

Center for a New American Security Inc.

Financial Report
September 30, 2020

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RSM US LLP

Independent Auditor's Report

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, 2020 and 2019, the related statements of activities, functional expenses 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, CNAS adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

RSM US LLP

Washington, D.C.
May 3, 2021

Center for a New American Security Inc.

Statements of Financial Position
September 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,901,749	\$ 4,224,391
Accounts receivable	263,654	540,006
Contributions receivable, current portion	699,596	1,413,866
Prepaid expenses	148,593	136,111
Total current assets	8,013,592	6,314,374
Restricted cash	3,087,800	3,069,326
Contributions receivable, net of current portion and discount	-	380,953
Property and equipment, net	435,996	446,616
Deposit	71,847	71,847
Total assets	\$ 11,609,235	\$ 10,283,116
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 127,127	\$ 544,442
Accrued vacation and other liabilities	257,579	241,068
Refundable advances	14,276	345
Deferred revenue	45,000	-
Payroll Protection Program loan, current portion (Note 11)	452,905	-
Obligations under capital leases, current portion	46,686	12,842
Deferred rent, current portion	123,701	50,842
Total current liabilities	1,067,274	849,539
Obligations under capital leases, net of current portion	57,656	2,937
Payroll Protection Program loan, net of current position (Note 11)	441,302	-
Deferred rent, net of current portion	386,460	555,855
Total liabilities	1,952,692	1,408,331
Commitments and contingencies (Notes 5 and 12)		
Net assets:		
Net assets without donor restrictions	3,527,653	1,223,053
Net assets with donor restrictions	6,128,890	7,651,732
Total net assets	9,656,543	8,874,785
Total liabilities and net assets	\$ 11,609,235	\$ 10,283,116

See notes to financial statements.

Center for a New American Security Inc.

Statements of Activities
Years Ended September 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Contributions	\$ 7,080,709	\$ 2,941,015	\$ 10,021,724	\$ 5,958,739	\$ 5,752,150	\$ 11,710,889
Contract revenue	992,986	-	992,986	1,806,010	-	1,806,010
Contributed professional services	63,649	-	63,649	67,380	-	67,380
Interest income	498	18,474	18,972	-	39,817	39,817
Net assets released from restrictions	4,482,331	(4,482,331)	-	4,918,762	(4,918,762)	-
Total support and revenue	12,620,173	(1,522,842)	11,097,331	12,750,891	873,205	13,624,096
Expenses:						
Program services:						
Defense, Strategy's and Assessment	1,534,916	-	1,534,916	1,225,230	-	1,225,230
Technology and National Security	1,401,286	-	1,401,286	1,350,554	-	1,350,554
Energy, Economics and Security	1,254,349	-	1,254,349	1,660,427	-	1,660,427
Military Veterans and Society	816,222	-	816,222	518,359	-	518,359
Asia / Pacific Security	716,687	-	716,687	1,316,465	-	1,316,465
Middle East Security	648,805	-	648,805	755,331	-	755,331
Outreach	608,848	-	608,848	856,423	-	856,423
Transatlantic Security	600,001	-	600,001	746,164	-	746,164
Future of Department of Defense	719	-	719	793	-	793
Total program services	7,581,833	-	7,581,833	8,429,746	-	8,429,746
Supporting services:						
Management and general	1,712,372	-	1,712,372	2,538,903	-	2,538,903
Fundraising	912,618	-	912,618	872,571	-	872,571
Total supporting services	2,624,990	-	2,624,990	3,411,474	-	3,411,474
Total expenses	10,206,823	-	10,206,823	11,841,220	-	11,841,220
Change in net assets	2,413,350	(1,522,842)	890,508	909,671	873,205	1,782,876
Net assets:						
Beginning	1,223,053	7,651,732	8,874,785	313,382	6,778,527	7,091,909
Cumulative adjustment due to adoption of ASC 606 (Note 1)	(108,750)	-	(108,750)	-	-	-
Ending	\$ 3,527,653	\$ 6,128,890	\$ 9,656,543	\$ 1,223,053	\$ 7,651,732	\$ 8,874,785

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

See notes to financial statements.

Center for a New American Security Inc.

