

National Endowment for Democracy

Financial Report
September 30, 2020

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RSM US LLP

Independent Auditor's Report

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, 2020, the related statements of activities, functional expenses 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, 2020, 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 2019 financial statements, and we have expressed an unmodified opinion on those audited financial statements in our report dated April 20, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As disclosed in Notes 1 and 9 to the financial statements, during the year ended September 30, 2020 the Endowment adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Additionally, as disclosed in Note 1 to the financial statements, during September 30, 2020, the Endowment adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Endowment's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
June 18, 2021

National Endowment for Democracy

Balance Sheet

September 30, 2020

(With Comparative Totals for 2019)

	2020	2019
Assets		
Cash and cash equivalents	\$ 6,190,499	\$ 5,490,561
Investments	1,521,183	1,354,062
Grants receivable from the U.S. Department of State	28,565,320	134,713,791
Other receivables	661,073	169,265
Prepaid and other assets	2,198,197	968,453
Lease incentive receivable	10,795,167	-
Property and equipment, net	2,078,414	645,295
Right-of-use assets	76,345,614	-
	<u>6,190,499</u>	<u>5,490,561</u>
Total assets	\$ 128,355,467	\$ 143,341,427
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 3,241,781	\$ 1,802,593
Grants payable	29,427,508	136,266,535
Refundable advances, due to U.S. Department of State	850,324	500,289
Capitalized lease obligation	32,259	60,142
Deferred rent	-	692,760
Long-term lease liabilities	89,133,114	-
	<u>3,241,781</u>	<u>1,802,593</u>
	<u>122,684,986</u>	<u>139,322,319</u>
Commitments and contingency (Note 11)		
Net assets:		
Without donor restrictions:		
General unrestricted funds	4,422,868	3,504,272
Board-designated Funds		
Office leasehold improvements and related costs	678,915	-
Fund for Democracy in the 21st Century	145,000	135,000
	<u>4,422,868</u>	<u>3,504,272</u>
	<u>5,246,783</u>	<u>3,639,272</u>
With donor restrictions	423,698	379,836
	<u>423,698</u>	<u>379,836</u>
	<u>5,670,481</u>	<u>4,019,108</u>
Total liabilities and net assets	\$ 128,355,467	\$ 143,341,427

See notes to financial statements.

National Endowment for Democracy

Statement of Activities

Year Ended September 30, 2020

(With Comparative Totals for 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Grant revenue – U.S. government	\$ 90,568,762	\$ -	\$ 90,568,762	\$ 196,487,807
Grant revenue – Other sources	-	75,000	75,000	250,265
Democracy award revenue	-	50,000	50,000	32,361
Global assembly revenue	-	-	-	82,200
Contributions	28,200	50,000	78,200	157,689
Other revenue, investment and miscellaneous income	1,692,767	-	1,692,767	444,046
Net assets released from restrictions	131,138	(131,138)	-	-
Total support and revenue	92,420,867	43,862	92,464,729	197,454,368
Expenses:				
Program services:				
Federal grants programs (Note 1)	54,151,141	-	54,151,141	163,875,753
Other activities – federal	5,159,476	-	5,159,476	4,891,827
Other activities – non-federal	214,586	-	214,586	320,496
Total program services	59,525,203	-	59,525,203	169,088,076
Supporting services:				
Management and general	31,288,153	-	31,288,153	27,746,954
Total supporting services	31,288,153	-	31,288,153	27,746,954
Total expenses	90,813,356	-	90,813,356	196,835,030
Change in net assets	1,607,511	43,862	1,651,373	619,338
Net assets:				
Beginning	3,639,272	379,836	4,019,108	3,399,770
Ending	\$ 5,246,783	\$ 423,698	\$ 5,670,481	\$ 4,019,108

See notes to financial statements.

National Endowment for Democracy

Statement of Functional Expenses Year Ended September 30, 2020 (With Comparative Totals for 2019)

	Program Services				Supporting Services			2020	2019
	Federal Grant Programs	Other Democracy Support Activities		Total Program Services	Management and General	Total Supporting Services			
		Federal	Non-Federal						
Grants expense (Note 1)	\$ 54,151,141	\$ -	\$ -	\$ 54,151,141	\$ -	\$ -	\$ 54,151,141	\$ 164,008,460	
Fellowships & Internships	-	664,591	23,585	688,176	5,760	5,760	693,936	590,184	
Salaries, wages and benefits	-	3,934,258	674	3,934,932	21,694,345	21,694,345	25,629,277	23,395,020	
Occupancy and equipment	-	32,205	-	32,205	6,430,877	6,430,877	6,463,082	5,042,207	
Professional fees	-	191,362	69,360	260,722	1,880,537	1,880,537	2,141,259	948,467	
Travel and transportation	-	172,932	15,209	188,141	451,284	451,284	639,425	1,450,313	
Conferences and meetings	-	40,019	63,014	103,033	8,656	8,656	111,689	244,794	
Communications	-	18,984	13,100	32,084	285,377	285,377	317,461	296,340	
Printing and publications	-	97,831	13,639	111,470	13,767	13,767	125,237	123,576	
Insurance	-	-	-	-	135,189	135,189	135,189	119,537	
Other	-	7,294	16,005	23,299	382,361	382,361	405,660	616,132	
Total expenses	\$ 54,151,141	\$ 5,159,476	\$ 214,586	\$ 59,525,203	\$ 31,288,153	\$ 31,288,153	\$ 90,813,356	\$ 196,835,030	

