

# **Institute for Defense Analyses**

**Report of Independent Auditors on Financial  
Statements and Schedule of Expenditures of  
Federal Awards in Accordance with the OMB  
Uniform Guidance**

**For the Year Ended September 30, 2022**

**EIN#: 53-0233247**

# Institute for Defense Analyses

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September 30, 2022

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**Part I**  
**Financial Statements and Schedule of**  
**Expenditures of Federal Awards**  
**For the year ended September 30, 2022**



## Report of Independent Auditors

To the Board of Trustees of the  
Institute for Defense Analyses

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

#### ***Opinion***

We have audited the accompanying financial statements of the Institute for Defense Analyses (the "Institute"), which comprise the balance sheets as of September 30, 2022 and September 24, 2021, and the related statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institute as of September 30, 2022 and September 24, 2021, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Responsibilities of Management for the Financial Statements***

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

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

#### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance



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

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

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

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

### **Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2022 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2023 on our consideration of the Institute'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 September 30, 2022. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pricewaterhousecoopers up".

Washington, District of Columbia  
February 17, 2023

**Institute for Defense Analyses**  
**Balance Sheets**  
**As of September 30, 2022 and September 24, 2021**

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	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 35,711,956	\$ 34,933,004
Restricted cash	-	44,811,938
Contract receivables billed, less allowance of \$50,000 for 2022 and 2021	15,400,175	8,515,962
Contract receivables unbilled, less allowance of \$250,000 for 2022 and 2021	17,606,401	19,217,981
Assets held for sale	59,332,695	-
Prepaid expenses and other current assets	<u>16,587,544</u>	<u>28,196,253</u>
Total current assets	<u>144,638,771</u>	<u>135,675,138</u>
Prepaid ground rent	837,200	873,600
Property, plant and equipment - net	277,407,721	284,657,711
Investments	<u>178,863,333</u>	<u>251,117,451</u>
Total assets	<u>\$ 601,747,025</u>	<u>\$ 672,323,900</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 19,038,585	\$ 27,609,123
Accrued salaries	4,705,609	7,118,147
Accrued interest payable	1,365,213	867,638
Accrued paid time off	15,438,472	16,260,016
Accrued pension and postretirement costs	5,538,529	6,300,097
Notes payable	<u>3,440,730</u>	<u>3,780,000</u>
Total current liabilities	<u>49,527,138</u>	<u>61,935,021</u>
Long-term liabilities:		
Accrued postretirement benefits costs	4,170,417	5,492,905
Interest rate swap agreements	2,259,317	7,542,729
Notes payable, net of current	42,613,144	40,745,000
Long-term debt:		
Bonds payable	249,400,000	254,134,707
Less unamortized debt issuance cost	<u>2,511,386</u>	<u>3,171,951</u>
Total long-term debt	<u>246,888,614</u>	<u>250,962,756</u>
Total liabilities	<u>345,458,630</u>	<u>366,678,411</u>
Net assets without restrictions	<u>256,288,395</u>	<u>305,645,489</u>
Total liabilities and net assets	<u>\$ 601,747,025</u>	<u>\$ 672,323,900</u>

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

# Institute for Defense Analyses

## Statements of Activities

For the fiscal years ended September 30, 2022 and September 24, 2021

	2022	2021
Operating revenue, including fixed fees of \$6,309,109 and \$6,067,369, respectively	\$ 286,954,250	\$ 249,458,944
	<u>286,954,250</u>	<u>249,458,944</u>
Contract expenses:		
Direct salaries and benefits	144,243,035	137,600,884
Other direct costs	42,909,612	34,155,892
Indirect costs	89,245,308	71,099,820
Total contract expenses	<u>276,397,955</u>	<u>242,856,596</u>
Non-contract expenses:		
Salaries and benefits	470,415	673,493
Other costs	16,951,510	1,303,822
Indirect costs	226,915	508,623
Interest	5,274,642	2,202,892
Total non-contract expenses	<u>22,923,482</u>	<u>4,688,830</u>
Total operating expenses	<u>299,321,437</u>	<u>247,545,426</u>
Operating income	<u>(12,367,187)</u>	<u>1,913,518</u>
Investment and other income:		
Net investment income	(42,337,955)	54,662,317
Unrealized gain on swap agreements	5,283,412	2,822,402
Miscellaneous income	64,636	126,127
Total investment and other income	<u>(36,989,907)</u>	<u>57,610,846</u>
Change in net assets	(49,357,094)	59,524,364
Net assets, beginning of year	<u>305,645,489</u>	<u>246,121,125</u>
Net assets, end of year	<u>\$ 256,288,395</u>	<u>\$ 305,645,489</u>

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

**Institute for Defense Analyses**  
**Statements of Cash Flows**  
**For the fiscal years ended September 30, 2022 and September 24, 2021**

	2022	2021
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (49,357,094)	\$ 59,524,364
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Loss on held for sale assets	7,662,926	-
Loss on disposal of equipment	260,921	405
Depreciation and amortization of property, plant, and equipment	11,099,350	5,645,042
Unrealized (gain)/loss on investments	67,487,652	(34,149,378)
Realized (gain)/loss on investments	(19,618,747)	(15,766,291)
Unrealized (gain)/loss on swap agreements	(5,283,412)	(2,822,402)
Amortization of prepaid ground rent	36,400	36,400
Amortization of bond issuance costs	167,241	52,781
Loss on extinguishment of debt	691,881	-
Increase/(decrease) resulting from changes in assets and liabilities:		
Contract receivables	(5,272,633)	(8,306,397)
Prepaid expenses and other current assets	1,346,277	(13,099,724)
Accounts payable and accrued expenses	(806,164)	10,917,058
Accrued salaries	(2,412,538)	183,464
Accrued interest payable	497,575	16,793
Accrued paid time off	(821,544)	1,710,242
Accrued pension cost	(761,568)	692,540
Accrued postretirement benefits costs	(1,322,488)	112,944
Net cash and cash equivalents provided by operating activities	<u>3,594,035</u>	<u>4,747,841</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(61,429,484)	(34,022,106)
Proceeds from sales of investments	85,814,697	54,277,958
Capital expenditures	(68,623,653)	(124,752,760)
Proceeds from sale of equipment	15,810	7,184
Net cash and cash equivalents used in investing activities	<u>(44,222,630)</u>	<u>(104,489,724)</u>
<b>Cash flows from financing activities:</b>		
Payment of debt	(3,780,000)	(3,650,000)
Proceeds from issuance of notes payable	5,308,874	-
Proceeds from issuance of bonds	25,575,293	131,523,084
Extinguishment of debt	(30,310,000)	-
Payment of bond issuance cost	(198,558)	(168,160)
Net cash and cash equivalents (used in)/provided by financing activities	<u>(3,404,391)</u>	<u>127,704,924</u>
Net (decrease)/increase in cash, cash equivalents and restricted cash	(44,032,986)	27,963,041
Cash, cash equivalents and restricted cash at beginning of year	<u>79,744,942</u>	<u>51,781,901</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 35,711,956</u>	<u>\$ 79,744,942</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 4,777,067	\$ 2,202,892
Capital expenditures in accounts payable	7,764,374	137,722
Prepaid expenses reclassified to held for sale asset	10,262,433	-
<b>Cash, cash equivalents, and restricted cash reported on the balance sheet:</b>		
Cash and cash equivalents	35,711,956	34,933,004
Restricted cash	-	44,811,938
Total cash, cash equivalents, and restricted cash	<u>\$ 35,711,956</u>	<u>\$ 79,744,942</u>

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

# Institute for Defense Analyses

## Notes to Financial Statements

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### 1. Description of business and summary of significant accounting policies

#### Description of business

The Institute for Defense Analyses (the "Institute") is a private not-for-profit 501(c)(3) corporation which administered three federally-funded research and development centers ("FFRDC") during the fiscal years ended September 30, 2022 and September 24, 2021. The Institute's largest FFRDC is for the Office of the Secretary of Defense, the second for the National Security Agency and the third for the White House Office of Science and Technology Policy.

