

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 29, 2023

EIN#: 53-0233247

Institute for Defense Analyses

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September 29, 2023

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Part I

**Financial Statements and Schedule of
Expenditures of Federal Awards
For the year ended September 29, 2023**



Report of Independent Auditors

To the Board of Trustees of the Institute for Defense Analyses

Report on the Audit of 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 29, 2023 and September 30, 2022, 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 29, 2023 and September 30, 2022, 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 are 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 29, 2023 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 26, 2024 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 29, 2023. 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 LLP".

Washington, District of Columbia
February 26, 2024

Institute for Defense Analyses
Balance Sheets
As of September 29, 2023 and September 30, 2022

<i>(in thousands)</i>	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 31,136	\$ 35,712
Accounts receivable, net	34,425	33,007
Prepaid and other current assets	14,896	16,588
Assets held-for-sale	-	59,333
Total current assets	<u>\$ 80,457</u>	<u>\$ 144,640</u>
Noncurrent Assets:		
Property and equipment, net	271,389	277,408
Investments	199,835	178,863
Right of use assets	6,909	837
Total assets	<u>\$ 558,590</u>	<u>\$ 601,748</u>
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 8,546	\$ 20,404
Accrued compensation and benefits	29,028	20,145
Current portion of bonds payable	2,870	-
Current portion of notes payable	-	3,441
Current portion of lease liabilities	1,068	-
Accrued postretirement benefits	6,458	5,539
Total current liabilities	<u>47,970</u>	<u>49,529</u>
Noncurrent Liabilities:		
Long-term bonds payable	244,105	246,889
Long-term notes payable	-	42,613
Accrued postretirement benefits	4,155	4,170
Long-term lease liabilities	6,131	-
Other noncurrent liabilities	1,085	2,259
Total liabilities	<u>303,446</u>	<u>345,460</u>
Net Assets without Restrictions:	<u>255,144</u>	<u>256,288</u>
Total liabilities and net assets	<u>\$ 558,590</u>	<u>\$ 601,748</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 29, 2023 and September 30, 2022

<i>(in thousands)</i>	<u>2023</u>	<u>2022</u>
Revenue:		
Revenue from operations	\$ 312,235	\$ 286,954
Operating Expenses:		
Program expenses	201,786	187,152
Non-program expenses	37,651	22,697
Management and administrative	<u>96,132</u>	<u>89,472</u>
Total operating expenses	335,569	299,321
Operating loss	\$ (23,334)	\$ (12,367)
Investment and Other Income (Loss):		
Net investment income (loss)	\$ 20,972	\$ (42,338)
Unrealized gain on swap agreements	1,175	5,283
Miscellaneous income	<u>43</u>	<u>65</u>
Total investment and other income (loss)	\$ 22,190	\$ (36,990)
Change in net assets	\$ (1,144)	\$ (49,357)
Net assets, beginning of year	<u>256,288</u>	<u>305,645</u>
Net assets, end of year	<u>\$ 255,144</u>	<u>\$ 256,288</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 29, 2023 and September 30, 2022

<i>(in thousands)</i>	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (1,144)	\$ (49,357)
Adjustments to reconcile change in net assets to cash and cash equivalents provided by (used in) operating activities		
Provision for bad debts	400	-
Loss on assets held-for-sale	5,584	7,663
Loss on disposal of property and equipment	9	261
Depreciation and amortization	12,779	11,099
Unrealized (gain)/loss on investments	(14,986)	67,488
Realized gain on investments	(508)	(19,619)
Unrealized gain on swap agreements	(1,175)	(5,283)
Amortization of right of use assets	36	36
Amortization of bond issuance costs	86	167
Loss on extinguishment of debt	-	692
Increase/(decrease) resulting from changes in assets and liabilities		
Accounts receivables	(1,818)	(5,273)
Prepaid expenses and other current assets	1,691	1,346
Accounts payable and accrued expenses	(10,997)	(804)
Accrued salaries	7,992	(2,413)
Accrued interest payable	231	498
Accrued leave	891	(822)
Accrued pension costs	920	(762)
Accrued postretirement benefit costs	(15)	(1,323)
Net cash and cash equivalents (used in) provided by operating activities	<u>\$ (24)</u>	<u>\$ 3,594</u>
Cash flows from investing activities:		
Purchases of investments, net	(6,465)	(61,430)
Proceeds from sales of investments	3	85,815
Proceeds from maturity of investments	985	-
Purchases of property and equipment	(11,783)	(68,624)
Proceeds from sale of property and equipment	58,762	16
Net cash and cash equivalents provided by (used in) investing activities	<u>41,502</u>	<u>(44,223)</u>
Cash flows from financing activities:		
Payments on notes	(46,054)	(3,780)
Proceeds from issuance of notes	-	5,309
Proceeds from issuance of bonds	-	25,575
Extinguishment of debt	-	(30,310)
Payment of bond issuance costs	-	(198)
Net cash and cash equivalents used in financing activities	<u>(46,054)</u>	<u>(3,404)</u>
Net decrease in cash and cash equivalents	(4,576)	(44,033)
Cash and cash equivalents at beginning of year	35,712	79,745
Cash and cash equivalents at end of year	<u>\$ 31,136</u>	<u>\$ 35,712</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 12,655	\$ 4,777
Capital expenditures in accounts payable	638	7,764
Prepaid expenses reclassified to held for sale asset	-	10,262

