

Center for Strategic and International Studies, Inc.

Financial Report
September 30, 2022

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Independent Auditor's Report

Board of Trustees
Center for Strategic and International Studies, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Center for Strategic and International Studies, Inc. (CSIS), which comprise the balance sheet as of September 30, 2022, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CSIS as of 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 (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CSIS 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 CSIS's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's 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 auditor's 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 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 the performing an audit in accordance with 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 CSIS'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 CSIS'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.

Report on Summarized Comparative Information

We have previously audited CSIS's 2021 finance statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 29, 2023, on our consideration of CSIS'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. 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 CSIS's 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 CSIS's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
March 29, 2023

Center for Strategic and International Studies, Inc.

Balance Sheet
September 30, 2022
(With Comparative Totals for 2021)

| | 2022 | 2021 |
|---------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 20,385,801 | \$ 13,728,355 |
| Receivables, net | 5,804,588 | 5,232,561 |
| Prepaid expenses and other assets | 278,407 | 378,600 |
| Investments | 75,233,606 | 77,511,683 |
| Promises to give, net | 12,301,049 | 6,273,469 |
| Property and equipment, net | 87,884,617 | 89,280,419 |
| | \$ 201,888,068 | \$ 192,405,087 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 3,531,619 | \$ 2,994,763 |
| Refundable advances | 7,947 | 877,323 |
| Deferred revenue | 1,727,426 | 2,123,669 |
| Bonds payable, net | 27,426,574 | 28,472,186 |
| | 32,693,566 | 34,467,941 |
| Contingency (Note 12) | | |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 94,968,655 | 91,036,495 |
| Board-designated | 1,275,000 | 1,275,000 |
| | 96,243,655 | 92,311,495 |
| With donor restrictions | 72,950,847 | 65,625,651 |
| | 169,194,502 | 157,937,146 |
| | \$ 201,888,068 | \$ 192,405,087 |

See notes to financial statements.

Center for Strategic and International Studies, Inc.

Statement of Activities
Year Ended September 30, 2022
(With Comparative Totals for 2021)

| | 2022 | | | 2021 |
|---|-------------------------------|----------------------------|-------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| Support and revenue: | | | | |
| Contributions | \$ 19,013,982 | \$ 14,255,257 | \$ 33,269,239 | \$ 22,344,415 |
| Non-federal grants and contracts | 1,107,448 | 11,354,618 | 12,462,066 | 9,742,333 |
| Federal grants and contracts | 6,835,406 | - | 6,835,406 | 9,352,579 |
| Foreign government grants and contracts | 3,485,584 | 1,322,776 | 4,808,360 | 4,774,358 |
| Investment gain designated for operations, net | 2,014,072 | - | 2,014,072 | 1,451,863 |
| Rental income and other | 418,675 | - | 418,675 | 209,111 |
| Net assets released from restrictions | 20,973,437 | (20,973,437) | - | - |
| Total support and revenue | 53,848,604 | 5,959,214 | 59,807,818 | 47,874,659 |
| Expenses: | | | | |
| Program services | 31,879,120 | - | 31,879,120 | 27,678,961 |
| Supporting services: | | | | |
| Management and general | 13,844,754 | - | 13,844,754 | 12,801,176 |
| Development | 2,939,304 | - | 2,939,304 | 2,854,156 |
| Total supporting services | 16,784,058 | - | 16,784,058 | 15,655,332 |
| Total expenses | 48,663,178 | - | 48,663,178 | 43,334,293 |
| Change in net assets before other items | 5,185,426 | 5,959,214 | 11,144,640 | 4,540,366 |
| Investment (loss) gain designated for non-operations, net | (1,253,266) | 1,365,982 | 112,716 | 12,134,901 |
| Change in net assets | 3,932,160 | 7,325,196 | 11,257,356 | 16,675,267 |
| Net assets: | | | | |
| Beginning | 92,311,495 | 65,625,651 | 157,937,146 | 141,261,879 |
| Ending | \$ 96,243,655 | \$ 72,950,847 | \$ 169,194,502 | \$ 157,937,146 |

See notes to financial statements.

Center for Strategic and International Studies, Inc.

Statement of Functional Expenses
Year Ended September 30, 2022
(With Comparative Totals for 2021)

