

# **The CNA Corporation**

**Report on Federal Awards**

**In Accordance with the Uniform Guidance**

**September 30, 2022**

**EIN 54-1558882**

**The CNA Corporation**  
**Index**  
**For the Year Ended September 30, 2022**

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**Part I**

**Financial Statements and  
Schedule of Expenditures of Federal Awards**



## **Report of Independent Auditors**

To the Board of Trustees of the CNA Corporation

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of The CNA Corporation (the “Corporation”), which comprise the statements of financial position as of September 30, 2022 and 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 Corporation as of September 30, 2022 and 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 Corporation 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 Corporation’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 Corporation'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 Corporation'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. 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 December 23, 2022 on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

Washington, DC  
December 23, 2022

**The CNA Corporation**  
**Statements of Financial Position**  
**September 30, 2022 and 2021**

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	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 11,987,905	\$ 17,908,482
Accounts receivable		
Contract receivables and assets	22,061,964	19,002,578
Employee and other receivables, net	93,277	174,463
Prepaid expenses and deposits	<u>1,704,505</u>	<u>2,018,142</u>
Total current assets	35,847,651	39,103,665
Investments	26,637,058	31,393,574
Other assets long-term	2,358,017	2,798,938
Property and equipment, net	<u>10,651,273</u>	<u>11,613,019</u>
Total assets	<u>\$ 75,493,999</u>	<u>\$ 84,909,196</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	2,712,637	3,262,283
Accrued payroll and withholding taxes	4,007,479	3,118,144
Accrued leave	7,375,244	7,633,624
Deferred revenue and contract liabilities	<u>525,866</u>	<u>1,397,349</u>
Total current liabilities	14,621,226	15,411,400
Long-term liabilities		
Deferred rent	6,965,605	6,615,015
Other liabilities long-term	<u>3,108,342</u>	<u>3,512,932</u>
Total liabilities	24,695,173	25,539,347
Net assets without donor restrictions	<u>50,798,826</u>	<u>59,369,849</u>
Total liabilities and net assets	<u>\$ 75,493,999</u>	<u>\$ 84,909,196</u>

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

**The CNA Corporation**  
**Statements of Activities**  
**For the Years Ended September 30, 2022 and 2021**

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	<u>2022</u>	<u>2021</u>
<b>Operating Revenue</b>		
Contracted research	\$ 137,757,398	\$ 139,533,258
<b>Total Operating Revenue</b>	<u><b>137,757,398</b></u>	<u><b>139,533,258</b></u>
<b>Operating Expenses</b>		
Salaries and fringe	102,792,426	100,706,594
Consultants and outside services	15,126,195	17,788,209
Occupancy	10,801,587	11,083,321
Information technology	6,314,078	5,794,714
Training and personnel support	1,485,958	973,495
Travel and related	2,862,618	1,571,710
Supplies	516,534	544,672
Other corporate expenses	677,357	1,336,396
<b>Total Operating Expenses</b>	<u><b>140,576,753</b></u>	<u><b>139,799,111</b></u>
<b>Other Income and (Expenses)</b>		
Net investment return	(5,756,516)	4,627,628
Interest income	4,848	4,080
<b>Total Other Income and (Expenses)</b>	<u><b>(5,751,668)</b></u>	<u><b>4,631,708</b></u>
Change in net assets	<u>(8,571,023)</u>	<u>4,365,855</u>
Net assets, beginning of the year	<u>59,369,849</u>	<u>55,003,994</u>
Net assets, end of year	<u><u>\$ 50,798,826</u></u>	<u><u>\$ 59,369,849</u></u>

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

**The CNA Corporation**  
**Statements of Cash Flows**  
**For the Years Ended September 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (8,571,023)	\$ 4,365,855
Adjustments to reconcile change in net assets to cash and cash equivalents (used in)/provided by operating activities:		
Depreciation expense	2,343,610	2,368,210
Deferred rent	350,590	63,842
Amortization of capitalized software	73,057	73,057
Net unrealized/realized gains	6,509,639	(4,024,866)
Loss on disposal of property and equipment	574,941	61,127
Reserve for doubtful accounts	23,080	110,638
Changes in assets and liabilities:		
(Increase) decrease in Contract receivables and assets	(3,082,466)	251,593
Decrease (increase) in Employee and other receivables, net	81,186	(38,504)
Decrease (increase) in Prepaid expenses and deposits	313,637	(93,044)
Decrease (increase) in Other assets long-term	440,921	(328,891)
(Decrease) increase in Accounts payable and accrued expenses	(492,517)	471,578
Decrease in Deferred revenue and contract liabilities	(871,483)	(373,177)
Increase (decrease) in Accrued payroll and withholding taxes	889,335	(2,862,160)
Decrease in Accrued leave	(258,380)	(102,306)
(Decrease) increase in Other liabilities long-term	(404,590)	634,566
Net cash and cash equivalents (used in)/provided by operating activities	<u>(2,080,463)</u>	<u>577,518</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(2,094,039)	(1,405,415)
Proceeds from the sale of property and equipment	7,048	200
Purchases of investments	(1,788,711)	(4,517,980)
Sales of investments	35,588	5,715,218
Net cash and cash equivalents used in investing activities	<u>(3,840,114)</u>	<u>(207,977)</u>
Net (decrease) increase in cash and cash equivalents	(5,920,577)	369,541
Cash and cash equivalents, beginning of year	<u>17,908,482</u>	<u>17,538,941</u>
Cash and cash equivalents, end of year	<u>\$ 11,987,905</u>	<u>\$ 17,908,482</u>
<b>Supplemental cash flow information</b>		
Amount payable for equipment purchases	-	57,129

