

International Foundation for Electoral Systems

Financial Report
September 30, 2019

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RSM US LLP

Independent Auditor's Report

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, 2019 and 2018, 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 International Foundation for Electoral Systems as of September 30, 2019 and 2018, 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.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, IFES retrospectively adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures over liquidity and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020, 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 this 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 IFES's internal control over financial reporting or on compliance. This report is 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 26, 2020

International Foundation for Electoral Systems

Statements of Financial Position
September 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 10,583,163	\$ 7,883,021
Grants and contract receivables, net	6,057,174	2,798,636
Subrecipient advances	119,682	2,999,775
Prepaid expenses and other current assets	964,529	647,767
Travel and other advances	273,160	255,529
Restricted cash and cash equivalents	986,239	1,987,247
Property and equipment, net	2,458,036	2,699,697
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Total assets	\$ 21,441,983	\$ 19,271,672
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,182,486	\$ 5,825,864
Accrued salaries, taxes and leave	1,962,386	1,795,077
Deferred revenue	7,986,439	3,929,766
Deferred rent	3,830,101	3,876,425
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Total liabilities	17,961,412	15,427,132
Commitments and contingencies (Note 6)		
Net assets:		
Without donor restrictions	3,122,135	3,508,755
With donor restrictions	358,436	335,785
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Total net assets	3,480,571	3,844,540
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Total liabilities and net assets	\$ 21,441,983	\$ 19,271,672

See notes to financial statements.

International Foundation for Electoral Systems

Statements of Activities

Years Ended September 30, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions:		
Support and revenues:		
Federal grants and co-op agreements	\$ 43,849,828	\$ 37,185,366
Non-federal awards, private grants and contracts	16,610,873	16,876,653
Contributions	47,312	17,661
Donated services	655,609	33,481
Interest income	7,232	21,923
Other	42,714	25,322
Net assets released from restrictions	90,894	167,726
Total support and revenues	61,304,462	54,328,132
Expenses:		
Program services:		
Africa	10,292,765	14,572,293
Americas	2,341,826	1,966,225
Center for Applied Research	1,490,265	12,886,304
Middle East and North Africa	12,611,219	1,400,643
Asia	13,641,463	6,823,935
Europe and Eurasia	12,906,453	9,231,248
Supporting services:		
General and administrative	8,327,901	7,551,268
Fundraising	79,190	204,389
Total expenses	61,691,082	54,636,305
Change in net assets without donor restrictions	(386,620)	(308,173)
Changes in net assets with donor restrictions:		
Contributions	113,545	142,600
Net assets released from restrictions	(90,894)	(167,726)
Change in net assets with donor restrictions	22,651	(25,126)
Change in net assets	(363,969)	(333,299)
Net assets:		
Beginning	3,844,540	4,177,839
Ending	\$ 3,480,571	\$ 3,844,540

See notes to financial statements.

International Foundation for Electoral Systems

Statement of Functional Expenses
Year Ended September 30, 2019

	Program Services					Supporting Services			Total
	Africa	Americas	Center For Applied Research	Middle East and North Africa	Asia	Europe and Eurasia	General and Administrative	Fundraising	
Compensation	\$ 2,374,585	\$ 1,090,327	\$ 905,711	\$ 3,507,564	\$ 4,121,084	\$ 3,609,719	\$ 3,590,418	\$ 7,356	\$ 19,206,764
Payroll taxes	124,639	57,230	47,540	184,108	216,311	189,470	188,457	346	1,008,101
Consulting	800,000	228,775	30,289	2,988,288	1,873,247	3,104,040	1,446,159	-	10,470,798
Subrecipients	1,386,992	53,372	69,868	615,193	2,578,860	568,381	-	-	5,272,666
Seminars and training	2,521,470	79,287	7,554	1,014,278	630,784	784,405	153,973	58,069	5,249,820
Travel	998,261	256,534	75,226	887,830	1,275,937	795,848	558,196	-	4,847,832
Other benefits	553,465	254,132	211,102	817,538	960,537	841,348	836,850	1,747	4,476,719
Commodities	433,673	11,567	1,267	1,468,227	109,018	1,714,161	-	-	3,737,913
Field office expense	338,975	98,356	2,894	305,848	830,809	465,061	119	-	2,042,062
Occupancy	157,469	72,304	60,062	232,602	273,287	239,376	238,089	-	1,273,189
Other costs	263,137	25,136	20,613	98,813	137,359	111,985	431,251	4,976	1,093,270
Equipment maintenance	53,385	15,679	95	156,136	181,149	130,050	196,349	-	732,843
Retirement plan	83,179	38,193	31,726	122,867	144,358	126,445	125,769	276	672,813
Legal fees	69,345	20,479	13,046	85,580	60,521	53,031	113,322	-	415,324
Telephone	28,872	13,840	350	9,742	68,539	22,744	161,783	-	305,870
Depreciation	29,889	13,724	11,400	44,150	51,872	45,435	45,191	-	241,661
Supplies	35,774	10,172	280	22,219	49,626	55,063	54,625	1,994	229,753
Accounting fees	14,487	-	-	26,440	38,340	23,223	120,000	-	222,490
Printing and production	5,544	1,601	1,241	15,208	26,015	2,142	56,768	4,426	112,945
Postage and delivery	19,624	1,118	1	8,588	13,810	24,526	10,582	-	78,249
	\$ 10,292,765	\$ 2,341,826	\$ 1,490,265	\$ 12,611,219	\$ 13,641,463	\$ 12,906,453	\$ 8,327,901	\$ 79,190	\$ 61,691,082

