

National Endowment for Democracy

Financial Report
September 30, 2022

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Balance sheet	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-15



Independent Auditor's Report

RSM US LLP

Board of Directors
National Endowment for Democracy

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Endowment for Democracy (the Endowment), which comprise the balance sheet as of September 30, 2022, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Endowment as of September 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Endowment and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Endowment's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Endowment's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Endowment's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 10, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2023 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 the Endowment's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Endowment's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
February 8, 2023

National Endowment for Democracy

Balance Sheet

September 30, 2022

(With Comparative Totals for 2021)

	2022	2021
Assets		
Cash and cash equivalents	\$ 13,943,043	\$ 8,898,521
Investments	1,524,117	1,765,936
Grants receivable from the U.S. Department of State	8,663,087	19,096,636
Other receivables	67,691	1,176,889
Prepaid and other assets	5,874,834	4,788,507
Lease incentive receivable	-	1,151,538
Property and equipment, net	10,400,216	10,916,252
Right of use assets—operating leases	66,886,455	70,456,389
	\$ 107,359,443	\$ 118,250,668
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 4,135,844	\$ 3,128,176
Grants payable	6,885,875	15,771,999
Refundable advances, due to U.S. Department of State	1,425,649	4,895,821
Capitalized lease obligation	-	2,560
Long-term lease liabilities—operating leases	88,817,956	87,411,021
	101,265,324	111,209,577
Commitments and contingency (Note 11)		
Net assets:		
Without donor restrictions:		
General unrestricted funds	5,039,704	5,038,553
Board-designated funds:		
Office leasehold improvements and related costs	61,988	291,513
Fund for Democracy in the 21st Century	145,300	145,200
	5,246,992	5,475,266
With donor restrictions	847,127	1,565,825
	6,094,119	7,041,091
	\$ 107,359,443	\$ 118,250,668

See notes to financial statements.

National Endowment for Democracy

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

	2022			2021 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Grant revenue—U.S. government	\$ 321,202,997	\$ -	\$ 321,202,997	\$ 251,696,936
Grant revenue—other sources	245,001	-	245,001	-
Contributions	51,984	200,759	252,743	1,273,265
Other revenue, investment and miscellaneous income	157,944	-	157,944	830,375
Net assets released from restrictions	919,457	(919,457)	-	-
Total support and revenue	322,577,383	(718,698)	321,858,685	253,800,576
Expenses:				
Program services:				
Federal programs and activities:				
Federal grants programs (Note 1)	280,257,561	-	280,257,561	206,224,742
Endowment initiatives	6,263,422	-	6,263,422	5,413,152
Emergency response	2,982,587	-	2,982,587	2,259,069
Other nonfederal activities	1,392,655	-	1,392,655	648,134
Total program services	290,896,225	-	290,896,225	214,545,097
Supporting services:				
Management and general	31,909,432	-	31,909,432	37,884,869
Total supporting services	31,909,432	-	31,909,432	37,884,869
Total expenses	322,805,657	-	322,805,657	252,429,966
Change in net assets	(228,274)	(718,698)	(946,972)	1,370,610
Net assets:				
Beginning	5,475,266	1,565,825	7,041,091	5,670,481
Ending	\$ 5,246,992	\$ 847,127	\$ 6,094,119	\$ 7,041,091

See notes to financial statements.