| | 2022 | | | | | 2021 |
|--|----------------------|---------------------------|---------------------|--------------------|----------------------|----------------------|
| | Programs | Management and General | Development | Facilities | Total | Total |
| Salaries | \$ 16,479,443 | \$ 7,719,406 | \$ 1,708,796 | \$ 441,357 | \$ 26,349,002 | \$ 24,596,324 |
| Fringe benefits | 3,647,465 | 1,503,876 | 351,164 | - | 5,502,505 | 5,184,663 |
| Consultants and subgrants | 3,822,100 | 830,125 | 227,391 | 144,320 | 5,023,936 | 4,008,950 |
| Travel, conferences and meetings | 2,677,176 | - | 69,574 | 14,004 | 2,760,754 | 273,062 |
| Interest expense | - | - | - | 898,017 | 898,017 | 1,090,383 |
| Property tax | - | 45 | - | 710,848 | 710,893 | 1,457,547 |
| Depreciation | - | 833,602 | - | 1,979,146 | 2,812,748 | 2,561,097 |
| Amortization and finance charges | - | - | - | 39,388 | 39,388 | 39,388 |
| Printing, books and other publications | 294,344 | - | 102 | - | 294,446 | 217,535 |
| Dues, memberships and registrations | 226,365 | 279,632 | 36,519 | - | 542,516 | 472,031 |
| Telephone | 55,239 | 88,808 | 1,908 | - | 145,955 | 227,359 |
| Courier and postage | 5,022 | - | 2,415 | - | 7,437 | 4,120 |
| Office expenses | 84,800 | 86,642 | 3,431 | 270 | 175,143 | 191,165 |
| Computer services | 386,149 | 614,094 | 20,370 | 4,028 | 1,024,641 | 811,048 |
| Legal, audit and insurance | 43,226 | 372,822 | 2,800 | - | 418,848 | 456,157 |
| Utilities | - | - | - | 330,517 | 330,517 | 208,673 |
| Facilities management and maintenance | - | 207 | - | 1,097,565 | 1,097,772 | 815,104 |
| Bad debt expense | 203,456 | - | - | - | 203,456 | 487,401 |
| Other | 176,926 | 148,278 | - | - | 325,204 | 232,286 |
| | 28,101,711 | 12,477,537 | 2,424,470 | 5,659,460 | 48,663,178 | 43,334,293 |
| Facilities allocation | 3,777,409 | 1,367,217 | 514,834 | (5,659,460) | - | - |
| | \$ 31,879,120 | \$ 13,844,754 | \$ 2,939,304 | \$ - | \$ 48,663,178 | \$ 43,334,293 |

See notes to financial statements.

Center for Strategic and International Studies, Inc.

Statement of Cash Flows
Year Ended September 30, 2022
(With Comparative Totals for 2021)

| | 2022 | 2021 |
|---|--------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 11,257,356 | \$ 16,675,267 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,812,748 | 2,561,097 |
| Amortization of loan issuance cost | 39,388 | 39,388 |
| Net unrealized and realized gain on investments | (2,480,861) | (14,084,030) |
| Bad debt expense | 203,456 | 487,401 |
| Increase in discount to net present value | (495,659) | (351,672) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | (775,483) | (530,368) |
| Prepaid expenses and other assets | 100,193 | (208,786) |
| Promises to give | (5,531,921) | 5,649,145 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 536,856 | (298,128) |
| Refundable advances | (869,376) | (3,631,377) |
| Deferred revenue | (396,243) | 419,809 |
| Net cash provided by operating activities | 4,400,454 | 6,727,746 |
| Cash flows from investing activities: | | |
| Proceeds from sales of investments | 46,518,388 | 16,436,000 |
| Purchases of investments | (41,759,450) | (3,052,688) |
| Purchases of property and equipment | (1,416,946) | (573,740) |
| Net cash provided by investing activities | 3,341,992 | 12,809,572 |
| Cash flows from financing activities: | | |
| Payments on borrowings on notes payable | (1,085,000) | (15,604,999) |
| Net cash used in financing activities | (1,085,000) | (15,604,999) |
| Net increase in cash and cash equivalents | 6,657,446 | 3,932,319 |
| Cash and cash equivalents: | | |
| Beginning | 13,728,355 | 9,796,036 |
| Ending | \$ 20,385,801 | \$ 13,728,355 |
| Supplemental disclosure of cash flow information: | | |
| Cash payments for interest | \$ 898,017 | \$ 1,090,383 |

See notes to financial statements.

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Center for Strategic and International Studies, Inc. (CSIS) is a public policy research institution dedicated to creating strategic analysis and policy solutions. CSIS maintains resident experts on all of the world's major geographical regions. It also covers key functional areas, such as international trade and finance, technology policy, energy policy and U.S. foreign policy and national security.

Its goal is to inform and shape selected policy decisions in government and the private sector by providing long-range, anticipatory and integrated thinking over a wide range of policy issues.

A summary of CSIS's significant accounting policies follows:

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

Net assets without donor restrictions: Resources available to support CSIS general operations and include board-designated net assets and quasi-endowment funds. Board-designated net assets are net assets without donor restrictions designated by the Board of Trustees for specific purposes. Board-designated net assets consist of \$800,000 for the Korea Chair, \$300,000 for the Harold Brown Chair and \$175,000 for the Anne Armstrong Leadership Fund.

Net assets with donor restrictions: Resources received by CSIS from contributors or grantors that are purpose-restricted, time-restricted or both purpose- and time-restricted. Time restrictions include resources received with donor instructions that they be held by CSIS in perpetuity. Investment earnings on these perpetual assets with purpose restrictions accrue to the purpose designated by the donor.

Cash and cash equivalents: For the purpose of reporting cash flows, CSIS considers all money market funds to be cash equivalents as they have an original maturity of three months or less. However, CSIS considers all assets held in brokerage accounts to be investments on the accompanying balance sheet, and amounts not available for current operations are reported separately.

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

CSIS invests in a professionally managed portfolio that contains a hedge fund of funds and a limited partnership. Such investments are exposed to various risks such as market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements. Additionally, the liquidation of the hedge fund of funds and the limited partnership requires advance notification to the investment funds, in addition to restrictions on when redemptions may occur. See Note 2 for details.

