</u>	<u>\$ 8,362,399</u>

All payments to the Laboratory for work performed on contracts with agencies of the U.S. Government are provisional payments which are subject to adjustment upon audit by the Defense Contract Audit Agency (DCAA). Audits through fiscal year 2007 have been completed and rates have been finalized. In the opinion of management, any adjustments resulting from the resolution of questioned costs of the audits for 2008 through 2010, which have not yet been finalized, are not expected to have a material adverse effect on the Laboratory's financial position or results of operations.

In 2007, the Laboratory established a liability for environmental cleanup costs associated with soil contamination at a test facility under the requirements of ASC 410-30, *Asset Retirement and Environmental Obligations – Environmental Obligations*. The Laboratory has compiled estimates of the cleanup costs under various scenarios and will update those estimates as conditions change in future periods. Due to the long-term nature of the remediation activities, the Laboratory has discounted the expected future expenditures to the current period, using a rate of 5.74%. At July 2, 2010 the Laboratory's recorded liability was \$1,731,952.

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

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

6. Pension and Other Post-retirement Benefit Plans

The Laboratory has three defined benefit pension plans and one post-retirement benefit plan providing health care benefits to retired employees. The current period cost of administering these benefit plans is included within operating activities as an indirect cost. The remaining changes to the benefit obligations are recorded in Other Changes in Pension and Post Retirement Benefits as a part of non-operating activities.

The following schedules provide summary information concerning the Laboratory's benefit plans for the years ended July 2, 2010 and June 26, 2009:

	Pension Benefits		Medical Benefits	
	2010	2009	2010	2009
Benefit obligation at end of year	\$ 109,899,845	\$ 95,892,708	\$ 26,297,203	\$ 24,272,118
Fair value of plan assets at end of year	<u>95,319,939</u>	<u>90,226,669</u>	<u>7,729,731</u>	<u>6,577,475</u>
Funded (unfunded) status of the plans	<u>\$ (14,579,906)</u>	<u>\$ (5,666,039)</u>	<u>\$ (18,567,472)</u>	<u>\$ (17,694,643)</u>
Statement of financial position				
Noncurrent assets	\$ 4,367,984	\$ 3,882,816	\$ -	\$ -
Current liabilities	-	(983,001)	-	-
Noncurrent liabilities	<u>(18,947,890)</u>	<u>(8,565,854)</u>	<u>(18,567,472)</u>	<u>(17,694,643)</u>
Funded (unfunded) status of the plans	<u>\$ (14,579,906)</u>	<u>\$ (5,666,039)</u>	<u>\$ (18,567,472)</u>	<u>\$ (17,694,643)</u>
Net period benefit cost	<u>\$ 949,522</u>	<u>\$ 354,598</u>	<u>\$ 1,717,944</u>	<u>\$ 1,670,428</u>
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets:				
Accumulated actuarial (gain) loss	\$ 23,775,670	\$ 14,460,988	\$ 1,568,494	\$ 1,116,782
Prior service costs (benefits)	395,049	500,106	(246,291)	(328,389)
Transition Obligation	<u>1,050,239</u>	<u>1,155,263</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,220,958</u>	<u>\$ 16,116,357</u>	<u>\$ 1,322,203</u>	<u>\$ 788,393</u>

The Retirement Plan for Employees (RPE) provides retirement benefits paid from the net assets available for plan benefits. Retirement benefits are paid to participants in equal monthly payments beginning in the month following retirement and continue until death. Payments to a surviving spouse are made at a reduced level. This plan comprises approximately 85% of the Laboratory's benefit obligations and plan assets.

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

The Retiree Medical Benefit Plan provides post-retirement Medicare supplemental health insurance and prescription drug benefits. The Laboratory's contributions to the plan are capped.

