

Report of Independent Auditors

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, 2010 and 2009, 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, 2010 and 2009, 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

February 1, 2011

**Statements of Financial Position
September 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,439,302	\$ 1,668,765
Investments	650,353	592,377
Grants receivable	101,677,146	106,711,672
Other receivables	253,235	-
Prepaid and other assets	133,684	32,013
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Total current assets	105,153,720	109,004,827
Furniture, equipment and leasehold improvements, net	2,996,021	3,309,889
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Total assets	<u>\$ 108,149,741</u>	<u>\$ 112,314,716</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,958,103	\$ 2,722,188
Grants payable	92,028,219	94,117,527
Deferred grant revenue - government agencies	8,329,495	10,334,929
Capital lease obligation - current portion	49,046	44,169
Deferred rent obligation - current portion	300,218	300,218
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Total current liabilities	103,665,081	107,519,031
Lease obligations, non-current portion		
Capital leases	44,167	93,213
Deferred rent obligation	2,477,140	2,713,064
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Total non-current liabilities	2,521,307	2,806,277
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Total liabilities	106,186,388	110,325,308
Net assets		
Unrestricted	966,718	659,090
Temporarily restricted	996,635	1,330,318
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Total net assets	1,963,353	1,989,408
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Total liabilities and net assets	<u>\$ 108,149,741</u>	<u>\$ 112,314,716</u>

See accompanying notes to financial statements.

Statements of Activities and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Grant revenue - government agencies	\$ 135,254,175	\$ -	\$135,254,175	\$131,408,746	\$ -	\$ 131,408,746
Other grants and contributions	-	1,196,296	1,196,296	-	620,516	620,516
Other revenue, interest, and miscellaneous income	277,109	6,780	283,889	190,287	4,320	194,607
Total support and revenue	135,531,284	1,203,076	136,734,360	131,599,033	624,836	132,223,869
Net asset released from restriction - Satisfaction of program restrictions	1,536,759	(1,536,759)	-	573,386	(573,386)	-
Total revenues	137,068,043	(333,683)	136,734,360	132,172,419	51,450	132,223,869
Expenses						
Program services:						
Grants programs:						
Federal	114,489,282	-	114,489,282	111,620,068	-	111,620,068
Other activities -- Non-Federal						
International Forum:						
Management and support	5,948	-	5,948	588	-	588
<i>Journal of Democracy</i>	98,641	-	98,641	92,862	-	92,862
Research and conferences	18,037	-	18,037	14,567	-	14,567
United Nations NDRI Program	71,098	-	71,098	116,536	-	116,536
Assessing Democracy Assistance	51,311	-	51,311	24,650	-	24,650
World Movement for Democracy - Defending Civil Society	148,047	-	148,047	312,741	-	312,741
World Movement for Democracy NED events and development	1,063,732	-	1,063,732	52,636	-	52,636
	79,945	-	79,945	64,353	-	64,353
Total other activities -- Non-Federal	1,536,759	-	1,536,759	678,933	-	678,933
Other activities -- Federal						
International Forum						
<i>Journal of Democracy</i>	388,942	-	388,942	367,613	-	367,613
Democracy Resource Center	530,355	-	530,355	543,878	-	543,878
Research and conferences	164,440	-	164,440	171,910	-	171,910
Management and support	510,575	-	510,575	553,809	-	553,809
Reagan/Fascell Fellowship Program	1,149,734	-	1,149,734	1,198,159	-	1,198,159
Assessing Democracy Assistance	74,455	-	74,455	28,205	-	28,205
World Movement for Democracy	914,416	-	914,416	673,788	-	673,788
World Movement for Democracy - Youth Program	-	-	-	49,500	-	49,500
Center for International Media Assistance	753,984	-	753,984	910,760	-	910,760
Total other activities -- Federal	4,486,901	-	4,486,901	4,497,622	-	4,497,622
Supporting services:						
Federal	16,247,473	-	16,247,473	15,608,905	-	15,608,905
Total other activities and supporting services	22,271,133	-	22,271,133	20,785,460	-	20,785,460
Total expenses	136,760,415	-	136,760,415	132,405,528	-	132,405,528
Change in net assets	307,628	(333,683)	(26,055)	(233,109)	51,450	(181,659)
Net assets						
Beginning of year	659,090	1,330,318	1,989,408	892,199	1,278,868	2,171,067
End of year	\$ 966,718	\$ 996,635	\$ 1,963,353	\$ 659,090	1,330,318	\$ 1,989,408

See accompanying notes to financial statements.