Statement of Functional Expense
Year Ended September 30, 2019

	Program Services									Supporting Services			Total Expenses	
	Defense, Strategy's and Assessment	Technology and National Security	Energy, Economics and Security	Military Veterans and Society	Asia / Pacific Security	Middle East Security	Outreach	Transatlantic Security	Future of Department of Defense	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and benefits	\$ 873,333	\$ 823,127	\$ 641,301	\$ 333,214	\$ 796,047	\$ 479,044	\$ 317,971	\$ 539,589	\$ 631	\$ 4,804,257	\$ 1,519,941	\$ 590,748	\$ 2,110,689	\$ 6,914,946
Professional services	175,506	332,611	441,872	102,624	82,303	62,040	95,204	29,253	-	1,321,413	225,436	94,693	320,129	1,641,542
Travel and conferences	62,549	89,324	459,979	32,562	264,867	150,256	294,268	98,963	87	1,452,855	168,177	104,708	272,885	1,725,740
Occupancy and depreciation	95,213	88,840	69,306	36,506	86,490	51,810	35,207	58,665	68	522,105	163,737	64,272	228,009	750,114
Grant Donations – Direct	-	-	-	-	65,000	-	-	-	-	65,000	-	-	-	65,000
IT and communications	7,530	7,497	15,772	8,706	7,337	7,012	77,675	5,578	5	137,112	37,607	4,469	42,076	179,188
Printing and publications	6,751	3,290	20,709	3,263	6,041	2,525	30,546	-	-	73,125	-	-	-	73,125
Insurance	1,959	1,828	1,426	751	1,780	1,066	724	1,207	1	10,742	3,369	1,322	4,691	15,433
Other expenses	2,389	4,037	10,062	733	3,324	1,575	4,828	1,380	1	28,329	285,520	12,359	297,879	326,208
Bad debt expense	-	-	-	-	-	-	-	-	-	-	135,116	-	135,116	135,116
Translation loss	-	-	-	-	3,276	3	-	11,529	-	14,808	-	-	-	14,808
	<u>\$ 1,225,230</u>	<u>\$ 1,350,554</u>	<u>\$ 1,660,427</u>	<u>\$ 518,359</u>	<u>\$ 1,316,465</u>	<u>\$ 755,331</u>	<u>\$ 856,423</u>	<u>\$ 746,164</u>	<u>\$ 793</u>	<u>\$ 8,429,746</u>	<u>\$ 2,538,903</u>	<u>\$ 872,571</u>	<u>\$ 3,411,474</u>	<u>\$ 11,841,220</u>

See notes to financial statements.

Center for a New American Security Inc.

**Statements of Cash Flows
Years Ended September 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 890,508	\$ 1,782,876
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	143,532	162,842
Deferred rent	(96,536)	(64,312)
Change in allowance for doubtful accounts	-	(57,105)
Change in discount on contributions receivable	(19,047)	3,400
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	276,352	(313,285)
Contributions receivable	1,114,270	(156,045)
Prepaid expenses	(12,482)	(11,803)
Increase (decrease) in:		
Accounts payable and accrued expenses	(417,315)	283,179
Accrued vacation and other liabilities	16,511	126,672
Refundable advances	13,931	(210,731)
Deferred revenue	(63,750)	-
Net cash provided by operating activities	1,845,974	1,545,688
Cash flows from financing activities:		
Principal payments on obligations under capital lease	(44,349)	(32,378)
Proceeds from Payroll Protection Program loan	894,207	-
Net cash provided by (used in) financing activities	849,858	(32,378)
Net increase in cash, cash equivalents and restricted cash	2,695,832	1,513,310
Cash, cash equivalents and restricted cash:		
Beginning	7,293,717	5,780,407
Ending	\$ 9,989,549	\$ 7,293,717
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4,763	\$ 2,523
Supplemental schedule of noncash investing and financing activity:		
Equipment acquired by capital lease	\$ 132,912	\$ -

See notes to financial statements.

Center for a New American Security Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Center for a New American Security Inc. (CNAS), formed in December 2006, 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, 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019, CNAS reported \$9,989,549 and \$7,293,717 of total cash and cash equivalents in the statements of financial position and cash flows. At September 30, 2020 and 2019, CNAS reported \$3,087,800 and \$3,069,326 of restricted cash in the statements of financial position.

Notes to Financial Statements

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. The allowance for doubtful accounts, based on management's evaluation of the collectability of receivables, was \$0 at September 30, 2020 and 2019.

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, 2020 and 2019.

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 a short-term liability on the accompanying statements of financial position until forgiveness is obtained. CNAS intends to record a write off to the outstanding loan payable balance and record a gain on debt extinguishment when CNAS is notified the loan is forgiven.

Notes to Financial Statements

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

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

For the year ended September 30, 2020, contract revenue was recognized as follows:

Recognized at a point in time	\$ 210,000
Recognized over time	782,986
Total contract revenue	<u>\$ 992,986</u>

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.