National Endowment for Democracy

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

	Program Services				Supporting Services			2022	2021
	Federal Grant Programs	Federally-funded		Other Non-Federal Activities	Total Program Services	Management and General	Total Supporting Services		
		Endowment Initiatives	Emergency Response						
Grants expense (Note 1)	\$ 268,242,621	\$ -	\$ -	\$ -	\$ 268,242,621	\$ -	\$ -	\$ 268,242,621	\$ 206,190,522
Direct assistance	-	-	2,489,572	682,394	3,171,966	-	-	3,171,966	2,124,894
Fellowships and internships	-	652,489	-	60,488	712,977	9,728	9,728	722,705	484,470
Salaries, wages and benefits	11,575,391	4,705,257	316,827	406	16,597,881	17,142,902	17,142,902	33,740,783	29,080,116
Occupancy and equipment	-	34,333	-	164,855	199,188	8,638,824	8,638,824	8,838,012	9,796,113
Professional fees	107,191	326,197	87,114	40,195	560,697	4,045,318	4,045,318	4,606,015	3,200,403
Travel and transportation	332,358	289,195	82,322	134,737	838,612	492,215	492,215	1,330,827	64,502
Conferences and meetings	-	91,301	2,705	235,249	329,255	44,178	44,178	373,433	66,802
Communications	-	25,828	4,047	16,490	46,365	619,228	619,228	665,593	473,087
Printing and publications	-	127,189	-	23,896	151,085	17,036	17,036	168,121	180,271
Insurance	-	-	-	-	-	187,279	187,279	187,279	137,146
Other	-	11,633	-	33,945	45,578	712,724	712,724	758,302	631,640
Total expenses	\$ 280,257,561	\$ 6,263,422	\$ 2,982,587	\$ 1,392,655	\$ 290,896,225	\$ 31,909,432	\$ 31,909,432	\$ 322,805,657	\$ 252,429,966

See notes to financial statements.

National Endowment for Democracy

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

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (946,972)	\$ 1,370,610
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,181,223	723,657
Loss on disposal of property and equipment	-	71,814
Realized and unrealized loss (gain) on investments	327,540	(205,324)
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable from U.S. Department of State	10,433,549	9,468,684
Other receivables	1,109,198	(515,816)
Prepaid expenses and other assets	(1,086,327)	(2,590,310)
Amortization of right of use asset—operating leases	3,569,934	5,889,225
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,007,668	(113,605)
Grants payable	(8,886,124)	(13,655,509)
Refundable advances, due to U.S. Department of State	(3,470,172)	4,045,497
Long-term lease liabilities—operating leases	1,406,935	-
Net cash provided by operating activities	4,646,452	4,488,923
Cash flows from investing activities:		
Purchases of investments	(85,721)	(39,429)
Purchases of property and equipment	(665,187)	(1,711,773)
Net cash provided by (used in) investing activities	(750,908)	(1,751,202)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(2,560)	(29,699)
Net cash used in financing activities	(2,560)	(29,699)
Net increase in cash and cash equivalents	3,892,984	2,708,022
Cash and cash equivalents:		
Beginning	8,898,521	6,190,499
Ending	\$ 12,791,505	\$ 8,898,521
Supplemental schedule of noncash investing and financing activities:		
Purchase of property and equipment acquired through lease incentive	\$ -	\$ 9,779,826

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.

With support of the Department of State, and funded by its Annual Appropriation from Congress, the Endowment engaged in an emergency response effort in Afghanistan beginning in August 2021 to evacuate the staff and families of its core institutes and at-risk grantees and other partners and provided them temporary safe haven in third countries. The Endowment continues to provide food and housing assistance while supporting refugee resettlement both in the U.S. and abroad.

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, 2022.

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, 2022.

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 3 to 16 years. The Endowment capitalizes all property and equipment purchased with a cost of \$5,000 or more.

Right of use asset/liabilities: The Endowment recognizes right of use assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Right of use assets/liabilities are recognized at the lease commencement date based on the present value of the remaining lease payments over the lease term, using a risk-free rate. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. Lease expense is recognized on a straight-line basis over the term of the lease.

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 when unconditional.

National Endowment for Democracy

Notes to Financial Statements

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

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, 2022.

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 refundable advances.

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 organized as a District of Columbia nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as organization described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundation under IRC Sections 509(a)(1) and (3), respectively. The Endowment is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Endowment is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. We have determined that the Endowment is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

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, 2021, from which the summarized information was derived.

