HUDSON INSTITUTE, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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YEARS ENDED DECEMBER 31, 2022 AND 2021

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hudson Institute, Inc.
Washington, DC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hudson Institute, Inc. (the Institute), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hudson Institute, Inc. as of December 31, 2022 and 2021, and change in 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Hudson Institute, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, in 2022 Hudson Institute, Inc. adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

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 Hudson Institute, Inc.'s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Board of Trustees
Hudson Institute, Inc.

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 GAAS 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 GAAS, 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 Hudson Institute, Inc.'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 Hudson Institute, Inc.'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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
May 4, 2023

HUDSON INSTITUTE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and Cash Equivalents	$ 4,323,028	$ 3,792,923
Federal Government Grant and Contract Receivables	313,911	345,674
Board Designated Contribution Receivables	2,076,268	-
Undesignated Contribution Receivables and Other Receivables	3,329,861	429,186
Prepaid Expenses and Other	159,322	32,206
Investments	80,680,003	95,224,048
Right-of-Use Assets - Operating Lease	16,195,181	-
Property and Equipment, Net	3,648,997	3,598,366.00
Total Assets	$ 110,726,571	$ 103,422,403
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,507,533	$ 1,404,808
Refundable Advances	1,339,030	-
Lease Liability - Operating Lease	20,560,508	-
Deferred Rent and Lease Incentive	-	4,253,140
Amounts Held for Third Parties	684,506	750,111
Total Liabilities	24,091,577	6,408,059
NET ASSETS		
Without Donor Restrictions:		
Available for Operations	(3,514,857)	3,407,445
Board-Designated (Quasi-Endowment)	69,301,405	74,286,863
Total Without Donor Restrictions	65,786,548	77,694,308
With Donor Restrictions:		
Research and Other	15,021,878	12,459,005
Endowment	5,826,568	6,861,031
Total With Donor Restrictions	20,848,446	19,320,036
Total Net Assets	86,634,994	97,014,344
Total Liabilities and Net Assets	$ 110,726,571	$ 103,422,403

See accompanying Notes to Financial Statements.

HUDSON INSTITUTE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUES			
Federal Government Grants and Contracts	$ 1,668,693	$ -	$ 1,668,693
Contributions	5,562,208	13,209,612	18,771,820
Net Transfer of Funds to Operations	(1,287,550)	274,000	(1,013,550)
Investment and Other Income	(1,175,696)	-	(1,175,696)
Net Assets Released from Restrictions	10,920,739	(10,920,739)	-
Total Operating Support and Revenues	15,688,394	2,562,873	18,251,267
OPERATING EXPENSES			
Program Services	18,157,072	-	18,157,072
Fundraising	2,074,026	-	2,074,026
General and Administrative	2,379,598	-	2,379,598
Total Operating Expenses	22,610,696	-	22,610,696
OPERATING SUPPORT AND REVENUES IN EXCESS OF OPERATING EXPENSES	(6,922,302)	2,562,873	(4,359,429)
NONOPERATING CHANGES			
Contributions	2,145,513	-	2,145,513
Investment Revenues	(8,418,521)	(760,463)	(9,178,984)
Net Transfer of Funds to Operations	1,287,550	(274,000)	1,013,550
Total Nonoperating Changes	(4,985,458)	(1,034,463)	(6,019,921)
CHANGE IN NET ASSETS	(11,907,760)	1,528,410	(10,379,350)
Net Assets - Beginning of Year	77,694,308	19,320,036	97,014,344
NET ASSETS - END OF YEAR	$ 65,786,548	$ 20,848,446	$ 86,634,994

See accompanying Notes to Financial Statements.