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

Institute for Defense Analyses

Notes to Financial Statements

(in thousands)

1. BUSINESS OVERVIEW

The Institute for Defense Analyses (the "Institute") is a nonprofit Delaware corporation headquartered in Alexandria, Virginia, with offices throughout the United States. The Institute was founded in 1956 for purposes of answering the most challenging U.S. security and science policy questions with objective analysis leveraging extraordinary scientific, technical and analytic expertise. The Institute's primary source of revenue is from operating three federally-funded research and development centers ("FFRDC").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Institute prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). 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 29, 2023; the prior fiscal year ended on September 30, 2022.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis, including those relating to estimated profitability of long-term contracts, indirect billing rates, allowances for doubtful accounts, fair value measurements, pension benefits and liabilities and contingencies. These estimates have been prepared by management on the basis of the most current and best available information; however, actual results could differ materially from those estimates.

Prior Period Reclassifications

Certain amounts in prior periods have been reclassified to conform with current year presentation.

Cash and 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.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable include amounts billed and currently due from sponsors and unbilled costs. Unbilled receivables include amounts earned but not yet billed.

Receivables are stated at estimated realizable value and consist of costs and fees, substantially all of which are expected to be billed and collected within one year. Amounts billable also include rate variances that are billable upon negotiation of final indirect rates with the U.S. Government ("USG") and, once billed, are subject to audit and approval by federal government representatives.

Receivables include an allowance for estimated uncollectible accounts to reflect any loss anticipated on the accounts receivable balance, which is charged to the provision for doubtful accounts. The allowance is calculated based on the Institute's history of write-offs, level of past-due accounts, and/or other known factors.

Institute for Defense Analyses

Notes to Financial Statements

(in thousands)

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 statements of activities.

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.

On February 21, 2023, and March 13, 2023, the Institute closed on the sale of the previous headquarters and land, respectively. Gross sales for the previous headquarters and adjacent land totaled \$66,950 resulting in a total loss of \$5,584 and \$7,663 in 2023 and 2022, respectively. Gross proceeds were \$58,762, as a result of a \$8,188 of buyer’s credit for uncompleted renovations.

Property and Equipment

Property and equipment are recorded at cost, including capitalized interest on construction-in-progress. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

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

The cost of software (including cloud-based software) purchased or internally developed is capitalized, as appropriate, and includes external direct costs of material and services (including certain implementation services) and payroll costs for employees devoting time to the software projects. These costs are amortized over a period of 3 or 5 years, if not a cloud-based software, or over the service period if a cloud-based software, beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

The Institute reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When a triggering event occurs, the Institute will estimate the fair value of the asset group. If the total of the expected undiscounted future net cash flows is less than the carrying amount of the asset to estimate the fair value, a loss is recognized for any excess of the carrying amount over the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

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.

Institute for Defense Analyses

Notes to Financial Statements

(in thousands)

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 did not have any capitalized interest for the fiscal year ended September 29, 2023. The Institute had \$517 of capitalized interest for the fiscal year ended September 30, 2022.

Tax-Exempt Bonds

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 a portion of 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.

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.

Compensated Absences

The Institute accrues for compensated absences as earned by the employee. The Institute permits employees to accumulate unused leave subject to certain limitations. The Institute pays employees for unused leave at termination or retirement.

Leases

The Institute leases certain office space and property under various operating leases. The Institute determines if an arrangement is or contains a lease at the lease inception date by evaluating whether the arrangement conveys the right to use an identified asset and whether the Institute obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. Leases with initial term of twelve months or less are not recorded on the balance sheets.

At the lease commencement date, the Institute recognizes a lease liability and a right of use ("ROU") asset representing its right to use the underlying asset over the lease term. The initial measurement of the lease liability is calculated on the basis of the present value of the remaining lease payments and the ROU asset is measured on the basis of this liability, adjusted by prepaid and accrued rent, lease incentives, and initial direct costs. The subsequent measurement of a lease is dependent on whether the lease is classified as an operating lease or a finance lease. Operating lease cost is recognized on a straight-line basis over the lease term, with the cost presented as components of program and non-program expenses, in the statements of activities.

The Institute's leases require other payments such as costs related to service components, real estate taxes, common area maintenance, and insurance. These costs are generally variable in nature and based on the actual costs incurred and required by the lease. As the Institute has elected to not separate lease and non-lease components for all classes of underlying asset, all variable costs associated with the lease are expensed in the period incurred and presented and disclosed as variable lease costs. The Institute's lease agreements do not contain any material residual value guarantees or material restrictive financial covenants. The Institute does not have any leases that have not yet commenced that create significant rights and obligations for the lessee.

Institute for Defense Analyses

Notes to Financial Statements

(in thousands)

As of September 29, 2023, the Institute's leases have remaining terms ranging from 7 to 24 years, with some of those leases including options that grant the Institute the ability to renew or extend the lease term. When determining the lease term, the Institute does not include renewal options unless the renewals are deemed to be reasonably certain of being exercised at the lease commencement date.

