

National Endowment for Democracy

Financial Report
September 30, 2021

Contents

Independent auditor's report	1-2
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

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, 2021, 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, 2021, 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 2020 financial statements, and we have expressed an unmodified opinion on those audited financial statements in our report dated June 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, 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 June 10, 2022, 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 10, 2022

National Endowment for Democracy

Balance Sheet

September 30, 2021

(With Comparative Totals for 2020)

	2021	2020
Assets		
Cash and cash equivalents	\$ 8,898,521	\$ 6,190,499
Investments	1,765,936	1,521,183
Grants receivable from the U.S. Department of State	19,096,636	28,565,320
Other receivables	1,176,889	661,073
Prepaid and other assets	4,788,507	2,198,197
Lease incentive receivable	1,151,538	10,795,167
Property and equipment, net	10,916,252	2,078,414
Right of use assets	70,456,389	76,345,614
Total assets	\$ 118,250,668	\$ 128,355,467
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 3,128,176	\$ 3,241,781
Grants payable	15,771,999	29,427,508
Refundable advances, due to U.S. Department of State	4,895,821	850,324
Capitalized lease obligation	2,560	32,259
Long-term lease liabilities	87,411,021	89,133,114
	111,209,577	122,684,986
Commitments and contingency (Note 11)		
Net assets:		
Without donor restrictions:		
General unrestricted funds	5,038,553	4,422,868
Board-designated funds:		
Office leasehold improvements and related costs	291,513	678,915
Fund for Democracy in the 21st Century	145,200	145,000
	5,475,266	5,246,783
With donor restrictions	1,565,825	423,698
	7,041,091	5,670,481
Total liabilities and net assets	\$ 118,250,668	\$ 128,355,467

See notes to financial statements.

National Endowment for Democracy

Statement of Activities

Year Ended September 30, 2021

(With Comparative Totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue:				
Grant revenue—U.S. government	\$ 251,696,936	\$ -	\$ 251,696,936	\$ 90,568,762
Grant revenue—other sources	-	-	-	75,000
Democracy award revenue	-	-	-	50,000
Contributions	2,765	1,270,500	1,273,265	78,200
Other revenue, investment and miscellaneous income	830,375	-	830,375	1,692,767
Net assets released from restrictions	128,373	(128,373)	-	-
Total support and revenue	252,658,449	1,142,127	253,800,576	92,464,729
Expenses:				
Program services:				
Federal programs and activities:				
Federal grants programs (Note 1)	206,224,742	-	206,224,742	54,151,141
NED initiatives	5,413,152	-	5,413,152	5,159,476
Emergency response	2,259,069	-	2,259,069	-
Other nonfederal activities	648,134	-	648,134	214,586
Total program services	214,545,097	-	214,545,097	59,525,203
Supporting services:				
Management and general	37,884,869	-	37,884,869	31,288,153
Total supporting services	37,884,869	-	37,884,869	31,288,153
Total expenses	252,429,966	-	252,429,966	90,813,356
Change in net assets	228,483	1,142,127	1,370,610	1,651,373
Net assets:				
Beginning	5,246,783	423,698	5,670,481	4,019,108
Ending	\$ 5,475,266	\$ 1,565,825	\$ 7,041,091	\$ 5,670,481

See notes to financial statements.

National Endowment for Democracy

Statement of Functional Expenses Year Ended September 30, 2021 (With Comparative Totals for 2020)