HUDSON INSTITUTE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUES			
Federal Government Grants and Contracts	$ 1,493,761	$ -	$ 1,493,761
Contributions	5,386,748	13,026,395	18,413,143
Net Transfer of Funds to Operations	3,126,000	248,000	3,374,000
Investment and Other Income	1,810,193	(113)	1,810,080
Net Assets Released from Restrictions	8,517,591	(8,517,591)	-
Total Operating Support and Revenues	20,334,293	4,756,691	25,090,984
OPERATING EXPENSES			
Program Services	15,547,753	-	15,547,753
Fundraising	1,554,731	-	1,554,731
General and Administrative	2,379,577	-	2,379,577
Total Operating Expenses	19,482,061	-	19,482,061
OPERATING SUPPORT AND REVENUES IN EXCESS OF OPERATING EXPENSES	852,232	4,756,691	5,608,923
NONOPERATING CHANGES			
Contributions	39,505	-	39,505
Investment Revenues	14,850,462	893,714	15,744,176
Net Transfer of Funds to Operations	(3,126,000)	(248,000)	(3,374,000)
Total Nonoperating Changes	11,763,967	645,714	12,409,681
CHANGE IN NET ASSETS	12,616,199	5,402,405	18,018,604
Net Assets - Beginning of Year	65,078,109	13,917,631	78,995,740
NET ASSETS - END OF YEAR	$ 77,694,308	$ 19,320,036	$ 97,014,344

See accompanying Notes to Financial Statements.

HUDSON INSTITUTE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (10,379,350)	$ 18,018,604
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	493,191	558,469
Amortization of Right-of-Use Asset	164	
Impact of Lease Standard Implementation	112,187	
Net Unrealized and Realized Loss (Gain) on Investments	12,624,374	(15,387,409)
(Increase) Decrease in Assets:		
Federal Government Grant and Contract Receivables	31,763	(212,861)
Board Designated Contribution Receivable	(2,076,268)	-
Undesignated Contribution Receivables and Other Receivables	(2,900,675)	1,190,329
Prepaid Expenses and Other	(127,116)	23,581
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	102,725	409,716
Refundable Advances	1,339,030	-
Deferred Rent and Lease Incentive	-	(319,537)
Net Cash (Used) Provided by Operating Activities	(779,975)	4,280,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments and Reinvestment of Earnings	(14,017,017)	(17,564,400)
Sales and Maturities of Investments	15,936,688	14,164,432
Purchase of Property and Equipment	(543,986)	-
Center for Religious Freedom Advances, Net	(65,605)	(134,595)
Net Cash Provided (Used) by Investing Activities	1,310,080	(3,534,563)
CHANGE IN CASH AND CASH EQUIVALENTS	530,105	746,329
Cash and Cash Equivalents - Beginning of Year	3,792,923	3,046,594
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,323,028	$ 3,792,923
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING ACTIVITIES		
Noncash Transactions Arising from the ASC 842 Adoption:		
Recognition of Right-of-Use Asset	(16,195,181)	-
Recognition of Lease Liability	20,560,508	-
Write off of Deferred Rent and Lease Incentive	(4,253,140)	-
Contributed Securities	$ 354,580	$ 652,208

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Hudson Institute, Inc. (the Institute) was incorporated as a nonprofit organization in July 1961 under the laws of the state of New York. The Institute's mission is primarily to promote American leadership and global engagement for a secure, free, and prosperous future. The majority of the Institute's revenues are derived from foundations, corporations, individuals, and federal government contracts.

Basis of Accounting

The financial statements of the Institute have been prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

Cash equivalents in the Institute's endowment and quasi-endowment investment portfolio are excluded from cash and cash equivalents on the statement of financial position. It is the Institute's practice to place its cash and cash equivalents and investments in high credit quality financial institutions, which, at times, may exceed federally insured limits. The Institute has not experienced any losses from such accounts.

Investments

Investments are recorded at fair value in the accompanying statement of financial position. Gains and losses on investments are reported in the accompanying statement of activities as increases or decreases in net assets without donor restrictions, unless their use is with donor restrictions or restricted by law.

The Institute has significant investments in mutual funds, money market funds, corporate securities, and fixed income high yield bond funds, and is therefore subject to concentrations of interest rate, market and credit risk. Investments are made by investment managers engaged by the Institute and the investments are monitored for the Institute by an investment committee. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes its investment policies are prudent for the long-term welfare of the Institute.

Donated securities or other assets that have no donor-imposed restrictions and that are immediately converted into cash are recorded as cash flows from operating activities in the statement of cash flows and shown in the supplemental disclosures.