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

# The CNA Corporation

## Notes to Financial Statements

### For the Years Ended September 30, 2022 and 2021

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#### 1. Nature of Operations

The CNA Corporation (the "Corporation") is a not-for-profit corporation that conducts studies and analysis and other research-based activities predominantly for agencies of the federal government, as well as state and local governments, and foundations. The majority of the Corporation's activities consist of the management and execution of the Center for Naval Analyses ("CNA"), a federally funded research and development center ("FFRDC") whose primary focus is to provide assistance to the Department of the Navy ("DON") in the areas of operations and systems analysis. CNA has conducted research for the Department of the Navy and other government entities since 1942 under managed affiliations with various universities and institutes, until October 1, 1990, when it incorporated and began operating as an independent entity. In addition, the Corporation operates the Institute for Public Research ("IPR") which provides expert, high-level research and analysis services to clients at all levels of government, in the areas of health care, education, domestic security and safety, human capital management, and air traffic management.

The DON executed renewal of the new FFRDC contract effective on January 1, 2022. The contract consists of a five-year contract with five one-year options. The contract has a ceiling of \$1.2 billion. Task Orders on the DON contract accounted for approximately \$97 million, or 70% of operational revenue in fiscal year 2022 and \$101 million, or 70% of total revenue in fiscal year 2021.

#### 2. Summary of Significant Accounting Policies

##### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### **Revenue Recognition and Program Services**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which replaced the accounting standards for revenue recognition under ASC 605, Revenue recognition, with a single comprehensive five-step model, eliminating industry-specific accounting Rules. The core principle is to recognize revenue upon the transfer of control of goods or services to a customer at an amount that reflects the consideration expected to be received. The Corporation provides services for customers in four types of arrangements: cost-reimbursable, time-and-materials, fixed-price, and grants. Revenue is recognized in accordance with ASC Topic 606, Revenue from Contracts with Customers, and ASC 958-605, which the corporation adopted on October 1, 2019, using the modified retrospective approach. Results for the year beginning on October 1, 2019 are presented under ASC 606 and ASC 958-605, while prior period amounts are not adjusted and continue to be reported under ASC 605.

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 Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of revenues are generally recognized over time, with a few instances where revenue is recognized at a point in time. Revenue is recognized for an amount that reflects the consideration the corporation expects to be entitled to in exchange for those goods or services. Revenue recognition under ASC 606 varies based on contract type. However, revenue recognized on grants typically fall under the ASC 958-605 standard. This standard along with a subsequent accounting standard update aims to assist entities in (1) evaluating whether transactions should be accounted for as contributions or exchange transactions and (2) determining whether a contribution is conditional.

**The CNA Corporation**  
**Notes to Financial Statements**  
**For the Years Ended September 30, 2022 and 2021**

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Revenue recognized under ASC 606 and ASC 958-605 was as follows as of September 30:

<b>Standard</b>	<b>2022</b>	<b>2021</b>
ASC 606	\$ 128,190,604	\$ 132,773,627
ASC 958-605	9,566,794	6,759,631
Total Revenue	\$ 137,757,398	\$ 139,533,258

Grants for which the restrictions are met within the same year are reported as net assets without donor restriction. The remaining funding for conditional grants was \$18,353,374 as of September 30, 2022 and \$12,639,204 as of September 30, 2021, respectively.

The revenue by arrangement type was as follows as of September 30:

<b>Contract Type</b>	<b>2022</b>	<b>2021</b>
Cost Plus Fixed Fee	\$ 98,269,800	\$ 98,963,514
Firm Fixed Price	5,933,757	6,363,926
Time & Material	23,987,047	27,446,187
Grants	9,566,794	6,759,631
Total Revenue	\$ 137,757,398	\$ 139,533,258

The Corporation accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, and collectability of consideration is probable. The Corporation generally recognizes revenue over time as it performs because of continuous transfer of control to the customer. Because of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the goods and services to be provided.

For certain service contracts where the Corporation has a right to consideration from a customer in an amount that corresponds directly with the value of the Corporation's performance completed to date (a contract in which the Corporation bills a fixed amount for each hour of service provided), the Corporation recognizes revenues equal to the amount the Corporation has a right to invoice for services performed.

The majority of the Corporation's contracts are with the federal government and have revenue recognition that occurs over time as a measure of progress because this method best depicts the transfer of assets to the customer as costs are incurred. These contracts are generally cost reimbursable plus fixed fee. Compensation for these contracts is based on funding from the government and may vary from year to year.

The Corporation also uses the cost-to-cost measure of progress because it best depicts the transfer of assets to the customer when costs are incurred. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Significant judgements are required to determine the performance obligations and the method of revenue recognition under ASC-606.

Contract modifications are routine in the performance of contracts. Contracts are often modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct, and therefore are accounted for as part of the existing contract. The Corporation adopted the practical expedient related to contract modifications as described in ASC 606-10-65-1-f (4), and thus, for contracts that were modified before October 1, 2019, the Corporation did not retrospectively restate the contract for contract modifications.

