

# **Center for a New American Security Inc.**

Financial Report  
September 30, 2021

## Contents

Independent auditor's report	1
Financial statements	
Statements of financial position	2
Statements of activities	3
Statements of functional expense	4-5
Statements of cash flows	6
Notes to financial statements	7-17

## **Independent Auditor's Report**

RSM US LLP

Board of Directors  
Center for a New American Security Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Center for a New American Security Inc. (CNAS), which comprise the statements of financial position as of September 30, 2021 and 2020, the related statements of activities, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Center for a New American Security Inc. as of September 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Washington, D.C.  
May 17, 2022

**Center for a New American Security Inc.**

**Statements of Financial Position  
September 30, 2021 and 2020**

	2021	2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,351,610	\$ 6,901,749
Accounts receivable	224,111	263,654
Contributions receivable, current portion	326,750	699,596
Prepaid expenses	144,974	148,593
<b>Total current assets</b>	<b>10,047,445</b>	<b>8,013,592</b>
Restricted cash	3,094,102	3,087,800
Property and equipment, net	368,000	435,996
Deposit	86,847	71,847
<b>Total assets</b>	<b>\$ 13,596,394</b>	<b>\$ 11,609,235</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 255,820	\$ 127,127
Accrued vacation and other liabilities	237,037	257,579
Refundable advances	134,100	14,276
Deferred revenue	-	45,000
Payroll Protection Program loan, current portion (Note 10)	-	452,905
Obligations under capital leases, current portion	55,870	46,686
Deferred rent, current portion	151,972	123,701
<b>Total current liabilities</b>	<b>834,799</b>	<b>1,067,274</b>
Obligations under capital leases, net of current portion	45,756	57,656
Payroll Protection Program loan, net of current position (Note 10)	-	441,302
Deferred rent, net of current portion	234,489	386,460
<b>Total liabilities</b>	<b>1,115,044</b>	<b>1,952,692</b>
Commitments and contingencies (Notes 4 and 11)		
Net assets:		
Net assets without donor restrictions	6,546,918	3,527,653
Net assets with donor restrictions	5,934,432	6,128,890
<b>Total net assets</b>	<b>12,481,350</b>	<b>9,656,543</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,596,394</b>	<b>\$ 11,609,235</b>

See notes to financial statements.

**Center for a New American Security Inc.**

**Statements of Activities**  
**Years Ended September 30, 2021 and 2020**

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Contributions	\$ 5,758,889	\$ 3,496,087	\$ 9,254,976	\$ 7,080,709	\$ 2,941,015	\$ 10,021,724
Contract revenue	1,310,392	-	1,310,392	992,986	-	992,986
PPP loan forgiveness	903,596	-	903,596	-	-	-
Contributed professional services	41,219	-	41,219	63,649	-	63,649
Interest income	-	6,302	6,302	498	18,474	18,972
Net assets released from restrictions	3,696,847	(3,696,847)	-	4,482,331	(4,482,331)	-
<b>Total support and revenue</b>	<b>11,710,943</b>	<b>(194,458)</b>	<b>11,516,485</b>	<b>12,620,173</b>	<b>(1,522,842)</b>	<b>11,097,331</b>
Expenses:						
Program services:						
Defense, Strategy's and Assessment	1,173,759	-	1,173,759	1,534,916	-	1,534,916
Technology and National Security	1,137,205	-	1,137,205	1,401,286	-	1,401,286
Transatlantic Security	818,285	-	818,285	600,001	-	600,001
Energy, Economics and Security	696,372	-	696,372	1,254,349	-	1,254,349
Asia / Pacific Security	668,354	-	668,354	716,687	-	716,687
Outreach	553,118	-	553,118	608,848	-	608,848
Middle East Security	521,304	-	521,304	648,805	-	648,805
Military Veterans and Society	432,858	-	432,858	816,222	-	816,222
Future of Department of Defense	352	-	352	719	-	719
<b>Total program services</b>	<b>6,001,607</b>	<b>-</b>	<b>6,001,607</b>	<b>7,581,833</b>	<b>-</b>	<b>7,581,833</b>
Supporting services:						
Management and general	1,776,534	-	1,776,534	1,712,372	-	1,712,372
Fundraising	913,537	-	913,537	912,618	-	912,618
<b>Total supporting services</b>	<b>2,690,071</b>	<b>-</b>	<b>2,690,071</b>	<b>2,624,990</b>	<b>-</b>	<b>2,624,990</b>
<b>Total expenses</b>	<b>8,691,678</b>	<b>-</b>	<b>8,691,678</b>	<b>10,206,823</b>	<b>-</b>	<b>10,206,823</b>
<b>Change in net assets</b>	<b>3,019,265</b>	<b>(194,458)</b>	<b>2,824,807</b>	<b>2,413,350</b>	<b>(1,522,842)</b>	<b>890,508</b>
Net assets:						
Beginning	3,527,653	6,128,890	9,656,543	1,223,053	7,651,732	8,874,785
Cumulative adjustment due to adoption of ASC 606 (Note 1)	-	-	-	(108,750)	-	(108,750)
Ending	<b>\$ 6,546,918</b>	<b>\$ 5,934,432</b>	<b>\$ 12,481,350</b>	<b>\$ 3,527,653</b>	<b>\$ 6,128,890</b>	<b>\$ 9,656,543</b>

