

International Foundation for Electoral Systems

Financial Report
September 30, 2017

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statements of financial position	3
Statements of activities	4
Statement of functional expenses – 2017	5
Statement of functional expenses – 2016	6
Statements of cash flows	7
Notes to financial statements	8-15
<hr/>	
Independent auditor's report on supplementary information	16
<hr/>	
Supplementary information	
Schedule of expenditures on Non USG awards	17
<hr/>	

Independent Auditor's Report

To the Board of Directors
International Foundation for Electoral Systems

Report on Financial Statements

We have audited the accompanying financial statements of International Foundation for Electoral Systems (IFES), which comprise the statements of financial position as of September 30, 2017 and 2016, the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 IFES as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 27, 2018, and June 28, 2017, on our consideration of IFES'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 these reports 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 IFES's internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the IFES's internal control over financial reporting and compliance.

RSM US LLP

McLean, Virginia
June 27, 2018

International Foundation for Electoral Systems

Statements of Financial Position
September 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 11,508,756	\$ 7,466,915
Grants and contracts receivable, net	802,276	4,914,977
Subrecipient advances	181,478	660,734
Prepaid expenses and other current assets	701,569	747,080
Travel and other advances	344,748	221,332
Restricted cash and cash equivalents	1,986,246	1,985,550
Property and equipment, net	2,938,802	3,170,786
	<hr/>	<hr/>
Total assets	\$ 18,463,875	\$ 19,167,374
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,196,642	\$ 1,972,940
Accrued salaries, taxes and leave	1,565,751	1,764,960
Deferred revenue	6,645,241	7,280,382
Deferred rent	3,878,402	3,841,197
	<hr/>	<hr/>
Total liabilities	14,286,036	14,859,479
	<hr/> <hr/>	<hr/> <hr/>
Commitments and contingencies (Note 7)		
Net assets:		
Unrestricted	3,816,928	3,900,147
Temporarily restricted	360,911	407,748
	<hr/>	<hr/>
Total net assets	4,177,839	4,307,895
	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and net assets	\$ 18,463,875	\$ 19,167,374
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

International Foundation for Electoral Systems

**Statements of Activities
Years Ended September 30, 2017 and 2016**

	2017	2016
Changes in unrestricted net assets:		
Support and revenues:		
Federal grants and co-op agreements	\$ 46,969,013	\$ 41,530,213
Non-federal awards and private grants	14,460,398	14,877,426
Contributions	155,469	175,710
Donated services	48,423	121,925
Investment income	28,008	22,449
Gain on lease transactions, net	-	830,198
Other	20,241	-
Net assets released from restrictions	66,087	22,514
Total unrestricted support and revenues	61,747,639	57,580,435
Expenses:		
Direct costs:		
Salaries and direct allowances	15,781,253	16,362,938
Subrecipient expenses	13,023,564	5,196,598
Consultants and professional services	5,192,284	5,539,682
Other direct expenses	3,441,819	3,749,290
Travel and per diem	3,377,055	4,384,683
Commodities	3,139,350	3,464,224
Field office expenses	2,083,114	1,830,050
Furniture and equipment	1,010,532	388,962
Indirect expenses	14,781,887	17,409,169
Total expenses	61,830,858	58,325,596
Decrease in unrestricted net assets	(83,219)	(745,161)
Changes in temporarily restricted net assets:		
Contributions	19,250	62,514
Net assets released from restrictions	(66,087)	(22,514)
(Decrease) increase in temporarily restricted net assets	(46,837)	40,000
Change in net assets	(130,056)	(705,161)
Net assets:		
Beginning of year	4,307,895	5,013,056
End of year	\$ 4,177,839	\$ 4,307,895

See notes to financial statements.