#### Reporting year

The Institute's fiscal year is the 52- or 53-week annual accounting period ending the last Friday in September. The Institute's current fiscal year ended on September 30, 2022; the prior fiscal year ended on September 24, 2021.

#### Cash equivalents

The Institute classifies readily-convertible liquid investments with maturities of three months or less when purchased as cash equivalents, except that such investments purchased with funds held by external investment managers are classified with investments. Cash equivalents are maintained in an interest-bearing checking account.

#### Restricted cash

The Institute has a contractual requirement as part of the Industrial Development Authority of the City of Alexandria Variable Rate Revenue Bonds Series 2019 to maintain funds in an interest-bearing account. These available funds were used in the construction of the Institute's new headquarters facility in Alexandria, Virginia. The construction of the new headquarters was completed in December of 2021. The restricted cash balance was \$0 and \$44,811,938 as of September 30, 2022 and September 24, 2021, respectively.

#### Prepaid ground rent

In September 1991, the Institute paid the City of San Diego \$1,200,000 for a 55-year ground lease for the Center for Communications Research in La Jolla. The Institute is amortizing the ground rent on a straight-line basis over its term of 55 years.

In October 2005, the Institute exercised an option with the City of San Diego under the 1991 lease to allow expansion to 50,000 square feet of building area for the Center for Communications Research building. The \$598,640 cost for the expansion rights is being amortized on a straight-line basis over the remaining years of the original 1991 agreement.

#### Investments

Investments are stated at fair value. The fair value of investments is based on quoted market prices with realized and unrealized gains and losses included in the statement of activities.

#### Debt

The Institute issues tax-exempt bonds to finance qualified major capital projects. In August 2019, the Institute issued tax-exempt bonds through the Industrial Development Authority of the City of Alexandria to construct a new headquarters building located in Alexandria, Virginia. Additional information about the debt is disclosed in note 7.

The Institute uses interest rate swap agreements to effectively fix the interest rates on its variable rate bonds. The fair value of the swaps is based on a calculation specified in the agreements and any gain or loss is included in the statement of activities.

# Institute for Defense Analyses

## Notes to Financial Statements

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### Assets held for sale

Assets classified as held for sale represent land, buildings, and land improvements for assets that have met the criteria of “held for sale” accounting, as specified by Accounting Standards Codification (“ASC”) 360, *Property, Plant, and Equipment*. As of September 30, 2022, previous headquarters at 4850 Mark Center Drive, Alexandria Virginia and land at 4880 Mark Center Drive, Alexandria Virginia are recorded as assets and liabilities held for sale. The effect of suspending depreciation on the facility held for sale is immaterial to changes in net assets. The net assets held for sale are being marketed for sale and it is the Institute’s intention to complete the sales of these assets within the upcoming year.

### Property, plant and equipment

The Institute carries property, plant and equipment at cost and depreciates them on a straight-line basis over the following estimated useful lives:

Building and improvements	5 to 40 years
Office furniture and equipment	5 to 10 years
Computer equipment and software	3 to 5 years

The Institute amortizes leasehold improvements on a straight-line basis over the lesser of the improvement’s useful life or the remaining life of the lease. The Institute expenses repairs and maintenance as incurred; it capitalizes betterments which materially extend the lives of related assets. When it sells or retires assets, the Institute removes the related costs and accumulated depreciation from its accounts and includes any gain or loss in operations. The Institute reviews its property and equipment assets for impairment in value whenever events or circumstances indicate that the carrying value may not be recoverable.

### Capitalization of interest

Interest costs related to qualifying assets are capitalized during the period which the related assets are constructed and prepared for their intended use. The Institute had \$516,885 and \$1,328,323 of capitalized interest for the fiscal years ended September 30, 2022 and September 24, 2021, respectively.

### Bond issue costs

Bond issue costs represent expenses incurred in connection with issuing bonds and are being amortized on a straight-line basis over the terms of the related bond issues.

### Paid time off

The Institute accrues paid time off leave as earned. The Institute permits employees to accumulate unused leave subject to certain limitations. The Institute pays employees for unused leave at termination or retirement.

### Net assets

Net assets represents the accumulated excess of contract revenue and other income over total costs and expenses. Revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to any donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions that may require actions by the Institute, the passage of time, or be held in perpetuity. The Institute does not have any assets with restrictions as of September 30, 2022 and September 24, 2021, respectively.

# Institute for Defense Analyses

## Notes to Financial Statements

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### **Revenue Recognition**

The Institute adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)* on September 28, 2019. Contracts and other program revenue are accounted for in accordance with ASU 2014-09.

The Institute’s revenue-producing arrangements with the U.S. government and other entities meet the definition of a contract under ASC 606, as the customer receives commensurate value. ASC 606 outlines a five-step model whereby revenue is recognized as performance obligations within the contract are satisfied. The Institute’s performance obligations are satisfied over time as work progresses. Generally, the Institute provides services under cost-reimbursable contracts which are determined by or negotiated with the U.S. government and other entities.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. A contract’s transaction price is allocated to each distinct performance obligation within that contract and recognized as revenue when, or as, the performance obligation is satisfied. Due to the nature of the work, the Institute’s contracts have a single performance obligation as the promise to transfer the individual services is not separately identifiable from other promises in the contract and is, therefore, not distinct.

### **Income taxes**

Under section 501(c)(3) of the Internal Revenue Code and the laws and regulations of the states of Virginia, Maryland, New Jersey, California, and District of Columbia, the Institute is exempt from taxes on income.

### **Management estimates and uncertainties**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 those estimates.

### **Concentration of credit risk**

The Institute’s financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, investments and accounts receivable. The Institute’s excess cash and cash equivalents are deposited in high quality financial institutions. Deposits may be redeemed upon demand and are considered to be a minimal credit risk. Investments are held mainly in the form of high quality publicly traded mutual funds and exchange traded funds. The Institute performs periodic evaluations of these institutions for relative credit standing. The composition and maturities of investments are regularly monitored by management. The Institute limits the amount of credit exposure to any one financial institution or commercial issuer. The accounts receivable are primarily due from U.S. government agencies.