See notes to financial statements.

**Center for a New American Security Inc.**

**Statement of Functional Expense  
Year Ended September 30, 2021**

	Program Services										Supporting Services			
	Defense, Strategy's and Assessment	Technology and National Security	Transatlantic Security	Energy, Economics and Security	Asia / Pacific Security	Outreach	Middle East Security	Military Veterans and Society	Future of Department of Defense	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and benefits	\$ 911,290	\$ 827,711	\$ 579,656	\$ 520,166	\$ 528,204	\$ 342,138	\$ 436,696	\$ 358,881	\$ 254	\$ 4,504,996	\$ 1,077,411	\$ 668,930	\$ 1,746,341	\$ 6,251,337
Professional services	134,088	170,287	116,945	89,606	53,852	106,982	23,963	21,406	65	717,194	229,207	106,383	335,590	1,052,784
Travel and conferences	3,235	25,432	40,789	8,341	2,523	8,315	492	1,904	-	91,031	18,841	31,107	49,948	140,979
Occupancy and depreciation	106,524	98,115	68,604	61,636	62,472	40,236	52,035	42,490	29	532,141	124,769	77,791	202,560	734,701
IT and communications	8,775	9,171	6,982	11,837	16,101	51,301	4,216	3,527	2	111,912	102,782	6,303	109,085	220,997
Printing and publications	2,512	-	2,247	639	818	239	431	1,767	-	8,653	-	175	175	8,828
Insurance	2,767	2,548	1,781	1,601	1,622	1,045	1,351	1,104	1	13,820	3,240	2,020	5,260	19,080
Other expenses	4,568	3,941	1,281	2,546	2,762	2,862	2,120	1,779	1	21,860	141,513	20,828	162,341	184,201
Bad debt expense	-	-	-	-	-	-	-	-	-	-	78,771	-	78,771	78,771
	<u>\$ 1,173,759</u>	<u>\$ 1,137,205</u>	<u>\$ 818,285</u>	<u>\$ 696,372</u>	<u>\$ 668,354</u>	<u>\$ 553,118</u>	<u>\$ 521,304</u>	<u>\$ 432,858</u>	<u>\$ 352</u>	<u>\$ 6,001,607</u>	<u>\$ 1,776,534</u>	<u>\$ 913,537</u>	<u>\$ 2,690,071</u>	<u>\$ 8,691,678</u>

See notes to financial statements.

