

## Statements of Financial Position September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,668,765	\$ 1,789,749
Investments	592,377	588,057
Grants receivable	106,711,672	111,076,496
Prepaid and other assets	32,013	41,866
	<u>109,004,827</u>	<u>113,496,168</u>
Furniture, equipment and leasehold improvements, net	<u>3,309,889</u>	<u>3,967,731</u>
Total assets	<u>\$ 112,314,716</u>	<u>\$ 117,463,899</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,722,188	\$ 2,000,360
Grants payable	94,117,527	92,411,782
Deferred grant revenue - government agencies	10,334,929	17,737,647
Capital lease obligation - current portion	44,169	39,777
Deferred rent obligation - current portion	300,218	300,218
	<u>107,519,031</u>	<u>112,489,784</u>
Lease obligations, non-current portion		
Capital leases	93,213	137,382
Deferred rent obligation	2,713,064	2,665,666
Total non-current liabilities	<u>2,806,277</u>	<u>2,803,048</u>
Total liabilities	<u>110,325,308</u>	<u>115,292,832</u>
Net assets		
Unrestricted	659,090	892,199
Temporarily restricted	1,330,318	1,278,868
Total net assets	<u>1,989,408</u>	<u>2,171,067</u>
Total liabilities and net assets	<u>\$ 112,314,716</u>	<u>\$ 117,463,899</u>

See accompanying notes to financial statements.

## Statements of Activities and Changes in Net Assets Years Ended September 30, 2009 and 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Grant revenue - government agencies	\$ 131,408,746	\$ -	\$131,408,746	\$ 134,635,428	\$ -	\$ 134,635,428
Other grants and contributions	-	620,516	620,516	-	782,172	782,172
Other revenue, interest, and miscellaneous income	190,287	4,320	194,607	175,143	(92,690)	82,453
Total support and revenue	131,599,033	624,836	132,223,869	134,810,571	689,482	135,500,053
Net asset released from restriction - Satisfaction of program restrictions	573,386	(573,386)	-	765,215	(765,215)	-
Total revenues	132,172,419	51,450	132,223,869	135,575,786	(75,733)	135,500,053
Expenses						
Program services:						
Grants programs:						
Federal	111,620,068	-	111,620,068	116,804,508	-	116,804,508
Other activities — Non-Federal						
International Forum:						
Management and support	588	-	588	5,499	-	5,499
<i>Journal of Democracy</i>	92,862	-	92,862	85,789	-	85,789
Research and conferences	14,567	-	14,567	5,861	-	5,861
United Nations NDRI Program	116,536	-	116,536	-	-	-
Assessing Democracy Assistance	24,650	-	24,650	-	-	-
World Movement for Democracy -Defending Civil Soc.	312,741	-	312,741	939,510	-	939,510
World Movement for Democracy	52,636	-	52,636	-	-	-
NED events and development	64,353	-	64,353	136,614	-	136,614
Total other activities — Non-Federal	678,933	-	678,933	1,173,273	-	1,173,273
Other activities -- Federal						
International Forum						
<i>Journal of Democracy</i>	367,613	-	367,613	343,798	-	343,798
Democracy Resource Center	543,878	-	543,878	484,408	-	484,408
Research and conferences	171,910	-	171,910	174,778	-	174,778
Management and support	553,809	-	553,809	447,328	-	447,328
Reagan/Fascell Fellowship Program	1,198,159	-	1,198,159	1,142,709	-	1,142,709
Assessing Democracy Assistance	28,205	-	28,205	-	-	-
World Movement for Democracy	673,788	-	673,788	730,483	-	730,483
World Movement for Democracy - Youth Program	49,500	-	49,500	-	-	-
World Movement for Democracy - MEPI Program	-	-	-	76,885	-	76,885
World Movement for Democracy - Defending Civil Society	-	-	-	240,533	-	240,533
Center for International Media Assistance	910,760	-	910,760	558,437	-	558,437
Total other activities — Federal	4,497,622	-	4,497,622	4,199,359	-	4,199,359
Supporting services:						
Federal	15,608,905	-	15,608,905	13,609,652	-	13,609,652
Total other activities and supporting services	20,785,460	-	20,785,460	18,982,284	-	18,982,284
Total expenses	132,405,528	-	132,405,528	135,786,792	-	135,786,792
Change in net assets	(233,109)	51,450	(181,659)	(211,006)	(75,733)	(286,739)
Net assets - beginning of year	892,199	1,278,868	2,171,067	1,103,205	1,354,601	2,457,806
Net assets - end of year	\$ 659,090	\$ 1,330,318	\$ 1,989,408	\$ 892,199	\$ 1,278,868	\$ 2,171,067

See accompanying notes to financial statements.