Receivables: Receivables are carried at original invoice amounts, less an estimate made for doubtful accounts based on a review of outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Interest is not recorded on any past due balances. The provision for doubtful accounts was \$228,251 at September 30, 2022, based on management's evaluation of the collectability of receivables.

Notes to Financial Statements

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

Investments: Investments in a hedge fund of funds and limited partnership are valued at fair value based on the applicable percentage ownership of the underlying funds' net assets as of the measurement date, as determined by CSIS. In determining fair value, CSIS utilizes valuations provided by the fund manager of the underlying investment funds. The underlying investment funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying funds, which may include private placements and other securities for which prices are not readily available, are determined by the underlying fund manager and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of CSIS's investments in the hedge fund of funds and limited partnership generally represents the amount CSIS would expect to receive if it were to liquidate its investment in the hedge fund of funds excluding any redemption charges that may apply.

Promises to give: Unconditional promises to give are recognized as revenue in the period that CSIS is notified of the contribution by the donor and acknowledged and identified by the donor. Unconditional promises to give are initially recorded at fair value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Promises to give to be collected after one year are discounted at an appropriate discount rate commensurate with the risks involved. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible. The provision for doubtful accounts was \$0 at September 30, 2022, based on management's evaluation of the collection of promises to give. For the year ended September 30, 2022, CSIS recorded \$0 of bad debt expense on unconditional promises to give.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight-line method calculated to depreciate the cost of the applicable assets over estimated lives of three to 40 years. CSIS capitalizes all property and equipment purchased with a cost of \$1,000 or more. Costs incurred in the development of software for internal use are expensed during the preliminary and post-implementation operation stages, including data conversion, training, and maintenance costs. Costs incurred during the application development stage of software development are capitalized. The buildings are stated at cost and are depreciated using the straight-line method over an estimated useful life of 40 years, with no salvage value. Building improvements greater than \$1,000 are capitalized and amortized using the straight-line method over the remaining estimated life of the related building or the estimated life of the asset, whichever is less. Expenditures for minor repairs and maintenance costs are expensed when incurred. Land and artwork are recorded at cost or fair value at time of donation. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses.

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

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

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

Deferred revenue: Amounts on contracts received prior to the service being performed are recorded as deferred revenue.

Refundable advances: Refundable advances are receipts on conditional grants and contributions and are only recognized as support and revenue when the conditions on which they depend are substantially met.

Bond issuance costs: Bond issuance costs are capitalized and amortized using the effective interest method over the term of the bonds.

Revenue recognition: CSIS recognizes unconditional contributions, non-federal grants and contracts, including unconditional promises to give, as revenue in the period received and/or when unconditional promises are received. All unconditional contributions, non-federal grants and contracts are considered to be available for unrestricted use, unless specifically restricted by the donor. Unconditional gifts, grants and contracts that are expected to be collected within one year are recorded at net realizable value. Unconditional gifts, grants and contracts that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using market rates that are commensurate with the risks identified. The portion of unconditional gifts, grants and contracts that was discounted in prior fiscal years but is collected in the current year is recorded as revenue in the current year. Contributions, non-federal grants and contracts that have been committed to CSIS but have not been received are reflected as receivable in the accompanying balance sheet.

Net assets with donor restrictions become net assets without donor restrictions when the respective time restriction expires, or during the period the funds are used for the restricted purpose. The conversion of net assets with donor restrictions to net assets without donor restrictions is reported in the accompanying statement of activities as net assets released from restrictions.

CSIS's revenue streams from contracts with customers are comprised primarily from rental income. CSIS's revenue is recognized when a given performance obligation is satisfied, either over a period of time or at a point in time. The Association's revenue under contracts with customers is primarily earned in the United States of America.

Rental income on leased space is recorded on a straight-line basis over the entire lease term.

CSIS is the recipient of grants from the federal government to fund various programs. These grants are treated as conditional grants upon the incurrence of allowable qualifying expenses. Grant funds are recorded as revenue when the related approved expenditures are made. Recognized conditional grants are recorded to net assets without donor restrictions if any purpose or time restrictions are met simultaneously with (or before) the condition. Grant funds received prior to the incurrence of related costs by CSIS are considered refundable advances.

CSIS's revenue from contracts with customers are generally for one year or less. The contracts do not include significant financing components and do not have variable considerations. CSIS did not have impairment or credit losses on any receivables or contract assets arising from contracts with customers. The primary factor affecting future revenue and cash inflows is the use of the CSIS services. Management does not believe there is a material risk of loss for future revenue and cash inflows.

Expenses: Direct costs associated with specific programs are recorded as program and development expenses. Fringe benefits are allocated based on salaries. Facilities costs are allocated based on square footage. Management and general expenses are unallocated in the statement of activities.

Notes to Financial Statements

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

Endowments: The Codification topic on Not-For-Profit Entities provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective January 23, 2008, the District of Columbia enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. The Codification requires disclosures about an organization's endowed funds (both donor-restricted endowment funds and board-designated endowment funds).