**Center for a New American Security Inc.**

**Statement of Functional Expense  
Year Ended September 30, 2020**

	Program Services										Supporting Services			
	Defense, Strategy's and Assessment	Technology and National Security	Transatlantic Security	Energy, Economics and Security	Asia / Pacific Security	Outreach	Middle East Security	Military Veterans and Society	Future of Department of Defense	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and benefits	\$ 1,063,001	\$ 1,011,913	\$ 396,347	\$ 775,059	\$ 540,421	\$ 288,236	\$ 480,227	\$ 581,576	\$ 400	\$ 5,137,180	\$ 940,758	\$ 650,106	\$ 1,590,864	\$ 6,728,044
Professional services	274,146	139,706	108,985	289,044	55,357	148,266	20,115	130,526	-	1,166,145	314,952	-	314,952	1,481,097
Travel and conferences	51,172	112,157	24,506	92,676	35,428	44,032	88,690	31,526	270	480,457	90,931	76,370	167,301	647,758
Occupancy and depreciation	114,097	109,233	43,577	83,222	58,712	31,282	52,313	62,422	43	554,901	99,959	70,586	170,545	725,446
Grant Donations – Direct	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT and communications	8,282	18,056	3,163	6,968	6,522	84,052	3,877	4,816	3	135,739	35,608	5,123	40,731	176,470
Printing and publications	14,019	1,546	290	1,606	16,529	4,850	270	1,371	-	40,481	-	-	-	40,481
Insurance	2,768	2,650	1,057	2,019	1,424	759	1,269	1,514	1	13,461	2,425	1,712	4,137	17,598
Other expenses	7,431	6,025	3,145	3,755	2,294	7,371	2,044	2,471	2	34,538	218,973	108,674	327,647	362,185
Bad debt expense	-	-	-	-	-	-	-	-	-	-	8,766	-	8,766	8,766
Translation loss	-	-	18,931	-	-	-	-	-	-	18,931	-	47	47	18,978
	<u>\$ 1,534,916</u>	<u>\$ 1,401,286</u>	<u>\$ 600,001</u>	<u>\$ 1,254,349</u>	<u>\$ 716,687</u>	<u>\$ 608,848</u>	<u>\$ 648,805</u>	<u>\$ 816,222</u>	<u>\$ 719</u>	<u>\$ 7,581,833</u>	<u>\$ 1,712,372</u>	<u>\$ 912,618</u>	<u>\$ 2,624,990</u>	<u>\$ 10,206,823</u>

See notes to financial statements.

**Center for a New American Security Inc.**

**Statements of Cash Flows**  
**Years Ended September 30, 2021 and 2020**

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 2,824,807	\$ 890,508
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	152,789	143,532
Deferred rent	(123,700)	(96,536)
Change in discount on contributions receivable	-	(19,047)
Forgiveness of PPP loan	(903,596)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	39,543	276,352
Contributions receivable	372,846	1,114,270
Prepaid expenses	3,619	(12,482)
Deposits	(15,000)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	138,082	(417,315)
Accrued vacation and other liabilities	(20,542)	16,511
Refundable advances	119,824	13,931
Deferred revenue	(45,000)	(63,750)
<b>Net cash provided by operating activities</b>	<b>2,543,672</b>	<b>1,845,974</b>
Cash flows from investing activities:		
Purchases of property and equipment	(32,012)	-
<b>Net cash used in investing activities</b>	<b>(32,012)</b>	<b>-</b>
Cash flows from financing activities:		
Principal payments on obligations under capital lease	(55,497)	(44,349)
Proceeds from Payroll Protection Program loan	-	894,207
<b>Net cash (used in) provided by provided by financing activities</b>	<b>(55,497)</b>	<b>849,858</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>2,456,163</b>	<b>2,695,832</b>
Cash, cash equivalents and restricted cash:		
Beginning	9,989,549	7,293,717
Ending	\$ 12,445,712	\$ 9,989,549
Supplemental disclosure of cash flow information:		
Interest paid	\$ 39,333	\$ 4,763
Supplemental schedule of noncash investing and financing activities:		
PPP loan and interest forgiveness	\$ 903,596	\$ -
Equipment acquired by capital lease	\$ 52,781	\$ 132,912

See notes to financial statements.