# The CNA Corporation

## Notes to Financial Statements

### For the Years Ended September 30, 2022 and 2021

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Payment terms are normal, and typically are due within 30 days of invoicing to the customer. An immaterial portion of the fixed fee is retained typically by the customer until final settlement of all indirect rates in effect during the contract period of performance. The Corporation determined this did not represent a significant financing component.

#### **Contract assets and liabilities**

Timing of revenue recognition may differ from the timing of invoices to customers. The Corporation records unbilled receivables (contract assets) when revenue is recognized prior to invoicing or when costs are in excess of billing. The corporation records deferred revenue (contract liabilities) when cash is received for services yet to be rendered or when billings exceed costs. Contract assets were 16,850,556 and 11,795,545 as of September 30, 2022 and 2021, respectively. Contract liabilities were \$525,866 and \$1,397,349 as of September 30, 2022 and 2021, respectively.

Costs in excess of billings and billings in excess of costs are recorded based on management's evaluation of contract terms and current project status. This evaluation includes negotiations with the client, and availability of funding. Such evaluations are updated periodically and accordingly could result in changes in the near term as facts and circumstances change. The Company invoices the U.S. Government using negotiated provisional indirect cost rates. Invoiced amounts are subject to receipt of negotiated, adjusted, and final indirect cost rates arising from incurred cost audits by the cognizant government agencies.

The Corporation's costs are subject to audit by various cognizant government agencies. The Corporation has final settlements for all costs incurred through fiscal year 2020. Management has established contingency reserves for potentially disallowed costs for any unsettled years. Management believes adjustments in excess of this reserve, if any, would not have a material effect on the financial statements. Future adjustments resulting from such audits which exceed the Corporation's estimates, could adversely impact profitability. However, the Corporation's past experience is that final rates resulting from incurred cost audits do not vary materially from the proposed settlement rates the Corporation submits to the U.S. Government after the end of the Corporation's fiscal year. Management estimated and has recorded adequate allowances to accommodate any resulting adjustment to the Corporation's receivables.

#### **COVID-19 (Financial Reporting Alert 20-1)**

The outbreak of the COVID-19 pandemic has caused domestic and global disruptions in operations for many organizations. The COVID-19 pandemic did not significantly impact the financial results of the Corporation for the year ended September 30, 2022, and 2021.

#### **Tax Exempt Status**

The Corporation is organized as a not-for-profit and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code in that it conducts research and analysis in the public interest. The repeal of the Internal Revenue Code Section 512(a)(7) for unrelated business income (UBIT) for qualified transportation fringes in 2020, resulted in requested refunds of previously paid UBIT. CNA has a receivable for years ended September 30, 2022 and September 30, 2021 of \$21,000 and \$92,914, respectively, for the remaining taxes, penalties, and interest to be refunded from the Internal Revenue Service and the Virginia Department of Taxation. CNA received the refund from the Internal Revenue Service of \$71,914 in 2022. The remaining receivable balance of \$21,000 represents the balance due from the Virginia Department of Taxation.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit and overnight sweep of cash into a treasury money market account. The Corporation considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

# The CNA Corporation

## Notes to Financial Statements

### For the Years Ended September 30, 2022 and 2021

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#### **Property and Equipment**

Property and equipment is recorded at cost. Free-standing furniture and equipment are depreciated using the straight-line method over a five-year life. Furniture and equipment purchased to originally furnish its office building, including those built into the facility, are depreciated using the straight-line method over the 15-year term of the office lease. Computer hardware and software is depreciated using the straight-line method over four years and software is amortized using the straight-line method over four to ten years. Leasehold improvements are amortized over the shorter of the useful life or lease term.

Eligible internally developed software costs incurred are capitalized subsequent to the completion of the preliminary project stage. Such costs include external direct material and service costs, and internal employee payroll and payroll-related costs. After the software is ready for its intended use, the software costs are amortized over the estimated useful life of the software.

The Corporation considers the potential for impairment of its fixed assets by evaluating assets when net carrying value of each asset class equals or exceeds its estimated replacement value and by determining that the assets comprising the class are still in use. When assets are retired, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations.

#### **Lease Obligations**

The Corporation records rent expense, including contractually known stated escalations, on a straight-line basis over the lease term of the underlying lease. In the early years of a lease the result is higher lease expense than the current payment due to the landlord. The difference between the rent payment and the straight-line rent expense is recorded as a deferred rent liability.

#### **Net Assets**

The Corporation has not historically received donor-funding and has no imposed restrictions on its net assets. All net assets of the Corporation as of September 30, 2022 and 2021 were available for general operations.

#### **Accrued Leave**

Annual paid time off is accrued as earned. Employees are permitted to accumulate unused annual leave subject to certain limitations. Employees may elect an annual payout of unused annual leave subject to limitations. Employees are paid for unused leave at termination or retirement pursuant to such limitations. Annual leave forfeitures in accordance with the limitations are not material.

#### **Using Estimates in Preparing Financial Statements**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as revenue, expenses, or other changes in the net assets during the reporting period. Actual results could differ from estimates.

#### **Subsequent Events**

Subsequent events have been evaluated through December 23, 2022 which is the date the financial statements were available to be issued.