International Foundation for Electoral Systems

**Statement of Functional Expenses
Year Ended September 30, 2017**

	Program Services	Management and General	Fundraising	Total for the Year Ended September 30, 2017
Compensation	\$ 15,781,253	\$ 3,469,109	\$ 8,345	\$ 19,258,707
Other benefits	3,199,111	1,086,976	-	4,286,087
Payroll taxes	612,817	208,219	-	821,036
Retirement plan	484,737	164,701	-	649,438
Subrecipient pass-through awards	13,023,564	-	-	13,023,564
Consulting	5,192,284	817,463	100	6,009,847
Seminars/training	3,419,439	664,980	-	4,084,419
Travel	3,377,055	238,102	970	3,616,127
Commodities	3,139,350	-	-	3,139,350
Field office expenses	2,083,114	-	-	2,083,114
Occupancy	-	1,321,939	-	1,321,939
Equipment	1,010,532	54,954	-	1,065,486
Other office	22,380	470,773	5,201	498,354
Telephone	224,936	161,098	-	386,034
Legal fees	147,760	178,971	-	326,731
Accounting fees	85,504	174,603	-	260,107
Depreciation and amortization	-	258,020	-	258,020
Supplies	196,046	52,920	-	248,966
Bad debt	-	223,000	-	223,000
Printing and reproduction	43,864	102,081	835	146,780
Postage and delivery	98,351	25,039	362	123,752
Total for the year ended September 30, 2017	\$ 52,142,097	\$ 9,672,948	\$ 15,813	\$ 61,830,858

See notes to financial statements.

International Foundation for Electoral Systems

**Statement of Functional Expenses
Year Ended September 30, 2016**

	Program Services	Management and General	Fundraising	Total for the Year Ended September 30, 2016
Compensation	\$ 16,362,938	\$ 4,983,284	\$ 29,693	\$ 21,375,915
Other benefits	2,877,970	1,459,927	-	4,337,897
Payroll taxes	503,685	255,508	-	759,193
Retirement plan	492,136	249,649	-	741,785
Consulting	5,539,682	410,716	11,783	5,962,181
Subrecipient pass-through awards	5,196,598	-	-	5,196,598
Travel	4,384,683	318,823	24,716	4,728,222
Seminars/training	3,558,234	145,665	72,572	3,776,471
Commodities	3,464,224	-	-	3,464,224
Field office expenses	1,830,050	(12,221)	-	1,817,829
Occupancy	-	1,721,136	-	1,721,136
Other office	191,056	1,343,031	15,030	1,549,117
Legal fees	41,669	594,159	872	636,700
Equipment	388,962	170,293	-	559,255
Telephone	254,696	175,988	-	430,684
Bad debt	-	300,000	-	300,000
Supplies	199,074	62,809	279	262,162
Depreciation and amortization	-	235,055	-	235,055
Accounting fees	32,585	168,557	-	201,142
Printing and reproduction	60,870	77,558	2,346	140,774
Postage and delivery	111,712	17,319	225	129,256
Total for the year ended September 30, 2016	\$ 45,490,824	\$ 12,677,256	\$ 157,516	\$ 58,325,596

See notes to financial statements.

International Foundation for Electoral Systems

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (130,056)	\$ (705,161)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	258,020	235,055
Changes in allowance for doubtful accounts	(206,014)	(105,795)
Change in deferred rent	37,205	(1,314,248)
Loss on landlord lease assumption	-	616,733
Changes in operating assets and liabilities:		
Deposits into restricted cash accounts	(696)	(995,859)
Grants and contract receivables	4,318,715	(882,215)
Subrecipient advances	479,256	(555,744)
Prepaid expenses and other current assets	45,511	673,018
Travel advances	(123,416)	(5,915)
Accounts payable and accrued expenses	223,702	(854,650)
Accrued salaries, taxes and leave	(199,209)	(1,063,202)
Deferred revenue	(635,141)	(5,589,303)
Net cash provided by (used in) operating activities	4,067,877	(10,547,286)
Cash flows from investing activities:		
Purchases of property and equipment	(26,036)	(176,035)
Net cash used in investing activities	(26,036)	(176,035)
Net increase (decrease) in cash and cash equivalents	4,041,841	(10,723,321)
Cash and cash equivalents:		
Beginning of year	7,466,915	18,190,236
End of year	\$ 11,508,756	\$ 7,466,915
Supplemental cash flow information:		
Cash paid for interest	\$ 12,993	\$ 13,572
Supplemental schedule of noncash financing and investment activities:		
Acquisition of property and equipment through tenant allowance	\$ -	\$ 3,147,030

See notes to financial statements.

International Foundation for Electoral Systems

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: International Foundation for Electoral Systems (IFES) was established in 1987 as a nonprofit corporation in the District of Columbia. IFES supports the building of democratic societies around the world and provides technical assistance in the areas of election administration, civil society development, good governance and the rule of law. IFES maintains field offices in many countries where its programs are operated.

