

# Independent Auditors' Report

**The Board of Directors  
National Endowment for Democracy  
Washington, DC**

We have audited the accompanying statements of financial position of the National Endowment for Democracy (the Endowment) as of September 30, 2008 and 2007, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Endowment's management. 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. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Endowment for Democracy as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Calibre CPA Group, PLLC*

Washington, DC

January 15, 2009

## STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,789,749	\$ 1,033,693
Investments	588,057	680,746
Grants receivable	111,076,496	116,197,874
Prepaid and other assets	41,866	35,545
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Total current assets	113,496,168	117,947,858
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET		
	3,967,731	4,150,998
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Total assets	<u>\$117,463,899</u>	<u>\$122,098,856</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,000,360	\$ 1,828,663
Grants payable	92,411,782	78,294,882
Deferred grant revenue - government agencies	17,737,647	36,169,284
Capital lease obligation - current portion	39,777	45,464
Deferred rent obligation - current portion	300,218	300,218
	<hr/>	<hr/>
Total current liabilities	112,489,784	116,638,511
LEASE OBLIGATIONS, NON-CURRENT PORTION		
Capital leases	137,382	34,557
Deferred rent obligation	2,665,666	2,967,982
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Total non-current liabilities	2,803,048	3,002,539
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Total liabilities	115,292,832	119,641,050
NET ASSETS		
Unrestricted	892,199	1,103,205
Temporarily restricted	1,278,868	1,354,601
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Total net assets	2,171,067	2,457,806
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Total liabilities and net assets	<u>\$ 117,463,899</u>	<u>\$ 122,098,856</u>

See accompanying notes to financial statements.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Grant revenue - government agencies	\$ 134,635,428	\$ -	\$ 134,635,428	\$ 106,408,363	\$ -	\$ 106,408,363
Other grants and contributions	-	782,172	782,172	-	334,595	334,595
Other revenue, interest, and miscellaneous income	175,143	(92,690)	82,453	173,500	68,837	242,337
Total support and revenue	134,810,571	689,482	135,500,053	106,581,863	403,432	106,985,295
<b>NET ASSET RELEASED FROM RESTRICTION -</b>						
Satisfaction of program restrictions	765,215	(765,215)	-	224,154	(224,154)	-
Total revenues	135,575,786	(75,733)	135,500,053	106,806,017	179,278	106,985,295
<b>EXPENSES</b>						
Program services:						
Grants programs:						
Federal	116,804,508	-	116,804,508	90,476,556	-	90,476,556
Other activities — Non-Federal						
International Forum:						
Management and support	5,499	-	5,499	8,074	-	8,074
<i>Journal of Democracy</i>	85,789	-	85,789	78,635	-	78,635
Research and conferences	5,861	-	5,861	18,775	-	18,775
World Movement for Democracy	939,510	-	939,510	2,208	-	2,208
NED events and development	136,614	-	136,614	124,538	-	124,538
Total other activities — Non-Federal	1,173,273	-	1,173,273	232,230	-	232,230
Other activities -- Federal						
International Forum						
<i>Journal of Democracy</i>	343,798	-	343,798	324,820	-	324,820
Democracy Resource Center	484,408	-	484,408	357,963	-	357,963
Research and conferences	174,778	-	174,778	149,474	-	149,474
Management and support	447,328	-	447,328	352,706	-	352,706
Reagan/Fascell Fellowship Program	1,142,709	-	1,142,709	1,137,660	-	1,137,660
World Movement for Democracy	730,483	-	730,483	543,974	-	543,974
World Movement for Democracy - Network Program	-	-	-	55,304	-	55,304
World Movement for Democracy - MEPI Program	76,885	-	76,885	71,497	-	71,497
World Movement for Democracy - Defending Civil Society	240,533	-	240,533	84,467	-	84,467
Center for International Media Assistance	558,437	-	558,437	489,504	-	489,504
Total other activities — Federal	4,199,359	-	4,199,359	3,567,369	-	3,567,369
Supporting services:						
Federal	13,609,652	-	13,609,652	12,747,174	-	12,747,174
Total other activities and supporting services	18,982,284	-	18,982,284	16,546,773	-	16,546,773
Total expenses	135,786,792	-	135,786,792	107,023,329	-	107,023,329
CHANGE IN NET ASSETS	(211,006)	(75,733)	(286,739)	(217,312)	179,278	(38,034)
NET ASSETS - BEGINNING OF YEAR	1,103,205	1,354,601	2,457,806	1,320,517	1,175,323	2,495,840
NET ASSETS - END OF YEAR	\$ 892,199	\$ 1,278,868	\$ 2,171,067	\$ 1,103,205	\$ 1,354,601	\$ 2,457,806