Financial instruments with off-balance-sheet risk: The Codification topic on fair value measurement for financial assets and liabilities measured on a recurring basis defines fair value and establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The topic emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

As a basis for considering market participant assumptions in fair value measurements, the topic established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy are described as follows:

- Level 1:** Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.
- Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.
- Level 3:** Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

CSIS's assets and liabilities measured at fair value on a recurring basis as of September 30, 2022, are presented in accordance with the fair value standards in Note 4.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with CSIS's financial statements for the year ended September 30, 2021, from which the summarized information was derived.

Income taxes: CSIS is exempt from federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been designated by the Internal Revenue Service (IRS) as a publicly supported organization under Section 509(a)(1) of the Code. CSIS engages in certain activities that produce unrelated business income, as defined by federal income tax regulations.

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

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

Pending accounting pronouncement: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 supersedes ASC Topic 840, *Leases*. Under ASU 2016-02, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. CSIS is in the process of its evaluation of the impact of the ASU.

Subsequent events: CSIS has evaluated subsequent events through March 29, 2023, the date on which the financial statements were available to be issued.

Note 2. Liquidity and Availability of Financial Assets

CSIS has various sources of liquidity at its disposal, including cash and cash equivalents, investments, receivables due within one year, and a line of credit. CSIS strategically manages these financial resources to maximize investment return on funds not required for operations.

Financial assets and liquidity resources available for general expenditure within one year of the September 30, 2022, balance sheet include the following:

Financial assets available on September 30, 2022:

| | |
|---|-----------------------------|
| Cash and cash equivalents, available | \$ 20,385,801 |
| Accounts receivable due in one year | 5,804,588 |
| Investments | 75,233,606 |
| Promises to give due in one year | 12,301,049 |
| Total financial assets available | <u>113,725,044</u> |
| Less those unavailable for general expenditures within one year due to: | |
| Donor-restricted net assets | (72,950,847) |
| Board-designated net assets | (1,275,000) |
| Deferred revenue | (1,727,426) |
| Notes payable | (1,120,000) |
| Reduction of available financial assets | <u>(77,073,273)</u> |
| Total financial assets available to meet cash needs for general expenditures within one year | <u><u>\$ 36,651,771</u></u> |

Note 3. Receivables

Receivables at September 30, 2022, consist of the following:

| | |
|--------------------------------------|----------------------------|
| Grants and contracts—billed | \$ 3,311,420 |
| Grants and contracts—unbilled | 2,349,094 |
| Advances | 20,772 |
| Miscellaneous | 351,553 |
| | <u>6,032,839</u> |
| Less allowance for doubtful accounts | 228,251 |
| | <u><u>\$ 5,804,588</u></u> |

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

Note 4. Investments

Investments at September 30, 2022, consist of the following:

| | |
|-------------------------|----------------------|
| Cash | \$ 35,193,958 |
| Limited partnership | 33,743,421 |
| Alternative investments | 6,296,227 |
| | <u>\$ 75,233,606</u> |

Investment income is apportioned on the statement of activities between operating and non-operating components, with operating investment income calculated as 4% of the three-year average of the total investment portfolio balance plus unrestricted cash, inclusive of interest and dividend income from investments, as well as interest income from cash accounts.

Investment income for the year ended September 30, 2022, consists of the following:

| | |
|--|---------------------|
| Interest and dividends | \$ 3,005 |
| Unrealized and realized gain on investments, net | 2,480,861 |
| Investment fees | (357,078) |
| | <u>\$ 2,126,788</u> |

As of September 30, 2022, CSIS's investments include a limited partnership and a offshore funds valued utilizing their net asset value (NAV) per share or its equivalent as a practical expedient to estimate the fair value of these investments. In accordance with Codification Topic 820-10, investments that are measured at fair value using NAV per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The following tables summarize these investments whose fair value is based on NAV per unit as practical expedient by major class as of September 30, 2022:

| Investment | Fair Value at September 30, 2022 | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-------------------------|--|-------------------------|-------------------------|-----------------------------|
| Limited partnership (a) | \$ 34,796,737 | \$ - | Bi-Annual | 120 Days |
| Offshore funds (b) | 6,296,227 | - | Daily | 45 -150 Days |
| | <u>\$ 41,092,964</u> | | | |

(a) This category consists of an investment in a private investment partnership offering and endowment-style investment program to institutional investors in pooled accounts. The partnership invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single portfolio investment strategy for its investors.

(b) This category consists of offshore funds who invests in equity stocks and other private placements.

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

Note 5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

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

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In certain cases, the inputs used to measure the fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. CSIS's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

| Description | September 30, 2022 | | | Total |
|-------------------------------------|--------------------|---------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | |
| Cash equivalents: | | | | |
| Money market fund | \$ 35,193,958 | \$ - | \$ - | \$ 35,193,958 |
| Investments valued using an NAV (a) | | | | 40,039,648 |
| Total investments | | | | \$ 75,233,606 |

- (a) In accordance with Subtopic 820-10 as amended by ASU 2015-07, certain investments that were measured at NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheet.

Money market funds are classified as Level 1 instruments as they are actively traded on public exchanges.