## Center for a New American Security Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** Center for a New American Security Inc. (CNAS), is a nonprofit organization that is focused on national security policy development, research and analysis. CNAS is one of the nation's preeminent think tanks on national security and defense policy. CNAS is seen as indispensable by policymakers, political candidates and members of Congress seeking concrete and compelling recommendations for strengthening America's national security, ensuring the vitality and effectiveness of the U.S. military and using America's power wisely and effectively. CNAS plays a central role in shaping and elevating the national security debate in the United States. CNAS also helps to develop the civilian professionals who will lead the nation's defense and security apparatus in the future.

CNAS's mission is to develop strong, pragmatic and principled national security and defense policies that promote and protect American interests and values. Building on the deep expertise and broad experience of its staff and advisors, CNAS will engage policymakers, experts and the public with innovative, fact-based research, ideas and analysis to shape and elevate the national security debate. As an independent and non-partisan research institution, CNAS will lead efforts to help inform and prepare the national security leaders of today and tomorrow.

A summary of CNAS's significant accounting policies follows:

**Basis of presentation:** The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Not-for-Profit Entities Topics of the Codification, CNAS is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net asset with donor restrictions.

**Net assets:** To ensure the observance of limitations and restrictions placed on the use of resources available to CNAS, its net assets and support have been classified into net asset groups based on the existence or absence of donor-imposed restrictions. The classes of net assets are as follows:

**Net assets without donor restrictions:** Represents resources of CNAS available to support general operations. The Board of Directors may designate these net assets at its discretion. There were no Board designated net assets as of September 30, 2021 and 2020.

**Net assets with donor restrictions:** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There were no net assets that were perpetual in nature as of September 30, 2021 and 2020.

**Financial risk:** CNAS maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. CNAS has not experienced any losses in such accounts. CNAS believes it is not exposed to any significant financial risk on cash.

**Cash and cash equivalents and restricted cash:** For financial statement purposes, CNAS considers all highly liquid debt instruments purchased with original maturities of 90 days or less to be cash equivalents. Restricted cash consist of amounts that are donor-restricted for the term endowment fund. At September 30, 2021 and 2020, CNAS reported \$12,445,712 and \$9,989,549 of total cash and cash equivalents in the statements of financial position and cash flows. At September 30, 2021 and 2020, CNAS reported \$3,094,102 and \$3,087,800 of restricted cash in the statements of financial position.

**Notes to Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Accounts receivable:** Accounts receivable are generated from contracts that are expected to be collected in future years. The face amount of accounts receivable is reduced by an allowance for doubtful accounts, if needed. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. There was no allowance for doubtful accounts based on management's evaluation of the collectability of receivables.

**Contributions receivable:** Contributions receivable consist of unconditional promises to give that are expected to be collected in future years. Contributions receivable are reported as net assets with donor restrictions support unless explicit donor stipulations or circumstances surrounding the promise to give make clear the donor intended it to be used to support activities of the current period. Contributions receivable are recorded at the present value of their estimated future cash flows.

The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions in the accompanying statements of activities. Contributions receivable are reviewed for collectability and a provision for uncollectible promises to give is recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Management does not believe that any allowance for uncollectible promises to give is necessary as of September 30, 2021 and 2020. At September 30, 2021 and 2020, all contributions receivable are expected to be collected within one year.

**Property and equipment:** Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives, ranging from three to five years. All acquisitions greater than \$500 with expected lives greater than one year are capitalized. Leasehold improvements are amortized over the lesser of the life of the asset or the related lease term.

**Valuation of long-lived assets:** Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

**Deferred rent:** CNAS leases office space in Washington, D.C. The lease agreement requires minimum annual rents, provides for an annual increase, includes a rent concession and provided for a tenant improvement allowance, all of which are required to be recognized ratably over the lease term in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, the amount of rent expense does not coincide with cash payments. This gives rise to a deferred rent liability, which is being amortized over the term of the lease and is recorded in the accompanying statements of financial position.