### **New accounting pronouncements adopted**

In August 2018, the FASB issued ASU 2018-14, *Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans*. This accounting pronouncement modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The guidance is effective for fiscal years ending after December 15, 2021, with early adoption permitted. The Institute adopted ASU 2018-14 on a retrospective basis in fiscal year 2022. The adoption of this accounting guidance did not have a significant impact on the plan disclosures presented in the Institute’s financial statements.

# Institute for Defense Analyses

## Notes to Financial Statements

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### Accounting pronouncements issued but not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”). Lessees will need to recognize on their balance sheet a right-of-use asset and a lease liability for all leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). The standard is effective for periods beginning after December 15, 2021. Management is currently evaluating the impact of ASU 2016-02 on the Institute’s financial statements.

### 2. Revenue from contracts with customers

The Institute’s revenue from contracts with customers is primarily from contracts with the U.S. government in areas of defense, intelligence and policy. These are service based cost-plus fixed fee contracts. With a cost-plus fixed fee contract, the Institute is reimbursed for cost that are determined to be reasonable, allowable and allocable to the contract plus a contract negotiated fee.

Revenue by customer for the fiscal years ended September 30, 2022 and September 24, 2021:

	2022	2021
Department of Defense	\$ 272,716,855	\$ 238,680,481
National Science Foundation	11,608,127	9,117,761
Office of the Director of National Intelligence	1,355,649	1,242,270
Other government agencies	1,273,619	418,432
	<u>\$ 286,954,250</u>	<u>\$ 249,458,944</u>

### 3. Contract receivables

Contract receivables at September 30, 2022 and September 24, 2021 consisted of the following:

	2022	2021
Billed receivables	\$ 15,450,175	\$ 8,565,962
Unbilled receivables	17,856,401	19,467,981
	<u>\$ 33,306,576</u>	<u>\$ 28,033,943</u>

Billed receivables are incurred cost and fee recorded and invoiced to the federal government during the contract billing cycle. Cost and fee recorded after the contract billing cycle is captured in unbilled receivables. The unbilled receivables are invoiced in the subsequent billing period. The Institute is subject to government audit. The government has classified the Institute as a low risk contractor and, as such, the Institute may not be audited annually. The government has completed audits for all years through September 24, 2021. Management of the Institute believes that disallowed costs, if any, for the periods not yet audited will not have a material adverse impact on the financial statements. A management reserve is maintained for potential losses from certain areas of risk associated with performing contract work with the government. The management reserve balance as

# Institute for Defense Analyses

## Notes to Financial Statements

of September 30, 2022 and September 24, 2021 amounted to \$350,000. The Institute has reserved \$50,000 of the management reserve for government audits, which is included in accounts payable in the Balance Sheets.

### 4. Investments

Investments as of September 30, 2022 and September 24, 2021 are set forth below at cost and fair value by investment type:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Long-term investments				
Equity				
Small Cap Growth	\$ 13,517,772	\$ 13,684,080	\$ 13,769,635	\$ 19,957,985
International Fund	24,560,298	20,752,090	24,806,571	34,024,460
Large Cap Growth	36,157,037	64,043,141	43,126,476	101,932,996
Diversifying Strategies	7,877,358	8,804,486	9,945,669	10,142,258
Subtotal - equity	<u>82,112,465</u>	<u>107,283,797</u>	<u>91,648,351</u>	<u>166,057,699</u>
Fixed income				
Money market funds	109,125	109,135	32,710	49,176
Fixed income - Total Return	87,576,128	71,470,401	82,883,123	85,010,576
Subtotal - fixed income	<u>87,685,253</u>	<u>71,579,536</u>	<u>82,915,833</u>	<u>85,059,752</u>
Total investments	<u>\$ 169,797,718</u>	<u>\$ 178,863,333</u>	<u>\$ 174,564,184</u>	<u>\$ 251,117,451</u>

On August 29, 1997, the Board of Trustees of the Institute resolved to use available funds and future earnings thereon to establish a capital reserve pool. Based upon the intent of the Institute, assets of the capital reserve pool of \$178,863,333 and \$251,117,451 are classified as long-term as of September 30, 2022 and September 24, 2021, respectively. Market values of investments may change for a number of reasons, including changes in prevailing market and interest rates, increases in defaults and credit rating downgrades. See note 5 for further discussion of fair value measurements. Interest and dividends are reinvested into the capital reserve pool.

Total net investment gain for the years ended September 30, 2022 and September 24, 2021, respectively, consists of the following:

	2022	2021
Interest and dividends	\$ 5,617,287	\$ 4,746,409
Realized gains and (losses), net	19,618,747	15,766,291
Unrealized gains and (losses), net	(67,487,652)	34,149,617
Less - investment management expenses	<u>(86,337)</u>	<u>(60,035)</u>
Total net investment gain and (losses)	<u>\$ (42,337,955)</u>	<u>\$ 54,602,282</u>

Total net investment gain is included in investment income on the statement of activities.

# Institute for Defense Analyses

## Notes to Financial Statements

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### 5. Fair value measurements

The Institute previously adopted FASB ASC 820-10, *Fair Value Measurement* which establishes a framework for measuring fair value, establishes a fair value hierarchy based upon the observability of inputs used to measure fair value, and expands disclosures about fair value measurements. Under ASC 820-10, fair value of an investment is the price that would be received to sell an asset or to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 825-10 gives entities the option, at specific elections dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The Institute did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

The hierarchy gives the highest priority to investments with readily available quoted prices in an active market and the lowest priority to unobservable inputs which require a higher degree of judgment when measuring fair value. The three categories of the fair value hierarchy are as follows:

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

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

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

Items not subject to fair value reporting include cash deposits of \$35,711,956 and \$34,933,004 as of September 30, 2022 and September 24, 2021, respectively.

In cases where inputs used to measure fair value fall into different categories within the fair value hierarchy, an investment's level is based on the lowest level of input that is significant to the fair value measurement.

In general, for Level 2 and Level 3 investments, the Institute utilized the investment manager of the asset to provide a valuation estimate based on previously disclosed techniques and processes which have been reviewed by management for propriety and consistency given the asset type and investment strategy. In addition, the Institute may also use established processes for determining the fair value of such securities which reflects the Institute's own assumptions to value the assets as well. Management makes best estimates based on information available. The following estimates and assumptions were used to determine the fair value of each class of financial instrument held by the Institute at September 30, 2022 and September 24, 2021. There have not been any changes to the method used to determine the fair value of the assets and no changes to the level of the assets. The levels associated with the securities are not an indication of the risk associated with investing in those securities.

**Investments** – The assets included are funds purchased to provide returns to the Institute's Capital Reserve Pool as well as money market accounts for the debt service reserve fund associated with the Institute's tax-exempt bonds.

# Institute for Defense Analyses

## Notes to Financial Statements

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**Equities** – Small Cap, International, Large Cap and Natural Resources equity investments include but are not limited to commingled funds that track US and non-US index funds. These funds generally seek results similar to indexes such as the S&P or Russell. These securities are traded in an active market and are priced using available quotes as of the reporting date. They are classified as Level 1.