**The CNA Corporation**  
**Notes to Financial Statements**  
**For the Years Ended September 30, 2022 and 2021**

**Concentration of Credit Risk**

The accounts receivable are due predominantly from U.S. Government agencies or other prime contractors to such agencies. The Corporation has not experienced any material credit losses on its accounts receivable. The composition of the overall credit risk was as follows as of September 30:

	<u>2022</u>	<u>2021</u>	<u>Collateral</u>
Accounts receivable/contract assets with the Department of Navy	15,112,463	11,006,943	Backed by the United States Government
	<u>\$ 15,112,463</u>	<u>\$ 11,006,943</u>	

**Recent Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the lessees' balance sheet and disclosing key information about leasing arrangements for leases classified as operating leases under the previous GAAP. Under this update, lessees should recognize in the balance sheet a liability to make lease payments and a right-of-use asset representing its right-to-use the underlying asset for the lease term. The new guidance for non-public entities is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Corporation is evaluating the impact this will have on the financial statements for the fiscal year beginning October 1, 2022.

**3. Functional Expense**

The three functional expense categories below list the costs associated with CNA's FFRDC programs, IPR programs, and Management and General expenses. The Federally Funded Research and Development Center (FFRDC) supports the Department of the Navy. The Institute for Public Research (IPR) provides support to a broad range of government sponsors in Health Care and Public Health, Homeland Security, Department of Justice, Human Capital Management, and Air Traffic Management. CNA specializes in objective, empirical research and analysis to help decision makers develop sound policies and manage programs more effectively. The Management and General expenses are not identifiable by a single program and expenses that relate to more than one functional area such as Occupancy, Information Technology, and Personnel Support are identified by their natural classification and allocated to the functional areas based on cost.

The functional expense schedule for September 30, 2022 was as follows:

<u>Expense Category</u>	<u>FFRDC</u>	<u>IPR</u>	<u>Management and General</u>	<u>Total</u>
Salaries and fringe	\$ 64,072,125	\$ 21,534,348	\$ 17,185,953	\$ 102,792,426
Consultants and outside services	1,742,853	11,668,069	1,715,273	15,126,195
Occupancy	6,336,654	2,341,550	2,123,383	10,801,587
Information technology	3,623,316	1,343,732	1,347,030	6,314,078
Training and personnel support	468,123	269,822	748,013	1,485,958
Travel and related	2,310,009	388,549	164,060	2,862,618
Supplies	128,557	240,569	147,408	516,534
Other corporate expenses	-	-	677,357	677,357
September 30, 2022	<u>\$ 78,681,637</u>	<u>\$ 37,786,639</u>	<u>\$ 24,108,477</u>	<u>\$ 140,576,753</u>

**The CNA Corporation**  
**Notes to Financial Statements**  
**For the Years Ended September 30, 2022 and 2021**

The functional expense schedule for September 30, 2021 was as follows:

<b>Expense Category</b>	<b>FFRDC</b>	<b>IPR</b>	<b>Management and General</b>	<b>Total</b>
Salaries and fringe	\$ 66,269,636	\$ 19,972,838	\$ 14,464,120	\$ 100,706,594
Consultants and outside services	1,729,507	13,831,433	2,227,269	17,788,209
Occupancy	6,696,287	2,471,521	1,915,513	11,083,321
Information technology	3,327,138	1,251,231	1,216,345	5,794,714
Training and personnel support	389,798	219,055	364,642	973,495
Travel and related	1,345,090	160,602	66,018	1,571,710
Supplies	199,387	208,266	137,019	544,672
Other corporate expenses	-	-	1,336,396	1,336,396
September 30, 2021	<u>\$ 79,956,843</u>	<u>\$ 38,114,946</u>	<u>\$ 21,727,322</u>	<u>\$ 139,799,111</u>

**4. Contract Receivables and Assets**

Contract receivables and assets consist of billed amounts and contract assets consist of unbilled amounts. Contract receivables represent amounts that have been billed as of September 30, 2022 and September 30, 2021. Contract assets represent earned amounts that cannot be billed yet under terms of the contract as well as amounts retained. Balances outstanding as of September 30 are as follows:

	<u>2022</u>	<u>2021</u>
Contract receivables	\$ 5,924,494	\$ 7,897,039
Contract assets	<u>16,850,556</u>	<u>11,795,545</u>
	22,775,050	19,692,584
Less: Reserve for doubtful accounts	<u>(713,086)</u>	<u>(690,006)</u>
	<u>\$ 22,061,964</u>	<u>\$ 19,002,578</u>

**Employee and other receivables**

Employee and other receivables consist of business related employee travel, employee tuition assistance, and long-term advances for employees on off-site special assignments for the FFRDC. Balances outstanding as of September 30, are as follows:

	<u>2022</u>	<u>2021</u>
Employee and other receivables	\$ 96,278	\$ 177,464
Less: Reserve for doubtful accounts	<u>(3,001)</u>	<u>(3,001)</u>
	<u>\$ 93,277</u>	<u>\$ 174,463</u>

**The CNA Corporation**  
**Notes to Financial Statements**  
**For the Years Ended September 30, 2022 and 2021**

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**5. Investments**

The portfolio on September 30, 2022 consisted of a diversified combination of index funds and fixed income funds, with domestic and international holdings of approximately 82% and 18%, respectively. Investment income, net of expenses, for years ended September 30, 2022 and 2021 was \$788,712 and \$602,762, respectively.