Subsequent events: The Endowment has evaluated subsequent events through February 8, 2023, the date on which 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, 2022, that are available to fulfill both the Endowment'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	\$ 13,943,043
Investments	1,524,117
Grants and other receivables	8,730,778
Total financial assets available	<u>24,197,938</u>
Less amounts not available to be used within one year:	
Refundable advances, due to U.S. Department of State	1,425,649
Restricted by donor with time or purpose restrictions	847,127
Restricted by board	207,288
	<u>2,480,064</u>
Financial assets available to meet general expenditures within one year	<u>\$ 21,717,874</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 Financial Accounting Standards Board (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, 2022.

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.

National Endowment for Democracy

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

Assets at fair value as of September 30, 2022, consist of the following:

	Total	Level 1	Level 2	Level 3
Mutual funds:				
Large growth	\$ 1,082,442	\$ 1,082,442	\$ -	\$ -
Intermediate-term bonds	406,248	406,248	-	-
	<u>1,488,690</u>	<u>1,488,690</u>	<u>-</u>	<u>-</u>
Stocks:				
Domestic equity	35,427	35,427	-	-
	<u>35,427</u>	<u>35,427</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,524,117</u>	<u>\$ 1,524,117</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4. Property and Equipment

Property and equipment at September 30, 2022, and related accumulated depreciation and amortization for the year then ended, consist of the following:

Asset Category	Estimated Lives	Cost	Accumulated Depreciation and Amortization	Net	Depreciation and Amortization Expense
Leasehold improvements	16 years	\$ 8,617,580	\$ 781,106	\$ 7,836,474	\$ 524,275
Furniture and fixtures	10 years	1,621,395	256,121	1,365,274	159,485
Office equipment	3 years	684,763	310,265	374,498	124,859
Computer equipment and software	3 years	1,889,677	1,407,585	482,092	372,604
Construction in progress	-	341,878	-	341,878	-
		<u>\$ 13,155,293</u>	<u>\$ 2,755,077</u>	<u>\$ 10,400,216</u>	<u>\$ 1,181,223</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, 2022, are as follows:

Fiscal Year 2022 Congressional Annual Appropriation received from DOS	<u>\$ 315,079,941</u>
Other new grants and supplemental funding received from DOS during the year:	
Cuba 2022: Grantmaking Program Advancing Democratic Rights, Political Pluralism and Independent Civil Society in Cuba	6,172,839
Eurasia 2022: Grantmaking Program Promoting Democracy in Eurasia Region and Georgia	<u>4,093,827</u>
Total new grants and supplemental funding	<u>10,266,666</u>
Total awards received during the year	<u><u>\$ 325,346,607</u></u>
Federal grant revenue recognized during the fiscal year:	
Grants obligated, net of deobligations	\$ 280,987,664
Less grantee unspent funds	<u>(12,745,043)</u>
	268,242,621
Democracy support activities	6,263,422
Direct Emergency Response—Afghanistan	2,982,587
Other grant-related expenses	<u>31,699,427</u>
	<u><u>\$ 309,188,057</u></u>

As of September 30, 2022, the Endowment has approximately \$326.6 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.

Note 6. Concentrations of Revenue

During the year ended September 30, 2022, substantially all of the Endowment's revenue was related to appropriations and grants from the U.S. government.

National Endowment for Democracy

Notes to Financial Statements

Note 7. Program Services Expenses

Program services expenses for the year ended September 30, 2022, represent the following activities:

Federally funded programs and activities:

Grant programs	\$ 280,257,561
Emergency response—Afghanistan relief effort	2,982,587
	<u>283,240,148</u>

Endowment Initiatives, federal:

International Forum for Democratic Studies:

Journal of Democracy	799,536
Research and conferences	194,356
Management and support	1,541,615
Reagan-Fascell Fellowships	1,208,299
Democracy Resource Center	521,295
World Movement for Democracy	823,410
Center for International Media Assistance	828,918
Other democracy support activities	345,993
	<u>6,263,422</u>

Other non-federal democracy support activities:

International Forum for Democratic Studies:

Journal of Democracy	10,967
Research and conferences	68,291
Other Forum activities	49,131
Management and support	10,675
Afghanistan Response (NONUSG)	806,322
Greshman Dem-At-Risk Fund (NONUSG)	46,017