Topic 842 requires that a lessee use the rate implicit in the lease when measuring the lease liability and ROU asset, unless that rate is not readily determinable. If the rate implicit in the lease is not readily determinable, a lessee uses its incremental borrowing rate. A lessee that is not a public business entity is permitted to use a risk-free discount rate for the lease instead of its incremental borrowing rate, determined using a period comparable with that of the lease term, as an accounting policy election made by class of underlying asset, the Institute has made this accounting policy election.

Further details of the Institute's operating leases are at Note 10.

Net Assets

Net assets represent the accumulated excess of operating revenue and other income over total costs and expenses.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, or services have been rendered, the fee is fixed or determinable, and collectability is reasonably assured.

Substantially, all revenue is derived from services and solutions provided to the USG. The Institute generates nearly all of its revenue from cost reimbursable plus fee contracts.

Revenue on cost reimbursable plus fee contracts is recognized as services are performed, generally based on the allowable costs incurred during the period, plus any recognizable earned fees.

Contract accounting requires significant judgment relative to assessing risks, estimating contract revenue and costs, making assumptions for schedule and technical issues, and assessing the probability of funding by the contracting agency. Due to the size and nature of many of the contracts, developing total revenue and cost at completion estimates requires the use of significant judgment. Estimates of total contract revenue and costs are monitored during the term of the contract and are subject to revision as the contract progresses. Anticipated losses on contracts are recognized in the period they are deemed probable and can be reasonably estimated.

Income Taxes

The Internal Revenue Service has previously determined that the Institute is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), except for income arising from unrelated business activities. Additionally, the Institute is exempt from income taxes in accordance with the laws and regulations of the states of Virginia, Maryland, New Jersey, California, and District of Columbia.

Concentration of Credit Risk

Financial instruments that potentially subject the Institute to concentrations of credit risk consist primarily of cash, investments, revenue and accounts receivable.

Institute for Defense Analyses

Notes to Financial Statements

(in thousands)

Cash

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. Non-interest-bearing accounts are insured with an agency of the federal government up to \$250 for accounts held in each bank. Cash accounts may exceed federally insured limits at times.

Investments

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.

Revenue and Accounts Receivable

The Institute primarily conducts business with the USG. As of September 29, 2023, and September 30, 2022, the Institute had billed and unbilled accounts receivables from the USG totaling \$34,425 and \$33,007, respectively. The Institute believes that credit risk for accounts receivable for USG-related business is limited as the receivables are ultimately due from the USG.

New accounting pronouncements adopted

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases that added Accounting Standards Codification (ASC) Topic 842 ("Topic 842"). The ASU and subsequent amendments are designed to increase transparency and comparability among organizations with leasing activities. The most significant provision of the new lease accounting standard is the requirement that lessees recognize on the balance sheet right-of-use (ROU) assets and lease liabilities for leases that have a term greater than 12 months. The new standard also includes significantly enhanced disclosures.

The Institute adopted Topic 842 on October 1, 2022 using the modified retrospective approach as permitted in ASU No. 2018-11. In accordance with this approach, the effective date of Topic 842 is also the application date of the new requirements, with the prior comparative periods presented in the financial statements in accordance with the legacy requirements of ASC Topic 840, Leases ("Topic 840").

Topic 842 includes various transition practical expedients that are available when adopting the new standard. The Institute elected the package of practical expedients which allows for the carryforward certain accounting conclusions for arrangements that qualified as a lease under Topic 840. As a result, the Institute was not required to nor did it reassess (i) whether existing or expired contracts met the definition of a lease, (ii) lease classification for any existing or expired leases, or (iii) whether lease origination costs qualified as initial direct costs. The Institute did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment conclusions on the ROU assets. The Institute similarly did not elect the land easement practical expedient, which allows it to continue to account for preexisting land easements under the accounting policy that existed before adoption of the lease standard.

Topic 842 similarly includes various other practical expedients that can be elected for new leases that are executed after the adoption of the new requirements. The Institute elected the practical expedient to not separate lease and non-lease components. The Institute also elected to apply the short-term lease recognition exemption which eliminates the requirement to present on the Balance Sheets leases with a term of 12 months or less. These two practical expedients were elected for all classes of underlying assets. The Institute has also applied the practical expedient to use the risk-free rate for a period comparable to the lease term in lease classification or measurement.

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Notes to Financial Statements
(in thousands)

The most significant impact of the adoption of Topic 842 was the recognition of operating lease liabilities and ROU assets of \$8,225 and \$7,053, respectively, as of October 1, 2022. The Institute did not have any capital leases under Topic 840 as of the adoption date and therefore the accounting for such leases (now referred to as finance leases under Topic 842) remained unchanged. Adoption of the standard did not have a significant impact on the Institute's statements of activities

No other accounting standard updates had a material impact on the Institute.

3. 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 29, 2023 and September 30, 2022, consisted of the following:

	<u>2023</u>	<u>2022</u>
Department of Defense	\$ 298,800	\$ 272,717
National Science Foundation	10,224	11,608
Office of the Director of National Intelligence	1,153	1,356
Other Government Agencies	2,058	1,273
	<u>\$ 312,235</u>	<u>\$ 286,954</u>

The Institute earned fixed fees of \$7,143 and \$6,309 for the years ending September 29, 2023 and September 30, 2022, respectively.