Property and Equipment

Expenditures for property and equipment over $5,000, computer software over $100,000, and other items which substantially increase the useful lives of existing assets are capitalized at cost. Depreciation and amortization on all property and equipment, including capitalized leases, is computed using the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Leasehold improvements are depreciated over their respective lease terms.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Institute leases office space and equipment and determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets represent the Institute's right to use an underlying asset for the lease term and lease liabilities represent the Institute's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Institute will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The Institute has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the statement of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Institute has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

The Institute has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

Deferred Rent and Lease Incentive

For the period ended December 31, 2021, a deferred rent liability has been recorded to reflect the lease incentives received with the office lease agreement.

For the period ended December 31, 2021, a liability has been recorded to reflect the lease incentive received through a tenant improvement allowance in connection with the office lease agreement.

Refundable Advances

The Institute has received grant funds from donor that have not been recognized as revenue because the conditions of the grants have not been met.

Net Assets

The financial statements of the Institute have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Institute maintains its accounts in accordance with the principles of fund accounting. Under this method of accounting, resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For financial reporting purposes, however, the Institute follows the reporting requirements of U.S. GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follows:

Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of gifts without restrictions, including those designated by the board of trustees (the board) to function as a quasi-endowment.

The endowment component of net assets without donor restrictions is comprised of amounts designated by the board to function as a quasi-endowment. The quasi-endowment was established for the purpose of generating long-term investment income from which an annual distribution will be transferred to the operating fund annually, and equal to 5% of the fund's fair value, as valued at the end of the previous year. During, 2022 the board approved a change to using the average of the quarter-end balances for the past three years.

With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Institute (i.e., a purpose restriction) or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including endowment funds. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – Inputs to the valuation methodology are based upon unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques (market, cost, or income approach). The market approach evaluates prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach evaluates the amount that would be required to replace the service capacity of an asset (i.e., replacement cost). The income approach uses techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following describes the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Money Market and Mutual Funds – Valued at the net asset value (NAV) of shares held by the Institute at year-end.

Fixed Income High Yield Bond Funds – Valued at the closing price reported on the active market on which the individual funds are traded.

Corporate Securities – Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

As permitted by U.S. GAAP, the Institute uses NAV as a practical expedient to determine the fair value of certain investments, and these investments have not been classified in the fair value hierarchy.

Revenue Recognition and Contributions Receivable

The Institute recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Consequently, at December 31, 2022, contributions equaling $4,504,336 have not been recognized in the accompanying statement of activities because the conditions on which they depend have not yet been met.

Contributions receivable consist of unconditional contributions and are recorded in the year the promise is made. Unconditional contributions that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Contributions, including unconditional contributions, are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Conditional contributions are not included as revenue until the conditions on which they depend are fully met.

Contribution receivables of $2,880,021 and $322,686 were restricted for research projects as of December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, the Institute wrote off $320 and $1,293, respectively, of contributions receivable. Additionally, all contributions receivable were current at December 31, 2022 and 2021.

Contributions with donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Institute reports noncash gifts as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are acquired or placed in service.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Contributions Receivable (Continued)

The Institute reports contribution revenue when they are promised by the donor, or when cash is received if not pledged. An allowance is established with a charge to current period operations when, in the opinion of management, the full collection of a receivable is doubtful. As of December 31, 2022 and 2021, an allowance is not considered necessary by management.

Registration for special events is presented at gross on the statements of activities. Costs of the events are presented within the expenses on the accompanying statements of activities. All goods and services are transferred at a point in time.

Certain board members have established donor-advised funds to support potential future work by an Institute scholar. They are held by a separate sponsoring organization and do not appear in the Institute's statements of financial position. Revenues will be recognized when the funds are released based on donor instructions.

Federal Government Grant and Contract Revenue

The Institute performs activities under cost-reimbursable contracts and grants with the U.S. government. These contracts and grants are for various activities performed by the Institute, including research, studies, and independent reviews. For the year ended December 31, 2022, the U.S. Department of Defense (DOD) accounted for 73% of the Institute's federal government contract and grant revenues. For the year ended December 31, 2021, the U.S. Department of Defense (DOD) accounted for 63% of the Institute's federal government contract and grant revenues. The U.S. Department of Justice (DOJ) accounted for 31% of the Institute's federal government contract and grant revenues.