See notes to financial statements.

National Endowment for Democracy

Statement of Cash Flows Year Ended September 30, 2020 (With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 1,651,373	\$ 619,338
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	354,128	351,525
Amortization of right to use asset	1,487,845	-
Deferred rent	(692,760)	(343,648)
Realized and unrealized gain on investments	(112,289)	(28,478)
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable from U.S. Department of State	106,148,471	(14,715,694)
Other receivables	(491,808)	(58,949)
Prepaid expenses and other assets	(1,229,744)	(70,341)
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,439,188	31,996
Grants payable	(106,839,027)	13,492,497
Refundable advances, due to U.S. Department of State	350,035	390,882
Net cash provided by (used in) operating activities	2,065,412	(330,872)
Cash flows from investing activities:		
Purchases of investments	(54,832)	(72,136)
Purchases of property and equipment	(1,282,758)	(112,948)
Net cash used in investing activities	(1,337,590)	(185,084)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(27,884)	(24,058)
Net cash used in financing activities	(27,884)	(24,058)
Net increase (decrease) in cash and cash equivalents	699,938	(540,014)
Cash and cash equivalents:		
Beginning	5,490,561	6,030,575
Ending	\$ 6,190,499	\$ 5,490,561
Supplemental schedules of noncash investing and financing activities:		
Purchase of property and equipment included in obligations under capital leases	\$ -	\$ 84,200
Purchase of property and equipment acquired through lease incentive	\$ 504,489	\$ -
Right to use asset acquired through lease arrangements	\$ 76,345,614	\$ -

See notes to financial statements.

National Endowment for Democracy

Notes to Financial Statements

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 (the 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 support activities.

Basis of presentation: The Endowment is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Contributions and other inflows of assets whose use is not subject to donor-imposed stipulations.

Net assets with donor restriction: 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, 2020.

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 equities and are reflected at fair value. To adjust the carrying value of these investments, the change in fair 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

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

Grants receivable: Grants receivable are due from the DOS and represent unreimbursed funds owed by the Endowment to other organizations and administrative costs incurred by the Endowment. When the Endowment and its grantees incurs expenses, 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 support 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 the DOS under each specific award. When cash advances are received from the awarding agency, the receivable is reduced. Management does not advance funds for any grants until the funding is approved and thus, determined that there is no need for provision for doubtful accounts at September 30, 2020.

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 10 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 unliquidated funds advanced 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 the DOS: Amount represents funds returned to the Endowment by grantees for grants that have been deobligated. Funds are in turn either repaid to the 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 the DOS and private grantors for various purposes. Grants received from the 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 expends 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 the 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, 2020.

National Endowment for Democracy

Notes to Financial Statements

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

Contributions: The Endowment recognizes unconditional 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), net assets with donor restrictions are reclassified in the statement of activities as net assets released from restrictions. Income on these net assets is classified as with donor restrictions or without donor restrictions, in accordance with the donor's stipulation. The Endowment treats all contributions with donor restrictions that are satisfied within the same fiscal year as activities without donor restrictions for purposes of financial statement presentation. Conditional contributions are those contributions that contain donor imposed rights of return/refund and barriers (performance obligation and/or controlling stipulations). Conditional contributions are recognized into revenue when conditions are satisfied and then follow the above policies for unconditional contributions. Conditional contributions received in advance of satisfying conditions are recorded as deferred revenue.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles (U.S. GAAP) 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 no estimated federal tax liability for unrelated business income tax for the year ended September 30, 2020.

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 2017.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Endowment's financial statements for the year ended September 30, 2019, from which the summarized information was derived.

Accounting pronouncements adopted: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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 statement of activities. A modified retrospective transition approach is required for lessees with 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.

National Endowment for Democracy

Notes to Financial Statements

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

The Endowment early adopted the new standard in the year ended September 30, 2020. As a result, the Endowment recorded Right to Use Assets of \$76,345,614 and related lease liabilities of \$89,133,114 on the balance sheet at September 30, 2020. The Endowment executed a new office lease subject to this guidance during the year ended September 30, 2020. The existing office lease accounting was also modified to conform to the new standard.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers.