See notes to financial statements.

International Foundation for Electoral Systems

Statement of Functional Expenses Year Ended September 30, 2018

	Program Services					Supporting Services			Total
	Africa	Americas	Center For Applied Research	Middle East and North Africa	Asia	Europe and Eurasia	General and Administrative	Fundraising	
Compensation	\$ 4,236,518	\$ 1,009,703	\$ 3,983,441	\$ 786,698	\$ 2,812,109	\$ 2,253,856	\$ 3,629,948	\$ 5,067	\$ 18,717,340
Payroll taxes	187,484	44,684	176,284	34,815	124,448	99,743	160,641	224	828,323
Consulting	925,825	116,394	2,209,368	105,106	1,199,001	2,442,707	623,057	-	7,621,458
Subrecipients	4,366,901	137,594	1,586,336	28,800	97,123	1,324,812	-	-	7,541,566
Travel	870,819	119,773	1,632,500	137,725	574,483	482,093	309,029	4,273	4,130,695
Other benefits	927,963	221,165	872,529	172,318	615,962	493,683	795,101	1,110	4,099,831
Seminars and training	1,400,151	35,600	757,449	21,678	433,220	541,063	73,345	189,265	3,451,771
Field office expense	339,227	82,406	646,482	9,154	376,559	235,139	15	-	1,688,982
Commodities	470,585	13,987	14,212	900	58,024	805,696	85	-	1,363,489
Occupancy	299,474	71,375	281,584	55,611	198,784	159,322	256,596	-	1,322,746
Other costs	7,086	(2,513)	17,544	-	538	1,364	826,535	883	851,437
Equipment maintenance	120,714	10,643	262,433	300	62,862	126,578	144,852	-	728,382
Retirement plan	145,167	34,598	136,496	26,957	96,359	77,230	124,383	174	641,364
Telephone	58,102	13,358	70,325	531	22,737	11,899	203,227	-	380,179
Legal fees	53,102	20,233	58,480	8,907	42,134	71,740	46,345	-	300,941
Depreciation	57,888	13,797	54,430	10,749	38,425	30,797	49,600	-	255,686
Accounting fees	10,723	2,082	19,780	-	15,922	38,339	166,850	-	253,696
Supplies	46,805	12,697	57,770	277	36,877	23,037	51,858	1,835	231,156
Printing and production	9,198	5,525	28,308	46	2,801	9,832	85,173	1,558	142,441
Postage and delivery	38,561	3,124	20,553	71	15,567	2,318	4,628	-	84,822
	<u>\$ 14,572,293</u>	<u>\$ 1,966,225</u>	<u>\$ 12,886,304</u>	<u>\$ 1,400,643</u>	<u>\$ 6,823,935</u>	<u>\$ 9,231,248</u>	<u>\$ 7,551,268</u>	<u>\$ 204,389</u>	<u>\$ 54,636,305</u>

See notes to financial statements.