**Fixed Income** – Total Return include but are not limited to US government and corporate debt securities and commingled funds investing in US government and non-government debt securities. The Institute primarily invests in funds consisting of intermediate term bonds with a moderate risk rating. These assets are traded in an active market and are priced using available quotes as of the reporting date. They are classified as Level 1.

**Money Market** – Cash equivalent consist of investments in money market accounts, which are actively traded. These are priced by independent market prices in the primary trading market and are classified as Level 1.

**Deferred Compensation Plan Assets** – Retirement funds purchased to provide returns to those employees who are participating in the Institute's deferred compensation plan. The plan is administered and investments are restricted to TIAA (Teachers Insurance and Annuity Association), CREF (College Retirement Equities Fund) and TIAA-CREF. The individual investment is selected by the participant and the value of the investment is available to the employee upon termination.

**TIAA Guaranteed Fixed Annuity** – Valued at contract value which is the amount that would be received at the reporting date if amounts were withdrawn or funds transferred prior to maturity. A participant can only withdraw according to predetermined installment plan. Contract value represents fair value. These assets are classified as Level 3 due to lack of observable transactions of similar investment instruments at or around the balance sheet date.

**Pooled Separate Account** – Valued at quoted price of accumulation units held at year end. Transfers out of this account are limited to once per quarter. These assets have a publicly quoted price but are not publicly traded and carry some restrictions with regard to movement in or out of the account and are therefore classified as Level 2.

**CREF Variable Annuities** – These assets include funds that invest in governmental, non-governmental debt securities, stocks and other investments categories that at the quoted price for accumulation units held at the year end. These assets have a publicly quoted price but are not publicly traded and carry some restrictions with regard to movement in or out of the account and therefore classified as Level 2,

**TIAA-CREF Retirement Mutual Funds** – These assets include funds that invest in international equity and other investment categories valued at the NAV of shares held at year end. Because these funds are traded on an active exchange and are valued primarily on the basis of market quotations, official closing prices or other basis of information furnished by a pricing service, they are classified as Level 1.

**Interest Rate Swap Agreements** – The fair value of the interest rate swaps are based on quotes received from the counterparties to the agreements. The Institute does not have access to specific valuation models used by the counterparties; however, the Institute does receive an independent third-party valuation of these agreements. Based on the lack of observable inputs, these agreements are classified as a Level 3.

# Institute for Defense Analyses

## Notes to Financial Statements

The following table presents the Institute's assets and liabilities that are measured at fair value by level within the hierarchy as of September 30, 2022:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments				
Equities:				
Small Cap	\$ 13,684,080	\$ -	\$ -	\$ 13,684,080
International	20,752,090	-	-	20,752,090
Large Cap	64,043,141	-	-	64,043,141
Natural Resources	8,804,486	-	-	8,804,486
Fixed Income:				
Total Return	71,470,401	-	-	71,470,401
Money Market	109,135	-	-	109,135
Subtotal - investments	<u>178,863,333</u>	<u>-</u>	<u>-</u>	<u>178,863,333</u>
Deferred Compensation Plan Assets				
TIAA Guaranteed Fixed Annuities	-	-	988,133	988,133
Pooled Separate Account:				
Real Estate	-	333,971	-	333,971
CREF Variable Annuities:				
Fixed Income	-	275,733	-	275,733
Equities	-	396,202	-	396,202
Other	-	109,403	-	109,403
TIAA-CREF Retirement Class Mutual Funds:				
Target Date Retirement Funds	2,113,585	-	-	2,113,585
Other	723,667	-	-	723,667
Subtotal - deferred compensation	<u>2,837,252</u>	<u>1,115,309</u>	<u>988,133</u>	<u>4,940,694</u>
Total assets at fair value	<u>\$ 181,700,585</u>	<u>\$ 1,115,309</u>	<u>\$ 988,133</u>	<u>\$ 183,804,027</u>
<b>Liabilities:</b>				
Interest Rate Swap Agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,259,317</u>	<u>\$ 2,259,317</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,259,317</u>	<u>\$ 2,259,317</u>

# Institute for Defense Analyses

## Notes to Financial Statements

The following table presents the Institute's assets and liabilities that are measured at fair value by level within the hierarchy as of September 24, 2021:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments				
Equities:				
Small Cap	\$ 19,957,985	\$ -	\$ -	\$ 19,957,985
International	34,024,460	-	-	34,024,460
Large Cap	101,932,996	-	-	101,932,996
Natural Resources	10,142,258	-	-	10,142,258
Fixed Income:				
Total Return	85,010,576	-	-	85,010,576
Money Market	49,176	-	-	49,176
Subtotal - investments	<u>251,117,451</u>	<u>-</u>	<u>-</u>	<u>251,117,451</u>
Deferred Compensation Plan Assets				
TIAA Guaranteed Fixed Annuities	-	-	987,321	987,321
Pooled Separate Account:				
Real Estate	-	285,524	-	285,524
CREF Variable Annuities:				
Fixed Income	-	313,152	-	313,152
Equities	-	505,156	-	505,156
Other	-	144,853	-	144,853
TIAA-CREF Retirement Class Mutual Funds:				
Target Date Retirement Funds	2,324,617	-	-	2,324,617
Other	839,980	-	-	839,980
Subtotal - deferred compensation	<u>3,164,597</u>	<u>1,248,685</u>	<u>987,321</u>	<u>5,400,603</u>
Total assets at fair value	<u>\$ 254,282,048</u>	<u>\$ 1,248,685</u>	<u>\$ 987,321</u>	<u>\$ 256,518,054</u>
<b>Liabilities:</b>				
Interest Rate Swap Agreements	\$ -	\$ -	\$ 7,542,729	\$ 7,542,729
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,542,729</u>	<u>\$ 7,542,729</u>

## Institute for Defense Analyses

### Notes to Financial Statements

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The following table is a reconciliation of the Institute's Level 3 assets and liabilities measured at fair value for the fiscal year ended September 30, 2022:

	<b>Guaranteed Fixed Annuities</b>
Beginning Balance	\$ 987,321
Interest credited	31,664
Total purchases	13,445
Total sales	(44,296)
Ending Balance	<u>\$ 988,133</u>
	<b>Interest Rate Swaps</b>
Beginning Balance	\$ (7,542,729)
Total unrealized gain	5,283,412
Ending Balance	<u>\$ (2,259,317)</u>
Amount of gain recognized on the Statement of Activities	
Total unrealized gain	\$ 5,283,412
Net interest expense	1,194,386

The net interest expense for the swap agreement is a result of interest paid of \$1,348,638 and interest received of \$154,252 which is included as 'Interest' on the Statement of Activities.

The following table is a reconciliation of the Institute's Level 3 assets and liabilities measured at fair value for the fiscal year ended September 24, 2021:

	<b>Guaranteed Fixed Annuities</b>
Beginning Balance	\$ 1,004,759
Interest credited	31,362
Total purchases	351,243
Total sales	(400,043)
Ending Balance	<u>\$ 987,321</u>
	<b>Interest Rate Swaps</b>
Beginning Balance	\$ (10,365,131)
Total unrealized gain	2,822,402
Ending Balance	<u>\$ (7,542,729)</u>
Amount of loss recognized on the Statement of Activities	
Total unrealized gain	\$ 2,822,402
Net interest expense	(1,396,393)

# Institute for Defense Analyses

## Notes to Financial Statements

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The net interest expense for the swap agreement is a result of interest paid of \$1,430,039 and interest received of \$33,646 which is included as 'Interest' on the Statement of Activities.