**Paycheck Protection Program loan:** CNAS received proceeds from the Paycheck Protection Program (PPP) during the year ended September 30, 2020. CNAS has elected ASC 470 – Debt Accounting treatment of the PPP loan. As a result, proceeds from the PPP loan are recorded as a liability on the accompanying statements of financial position until forgiveness is obtained. CNAS recorded a write off to the outstanding loan payable balance and recorded a gain on debt extinguishment when the loan was forgiven during the year ended September 30 2021.

**Notes to Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Support and revenue recognition:**

**Contributions:** Unconditional contributions are recognized as support and revenue when they are received or unconditionally promised. CNAS reports such gifts as restricted support and revenues if they are subject to time or donor-imposed restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions when a stipulated time restriction ends, purpose restriction is accomplished, or both.

Revenue is recognized on conditional contributions when the conditions have been met. This is typically when services have been provided and expenses incurred. Funds received in advance of services being provided and expenses incurred are reported as refundable advances in the accompanying statements of financial position. Additionally, donor-restricted contributions that were initially conditional contributions, where all donor restrictions and conditions are met in the same year as initial recognition, are recognized solely as increases in net assets without donor restrictions.

**Contract revenue:** CNAS adopted ASC Topic 606, Revenue from Contracts with Customers (ASC 606), on October 1, 2019, through the modified retrospective method. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

- Step 1: Identify the contract(s) with the customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) CNAS satisfies a performance obligation.

Contract revenue is derived from contracts from governmental agencies and nongovernmental entities. CNAS is primarily contracted to conduct specialized studies and publish related research reports as stipulated by the customer. Revenue is recognized from such studies and research reports either at a point in time or over time, as determined on a contract-by-contract basis. For contract performance obligations deemed to be satisfied at a point in time, revenue is recognized upon final completion and delivery of the study and research report. For contract performance obligations deemed to be satisfied over time, revenue is recognized as the study and research report are completed using a cost-to-cost plus anticipated profit margin input method. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. CNAS considers such performance obligations to be satisfied over time as the studies and interrelated research reports represent assets without alternative use to CNAS.

Other contract services provided by CNAS include conducting its fellows program and providing specialized staffing for U.S. government agencies. Revenue from such contracts is recognized ratably over time as the customer simultaneously receives and consumes the value of services.

CNAS's revenue from contracts with customers generally range from within one year or less. The contracts do not include significant financing components and do not have variable considerations. CNAS did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. The level of revenue generated through contracts with customers can fluctuate due to certain economic factors, specifically the political climate. Management does not believe there is a material risk of loss for future revenue and cash inflows.

## Center for a New American Security Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

For the years ended September 30, 2021 and 2020, contract revenue was recognized as follows:

Recognized at a point in time	\$	30,000	\$	210,000
Recognized over time		1,280,392		782,986
Total contract revenue	\$	1,310,392	\$	992,986

Payment is either received in advance or on a reimbursement basis, as stipulated on a contract-by-contract basis. Payments in excess of revenue recognized are reported as deferred revenue; revenue recognized in excess of payments are reported as accounts receivable.

**Contributed professional services:** In the normal course of business, CNAS receives donated professional legal services. The fair value of the donated professional legal services was \$41,219 and \$63,649 for the years ended September 30, 2021 and 2020, respectively. These services are recorded with offsetting revenue and expense amounts in the accompanying statements of activities.

**Functional allocation of expenses:** Expenses have been summarized on a functional basis in the accompanying statements of activities and statements of functional expenses. Accordingly, costs have been allocated among the program and supporting services directly benefited, or upon management's estimate of the proportion of these costs applicable to each function.

Expenses that are allocated include the following:

Expenses	Method of Allocation
Salaries and benefits	Time studies by Employee
Occupancy and depreciation	Salaries
IT and communications	Salaries
Insurance	Salaries

**Use of estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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 support and revenue and expenses during the reporting period. Actual results may differ from those estimates.

