

# **National Endowment for Democracy**

Financial Report  
September 30, 2018

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## Independent Auditor's Report

To the Board of Directors  
National Endowment for Democracy

### Report on the Financial Statements

We have audited the accompanying financial statements of National Endowment for Democracy (the Endowment), which comprise the balance sheet as of September 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Endowment for Democracy as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the Endowment's 2017 financial statements, and we have expressed an unmodified opinion on those audited financial statements in our report dated January 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, 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 January \_\_, 2019, on our consideration of the Endowment'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Endowment's internal control over financial reporting and compliance.

*RSM US LLP*

Washington, D.C.  
February 13, 2019

**National Endowment for Democracy**

**Balance Sheet**

**September 30, 2018**

**(With Comparative Totals for 2017)**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 6,030,575	\$ 3,372,575
Investments	1,253,448	1,161,863
Grants receivable from the U.S. Department of State	119,998,097	120,847,439
Other receivables	110,316	8,821
Prepaid and other assets	898,112	971,759
Property and equipment, net	799,672	827,677
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 129,090,220</b>	<b>\$ 127,190,134</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,770,597	\$ 1,697,654
Grants payable	122,774,038	120,764,579
Refundable advances, due to U.S. Department of State	109,407	147,634
Deferred rent and lease incentives	1,036,408	1,281,395
	<hr/>	<hr/>
	<b>125,690,450</b>	<b>123,891,262</b>
	<hr/> <hr/>	<hr/> <hr/>
Commitments and contingency (Notes 8 and 10)		
Net assets:		
Unrestricted	3,135,527	2,872,686
Temporarily restricted	264,243	426,186
	<hr/>	<hr/>
	<b>3,399,770</b>	<b>3,298,872</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities and net assets</b>	<b>\$ 129,090,220</b>	<b>\$ 127,190,134</b>

See notes to financial statements.

**National Endowment for Democracy**

**Statement of Activities**

**Year Ended September 30, 2018**

**(With Comparative Totals for 2017)**

	2018			2017 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Grant revenue – U.S. government	\$ 187,172,306	\$ -	\$ 187,172,306	\$ 186,173,697
Grant revenue – Other sources	130,000	495,050	625,050	75,000
Democracy award revenue	12,952	25,000	37,952	44,050
Global assembly revenue	293,869	93,350	387,219	140,000
Contributions	5,077	25,000	30,077	16,025
Other revenue, investment and miscellaneous income	442,105	-	442,105	436,237
Net assets released from restrictions	800,343	(800,343)	-	-
<b>Total support and revenue</b>	<b>188,856,652</b>	<b>(161,943)</b>	<b>188,694,709</b>	<b>186,885,009</b>
Expenses:				
Program services:				
Federal grants programs	155,582,492	-	155,582,492	155,072,884
Other activities – federal	5,282,246	-	5,282,246	5,071,304
Other activities – non-federal	1,194,138	-	1,194,138	269,372
<b>Total program services</b>	<b>162,058,876</b>	<b>-</b>	<b>162,058,876</b>	<b>160,413,560</b>
Supporting services:				
Management and general	26,534,935	-	26,534,935	26,076,101
<b>Total supporting services</b>	<b>26,534,935</b>	<b>-</b>	<b>26,534,935</b>	<b>26,076,101</b>
<b>Total expenses</b>	<b>188,593,811</b>	<b>-</b>	<b>188,593,811</b>	<b>186,489,661</b>
<b>Change in net assets</b>	<b>262,841</b>	<b>(161,943)</b>	<b>100,898</b>	<b>395,348</b>
Net assets:				
Beginning	2,872,686	426,186	3,298,872	2,903,524
Ending	<b>\$ 3,135,527</b>	<b>\$ 264,243</b>	<b>\$ 3,399,770</b>	<b>\$ 3,298,872</b>

See notes to financial statements.