The provisions for both the resource recipient and resource provider were adopted by the Endowment in the fiscal year beginning October 1, 2019. As a result, the Endowment records revenue and expense on its grants made as the subgrantees expend the award rather than when it is obligated. The adoption of the standard impacted grants expense recorded as the Endowment made total grant obligations of \$253,597,040 during the fiscal year ended September 30, 2020, which would have otherwise been expensed under prior accounting policy. Of the funds obligated during fiscal year 2020, \$199,445,899 remained unspent by the Endowment's subgrantees as of September 30, 2020, resulting in a recorded grant expense for the organization of \$54,151,141.

Uncertainties: On January 30, 2020, the World Health Organization declared the coronavirus outbreak a Public Health Emergency of International Concern and on March 11, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets, including the geographical area and sectors in which the Endowment operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with coronavirus will last and what the complete financial effect will be on the Endowment. The extent of the impact of COVID-19 on the Endowment's operations and financial performance are uncertain and cannot be predicted. Management is continually monitoring the impact of COVID-19.

Subsequent events: Subsequent events have been evaluated through June 18, 2021, which is the date the financial statements were available to be issued.

National Endowment for Democracy

Notes to Financial Statements

Note 2. Liquidity and Availability of Financial Assets

The Endowment maintains a policy of structuring its financial assets to ensure availability as operational expenses come due. The table below represents financial assets as of September 30, 2020, that are available to fulfill both the organization's contractual obligations to its subrecipient grantees as well as requirements for general expenditures to be made over the course of the following year.

Cash and cash equivalents	\$ 6,190,499
Investments	1,521,183
Grants and other receivables, net	29,226,393
Total financial assets available	<u>36,938,075</u>
Less amounts not available to be used within one year:	
Refundable advances, due to U.S. Department of State	850,324
Restricted by donor with time or purpose restrictions	423,698
Restricted by board	823,915
	<u>2,097,937</u>
Financial assets available to meet general expenditures within one year	<u>\$ 34,840,138</u>

Note 3. Investments and Fair Value Measurements

The Endowment's investments are measured at fair value and consist almost 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, 2020.

National Endowment for Democracy

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

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, 2020			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
Large growth	\$ 1,022,725	\$ 1,022,725	\$ -	\$ -
Intermediate-term bonds	472,224	472,224	-	-
	<u>1,494,949</u>	<u>1,494,949</u>	-	-
Stocks:				
Domestic equity	26,234	26,234	-	-
	<u>26,234</u>	<u>26,234</u>	-	-
	<u>\$ 1,521,183</u>	<u>\$ 1,521,183</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4. Property and Equipment

Property and equipment and related accumulated depreciation and amortization at September 30, 2020, 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	\$ 5,143,380	\$ 60,883	\$ 124,746
Furniture and fixtures	4-10 years	563,889	480,320	83,569	16,262
Office equipment	3-5 years	303,297	252,984	50,313	55,339
Computer equipment and software	3 years	1,532,106	1,366,698	165,408	157,781
Construction in progress	-	1,718,241	-	1,718,241	-
		<u>\$ 9,321,796</u>	<u>\$ 7,243,382</u>	<u>\$ 2,078,414</u>	<u>\$ 354,128</u>

National Endowment for Democracy

Notes to Financial Statements

Note 5. Grant Revenue – U.S. Government

Federal awards received during the fiscal year ended September 30, 2020, are as follows:

Fiscal Year 2020 Congressional Annual Appropriation received from DOS	<u>\$ 300,000,000</u>
Other new grants and supplemental funding received from DOS during the year:	
Cuba 2020: Grantmaking Program Advancing Democratic Rights, Political Pluralism and Independent Civil Society in Cuba	6,172,840
Eurasia 2018: Grantmaking Program Promoting Democracy in Eurasia Region and Georgia	4,444,444
Europe 2017: Grantmaking Program Promoting Democracy in Europe	<u>5,743,085</u>
Total new grants and supplemental funding	<u>16,360,369</u>
 Total awards received during the year	 <u><u>\$ 316,360,369</u></u>
 Federal grant revenue recognized during the fiscal year:	
Grants obligated, net of deobligations	\$ 253,566,332
Less: Grantee unspent funds	(199,415,191)
Democracy support activities	5,159,476
Other grant-related expenses	<u>31,258,145</u>
	<u><u>\$ 90,568,762</u></u>

As of September 30, 2020, the Endowment has approximately \$272 million of revenue yet to be earned on its conditional grants from the U.S. Government. The amount is not recognized in the accompanying financial statements as such revenue is recognized over the multi-year period of each grant, conditional on the management of the Endowment complying with grant requirements.