International Foundation for Electoral Systems

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (363,969)	\$ (333,299)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	241,661	255,686
Changes in allowance for doubtful accounts	(15,270)	(38,912)
Change in deferred rent	(46,324)	(1,977)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(3,243,268)	(1,957,448)
Subrecipient advances	2,880,093	(130,918)
Prepaid expenses and other current assets	(316,762)	53,802
Travel and other advances	(17,631)	89,219
Accounts payable and accrued expenses	(1,643,378)	941,843
Accrued salaries, taxes and leave	167,309	229,326
Deferred revenue	4,056,673	(2,715,475)
Net cash provided by (used in) operating activities	1,699,134	(3,608,153)
Cash flows from investing activities:		
Purchases of property and equipment	-	(16,581)
Net cash used in investing activities	-	(16,581)
Net increase (decrease) in cash and cash equivalents	1,699,134	(3,624,734)
Cash and cash equivalents:		
Beginning	9,870,268	13,495,002
Ending	\$ 11,569,402	\$ 9,870,268
Cash and cash equivalents - unrestricted	\$ 10,583,163	\$ 7,883,021
Cash and cash equivalents - restricted	986,239	1,987,247
	\$ 11,569,402	\$ 9,870,268

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, including the Middle East and North Africa, where its programs are operated.

In 2014, IFES established the Center for Applied Research (the Center) program to solidify IFES's technical leadership in the democracy and governance field. The Center seeks to integrate learning throughout IFES, from development to delivery, to drive excellence and effectiveness in programming, promote staff development, and position IFES as a leader in democracy and governance assistance and innovation.

A summary of IFES's 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).

Basis of presentation: The accompanying financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under the ASC, IFES is required to report information regarding its financial position and activities according to two classes of net assets: with and without donor restrictions.

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net assets without donor restrictions are not subject to donor-imposed restrictions. IFES's net assets without donor restrictions are comprised of undesignated net assets, which represents funds available for general operations.

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.

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.

International Foundation for Electoral Systems

Notes to Financial Statements

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

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 \$1.3 and \$1.9 million of cash and cash equivalents held at financial institutions in foreign countries at September 30, 2019 and 2018, respectively.

Restricted cash and cash equivalents: At September 30, 2019 and 2018, 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 6) 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.

Prior to the completion of a federal 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.

International Foundation for Electoral Systems

Notes to Financial Statements

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

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 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 65% and 63% of total revenues without donor restrictions for the years ended September 30, 2019 and 2018, respectively.

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, 2019 and 2018, IFES recorded donated services of \$655,609 and \$33,481, respectively, which are included in consulting, legal fees and travel in the accompanying statements of functional expenses.

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 activities. Expenses that can be identified with a specific program or support service are charged directly, according to their natural expenditure classification. Compensation and related expenses are allocated based on level of efforts. Legal fees, consulting, depreciation, equipment maintenance, field office expense, occupancy, postage and delivery, printing and production, supplies, seminars and training, telephone and travel expenses are allocated based on compensation.

International Foundation for Electoral Systems

Notes to Financial Statements

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

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. 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 2016.

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.

Reclassifications: Certain reclassifications were made in the 2018 financial statements to conform to the current year presentation with no effect on the changes in net assets or net assets.

Adopted accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (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 changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. IFES retrospectively adopted this ASU during 2019. As allowed by the ASU in the year of adoption, IFES elected to present the liquidity note (Note 7) for 2019 only.

In November 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)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statements of cash flows. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. This ASU was retrospectively adopted by IFES during 2019.

Upcoming accounting pronouncements: In February 2016, the FASB issued 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, 2021, 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.

International Foundation for Electoral Systems

Notes to Financial Statements

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

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. 2020-05, will be effective for annual reporting periods beginning after December 15, 2019 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.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. Early adoption is permitted. IFES is currently evaluating the impact of IFES's pending adoption of the new standard on the financial statements.

Subsequent events: IFES has evaluated its September 30, 2019, financial statements for subsequent events through June 26, 2020, the date the financial statements were available to be issued. (See Note 9)

Note 2. Grants and Contract Receivables

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

	2019	2018
Unbilled receivables	\$ 5,677,314	\$ 59,684
Billed receivables	408,332	2,779,544
Other receivables	21,970	25,120
	<u>6,107,616</u>	<u>2,864,348</u>
Less allowance for doubtful accounts	(50,442)	(65,712)
	<u>\$ 6,057,174</u>	<u>\$ 2,798,636</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.

International Foundation for Electoral Systems

Notes to Financial Statements

Note 3. Property and Equipment

Property and equipment consists of the following at September 30:

	2019	2018
Leasehold improvements	\$ 3,303,466	\$ 3,303,466
Software	1,717,132	1,717,132
Furniture and equipment	71,930	71,930
	<u>5,092,528</u>	<u>5,092,528</u>
Less accumulated depreciation and amortization	(2,634,492)	(2,392,831)
	<u>\$ 2,458,036</u>	<u>\$ 2,699,697</u>

Depreciation and amortization expense totaled \$241,661 and \$255,686 for the years ended September 30, 2019 and 2018, respectively.