### 6. Property, plant and equipment

Property and equipment balances as of September 30, 2022 and September 24, 2021 are summarized as follows:

	<b>2022</b>	<b>2021</b>
Land	\$ 15,677,709	\$ 41,341,225
Buildings and improvements	273,973,046	106,253,822
Construction in progress	-	191,601,855
Computer software, equipment, and furniture	44,818,953	35,873,639
	<u>334,469,708</u>	<u>375,070,541</u>
Accumulated depreciation and amortization	(57,061,987)	(90,412,830)
Property, plant and equipment - net	<u>\$ 277,407,721</u>	<u>\$ 284,657,711</u>

On December 21, 2021, the Institute moved into its new headquarters in Alexandria, Virginia, at the Potomac Yards Metro Station, which triggered the need to vacate the prior headquarters at 4850 Mark Center Drive in Alexandria, Virginia. As of September 30, 2022, the Institute owned two asset groups associated with the prior headquarters that met all of the criteria under ASC 360-10-45-9 (Long-Lived Assets Classified as Held for Sale).

The Institute's prior headquarter located at 4850 Mark Center Drive in Alexandria, Virginia met the held for sale criteria on January 16, 2022. The Institute transferred the carrying value of the prior headquarters totaling \$39,120,262 from property, plant and equipment to a held for sale asset. In addition, \$10,262,433 was reclassified from prepaid expense to the held for sale asset.

A parcel of land adjacent to the prior headquarters located at 4880 Mark Center Drive in Alexandria, Virginia, met the held for sale criteria on April 15, 2022. The Institute transferred the carrying value of the parcel of land totaling \$17,612,926 from property, plant and equipment to a held for sale asset. For the year ended September 30, 2022, the Institute recorded a valuation loss of \$7,662,926 on the asset held for sale. The loss is reported as 'Other Costs' in the statement of activities.

The held for sale balances as of September 30, 2022 and September 24, 2021 are as follows:

	<b>2022</b>	<b>2021</b>
Prior headquarters	\$ 49,382,695	\$ -
Parcel of land	9,950,000	-
Held for sale assets	<u>\$ 59,332,695</u>	<u>\$ -</u>

The Institute intends to complete the sale of these held for sale assets within the upcoming year.

# Institute for Defense Analyses

## Notes to Financial Statements

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### 7. Debt

Debt as of September 30, 2022 and September 24, 2021, is as follows:

	2022	2021
<p>New Jersey Education Facilities Authority (NJEFA) Variable Rate Revenue Bonds, Series 2000D issued in the original principal amount of \$16,695,000, a new principal amount of \$11,070,000 in fiscal year 2016, and new principal amount of \$7,865,000 in fiscal year 2019 in connection with the construction of an office building in Princeton, New Jersey, November 16, 2000; interest payments are monthly resulting in a weighted average interest rate of 0.8444%; annual principal payments ranging from \$500,500 to \$705,000 beginning October 1, 2016 and ending October 1, 2030. In FY22, IDA retired this debt prior to the maturity date.</p>	\$ -	\$ 6,662,605
<p>California Association of Bay Area Government (ABAG) Authority Variable Rate Revenue Bonds Series 2005 issued in the original principal amount of \$11,945,000 and the new principal amount of \$10,750,000 in fiscal year 2016 to finance the expansion and renovation of the Center for Communication Research (CCR) La Jolla facility on September 1, 2005; interest payments are monthly resulting in a weighted average interest rate of 0.8444%; annual principal payments ranging from \$2,000,000 to \$2,310,000 beginning October 1, 2031 to October 1, 2035. In FY22, IDA retired this debt prior to the maturity date.</p>	-	10,628,698
<p>The Industrial Development Authority of the City of Alexandria Variable Rate Revenue Bonds Series 2015A issued in the original principal amount of \$69,935,000 for purposes of (i) refunding Series 2000B issued in the principal amount of \$26,445,000 in connection with the construction of the Institute's headquarter facility in Alexandria on June 1, 2000 (ii) refunding Series 2005 issued in the original principal amount \$53,925,000 for the purpose of advance refunding of Series 2000A (iii) refunding Series 2006 issued in the original principal amount \$14,875,000 in connection with the acquisition of land at the Institute's headquarters facility in Alexandria on March 1, 2006; interest payments are monthly resulting in a weighted interest rate of 0.8444%; annual principal payments ranging from \$2,663,000 to \$2,840,000 beginning October 1, 2016 and ending October 1, 2035. In FY22, IDA retired this debt prior to the maturity date.</p>	-	12,854,034
<p>The Industrial Development Authority of the City of Alexandria Variable Rate Revenue Bonds Series 2019 issued in the principal amount of \$249,400,000 in connection with the construction of the Institute's new headquarters facility in Alexandria issued on August 8, 2019 ; interest payments are monthly resulting in a weighted interest rate of 1.5925%; annual principal payments ranging from \$2,870,000 to \$10,000 beginning October 1, 2023 and ending October 1, 2054.</p>	246,888,614	221,397,419
	\$ 246,888,614	\$ 251,542,756

# Institute for Defense Analyses

## Notes to Financial Statements

Total debt and unamortized debt issuance cost as of September 30, 2022 and September 24, 2021:

	2022			2021		
	Debt	Unamortized Debt Issuance Cost	Debt less Unamortized Issuance Cost	Debt	Unamortized Debt Issuance Cost	Debt less Unamortized Issuance Cost
New Jersey Education Facilities Authority Variable Rate Revenue Bond Series 2000D	\$ -	\$ -	\$ -	\$ 6,755,000	\$ 92,395	\$ 6,662,605
California Association of Bay Area Government Authority Variable Rate Revenue Bond Series 2005	-	-	-	10,750,000	121,302	10,628,698
The Industrial Development Authority of the City of Alexandria Variable Rate Revenue Bond Series 2015A	-	-	-	13,385,000	530,966	12,854,034
The Industrial Development Authority of the City of Alexandria Variable Rate Revenue Bond Series 2019	<u>249,400,000</u>	<u>2,511,386</u>	<u>246,888,614</u>	<u>223,824,707</u>	<u>2,427,288</u>	<u>221,397,419</u>
	<u>\$ 249,400,000</u>	<u>\$ 2,511,386</u>	<u>\$ 246,888,614</u>	<u>\$ 254,714,707</u>	<u>\$ 3,171,951</u>	<u>\$ 251,542,756</u>

The Institute's debt is primarily financed with tax-exempt variable rate bonds which are privately held by Truist Bank.