Under the new five-step model prescribed by ASC 606, CNAS reevaluated contracts with customers which were not yet completed as of October 1, 2019. As a result, CNAS adjusted net assets as of October 1, 2019 to reflect certain previously recognized contract revenue associated with its fellows program, for which the underlying performance obligations had not yet been satisfied. The effect on the 2020 financial statements is as follows:

	September 30, 2019	Adoption impact of ASC 606	October 1, 2019
Impact on total net assets as of October 1, 2019	\$ 8,874,785	\$ (108,750)	\$ 8,766,035
Impact on deferred revenue as of October 1, 2019	\$ -	\$ 108,750	\$ 108,750

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 \$63,649 and \$67,380 for the years ended September 30, 2020 and 2019, 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.

Center for a New American Security Inc.

Notes to Financial Statements

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

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, 2020 and 2019.

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.

New accounting standards adopted during 2020: 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 recipient on the modified prospective basis as of October 1, 2019. The adoption of this standard did not have a material effect on CNAS's financial statements.

In May 2014, the FASB issued guidance ASC 606 or ASU 2014-09, *Revenue from Contracts with Customers*) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 was effective for annual reporting periods beginning after December 15, 2018. However, in accordance with ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*, CNAS can elect to follow the original effective date for ASU 2014-09, or elect to adopt the guidance on October 1, 2020. Accordingly, effective October 1, 2019, CNAS elected to adopt the requirements of ASC 606 on the original effective date using the modified retrospective method. The adoption resulted in a net increase in deferred revenue as of October 1, 2019, and a decrease to beginning net assets as of October 1, 2019 of \$108,750. The details of the significant changes are discussed on the next page.

Center for a New American Security Inc.

Notes to Financial Statements

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

Prior to the adoption of ASC 606, CNAS recognized contract revenue associated with its fellows program upon initial registration of individuals in the program. In accordance with ASC 606, CNAS determined the performance obligation associated with the fellows program was satisfied ratably over the period of the program. This change resulted in a decrease in beginning net assets of \$108,750 as of October 1, 2019. The disclosure of the impact of adoption on the 2020 statement of activities was as follows:

	As Reported	Balances without adoption of ASC 606	Effect of Change Higher/(Lower) Change
Contract revenue	\$ 992,986	\$ 929,236	\$ 63,750
Change in net assets without donor restrictions	2,413,350	2,349,600	63,750

The disclosure of the impact of adoption as of September 30, 2020, on the statement of financial position was as follows:

	As Reported	Balances without adoption of ASC 606	Effect of Change Higher/(Lower) Change
Deferred revenue	\$ 45,000	\$ -	\$ 45,000

Pending accounting pronouncement: 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, 2020. However, in accordance with ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*, CNAS can elect to adopt ASU 2016-02 on the original effective date or elect to adopt the guidance on October 1, 2022. CNAS plans to adopt the standard as of October 1, 2022. CNAS is in the process of evaluating the impact of this guidance.

CNAS will adopt the ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* as a resource provider during the year ending September 30, 2021.

Subsequent events: CNAS evaluated subsequent events through May 3, 2021, which is the date the financial statements were available to be issued

Center for a New American Security Inc.

Notes to Financial Statements

Note 2. Contributions Receivable

Contributions receivable at September 30, are comprised of the following:

	2020	2019
Less than a year	\$ 699,596	\$ 1,413,866
One to five years	-	400,000
Gross promises to give and grants receivable	699,596	1,813,866
Less discount (rate 5% – 5.25%)	-	(19,047)
	<u>\$ 699,596</u>	<u>\$ 1,794,819</u>

Note 3. Property and Equipment

At September 30, 2020 and 2019, property and equipment, recorded at cost, and related accumulated depreciation and amortization, consisted of the following:

	2020	2019
Office equipment and software	\$ 47,529	\$ 47,529
Website	106,002	106,002
Furniture and fixtures	93,913	93,913
Equipment held under capital lease	158,887	103,441
Leasehold improvements	815,732	815,732
	1,222,063	1,166,617
Less accumulated depreciation and amortization	(786,067)	(720,001)
	<u>\$ 435,996</u>	<u>\$ 446,616</u>

Depreciation and amortization expense for the years ended September 30, 2020 and 2019, was \$143,532 and \$162,842, respectively.

Note 4. 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 \$184,676 and \$187,254 for years ended September 30, 2020 and 2019, respectively, and no discretionary contributions were made during the years ended September 30, 2020 and 2019. Subsequent to September 30, 2020, the Board approved to create a deferred compensation plan for certain executives.

Center for a New American Security Inc.