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

Benefit Obligations

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

	Pension Benefits		Medical Benefits	
	2010	2009	2010	2009
Benefit obligation at beginning of year	\$ 95,892,708	\$ 92,552,897	\$ 24,272,118	\$ 23,421,864
Actuarial gain	312,666	(2,493,933)	(1,253,142)	(914,229)
Service cost	1,599,719	1,334,786	870,682	837,541
Interest cost	5,365,098	5,513,902	1,389,783	1,463,787
Plan participants' contributions	-	-	2,802,085	2,751,234
Change in assumptions	11,745,159	2,768,285	2,396,687	622,249
Benefits paid	<u>(5,015,505)</u>	<u>(3,783,229)</u>	<u>(4,181,010)</u>	<u>(3,910,328)</u>
Benefit obligation at end of year	<u>\$ 109,899,845</u>	<u>\$ 95,892,708</u>	<u>\$ 26,297,203</u>	<u>\$ 24,272,118</u>
Accumulated benefit obligation	<u>\$ 107,035,887</u>	<u>\$ 93,548,813</u>		
Weighted-average assumptions				
Discount rate	4.93%	5.96%	5.15%	6.25%
Rate of compensation increase	3.85%	3.85%	n/a	n/a

Benefit Cost

The components of the net periodic benefit cost recognized in the statements of activities and changes in net assets, and the applicable assumptions for determining benefit costs, are shown below:

	Pension Benefits		Medical Benefits	
	2010	2009	2010	2009
Service cost	\$ 1,599,719	\$ 1,334,786	\$ 870,682	\$ 837,541
Interest cost	5,365,098	5,513,902	1,389,783	1,463,787
Expected return on plan assets	(6,657,348)	(6,882,410)	(460,423)	(548,802)
Amortization of prior service cost	105,057	105,057	(82,098)	(82,098)
Amortization of transition obligation	105,024	105,024	-	-
Amortization of net actuarial (gain) loss	<u>431,972</u>	<u>178,239</u>	<u>-</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 949,522</u>	<u>\$ 354,598</u>	<u>\$ 1,717,944</u>	<u>\$ 1,670,428</u>
Weighted-average assumptions				
Discount rate	5.98%	6.63%	6.25%	6.75%
Expected long-term return on plan assets	7.00%	7.00%	7.00%	7.00%
Rate of compensation increase	3.85%	3.85%	n/a	n/a

Amortization of pension benefit prior service costs, transition obligations and actuarial gains and losses in DFY 2011 is expected to be \$105,057, \$105,024, and \$727,636, respectively. Amortization of medical benefit prior service costs in DFY 2011 is expected to remain at the straight line amortization rate of \$82,098.

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

The defined benefit provisions of RPSM were frozen as of December 31, 2008. This resulted in a decrease in the projected benefit obligation of \$166,904 as of the same date, the impact of which is reflected in the interest cost component of the net periodic pension cost for DFY 2009. However, as the decrease did not exceed the unrecognized net loss, there was no recognition of a curtailment gain in the determination of the net periodic pension cost.

Assumptions

The discount rate is determined annually based on census information, the timing of future benefit payments and yield curve data from the Citigroup Pension Discount curve as of the valuation date for calculating net periodic benefit cost, and as of year-end for financial statement disclosure.

The expected long-term rate of return assumption represents the expected average rate of return on current and future funds invested to provide for benefit obligations. This assumption is determined based on a number of factors, including historical market index returns, historical plan return data, anticipated long-term asset allocation of the plans and plan expenses. The Laboratory recognizes differences between the expected return on assets and the actual return over the remaining service life of the applicable participants. This amount is included in net periodic pension cost as a component of the amortization of actuarial gains and losses and is expected to be \$727,636 in DFY 2011. While actual return was significantly less than expected return in DFY 2009 due to overall market downturn, actual return exceeded expected return in DFY 2010 for all of the Laboratory's benefit plans.

Assumed health care cost trend rates at July 2, 2010 and June 26, 2009 were as follows:

	2010	2009
Health care cost trend rate for pre-65 coverage assumed for next year	8.14%	9.14%
Health care cost trend rate for post-65 coverage assumed for next year	8.14%	9.14%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.00%
Year that the rate reaches the ultimate trend rate	2028	2030

Assumed healthcare costs trend rates can have a significant effect on the amounts reported for health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects at July 2, 2010 and June 26, 2009:

	Medical Benefits	
	2010	2009
Impact of 1% increase in assumed health care cost trend rates		
Effect on total of service and interest cost components	\$ 127,932	\$ 145,000
Effect on postretirement benefit obligation	874,972	984,000
Impact of 1% decrease in assumed health care cost trend rates		
Effect on total of service and interest cost components	(109,694)	(125,000)
Effect on postretirement benefit obligation	(766,906)	(863,000)

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (providing Medicare Part D – Prescription Drug benefits) was reflected in the Laboratory's accounting results assuming that the Laboratory will continue to provide the same (capped) level of contributions for

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

each participant of the post-retirement medical plan; however any federal subsidy received will be applied to reduce the retiree participants' share of the cost.