In 2019, the Institute issued \$249,400,000 of tax-exempt variable rate bonds to finance the construction of a new headquarters facility. These bonds are structured as a bank drawdown facility. The bond proceeds are made available to the Institute through periodic draws during construction period up to \$249,400,000. The Institute recognized debt associated with the Series 2019 bonds of \$249,400,000 and \$223,824,707 for September 30, 2022 and September 24, 2021, respectively. These amounts are reflected on the balance sheet as long-term debt. These bonds are also privately held by Truist Bank and carry an interest rate of 79% of 1-month Libor plus not more than 1.10%. Interest is calculated and paid monthly on the recognized debt balance.

In October 2019, the Institute entered into an agreement for the City of Alexandria to lease, with a purchase option, the building located at 4850 Mark Center Drive. As a result of this agreement, the Institute refinanced a portion of the tax-exempt Industrial Development Authority of the City of Alexandria Variable Rate Bond Series 2015A with a variable rate term loan held by Truist in the amount of \$47,030,000. Proceeds from the loan were used to extinguish a portion of the bond in 2019. The remainder of the proceeds were for commissions and other cost associated with the agreement. The note is a seven-year variable rate note, maturing October 1, 2026 with an interest rate of One-Month LIBOR plus 1.05%. The outstanding long-term debt associated with the variable rate note was \$37,420,000 and \$40,745,000 as of September 30, 2022 and September 24, 2021, respectively. These amounts are reflected on the balance sheet as notes payable.

The Institute holds a variable rate term-loan to be used for renovation of the prior headquarters located at 4850 Mark Center Drive. In November 2021, the Institute secured the drawdown term loan for a maximum principal amount of \$27,400,000 at a rate of One-Month SOFR plus 1.10% with the term amount due on October 1, 2026. As of September 30, 2022, the Institute has drawn \$5,308,874 against this term loan.

# Institute for Defense Analyses

## Notes to Financial Statements

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In fiscal year 2022, the Institute liquidated \$30,000,000 of capital reserve to extinguish the New Jersey Education Facilities Authority Variable Rate Revenue Bond Series 2000D, California Association of Bay Area Government Authority Variable Rate Revenue Bond Series 2005, and The Industrial Development Authority of the City of Alexandria Variable Rate Revenue Bond Series 2015A. The unamortized debt issuance cost associated with the extinguished bonds has been recognized as a loss and is included in Other Costs in the amount of \$691,881.

The bonds require that the Institute meet certain financial covenants, including maintaining a debt service coverage ratio of 1.1 to 1.0 and certain other liquidity ratios at the end of each fiscal year. These bonds are uncollateralized as long as the Institute satisfy the financial covenants. Interest expense related to long-term debt was \$5,274,642 and \$2,202,892 for the years ended September 30, 2022 and September 24, 2021, respectively. In the opinion of management, the Institute was in compliance with all covenants of the bonds as of September 30, 2022 and September 24, 2021.

The annual bond and notes payable payments required are as follows:

Fiscal Year	Total
2023	\$ 3,440,730
2024	7,019,096
2025	7,177,584
2026	10,387,232
2027	33,598,088
Thereafter	<u>233,831,144</u>
	<u>\$ 295,453,874</u>

### 8. Interest rate swap

During the year ending September 30, 2005, the Institute entered into three interest rate swap agreements to effectively fix interest rates on outstanding variable debt. Two of the Swap agreements were initially entered to effectively add a fixed rate component to the series 2005A bond, which was retired in the current fiscal year. Both agreements are in the amount of \$14,130,000 and carry a fixed rate of 3.475% which the Institute pays. In return, the Institute receives interest based on a variable rate equal to the USD-BMA municipal Swap Index. The agreements are set to expire October 1, 2030.

The third Swap agreement was entered to hedge \$11,945,000 of the ABAG Series 2005 Bond, which was retired in the current fiscal year. The Swap agreement carries a fixed rate of 3.416% which the Institute pays. In return the Institute receives interest based on a variable rate equal to 70% of LIBOR. The agreement is set to expire October 1, 2035.

The Swaps are recognized as Interest Rate Swap Agreements at fair value in the Balance Sheet. The changes in fair value are recorded as unrealized gains or losses in the Statement of Activities. The fair value of the swap agreements was \$(2,259,317) as of September 30, 2022 and \$(7,542,729) as of September 24, 2021. The Swaps resulted in unrealized gain of \$5,283,412 for September 30, 2022 and an unrealized gain of \$2,822,402 for September 24, 2021.

# Institute for Defense Analyses

## Notes to Financial Statements

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### 9. Commitments and contingencies

The Institute has an operating lease for the rental of office space with noncancellable remaining terms of more than one year. The operating lease expires by the year 2029.

Minimum annual rental commitments are as follows:

#### Fiscal years

2023	\$ 1,302,225
2024	1,331,471
2025	1,361,457
2026	1,392,137
2027	1,423,419
Thereafter	2,565,346
	<u>\$ 9,376,055</u>

Operating lease rent expense was \$1,219,641 and \$1,219,641 for the years ended September 30, 2022 and September 24, 2021.

The Institute maintains a revolving credit agreement maturing on March 10, 2024, that allows borrowings up to \$29,236,732. The agreement is not collateralized; however, so long as the agreement is in effect, the Institute may not encumber its accounts receivables which must remain free and clear of all liens, encumbrances and pledges. Interest accrues on outstanding balances at the Institute's choice of the London Inter-Bank Offered Rate plus the applicable Interest Margin, as defined, or prime rate minus one-half of one percent. The Agreement requires the Institute to maintain a net worth of not less than \$75,000,000 and certain financial ratios. As of September 30, 2022 and September 24, 2021, the Institute had no outstanding borrowings under this agreement. The Institute also has a compensating balance agreement of \$5,000,000.

### 10. Postretirement benefits

#### Defined contribution retirement plan

The Institute maintains a defined contribution retirement plan in which eligible employees participate. Under the Plan, the Institute contributes a fixed percentage of participating employees' eligible compensation to an insurance company or a mutual fund to purchase annuities or mutual fund units of participation. The Plan requires a six-month waiting period for all new employees. Contributions vest fully after two years' service. The Institute funds retirement costs as they accrue. Institute contributions to the Plan were \$16,406,208 and \$15,591,808 for the years ended September 30, 2022 and September 24, 2021, respectively.

#### Other postretirement benefits

The Institute provides limited medical insurance benefits for eligible retirees. Employees with 15 years' service who retire after age sixty-two may continue their medical insurance at group rates until age sixty-five. The Institute accrues the cost of postretirement benefits during each employee's service. It funds postretirement benefits on a pay-as-you-go basis. The measurement date is October 1, 2021.

# Institute for Defense Analyses

## Notes to Financial Statements

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In accordance with provisions of FASB ASC 715-60 and 958-715-25, the Institute recognizes the funded status of a defined benefit postretirement plan on the Balance Sheet. An overfunded plan is recognized as an asset and an underfunded plan is recognized as a liability. The Institute uses the FTSE Pension Discount Curve to determine the discount rate.