4. ACCOUNTS RECEIVABLES, NET

Accounts receivables at September 29, 2023 and September 30, 2022, consisted of the following:

	<u>2023</u>	<u>2022</u>
Billed accounts receivable	\$ 14,265	\$ 15,450
Unbilled accounts receivable	20,860	17,857
Total accounts receivable	<u>\$ 35,125</u>	<u>\$ 33,307</u>
Less: Allowance for doubtful accounts	(700)	(300)
Accounts receivable, net	<u>\$ 34,425</u>	<u>\$ 33,007</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 USG. The management reserve balance as of

Institute for Defense Analyses
Notes to Financial Statements
(in thousands)

September 29, 2023 and September 30, 2022 amounted to \$700 and \$300, respectively. The Institute reserved \$50 of the management reserve for government audits, which is included in accounts payable in the balance sheets.

5. INVESTMENTS

Investments as of September 29, 2023 and September 30, 2022, consisted of the following:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Equity				
Small Cap Growth	\$ 13,671	\$ 14,830	\$ 13,518	\$ 13,684
International Fund	25,076	24,879	24,560	20,752
Large Cap Growth	38,199	77,598	36,157	64,043
Diversifying Strategies	8,001	10,409	7,877	8,805
	<u>\$ 84,947</u>	<u>\$ 127,716</u>	<u>\$ 82,112</u>	<u>\$ 107,284</u>
Fixed Income				
Money market funds	\$ 155	\$ 155	\$ 109	\$ 109
Fixed Income - Total returns	90,824	71,964	87,576	71,470
	<u>\$ 90,979</u>	<u>\$ 72,119</u>	<u>\$ 87,685</u>	<u>\$ 71,579</u>
Total Investments	<u>\$ 175,926</u>	<u>\$ 199,835</u>	<u>\$ 169,797</u>	<u>\$ 178,863</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 \$199,835 and \$178,863 are classified as long-term as of September 29, 2023 and September 30, 2022, 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 6 for further discussion of fair value measurements. Interest and dividends are reinvested into the capital reserve pool.

Total net investment income (loss) for the years ended September 29, 2023 and September 30, 2022, respectively, consisted of the following:

	2023	2022
Interest and dividends	\$ 5,479	\$ 5,617
Realized gains	508	19,619
Unrealized gains (losses)	14,986	(67,488)
	<u>\$ 20,973</u>	<u>\$ (42,252)</u>
Less: Management expenses	(1)	(86)
Net investment income (loss)	<u>\$ 20,972</u>	<u>\$ (42,338)</u>

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(in thousands)

6. 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 \$31,136 and \$35,712 as of September 29, 2023 and September 30, 2022, 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 29, 2023 and September 30, 2022. 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.

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(in thousands)

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 USG and corporate debt securities and commingled funds investing in USG 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.

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(in thousands)

The following table presents the Institute's assets and liabilities that are measured at fair value by level within the hierarchy as of September 29, 2023:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Equities				
Small Cap	\$ 14,831	\$ -	\$ -	\$ 14,831
International	24,879	-	-	24,879
Large Cap	77,598	-	-	77,598
Natural Resources	10,407	-	-	10,407
Fixed Income				
Total Return	71,965	-	-	71,965
Money Market	155	-	-	155
Subtotal - investments	<u>\$ 199,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,835</u>
Deferred Compensation Plan Assets				
TIAA Guaranteed Fixed Annuities	-	-	783	783
Pooled Separate Account				
Real Estate	-	296	-	296
CREF Variable Annuities				
Fixed Income	-	292	-	292
Equities	-	499	-	499
Other	-	15	-	15
TIAA-CREF Retirement Class				
Mutual Funds				
Target Date Retirement Funds	2,526	-	-	2,526
Other	1,019	-	-	1,019
Subtotal - deferred compensation	3,545	1,102	783	5,430
Total asset at fair value	<u>\$ 203,380</u>	<u>\$ 1,102</u>	<u>\$ 783</u>	<u>\$ 205,265</u>
Liabilities:				
Interest Rate Swap Agreements	-	-	1,084	1,084
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,084</u>	<u>\$ 1,084</u>

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(in thousands)

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments				
Equities				
Small Cap	\$ 13,684	\$ -	\$ -	\$ 13,684
International	20,752	-	-	20,752
Large Cap	64,043	-	-	64,043
Natural Resources	8,805	-	-	8,805
Fixed Income				
Total Return	71,470	-	-	71,470
Money Market	109	-	-	109
Subtotal - investments	<u>\$ 178,863</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,863</u>
Deferred Compensation Plan Assets				
TIAA Guaranteed Fixed Annuities	-	-	988	988
Pooled Separate Account				
Real Estate	-	334	-	334
CREF Variable Annuities				
Fixed Income	-	276	-	276
Equities	-	396	-	396
Other	-	109	-	109
TIAA-CREF Retirement Class				
Mutual Funds:				
Target Date Retirement Funds	2,114	-	-	2,114
Other	724	-	-	724
Subtotal - deferred compensation	<u>2,838</u>	<u>1,115</u>	<u>988</u>	<u>4,941</u>
Total asset at fair value	<u>\$ 181,701</u>	<u>\$ 1,115</u>	<u>\$ 988</u>	<u>\$ 183,804</u>
Liabilities:				
Interest Rate Swap Agreements	-	-	2,259	2,259
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,259</u>	<u>\$ 2,259</u>