World Movement for Democracy (WMD):

WMD Global Assembly	42,869
Youth Fellowships & Engagement	39,383
Other WMD Activities	1,410

Other Endowment events and development

317,590
<u>1,392,655</u>

Other non-federal activities

Office relocation and renovation costs	-
	<u>\$ 290,896,225</u>

National Endowment for Democracy

Notes to Financial Statements

Note 8. Net Assets with Donor Restrictions

Changes in net assets with donor restrictions during the year ended September 30, 2022, are as follows:

	Balance at September 30, 2021	Additions	Releases	Balance at September 30, 2022
Democracy Support Activities:				
WMD 11th Global Assembly	\$ 92,815	\$ 150,000	\$ (49,326)	\$ 193,489
Korea Foundation for WMD 11th Global Assembly	-	20,000	-	20,000
World Movement for Democracy:				
Hurford Youth Fellowship Program 2020-2021	6,897	-	(73)	6,824
Hurford Youth Fellowship Program 2021-2022	-	29,759	-	29,759
International Forum for Democratic Studies:				
Smith Richardson Foundation 2019-2022	47,558	-	(37,276)	10,282
Penn Kemble Youth Forum on Democracy	61,737	-	(10,325)	51,412
Gershman Democrats-at-Risk Fund	294,500	-	(27,999)	266,501
Emergency Response Funding:				
Afghanistan Relief Response	1,001,000	1,000	(779,518)	222,482
Other restrictions:				
Annual Democracy Award Event	61,318	-	(14,940)	46,378
	<u>\$ 1,565,825</u>	<u>\$ 200,759</u>	<u>\$ (919,457)</u>	<u>\$ 847,127</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the year ended September 30, 2022.

Note 9. 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 10. Right of Use Lease Arrangement

The Endowment had a noncancellable operating lease for its office location in Washington, D.C., that was amended on October 31, 2010, to include additional space and an extension of the lease term that ended on March 31, 2021.

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 Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, resulting in a lease liability and right of use asset to be recorded on the balance sheet as of September 30, for the office lease. The lease is considered to be operating leases under the provisions of ASU 2016-02. The Endowment determined at adoption there were no renewal options expected to be exercised and calculated operating lease schedules through May 31, 2037.

National Endowment for Democracy

Notes to Financial Statements

Note 10. Right of Use Lease Arrangement (Continued)

The lease includes an incentive for leasehold improvements of which \$1,151,538 were utilized during the year ended September 30, 2022. As of September 30, 2022, there remains an incentive receivable of \$0.

The lease liability and its maturity analysis are summarized as follows:

Years ending September 30:	
2023	\$ 1,971,419
2024	5,780,156
2025	5,924,660
2026	6,072,776
2027	6,224,596
Thereafter	69,791,140
Total minimum payments required	<u>95,764,747</u>
Less amounts representing interest	<u>(6,946,791)</u>
Present value of minimum lease payments	<u>\$ 88,817,956</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 \$452,810 for the year ended September 30, 2022.

The Endowment has a standby letter of credit in the amount of \$452,810. The letter of credit is held by the commercial banking institution where the Endowment maintains its primary operating funds and represents the security deposit for the Endowment's noncancellable operating lease for office space. No funds were withdrawn from either letter of credit during the year ended September 30, 2022.

Note 11. Retirement Plans

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 employees' annual earnings after the first year of employment. Employer contributions to the plan for the year ended September 30, 2022, amounted to \$2,048,094.

In June 2022, the Endowment established a 457(b) plan for executive members of management to defer a limited portion of their compensation on a pre-tax basis. Eligible employees may contribute to this 457(b) plan up to the legal limits defined by the Internal Revenue Service (IRS). The employer contributes to the 457(b) plan. Total contribution expense was \$26,177 for the year ended September 30, 2022. The value of assets held and the related deferred compensation liability was \$26,177 as of September 30, 2022, and is included within prepaid expenses and other assets and accrued expenses, respectively, on the accompanying consolidated statements of financial position.

Note 12. 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.