The accumulated postretirement benefit obligation for the years ended September 30, 2022 and September 24, 2021 are as follows (in thousands):

	<b>2022</b>	<b>2021</b>
Accumulated postretirement benefit obligation at the beginning of year	\$ 5,785	\$ 5,563
Service cost	475	464
Interest cost	135	123
Plan participants' contribution	35	19
Actuarial gain (loss)	(1,750)	(162)
Benefits paid	(233)	(222)
Accumulated postretirement benefit obligation at the end of year	<u>\$ 4,447</u>	<u>\$ 5,785</u>

The plan assets for the years ended September 30, 2022 and September 24, 2021 were (in thousands):

	<b>2022</b>	<b>2021</b>
Fair value of plan assets at beginning of year		
Employer contribution	198	\$ 203
Plan participants' contribution	35	19
Benefits paid	(233)	(222)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

The Institute's policy is to fund postretirement benefits as payments are made.

Funded status of benefit plan as of September 30, 2022 and September 24, 2021 were (in thousands):

	<b>2022</b>	<b>2021</b>
Fair value of plan assets		
Funded status	\$ (4,447)	\$ (5,785)
Unrecognized net actuarial loss	-	-
Unrecognized prior service cost	-	-
Accrued postretirement liability reflected in the accrued postretirement benefits costs	<u>\$ (4,447)</u>	<u>\$ (5,785)</u>

# Institute for Defense Analyses

## Notes to Financial Statements

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The components of the net periodic benefit cost and amounts recognized in net assets without restrictions for the years ended September 30, 2022 and September 24, 2021 were (in thousands):

	<b>2022</b>	<b>2021</b>
Service cost	\$ 475	\$ 464
Interest cost	135	123
Amortization of (gain)	-	-
Amortization of prior service cost	(12)	(12)
Recognized net actuarial loss	<u>-</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 598</u>	<u>\$ 575</u>
	<b>2022</b>	<b>2021</b>
Prior year unrecognized amounts in unrestricted net assets	\$ (265)	\$ (115)
Current year unrecognized (gain)	(1,923)	(173)
Current year unrecognized prior service cost/(credit)	(80)	(92)
Current year unrecognized transition obligation	<u>-</u>	<u>-</u>
Total unrecognized current year in unrestricted net assets	<u>\$ (2,003)</u>	<u>\$ (265)</u>
Change in unrestricted net assets	\$ (1,738)	\$ (150)

The assumptions used to determine the benefit obligation for 2022 and 2021 are as follows:

	<b>2022</b>	<b>2021</b>
Discount rate - weighted average	5.25%	2.50%
Assumed health care cost trend rate	7.50%	6.50%
Ultimate trend rate	4.5%	5.0%
Year that the rate reaches the ultimate trend rate	2033	2027
Assumed dental cost trend rate	4.00%	4.00%
Ultimate trend rate	4.00%	4.00%
Year that the rate reaches the ultimate trend rate	2023	2022

The assumptions used to determine the net periodic benefit cost for 2022 and 2021 are as follows:

	<b>2022</b>	<b>2021</b>
Discount rate - weighted average	2.50%	2.25%
Assumed health care cost trend rate	6.50%	6.50%
Ultimate trend rate	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2027	2027
Assumed dental cost trend rate	4.00%	4.00%
Ultimate trend rate	4.00%	4.00%
Year that the rate reaches the ultimate trend rate	2022	2021

# Institute for Defense Analyses

## Notes to Financial Statements

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The assumed medical cost trend rate for next year is 7.5% and the assumed dental trend rate for next year is 4.0%. The pattern of change for the medical cost rate is -0.5% every year to 5%, then 0.25% thereafter.

The ultimate trend rate is expected to be achieved for medical cost in 2033 and for dental cost in 2023. The assumed health care cost trend rates have a significant effect on the amounts reported for health care plans.

Amounts recognized in net assets without restrictions (in thousands):

	2022	2021
Net actuarial (gain)	\$ (1,923)	\$ (173)
Prior service credit	<u>(80)</u>	<u>(92)</u>
Net periodic benefit cost	<u>\$ (2,003)</u>	<u>\$ (265)</u>

Estimated amount that will be amortized from net assets without restrictions into net periodic benefit cost in 2023 (in thousands):

	2023
Actuarial loss/(gain)	\$ -
Prior service cost/(credit)	<u>(12)</u>
Total	<u>\$ (12)</u>

### Cash Flows

#### *Contributions*

The Institute expects to contribute approximately \$16,939,410 to its defined contribution retirement plan and to spend approximately \$233,000 on its other postretirement medical benefit plan in 2023.

#### *Estimated Future Postretirement Benefit Payments*

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next fiscal years ending as of September:

2023	\$ 283,720
2024	319,563
2025	420,855
2026	489,470
2027	513,804
Years 2028-2032	1,409,692

### Deferred compensation

The Institute provides a deferred compensation plan for trustees and certain key employees regulated by Section 457(b) of the Internal Revenue Code. The plan is funded through participant deferrals with no additional contributions from the Institute. Plan assets consist of money market funds and equity securities and are held for the benefit of the participant. Assets are recorded at fair value based upon quoted market prices, and are included in prepaid expenses and other current assets. The related liability is included in accrued pension costs. At September 30, 2022 and September 24, 2021, deferred compensation was \$4,940,694 and \$5,400,602, respectively.

# Institute for Defense Analyses

## Notes to Financial Statements

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### 11. Functional classification of expenses

Total operating expenses for the years ended September 30, 2022 and September 24, 2021 consist of:

	2022	2021
Research and development		
Program and non-program costs	\$ 209,849,214	\$ 175,936,985
Support costs, principally general and administrative	89,472,223	71,608,441
	<u>\$ 299,321,437</u>	<u>\$ 247,545,426</u>

### 12. Natural classification of expenses

Total operating expenses for the year end September 30, 2022 consist of:

	Program Expenses	Non- Program Expenses	Management and General	Total
Salaries	\$ 114,319,332	\$ 731,774	\$ 35,619,066	\$ 150,670,172
Benefits	44,979,468	(367,719)	15,380,678	59,992,427
Travel	5,886,818	653,656	881,414	7,421,888
Materials	8,358,015	47,671	3,735,864	12,141,550
Consultants/Subcontractors	2,785,849	104,754	272,660	3,163,263
Facilities	6,240,401	674,917	17,072,111	23,987,429
Services	4,077,389	1,657,236	13,359,269	19,093,894
Other	505,375	13,910,725	2,367,539	16,783,639
Insurance	-	8,911	783,622	792,533
Interest	-	5,274,642	-	5,274,642
	<u>\$ 187,152,647</u>	<u>\$ 22,696,567</u>	<u>\$ 89,472,223</u>	<u>\$ 299,321,437</u>

# Institute for Defense Analyses

## Notes to Financial Statements

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Total operating expenses for the year end September 24, 2021 consist of:

	<b>Program Expenses</b>	<b>Non- Program Expenses</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 108,093,582	\$ 230,591	\$ 32,129,031	\$ 140,453,204
Benefits	45,429,608	438,681	14,960,707	60,828,996
Travel	1,794,761	99,219	345,707	2,239,687
Materials	5,546,343	17,133	3,768,198	9,331,674
Consultants/Subcontractors	2,322,669	3,938	163,861	2,490,468
Facilities	5,696,320	105,146	8,300,013	14,101,479
Services	2,528,968	173,962	10,243,181	12,946,111
Other	344,525	899,736	1,145,068	2,389,329
Insurance	-	8,911	552,675	561,586
Interest	-	2,202,892	-	2,202,892
	<u>\$ 171,756,776</u>	<u>\$ 4,180,209</u>	<u>\$ 71,608,441</u>	<u>\$ 247,545,426</u>

Program expenses are directly related to the Institute's current contracts. Non-program expenses are ordinary and necessary business expenses which are not allowed to be charged directly or indirectly to a government contract. Management and general administrative expenses are related to both contract and non-contract functions. Benefit costs are allocated as a percentage of salary expense.