See accompanying notes to financial statements.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (286,739)	\$ (38,034)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	558,498	664,463
Net (appreciation) depreciation in fair value of investments	110,786	(46,914)
Changes in assets and liabilities:		
Grants receivable	5,121,378	1,406,528
Accounts receivable	-	780
Prepaid expenses	(6,321)	(16,568)
Accounts payable and accrued liabilities	171,697	170,638
Grants payable	14,116,900	1,655,188
Deferred grant revenue - government agencies	(18,431,637)	(4,484,277)
Deferred rent obligation	(302,316)	(57,378)
	<u>1,052,246</u>	<u>(745,574)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of furniture and equipment	(244,356)	(137,346)
Purchases of investments	(18,097)	(21,923)
	<u>(262,453)</u>	<u>(159,269)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Principal payments under capital lease obligations	(33,737)	(44,728)
	<u>756,056</u>	<u>(949,571)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	756,056	(949,571)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,033,693</u>	<u>1,983,264</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,789,749</u>	<u>\$ 1,033,693</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of equipment under capital lease	\$ 130,875	\$ -
CASH PAYMENTS FOR INTEREST	\$ 19,334	\$ 9,524

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** - The National Endowment for Democracy (the "Endowment") is a private, not-for-profit organization headquartered in Washington, D.C. The Endowment was established coincident to a grant awarded by the United States Information Agency ("USIA") as mandated by the National Endowment for Democracy Act (the "Act") of the United States Congress. 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 ("USDOS") consolidated. Accordingly, the Endowment receives funding for its annual Congressional Appropriation and other special federal funding from the USDOS.

**Basis of Presentation** - The accounts of the Endowment are maintained and the financial statements have been prepared on the accrual basis of accounting. The Endowment reports to the U.S. Government on the basis of obligations incurred and cash expenditures made.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on deposit, overnight repurchase agreements, and investments in money market accounts that are reported at cost and are readily convertible to known amounts of cash. Such instruments have maturities of three months or less from the date of purchase.

**Investments** - Investments are carried at fair value with any related gain or loss reported in the statements of activities and changes in net assets. The Endowment's investments consist entirely of mutual funds.

**Furniture, Equipment and Leasehold Improvements** - Furniture, equipment and leasehold improvements are reported at cost and are depreciated or amortized on the straight-line method over their estimated service lives or the term of the lease, as applicable, ranging from three to ten years.

**Grants Receivable - Federal Appropriation and Special Funding** - At the time a grant agreement is signed and awarded to the Endowment, a receivable and deferred revenue are reported. When payments are received from the awarding agency, the receivable is reduced. The deferred revenue is recognized as revenue in accordance with the Endowment's revenue recognition policy.

**Revenue Recognition** - Grants received from government agencies specify the periods in which monies are to be expended. Additionally, certain government grants restrict the use of funds for programs in specific countries. Revenues from government grants are recognized as earned in the year in which the Endowment obligates the funds for the intended purpose which is set forth in the grant agreement.

Agreements with the former USIA, USAID and USDOS 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.

**Deferred Grant Revenue - Government Agencies** - Resources awarded in the form of federal grant agreements made to the Endowment in excess of obligations incurred are reported as deferred grant revenue - government agencies.

**Contributions** - The Endowment reports 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, temporarily restricted net assets are reclassified in the statement of activities as net assets released from restrictions. Income on these net assets is classified as temporarily restricted or unrestricted in accordance with the donor's stipulation.

## NOTE 2. GRANTS RECEIVABLE

Grants receivable are from the U.S. Government and represent balances of Federal Reserve Letters of Credit and direct funding established by the former USIA, USAID and USDOS grant agreements. The Endowment collects U.S. Government funds by filing requests for direct funding and by presenting payment vouchers against letters of credit when it disburses cash for program grants and administrative costs.

## NOTE 3. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements less accumulated depreciation and amortization as of September 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Furniture and equipment	\$ 1,025,123	\$ 781,075
Equipment under capital lease	221,580	222,311
Leasehold improvements	4,125,606	4,125,605
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Total	5,372,309	5,128,991
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Less accumulated depreciation and amortization	(1,404,578)	(977,993)
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Furniture, equipment and leasehold improvements, net	<u>\$ 3,967,731</u>	<u>\$ 4,150,998</u>

## NOTE 4. GRANTS PAYABLE

Grants payable represent the undisbursed balances of funds obligated to the Endowment's grantees. Grantee organizations are entitled to collect grant funds as needed by presenting requests for funds to the Endowment. Such grants payable are generally disbursed within a 12-month period after the funds have been obligated to the Endowment's grantees.