The Institute recognizes government and private contracts and grants as either contributions or exchange transactions, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional. Typically, contract and grant agreements contain a right of return or right of release from obligation provision and the Institute has limited discretion over how funds transferred should be spent. As such, the Institute recognizes revenue for these conditional contributions when the related barrier has been overcome.

The Institute reports federal government grant and contract amounts restricted by donors, that were initially conditional, as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) simultaneous to conditions being met.

Contracts and grants are generally invoiced either quarterly for recoverable costs incurred in the preceding quarter (for the DOJ grant), or at the end of the contract (for DOD contracts). For federal contracts and grants, which are all accounted for as contributions, the Institute had $1,180,043 in unrecognized conditional contributions as of December 31, 2022.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Government Grant and Contract Revenue (Continued)

The revenue related to these awards is conditional on incurring allowable expenditures under the terms of the agreements. Funding provided from federal government contracts and grants is subject to audit and acceptance by the contracting agency. Management considers contracts and grants receivable to be fully collectible; therefore, no provision has been made for contracts and grants receivable that may not be collected in future periods. Receivables are determined to be past due based on contractual terms.

Income Taxes

The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and from applicable state income taxes. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

The Institute has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

The Institute files informational income tax returns in the U.S. federal jurisdiction and New York State. The Institute is not currently under audit by any income tax jurisdiction.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations

For the year ended December 31, 2022, the Institute received $5,200,000, equaling 25% of its contributions, from one entity. For the year ended December 31, 2021, the Institute received $5,635,000, equaling 31% of its contributions, from two entities.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note 13. The functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include depreciation, which is allocated on the basis of other office expense, and occupancy and insurance expenses, which are allocated on the basis of compensation costs. Compensation costs in turn, are allocated on the basis of estimates of time and effort

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases.

Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Institute adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021, are made under prior lease guidance in FASB *Accounting Standards Codification* (ASC) 840.

The Institute has elected to adopt the package of practical expedients available in the year of adoption.

The Institute elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Institute recognized on January 1, 2022, operating ROU asset of $16,195,181 and operating ROU liability of $20,560,508. Additional detail regarding leases is provided in Note 10 – Leases.

The standard had a material impact on the statements of financial position and statements of cash flows but did not have an impact on the statements of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Measure of Operations

The Institute's operating revenues in excess of expenses and transfers include all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from the quasi-endowment fund to support current operating activities. The measure of operations includes support for operating activities from net assets without donor restrictions. The measure of operations excludes contributions to the endowment and quasi-endowment, investment return in excess of amounts made available for current support, and all other changes in net assets with donor restrictions.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain balances for the fiscal year ended December 31, 2021 have been reclassified to reflect comparative presentation with the fiscal year ended December 31, 2022.

Subsequent Events

The date to which events occurring after December 31, 2022, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is May 4, 2023, which is the date on which the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and capital construction costs not financed with debt, were as follows at December 31:

	2022	2021
Financial Assets Available Within One Year:		
Cash and Cash Equivalents	$ 4,323,028	$ 3,792,923
Federal Government Grants and Contracts Receivable	313,911	345,674
Undesignated Contribution Receivables and Other Receivables	449,059	106,500
Working Capital Investments	6,943,796	13,326,046
Board Designations:		
Succeeding Year Quasi-Endowment Payout	3,157,000	3,714,000
Total Financial Assets Available Within One Year	$ 15,186,794	$ 21,285,143

The contributions receivable are subject to time restrictions, but will be collected within one year. The Institute's endowment funds consist of a board-designated quasi-endowment with a spending rate of 5% and an endowment with a spending rate of 4%. Although the Institute does not intend to spend from this quasi-endowment other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation, these amounts could be made available if necessary.

The Institute's cash flows have seasonal variations during the year attributable to a concentration of contributions received at calendar and fiscal year-end. To manage liquidity, the Institute maintains a line of credit with a bank that is drawn upon as needed during the year to manage cash flows. The line of credit is due on demand (see Note 6).