## Statements of Cash Flows Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ (181,659)	\$ (286,739)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	667,517	558,498
Net depreciation in fair value of investments	9,792	110,786
Changes in assets and liabilities:		
Grants receivable	4,364,824	5,121,378
Prepaid expenses	9,853	(6,321)
Accounts payable and accrued liabilities	721,828	171,697
Grants payable	1,705,745	14,116,900
Deferred grant revenue - government agencies	(7,402,718)	(18,431,637)
Deferred rent obligation	47,398	(302,316)
	<u>(57,420)</u>	<u>1,052,246</u>
Net cash provided by (used in) operating activities		
Cash flows used in investing activities		
Purchases of furniture and equipment	(9,675)	(244,356)
Purchases of investments	(14,112)	(18,097)
	<u>(23,787)</u>	<u>(262,453)</u>
Net cash used in investing activities		
Cash flows used in financing activities		
Principal payments under capital lease obligations	(39,777)	(33,737)
	<u>(39,777)</u>	<u>(33,737)</u>
Net increase (decrease) in cash and cash equivalents	(120,984)	756,056
Cash and cash equivalents - beginning of year	<u>1,789,749</u>	<u>1,033,693</u>
Cash and cash equivalents - end of year	<u>\$ 1,668,765</u>	<u>\$ 1,789,749</u>
Supplemental disclosure of non-cash investing and financing activities		
Acquisition of equipment under capital lease	\$ -	\$ 130,875
Cash payments for interest	\$ 16,917	\$ 19,334

See accompanying notes to financial statements.

## Notes to Financial Statements Years Ended September 30, 2009 and 2008

### 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, 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.

**Subsequent Events Review** - Subsequent events have been evaluated through January 22, 2010, 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, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Furniture and equipment	\$ 926,795	\$ 1,025,123
Equipment under capital lease	221,580	221,580
Leasehold improvements	4,125,606	4,125,606
	<hr/>	<hr/>
Total	5,273,981	5,372,309
	<hr/>	<hr/>
Less accumulated depreciation and amortization	(1,964,092)	(1,404,578)
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Furniture, equipment and leasehold improvements, net	<u>\$ 3,309,889</u>	<u>\$ 3,967,731</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, 2009 and 2008, are summarized in the following schedule:

	<u>2009</u>	<u>2008</u>
Deferred revenue, beginning of year	\$ 17,737,647	\$ 36,169,284
Grants awarded/amended	124,006,028	116,211,965
Grants obligated	(131,408,746)	(134,635,429)
Grants adjustments	-	(8,173)
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Deferred revenue, end of the year	<u>\$ 10,334,929</u>	<u>\$ 17,737,647</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, 2009 and 2008, as follows:

	<u>2009</u>	<u>2008</u>
International Forum:		
<i>Journal of Democracy</i>	\$ 86,439	\$ 85,789
Research and conferences	14,567	5,861
World Movement for Democracy	52,636	536,951
Canada Def Civ Soc	270,741	-
Assessing Dem Assist.	24,650	-
UNDEF	60,000	-
NED events and development	64,353	136,614
	<u>          </u>	<u>          </u>
Total net assets released from restrictions	<u>\$ 573,386</u>	<u>\$ 765,215</u>

Temporarily restricted net assets at September 30, 2009 and 2008, are available for the following purposes:

	<u>2009</u>	<u>2008</u>
International Forum:		
<i>Journal of Democracy</i>	\$ -	\$ 6,439
Visiting Fellows Program	551	551
Research and conferences	5,041	13,608
World Movement for Democracy	78,138	-
Assessing Dem Assist.	75,350	-
UNDEF	-	60,000
NED events and development	1,117,238	1,198,270
	<u>          </u>	<u>          </u>
Total temporarily restricted net assets	<u>\$ 1,330,318</u>	<u>\$ 1,278,868</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, 2009 and 2008.

**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 \$130,999 and \$74,311 as of September 30, 2009 and 2008, respectively. Future minimum lease payments as of September 30, 2009, are due as follows:

	<b>Capital Lease</b>	<b>Operating Lease</b>
2010	\$ 56,694	\$ 2,656,417
2011	56,694	2,523,570
2012	43,410	2,613,627
2013	3,609	2,900,829
2014	-	2,745,942
Thereafter	-	4,964,868
	<hr/>	<hr/>
Total minimum payments	160,407	18,405,253
Less interest	23,025	-
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Future minimum lease payments	<u>\$137,382</u>	<u>\$18,405,253</u>

Rent expense was \$2,610,697 and \$2,217,324 for the years ended September 30, 2009 and 2008, 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, 2009 and 2008, were \$822,425 and \$ 719,582, 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 2009 and 2008 was approximately \$1,715 and \$2,172, 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, 2009, the Endowment had cash balances on deposit with this bank that exceeded the balance insured by the FDIC by approximately \$822,000.

## NOTE 14. FAIR VALUE MEASUREMENTS

During the year ended September 30, 2009, the Endowment adopted new accounting standards governing *Fair Value Measurements*. For assets and liabilities measured at fair value on a recurring basis, standards require quantitative disclosures about fair value measurements separately for each major category of assets and liabilities. The new standards also clarify the definition of fair value for financial reporting, establish a hierarchal disclosure framework for measuring fair value, and require additional disclosures about the use of fair value measurements.

The three levels of the fair value hierarchy and their applicability to the Endowment's investments, are described below:

**Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2** – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

**Level 3** – Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity.

All of the Endowment's investments are measured at fair value using Level 1 inputs. The adoption of the new accounting standards did not have an impact on the Endowment's financial position or change in net assets.

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