Plan Assets

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

	Pension Benefits		Medical Benefits	
	2010	2009	2010	2009
Fair value of plan assets at beginning of year	\$ 90,226,669	\$ 109,379,706	\$ 6,577,475	\$ 7,613,199
Actual return on plan assets	8,978,278	(14,987,263)	1,152,256	(1,355,952)
Employer contributions	1,140,255	402,161	1,378,925	1,479,322
Plan participants' contributions	-	-	2,802,085	2,751,234
Benefits paid	(5,015,505)	(3,783,229)	(4,181,010)	(3,910,328)
Fair value adjustments	(9,758)	(784,706)	-	-
Fair value of plan assets at end of year	<u>\$ 95,319,939</u>	<u>\$ 90,226,669</u>	<u>\$ 7,729,731</u>	<u>\$ 6,577,475</u>

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

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

	RPE			RPSM			Total Pension
	Fair Value	<u>Asset Allocation</u>		Fair Value	<u>Asset Allocation</u>		
Range		Actual	Range		Actual		
July 2, 2010							
U.S. fixed income	\$ 23,983,850	16-30%	30%	\$ -			\$ 23,983,850
Global equity funds	39,960,178	45-60%	50%	6,638,309	40-60%	44%	46,598,487
U.S. real estate fund	360,681	5-10%	0%	-			360,681
Insurance contracts	15,803,154	15-30%	20%	8,573,767	40-60%	56%	24,376,921
	<u>\$ 80,107,863</u>			<u>\$ 15,212,076</u>			<u>\$ 95,319,939</u>
June 26, 2009							
U.S. fixed income	\$ 21,859,077	16-30%	29%	\$ -			\$ 21,859,077
Global equity funds	36,739,070	45-60%	48%	5,846,038	40-60%	41%	42,585,108
U.S. real estate fund	1,522,257	5-10%	2%	-			1,522,257
Insurance contracts	15,842,735	15-30%	21%	8,417,492	40-60%	59%	24,260,227
	<u>\$ 75,963,139</u>			<u>\$ 14,263,530</u>			<u>\$ 90,226,669</u>

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

The disclosure provisions of ASC 820, *Fair Value Measurements and Disclosure*, were adopted as of fiscal year 2010 for benefit plan assets. The following tables present information about the assets that are measured at fair value on a recurring basis as of July 2, 2010, and indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair value.

	July 2, 2010	Level 1 Assets	Level 2 Assets	Level 3 Assets
Investment securities				
U.S. fixed income	\$ 23,983,850	\$ -	\$ 23,983,850	\$ -
Global equity fund	46,598,487	-	46,598,487	-
U.S. real estate fund	360,681	-	360,681	-
Insurance contracts	24,376,921	-	-	24,376,921
	<u>\$ 95,319,939</u>	<u>\$ -</u>	<u>\$ 70,943,018</u>	<u>\$ 24,376,921</u>

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets and liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. The Laboratory's Level 2 assets consist of variable annuities, all of which are recorded at the net asset value provided by the investment company.

Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability, and include situations where there is little, if any, observable market activity for the asset or liability. The Laboratory's Level 3 assets as of July 2, 2010 consist of an insurance contract, the value of which was provided by the insurance company and reviewed for reasonableness by the Laboratory. There are no liquidity restrictions associated with any of the Laboratory's investments recorded at fair value.