**National Endowment for Democracy**

**Statement of Cash Flows**  
**Year Ended September 30, 2018**  
**(With Comparative Totals for 2017)**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 100,898	\$ 395,348
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	314,089	298,659
Unrealized gain on investments	(39,546)	(76,318)
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable from U.S. Department of State	849,342	(14,887,407)
Other receivables	(101,495)	67,557
Prepaid expenses and other assets	73,647	(81,433)
Increase (decrease) in:		
Accounts payable and accrued liabilities	72,943	130,961
Grants payable	2,009,459	3,886,440
Refundable advances, due to U.S. Department of State	(38,227)	(67,003)
Deferred revenue, non-federal grants	-	(30,807)
Deferred rent and lease incentives	(244,987)	(148,733)
<b>Net cash provided by (used in) operating activities</b>	<b>2,996,123</b>	<b>(10,512,736)</b>
Cash flows from investing activities:		
Purchases of investments	(52,038)	(42,441)
Purchases of property and equipment	(286,085)	(214,100)
<b>Net cash used in investing activities</b>	<b>(338,123)</b>	<b>(256,541)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,658,000</b>	<b>(10,769,277)</b>
Cash and cash equivalents:		
Beginning	3,372,575	14,141,852
Ending	<b>\$ 6,030,575</b>	<b>\$ 3,372,575</b>

See notes to financial statements.

## National Endowment for Democracy

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** National Endowment for Democracy (the Endowment) is a nonprofit organization based in Washington, D.C. The establishment of the Endowment in 1983 was followed by the National Endowment for Democracy Act (the Act) of the United States Congress, which authorized the terms by which the Endowment could receive an annual appropriation from Congress in the form of a grant awarded through the United States Information Agency (USIA). The purpose of the Endowment is to encourage free and democratic institutions throughout the world through activities that promote individual rights and freedoms. The Endowment awards grants to organizations with programs consistent with its objectives. On October 1, 1999, USIA and the U.S. Department of State (DOS) consolidated. Accordingly, the Endowment receives funding for its annual Congressional Appropriation and other special federal funding from the DOS.

A summary of the Endowment's significant accounting policies follows:

**Basis of accounting:** The financial statements are prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred. The Endowment reports quarterly to the U.S. government on the basis of grant obligations incurred and accrual-based expenses for democracy promotion activities. The Single Audit schedule of federal awards is reported on the basis of cash payments made to subrecipients

**Basis of presentation:** The Endowment is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets at September 30, 2018.

**Unrestricted net assets:** Contributions and other inflows of assets whose use is not subject to donor-imposed stipulations.

**Temporarily restricted net assets:** Contributions and other inflows of assets whose use is subject to donor-imposed stipulations that either expire by the passage of time or will be met by actions of the Endowment pursuant to those stipulations, such as usage for specific programs.

**Cash and cash equivalents:** For purposes of reporting cash flows, the Endowment considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Endowment had no cash equivalents as of September 30, 2018.

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

The Endowment invests in mutual funds. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to change 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.

**Investments:** The Endowment's investments consist entirely of mutual funds and are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is included as a component of investment income in the statement of activities and changes in net assets.



## National Endowment for Democracy

### Notes to Financial Statements

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

**Fair value of financial instruments:** The carrying amounts of the Endowment's financial instruments, including cash and cash equivalents, receivables and accounts and grants payable, approximate fair value because of the short maturity of these instruments. Investments are carried at fair value.

**Grants receivable:** Grants receivable are due from DOS and represent unreimbursed funds obligated by the Endowment to other organizations and administrative costs incurred by the Endowment. When the Endowment incurs expenses and obligates grants to the various organizations, a receivable from the DOS and a related grant payable is recorded. In order for the Endowment to subsequently disburse payments for program grants, democracy promotion activities and general and administrative costs, funding draw requests are submitted directly by the Endowment in the government's electronic payment management system against active authorizations made available by DOS under each specific award. When cash advances are received from the awarding agency, the receivable is reduced. Management does not obligate any grants until the funding is approved and thus, determined that there is no need for provision for doubtful accounts at September 30, 2018.

**Property and equipment:** Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line methods over the estimated useful lives of the related assets, which range from three to ten years. The Endowment capitalizes all property and equipment purchased with a cost of \$5,000 or more.

**Valuation of long-lived assets:** The Endowment accounts for the valuation of long-lived assets by reviewing such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets 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 reportable at the lower of the carrying amount or fair value, less costs to sell.

**Grants payables:** Grants payable represent the undisbursed balances of funds obligated to the Endowment's grantees. Grantee organizations are entitled to collect funds as needed in accordance with the terms of the grant agreement.