A summary of IFES significant accounting policies follows:

Basis of accounting: The financial statements of IFES have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of estimates: The preparation of financial statements in conformity with 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. Such estimates also affect the reported amounts of revenues and expenses during the reporting year. Actual results may differ from estimates under different assumptions or conditions.

Foreign currency translation: Monthly expenses incurred in foreign currency by project field sites worldwide are translated using the weighted average exchange rate for the reporting period where applicable.

Revenue recognition: Revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered or goods delivered, the contract price is fixed or determinable and collectability is reasonably assured. Revenue associated with work performed prior to the completion and signing of grant documents is recognized only when it can be reliably estimated and realization is probable. IFES bases its estimates on previous experiences with the customer or grantors, communications with the customer or grantor regarding funding status and its knowledge of available funding for the contract or grant.

IFES receives grants, cooperative agreements and contracts from federal and state agencies, international government agencies and organizations, as well as from private organizations. Such award instruments are to be used for specific programs. These agreements are considered exchange transactions. Revenue and expenses are recognized in accordance with the authoritative guidance issued by the Financial Accounting Standards Board (the FASB) whereby revenue is generally recognized as the related qualifying expenses are incurred. Any excess of cash advances received over reimbursable expenditures is recorded as deferred revenue.

Federal government contract costs, including indirect costs, are subject to audit and adjustment by applicable cognizant audit agencies. Contract revenue has been recorded in amounts that are expected to be realized upon final settlement.

IFES's activities are primarily supported through awards from U.S. government agencies, international government agencies and organizations and private donors. A substantial amount of IFES's revenue is derived from federal awards provided by IFES's cognizant agency, the U.S. Agency for International Development (USAID). Revenue recognized from grants, cooperative agreements and contracts and support awarded by USAID approximated 72% and 70% of total unrestricted revenues and support for the years ended September 30, 2017 and 2016, respectively.

International Foundation for Electoral Systems

Notes to Financial Statements

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

Unconditional contributions, including unconditional promises to give cash or other assets, are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by IFES.

Donated services are recognized as contributions in accordance with the authoritative guidance issued by the FASB if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills and would otherwise be purchased by IFES. During the years ended September 30, 2017 and 2016, IFES recorded donated legal fees and travel expenses for board members of \$48,423 and \$121,925, respectively, which are included in legal fees and travel in the accompanying statements of functional expenses.

Cash equivalents: IFES considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents include time deposits and highly liquid investments held in banks.

Restricted cash and cash equivalents: At September 30, 2017 and 2016, IFES had restricted balances of cash and cash equivalents required as collateral for letters of credit required under IFES's home office leases (see Note 7) and the credit card program and line of credit.

Grants and contract receivables: Grants and contract receivables are generated from prime and subcontracting arrangements with federal governmental agencies and other various private and governmental entities. Billed amounts represent invoices that have been prepared and sent to the funder. Unbilled amounts represent recoverable costs incurred and where applicable, accrued fixed fees related to contracts and grants for which the funder has not been invoiced. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Management has recorded an allowance for contract receivables that are considered to be uncollectible.

Billed contract receivables are considered past due if the invoice has been outstanding more than 30 days. IFES does not charge interest on billing contract receivables; however, federal governmental agencies generally pay interest on invoices outstanding more than 30 days. IFES records interest income from federal governmental agencies when received.

Subrecipient advances: IFES issues subrecipient advances to various international organizations to provide services, such as security, surveys, training, etc. as defined by an approved statement of work and budget in connection with its performance of prime contracts, grants or cooperative agreements. Subrecipient expenses are recognized when the subrecipients provide the proper support for their activities.

Property and equipment: IFES capitalizes all property and equipment purchases of at least \$5,000. Property and equipment are stated at cost less accumulated depreciation and amortization and are being depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives of the improvements.

International Foundation for Electoral Systems

Notes to Financial Statements

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

Software and equipment purchased for use on federal awards are charged directly as expenditures to the award. Prior to the completion of the award, IFES disposes of the software and equipment in coordination with the awardees and in accordance with the terms and conditions of the award. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the change in net assets for the respective period.

Deferred rent: IFES recognizes the minimum rents required under a lease agreement as a rent expense on a straight-line basis over the term of the lease. Differences between amounts recorded as expense and amounts actually paid are reported as liability for deferred rent in the statements of financial position.

