

National Endowment for Democracy

Financial Report
September 30, 2023

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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, 2023, 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, 2023, 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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 8, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2024, 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.
March 4, 2024

National Endowment for Democracy

Balance Sheet

September 30, 2023

(With Comparative Totals for 2022)

	2023	2022
Assets		
Cash and cash equivalents	\$ 27,733,805	\$ 13,943,043
Investments	5,770,862	1,524,117
Grants receivable from the U.S. Department of State	14,319,431	8,663,087
Other receivables	158,266	67,691
Prepaid and other assets	6,339,143	5,874,834
Property and equipment, net	9,260,892	10,400,216
Operating lease right-of-use assets, net	62,494,731	66,886,455
	<u>\$ 126,077,130</u>	<u>\$ 107,359,443</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 3,708,360	\$ 4,135,844
Grants payable	14,885,397	6,885,875
Refundable advances, due to U.S. Department of State	14,052,706	1,425,649
Operating lease liabilities, net	87,422,764	88,817,956
	<u>120,069,227</u>	<u>101,265,324</u>
Commitments and contingency (Notes 6 and 12)		
Net assets:		
Without donor restrictions:		
General unrestricted funds	5,169,774	5,039,704
Board-designated funds:		
Office leasehold improvements and related costs	-	61,988
Fund for Democracy in the 21st Century	145,350	145,300
	<u>5,315,124</u>	<u>5,246,992</u>
With donor restrictions	692,779	847,127
	<u>6,007,903</u>	<u>6,094,119</u>
	<u>\$ 126,077,130</u>	<u>\$ 107,359,443</u>

See notes to financial statements.

National Endowment for Democracy

Statement of Activities

Year Ended September 30, 2023

(With Comparative Totals for 2022)

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Grant revenue—U.S. government	\$ 362,047,237	\$ -	\$ 362,047,237	\$ 321,202,997
Grant revenue—other sources	215,000	-	215,000	245,001
Contributions	163,090	497,075	660,165	252,743
Other revenue, investment and miscellaneous income	206,375	-	206,375	157,944
Net assets released from restrictions	651,423	(651,423)	-	-
Total support and revenue	363,283,125	(154,348)	363,128,777	321,858,685
Expenses:				
Program services:				
Federal programs and activities:				
Federal grants programs	320,414,798	-	320,414,798	280,257,561
Endowment initiatives	7,165,581	-	7,165,581	6,263,422
Emergency response	314,287	-	314,287	2,982,587
Other nonfederal activities	1,003,567	-	1,003,567	1,392,655
Total program services	328,898,233	-	328,898,233	290,896,225
Supporting services:				
Management and general	34,316,760	-	34,316,760	31,909,432
Total supporting services	34,316,760	-	34,316,760	31,909,432
Total expenses	363,214,993	-	363,214,993	322,805,657
Change in net assets	68,132	(154,348)	(86,216)	(946,972)
Net assets:				
Beginning	5,246,992	847,127	6,094,119	7,041,091
Ending	\$ 5,315,124	\$ 692,779	\$ 6,007,903	\$ 6,094,119

See notes to financial statements.

National Endowment for Democracy

Statement of Functional Expenses Year Ended September 30, 2023 (With Comparative Totals for 2022)