NOTE 3 INVESTMENTS

The following tables present assets and liabilities measured at fair value on a recurring basis at December 31:

December 31, 2022	Fair Value	Level 1	Level 2	Level 3
Quasi-Endowment Fund:				
Money Market Funds	$ 2,987,077	$ 2,987,077	$ -	$ -
Mutual Funds:				
Small Blend Equities	9,532,784	9,532,784	-	-
International Equities	5,514,844	5,514,844	-	-
Moderate Allocation Equities	5,348,769	5,348,769	-	-
Large Blend Equities	19,805,582	19,805,582	-	-
Mid-Cap Equities	2,634,244	2,634,244	-	-
Fixed Income	3,043,344	3,043,344	-	-
Corporate Securities	18,358,491	18,358,491	-	-
Endowment Fund:				
Money Market Funds	247,180	247,180	-	-
Mutual Funds:		-		
International Equities	3,337,277	3,337,277	-	-
Large Blend Equities	2,242,111	2,242,111	-	-
Working Capital Investments:				
Mutual Funds:				
Mid-Cap Equities	468,761	468,761	-	-
Large Blend Equities	5,769,835	5,769,835	-	-
Corporate Securities	705,198	705,198	-	-
Subtotal	79,995,497	79,995,497		
Center for Religious Freedom:				
Money Market Funds	684,506	684,506	-	-
Total Investments at Fair Value	$ 80,680,003	$ 80,680,003	$ -	$ -

NOTE 3 INVESTMENTS (CONTINUED)

December 31, 2021	Fair Value	Level 1	Level 2	Level 3
Quasi-Endowment Fund:				
Money Market Funds	$ 3,952,591	$ 3,952,591	$ -	$ -
Mutual Funds:				
Small Blend Equities	10,592,051	10,592,051	-	-
International Equities	6,724,578	6,724,578	-	-
Moderate Allocation Equities	5,458,382	5,458,382	-	-
Large Blend Equities	22,357,909	22,357,909	-	-
Mid-Cap Equities	3,292,902	3,292,902	-	-
Fixed Income	4,106,011	4,106,011	-	-
Corporate Securities	17,802,439	17,802,439	-	-
Endowment Fund:				
Money Market Funds	378,422	378,422	-	-
Mutual Funds:				
International Equities	4,159,690	4,159,690	-	-
Large Blend Equities	2,322,919	2,322,919	-	-
Working Capital Investments:				
U.S. Treasury Bills	4,998,800	4,998,800	-	-
Mutual Funds:				
Mid-Cap Equities	585,968	585,968	-	-
Large Blend Equities	6,967,066	6,967,066	-	-
Corporate Securities	774,209	774,209	-	-
Subtotal	94,473,937	94,473,937	-	-
Center for Religious Freedom:				
Money Market Funds	750,111	750,111	-	-
Herman Kahn Fellowship Fund:				
Mutual Funds - Large Blend Equities	-	-	-	-
Total Investments at Fair Value	$ 95,224,048	$ 95,224,048	$ -	$ -

Total investment return is comprised of the following at December 31:

	2022	2021
Interest and Dividend Income	$ 2,269,646	$ 2,166,816
Net Realized and Unrealized Gains	(12,624,374)	15,387,409
Total Investment Income	$ (10,354,728)	$ 17,554,225

The Institute invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Institute's investments and the amounts reported in the statement of financial position and the statement of activities.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at December 31 consist of:

	2022	2021
Leasehold Improvements	$ 5,629,168	$ 5,473,720
Automated Equipment	352,525	360,163
Office Furniture and Equipment	823,523	680,657
Total	6,805,216	6,514,540
Less: Accumulated Depreciation	(3,156,219)	(2,916,174)
Property and Equipment, Net	$ 3,648,997	$ 3,598,366

NOTE 5 AMOUNTS HELD FOR THIRD PARTIES

The amounts held for third parties are held for the Center for Religious Freedom (the Center). The Center moved its programs and operations to the Institute on January 1, 2007. Additionally, the Center transferred its investment account, which is treated as agency funds by the Institute. An agreement between the Institute and the Center Director indicates either the Center or the Institute shall have the right to end and sever the relationship of the Center with the Institute upon thirty (30) days written notice at any time, with all unspent Center funds to revert to the Center or such other institute as is designated by the Center Director, provided that such transferee is at the time of such transfer an institute exempt from tax under Section 501(c)(3) of the IRC. The agreement provides for the Institute to collect contributions on behalf of the Center and perform administrative duties for the Center. The Center is charged for administrative expenses incurred, including all direct administrative expenses plus a 25% fee of these direct expenses, exclusive of rent, as overhead to the Institute. The transferred Center funds are shown on the Institute's statement of financial position within investments in the assets section, and as amounts held for third parties in the liabilities section.