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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 year ended September 29, 2023:

	Guaranteed Fixed Annuities
Beginning Balance	\$ 988
Interest debited	(206)
Total purchases	9
Total sales	(8)
Ending Balance	<u>\$ 783</u>
	Interest Rate Swaps
Beginning Balance	\$ (2,259)
Interest credited	1,175
Ending Balance	<u>\$ (1,084)</u>
Amount of gain recognized on the Statement of Activities	
Total unrealized gain	\$ 1,175
Net interest expense	126

The net interest expense for the swap agreement is a result of interest paid of \$1,205 and interest received of \$1,079 which is included as non-program expenses on the statement of activities for the year ending September 30, 2023.

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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 year ended September 30, 2022:

	Guaranteed Fixed Annuities
Beginning Balance	\$ 987
Interest credited	32
Total purchases	13
Total sales	(44)
Ending Balance	<u>\$ 988</u>
	Interest Rate Swaps
Beginning Balance	\$ (7,542)
Interest credited	5,283
Ending Balance	<u>\$ (2,259)</u>
Amount of gain recognized on the Statement of Activities	
Total unrealized gain	\$ 5,283
Net interest expense	1,194

The net interest expense for the swap agreement is a result of interest paid of \$1,349 and interest received of \$155 which is included as non-program expenses on the statement of activities for the year ending September 30, 2022.

7. PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 29, 2023 and September 30, 2022 are summarized as follows:

	2023	2022
Land	\$ 15,678	\$ 15,678
Buildings and improvements	274,953	273,973
Furniture and equipment	49,515	44,819
	<u>\$ 340,146</u>	<u>\$ 334,470</u>
Accumulated depreciation and amortization	(68,757)	(57,062)
	<u>\$ 271,389</u>	<u>\$ 277,408</u>

The Institute had property and equipment disposals of \$1,093 and \$16,686 for the years ending September 29, 2023 and September 30, 2022, respectively.

Assets Held-for-Sale

The Institute’s prior headquarters located at 4850 Mark Center Drive (“Mark Center”) in Alexandria, Virginia met the held for sale criteria on January 16, 2022. Accordingly, the Institute transferred the carrying value of the prior headquarters totaling \$39,120 from property and equipment to assets held-for-sale. In addition, \$10,262 was reclassified from prepaid expense to the held for sale asset. Mark

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Center was sold on February 21, 2023.

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. Accordingly, the Institute transferred the carrying value of the parcel of land totaling \$17,613 from property and equipment to assets held for sale. For the year ended September 30, 2022, the Institute recorded a valuation loss of \$7,663 on the asset held for sale. The loss is reported as operating expenses in the statement of activities. This parcel of land was sold on March 13, 2023.

The assets held-for-sale as of September 30, 2022 consisted of the following:

Prior headquarters	\$ 49,383
Parcel of land	9,950
Held for sale assets	<u>\$ 59,333</u>

A portion of the proceeds from the sale of Mark Center and the adjacent parcel of land were used to repay the two term notes (See Note 8).

8. LONG-TERM DEBT AND LINE-OF-CREDIT

Tax-Exempt Bonds

Bonds payable as of September 29, 2023 and September 30, 2022, are summarized as follows:

	2023	2022
The Industrial Development Authority of the City of Alexandria Variable Rate Revenue Bonds Series 2019 issued in the principal amount of \$249,400 in connection with the construction of the Institute's new headquarters facility in Alexandria issued on August 8, 2019; monthly interest payments; weighted interest rate of 1.5925%; annual principal payments from \$15,160 to \$10 beginning in October 1, 2023 through October 1, 2054.	\$ 249,400	\$ 249,400
Total	<u>\$ 249,400</u>	<u>\$ 249,400</u>
Less: Unamortized debt issue costs	<u>(2,425)</u>	<u>(2,511)</u>
Total bonds less unamortized debt issuance costs	\$ 246,975	\$ 246,889
Current portion of long-term debt	<u>(2,870)</u>	<u>-</u>
Long-term debt - net of current portion	<u>\$ 244,105</u>	<u>\$ 246,889</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 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. The Institute recognized debt associated with the Series 2019 bonds of \$249,400 for September 29, 2023 and September 30, 2022. These amounts are reflected on the balance sheet as long-term debt. These bonds carry an interest rate of 79% of Daily SOFR plus not more than

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1.08364% (“Spread”). The Spread is based on the Institute’s credit rating as defined in the Institute’s Bond Indenture. Interest is calculated and paid monthly on the recognized debt balance. The Institute’s S&P Global credit rating was A-/Stable as of August 2, 2023.

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. The Institute is also required to maintain an average amount of \$11,000 measured semi-annually with Truist Bank. These bonds are uncollateralized as long as the Institute satisfy the financial covenants. In the opinion of management, the Institute was compliant with all covenants of the bonds as of September 29, 2023 and September 30, 2022.