	Program Services				Supporting Services			2023	2022
	Federal Grant Programs	Federally Funded		Other Non-Federal Activities	Total Program Services	Management and General	Total Supporting Services		
		Endowment Initiatives	Emergency Response						
Grants expense	\$311,022,624	\$ -	\$ -	\$ -	\$311,022,624	\$ -	\$ -	\$311,022,624	\$271,174,093
Grants deobligated	(4,170,181)	-	-	-	(4,170,181)	-	-	(4,170,181)	(2,931,472)
Direct assistance	-	-	285,319	63,580	348,899	-	-	348,899	3,171,966
Fellowships and internships	-	591,016	-	111,367	702,383	24,580	24,580	726,963	722,705
Salaries, wages and benefits	12,839,957	5,014,466	-	\$ -	17,854,423	19,521,975	19,521,975	37,376,398	33,740,783
Occupancy and equipment	-	37,851	-	163,770	201,621	8,900,498	8,900,498	9,102,119	8,838,012
Professional fees	185,904	215,938	22,296	84,660	508,798	3,553,552	3,553,552	4,062,350	4,606,015
Travel and transportation	536,494	712,854	5,376	350,015	1,604,739	815,690	815,690	2,420,429	1,330,827
Conferences and meetings	-	431,853	291	174,528	606,672	166,724	166,724	773,396	373,433
Communications	-	7,830	790	6,315	14,935	556,007	556,007	570,942	665,593
Printing and publications	-	141,485	215	5,717	147,417	19,157	19,157	166,574	168,121
Insurance	-	-	-	\$ -	-	231,607	231,607	231,607	187,279
Other	-	12,288	-	43,615	55,903	526,970	526,970	582,873	758,302
Total expenses	\$320,414,798	\$ 7,165,581	\$ 314,287	\$ 1,003,567	\$328,898,233	\$ 34,316,760	\$ 34,316,760	\$363,214,993	\$322,805,657

See notes to financial statements.

National Endowment for Democracy

Statement of Cash Flows

Year Ended September 30, 2023

(With Comparative Totals for 2022)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (86,216)	\$ (946,972)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,254,780	1,181,223
Net realized and unrealized (gain) loss on investments	(127,201)	327,540
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable from U.S. Department of State	(5,656,344)	10,433,549
Other receivables	(90,575)	1,109,198
Prepaid expenses and other assets	(464,309)	(1,086,327)
Amortization of operating lease right-of-use assets	4,391,724	3,569,934
Lease incentive	-	1,151,538
Increase (decrease) in:		
Accounts payable and accrued liabilities	(427,484)	1,007,668
Grants payable	7,999,522	(8,886,124)
Refundable advances, due to U.S. Department of State	12,627,057	(3,470,172)
Operating lease liabilities	(1,395,192)	1,406,935
Net cash provided by operating activities	18,025,762	5,797,990
Cash flows from investing activities:		
Purchases of investments	(4,119,544)	(85,721)
Purchases of property and equipment	(115,456)	(665,187)
Net cash used in investing activities	(4,235,000)	(750,908)
Cash flows from financing activities:		
Principal payments on capital lease obligations	-	(2,560)
Net cash used in financing activities	-	(2,560)
Net increase in cash and cash equivalents	13,790,762	5,044,522
Cash and cash equivalents:		
Beginning	13,943,043	8,898,521
Ending	\$ 27,733,805	\$ 13,943,043

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 DOS, 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: Cash held in investment accounts are considered investments. Money market funds are considered investments.

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.

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.

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 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 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 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, 2023.

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 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 balance sheet 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 due to the Endowment's grantees representing expenses incurred and conditions met. 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. Government grants are generally conditional and, as such, revenue is recognized when conditions are met, which is when 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, 2023.

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, 2022, from which the summarized information was derived.

Reclassifications: Certain items in the September 30, 2022, summarized comparative information have been reclassified to conform to the September 30, 2023, financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Subsequent events: The Endowment has evaluated subsequent events through March 4, 2024, 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, 2023, 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	\$ 27,733,805
Investments	5,770,862
Grants and other receivables	14,477,697
Total financial assets available	<u>47,982,364</u>
Less amounts not available to be used within one year:	
Refundable advances, due to U.S. Department of State	14,052,706
Restricted by donor with time or purpose restrictions	692,779
Restricted by board	145,350
	<u>14,890,835</u>
Financial assets available to meet general expenditures within one year	<u>\$ 33,091,529</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 Accounting Standards 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, 2023.

The Endowment's investments are mainly comprised of mutual funds, domestic equities and publicly traded mutual funds. The fair values of these investments are based on the quoted market price in the active market; therefore, these investments are considered a Level 1 item.

The deferred compensation liability is based on the fair market value of the deferred compensation plan assets that are observable inputs. The liability is not publicly traded and, therefore, is classified as Level 2.