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Equity Securities	\$ 13,870,085	\$ 15,218,599	\$ 12,853,403	\$ 18,371,211
Fixed income Securities	13,491,079	11,418,459	12,754,745	13,022,363
	<u>\$ 27,361,164</u>	<u>\$ 26,637,058</u>	<u>\$ 25,608,148</u>	<u>\$ 31,393,574</u>

CNA determines fair value in accordance with the “Fair Value Measurements” standard. This standard establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect entities’ own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The US generally accepted accounting standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by CNA for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of CNA’s valuation methodologies for assets and liabilities measured at fair value:

Fair value for Level 1 is based upon quoted prices in active markets that CNA has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. CNA does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources

**The CNA Corporation**  
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including market participants, dealers, and brokers. There were no Level 2 investments during fiscal 2022 and 2021.

Fair value for Level 3, is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all. CNA did not own any investments that are categorized under Level 3 valuation techniques, as of September 30, 2022 and September 30, 2021.

The following table presents the financial instruments carried at fair value as of September 30, 2022 by caption on the statement of financial position valuation hierarchy defined above:

<u>Assets</u>	<u>Level 1 Total Fair Value</u>
Investments:	
Fixed Income - International Corporate	\$ 1,156,684
Fixed Income - Other	10,261,775
Equity - U.S. Common Stocks	11,699,000
Equity - International Common Stocks	3,519,599
Total Investments	<u>\$ 26,637,058</u>

The following table presents the financial instruments carried at fair value as of September 30, 2021:

<u>Assets</u>	<u>Level 1 Total Fair Value</u>
Fixed Income - International Corporate	\$ 1,298,259
Fixed Income - Other	11,724,104
Equity - U.S. Common Stocks	13,932,175
Equity - International Common Stocks	4,439,036
Total Investments	<u>\$ 31,393,574</u>

**Other Financial Instruments**

The carrying amounts of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued expenses, and notes payable approximate their fair values because of the relatively short-term maturities of these instruments.

**6. Liquidity**

The Corporation's financial assets available within one year of the balance sheet date for general expenditures are as follows as of September 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 11,987,905	\$ 17,908,482
Contract receivables	22,061,964	19,002,578
Employee and other receivables	93,277	174,463
Total	<u>\$ 34,143,146</u>	<u>\$ 37,085,523</u>

**The CNA Corporation**  
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The Corporation invests excess cash in an overnight sweep into a treasury money market account. In order to manage any unanticipated liquidity needs, there is a line of credit in the amount of \$19,252,605 available which it could draw upon. Additionally, the investment fund, with a balance of \$26,637,058 as of September 30, 2022, is available if necessary.

**7. Property and Equipment**

The following summarizes assets owned by the Corporation as of September 30:

	<u>2022</u>	<u>2021</u>
Computer hardware and software	\$ 9,922,782	\$ 9,613,605
Capitalized software costs	4,796,909	4,797,113
Furniture and equipment	5,554,848	6,285,727
Leasehold improvements	12,728,704	13,363,432
	<u>33,003,243</u>	<u>34,059,877</u>
Less: Accumulated depreciation	(17,618,235)	(17,786,180)
Accumulated amortization on capitalized software	<u>(4,733,735)</u>	<u>(4,660,678)</u>
Property and equipment, net	<u>\$ 10,651,273</u>	<u>\$ 11,613,019</u>

**8. Notes Payable**

**Revolving Line of Credit**

The Corporation maintains a \$20,000,000 line of credit with a bank for the purpose of providing short-term working capital. As of September 30, 2022 and 2021, there were no borrowings outstanding. The line of credit also serves as collateral for a letter of credit for \$747,395 issued to the Corporation's current landlord (Note 10). There are no amounts outstanding on the line of credit. Borrowings on the line accrue interest equivalent at leverage-dependent premiums over Bloomberg Short-Term Bank Yield ("BSBY") plus a margin ranging from 1.1% to 1.6% based on the Corporation's leverage ratio. Fees accrue based on the unused amount of the line. In the opinion of management, the Corporation was in compliance with all covenants as of September 30, 2022 and 2021.

**9. Retirement Plans**

**403(b) Retirement Plan**

The Corporation provides retirement benefits to its employees through a combination of 403(b) annuity contracts with the Teachers' Insurance and Annuity Association and College Retirement Equities Fund and 403(b) custodial accounts with Fidelity Investments. Participation by the employees in the plan is voluntary. The Corporation currently matches 1.6 to 3.3 times an employee's contribution, or from 8% to 10% of adjusted salary, as defined in the Plan, depending on the employee's length of service and percentage of salary contributed to the Plan. All full-time and certain part-time employees are eligible to enroll in the Plan immediately upon employment. Both employer and employee contributions are fully funded and vested immediately. Retirement plan expense for the years ended September 30, 2022 and 2021 was \$6,347,991 and \$6,629,365, respectively.

**Deferred Compensation Plan**

CNA has a deferred compensation plan under section 457(b) of the Internal Revenue Code. The CNA 457(b) Deferred Compensation Plan is only offered to a select group of key employees. The Plan is a non-qualified tax-deferred plan that functions much like the 403(b) retirement plan, except there are no employer contributions to the fund. All funds in the plan are employee funds; there are no employer contributions. Even though there are no employer contributions, in accordance with the plan provisions,

# The CNA Corporation

## Notes to Financial Statements

### For the Years Ended September 30, 2022 and 2021

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the assets are owned by CNA until they are distributed to the employee. The amount is presented in both the Long-term assets and Long-term liabilities section of the Statement of Financial Position. The balances were \$2,431,454 and \$2,798,938 as of September 30, 2022 and 2021, respectively. The assets within the 457(b) are Level 1 investments.