National Endowment for Democracy

Notes to Financial Statements

Note 6. Program Services Expenses

Program services expenses for the year ended September 30, 2020, represent the following activities:

Federal grant programs	<u>\$ 54,151,141</u>
Other democracy support activities, federal:	
International Forum for Democratic Studies:	
Journal of Democracy	748,894
Research and conferences	52,533
Management and support	999,833
Reagan-Fascell Fellowships	1,028,616
Democracy Resource Center	494,715
World Movement for Democracy	681,435
Center for International Media Assistance	806,554
Other democracy support activities	<u>346,896</u>
	<u>5,159,476</u>
Other democracy support activities, non-federal:	
International Forum for Democratic Studies:	
Journal of Democracy	16,263
Research and conferences	10,000
Other Forum activities	71,975
Management and support	8,063
World Movement for Democracy (WMD):	
Youth Fellowships & Engagement	29,797
Other WMD activities	7,258
Other Endowment events and development	<u>71,230</u>
	<u>214,586</u>
	<u>\$ 59,525,203</u>

National Endowment for Democracy

Notes to Financial Statements

Note 7. Net Assets with Donor Restrictions

Changes in net assets with donor restrictions during the year ended September 30, 2020, are as follows:

	Balance at September 30,			Balance at September 30,
	2019	Additions	Releases	2020
Democracy Support Activities:				
WMD 10th Global Assembly	\$ 100,000	\$ -	\$ -	\$ 100,000
World Movement for Democracy:				
Hurford Youth Fellowship Program 2018-2019	1,115	-	(1,115)	-
Hurford Youth Fellowship Program 2019-2020	33,634	-	(33,634)	-
Hurford Youth Fellowship Program 2020-2021	-	75,000	(3,710)	71,290
Ford Foundation 2018-2019	2,969	-	(2,969)	-
International Forum:				
Smith Richardson Foundation 2019-2020	177,914	-	(79,173)	98,741
Penn Kemble Youth Forum on Democracy	41,806	50,000	(4,516)	87,290
Other restrictions:				
Democracy Award Event	-	50,000	(3,946)	46,054
NED Service Medal Awards & Other NED Public Events	20,323	-	-	20,323
Kahng Foundation	2,075	-	(2,075)	-
	<u>\$ 379,836</u>	<u>\$ 175,000</u>	<u>\$ (131,138)</u>	<u>\$ 423,698</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the year ended September 30, 2020.

Note 8. 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 may have members of their Boards of Directors represented on the Board of Directors of the Endowment. Article VI, Section III 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 consideration of and any vote on such a grant. The provision does not prevent any director from supplying factual information that the Board of Directors requests.

Note 9. Right to Use Lease Arrangement

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.

In May 2020, the Endowment entered into a second noncancellable operating lease to begin April 1, 2021, with a lease term through May 31, 2037. The leases for office space include a provision for rent escalations. The lease expense is recognized on a straight-line basis ratably over the term of the lease.

During 2020, the Endowment adopted ASU 2016-02, *Leases (Topic 842)*, resulting in a lease liability and Right to Use asset to be recorded on the balance sheet as of September 30, 2020, for both of the aforementioned leases. The leases are considered to be operating leases under the provisions of ASU 2016-02. The Endowment determined that as of September 30, 2020, there were no renewal options expected to be exercised and calculated operating lease schedules through May 31, 2037.

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Notes to Financial Statements

Note 9. Right to Use Lease Arrangement (Continued)

The Right to Use Liability and its maturity analysis are summarized as follows:

Years ending September 30:	
2021	\$ 2,098,715
2022	-
2023	2,403,647
2024	5,780,156
2025	5,924,660
Thereafter	81,088,511
Total minimum payments required	97,295,689
Less amounts representing interest	(8,162,575)
Present value of minimum lease payments	<u>\$ 89,133,114</u>

The Endowment does not have an established borrowing rate and therefore applied the risk free rate as of July, 2020, which was the accounting commencement date for the lease.

Total lease expense, including the Endowment's share of common building costs, was \$5,177,760 for the year ended September 30, 2020.

The Endowment has two standby letters of credit in the amounts of \$188,661 and \$452,810 for these leases, respectively. The letters of credit are held by the commercial banking institution where the Endowment maintains its primary operating funds, and represent the security deposits for the Endowment's noncancellable operating leases for office space. No funds were withdrawn from either letter of credit during the year ended September 30, 2020.

Note 10. 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, 2020, amounted to \$1,667,517.

Note 11. 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 12. Concentrations of Revenue

During the year ended September 30, 2020, substantially all of the Endowment's revenue was related to appropriations and grants from the U.S. government.