Note 6. Promises to Give

Promises to give to be collected in more than one year from the date of the donor's commitment are measured using the present value of future cash flows based on a discount rate of 3.00% to 3.75%. Promises to give at September 30, 2022, consist of amounts by due date as follows:

| | |
|------------------------------------|---------------|
| Less than one year | \$ 4,290,239 |
| One to five years | 8,850,000 |
| | 13,140,239 |
| Less discount to net present value | 839,190 |
| | \$ 12,301,049 |

Promises to give of \$10,908,839 are due from members of the Board of Trustees at September 30, 2022.

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

Note 7. Property and Equipment

Property and equipment and accumulated depreciation at September 30, 2022, and depreciation expense for the year ended September 30, 2022, are as follows:

| Asset Category | Estimated Lives | Cost | Accumulated Depreciation | Net | Depreciation Expense |
|--------------------|-----------------|-----------------------|--------------------------|----------------------|----------------------|
| Land | - | \$ 33,117,228 | \$ - | \$ 33,117,228 | \$ - |
| Building | 40 years | 67,789,349 | 15,103,847 | 52,685,502 | 1,692,827 |
| Computer equipment | 3 to 5 years | 6,006,748 | 5,216,109 | 790,639 | 645,825 |
| Furniture | 5 to 15 years | 2,094,984 | 1,777,258 | 317,726 | 226,105 |
| Office equipment | 5 to 8 years | 1,989,128 | 1,493,113 | 496,015 | 207,742 |
| Software | 3-7 years | 696,065 | 218,558 | 477,507 | 40,249 |
| | | <u>\$ 111,693,502</u> | <u>\$ 23,808,885</u> | <u>\$ 87,884,617</u> | <u>\$ 2,812,748</u> |

Note 8. Bonds Payable

On December 27, 2017, CSIS obtained a 15.25-year \$46,330,000 loan from a financial institution. The purpose of the loan was to refinance, by defeasance, CSIS's District of Columbia Series 2011 Tax-Exempt Bonds plus the costs of issuance. The loan was issued at a 3.04% interest rate and a 15-year amortization with a \$15,000,000 principal payment due on March 1, 2021, and a \$15,000,000 balloon payment due at the end of the loan term on March 1, 2033. CSIS's headquarters building located in Washington, D.C. is security collateral on the loan.

The loan contains various restrictive and financial covenants, including a long-term debt service coverage ratio of not less than 1.10 (measured annually and calculated on a rolling 24 month basis), a liquidity covenant requiring a minimum amount of \$15,000,000 in unrestricted cash, cash equivalents, and investments, delivery of audited financial statements within 150 days of the fiscal year-end, a 70% maximum loan-to-value of all funded debt secured by the building, and a minimum 51% occupancy rate of rentable space in the building.

At September 30, 2022, the loan had an outstanding balance of \$27,850,000. Interest expense on the loan was \$898,017 for the year ended September 30, 2022. The cost of issuance totaled \$610,520 and will be amortized over the term of the loan. Amortized loan issuance costs total \$39,388 for the year ended September 30, 2022.

| | Interest Rate | Maturity |
|-----------------------------------|---------------|----------------------|
| March 1, 2033 | 3.04% | \$ 27,850,000 |
| | | 27,850,000 |
| Less unamortized loan issue costs | | 423,426 |
| | | <u>\$ 27,426,574</u> |

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

Note 8. Bonds Payable (Continued)

Future principal payments for the years ending September 30, are as follows:

| | |
|----------------------------|-----------------------------|
| Years ending September 30: | |
| 2023 | \$ 1,120,000 |
| 2024 | 1,150,000 |
| 2025 | 1,190,000 |
| 2026 | 1,225,000 |
| 2027 | 1,265,000 |
| Thereafter | <u>21,900,000</u> |
| | 27,850,000 |
| Less loan issue costs | <u>423,426</u> |
| | <u><u>\$ 27,426,574</u></u> |

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

Note 9. Net Assets with Donor Restrictions

At September 30, 2022, net assets with donor restrictions consist of time and purpose restricted programs, chairs and endowments. The net assets with donor restrictions consist of the following:

| | Balance September 30, 2021 | Additions, Transfers and Changes in Discount | Releases | Balance September 30, 2022 |
|--|----------------------------------|--|----------------|----------------------------------|
| Time restrictions: | | | | |
| Promises to give - securing our futures | \$ 3,558,469 | \$ 126,725 | \$ (2,001,000) | \$ 1,684,194 |
| Promises to give - capital campaign | - | 10,377,616 | (2,200,000) | 8,177,616 |
| Total time-restricted | 3,558,469 | 10,504,341 | (4,201,000) | 9,861,810 |
| Purpose restrictions—Projects: | | | | |
| Asia Programs | 2,453,589 | 3,642,262 | (3,864,261) | 2,231,590 |
| Global Health Program | 1,108,117 | 2,795,574 | (2,010,735) | 1,892,956 |
| International Security Program | 464,663 | 2,301,210 | (1,560,467) | 1,205,406 |
| AI Governance | - | 90,000 | (2,875) | 87,125 |
| Other Projects | 3,214,609 | - | (540,142) | 2,674,467 |
| Strategy Task Force | 143,643 | 23,354 | - | 166,997 |
| Europe Program | 255,806 | 300,827 | (256,156) | 300,477 |
| Energy Program | 764,172 | 341,783 | (983,100) | 122,855 |
| Middle East Program | 181,068 | 444,787 | (424,961) | 200,894 |
| TransNational ThreatsProgram | 51,070 | 949,990 | (629,398) | 371,662 |
| Simon Chair Program | 192,846 | 200,000 | (168,895) | 223,951 |
| AILA/Leadership Academy | 40,032 | 1,239,330 | (514,854) | 764,508 |
| Renewing American Innovation | - | 545,000 | (139,933) | 405,067 |
| Project on Prosperity and Development | 345,275 | 1,451,116 | (1,440,263) | 356,128 |
| Human Rights Initiative | 28,033 | 512,554 | (289,763) | 250,824 |
| Global Food Security | 251,077 | 349,850 | (353,962) | 246,965 |
| Scholl Chair Program | 4,519 | 133,500 | (120,174) | 17,845 |
| Technology Policy Program | 273,072 | 140,000 | (310,592) | 102,480 |
| Africa Program | - | 85,000 | (71,660) | 13,340 |
| Australia Chair | - | 525,000 | (322,275) | 202,725 |
| Americas Program | - | 291,423 | (229,117) | 62,306 |
| Humanitarian Agenda | - | 25,000 | (25,000) | - |
| Development | 691,367 | 40,750 | (497,995) | 234,122 |
| Total projects | 10,462,958 | 16,428,310 | (14,756,578) | 12,134,690 |
| Purpose restrictions—Chairs: | | | | |
| Abshire-Inamori Academy | 6,534,780 | 171,567 | (241,748) | 6,464,599 |
| Simon Chair | 2,149,930 | 56,552 | (79,687) | 2,126,795 |
| Dr. Abshire Annual Lecture | 1,030,215 | 28,139 | (39,567) | 1,018,787 |
| Intern Scholars | 891,014 | 23,495 | (33,199) | 881,310 |
| Hamre Endowment | 500,000 | - | - | 500,000 |
| Harold Brown | 879,627 | 47,536 | (66,962) | 860,201 |
| Zbigniew Brzezinski Annual Prize and Lecture | 594,254 | 15,572 | (21,982) | 587,844 |
| Schreyer Chair | 543,588 | 15,162 | (21,319) | 537,431 |
| Moorer Leadership | 345,847 | 9,152 | (12,929) | 342,070 |
| Sam Nunn Annual Lecture | 335,561 | 8,742 | (12,397) | 331,906 |
| Kissinger Chair | 277,795 | 7,923 | (11,214) | 274,504 |
| Burke Chair | 43,388 | 1,639 | (2,323) | 42,704 |
| Total chairs | 14,125,999 | 385,479 | (543,327) | 13,968,151 |
| Total time and purpose restricted | 28,147,426 | 27,318,130 | (19,500,905) | 35,964,651 |

(Continued)

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

Note 9. Net Assets with Donor Restrictions (Continued)

| | Balance September 30, 2021 | Additions, Transfers and Changes in Discount | Releases | Balance September 30, 2022 |
|---|----------------------------------|--|-----------------|----------------------------------|
| Endowment | | | | |
| Endowment not subject to appropriations: | | | | |
| Korea Chair | \$ 3,900,000 | \$ - | \$ - | \$ 3,900,000 |
| Dracopoulos Ethics & Intern Scholarship | 1,000,000 | - | - | 1,000,000 |
| Dracopoulos Ideas Lab | 8,500,000 | - | - | 8,500,000 |
| Howard Leach | 1,000,000 | - | - | 1,000,000 |
| Khosravi Chair | 3,000,000 | - | - | 3,000,000 |
| Scholl Chair | 1,800,000 | - | - | 1,800,000 |
| Abshire Lecture | 182,705 | - | - | 182,705 |
| Freeman Chair in China Studies | 3,840,000 | - | - | 3,840,000 |
| Anderson Fund | 960,500 | - | - | 960,500 |
| Brzezinski Chair | 603,198 | - | - | 603,198 |
| Lillan and Robert D. Stuart Jr. Center | 5,000,000 | - | - | 5,000,000 |
| Langone Chair | 1,500,000 | - | - | 1,500,000 |
| Harold Brown Chair | 500,000 | - | - | 500,000 |
| Total endowments not subject to appropriations | 31,786,403 | - | - | 31,786,403 |
| Cumulative earnings on endowment | | | | |
| subject to appropriations | 5,691,822 | 980,503 | (1,472,532) | 5,199,793 |
| Total endowment | 37,478,225 | 980,503 | (1,472,532) | 36,986,196 |
| | \$ 65,625,651 | \$ 28,298,633 | \$ (20,973,437) | \$ 72,950,847 |

Promises to give for the capital campaign and Securing Our Futures Capital Campaign Fund at September 30, 2022, as noted above, are \$9,861,810, a difference of \$2,439,239, as compared to total promises to give of \$12,301,049 per Note 5. This difference consists of \$1,957,839 of campaign related permanently restricted endowment promises to give and \$481,400 for non-campaign related programs of CSIS.

Note 10. Endowment Funds

Interpretation of relevant law: CSIS has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CSIS classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Center for Strategic and International Studies, Inc.