Term Notes

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. 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%. A portion of the proceeds from the sale of Mark Center and the adjacent parcel of land were used to repay the two term notes (See Note 7). There was no outstanding long-term debt associated with the variable rate note as of September 29, 2023. The outstanding long-term debt associated with the variable rate note was \$40,745 as of September 30, 2022. These amounts are reflected on the balance sheet as notes payable.

The Institute held 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 at a rate of One-Month Secured Overnight Financing Rate (“SOFR”) plus 1.10% with the term amount due on October 1, 2026. A portion of the proceeds from the sale of Mark Center and the adjacent parcel of land were used to repay the two term notes (See Note 7). There was no outstanding variable rate term loan as of September 29, 2023. As of September 30, 2022, the Institute had drawn \$5,309 against this term loan.

The following table summarizes the required future debt principal payments:

Fiscal Year	Total
2024	\$ 2,870
2025	2,870
2026	5,915
2027	6,135
2028	6,340
Thereafter	225,270
	<u>\$ 249,400</u>

Interest expense related to long-term debt was \$12,098 and \$5,274 for the years ended September 29, 2023 and September 30, 2022, respectively. Interest expense is included in non-program expenses in the statements of activities. Accrued interest expense was \$1,596 and \$1,365, at September 29, 2023 and September 30, 2022, is included in accounts payable and accrued expenses on the balance sheet.

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(in thousands)

Line-of-Credit

The Institute occasionally borrows under a revolving line-of-credit, maturing on March 10, 2024, in anticipation of cash demands. The revolving credit agreement allows the Institute to borrow up to up to \$30,000. The availability to borrow is impacted by the outstanding letters of credit. 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 daily SOFR plus the applicable Interest Margin, as defined, or prime rate minus one-half of one percent.

As of September 29, 2023, and September 30, 2022, the Institute had no outstanding borrowings under this agreement. The institute had availability of up to \$29,237 as of September 29, 2023.

9. INTEREST RATE SWAPS

In 2005, the Institute entered into three interest rate swap agreements to effectively fix interest rates on a portion of its outstanding variable interest debt. Since inception of the interest rate swap agreements, all of the outstanding variable debt has been retired. At each reporting period, the Institute obtains a fair value of the interest rate swap agreements and recognizes the change in valuation on a mark-to-market basis.

Interest rate swap agreements consisted of the following as of September 29, 2023 and September 30, 2022:

	Maturity	Floating Rate Type	Notional Amount	2023	2022
Swap 1	10/01/35	70% of SOFR	\$ 11,945	\$ 524	\$ 1,113
Swap 2	10/01/30	70% of SOFR	11,700	280	573
Swap 3	10/01/30	70% of SOFR	11,700	280	573
Interest rate swap liability			\$ 35,345	\$ 1,084	\$ 2,259

The interest rate swap agreements resulted in unrealized gains of \$1,175, and \$5,283, for September 29, 2023 and September 30, 2022, respectively. As of September 29, 2023, and September 30, 2022, the Institute recognized the fair value of the interest rate swaps, which are favorable to the counterparty, as a liability of \$1,084 and \$2,259, respectively. These swaps are included on the balance sheets as a component of other noncurrent liabilities.

10. LEASES

The Institute leases certain real estate under various third-party operating lease agreements. The Institute does not have any finance lease agreements. The leases are noncancelable and expire on various terms through 2046.

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(in thousands)

The following table presents the components of our ROU assets and liabilities related to leases and their classification in our Balance Sheet at September 29, 2023:

Component of Lease Balances	Balance Sheet Line Items	2023
Assets:		
Operating lease assets	Prepays and other non-current assets	\$ 6,909
Total leased assets		\$ 6,909
Liabilities:		
Operating lease liabilities - current	Current portion of leased liabilities	1,068
Operating lease liabilities - non-current	Long-term lease liabilities	6,131
Total leased liabilities		\$ 7,199

The following table presents the components of our lease cost and the classification of such costs in our statements of activities for the year ended September 29, 2023:

Component of Lease Cost	Statement of Activities Line Items	2023
Operating lease cost	Program expenses	\$ 36
Operating lease cost	Program expenses	1,220
Variable lease cost	Program expenses	24
		\$ 1,280

The following table discloses the supplemental cash flow information related to leases for the year ended September 29, 2023 are as follows:

Operating cash flows from operating leases	\$ 1,301
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The following table includes the weighted-average lease terms and discount rates for operating leases as of September 29, 2023:

Weighted average remaining lease terms: Operating leases	7 Years
Weighted average discount rate: Operating leases	3.97%

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(in thousands)

The following table includes the future maturities of lease payments for operating leases for periods subsequent to September 29, 2023:

Fiscal Year	Total
2024	\$ 1,330
2025	1,360
2026	1,391
2027	1,422
2028	1,454
Thereafter	1,170
Total lease payments	\$ 8,127
Less: Liability accretion / imputed interest	(928)
Total lease liabilities	\$ 7,199
Less: Current portion of lease liabilities	(1,068)
Long-term lease liabilities	\$ 6,131

The following table includes the future maturities of minimum rental payments that are required to be paid under all non-cancelable operating leases obligations for periods subsequent to September 30, 2022, prior to the adoption of Topic 842:

Fiscal Year	Total
2023	\$ 1,302
2024	1,332
2025	1,362
2026	1,392
2027	1,423
Thereafter	2,565
Total minimum rental payments	\$ 9,376
Less: Discount to present value	(2,177)
Total lease liability	\$ 7,199

Rental expense under operating leases, including short-term leases, was \$1,301 and \$1,220, for the years ending September 29, 2023 and September 30, 2022.