**Income taxes:** CNAS is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, CNAS qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no net tax liability for unrelated business income tax at September 30, 2021 and 2020.

Management has evaluated CNAS's tax positions and has concluded that CNAS has taken no uncertain tax positions that require adjustments to the financial statements.

## Center for a New American Security Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Adopted accounting pronouncement:** In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. CNAS adopted ASU 2018-08 as a resource provider on the modified prospective basis as of October 1, 2020. The adoption of this standard did not have a material effect on CNAS's financial statements.

**Pending accounting pronouncements:** In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021. CNAS is in the process of evaluating the impact of this guidance.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for CNAS beginning on October 1, 2021. CNAS is currently evaluating the impact of this new guidance on its financial statements.

**Subsequent events:** CNAS evaluated subsequent events through May 17, 2022, which is the date the financial statements were available to be issued

#### Note 2. Property and Equipment

At September 30, 2021 and 2020, property and equipment, recorded at cost, and related accumulated depreciation and amortization, consisted of the following:

	2021	2020
Office equipment and software	\$ 47,259	\$ 47,529
Website	106,002	106,002
Furniture and fixtures	113,182	93,913
Equipment held under capital lease	185,692	158,887
Leasehold improvements	828,477	815,732
	1,280,612	1,222,063
Less accumulated depreciation and amortization	(912,612)	(786,067)
	<u>\$ 368,000</u>	<u>\$ 435,996</u>

Depreciation and amortization expense for the years ended September 30, 2021 and 2020, was \$152,789 and \$143,532, respectively.

## Center for a New American Security Inc.

### Notes to Financial Statements

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#### Note 3. Retirement Plans

CNAS established a 403(b) pension plan, whereby employees are eligible to participate immediately. Participants may elect to contribute a portion of their compensation within statutory limits and are fully vested in those contributions. CNAS contributes up to 4% of eligible employees' compensation (safe harbor contributions) within statutory limits. Participants are fully vested in safe harbor contributions. Additionally, CNAS has the option of making a second discretionary non-elective contribution on behalf of eligible employees that becomes fully vested after three years of service. CNAS's total pension expense was \$185,902 and \$184,676 for years ended September 30, 2021 and 2020, respectively, and no discretionary contributions were made during the years ended September 30, 2021 and 2020. During the year ended September 30, 2021, the Board approved to create a deferred compensation plan for certain executives.

#### Note 4. Leases

CNAS has a non-cancellable operating lease agreement for office space through February 2024. The lease calls for annual escalations and a rent abatement. The lease also provided for tenant improvement allowances for a total of \$398,680.

Future minimum rental payments under the leases are as follows:

Years ending September 30:	
2022	\$ 733,885
2023	764,579
2024	331,837
	<u>\$ 1,830,301</u>

Rent expense is recorded on a straight-line basis. Deferred rent is recognized for the difference between the cash payments for rent and the recorded expense. Rent expense for the years ended September 30, 2021 and 2020 was \$581,914 and \$581,914, respectively.

CNAS also leases office equipment under capital leases ending on various dates through December 2022. CNAS records capitalized equipment leases at cost and depreciates the equipment over the related lease terms. The cost and carrying value of the capital leases were as follows at September 30, 2021 and 2020:

	2021	2020
Cost	\$ 185,692	\$ 158,887
Less accumulated depreciation	(87,208)	(56,605)
	<u>\$ 98,484</u>	<u>\$ 102,282</u>

## Center for a New American Security Inc.

### Notes to Financial Statements

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#### Note 4. Leases (Continued)

Future payments under capital leases are as follows:

Years ending September 30:

2022	\$	59,430
2023		23,714
2024		11,808
2025		11,808
2026		984
		<hr/> 107,744
Less amount representing interest		(6,118)
Present value of minimum lease payments	\$	<hr/> <hr/> 101,626

#### Note 5. Related Party Transactions

CNAS receives significant support in the form of contributions from Board of Directors' members in the ordinary course of business. During the years ended September 30, 2021 and 2020, Board members and organizations affiliated with Board members made contributions totaling \$602,500 and \$1,815,802, respectively.