NOTE 6 LINE OF CREDIT

In July 2015, the Institute entered into a line of credit with a commercial bank for $1,500,000, which is due on demand. In April 2019, the line of credit was increased to $2,500,000. The Institute's business assets are collateral for the borrowings on the line of credit. Interest is at the bank's floating prime rate. At December 31, 2022 and 2021, there were no borrowings outstanding on the line.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as follows at December 31:

	2022	2021
Subject to Expenditure for Specified Purpose:		
Endowment Fund - Japan Chair	$ 5,826,568	$ 6,861,031
National Security and Foreign Policy	12,999,691	10,965,714
Economic and Domestic Policy	1,997,541	1,453,911
Herman Kahn Fellowship Fund	-	14,732
Bill Schweitzer Memorial Fund	24,646	24,648
Total Net Assets with Donor Restrictions	$ 20,848,446	$ 19,320,036

The various purposes of the above donor-restricted amounts are as follows:

Endowment Fund – Japan Chair – Initiative to expand and deepen policy work in such areas as security, defense, and defense technology, in regard to the U.S. relationship with the nation of Japan.

National Security and Foreign Policy – Projects focused on U.S. foreign policy, trade, global development; nuclear, biological and cyber-terrorism; missile technology and national defense; religious freedom and human rights.

Economic and Domestic Policy – Projects focused on U.S. domestic policy, political studies, economic issues, quantum computing, and American common culture.

Herman Kahn Fellowship Fund – Initiatives to support scholarship and training programs for young scholars.

Bill Schweitzer Memorial Fund – Initiatives to support an annual lecture series focused on leadership and sports in the U.S. in honor of former trustee William Schweitzer.

Funds Subject to Expenditure for Specified Time Period – Contributions in the form of stock held until a later date of sale, or contributions from fundraising dinners held until the event is completed.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets released from donor restriction by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, is as follows at December 31:

	2022	2021
Purpose Restrictions Accomplished:		
National Security and Foreign Policy	$ 8,293,757	$ 6,104,407
Economic and Domestic Policy	2,338,249	2,049,792
Herman Kahn Fellowship Fund	14,733	115,392
Endowment Fund - Japan Chair	274,000	248,000
Total Net Assets Released from Donor Restrictions	$ 10,920,739	$ 8,517,591

NOTE 8 NET ASSETS AVAILABLE FOR OPERATIONS

The Institute's operating revenues in excess of expenses and transfers include all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers (to) or from the quasi-endowment fund to support current operating activities. "Net Assets Available for Operations" includes support for operating activities from net assets without donor restrictions and excludes contributions to the endowment and quasi-endowment, investment return in excess of amounts made available for current support, and all other changes in net assets with donor restrictions.

Changes in net assets available for operations for the years ended December 31 are as follows:

	Without Donor Restrictions Available for Operations	
	2022	2021
Net Assets Available for Operations- Beginning of Year	$ 3,407,445	$ 2,555,213
Investment Return:		
Investment Income	205,191	190,439
Net Appreciation	(1,380,887)	1,619,754
Total Investment Return	(1,175,696)	1,810,193
Operating Activities:		
Operating Revenues	7,230,901	6,880,509
Transfer from Funds from Board-Designated Funds to Operations	3,714,000	3,126,000
Operating Expenses	(22,610,696)	(19,482,061)
Net Assets Released from Restrictions	10,920,739	8,517,591
Net Operating Expenses in Excess of Operating Revenues	(745,056)	(957,961)
Transfer of Funds from Operations to Board-Designated Funds	(5,001,550)	-
Net Assets Available for Operations - End of Year	$ (3,514,857)	$ 3,407,445

NOTE 9 ENDOWMENT AND BOARD-DESIGNATED FUNDS (QUASI-ENDOWMENT)

The Institute's endowment consists of Board-designated funds (quasi-endowment) established for a variety of purposes and a true endowment fund established to fund operating expenses of the Institute's Japan Chair. The Japan Chair endowment funds are required to be maintained permanently, either by explicit donor stipulation or by the New York Uniform Prudent Management of Institutional Funds Act (UPMIFA). As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Institute has interpreted 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, the Institute classifies the following as net assets with donor restrictions perpetual in nature: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts of the permanent endowment, and (c) accumulations to its permanent endowment required by the applicable donor gift instrument. Appreciation on donor-restricted endowment funds is classified in net assets with donor restrictions until such amounts are appropriated for spending by the Institute's Finance and Investment Committee in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- The duration and preservation of the fund;
- The purpose of the Institute and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the Institute.