National Endowment for Democracy

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

Assets at fair value as of September 30, 2023, consist of the following:

	Total	Level 1	Level 2	Level 3
Mutual funds:				
Large growth	\$ 406,689	\$ 406,689	\$ -	\$ -
Intermediate-term bonds	1,265,260	1,265,260	-	-
	<u>1,671,949</u>	<u>1,671,949</u>	-	-
Money market fund	4,059,723	4,059,723	-	-
Stocks:				
Domestic equity	39,190	39,190	-	-
	<u>\$ 5,770,862</u>	<u>\$ 5,770,862</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred compensation plan assets:				
Mutual funds	\$ 116,756	\$ 116,756	\$ -	\$ -
Deferred compensation plan liabilities	\$ 116,756	\$ -	\$ 116,756	\$ -

Note 4. Property and Equipment

Property and equipment at September 30, 2023, 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	\$ 8,660,120	\$ 1,316,300	\$ 7,343,820	\$ 535,195
Furniture and fixtures	10 years	1,630,723	416,570	1,214,153	160,449
Office equipment	3 years	700,610	434,272	266,338	124,007
Computer equipment and software	3 years	2,236,475	1,842,714	393,761	435,129
Construction in progress	-	42,820	-	42,820	-
		<u>\$ 13,270,748</u>	<u>\$ 4,009,856</u>	<u>\$ 9,260,892</u>	<u>\$ 1,254,780</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, 2023, are as follows:

Fiscal Year 2023 Congressional Annual Appropriation received from DOS	<u>\$ 315,000,000</u>
Other new grants and supplemental funding received from DOS during the year:	
Cuba 2023: Grantmaking Program Advancing Democratic Rights, Political Pluralism and Independent Civil Society in Cuba	6,172,839
Eurasia 2021: (Amendment) Grantmaking Program Promoting Democracy in Eurasia Region and Georgia	7,407,407
Europe 2021: (Amendment) Fostering democratic development in Europe	4,800,615
Balkans 2021: (Amendment) Grantmaking Program Supporting Independent Media Initiatives in Southeast Europe	<u>300,000</u>
Total new grants and supplemental funding	<u>18,680,861</u>
Total awards received during the year	<u><u>\$ 333,680,861</u></u>

Federal grant revenue recognized during the fiscal year:

Grants obligated, net of deobligations	\$ 306,852,443
Democracy support activities	7,176,766
Direct Emergency Response—Afghanistan	348,899
Other grant-related expenses	<u>47,669,129</u>
	<u><u>\$ 362,047,237</u></u>

As of September 30, 2023, the Endowment has \$294,796,064 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, 2023, 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, 2023, represent the following activities:

Federally funded programs and activities:	
Grant programs	\$ 320,414,798
Emergency response—Afghanistan relief effort	314,287
	<u>320,729,085</u>
Endowment Initiatives, federal:	
International Forum for Democratic Studies:	
Journal of Democracy	892,988
Research and conferences	346,909
Management and support	1,669,016
Reagan-Fascell Fellowships	1,195,732
Democracy Resource Center	512,111
World Movement for Democracy	1,115,486
Center for International Media Assistance	918,415
Other democracy support activities	514,924
	<u>7,165,581</u>
Other non-federal democracy support activities:	
International Forum for Democratic Studies:	
Journal of Democracy	13,144
Research and conferences	3,022
Other Forum activities	3,630
Management and support	15,450
Afghanistan Response (non-U.S. government)	87,989
Greshman Dem-At-Risk Fund (non-U.S. government)	82,755
World Movement for Democracy:	
WMD Global Assembly	289,510
Youth Fellowships & Engagement	86,953
Other WMD Activities	6,694
Other Endowment events and development	414,420
	<u>1,003,567</u>
	<u>\$ 328,898,233</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, 2023, are as follows:

	Balance at September 30, 2022	Additions	Releases	Balance at September 30, 2023
Democracy Support Activities:				
WMD 11th Global Assembly	\$ 193,489	\$ 100,000	\$ (293,489)	\$ -
Korea Foundation for WMD 11th Global Assembly	20,000	-	(20,000)	-
WMD 12th Global Assembly	-	100,000	-	100,000
World Movement for Democracy:				
Hurford Youth Fellowship Program 2020-2021	6,824	-	(4,132)	2,692
Hurford Youth Fellowship Program 2021-2022	29,759	-	(29,722)	37
Hurford Youth Fellowship Program 2023	-	75,000	(67,284)	7,716
Hurford Youth Fellowship Program 2024	-	135,000	-	135,000
International Forum for Democratic Studies:				
Smith Richardson Foundation 2019-2022	10,282	-	(3,993)	6,289
Penn Kemble Youth Forum on Democracy	51,412	20,000	(13,523)	57,889
Gershman Democrats-at-Risk Fund	266,501	42,075	(99,338)	209,238
Emergency Response Funding:				
Afghanistan Relief Response	222,482	-	(102,344)	120,138
Other restrictions:				
Annual Democracy Award Event	46,378	25,000	(17,598)	53,780
	<u>\$ 847,127</u>	<u>\$ 497,075</u>	<u>\$ (651,423)</u>	<u>\$ 692,779</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the year ended September 30, 2023.

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. Leases

In May 2020, the Endowment entered into a noncancellable operating lease that commenced on April 1, 2021, with a lease term through May 31, 2037. 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 Endowment follows 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. Leases (Continued)

The lease includes an incentive for leasehold improvements of \$12,447,642 which is included in property and equipment and amortized over the term of the lease.

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

Years ending September 30:	
2024	\$ 5,780,156
2025	5,924,660
2026	6,072,776
2027	6,224,596
2028	6,380,210
Thereafter	<u>62,410,929</u>
Total minimum payments required	92,793,327
Less amounts representing interest	<u>(5,370,563)</u>
Present value of minimum lease payments	<u>\$ 87,422,764</u>

The Endowment does not have an established borrowing rate and, therefore, applied the risk-free rate as of October 2023. The weighted-average remaining life of the lease is 13.67 years and weighted-average discount rate of 0.9%.

Total lease expense, including the Endowment's share of common building costs, was \$5,154,793 for the year ended September 30, 2023.

Supplemental cash flow information related to leases for the year ended September 30, 2023:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows—payments on operating leases	\$ 1,982,187

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 noncancelable operating lease for office space. No funds were withdrawn from the letter of credit during the year ended September 30, 2023.

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, 2023, amounted to \$2,315,455.

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 IRS. The employer contributes to the 457(b) plan. Total contribution expense was \$88,535 for the year ended September 30, 2023. The value of assets held and the related deferred compensation liability was \$116,756 as of September 30, 2023, and is included within prepaid expenses and other assets and accrued expenses, respectively, on the accompanying balance sheet.

National Endowment for Democracy

Notes to Financial Statements

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.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Directors
National Endowment for Democracy

We have audited the financial statements of National Endowment for Democracy (the Endowment) as of and for the year ended September 30, 2023, and have issued our report thereon which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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.
March 4, 2024

National Endowment for Democracy

**Schedule of Indirect Cost Rate and Schedule of Fringe Benefit Rate
Year Ended September 30, 2023**

Indirect Cost Rate

Total allowable management and general expenses	\$ 47,879,329
Less income offsets on management and general expenses	<u>(480)</u>
	<u>\$ 47,878,849</u>
Total expenses	\$ 363,214,993
Less management and general expenses	<u>(47,879,329)</u>
Total direct base	<u>315,335,664</u>
Obligated grant funds unspent by grantees	<u>(21,859,553)</u>
Management and general direct activity base	<u>\$ 293,476,111</u>
Management and general administrative rate	16.31%

Fringe Benefit Rate

Total fringe benefits, including compensated balances	<u>\$ 12,709,167</u>
Total salaries and wages	<u>\$ 24,667,231</u>
Fringe benefit rate	51.52%
Provisional rates per negotiated indirect cost rate agreement (2023):	
Management and general administrative rate	16.35%
Fringe benefit rate	52.68%

The Endowment determines its indirect cost rate in accordance with the Uniform Guidance. Allowable elements of cost not directly related to specific programs are accumulated in an indirect cost pool. The total of the indirect cost pool is divided by the appropriate base to arrive at the indirect cost rate. The direct cost base consists of the following: (1) total subrecipient awards obligated during the fiscal year by the Endowment, net of any deobligations executed on previously awarded subgrants and (2) the Endowment's direct democracy support activities.