Notes to Financial Statements

Note 10. Endowment Funds (Continued)

In accordance with UPMIFA, CSIS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purpose of CSIS and donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

Investment and spending policies: CSIS invests all endowment funds including board-designated endowments in a pooled fund managed by an investment manager according to the objectives and guidelines of the CSIS's Statement of Investment Policy. The Finance and Investment Committee is specifically charged with conducting periodic reviews of the performance and mix of the investments that make up the CSIS Endowment Fund portfolio. Annually, CSIS spends approximately 4% of the three-year rolling average of the Endowment Fund balance.

Endowment Fund activity for the year ended September 30, 2022, consists of the following:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------------|
| Endowment net assets, beginning of year | \$ - | \$ 37,478,225 | \$ 37,478,225 |
| Investment gain, net | - | 980,503 | 980,503 |
| Amounts appropriated for expenditure | - | (1,472,532) | (1,472,532) |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 36,986,196</u> | <u>\$ 36,986,196</u> |

All CSIS endowment funds are included with the investments as shown in Note 4.

Endowment net assets are composed of the following funds at September 30, 2022:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------|-------------------------------|----------------------------|----------------------|
| Donor-restricted endowment funds | \$ - | \$ 36,986,196 | \$ 36,986,196 |
| Board-designated endowment funds | - | - | - |
| | <u>\$ -</u> | <u>\$ 36,986,196</u> | <u>\$ 36,986,196</u> |

Notes to Financial Statements

Note 11. Retirement Plan

CSIS has a defined contribution retirement plan (the Plan) covering all full-time employees who have completed two years of service. Under the Plan, CSIS makes contributions to retirement funds based on a percentage of the payroll of covered employees. These contributions, together with voluntary employee contributions, are used to purchase annuities, the right to which is vested immediately with the employee. During the year ended September 30, 2022, CSIS contributed \$1,535,074 to the Plan.

Note 12. Contingency

Federal grants: CSIS participates in federally-assisted grant programs which are subject to a financial and compliance audit by the federal agency or their representatives. Management does not anticipate any significant adjustments as a result of such an audit.

Pandemic: The continued global pandemic in 2022 has created substantial volatility in financial markets and the economy, including geographical areas in which CSIS operates. While CSIS has mitigated the financial impact to its business, it is unknown how long these conditions will last and what the complete financial effect will be to CSIS. Accordingly, there could be further negative impact to operations, the extent to which will depend on future developments, which are highly uncertain and cannot be predicted, and as such cannot be determined.

Note 13. Conditional Promises to Give from Donors

CSIS has conditional promises (mainly conditional grants) to give from the U.S. government of \$2,417,472 as of September 30, 2022. Future payments are contingent upon CSIS carrying out certain activities (meeting donor-imposed barriers) stipulated by the grant or contract.

Independent Auditor's Report on the Supplementary Information

Board of Trustees
Center for Strategic and International Studies, Inc.

We have audited the financial statements of Center for Strategic and International Studies, Inc. (CSIS) as of and for the year ended September 30, 2022, and have issued our report thereon which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis 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 supplementary 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 supplementary information for the year ended September 30, 2022, is fairly stated in all material respects in relation to the 2021 financial statements as a whole.

The supplementary information for the year ended September 30, 2021, was previously audited by us and, in our report dated March 21, 2022, we expressed an unmodified opinion on such information in relation to the 2021 financial statements as a whole.

RSM US LLP

Washington, D.C.
March 29, 2023

Center for Strategic and International Studies, Inc.

**Fringe Benefit Rate Calculation
Year Ended September 30, 2022
(With Comparative Totals for 2021)**

| | 2022 | 2021 |
|--|----------------------|---------------|
| Salaries expense* | \$ 25,907,645 | \$ 24,179,353 |
| Fringe benefits expense | \$ 5,502,505 | \$ 5,184,663 |
| Fringe benefits as a percent of salaries | 21.24% | 21.44% |

*Salaries expense excludes leased employees.

Center for Strategic and International Studies, Inc.

**Management and General Rate Calculation
Year Ended September 30, 2022
(With Comparative Totals for 2021)**

| | 2022 | 2021 |
|--|----------------------|----------------------|
| Management and general expenses: | | |
| Salaries | \$ 7,719,406 | \$ 7,113,982 |
| Facilities cost allocation | 1,367,217 | 1,542,365 |
| Consultants and subgrants | 830,125 | 585,850 |
| Fringe benefits | 1,503,876 | 1,470,773 |
| Depreciation | 833,602 | 581,951 |
| Property tax | 45 | - |
| Facilities management and maintenance | 207 | 620 |
| Other | 148,278 | 121,813 |
| Dues, memberships, and registrations | 279,632 | 198,970 |
| Legal, audit and insurance | 372,822 | 426,583 |
| Office expenses | 86,642 | 156,896 |
| Computer services | 614,094 | 434,612 |
| Telephone | 88,808 | 165,682 |
| Books and publications | - | 1,079 |
| | <hr/> | <hr/> |
| Total management and general expenses | \$ 13,844,754 | \$ 12,801,176 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Direct costs: | | |
| Programs | \$ 31,879,120 | \$ 27,678,961 |
| Development | 2,939,304 | 2,854,156 |
| | <hr/> | <hr/> |
| Total direct costs | \$ 34,818,424 | \$ 30,533,117 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Management and general expenses as a percentage of direct costs | 39.76% | 41.93% |
| | <hr/> <hr/> | <hr/> <hr/> |

Center for Strategic and International Studies, Inc.