Distribution of any gift, bequest or fund is governed by the Institute's governing documents and donor agreements. All Institute endowment funds make available the use of principal, which is able to be utilized for the intended purpose of the fund. Board-designated endowments do not possess external spending restrictions and, therefore, are classified as net assets without donor restrictions.

Return Objectives and Risk Parameters

The Institute has adopted investment and spending policies for endowment assets and board-designated quasi-endowment funds that seek to provide a predictable stream of revenue while seeking to maintain and expand the principal.

Under the Institute's policy, both endowment and board-designated assets are invested in a diversified portfolio to manage risk and protect assets while providing a moderate rate of return.

NOTE 9 ENDOWMENT AND BOARD-DESIGNATED FUNDS (QUASI-ENDOWMENT) (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy its long-term, rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Institute targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Finance and Investment Committee of the Institute Board, composed largely of investment professionals, meets three times per year in person (and telephonically when necessary) to recommend investment allocations subject to Board approval.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Institute has a spending policy for the endowment fund of appropriating for expenditure 4% of its endowment fund’s fair value, as valued at the end of the previous year. The Institute has a spending policy for the board-designated (quasi-endowment) fund of appropriating for expenditure 5% of its board-designated fund’s fair value, as valued at the end of the previous year, annually. During 2022, the board approved a change to appropriating for expenditures of 5% of the average quarter-end balances of the past three years. In establishing this policy, the Board considered the long-term expected return on its endowment and board-designated funds to exceed 5% annually over time. This is consistent with the Institute’s objective to maintain the purchasing power of endowment assets held in perpetuity for a specified term, as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gift donated to the permanent endowment. Deficiencies of this nature are reported as net assets with donor restrictions.

For funds with a fair value below the original value of the gift, annual spending may be limited at the Institute’s discretion until the fair value returns to the required level. At December 31, 2022 and 2021, there were no endowment funds with a fair value below the original value of the gift. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in net assets with donor restrictions.

NOTE 9 ENDOWMENT AND BOARD-DESIGNATED FUNDS (QUASI-ENDOWMENT) (CONTINUED)

Funds with Deficiencies (Continued)

Changes in board-designated (Quasi-endowment) net assets for the years ended December 31 are as follows:

	Without Donor Restrictions (Quasi-Endowment)	
	2022	2021
Quasi-Endowment Net Assets - Beginning of Year	$ 74,286,863	$ 62,522,869
Investment Return:		
Investment Income	1,921,786	1,836,821
Net Appreciation	(10,340,307)	13,013,641
Total Investment Return	(8,418,521)	14,850,462
Contributions	2,145,513	39,505
Transfers from Operations	5,001,550	-
Appropriation of Endowment Assets for Operating Expenditures	(3,714,000)	(3,126,000)
Quasi-Endowment Net Assets - End of Year	$ 69,301,405	$ 74,286,836
Quasi-Endowment Net Assets	$ 69,301,405	$ 74,286,863
Available for Operations	(3,514,857)	3,407,445
Total Net Assets Without Donor Restrictions	$ 65,786,548	$ 77,694,308

Changes in endowment net assets for the year ended December 31 are as follows:

	With Donor Restrictions (Endowment)	
	2022	2021
Endowment Net Assets - Beginning of Year	$ 6,861,031	$ 6,215,317
Investment Return:		
Investment Income	142,717	139,586
Net Appreciation	(903,180)	754,128
Total Investment Return	(760,463)	893,714
Distributions	(274,000)	(248,000)
Endowment Net Assets - End of Year	$ 5,826,568	$ 6,861,031

NOTE 10 LEASE COMMITMENTS

Effective February 1, 2016, the Institute entered into a lease for office space under a noncancelable operating lease that expires in January 2029. This lease contains one renewal option for five years and requires the Institute to pay certain executory costs (property taxes, maintenance, and insurance). The lease provides for rental escalations throughout the lease term. Rent expense for this lease is reported using the straight-line method rather than using the terms of the lease agreement. In addition, the Institute received a rent abatement of one year and leasehold tenant improvement allowance in the amount of $2,269,840.