#### Note 6. Net Assets With Donor Restrictions

Net assets with donor restrictions activity for the year ended September 30, 2021, consisted of the following:

	Balance September 30, 2020	Additions	Released	Balance September 30, 2021
Net assets with donor restrictions for time:				
General operating support	\$ 85,000	\$ 68,000	\$ 85,000	\$ 68,000
Term endowment	3,087,800	6,302	-	3,094,102
Net assets with donor restrictions for purpose:				
Defense, Strategy's and Assessment	-	517,467	311,864	205,603
Asia / Pacific Security	591,872	710,000	685,145	616,727
Transatlantic Security	176,784	237,311	328,378	85,717
Middle East Security	96,015	445,691	353,335	188,371
Technology and National Security	414,088	1,046,813	739,048	721,853
Energy, Economics and Security	790,448	262,500	621,960	430,988
Military Veterans and Society	736,161	75,605	364,198	447,568
Other purposes	100,000	100,000	124,497	75,503
Outreach	50,722	32,700	83,422	-
	<hr/> \$ 6,128,890	<hr/> \$ 3,502,389	<hr/> \$ 3,696,847	<hr/> \$ 5,934,432

**Center for a New American Security Inc.**

**Notes to Financial Statements**

**Note 6. Net Assets with Donor Restrictions (Continued)**

Net assets with donor restrictions activity for the year ended September 30, 2020, consisted of the following:

	Balance September 30, 2019	Additions	Released	Balance September 30, 2020
Net assets with donor restrictions for time:				
General operating support	\$ 232,954	\$ 104,046	\$ 252,000	\$ 85,000
Term endowment	3,069,326	18,474	-	3,087,800
Net assets with donor restrictions for purpose:				
Defense, Strategy's and Assessment	205,831	325,000	530,831	-
Asia / Pacific Security	557,496	641,084	606,708	591,872
Transatlantic Security	169,951	458,809	451,976	176,784
Outreach	90,926	5,000	45,204	50,722
Middle East Security	310,581	170,000	384,566	96,015
Technology and National Security	763,574	321,066	670,552	414,088
Energy, Economics and Security	1,190,815	330,500	730,867	790,448
Military Veterans and Society	1,060,278	485,510	809,627	736,161
Future of Department of Defense	-	100,000	-	100,000
	<u>\$ 7,651,732</u>	<u>\$ 2,959,489</u>	<u>\$ 4,482,331</u>	<u>\$ 6,128,890</u>

**Note 7. Financial Assets and Liquidity**

The following table reflects CNAS's financial assets as of September 30, reduced by amounts not available for general expenditure within one year.

	2021	2020
Financial assets:		
Cash and cash equivalents and restricted cash	\$ 12,445,712	\$ 9,989,549
Accounts receivable	224,111	263,654
Contributions receivable, net of discount	326,750	699,596
Total resources available	12,996,573	10,952,799
Less those unavailable for general expenditure within one year, due to:		
Term-endowment	3,094,102	3,087,800
Contributions restricted for purpose	2,772,330	2,956,090
Total financial assets available to management for expenditure within one year	<u>\$ 7,130,141</u>	<u>\$ 4,908,909</u>

As part of CNAS's liquidity plan, excess cash is transferred to a money market account. CNAS's goal is to maintain a reserve fund of three to six months of annual operating expenses. The term endowment can be appropriated for general activities through the approval process outlined in Note 9.



## Center for a New American Security Inc.

### Notes to Financial Statements

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#### Note 8. Conditional Promises to Give

Conditional promises to give, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Conditional gifts received and collected prior to the satisfaction of conditions are recorded as refundable advances. At September 30, 2021 and 2020, contributions approximating \$500,000 and \$734,000, have not been recognized in the accompanying statements of activities because the conditions on which they depend have not been met. These conditional contributions depend on requirements to incur qualifying expenses or perform specific tasks as stipulated in the underlying agreements.