Net assets: Resources are classified for accounting and reporting purposes in three classes of net assets based on the existence or absence of donor-imposed restrictions. A description of each type is as follows:

Permanently restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by IFES. Generally, the donors of these assets permit the organization to use the income earned on the related investment for general or specific purposes. There were no permanently restricted net assets at September 30, 2017 and 2016.

Temporarily restricted: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the organization and/or the passage of time.

Unrestricted: Net assets that are not subject to donor-imposed restrictions.

Commodities: IFES procures goods and materials, such as training materials, equipment, ballot boxes, textbooks, etc., as required by the statement of work or mission of the project in connection with its performance of prime contracts, grants or cooperative agreements.

Functional allocation of expenses: The costs of providing the various programs and other activities are summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited.

Income taxes: The Internal Revenue Service has determined that IFES is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. For the years ended September 30, 2017 and 2016, IFES has substantially no activities subject to unrelated business income taxes. IFES is not classified as a private foundation under Section 509(a)(1) of the Internal Revenue Code.

In accordance with authoritative guidance on accounting for uncertainty in income taxes issued by the FASB, IFES recognizes tax liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods. IFES recognizes interest accrued and penalties related to unrecognized tax benefits, if any, as income tax expense. With few exceptions, IFES is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended before 2014.

International Foundation for Electoral Systems

Notes to Financial Statements

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

Management has evaluated IFES's tax positions and has concluded that IFES has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

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

IFES had approximately \$1.9 million of cash and cash equivalents held at financial institutions in foreign countries at September 30, 2017.

Upcoming accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. IFES is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU No. 2014-09, as deferred one year by ASU No. 2015-14, will be effective for annual reporting periods beginning after December 15, 2018 using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU No. 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU No. 2014-09. IFES has not yet evaluated the impact of this ASU on the financial statements.

International Foundation for Electoral Systems

Notes to Financial Statements

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

In May 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The ASU should be applied using a retrospective transition method for each period presented. IFES has not yet evaluated the impact of this ASU on the financial statements.

Subsequent events: IFES has evaluated its September 30, 2017, financial statements for subsequent events through June 27, 2018, the date the financial statements were available to be issued.

Note 2. Grants and Contracts Receivable

Grants and contracts receivables consist of the following at September 30:

	2017	2016
Unbilled receivables	\$ 393,522	\$ 4,975,806
Billed receivables	513,378	242,662
Other receivables	-	7,147
	906,900	5,225,615
Less allowance for doubtful accounts	(104,624)	(310,638)
	<u>\$ 802,276</u>	<u>\$ 4,914,977</u>

Unbilled amounts represent recoverable costs incurred and where applicable, accrued fixed fees related to contracts and grants or which the funder has not been invoiced.

Note 3. Property and Equipment

Property and equipment consists of the following at September 30:

	2017	2016
Leasehold improvements	\$ 3,303,466	\$ 3,303,466
Software	1,700,551	1,663,701
Furniture and equipment	71,930	71,930
	5,075,947	5,039,097
Less accumulated depreciation and amortization	(2,137,145)	(1,868,311)
	<u>\$ 2,938,802</u>	<u>\$ 3,170,786</u>

Depreciation and amortization expense totaled \$258,020 and \$235,055 for the years ended September 30, 2017 and 2016, respectively.

International Foundation for Electoral Systems

Notes to Financial Statements

Note 4. Benefit Plans

401(k) retirement plan: IFES's employees are eligible immediately upon hire to participate in IFES's 401(k) retirement plan (the Plan) in which employees may make voluntary, tax-deferred contributions within specified limits. IFES matches employee contributions dollar-for-dollar up to a maximum of 6% of each eligible employee's annual salary. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. IFES recorded contributions to the Plan of \$596,008 and \$669,456 the years ended September 30, 2017 and 2016, respectively.

TCN retirement savings plan: IFES established a retirement savings plan (TCN plan) for third country nationals (TCNs) working outside the country, who are unable to participate in the IFES 401(k) Retirement Plan. TCNs are eligible to participate in the TCN plan one year after date of hire. Employees must have their own registered retirement or savings account through a financial institution or participate in a government-sponsored, employee-controlled retirement savings program in order to participate in the TCN plan. IFES matches employee contributions on a tenure based matching schedule in accordance with the requirements of the TCN plan and up to a maximum of 6% of each eligible employee's annual salary. IFES recorded contributions to the TCN plan of \$53,430 and \$72,329 for the years ended September 30, 2017 and 2016, respectively.