**Refundable advances – due to DOS:** Amount represents funds returned to the Endowment by grantees for grants that have been deobligated. Funds are in turn either repaid to DOS, or otherwise applied against the grants receivable balance and used to fund new grantee funding requests as appropriate.

**Support and revenue:** The Endowment receives grants from DOS and private grantors for various purposes. Grants received from DOS specify the periods in which monies are to be expended. Additionally, certain government grants restrict the use of funds for programs in specific countries or regions. Revenue from government grants is recognized as earned in the year in which the Endowment obligates the funds for the intended purpose that is set forth in the grant agreement and for administrative expenses incurred. Revenue from private grantors is recognized as earned in the year received.

Agreements with DOS provide for the subsequent audit of costs funded under the grant agreements. It is the policy of the Endowment to provide for cost disallowances based upon its experience in previous grant audits. There was no provision for such disallowance for the year ended September 30, 2018.

## National Endowment for Democracy

### Notes to Financial Statements

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

**Contributions:** The Endowment reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified in the statement of activities as net assets released from restrictions. Income on these net assets is classified as temporarily restricted or unrestricted, in accordance with the donor's stipulation. The Endowment treats all contributions with donor restrictions that are satisfied within the same fiscal year as unrestricted activities for purposes of financial statement presentation.

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

**Income taxes:** The Endowment is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Endowment qualifies for charitable contributions deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was an estimated federal tax liability of \$30,210 for unrelated business income tax for the year ended September 30, 2018.

Management has evaluated the Endowment's tax positions and has concluded that the Endowment has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Endowment files tax returns in the U.S. federal jurisdictions. Generally, the Endowment is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2015.

**Prior year information:** The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Endowment's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

**Recent accounting pronouncements:** In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the effect that the standard will have on the financial statements.

## National Endowment for Democracy

### Notes to Financial Statements

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, 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 income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Endowment is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management is currently evaluating the impact of this ASU on the financial statements.

In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Where the Organization is a resource provider, the ASU is effective for annual periods beginning December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the impact of the adoption of this guidance on its financial statements.

**Subsequent events:** Subsequent events have been evaluated through February 13, 2019, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction that would require an additional adjustment to or disclosure in the accompanying financial statements.

## National Endowment for Democracy

### Notes to Financial Statements

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#### Note 2. Investments and Fair Value Measurements

The Endowment's investments are measured at fair value and consist entirely of amounts invested in mutual funds.

The Fair Value Measurement Topic of the FASB Codification (the Codification) defines fair value 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 and sets out a fair value hierarchy. 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 corroborated by market data.

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

In determining the appropriate levels, the Endowment performs a detailed analysis of the assets and liabilities that are subject to accounting for fair value measurements. At each reporting period all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets or liabilities held by the Endowment at September 30, 2018.

The Endowment's investments are mainly comprised of mutual funds and domestic equities. The Endowment had no unfunded commitments to these investments. The Endowment is permitted to make redemptions at any time and amount. The fair values of these investments have been estimated using net asset value per share of the investment that is the quoted market price in the active market; therefore, these investments are considered a Level 1 item.

	Assets at Fair Value as of September 30, 2018			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
Large growth	\$ 817,071	\$ 817,071	\$ -	\$ -
Intermediate-term bonds	394,532	394,532	-	-
	<u>1,211,603</u>	<u>1,211,603</u>	<u>-</u>	<u>-</u>
Stocks:				
Domestic equity	41,845	41,845	-	-
	<u>41,845</u>	<u>41,845</u>	<u>-</u>	<u>-</u>
	<u>\$1,253,448</u>	<u>\$1,253,448</u>	<u>\$ -</u>	<u>\$ -</u>

## National Endowment for Democracy

### Notes to Financial Statements

#### Note 3. Property and Equipment

Property and equipment and related accumulated depreciation and amortization at September 30, 2018, consist of the following:

Asset Category	Estimated Lives	Cost	Accumulated Depreciation and Amortization	Net	Depreciation and Amortization Expense
Leasehold improvements	5-10 years	\$ 5,204,263	\$ 4,893,889	\$ 310,374	\$ 118,855
Furniture and fixtures	4-10 years	563,889	439,655	124,234	25,822
Office equipment	3-5 years	196,807	142,578	54,229	29,309
Computer equipment and software	3 years	1,388,330	1,077,495	310,835	140,103
		<u>\$ 7,353,289</u>	<u>\$ 6,553,617</u>	<u>\$ 799,672</u>	<u>\$ 314,089</u>