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 \$602,733 and \$575,865 for the years ended September 30, 2019 and 2018, 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 \$70,022 and \$65,499 for the years ended September 30, 2019 and 2018, respectively.

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions 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).

International Foundation for Electoral Systems

Notes to Financial Statements

Note 6. 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, during the year ended September 30, 2016, IFES wrote off the unamortized balance of the deferred rent balance less a loss related to the landlord's assumption of the old lease in the net amount of \$757,486. This net gain is reported under deferred rent on the statements 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 statements 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 \$830,466.

As of September 30, 2019, the following is a schedule by year of the future minimum lease payments required under the new operating office lease:

Years ending September 30:	
2020	\$ 1,851,567
2021	1,898,185
2022	1,945,982
2023	1,994,987
2024	2,045,232
2025-2031	13,598,303
	<u>\$ 23,334,256</u>

Rent expense related to noncancellable operating leases aggregated \$1,273,189 and \$1,322,746 for the years ended September 30, 2019 and 2018, 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 \$955,970 and \$709,675 for the years ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, the following is a schedule by year of the future minimum lease payments required under the operating foreign office leases:

Years ending September 30:	
2020	\$ 404,860
2021	32,575
	<u>\$ 437,435</u>

Letters of credit: At September 30, 2019 and 2018, IFES had outstanding letters of credit totaling \$986,239 and \$985,245, respectively, related to security deposit requirements for its noncancellable operating office leases. These letters of credit are fully secured by restricted certificates of deposit and expire in July 17, 2020.

International Foundation for Electoral Systems

Notes to Financial Statements

Note 6. Commitments and Contingencies (Continued)

Line of credit: IFES obtained a new revolving line of credit with the bank for \$650,000 in February 2019. Interest accrues at a variable rate of 2.2% above the London Interbank Offered Rate (LIBOR) and is due monthly. The line is collateralized by the personal property of IFES. There were no advances on the line of credit at September 30, 2019.

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.

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.

Egypt tax contingency: During the fiscal year ended September 30, 2019, IFES began receiving tax bills from the Egyptian tax office from 2010 after IFES registered in Egypt to begin work on an USAID grant program that extended through 2019. IFES is in the process of submitting necessary documenting and appealing the taxes, however as of report date the estimated amount of taxes that may need to be paid is \$500,000 of which \$350,000 has been recorded in accounts payable and accrued expenses on the statements of financial position at September 30, 2019 with the expense chargeable to the grant program and included on the schedule of federal expenditures for the year ended September 30, 2019. Management believes that the ultimate disposition of this contingency 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. Liquidity

IFES regularly monitors liquidity of financial assets required to meet its annual operating needs and other contractual commitments. As of September 30, 2019, the following financial assets are available to meet annual operating needs for the next fiscal year:

Financial assets at year end:	
Cash and cash equivalents	\$ 10,583,163
Grants and contract receivables	6,057,174
Subrecipient advances	119,682
Travel and other advances	273,160
Restricted cash and cash equivalents	986,239
Total financial assets	<u>18,019,418</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	358,436
Restricted cash and cash equivalents	986,239
	<u>1,344,675</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 16,674,743</u>

Note 8. Subsequent Events

In January 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and in March 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact IFES's activities. Management is continually monitoring the impact of COVID-19 and will adjust activities should there be a significant impact on the economy.

In April 2020, IFES received a \$1,300,000 loan through the Paycheck Protection Program from Small Business Administration which is expected to be forgiven.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

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, 2019, 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 26, 2020