Notes to Financial Statements

Note 5. 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:	
2021	\$ 705,613
2022	733,885
2023	764,579
2024	331,837
	<u>\$ 2,535,914</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, 2020 and 2019 was \$581,914 and \$587,272, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cost	\$ 158,887	\$ 103,441
Less accumulated depreciation	(56,605)	(89,193)
	<u>\$ 102,282</u>	<u>\$ 14,248</u>

Future payments under capital leases are as follows:

Years ending September 30:	
2021	\$ 50,588
2022	47,623
2023	11,906
	<u>110,117</u>
Less amount representing interest	<u>(5,775)</u>
Present value of minimum lease payments	<u>\$ 104,342</u>

Note 6. Related Party Transactions

CNAS receives significant support in the form of contributions from Board of Directors' members. During the years ended September 30, 2020 and 2019, Board members and organizations affiliated with Board members made contributions totaling \$1,815,802 and \$2,395,029, respectively.

Center for a New American Security Inc.

Notes to Financial Statements

Note 7. Net Assets With Donor Restrictions

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

	Balance			Balance
	September 30, 2019	Additions	Released	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
Other purposes	-	100,000	-	100,000
	<u>\$ 7,651,732</u>	<u>\$ 2,959,489</u>	<u>\$ 4,482,331</u>	<u>\$ 6,128,890</u>

Net assets with donor restrictions activity for the year ended September 30, 2019, consisted of the following:

	Balance			Balance
	September 30, 2018	Additions	Released	September 30, 2019
Net assets with donor restrictions for time:				
General operating support	\$ 327,404	\$ 248,600	\$ 343,050	\$ 232,954
Term endowment	3,029,509	39,817	-	3,069,326
Net assets with donor restrictions for purpose:				
Defense, Strategy's and Assessment	-	486,864	281,033	205,831
Asia / Pacific Security	681,804	918,152	1,042,460	557,496
Transatlantic Security	445,157	102,075	377,281	169,951
Outreach	45,952	150,000	105,026	90,926
Middle East Security	270,757	527,973	488,149	310,581
Technology and National Security	846,511	1,050,352	1,133,289	763,574
Energy, Economics and Security	257,737	1,705,000	771,922	1,190,815
Military Veterans and Society	833,219	563,134	336,075	1,060,278
Future of Department of Defense	40,477	-	40,477	-
	<u>\$ 6,778,527</u>	<u>\$ 5,791,967</u>	<u>\$ 4,918,762</u>	<u>\$ 7,651,732</u>

Center for a New American Security Inc.

Notes to Financial Statements

Note 8. 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.

	2020	2019
Financial assets:		
Cash and cash equivalents and restricted cash	\$ 9,989,549	\$ 7,293,717
Accounts receivable	263,654	540,006
Contributions receivable, net of discount	699,596	1,794,819
Total resources available	10,952,799	9,628,542
Less those unavailable for general expenditure within one year, due to:		
Term-endowment	3,087,800	3,069,326
Contributions receivable due in more than one year	-	380,953
Contributions restricted for purpose	2,956,090	3,968,499
Total financial assets available to management for expenditure within one year	<u>\$ 4,908,909</u>	<u>\$ 2,209,764</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 10.

Note 9. 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, 2020, contributions approximating \$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 10. 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, 2020 and 2019, the fund totaled \$3,087,800 and \$3,069,326, respectively, and is shown as restricted cash on the statements of financial position.

Center for a New American Security Inc.

Notes to Financial Statements

Note 10. Term Endowment (Continued)

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, 2020:

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

Term endowment net assets composition by net asset class as of September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Term endowment fund	\$ -	\$ 3,069,326	\$ 3,069,326

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

Center for a New American Security Inc.

Notes to Financial Statements

Note 10. Term Endowment (Continued)

Changes in the endowment fund net assets consisted of the following for the year ended September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Term endowment net assets, beginning of year	\$ -	\$ 3,029,509	\$ 3,029,509
Interest income	-	39,817	39,817
Term endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,069,326</u>	<u>\$ 3,069,326</u>

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, 2020 and 2019.

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.

Note 11. Payroll Protection Program Loan

In April 2020, CNAS received a loan in the amount of \$894,207, pursuant to the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). The PPP loan has a two-year term and bears interest at a rate of 1.00% per annum. Monthly principal and interest payments are deferred for ten months after the date of disbursements. The PPP loan may be prepaid at any time prior to maturity with no prepayment penalties. The CARES Act provides that the PPP loan may be partially or wholly forgiven if the funds are used for certain qualifying expenses as described in the CARES Act. CNAS intends to use the proceeds from the PPP loan for qualifying expenses and to apply for full forgiveness of the PPP loan in accordance with the terms of the CARES Act. As of May 3, 2021, CNAS has not applied for forgiveness. CNAS determined it qualified for the program based on the criteria established by the SBA before applying and CNAS intends to meet the PPP's eligibility criteria for forgiveness.

Notes to Financial Statements

Note 12. Risks and Uncertainties

The COVID-19 pandemic, whose effects first became known in March 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.