## NOTE 5. DEFERRED GRANT REVENUE - GOVERNMENT AGENCIES

Changes in deferred grant revenue from agencies of the U.S. Government as of and for the years ended September 30, 2008 and 2007, are summarized in the following schedule:

	<u>2008</u>	<u>2007</u>
Deferred revenue, beginning of year	\$ 36,169,284	\$ 40,653,561
Grants awarded/amended	116,211,965	101,927,600
Grants obligated	(134,635,429)	(106,408,363)
Grants adjustments	(8,173)	(3,514)
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Deferred revenue, end of the year	<u>\$ 17,737,647</u>	<u>\$ 36,169,284</u>

## NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the years ended September 30, 2008 and 2007, as follows:

	<u>2008</u>	<u>2007</u>
International Forum:		
<i>Journal of Democracy</i>	\$ 85,789	\$ 78,635
Research and conferences	5,861	18,775
World Movement for Democracy	536,951	2,208
NED events and development	<u>136,614</u>	<u>124,536</u>
Total net assets released from restrictions	<u>\$ 765,215</u>	<u>\$ 224,154</u>

Temporarily restricted net assets at September 30, 2008 and 2007, are available for the following purposes:

	<u>2008</u>	<u>2007</u>
International Forum:		
<i>Journal of Democracy</i>	\$ 6,439	\$ 12,228
Visiting Fellows Program	551	551
World Movement for Democracy	-	181,729
Research and conferences	13,608	11,969
NED events and development	1,198,270	1,148,124
UNDEF	<u>60,000</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 1,278,868</u>	<u>\$ 1,354,601</u>

## NOTE 7. RELATED PARTIES

The Endowment awards grants to various organizations to be used for programs which the Board of Directors determines are consistent with the purposes of the Act. Some of the organizations which submit proposals and are awarded funds have members of their Board of Directors represented on the Board of Directors of the Endowment. Article VI, Section V, 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 considering and voting on such grant. The provision does not prevent any director from supplying factual information that the Board requests. There were no awards to related parties during the years ended September 30, 2008 and 2007.

## NOTE 8. COMMITMENTS

The Endowment has a noncancelable operating lease for office space that expires in June 2016. The lease for office space includes a provision for rent escalations. In addition, the Endowment leases equipment under capital leases that expire on various dates through 2013.

Accumulated amortization for property under capital leases was \$74,311 and \$222,311 as of September 30, 2008 and 2007, respectively. Future minimum lease payments as of September 30, 2008, are due as follows:

	<b>Capital Lease</b>	<b>Operating Lease</b>
2009	\$ 56,694	\$ 2,591,626
2010	56,694	2,656,417
2011	56,694	2,523,270
2012	43,410	2,613,627
2013	3,617	2,900,829
Thereafter	-	7,710,811
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Total minimum payments	217,109	20,996,580
Less interest	39,950	-
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Future minimum lease payments	<u>\$177,159</u>	<u>\$20,996,580</u>

Rent expense was \$2,217,324 and \$2,217,324 for the years ended September 30, 2008 and 2007, respectively.

## NOTE 9. BANK LETTER OF CREDIT

During fiscal year 2005, the Endowment obtained a standby letter of credit in the amount of \$377,323 from a commercial bank. The letter of credit represents the security deposit for the Endowment's noncancelable operating lease for office space.

## NOTE 10. INCOME TAXES

The Endowment is exempt from income taxes, except for unrelated business activities, under Section 501(c)(3) of the U.S. Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

## NOTE 11. 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. Employer contributions to the plan for the years ended September 30, 2008 and 2007, were \$719,582 and \$ 642,714, respectively.

## NOTE 12. TRANSFER TO GOVERNMENT AGENCIES

Commencing in fiscal year 1987, the U.S. Government established a policy whereby recipients of federal funds are required to deposit grant funds in interest-bearing accounts. Interest earned in excess of \$250 per fiscal year must be remitted to the U.S. Government. Total interest earned on federal funds in fiscal year 2008 and 2007 was approximately \$2,172 and \$645, respectively.

## NOTE 13. UNINSURED CASH

The Endowment maintains its cash accounts with one bank in the United States. The total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. At September 30, 2008, the Endowment had cash balances on deposit with this bank that exceeded the balance insured by the FDIC by approximately \$1,600,000.