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Insurance Contracts
July 2, 2010	
Balance at beginning of year	\$ 24,260,227
Purchases and exchanges	3,000,000
Total gains or losses	991,944
Benefits paid	<u>(3,875,250)</u>
Balance at end of year	<u>\$ 24,376,921</u>

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

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

	Fair Value	Asset Allocation	
		Range	Actual
July 2, 2010			
Investment-grade fixed income fund	\$ 1,549,242	12-26%	20%
High-yield bond fund	570,397	3-11%	7%
Domestic equity funds	3,965,861	33-73%	51%
International equity funds	982,245	3-24%	13%
Real estate securities fund	661,986	5-11%	9%
	<u>\$ 7,729,731</u>		

June 26, 2009			
Investment-grade fixed income fund	\$ 1,106,379	12-26%	17%
High-yield bond fund	482,364	3-11%	7%
Domestic equity funds	3,630,588	33-73%	55%
International equity funds	941,448	3-24%	14%
Real estate securities fund	416,696	5-11%	7%
	<u>\$ 6,577,475</u>		

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

Contributions and Benefits

The Laboratory does not anticipate making any contributions to its pension plans or the Retiree Medical Benefit Plan in 2011.

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

	Pension Benefits	Medical Benefits
2011	\$ 13,945,000	\$ 1,656,000
2012	5,171,000	1,750,000
2013	6,462,000	1,789,000
2014	5,950,000	1,762,000
2015	7,671,000	1,764,000
Years 2016-2020	30,914,000	9,981,000

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

7. Deferred Charges and Other Assets

As permitted under CAS, overhead costs associated with the PeopleSoft software implementation projects are recorded as deferred charges and are being recovered over five years as charges to indirect contract costs. At July 2, 2010 and June 26, 2009, the balance of these costs was \$35,789 and \$465,182, respectively. Additionally, and as permitted by CAS, payments related to the SRPCO are recorded as deferred charges and are recovered over 15 years as charges to indirect contract costs. At July 2, 2010 and June 26, 2009, the balance of these costs was \$3,018,605 and \$2,118,712, respectively.

8. Line of Credit

In 2010, the Laboratory did not make a withdrawal or payment under its short-term line of credit arrangement with Bank of America. In December 2008, the Laboratory borrowed \$7,734,555 under its short-term line of credit arrangement. The loan was repaid in December 2008 at an interest cost of \$11,011. At July 2, 2010 and June 26, 2009, there were no balances outstanding under the credit facility. The line of credit may be renewed annually.

9. Bonds Payable

Effective October 23, 2008, the Laboratory issued \$80,000,000, net of a discount of \$970,946, of Massachusetts Development Finance Agency (MDFA) Fixed Rate Demand Revenue Bonds, Draper Laboratory Issue, Series 2008 (the "Series 2008 Bonds"); the Series 2008 Bonds are uncollateralized. The proceeds of the Series 2008 Bonds were used to extinguish the outstanding Series 2000 Bonds as well as provide funding for additional facility and computer upgrades as needed.

The Series 2008 Bonds have no restrictive covenants of a financial nature. The estimated fair value of the Series 2008 Bonds was \$87,876,409 and \$83,231,326 at July 2, 2010 and June 26, 2009, respectively.

The Series 2008 Bonds have been issued in four groups with varying maturity dates and interest rates, as follows:

Maturity Date	Interest Rate	Maturity Amount
September, 2015	4.75%	22,500,000
September, 2020	5.50%	10,000,000
September, 2025	5.75%	25,865,000
September, 2030	5.88%	<u>21,635,000</u>
		<u>80,000,000</u>

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

The following is a summary of the Laboratory's bonds payable at July 2, 2010 and June 26, 2009:

	2010	2009
Outstanding bonds	\$ 80,000,000	\$ 80,000,000
Less: current liability	-	-
Less: bond discount	(922,447)	(970,946)
Interest rate swap obligation	-	-
Total bonds payable	<u>\$ 79,077,553</u>	<u>\$ 79,029,054</u>

10. Asset Retirement Obligations

During 2009 and 2008, the Laboratory recognized the following changes to the fair value of its conditional asset retirement obligations:

	2010	2009
Fair value of liability at beginning of year	\$ 5,439,475	\$ 5,211,199
Liabilities incurred	-	-
Liabilities settled	(101,592)	(97,424)
Accretion of fair value	<u>339,967</u>	<u>325,700</u>
Fair value of liability at end of year	<u>\$ 5,677,850</u>	<u>\$ 5,439,475</u>

11. Deferred Revenue

The Laboratory entered into an agreement with the Office of Tourism, Trade and Economic Development in the State of Florida on June 30, 2008. The total value of this agreement is approximately \$15,000,000 which will be received over the next ten years. In addition, the Laboratory procured an additional \$15,000,000 in matching awards from various other parties described below. These matching awards will be received in the form of equipment, donated facilities, and rent incentives over the next ten years. These agreements include several provisions that require the initial deferral of revenue as described below.