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ (26,055)	\$ (181,659)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	570,325	667,517
Net (appreciation) depreciation in fair value of investments	(41,637)	9,792
Changes in assets and liabilities:		
Grants receivable	5,034,526	4,364,824
Other receivables	(253,235)	-
Prepaid expenses	(101,671)	9,853
Accounts payable and accrued liabilities	235,915	721,828
Grants payable	(2,089,308)	1,705,745
Deferred grant revenue - government agencies	(2,005,434)	(7,402,718)
Deferred rent obligation	(235,924)	47,398
Net cash provided by (used in) operating activities	<u>1,087,502</u>	<u>(57,420)</u>
Cash flows used in investing activities		
Purchases of furniture and equipment	(256,457)	(9,675)
Purchases of investments	(16,339)	(14,112)
Net cash used in investing activities	<u>(272,796)</u>	<u>(23,787)</u>
Cash flows used in financing activities		
Principal payments under capital lease obligations	(44,169)	(39,777)
Net increase (decrease) in cash and cash equivalents	770,537	(120,984)
Cash and cash equivalents - beginning of year	1,668,765	1,789,749
Cash and cash equivalents - end of year	<u>\$ 2,439,302</u>	<u>\$ 1,668,765</u>
Supplemental disclosure of non-cash investing and financing activities		
Cash payments for interest	<u>\$ 12,525</u>	<u>\$ 16,917</u>

See accompanying notes to financial statements.

National Endowment for Democracy Notes to Financial Statements

Years Ended September 30, 2010 and 2009

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 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.

Subsequent Events Review - Subsequent events have been evaluated through February 1, 2011, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to or disclosure in the accompanying financial statements.

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, 2010 and 2009 is as follows:

	2010	2009
Furniture and equipment	\$ 1,109,002	\$ 926,795
Equipment under capital lease	221,580	221,580
Leasehold improvements	4,199,857	4,125,606
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Total	5,530,439	5,273,981
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Less accumulated depreciation and amortization	(2,534,418)	(1,964,092)
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Furniture, equipment and leasehold improvements, net	<u>\$2,996,021</u>	<u>\$3,309,889</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, 2010 and 2009, are summarized in the following schedule:

	2010	2009
Deferred revenue, beginning of year	\$ 10,334,929	\$ 17,737,647
Grants awarded/amended	133,248,741	124,006,028
Grants obligated	(114,489,282)	(111,620,068)
Other grant-related expenses	(20,764,893)	(19,788,678)
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Deferred revenue, end of the year	<u>\$ 8,329,495</u>	<u>\$ 10,334,929</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, 2010 and 2009, as follows:

	2010	2009
International Forum:		
<i>Journal of Democracy</i>	\$ 104,589	\$ 86,439
Research and conferences	18,436	14,567
World Movement for Democracy	997,932	52,636
Hurford Youth	66,100	-
Canada Def Civ Soc	148,048	270,741
Assessing Dem Assist.	51,311	24,650
UNDEF	71,098	60,000
NED events and development	79,245	64,353
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Total net assets released from restrictions	<u>\$ 1,536,759</u>	<u>\$ 573,386</u>

Temporarily restricted net assets at September 30, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
International Forum:		
Visiting Fellows Program	\$ 551	\$ 551
Research and conferences	-	5,041
World Movement for Democracy	-	78,138
Hurford Youth	1,400	-
Canada Def Civ Soc	64,252	-
Assessing Dem Assist.	74,039	75,350
SIDA	173,208	-
UNDEF	48,902	-
NED events and development	634,283	1,171,238
	<u>\$996,635</u>	<u>\$1,330,318</u>

Total temporarily restricted net assets

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.

Note 8. Commitments

The Endowment has a noncancelable operating lease for office space that as of September 30, 2010 was to expire in June 2016. The lease was amended on October 31, 2010, to include additional space and an extension of the lease term to March 31, 2021. 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 \$138,858 and \$130,999 as of September 30, 2010 and 2009, respectively. Future minimum lease payments as of September 30, 2010, giving effect to the office lease amendment made in October 2010, are due as follows:

	<u>Capital Lease</u>	<u>Operating Lease</u>
2011	\$ 56,694	\$ 2,835,856
2012	43,410	3,313,659
2013	3,609	3,396,501
2014	-	3,481,413
2015	-	3,568,449
Thereafter	-	21,654,890
	<u>103,713</u>	<u>38,250,768</u>
Total minimum payments	103,713	38,250,768
Less interest	10,500	-
	<u>\$ 93,213</u>	<u>\$38,250,768</u>

Rent expense was \$2,407,434 and \$2,610,697 for the years ended September 30, 2010 and 2009, 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. On October 22, 2010, the letter of credit was decreased to \$188,661 in accordance with the lease amendment.

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). Effective October 1, 2009, the Endowment adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in the ASC topic Income Taxes. These provisions provide consistent guidance for the accounting for the uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Endowment believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

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, 2010 and 2009, were \$886,755 and \$ 822,425, 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 2010 and 2009 was approximately \$997 and \$1,715, 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 \$250,000 per bank. At September 30, 2010, the Endowment had cash balances on deposit with this bank that exceeded the balance insured by the FDIC by approximately \$2,301,000.

Note 14. Fair Value Measurements

The Endowment's investments are measured at fair value and consist entirely of amounts invested in mutual funds. Fair values for the mutual funds are determined by reference to quoted market prices for identical securities. These inputs used to determine fair values are considered Level 1 inputs under generally accepted accounting principles (unadjusted quoted prices in active markets for identical assets).