#### Note 4. Grant Revenue – U.S. Government

Federal awards received during the fiscal year ended September 30, 2018, are as follows:

Fiscal Year 2018 Congressional Annual Appropriation received from DOS	<u>\$ 170,000,000</u>
Other new grants and supplemental funding received from DOS during the year:	
Balkans 2018: Grantmaking Program Supporting Independent Media Initiatives in Southeast Europe	2,962,962
Burma 2016: Grantmaking Program to Promote Democracy and Human Rights in Burma	3,460,250
Cuba 2018: Grantmaking Program Advancing Democratic Rights, Political Pluralism and Independent Civil Society in Cuba	6,172,840
Eurasia 2014: Grantmaking Program Promoting Democracy in Eurasia Region, Georgia and the Kyrgyz Republic	987,654
Eurasia 2018: Grantmaking Program Promoting Democracy in Eurasia Region and Georgia	4,444,444
Europe 2017: Grantmaking Program Promoting Democracy in Europe	2,859,200
Europe 2018: Grantmaking Program Promoting Democracy in Europe, Countering Disinformation and Other Malign Influence in Central, Southeastern, and Eastern Europe	2,716,050
Total new grants and supplemental funding	<u>23,603,400</u>
Total awards received during the year	<u>\$ 193,603,400</u>
Federal grant revenue recognized during the fiscal year:	
Grants obligated, net of deobligations	\$ 155,582,492
Democracy promotion activities	5,282,246
Other grant-related expenses	26,307,568
	<u>\$ 187,172,306</u>

## National Endowment for Democracy

### Notes to Financial Statements

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#### Note 5. Program Services Expenses

Program services expenses for the year ended September 30, 2018, represent the following activities:

Federal grant programs	<u>\$ 155,582,492</u>
Other democracy promotion activities, federal:	
International Forum for Democratic Studies:	
Journal of Democracy	552,136
Research and conferences	52,142
Other Forum activities	864,019
Management and support	1,123,948
Democracy Resource Center	434,385
World Movement for Democracy	938,331
Center for International Media Assistance	741,891
Other democracy promotion activities	575,394
	<u>5,282,246</u>
Other democracy promotion activities, non-federal:	
International Forum for Democratic Studies:	
Journal of Democracy	1,100
Research and conferences	10,880
Other Forum activities	28,620
Management and support	7,408
World Movement for Democracy (WMD):	
WMD Global Assembly	914,956
Youth Fellowships & Engagement	91,928
Other WMD activities	39,009
Other Endowment events and development	100,237
	<u>1,194,138</u>
	<u>\$ 162,058,876</u>

## National Endowment for Democracy

### Notes to Financial Statements

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#### Note 6. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets by purpose during the year ended September 30, 2018, are as follows:

	Balance at September 30,				Balance at September 30,
	2017	Additions	Transfers	Releases	2018
World Movement for Democracy:					
WMD 9th Global Assembly 2018	\$ 236,867	\$ 150,000	\$ (27,952)	\$ (358,915)	\$ -
Hurford Youth Fellowship Program 2017-2018	68,115	-	-	(68,115)	-
Hurford Youth Fellowship Program 2018-2019	-	75,000	-	(47,019)	27,981
Ford Foundation - Democratic Renewal 2018-2019	-	248,400	-	(126,516)	121,884
Korea Foundation - Revitalizing Democratic Citizenship 2018	-	140,000	-	(86,283)	53,717
International Forum:					
SRF Sharp Power 2016-2018	31,482	-	-	(31,482)	-
Penn Kemble Youth Forum on Democracy	61,790	-	-	(8,649)	53,141
Other restrictions:					
Democracy Award Event	20,238	-	27,952	(48,190)	-
NED Service Medal Awards	7,694	-	-	(2,270)	5,424
Kahng Foundation - Human Rights Support	-	25,000	-	(22,904)	2,096
	<u>\$ 426,186</u>	<u>\$ 638,400</u>	<u>\$ -</u>	<u>\$ (800,343)</u>	<u>\$ 264,243</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the year ended September 30, 2018.