In 2010 and 2009, the Laboratory received \$3,000,000 and \$7,000,000, respectively, from the State of Florida under this arrangement. The terms of the award stipulate that the Laboratory needs to create a specified number of salaried positions, generate a specified level of proposals, and incur costs related to equipment purchases during the contract period. Provided that the Laboratory has met the related conditions of the award, revenue will be recognized in proportion to costs incurred under the agreement. Accordingly, the Laboratory has recorded \$3,190,043 and \$5,003,703 as of July 2, 2010 and June 26, 2009, respectively, of revenue under this agreement and has deferred approximately \$1,806,253 and \$1,996,297 as of July 2, 2010 and June 26, 2009, respectively, to be recognized as costs are incurred in future periods.

Pursuant to the terms of an agreement with the Laboratory, Pinellas County, Florida, provided \$2,000,000 to the Laboratory to be used for the purchase of equipment. These funds have been recorded in deferred revenue as of June 26, 2009 and will be amortized into revenue beginning in

The Charles Stark Draper Laboratory, Inc.
Notes to Consolidated Financial Statements
July 2, 2010 and June 26, 2009

DFY 2010 over the equipment's useful life of five years. Accordingly, the Laboratory has recorded \$330,769 of revenue under this agreement during DFY 2010.

Pursuant to the terms of an agreement with the Laboratory, Hillsborough County, Florida, provided \$494,118 of equipment to the Laboratory. These funds have been recorded in deferred revenue as of July 2, 2010 and will be amortized into revenue beginning in DFY 2010 over the equipment's useful life of five years. Accordingly, the Laboratory has recorded \$58,688 of revenue under this agreement during DFY 2010.

Pursuant to the terms of an agreement with the Laboratory, Florida High Tech Corridor Council provided \$985,873 of equipment to the Laboratory. These funds have been recorded in deferred revenue as of July 2, 2010 and will be amortized into revenue beginning in DFY 2010 over the equipment's useful life of five years. Accordingly, the Laboratory has recorded \$164,313 of revenue under this agreement during DFY 2010.

In accordance with the Laboratory's lease with the USF Research Foundation (the Landlord), the Landlord provided \$2,000,000 to the Laboratory to be used for the purchase of leasehold improvements to be capitalized by the Laboratory. These funds have been recorded as deferred revenue at June 26, 2009 and will be recognized as an offset to depreciation expense of the leasehold improvements beginning in DFY 2010 over a ten year period.

12. Results of Operations

Total operating revenue is \$493,243,723 in DFY 2010, \$432,378,019 in DFY 2009. The majority of our revenue is with the US government and related agencies. Revenue generated by subcontractor costs increased by \$47,200,000. Contract change orders are included in the operating revenue total. There are pending change orders that total \$1,300,000 and \$500,000 at the end of DFY 2010 and DFY 2009, respectively.

Direct expenses are \$369,735,667 in DFY 2010, \$315,926,832 in DFY 2009. The increase is driven by subcontractor cost growth of \$47,200,000 and the remainder is due to an increase in employee costs driven by an increase in headcount and associated salary costs.

Indirect costs are \$121,816,287 in DFY 2010, \$110,252,302 in DFY 2009. The increase is due primarily to employee related costs. These costs include merit increases and employee benefit costs.

13. Subsequent Events

The Laboratory has performed an evaluation of subsequent events through September 29, 2010, which is the date the financial statements were available to be issued.

The Charles Stark Draper Laboratory, Inc.
Schedule of Expenditures of State Financial Assistance
Year Ended July 2, 2010

State Agency	CSFA Numbers	Contract Number	Direct	Total 2010 Expenditures
State of Florida Executive Office of the Governor	31.054	OT08-166	\$ 3,881,626	\$ 3,881,626
Total Expenditures of State Financial Assistance			<u>\$ 3,881,626</u>	<u>\$ 3,881,626</u>

The accompanying notes are an integral part of the Schedule of Expenditures of State Financial Assistance.