#### 10. Commitments and Contingencies

##### Leases

The Corporation leases office space and equipment under non-cancelable operating lease agreements expiring at various times through May 2034. Rent payments totaled \$9,127,370 and \$9,781,390 for the years ended September 30, 2022 and 2021, respectively. The provisions of the office leases include fixed annual rent increases of 2.25% per year, which are recognized ratably over the term of the lease. The difference between the cumulative annual cash payments required by the leases through September 30, 2022 and the related amount of straight-line rent expense yields the deferred rent liability carried on the Statement of Financial Position. The difference between the straight-line rent expense and the amount of the annual cash payments was \$350,590 and \$63,843 for the years ended September 30, 2022 and 2021, respectively.

Minimum rental commitments, determined on a cash basis, under these leases were as follows as of September 30:

2023	\$ 8,138,552
2024	8,317,432
2025	8,504,952
2026	8,693,333
2027	8,888,244
Thereafter	63,376,538
Total minimum payments required	<u>\$ 105,919,052</u>

Effective January 1, 2022, the Company entered the Eleventh Amendment to the Lease with the building owner to modify the Lease of the headquarters building. The Amendment extended the Lease term by 5 years to May 31, 2034 and eliminated the 8th floor from our leased premises.

##### Costs Subject to Government Audit

The Corporation's costs are subject to audit by various cognizant government agencies. The Corporation has final settlements for all costs incurred through fiscal year 2020. Management has established contingency reserves for potentially disallowed costs for any unsettled years. Management believes adjustments in excess of this reserve, if any, would not have a material effect on these financial statements.

##### Legal Contingencies

The Corporation is subject to litigation from time to time relating to matters that arise in the ordinary course of business. Management believes that any ultimate liability resulting from these contingencies will not have a material effect on the Corporation's financial position, change in net assets, or cash flows.

**The CNA Corporation**  
**Notes to Financial Statements**  
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**11. Asset Retirement Obligation**

On June 7, 2014, CNA relocated to the current headquarters. The Corporation is required to remove certain items from the facility upon termination of the lease. In accordance with FASB ASC 410-20, *Asset Retirement Obligations*, the fair value of the liability increased to \$750,324 and is included in Other Liabilities Long-term. An estimate was received in fiscal year 2021 which increased the asset retirement obligation by \$297,850 over the original term of the lease. The amended lease, effective January 1, 2022, reduced the floorspace and extended the life of the lease by 5 years which increased the liability by \$25,158. CNA capitalized the original estimate as part of the carrying amount of the leasehold improvement, which is depreciated on a straight-line basis over 15 years.

The following table reflects all changes to the asset retirement obligation liability:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 713,994	\$ 408,319
Liabilities incurred	-	-
Accretion expense	11,172	7,825
Revision in estimate	25,158	297,850
End of year	<u>\$ 750,324</u>	<u>\$ 713,994</u>