11. 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 \$18,183 and \$16,406 for the years ended September 29, 2023 and September 30, 2022, respectively.

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(in thousands)

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, 2022.

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 29, 2023 and September 30, 2022 are as follows:

	2023	2022
Beginning of year	\$ 4,447	\$ 5,785
Service cost	303	475
Interest cost	226	135
Plan participants' contributions	29	35
Actuarial gains	(202)	(1,750)
Benefits paid	(338)	(233)
End of year	<u>\$ 4,465</u>	<u>\$ 4,447</u>

The fair value of plan assets for the years ended September 29, 2023 and September 30, 2022 were:

	2023	2022
Beginning of year	\$ -	\$ -
Employer contributions	309	198
Plan participants' contributions	(338)	(233)
Benefits paid	29	35
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 29, 2023 and September 30, 2022 were:

	2023	2022
Fair value of plan assets		
Funded status	\$ (4,465)	\$ (4,447)
Unrecognized net actuarial loss	-	-
Unrecognized prior service cost	-	-
Accrued postretirement benefits	<u>\$ (4,465)</u>	<u>\$ (4,447)</u>

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(in thousands)

The components of the net periodic benefit cost and amounts recognized in net assets without restrictions for the years ended September 29, 2023 and September 30, 2022 were:

	2023	2022
Service cost	\$ 303	\$ 475
Interest cost	226	135
Amortization of gain	(92)	-
Amortization of prior service cost	(12)	(12)
Net periodic benefit cost	<u>\$ 425</u>	<u>\$ 598</u>

	2023	2022
Prior year unrecognized amounts in net assets	\$ (2,003)	\$ (265)
Current year unrecognized gain	(2,032)	(1,923)
Current year unrecognized prior service credit	(69)	(80)
Current year unrecognized transition obligation	-	-
Total unrecognized current year in net assets	<u>(2,101)</u>	<u>(2,003)</u>
Change in net assets	<u>\$ (98)</u>	<u>\$ (1,738)</u>

The assumptions used to determine the benefit obligation for 2023 and 2022 are as follows:

	2023	2022
Discount rate - weighted average	5.75%	5.25%
Rate of compensation increases	n/a	n/a
Medical cost trend		
Initial rate of increase	7.00%	7.50%
Ultimate rate of increase	4.50%	4.50%
Fiscal year that the ultimate rate is attained	2033	2033
Assumed dental cost trend rate		
Initial rate of increase	4.00%	4.00%
Ultimate rate of increase	4.00%	4.00%
Fiscal year that the ultimate rate is attained	2024	2023

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The assumptions used to determine the net periodic benefit cost for 2023 and 2022 are as follows:

	2023	2022
Discount rate - weighted average	5.25%	2.50%
Expected return on assets	n/a	n/a
Rate of compensation increases	n/a	n/a
Medical cost trend		
Initial rate of increase	7.50%	6.50%
Ultimate rate of increase	5.00%	5.00%
Fiscal year that the ultimate rate is attained	2033	2027
Assumed dental cost trend rate		
Initial rate of increase	4.00%	4.00%
Ultimate rate of increase	4.00%	4.00%
Fiscal year that the ultimate rate is attained	2023	2022

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:

	2023	2022
Net actuarial gain	\$ 2,033	\$ 1,923
Prior service credit	69	80
Net periodic benefit cost	<u>\$ 2,102</u>	<u>\$ 2,003</u>

Estimated amount that will be amortized from net assets without restrictions into net periodic benefit cost in 2024:

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

Cash Flows

Employer Contributions

The Institute expects to spend approximately \$320 on its other postretirement medical benefit plan in 2024.

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:

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(in thousands)

Fiscal Year	Total
2024	\$ 320
2025	421
2026	490
2027	514
2028	336
2029-2033	1,433
	<u>\$ 3,514</u>

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 29, 2023 and September 30, 2022, deferred compensation was \$5,431 and \$4,941, respectively.

12. FUNCTIONAL CLASSIFICATION OF EXPENSES

Total operating expenses for the years ended September 29, 2023 and September 30, 2022 consist of:

	2023	2022
Research and development program and non-program costs	\$ 237,882	\$ 209,849
Support costs, principally general and administrative	97,687	89,472
	<u>\$ 335,569</u>	<u>\$ 299,321</u>

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13. NATURAL CLASSIFICATION OF EXPENSES

Total operating expenses for the year end September 29, 2023 consist of:

	Program Expenses	Non-Program Expenses	Management and General	Total
Salaries	\$ 122,874	\$ 879	\$ 39,193	\$ 162,946
Benefits	51,640	1,419	16,686	69,745
Travel	8,691	1,710	1,033	11,434
Material	5,722	193	3,356	9,271
Subcontractors	3,263	(45)	223	3,441
Facilities	6,404	523	19,806	26,733
Services	2,731	9,998	12,256	24,985
Other	461	10,876	2,561	13,898
Insurance	-	-	1,018	1,018
Interest	-	12,098	-	12,098
	<u>\$ 201,786</u>	<u>\$ 37,651</u>	<u>\$ 96,132</u>	<u>\$ 335,569</u>