Note 5. Related Party Transactions

During the years ended September 30, 2017 and 2016, IFES received contributions totaling \$85,000 and \$78,300, respectively, from various board members.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions received from individual donors, mostly IFES Board members, or raised during the annual dinner to support specific initiatives such as fellowships, scholarships and innovations like gender equality and women's empowerment and disability programming (electionaccess.org).

Note 7. Commitments and Contingencies

Leases: During October 2009, IFES leased office space for its home office in Washington, D.C. under the terms of a noncancellable operating lease, which was scheduled to expire in March 2020. On November 1, 2015, IFES moved its home office to an office space in Arlington, Virginia. Under the terms of the new noncancellable operating lease, the landlord assumed IFES's obligation under the D.C. lease. Thus, IFES wrote off the unamortized balance of the deferred rent balance of \$1,374,219 under the old lease, which is reported under gain on lease transactions on the statement of activities. In addition, IFES recognized a loss of \$616,733 related to the landlord's assumption of the old lease. The loss is netted against the gain on lease transactions on the statement of activities and reported under deferred rent on the statement of financial position. IFES is also required to provide a letter of credit for \$154,779 in connection with the old lease, which is collateralized by a restricted cash account.

The term of the new lease will end on October 31, 2030, and annual rent is \$1,660,932 for the first year and is increased by 2.5% annually. In addition, the lease provided for a tenant allowance for leasehold improvements of \$3,147,030, which is reported under property and equipment and deferred rent on the statement of financial position and being amortized over the new lease term. In connection with the new lease, IFES provided the landlord with a letter of credit in the amount of \$831,467.

International Foundation for Electoral Systems

Notes to Financial Statements

Note 7. Commitments and Contingencies (Continued)

As of September 30, 2017, the following is a schedule by year of the future minimum lease payments required under the new operating office lease:

Years ending September 30:	
2018	\$ 1,761,750
2019	1,806,098
2020	1,851,567
2021	1,898,185
2022	1,945,982
2023-2030	17,638,522
	<u>\$ 26,902,104</u>

Rent expense related to noncancellable operating leases aggregated \$1,324,849 and \$1,793,934 for the years ended September 30, 2017 and 2016, respectively.

IFES also leases office space, corporate and group housing and furniture and equipment under cancellable and/or month-to-month operating leases that are directly reimbursable under various grants. Rent expense related to such cancellable operating leases within field office expenses aggregated \$966,636 and \$1,071,221 for the years ended September 30, 2017 and 2016, respectively.

As of September 30, 2017, the following is a schedule by year of the future minimum lease payments required under the operating foreign office leases:

Years ending September 30:	
2018	\$ 720,394
2019	288,276
2020	88,590
	<u>\$ 1,097,260</u>

Letters of credit: At September 30, 2017 and 2016, IFES has outstanding letters of credits of \$986,246 and \$985,550, respectively, related to security deposit requirements for its non-cancelable operating office leases. These letters of credits are fully secured by restricted certificates of deposit and expire in October 2018.

Line of credit: IFES has a line of credit with Capital One Bank in the amount of \$500,000. This requires IFES to maintain a restricted cash account in the amount of \$500,000 as a collateral. IFES may borrow and repay this line of credit until February 2019. There were no borrowings on the line of credit as of September 30, 2017.

Grants and contracts: IFES's costs incurred under its government awards are generally subject to audit by government agencies. Management believes that the disallowance of costs, if any, would not be material to the financial position or changes in net assets of IFES.

Litigation: IFES has certain contingencies resulting from litigation and claims incidental to the ordinary course of business. Management believes that the ultimate disposition of these contingencies is not expected to materially affect IFES's financial condition, change in net assets or liquidity.

International Foundation for Electoral Systems

Notes to Financial Statements

Note 7. Commitments and Contingencies (Continued)

CEPPS joint venture: IFES is one of three members in a joint venture, CEPPS. CEPPS is a consortium of three organizations that is used as a vehicle to obtain federal funding from USAID. Funding is awarded under a leader agreement between USAID and CEPPS. CEPPS then allocates funding to its three members. Once funds are allocated, each member works directly with USAID and is responsible for performance under the contract. The joint venture agreement states that each CEPPS member shall be jointly and severally liable for any losses and liabilities resulting from the actions or inactions of CEPPS or any of the members. However, the agreement further provides that each member is responsible for its own activities and agrees to indemnify and hold harmless the other members from and against all claims and liabilities resulting from its actions or inactions with respect to CEPPS. Although USAID would hold CEPPS liable in the event of a loss or liability situation, CEPPS has discharged its rights and obligations to the individual members.