## **Schedule of Expenditures of Federal Awards**

# The CNA Corporation

## Schedule of Expenditures of Federal Awards

### For the Year Ended September 30, 2022

<u>Assistance Listing Number</u>	<u>Federal Grantor</u>	<u>Direct Expenditures</u>	<u>Passthrough Expenditures</u>	<u>Pass Through Grantor (Pass Through Award No.)</u>	<u>Federal Expenditures</u>	<u>Passed to Sub-recipients</u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>						
<b>U. S. Department of Defense</b>						
12.N00014-16-D-5003	Navy FFRDC	\$ 70,080,018	\$ -		\$ 70,080,018	\$ -
12.N00014-22-D-7001	Navy FFRDC	22,853,678			22,853,678	
12.Classified	Federal Other	139,153			139,153	
12.Classified	Federal Other	368,622			368,622	
12.FA8240-17-C-4800	Kirtland AFB	126,287			126,287	
<b>Total U.S. Department of Defense</b>		<b>\$ 93,567,758</b>	<b>\$ -</b>		<b>\$ 93,567,758</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>						
16.751.2016-DG-BX-K041	Bureau of Justice Assistance	\$ 1,307,331	\$ -		\$ 1,307,331	\$ -
16.15JCRT18P00000218	Bureau of Justice Assistance	2,013			2,013	
16.751.2018-DP-BX-K013	Bureau of Justice Assistance	622,802			622,802	25,756
16.738.2018-DP-BX-K015	Bureau of Justice Assistance	138,979			138,979	
16.560.2018-75-CX-0001	National Institute of Justice	32,495			32,495	
16.560.2018-75-CX-0019	National Institute of Justice	165,097			165,097	5,870
16.827.2019-ZB-BX-K001	Bureau of Justice Assistance	482,156			482,156	75,364
16.738.2019-DG-BX-K001	Bureau of Justice Assistance	2,038,515			2,038,515	29,609
16.738.2019-WY-BX-K001	Bureau of Justice Assistance	690,086			690,086	
16.835.2019-BC-BX-K001	Bureau of Justice Assistance	2,114,444			2,114,444	474,228
16.710.2019-CK-WX-K005	Community Oriented Policing Services	90,830			90,830	
16.710.2019-CK-WX-K006	Community Oriented Policing Services	128,334			128,334	
16.602.20PR07GLE4	COVID - Bureau of Justice Assistance	45,447			45,447	2,513
16.827.2019-ZB-BX-K005	Bureau of Justice Assistance		707	Council of State Government - 21-SA-161-2916	707	
16.602.2021-CS26GLH3	Bureau of Justice Assistance	27,547			27,547	2,500
16.738.15PBJA-21-GK-02617-MUMU	Bureau of Justice Assistance	309,093			309,093	115,771
16.560.2018-75-CX-K005	Bureau of Justice Assistance		25,980	TheUrbanInstitute-101749-0001-CNA-01	25,980	
16.E0000018490	Bureau of Justice Assistance		3,918	CityofMilwaukee-E0000018490	3,918	
16.710.15JCOPS-21-GK-02399-SPPS	Bureau of Justice Assistance	159,877			159,877	
16.738.15PBJA-21-GK-04010-JAGP	Bureau of Justice Assistance	108,727			108,727	
16.560.15PNIJ-21-GG-03267-RESS	Bureau of Justice Assistance	27,825			27,825	
16.738.15PBJA-21-GK-04009-MUMU	Bureau of Justice Assistance		85,303	NationalDistrictAttorne-9454	85,303	
16.560.15PNIJ-21-GG-02723-DOMR	Bureau of Justice Assistance	56,454			56,454	
16.560.15PNIJ-21-GG-02707-RESS	Bureau of Justice Assistance	32,495			32,495	
16.812.2019-UP-BX-K001	Bureau of Justice Assistance		43,885	TheUrbanInstitute-102012-0001	43,885	
16.835.2020-BX-BX-K001	Bureau of Justice Assistance		14,483	Justice&Securitiy-BWC SRT JSS	14,483	
16.602.22PR10GLL7	Bureau of Justice Assistance	504			504	
<b>Total U.S. Department of Justice</b>		<b>\$ 8,581,051</b>	<b>\$ 174,276</b>		<b>\$ 8,755,327</b>	<b>\$ 731,610</b>
<b>U.S. Department of Homeland Security</b>						
97.HSFE20-16-A-0202/HSFE20-J-0221.	Federal Emergency Management Agency	\$ 65,102	\$ 51,958	Innovative Emergency Mgmt. - 20241-006	\$ 117,060	\$ -
97.GS02F010GA/70FB8018A00000002	Federal Emergency Management Agency				-	
97.70FA3018A0000006/GS-35F-0580CX/70FA3018A0000006/70FA3019F00000359	Federal Emergency Management Agency		1,237,552	Karsun Solutions - SA-2019-0026/SA-2019-0029	1,237,552	
97.GS35F275CA	Federal Emergency Management Agency	47,278	27,027	Blueprint Consulting - 70FA3020F00000574-GPD	74,305	
97.70FA2020C00000018	Federal Emergency Management Agency	64,958			64,958	
97.EMW-2021-CA-00070-S01	Federal Emergency Management Agency				-	
97.70FA5021F00000154	Federal Emergency Management Agency		141,443	ADG-REI-TechnologyVentur-FEMADEX-101821-02	141,443	
97.70FA202100000071	Federal Emergency Management Agency		77,204	EvolutionManagementInc-C93132-CNA	77,204	
97.47QREB21D0006/70FA202100000077	Federal Emergency Management Agency		16,448	EvolutionManagementInc-C93133-CNA	16,448	
97.70FA3021F00000475	Federal Emergency Management Agency		806,206	EvolutionManagementInc-FEMADEX-101521-01	806,206	
97.SS079-CNACorporation-Subk-Dec2021	Federal Emergency Management Agency	1,607,393	27,815	BondafideSupportService-N00244-16-D-0011	1,635,208	
97.COG-21-062B (CW92333)	Federal Emergency Management Agency				-	
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 1,784,731</b>	<b>\$ 2,385,653</b>		<b>\$ 4,170,384</b>	<b>\$ -</b>