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

	Program Expenses	Non-Program Expenses	Management and General	Total
Salaries	\$ 114,319	\$ 732	\$ 35,619	\$ 150,670
Benefits	44,980	(368)	15,381	59,993
Travel	5,887	654	881	7,422
Material	8,358	48	3,736	12,142
Subcontractors	2,786	105	273	3,164
Facilities	6,240	675	17,072	23,987
Services	4,077	1,657	13,359	19,093
Other	505	13,911	2,368	16,784
Insurance	-	9	783	792
Interest	-	5,274	-	5,274
	<u>\$ 187,152</u>	<u>\$ 22,697</u>	<u>\$ 89,472</u>	<u>\$ 299,321</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.

14. COMMITMENTS AND CONTINGENCIES

Financial Guarantees – The Institute has letters of credit aggregating to approximately \$763 as of September 29, 2023, and September 30, 2022, that reduce availability on the line-of-credit due on March 10, 2024. The letters of credit generally provide guarantees on contract to be performed relating to public improvements to the new headquarter location. In 2024, the Institute was released from the letters of credit after successfully meeting all contract requirements.

Institute for Defense Analyses

Notes to Financial Statements

(in thousands)

Legal Proceedings – The Institute has been named as a defendant in various actions. While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, the Institute believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the financial position, results from activities, or cash flows.

15. 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 \$31,136, accounts receivable of \$34,425, and Investments of \$199,835 as of September 29, 2023. The Institute also has an available line of credit of \$29,237, as of September 29, 2023.

16. SUBSEQUENT EVENTS

The Institute has evaluated its September 29, 2023 financial statements for subsequent events through February 26, 2024, which is the date the financial statements were available to be issued.

No subsequent events were identified which require recognition or disclosure in the financial statements.

Institute for Defense Analyses

Schedule of Expenditures of Federal Awards

For the year ended September 29, 2023

<u>Federal Grantor/ Program Title</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Pass-through Entity</u>	<u>Pass-through Entity Award number</u>	<u>Federal Expenditures</u>
<u>RESEARCH AND DEVELOPMENT CLUSTER</u>					
<u>Department of Defense</u>					
Washington Headquarters Service Acquisition Directorate	12.RD	HQ0034-14-D-0001			\$ (13,906)
Washington Headquarters Service Acquisition Directorate (Studies & Analyses FFRDC)	12.RD	HQ0034-19-D-0001			222,259,535
Maryland Procurement Office (Communications & Computing FFRDC)	12.RD	H98230-16-D-0030			77,390,756
Naval Sea Systems Command	12.RD	N00024-22-D-6404	Johns Hopkins University/Applied Physics Lab	178274	315,451
Washington Headquarters Service Acquisition	12.RD	HQ0034-19-D0006	Johns Hopkins University/Applied Physics Lab	171886	636
Washington Headquarters Service Acquisition	12.RD	HQ0034-20-1-0001	Dartmouth College	R1362	9,035
Defense Health Agency	12.RD	HT9402-22-1-0005	Dartmouth College	R1641	39,881
Washington Headquarters Service Acquisition	12.RD	HQ0034-20-1-0002	Pennsylvania State University	S0000477-DHP	47,152
IPA-Intergovernmental Personnel Act	12.RD	Various			<u>1,129,925</u>
TOTAL DEPARTMENT OF DEFENSE					<u>301,178,465</u>
<u>Central Intelligence Agency</u>					
ODNI (E12)	13.RD	2020-20060500401			<u>1,152,891</u>
TOTAL CENTRAL INTELLIGENCE AGENCY					<u>1,152,891</u>
<u>Department of Energy</u>					
Department of Energy	81.RD	DE-AC09-08SR22470	Savannah River Nuclear Solutions	529587	<u>54,084</u>
TOTAL DEPARTMENT OF ENERGY					54,084
<u>National Science Foundation</u>					
Office of Science and Technology Policy Institute (Science and Technology Policy Institute FFRDC)	47.RD	OIA-0408601			<u>10,223,828</u>
TOTAL NATIONAL SCIENCE FOUNDATION					<u>10,223,828</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER					<u>312,609,268</u>
TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS					<u><u>312,609,268</u></u>

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 29, 2023

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 Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform 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 29, 2023, and the related statements 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 26, 2024.

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 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 or significant deficiencies may exist that were not 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 26, 2024



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

To the Board of Trustees of the
Institute for Defense Analyses

Report on Compliance for the Major Federal Program

Opinion on the 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 29, 2023. 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 29, 2023.

Basis for Opinion on the 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.

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 24, 2024

Part III
Findings

Institute for Defense Analyses
Schedule of Findings and Questioned Costs
For the year ended September 29, 2023

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: Assistance Listing 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?	<u> X </u> yes _____no

Institute for Defense Analyses
Schedule of Findings and Questioned Costs, Continued
For the year ended September 29, 2023

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 29, 2023

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.