International Foundation for Electoral Systems

Schedule of Expenditures of Non USG Awards Year Ended September 30, 2019

Actual Project Name	Actual Donor Name	Contract ID	Project ID	Start Date	End Date	Cash Received	Total Expenditure
MALAYSIA UNDP ERS	Malaysia Electoral Reform Support	00117414	01150	03/22/19	12/31/20	\$ -	\$ 254
Furthering the Empowerment of Women and Youth Voters in Kenya	Canadian International Development Agency, Department of Foreign Affairs, Trade and Development	PO-7060471	05560	04/07/14	12/31/18	-	25,262
Strengthening Capacity of Electoral Actors	Canadian International Development Agency, Department of Foreign Affairs, Trade and Development	7060401	05588	03/25/14	03/31/18	-	1,033
Advancing the Electoral Process and Democracy	Canadian Agency for International Development, The Department of Foreign Affairs, Trade and Development (DFATD)	7060661	05590	06/29/14	03/31/20	741,129	1,032,024
Supporting Democratic Gains in Tunisia	Swiss Agency for International Development	81037807	05618	11/01/15	10/31/18	180,299	79,475
Papua New Guinea Electoral Systems Strengthening Project	Commonwealth of Australia, Department of Foreign Affairs and Trade (DFAT)	71885	05625	09/15/15	07/31/19	173,325	579,334
Institutional Strengthening for the Zimbabwe Electoral Commission (ZEC)	European Union, Delegation of the European Union to the Republic of Zimbabwe	FED/2015/365-080	05634	01/02/16	12/31/18	147,375	162,324
PNG Governance Family	Abt Associates	PGF-2016-0010	05640	12/01/16	06/30/20	2,474,590	1,491,648
She Leads	Department of Foreign Affairs and Trade	73286	05663	03/24/17	12/31/18	-	111,189
Sustainable and Inclusive Approaches to Elections in Myanmar	United Kingdom Aid, Department for International Development	203454-101 / 73891	05664	10/31/17	06/30/21	4,592,709	2,160,937
Electoral and Legal Enhancements Through Civic Engagement and Technical Assistance	United Kingdom Aid, Department for International Development	300476-101	05666	08/01/17	03/31/20	2,241,918	2,461,909
Support for Peaceful and Democratic Elections (SPADE II)	United Kingdom Aid, Department for International Development	203487	05667	09/01/17	03/31/21	1,257,622	1,460,831
Enhancing Local Governance in Zimbabwe	Development Alternatives Incorporated	030/6257	05668	11/08/17	05/31/19	380,000	1,046,564
Support for Development of the ASEAN Master Plan on Disability	Australian Aid	74245	05671	03/21/18	03/31/20	-	301,323
Indonesia Democratic Governance Reform	Department of Foreign Affairs and Trade	74291	05672	03/15/18	06/30/20	839,639	900,718

(Continued)

International Foundation for Electoral Systems

**Schedule of Expenditures of Non USG Awards
Year Ended September 30, 2019**

Actual Project Name	Actual Donor Name	Contract ID	Project ID	Start Date	End Date	Cash Received	Total Expenditure
Ending Impunity for Violence against Women in Zimbabwe	The Department of Foreign Affairs, Trade and Development ("DFATD")	7391369	05674	06/11/18	01/31/19	\$ -	\$ 68,911
Support to electoral Reforms in Macedonia - Inception Phase	Swiss Federal Department for Foreign Affairs (SFDFA)	81056509	05676	09/05/18	06/30/19	94,893	104,395
Local Level Stabilization and Democratization in Lybia	Federal Republic of Germany	German LLSDL	05677	09/01/18	02/29/20	615,714	566,277
Supporting Voter Registration in Tunisia	Federal Foreign Office	TP-P-14_18- German FFO_VR Support	05680	10/15/18	03/31/20	620,365	733,806
Tunisia Swiss SDC	Swiss Agency for Development and Cooperation (SDC)	81057805	05681	12/01/18	02/29/20	360,000	256,982
She Leads- Women Leadership Program	Swiss Federal Department for Foreign Affairs (SFDFA)	81058384	05682	01/01/19	12/31/22	793,044	246,021
Participation of Women in Elections and Registration (POWER) in Pakistan	Global Affairs Canada	P006193: Purchase Order 7404862	05684	03/29/19	03/31/22	522,268	106,436
Strengthening Election Administration in Sri Lanka	Department of Foreign Affairs and Trade	75173	05685	03/28/19	07/31/20	177,251	63,759
Ensuring Meaningful Engagement Through Reform for Gender Equality (EMERGE)	Global Affairs Canada (GAC)	P-006444 Purchase Order 7404677 Project	05686	03/29/19	03/29/24	595,290	408,487
Inclusive Electoral Reform in Malaysia	Federal Republic of Germany		05688	06/01/19	12/31/19	-	24,757
Mitigating Electoral Violence Against Women in Afghanistan	Global Affairs Canada	P000201	05678	07/31/18	04/29/19	8,045	129,973
Support to Electoral Reforms in North Macedonia - Main Phase	Swiss Federal Department for Foreign Affairs (SFDFA)	81060732	05699	08/09/19	12/31/19	687,671	97,858
Election Integrity Strategy	Facebook, Inc.	INB0527043	05700	06/24/19	06/30/20	247,500	15,391
Total Non USG Awards						\$ 17,750,647	14,637,878
Service contracts, administration award and final adjustments							1,972,995
							\$ 16,610,873