The Charles Stark Draper Laboratory, Inc.
Notes to Schedule of Expenditures of State Financial Assistance
Year Ended July 2, 2010

1. Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance (the "Schedule") has been prepared in accordance with the requirements of *Florida Single Audit Act*, Audits Nonprofits and For-Profits Organizations, Chapter 10.650, Rules of the Auditor General using the accrual basis of accounting. The purpose of the Schedule is to present a summary of The Charles Stark Draper Laboratory, Inc.'s (the "Laboratory") research program for the year ended July 2, 2010, which has been funded by the State of Florida ("State Awards"). For purposes of the Schedule, state awards include all state contracts entered into directly between the Laboratory and the State of Florida. Because the Schedule presents only the state award activity of the Laboratory, the Schedule is not intended to, and does not, present either the financial position or changes in net assets of the Laboratory.

2. Description of the Award

The Laboratory entered into an agreement with the Office of Tourism, Trade and Economic Development on June 30, 2008. The Office of Tourism, Trade and Economic Development is administered within the Executive Office of the Governor. The total value of this agreement is approximately \$15,000,000 which will be received over the next ten years. The terms of the award stipulate that the Laboratory needs to create a specified number of salaried positions, generate a specified level of proposals, and incur costs related to equipment purchases during the contract period. In addition, the Laboratory procured an additional \$15,000,000 in matching awards from various other parties. These matching awards will be received in the form of equipment, donated facilities, and rent incentives over the next ten years.



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

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

We have audited the consolidated financial statements of The Charles Stark Draper Laboratory, Inc. and its subsidiaries (the "Laboratory") as of and for the year ended July 2, 2010, and have issued our report thereon dated September 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Laboratory's internal control over financial reporting as a basis for designing our auditing procedures 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 Laboratory's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Laboratory's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Laboratory in a separate letter dated October 5, 2010.

This report is intended solely for the information and use of the Laboratory's Board of Directors, management, and state awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

September 29, 2010



**Report of Independent Auditors on Compliance with
Requirements That Could Have a Direct and Material Effect on Each Major Program and
on Internal Control over Compliance in Accordance with Chapter 10.650 of the Rules of the
Auditor General, State of Florida**

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

Compliance

We have audited the Laboratory's compliance with respect to the compliance requirements of eligibility and matching as described in the Rules of the Auditor General, State of Florida Matrix of Compliance Requirements that could have a direct and material effect on its major state program for the year ended July 2, 2010. The Laboratory's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major state program is the responsibility of the Laboratory's management. Our responsibility is to express an opinion on the Laboratory's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650 of the Rules of the Auditor General, State of Florida. Those standards and the Chapter 10.650 of the Rules of the Auditor General, State of Florida require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Laboratory's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Laboratory's compliance with those requirements.

In our opinion, the Laboratory complied, in all material respects, with the compliance requirements applicable to its major state program for the year ended July 2, 2010.

Internal Control over Compliance

Management of the Laboratory is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Laboratory's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.650 of the Rules of the Auditor General, State of Florida, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Laboratory's internal control over compliance.

A deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a state 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 state program will not be prevented or detected and correct on a timely basis.

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

This report is intended solely for the information and use of the Laboratory's Board of Directors, management, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

May 5, 2011

The Charles Stark Draper Laboratory, Inc.
Schedule of Findings and Questioned Costs
Year Ended July 2, 2010

I. Summary of Results

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to the financial statements noted?

yes no

State Awards

Internal control over major programs

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650 of the Rules of the Auditor General, State of Florida

Yes no

Identification of Major State Projects

CSFA Number
31.054

Name of State of Florida Project
Innovation Incentive Program

The Charles Stark Draper Laboratory, Inc.
Schedule of Findings and Questioned Costs
Year Ended July 2, 2010

II. Financial Statement Findings

None noted. In addition, there are no management letter items related to State Financial Assistance.

III. State Award Findings and Questioned Costs

None noted.

IV. Prior Year State Award Findings and Questioned Costs

None noted.