#### Note 7. Related Parties

The Endowment awards grants to various organizations to be used for programs that the Board of Directors determines are consistent with the purposes of the Act. Some of the organizations that submit proposals and are awarded funds have members of their Boards of Directors represented on the Board of Directors of the Endowment. Article VI, Section V of the Endowment's bylaws provides that any Board member who is an officer or director of an organization seeking to receive grants from the Endowment must abstain from considering a voting on such grant. The provision does not prevent any director from supplying factual information that the Board of Directors requests.

## National Endowment for Democracy

### Notes to Financial Statements

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#### Note 8. Operating Lease

The Endowment has a noncancellable operating lease that was amended on October 31, 2010, to include additional space and an extension of the lease term to March 31, 2021. The lease for office space includes a provision for rent escalations. The lease expense is recognized on a straight-line basis ratably over the term of the lease. The difference between the straight-line expense and the required lease payment is reflected as deferred rent and lease incentives in the accompanying balance sheet.

Future minimum rental payments required under the lease for office space are as follows:

Years ending September 30:	
2019	\$ 4,045,113
2020	4,146,241
2021	2,098,715
	<u>\$ 10,290,069</u>

Rent expense, including the Endowment's share of common building costs, was \$3,990,179 for the year ended September 30, 2018.

The Endowment has a standby letter of credit in the amount of \$188,661 from a commercial bank. The letter of credit represents the security deposit for the Endowment's noncancellable operating lease for office space. No funds were withdrawn from the letter of credit during the year ended September 30, 2018.

#### Note 9. Retirement Plan

The Endowment has a defined contribution annuity plan for all of its employees, under which the Endowment contributes a percentage of eligible employees' annual earnings to individually-owned tax-deferred annuity contracts. The Endowment's contribution to the plan is based on 10% of an eligible employee's annual earnings after the first year of employment. Employer contributions to the plan for the year ended September 30, 2018, were \$1,506,427.

#### Note 10. Contingency

**Federal awards:** The Endowment participates in a number of federally-assisted grant programs, which are subject to financial and compliance audits by the federal government or its representative. Separate audit reports may be received on these federal programs. Management does not anticipate significant adjustments as a result of such audits.

#### Note 11. Concentrations of Revenue

During the year ended September 30, 2018, substantially all of the Endowment's revenue was related to appropriations and grants from the U.S. government.



**Independent Auditor's Report on the Supplementary Information**

To the Board of Directors  
National Endowment for Democracy

We have audited the financial statements of the National Endowment for Democracy as of and for the year ended September 30, 2018, and have issued our report thereon, which contains an unmodified opinion on those financial statements. See pages 1 to 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Washington, D.C.  
February 13, 2019

**National Endowment for Democracy**

**Schedule of Functional Expenses**

**Year Ended September 30, 2018**

**(With Comparative Totals for 2017)**

	Program Services			Supporting Services			2018	2017
	Federal Grant Programs	Other Democracy Promotion Activities	Total Program Services	Management and General	Total Supporting Services			
Grants to others	\$ 155,582,492	\$ -	\$ 33,373	\$ 155,615,865	\$ -	\$ -	\$ 155,615,865	\$ 155,098,551
Fellowships	-	647,686	40,312	687,998	-	-	687,998	727,619
Salaries, wages and benefits	-	3,537,014	-	3,537,014	19,007,607	19,007,607	22,544,621	21,899,958
Occupancy and equipment	-	28,010	-	28,010	5,107,449	5,107,449	5,135,459	5,193,039
Professional fees	-	157,332	13,576	170,908	644,102	644,102	815,010	849,411
Travel and transportation	-	673,860	536,975	1,210,835	860,886	860,886	2,071,721	1,472,104
Conferences and meetings	-	90,777	523,077	613,854	42,237	42,237	656,091	210,837
Communications	-	26,265	50	26,315	306,001	306,001	332,316	279,415
Printing and publications	-	111,318	37,731	149,049	53,491	53,491	202,540	172,763
Insurance	-	-	-	-	97,994	97,994	97,994	91,268
Other	-	9,984	9,044	19,028	415,168	415,168	434,196	494,696
	<b>\$ 155,582,492</b>	<b>\$ 5,282,246</b>	<b>\$ 1,194,138</b>	<b>\$ 162,058,876</b>	<b>\$ 26,534,935</b>	<b>\$ 26,534,935</b>	<b>\$ 188,593,811</b>	<b>\$ 186,489,661</b>