# The CNA Corporation

## Schedule of Expenditures of Federal Awards

### For the Year Ended September 30, 2022

CFDA Number (Or other identifying number)	Federal Grantor	Direct Expenditures	Passthrough Expenditures	Pass Through Grantor (Pass Through Award No.)	Federal Expenditures	Passed to Sub-recipients
<b>U.S. Department of Transportation</b>						
20.DTFAWA-15-D-00029	Federal Aviation Administration	\$ -	\$ 1,549,932	A3 Technologies - 329-003	\$ 1,549,932	\$ -
20.DTFAWA-10A-00208-0006	Federal Aviation Administration		904,924	GRA, Incorporated - Task13	904,924	
20.DTFAWA11A-00217	Federal Aviation Administration		142,038	iCatalyst, Inc - ICI_CNA-2020 09 28	142,038	
20.DTFAWA-15-D-00030/693KA8-21-F-00069	Federal Aviation Administration		28,267	LS Technologies - S-202119-CNA-00030	28,267	
20.693KA-21-D-00004/693KA9-21-F-00255	Federal Aviation Administration		1,399,481	Oasis Systems, LLC - PSS-CNA-019	1,399,481	
20.2022-034	National Railroad Passenger Corporation	325			325	
<b>Total U.S. Department of Transportation</b>		<b>\$ 325</b>	<b>\$ 4,024,642</b>		<b>\$ 4,024,967</b>	<b>\$ -</b>
<b>U.S. Department of Energy</b>						
81.DE-AC02-06CH11357	Department of Energy	\$ -	\$ 28,362	Argonne National Laboratory 1F-60444	\$ 28,362	\$ -
81.DE-AC02-06CH11357	Department of Energy	-	608,650	Argonne National Laboratory 2F-60035	608,650	
<b>Total U.S. Department of Energy</b>		<b>\$ -</b>	<b>\$ 637,012</b>		<b>\$ 637,012</b>	<b>\$ -</b>
<b>U.S. Department of State</b>						
19.026-SPMWRA20CA0073	US Department of State	\$ 278,889	\$ -		\$ 278,889	\$ 22,000
19.D17PC00494	US Department of State	12,626			12,626	
19.040-SGECPD19CA0026	US Department of State		172,050	IWPR US -133-21-33-BS	172,050	
19.026.SPMWRA21CA3038	US Department of State	165,942			165,942	
19.026.S-PMWRA-21-CA-3053	US Department of State	177,047			177,047	65,649
19.19AQMM21P1807	US Department of State	220,967			220,967	
19.PO20-02188	US Department of State		29,963	CRDF GLOBAL - TO1	29,963	
<b>Total U.S. Department of State</b>		<b>\$ 855,471</b>	<b>\$ 202,013</b>		<b>\$ 1,057,484</b>	<b>\$ 87,649</b>
<b>U.S. Department of Health and Human Services</b>						
93.HHS01002016000211	Department of Health & Human Services	\$ -	\$ 14,215	Aveshka, Inc. -HHS01002016000211	\$ 14,215	\$ -
93.HHSP2332015000451 HHSP23337001T	Program Support Center (PSC)	239,127			239,127	
93.75A50119D00033/TO 75A50119F33001	Department Health and Human Services	55,568			55,568	
93.75FCMC18D0047	Department Health and Human Services		102,417	MITRE - 128275	102,417	
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 294,695</b>	<b>\$ 116,632</b>		<b>411,327</b>	<b>\$ -</b>
<b>U.S. Agency for International Development</b>						
98.7000525064/7100525064	MIT LINCOLN Laboratory	\$ 152,008	\$ -		\$ 152,008	\$ -
98.7000558044	MIT LINCOLN Laboratory	6,108			6,108	
<b>Total U.S. Agency for International Development</b>		<b>\$ 158,116</b>	<b>\$ -</b>		<b>\$ 158,116</b>	<b>\$ -</b>
<b>National Council on Disability</b>						
92.21-01	National Council on Disabilities	\$ 208,941	\$ -		\$ 208,941	\$ -
<b>Total National Council on Disability</b>		<b>\$ 208,941</b>	<b>\$ -</b>		<b>\$ 208,941</b>	<b>\$ -</b>
<b>Total Research and Development Cluster</b>		<b>\$ 105,451,088</b>	<b>\$ 7,540,228</b>		<b>\$ 112,991,316</b>	<b>\$ 819,259</b>
<b>Total Expenditure of Federal Awards</b>		<b>\$ 105,451,088</b>	<b>\$ 7,540,228</b>		<b>\$ 112,991,316</b>	<b>\$ 819,259</b>

# **The CNA Corporation**

## **Notes to Schedule of Expenditures of Federal Awards**

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

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#### **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the federal expenditures of the CNA Corporation (the "Corporation") to perform research and development activities for the Federal Government for the year ended September 30, 2022. The amounts reported as federal expenditures were obtained from the Corporation's general ledger. The information in the 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* (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 contracts, grants, and similar agreements entered into directly between the Corporation and agencies and departments of the Federal Government and all sub-awards to the Corporation by non-federal organizations pursuant to federal contracts, grants and similar agreements. Negative numbers in the Schedule represent adjustments to amounts reported in prior years in the normal course of business. Where full Assistance Listing Numbers are not available, other identifying grants and contract numbers are presented.

#### **2. Summary of Significant Account Policies**

For purposes of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting. The CNA Corporation utilizes billing rates negotiated with the Office of Naval Research (ONR) and did not elect to use the 10% de minimis rate as covered in §200.414 Indirect (F&A) costs.

**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 CNA Corporation

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 CNA Corporation (the "Corporation"), which comprise the statement of financial position as of September 30, 2022, 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 December 23, 2022.

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

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation'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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PricewaterhouseCoopers LLP*

Washington, DC  
December 23, 2022



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

To the Board of Trustees of the CNA Corporation

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

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

We have audited the CNA Corporation's (the "Corporation") 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 each of the Corporation's major federal programs for the year ended September 30, 2022. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs 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 Corporation 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 each major federal program. Our audit does not provide a legal determination of the Corporation'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 Corporation'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 Corporation'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 Corporation'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 Corporation'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 Corporation'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 Corporation'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.

*PricewaterhouseCoopers LLP*

Washington, DC  
December 23, 2022

**Part III**  
**Findings**

**The CNA Corporation**  
**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 Opinion
<b>Internal control over financial reporting:</b>	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance which is material to the consolidated financial statements noted?	No

**Federal Awards**

<b>Internal Control over major programs:</b>	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified Opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516 (a)?	No

**Identification of major programs:**

<u>Major Program(s)</u>	<u>Assistance Listing Number(s)</u>	
Research and Development Cluster	Various	
Dollar threshold used to distinguish between Type A and Type B programs:		\$3,000,000
Auditee qualified as low-risk auditee?		Yes

**The CNA Corporation**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2022**

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**Section II – Financial Statement Findings**

There are no matters to report.

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

There are no matters to report.

**The CNA Corporation**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended September 30, 2022**

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

There are no findings from prior years which require an update in this report.