#### Note 9. Term Endowment

In 2017, CNAS received a matching contribution that established a term endowment fund for the purpose of providing for unspecified long-term cash flow needs. Donor-restricted contributions made to the fund have restrictions that are temporary in nature and gains are available to be appropriated for general operations when approved in a prudent manner by the Board of Directors, provided that no such appropriation reduces the principal below the contribution level. Withdrawals from the fund may be made only upon request of the CEO and approval by the Chairmen of the Board of Directors or the chair of the Audit Committee. Withdrawals from the fund for an immediate and mission-critical cash obligation may reduce the principal of the fund. As of September 30, 2021 and 2020, the fund totaled \$3,094,102 and \$3,087,800, respectively, and is shown as restricted cash on the statements of financial position.

**Interpretation of the relevant law:** CNAS has interpreted the District of Columbia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, CNAS classifies as donor-restricted endowment net assets: (a) the original value of gifts donated to the endowment, and (b) the original value of subsequent gifts to the endowment. Accumulations of income to the endowment fund are classified as donor-restricted endowment net assets until appropriated for expenditure. In accordance with UPMIFA, CNAS considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the organization and endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and appreciation of investments;
6. Other resources of the organization; and
7. The investment policies of CNAS.

Term endowment net assets composition by net asset class as of September 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Term endowment fund	\$ -	\$ 3,094,102	\$ 3,094,102

## Center for a New American Security Inc.

### Notes to Financial Statements

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#### Note 9. Term Endowment (Continued)

Term endowment net assets composition by net asset class as of September 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Term endowment fund	\$ -	\$ 3,087,800	\$ 3,087,800

Changes in the endowment fund net assets consisted of the following for the year ended September 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Term endowment net assets, beginning of year	\$ -	\$ 3,087,800	\$ 3,087,800
Interest income	-	6,302	6,302
Term endowment net assets, end of year	\$ -	\$ 3,094,102	\$ 3,094,102

Changes in the endowment fund net assets consisted of the following for the year ended September 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Term endowment net assets, beginning of year	\$ -	\$ 3,069,326	\$ 3,069,326
Interest income	-	18,474	18,474
Term endowment net assets, end of year	\$ -	\$ 3,087,800	\$ 3,087,800

**Funds with deficiencies:** From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires CNAS to retain as a fund. There were no such deficiencies as of September 30, 2021 and 2020.

**Return objectives and risk parameters:** CNAS has adopted investment and spending policies for endowment assets with an emphasis on preservation of capital and income. Endowment assets include donor-restricted funds. Under this policy, as approved by the Board of Directors, the endowment assets are held as cash.

**Strategies employed for achieving objectives:** To satisfy its long-term objectives, CNAS focuses on the preservation of capital. CNAS currently maintains term endowment funds as cash.

Spending policy and how the investment objectives relate to spending policy: Earnings and distributions from the funds held in the term endowment are to be reinvested until proper approvals for expenditures. Withdrawals of principal require explicit approval and must be for an immediate and mission-critical objective as detailed above. The current objective is preservation of capital.

**Notes to Financial Statements**

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**Note 10. Paycheck Protection Program Loan**

In April 2020, CNAS received a loan in the amount of \$894,207, pursuant to the PPP under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). The PPP loan had a five-year term and bore interest at a rate of 1.00% per annum. The PPP loan was used for qualifying expenses in accordance with the CARES Act and fully forgiven in May 2021. CNAS recorded a write off to the outstanding loan payable balance and recorded a gain on debt extinguishment when the loan was forgiven during the year ended September 30 2021.

**Note 11. Risks and Uncertainties**

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. CNAS is closely monitoring its liquidity and is actively working to minimize the impact of the pandemic on its operations. The extent of the impact of COVID-19 on CNAS operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on CNAS' donors, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact CNAS' financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.