### 13. Liquidity and availability of financial assets

Financial assets and liquidity resources available within one year to meet cash needs for general operating expenditures consist of cash of \$35,711,956, accounts receivable of \$33,006,576, and Investments of \$178,863,333 as of September 30, 2022. The Institute also has an available line of credit of \$29,236,732.

### 14. Subsequent events

The Institute has evaluated its September 30, 2022 financial statements for subsequent events through February 17, 2023 which is the date the financial statements were available to be issued, noting no subsequent events which require recognition or disclosure in the financial statements.

**Institute for Defense Analyses  
Schedule of Expenditures of Federal Awards  
For the year ended September 30, 2022**

<u>Federal Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Pass-through Entity</u>	<u>Pass-through Entity Award number</u>	<u>Federal Expenditures</u>	<u>Pass-through to Subrecipients</u>
<u>RESEARCH AND DEVELOPMENT CLUSTER</u>						
<u>Department of Defense</u>						
Washington Headquarters Service Acquisition Directorate	12.RD	HQ0034-14-D-0001			\$ (25,182)	\$ -
Washington Headquarters Service Acquisition Directorate (Studies & Analyses FFRDC)	12.RD	HQ0034-19-D-0001			197,983,086	-
Maryland Procurement Office (Communications & Computing FFRDC)	12.RD	H98230-16-D-0030			74,758,952	-
IPA-Intergovernmental Personnel Act Direct Awards Subtotal	12.RD	Various			177,549	-
					<u>272,894,405</u>	<u>-</u>
Naval Sea Systems Command	12.RD	178274	Johns Hopkins University/Applied Physics Lab	N00024-22-D-6404	4,864	-
Naval Sea Systems Command	12.RD	164528	Johns Hopkins University/Applied Physics Lab	N00024-13-D-6400	9,398	-
Washington Headquarters Service Acquisition	12.RD	171886	Johns Hopkins University/Applied Physics Lab	HQ0034-19-D0006	522,364	-
Washington Headquarters Service Acquisition	12.RD	R1362	Dartmouth College	HQ0034-20-1-0001	84,128	-
Washington Headquarters Service Acquisition	12.RD	S0000477-DHP	Pennsylvania State University	HQ0034-20-1-0002	86,144	-
					<u>273,601,303</u>	<u>-</u>
<u>TOTAL DEPARTMENT OF DEFENSE</u>						
<u>Central Intelligence Agency</u>						
ODNI (E12)	13.RD	2020-20060500401			1,355,649	-
					<u>1,355,649</u>	<u>-</u>
<u>TOTAL CENTRAL INTELLIGENCE AGENCY</u>						
<u>National Aeronautics and Space Administration</u>						
NASA	43.RD	80NSSC20P2164			120	-
					<u>120</u>	<u>-</u>
<u>TOTAL NASA</u>						
<u>Department of Energy</u>						
Department of Energy	81.RD	529587	Savannah River Nuclear Solutions	DE-AC09-08SR22470	266,009	-
					<u>266,009</u>	<u>-</u>
<u>TOTAL DEPARTMENT OF ENERGY</u>						
<u>National Science Foundation</u>						
Office of Science and Technology Policy Institute (Science and Technology Policy Institute FFRDC)	47.RD	OIA-0408601			11,608,127	-
					<u>11,608,127</u>	<u>-</u>
<u>TOTAL NATIONAL SCIENCE FOUNDATION</u>						
<u>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</u>						
					<u>286,831,208</u>	<u>-</u>
<b>TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>					<b>\$ 286,831,208</b>	<b>\$ -</b>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

**Institute for Defense Analyses**  
**Notes to the Schedule of Expenditures of Federal Awards For the year ended**  
**September 30, 2022**

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**1. Presentation and Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) for the Institute for Defense Analyses (IDA) has been prepared on the accrual basis of accounting which conforms to accounting principles generally accepted in the United States of America and is consistent with the IDA's basic financial statements. The information in this Schedule is presented in accordance with the requirements of applicable guidance, therefore some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered directly between IDA and agencies and departments of the federal government and all sub-awards to IDA by non-federal organizations pursuant to federal grants, contracts and similar agreements. For the purpose of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting.

Negative numbers in the schedule represent adjustments to amounts previously reported in the normal course of business.

**2. Indirect Cost Rate**

The Institute has negotiated an indirect cost rate with the Defense Contract Management Agency as our cognizant agency for indirect costs. As such, the Institute did not elect to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Part II**  
**Reports on Compliance and Internal Control**



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

To the Board of Trustees of the  
Institute for Defense Analyses

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Institute for Defense Analyses ("the Institute"), which comprise the balance sheet as of September 30, 2022, and the related statement of activities and of cash flows for the year then ended, including the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated February 17, 2023.

***Report on Internal Control Over Financial Reporting***

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

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

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



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

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

### **Purpose of this Report**

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

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

Washington, District of Columbia  
February 17, 2023



## **Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees of the  
Institute for Defense Analyses

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

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

We have audited the Institute of Defense Analyses' ("the Institute") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Institute's major federal program for the year ended September 30, 2022. The Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Institute complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2022.

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

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

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

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

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



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

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

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

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

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

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

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

### **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not



be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

A handwritten signature in black ink that reads "Pricewaterhousecoopers up".

Washington, District of Columbia  
June 29, 2023

**Part III**  
**Findings**

**Institute for Defense Analyses**  
**Schedule of Findings and Questioned Costs**  
**For the year ended September 30, 2022**

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

*Financial Statements*

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? \_\_\_\_\_ yes \_\_\_\_\_ x \_\_\_\_\_ no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes \_\_\_\_\_ x \_\_\_\_\_ none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes \_\_\_\_\_ x \_\_\_\_\_ no

*Federal Awards*

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes \_\_\_\_\_ x \_\_\_\_\_ no

Identification of major programs: CFDA Number(s)	Name of Federal Program or Cluster
Various	Research and Development Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	___yes <span style="margin-left: 100px;"><u>X</u>no</span>

**Institute for Defense Analyses**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended September 30, 2022**

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**Section II – Financial Statement Findings**

There are no financial statement findings that require reporting.

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

There are no federal award findings and questioned costs that require reporting.

**Institute for Defense Analyses**  
**Summary Schedule of Prior Audit Findings**  
**For the year ended September 30, 2022**

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**Section II – Financial Statements**

There were no audit findings from prior year.

**Section III – Federal Awards**

There were no findings or questioned costs from prior year.