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
International Foundation for Electoral Systems

We have audited the financial statements of International Foundation for Electoral Systems (IFES) as of and for the year ended September 30, 2017, 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 accompanying 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

McLean, Virginia
June 27, 2018

International Foundation for Electoral Systems

**Schedule of Expenditures of Non USG Awards
Year Ended September 30, 2017**

Client	Project ID	Project Name	Contract ID	Start Date	End Date	Total Expenditure
DFATD Canada	05590.01	INDONESIA-DFATD- AEPD	7060661	07/29/15	03/31/20	\$ 2,555,385
DFATD	05560.01.001	KENYA/ DFATD	PO7060471	04/07/14	12/31/18	2,013,015
DFAT	05625.01	PNG ELECTORAL SUPPORT	71885	10/01/15	06/30/18	2,004,523
DFAT, DFID, Swiss FDFA	05571.02.01	DFID Burma	70347,203454-101, 81030290	11/10/2014, 8/1/2014, 9/12/2014	05/31/17	1,719,222
DFID	05637.01	DFID-SEPR Pakistan	203039-101	09/01/16	03/31/17	716,960
DFAT	05640.01	BOUGAINVILLE EL SUPP	PGF-2016-0010	12/01/16	02/29/20	701,744
AUSAID	05582.01	AUSAid AGENDA2	69937	03/25/14	10/31/17	611,378
DFID	05628.01	Bangladesh DFID-SPADE	200593-114	01/01/16	08/30/17	586,967
DFATD	05588.01	DFATD Strengthen Capacity	7060401	03/25/14	03/31/18	523,391
DFID	05658.01	DFID-SEPPPU	PO-120280331	07/13/17	08/31/17	481,056
EU	05634.01	EU-ZIMBABWE-SISFNC	FED/2015/365-080	01/01/16	01/01/19	369,391
SWISS FDFA	05618.01	TUNISIA SWISS SDC	81037807	11/01/15	03/31/18	352,165
DFAT	05659.01	POWER DFAT-SRI LANKA	72908	10/03/16	03/31/18	335,645
DFAT	05649.01	SUPPORT TIMORESE ELEC MGT	PGF-2016-0010	01/01/17	12/31/17	328,118
DFAT, DFID	05664.01	SIAEM-MYANMAR	73891,203454-101	6/1/2017, 10/31/2017	5/31/2019, 6/30/2019	274,294
DFATD Canada	05661.01.001	INDONESIA P&E in ACEH	7062915	11/11/16	06/30/17	161,667
DFAT	05663.01	SHE LEADS-MYANMAR WLP	73286	03/24/17	12/31/18	125,125
Dutch MFTC	05653.01	BANGLADESH DUTCH PAVE	29281	09/01/16	03/31/17	85,619
DFAT	05623.01	INDONESIA DFAT-AEPD	70830	05/12/14	12/31/16	77,709
DFID	05666.01	DFID-ELECT	300476-101	08/01/17	03/31/20	71,762
DFAT	05665.01	DIS RIGHTS IN ASEAN	73485	05/19/17	12/31/17	65,363
SWISS FDFA	05619.01	TUNISIA SWISS FDF/EDR	81035682	08/01/15	01/31/18	40,034
MFA-Czech	5656.01	CZECH-MFA	N/A	06/15/16	11/30/16	12,734
DFID	05667.01	DFID BANGLADESH-SPADE II	40106953	09/01/17	08/31/19	10,461
DFID	05662.01	PALLADIUM-I4ID-TANZANIA	N/A	01/16/17	03/31/17	3,626
CIDA	05555.CIDA	PAK SERP CIDA	PO4005481	03/06/13	06/30/16	2,844
UNDP	05595.01.001	GUINEA-EU CIVIL SOCIETY	00096342	10/09/15	07/31/16	(4,587)
Total of Non USG awards						<u>14,225,611</u>
CEPPS administrative expenditures						231,939
Miscellaneous expenditures						2,848
\$ 14,460,398						<u><u>14,460,398</u></u>