Effective January 1, 2019, the lease was amended to include additional office space on the same floor. The amended lease includes three additional months of rent abatement and extends the base lease to January 31, 2031. It also includes an additional tenant improvement allowance in the amount of $1,229,165.

The Institute has a letter of credit of $811,134 with a commercial bank that serves as a security deposit on the lease. In April 2019, the letter of credit was increased to $1,286,993. The letter of credit will be automatically renewed annually through April 30, 2031.

The following table provides quantitative information concerning the Institute’s leases:

	2022
Lease Costs	
Operating Lease Costs	$ 2,553,427
Other Information	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:	
Operating Cash Flows from Operating Leases	2,441,007
Weighted-Average Remaining Lease Term:	
Operating Leases	6.9
Weighted-Average Discount Rate:	
Operating Leases	1.55%

NOTE 10 LEASE COMMITMENTS (CONTINUED)

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2022, is as follows:

Year Ending December 31,	Operating Leases
2023	$ 2,496,002
2024	2,552,162
2025	2,609,585
2026	2,668,301
2027	2,728,338
Thereafter	8,802,398
Total Lease Payments	21,856,786
Less: Interest	(1,337,802)
Present Value of Lease Liabilities	$ 20,518,984

Rent expense for the years ended December 31, 2022 and 2021 was $2,553,427 and $2,065,677, respectively.

NOTE 11 EMPLOYEE BENEFITS

The Institute has a defined-contribution pension plan (the Plan) covering substantially all full-time employees. To be eligible for participation, employees must be at least 21 years of age and work a minimum of 1,000 hours per year. Effective March 15, 2013, the Plan was amended to require one year of service for participation. Employer contributions are discretionary. For the years ended December 31, 2022 and 2021, the Institute made a matching contribution of 200% of employee elective deferrals up to a maximum of 4% of compensation. Plan expense was $553,367 and $520,064 for the years ended December 31, 2022 and 2021, respectively.

NOTE 12 RELATED PARTY TRANSACTIONS

Support from trustees of the Institute totaled $3,990,672 and $3,094,975 for the years ended December 31, 2022 and 2021, respectively. There was no support outstanding as of December 31, 2022 and 2021. This support represented 18% and 16% of total support for the years ended December 31, 2022 and 2021, respectively.

NOTE 13 FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, information technology, office and occupancy, which are allocated on the basis of compensation costs except for depreciation, which is allocated on the basis of office expense. Compensation costs are allocated on the basis of estimates of time and effort.

NOTE 13 FUNCTIONAL EXPENSES (CONTINUED)

During the years ended December 31, 2022 and 2021, expenses incurred by the Institute were for the following:

December 31, 2022	Program Services	Fundraising	General and Administrative	Total
Compensation	$ 9,715,379	$ 776,974	$ 1,236,449	$ 11,728,802
Conferences	238,005	391,429	40,209	669,643
Information Technology	413,927	19,014	27,845	460,786
Occupancy	2,290,910	197,474	670,661	3,159,045
Other	455,620	125,948	240,014	821,582
Professional Fees	4,249,745	359,009	159,961	4,768,715
Travel	793,486	204,178	4,459	1,002,123
Total Expenses by Function	$ 18,157,072	$ 2,074,026	$ 2,379,598	$ 22,610,696
December 31, 2021				
Compensation	$ 8,960,533	$ 679,088	$ 1,222,598	$ 10,862,219
Conferences	119,098	345,982	45,688	510,768
Information Technology	312,610	18,953	30,467	362,030
Occupancy	1,910,025	179,085	662,775	2,751,885
Other	532,264	91,097	143,251	766,612
Professional Fees	3,291,821	98,757	257,525	3,648,103
Travel	421,402	141,769	17,273	580,444
Total Expenses by Function	$ 15,547,753	$ 1,554,731	$ 2,379,577	$ 19,482,061