Uniform Guidance
Supplementary Financial Report
September 30, 2022

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**Report 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***

RSM US LLP

Independent Auditor's Report

Board of Trustees
Center for Strategic and International Studies, Inc.

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of Center for Strategic and International Studies, Inc. (CSIS), which comprise CSIS's balance sheet as of September 30, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise CSIS's basic financial statements, and have issued our report thereon dated March 29, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CSIS'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 CSIS's internal control. Accordingly, we do not express an opinion on the effectiveness of CSIS'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 CSIS'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 CSIS'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 CSIS's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CSIS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Washington, D.C.
March 29, 2023

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the
Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

Board of Trustees
Center for Strategic and International Studies, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Center for Strategic and International Studies, Inc.'s (CSIS) 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 CSIS's major federal programs for the year ended September 30, 2022. CSIS'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, CSIS 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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CSIS 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 CSIS'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 CSIS's federal programs.

Auditor's 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 CSIS'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 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 CSIS's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with 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 CSIS'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 CSIS'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 CSIS'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 a 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 Auditor's 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of CSIS as of and for the year ended September 30, 2022 and have issued our report thereon dated March 29, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 as a whole.

RSM US LLP

Washington, D.C.
March 29, 2023

Center for Strategic and International Studies, Inc.

**Schedule of Expenditures of Federal Awards
Year Ended September 30, 2022**

| Federal Awarding Agency/Pass-through Entity/Program Title | Assistance Listing Number | Federal Grant or Contract Number | Federal Expenditures | Amount Provided to Subrecipients |
|--|---------------------------------|-------------------------------------|-------------------------|--|
| Research and Development Cluster | | | | |
| U.S. Department of Energy | | | | |
| Defense Nuclear Nonproliferation Research | 81.113 | | | |
| Project on Nuclear Issues (PONI) - FY20-FY21 | | DE-NA0003970 | \$ 305,592 | \$ - |
| European Trilateral Track II Nuclear Dialogue FY20-FY21 | | DE-NA0003970 | 219,478 | - |
| Project on Nuclear Issues (PONI) - FY22-FY23 | | DE-NA0003970 | 102,748 | - |
| European Trilateral Track II Nuclear Dialogue FY22-FY23 | | DE-NA0003970 | 60,549 | - |
| Total U.S. Department of Energy | | | <u>688,367</u> | <u>-</u> |
| U.S. Department of State | | | | |
| Public Diplomacy Programs | 19.040 | | | |
| U.S. Embassy Beijing CSIS Industrial Policy | | SCH50021CA3063 | 233,400 | - |
| U.S. Japan-Philippines Trilateral Dialogue | | SJA80022GR0003 | 83,119 | - |
| Oceans of Opportunity: Southeast Asia's Shared Maritime Challenges | | | | |
| Pass-through programs from: | | | | |
| Institute for War & Peace Reporting US: | | | | |
| GEC Information Access Fund | | SGECPD19CA0026 | 94,866 | - |
| | | | <u>411,385</u> | <u>-</u> |
| International Programs to Support Democracy, Human Rights and Labor | 19.345 | | | |
| Blockchain and Facial Recognition: | | | | |
| Human Rights Opportunities and Challenges | | SLMAQM-19CA-2243 | 83,710 | - |
| Cyber Capacity Building | 19.035 | | | |
| Strengthening International Engagement on Security in Cyberspace | | SLMAQM-19-CA-2393 | 122,411 | - |
| Total U.S. Department of State | | | <u>617,506</u> | <u>-</u> |
| Total Federal Expenditures (all Research and Development Cluster) | | | <u>\$ 1,305,873</u> | <u>\$ -</u> |

See notes to schedule of expenditures of federal awards.

Center for Strategic and International Studies, Inc.

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Center for Strategic and International Studies, Inc. (CSIS) under programs of the federal government for the year ended September 30, 2022. 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CSIS, it is not intended to and does not present the financial position, changes in net assets or cash flows of CSIS.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

CSIS has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Reconciliation

The accompanying schedule of expenditures of federal awards is reconciled to the statement of activities for the year ended September 30, 2022, of CSIS as follows:

| | |
|--|----------------------------|
| Total expenditures of federal awards per the Schedule | \$ 1,305,873 |
| Reconciling item: | |
| Federal fixed price grants not subject to reporting on the Schedule of expenditures of federal Awards | <u>5,529,533</u> |
| Total federal grant revenue per the Statement of Activities | <u><u>\$ 6,835,406</u></u> |

Center for Strategic and International Studies, Inc.

**Schedule of Findings and Questioned Costs
Year Ended September 30, 2022**

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? 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? 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 program:

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: \$ 750,000

Auditee qualified as low-risk auditee? X Yes No

(Continued)

Center for Strategic and International Studies, Inc.

**Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2022**

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

None reported.

Center for Strategic and International Studies, Inc.

**Summary Schedule of Prior Audit Findings
Year Ended September 30, 2022**

There were no findings reported for the year ended September 30, 2021.