	Program Services					Supporting Services			
	Federal Grant Programs	Federally-funded		Other	Total Program Services	Management and General	Total	2021	2020
		NED Initiatives	Emergency Response	Non-Federal Activities			Supporting Services		
Grants expense (Note 1)	\$ 206,224,742	\$ -	\$ -	\$ (34,220)	\$ 206,190,522	\$ -	\$ -	\$ 206,190,522	\$ 54,151,141
Direct assistance	-	-	2,124,894	-	2,124,894	-	-	2,124,894	-
Fellowships & Internships	-	447,846	-	25,200	473,046	11,424	11,424	484,470	693,936
Salaries, wages and benefits	-	4,150,678	119,759	60,313	4,330,750	24,749,366	24,749,366	29,080,116	25,629,277
Occupancy and equipment	-	40,930	-	444,334	485,264	9,310,849	9,310,849	9,796,113	6,463,082
Professional fees	-	533,647	5,952	50,686	590,285	2,610,118	2,610,118	3,200,403	2,141,259
Travel and transportation	-	6,333	6,340	10,747	23,420	41,082	41,082	64,502	639,425
Conferences and meetings	-	23,165	15	32,792	55,972	10,830	10,830	66,802	111,689
Communications	-	56,822	2,109	3,918	62,849	410,238	410,238	473,087	317,461
Printing and publications	-	141,985	-	21,470	163,455	16,816	16,816	180,271	125,237
Insurance	-	-	-	-	-	137,146	137,146	137,146	135,189
Other	-	11,746	-	32,894	44,640	587,000	587,000	631,640	405,660
Total expenses	\$ 206,224,742	\$ 5,413,152	\$ 2,259,069	\$ 648,134	\$ 214,545,097	\$ 37,884,869	\$ 37,884,869	\$ 252,429,966	\$ 90,813,356

See notes to financial statements.

National Endowment for Democracy

Statement of Cash Flows

Year Ended September 30, 2021

(With Comparative Totals for 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 1,370,610	\$ 1,651,373
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	723,657	354,128
Amortization of right of use asset	5,889,225	1,487,845
Loss on disposal of property and equipment	71,814	-
Deferred rent	-	(692,760)
Realized and unrealized gain on investments	(205,324)	(112,289)
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable from U.S. Department of State	9,468,684	106,148,471
Other receivables	(515,816)	(491,808)
Prepaid expenses and other assets	(2,590,310)	(1,229,744)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(113,605)	1,439,188
Grants payable	(13,655,509)	(106,839,027)
Refundable advances, due to U.S. Department of State	4,045,497	350,035
Net cash provided by operating activities	4,488,923	2,065,412
Cash flows from investing activities:		
Purchases of investments	(39,429)	(54,832)
Purchases of property and equipment	(1,711,773)	(1,282,758)
Net cash used in investing activities	(1,751,202)	(1,337,590)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(29,699)	(27,884)
Net cash used in financing activities	(29,699)	(27,884)
Net increase in cash and cash equivalents	2,708,022	699,938
Cash and cash equivalents:		
Beginning	6,190,499	5,490,561
Ending	\$ 8,898,521	\$ 6,190,499
Supplemental schedules of noncash investing and financing activities:		
Purchase of property and equipment acquired through lease incentive	\$ 9,779,826	\$ 504,489
Right of 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.

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, 2021.

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, 2021.

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 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, 2021.

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 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, 2020, from which the summarized information was derived.

Subsequent events: Subsequent events have been evaluated through June 10, 2022, 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, 2021, 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	\$ 8,898,521
Investments	1,765,936
Grants and other receivables	21,425,063
Total financial assets available	<u>32,089,520</u>
Less amounts not available to be used within one year:	
Refundable advances, due to U.S. Department of State	4,895,821
Restricted by donor with time or purpose restrictions	1,565,825
Restricted by board	436,713
	<u>6,898,359</u>
Financial assets available to meet general expenditures within one year	<u>\$ 25,191,161</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, 2021.

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, 2021, consist of the following:

	Total	Level 1	Level 2	Level 3
Mutual funds:				
Large growth	\$ 1,248,998	\$ 1,248,998	\$ -	\$ -
Intermediate-term bonds	473,490	473,490	-	-
	1,722,488	1,722,488	-	-
Stocks:				
Domestic equity	43,448	43,448	-	-
	43,448	43,448	-	-
	\$ 1,765,936	\$ 1,765,936	\$ -	\$ -

Note 4. Property and Equipment

Property and equipment at September 30, 2021, 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	\$ 8,406,779	\$ 256,831	\$ 8,149,948	\$ 317,715
Furniture and fixtures	10 years	1,611,773	96,635	1,515,138	91,181
Office equipment	3 years	768,963	267,189	501,774	86,404
Computer equipment and software	3 years	1,726,130	1,037,396	688,734	228,357
Construction in progress	-	60,658	-	60,658	-
		\$ 12,574,303	\$ 1,658,051	\$ 10,916,252	\$ 723,657

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, 2021, are as follows:

Fiscal Year 2021 Congressional Annual Appropriation received from DOS	<u>\$300,864,340</u>
Other new grants and supplemental funding received from DOS during the year:	
Cuba 2021: Grantmaking Program Advancing Democratic Rights, Political Pluralism and Independent Civil Society in Cuba	6,172,839
Eurasia 2021: Grantmaking Program Promoting Democracy in Eurasia Region and Georgia	4,444,444
Europe 2021: Grantmaking Program Promoting Democracy in Europe	3,987,655
Balkans 2021: Support for Independent Media Initiatives in Southeast Europe	<u>1,347,654</u>
Total new grants and supplemental funding	<u>15,952,592</u>
Total awards received during the year	<u><u>\$316,816,932</u></u>
 Federal grant revenue recognized during the fiscal year:	
Grants obligated, net of deobligations	\$268,530,316
Less grantee unspent funds	<u>(62,305,574)</u>
	206,224,742
Democracy support activities	5,413,152
Direct Emergency Response—Afghanistan	2,259,069
Other grant-related expenses	<u>37,799,973</u>
	<u><u>\$251,696,936</u></u>

As of September 30, 2021, the Endowment has approximately \$316.4 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, 2021, represent the following activities:

Federally funded programs and activities:

Grant programs	<u>\$206,224,742</u>
Emergency response—Afghanistan relief effort	<u>2,259,069</u>

NED Initiatives, federal:

International Forum for Democratic Studies:

Journal of Democracy	703,743
Research and conferences	100,605
Management and support	1,234,350
Reagan-Fascell Fellowships	891,860
Democracy Resource Center	512,283
World Movement for Democracy	861,861
Center for International Media Assistance	817,665
Other democracy support activities	<u>290,785</u>
	<u>5,413,152</u>

Other non-federal democracy support activities:

International Forum for Democratic Studies:

Journal of Democracy	266
Research and conferences	10,000
Other Forum activities	31,530
Management and support	6,551

World Movement for Democracy (WMD):

WMD Global Assembly	6,320
Youth Fellowships & Engagement	60,338

Other Endowment events and development

<u>50,673</u>
<u>165,678</u>

Other non-federal activities

Office relocation and renovation costs	<u>482,456</u>
	<u>\$ 214,545,097</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, 2021, are as follows:

	Balance at September 30, 2020	Additions	Transfers	Releases	Balance at September 30, 2021
Democracy Support Activities:					
WMD 10th Global Assembly	\$ 100,000	\$ -	\$ -	\$ (7,185)	\$ 92,815
World Movement for Democracy:					
Hurford Youth Fellowship Program 2020-2021	71,290	-	-	(64,393)	6,897
International Forum for Democratic Studies:					
Smith Richardson Foundation 2019-2020	98,741	-	-	(51,183)	47,558
Penn Kemble Youth Forum on Democracy	87,290	-	(25,000)	(553)	61,737
Gershman Democrats-at-Risk Fund	-	269,500	25,000	-	294,500
Emergency Response Funding:					
Afghanistan Relief Response	-	1,001,000	-	-	1,001,000
Other restrictions:					
Democracy Award Event	46,054	-	-	(5,059)	40,995
NED Service Medal Awards & Other NED Public Events	20,323	-	-	-	20,323
	<u>\$ 423,698</u>	<u>\$ 1,270,500</u>	<u>\$ -</u>	<u>\$ (128,373)</u>	<u>\$ 1,565,825</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the year ended September 30, 2021.

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 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.

The lease includes an incentive for leasehold improvements of which \$9,643,629 were utilized during the year ended September 30, 2021. As of September 30, 2021, there remains an incentive receivable of \$1,151,538.

National Endowment for Democracy

Notes to Financial Statements

Note 9. Right of Use Lease Arrangement (Continued)

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

Years ending September 30:	
2022	\$ -
2023	1,971,419
2024	5,780,156
2025	5,924,660
2026	6,072,776
Thereafter	<u>75,015,735</u>
Total minimum payments required	94,764,746
Less amounts representing interest	<u>(7,353,725)</u>
Present value of minimum lease payments	<u><u>\$ 87,411,021</u></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 \$6,976,521 for the year ended September 30, 2021.

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, 2021.

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, 2021, amounted to \$1,786,059.

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, 2021, substantially all of the Endowment's revenue was related to appropriations and grants from the U.S. government.