

**The English-Speaking Union of the United States
National Headquarters**

Financial Statements

June 30, 2009 and 2008



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

**Board of Directors
The English-Speaking Union of the United States
- National Headquarters**

We have audited the accompanying statements of financial position of The English-Speaking Union of the United States - National Headquarters as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 the 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 Organization'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 English-Speaking Union of the United States - National Headquarters as of June 30, 2009 and 2008 and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies Munns & Dobbins, LLP

September 10, 2009
New York, New York

**The English-Speaking Union of the United States
National Headquarters**

Statements of Financial Position

June 30,

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 298,756	\$ 70,699
Accounts receivable	10,929	30,538
Promises to give receivable	52,670	149,990
Prepaid expenses and deposits	4,532	3,665
Investments	7,963,687	10,402,873
Headquarters building, net of accumulated depreciation	3,559,019	3,642,231
Office equipment, net of accumulated depreciation	35,647	44,885
	\$ 11,925,240	\$14,344,881
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 47,376	\$ 67,909
Bank advances	100,000	100,000
Equipment leases payable	22,793	31,014
Total Liabilities	170,169	198,923
 Net Assets		
Unrestricted		
Investment in headquarters building	3,559,019	3,642,231
Board designated	6,931,736	9,243,873
Undesignated	365,352	242,092
Total Unrestricted	10,856,107	13,128,196
Temporarily Restricted	430,599	565,397
Permanently Restricted	468,365	452,365
Total Net Assets	11,755,071	14,145,958
	\$ 11,925,240	\$14,344,881

See notes to financial statements

**The English-Speaking Union of the United States
National Headquarters**

Statement of Activities

Year Ended June 30, 2009

(With comparative totals for 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009	Total 2008
OPERATING REVENUE					
Membership dues	\$ 207,453	\$ -	\$ -	\$ 207,453	\$ 238,554
General contributions	190,133	-	-	190,133	187,028
Board allocated investment income	402,545	-	-	402,545	389,911
Speakers and conferences	29,758	-	-	29,758	129,576
Education department	303,743	43,587	-	347,330	334,596
Book services	3,140	27,489	-	30,629	40,861
Special events income, net of expenses of \$736 and \$430	514	-	-	514	1,600
Other income	13,993	-	-	13,993	23,537
Net assets released from restrictions	66,209	(66,209)	-	-	-
Total Operating Revenue	1,217,488	4,867	-	1,222,355	1,345,663
OPERATING EXPENSES					
Program services					
Membership services	94,824	-	-	94,824	113,896
Speakers and conferences	144,566	-	-	144,566	300,220
Education	441,126	-	-	441,126	562,059
Book services	41,837	-	-	41,837	36,025
ESU communications	43,664	-	-	43,664	52,513
Total Program Services	766,017	-	-	766,017	1,064,713
Supporting services					
Management and general	277,676	-	-	277,676	283,517
Fundraising	162,912	-	-	162,912	119,253
Branch services	121,817	-	-	121,817	111,626
Total Supporting Services	562,405	-	-	562,405	514,396
Total Operating Expenses	1,328,422	-	-	1,328,422	1,579,109
Net Loss from Operations	(110,934)	4,867	-	(106,067)	(233,446)
NON-OPERATING ITEMS					
Investment return, net of allocations	(2,316,323)	(139,665)	-	(2,455,988)	(586,442)
Bequests and endowment contributions	155,168	-	16,000	171,168	104,000
Change in Net Assets	(2,272,089)	(134,798)	16,000	(2,390,887)	(715,888)
NET ASSETS					
Beginning of year	13,128,196	565,397	452,365	14,145,958	14,861,846
End of year	\$ 10,856,107	\$ 430,599	\$ 468,365	\$ 11,755,071	\$ 14,145,958

See notes to financial statements

**The English-Speaking Union of the United States
National Headquarters**

Statement of Activities

Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE				
Membership dues	\$ 238,554	\$ -	\$ -	\$ 238,554
General contributions	187,028	-	-	187,028
Board allocated investment income	389,911	-	-	389,911
Speakers and conferences	129,576	-	-	129,576
Education department	254,365	80,231	-	334,596
Book services	5,085	35,776	-	40,861
Special events income, net of expenses of \$430	1,600	-	-	1,600
Other income	23,537	-	-	23,537
Net assets released from restrictions	174,649	(174,649)	-	-
Total Operating Revenue	<u>1,404,305</u>	<u>(58,642)</u>	<u>-</u>	<u>1,345,663</u>
OPERATING EXPENSES				
Program services				
Membership services	113,896	-	-	113,896
Speakers and conferences	300,220	-	-	300,220
Education	562,059	-	-	562,059
Book services	36,025	-	-	36,025
ESU communications	52,513	-	-	52,513
Total Program Services	<u>1,064,713</u>	<u>-</u>	<u>-</u>	<u>1,064,713</u>
Supporting services				
Management and general	283,517	-	-	283,517
Fundraising	119,253	-	-	119,253
Branch services	111,626	-	-	111,626
Total Supporting Services	<u>514,396</u>	<u>-</u>	<u>-</u>	<u>514,396</u>
Total Operating Expenses	<u>1,579,109</u>	<u>-</u>	<u>-</u>	<u>1,579,109</u>
Net Gain (Loss) from Operations	(174,804)	(58,642)	-	(233,446)
NON-OPERATING ITEMS				
Investment return, net of allocations	(549,911)	(36,531)	-	(586,442)
Bequests and endowment contributions	90,000	-	14,000	104,000
Change in Net Assets	<u>(634,715)</u>	<u>(95,173)</u>	<u>14,000</u>	<u>(715,888)</u>
NET ASSETS				
Beginning of year	13,762,911	660,570	438,365	14,861,846
End of year	<u>\$ 13,128,196</u>	<u>\$ 565,397</u>	<u>\$ 452,365</u>	<u>\$ 14,145,958</u>

See notes to financial statements

**The English-Speaking Union of the United States
National Headquarters**

Statements of Cash Flows

Years Ended June 30,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,390,887)	\$ (715,888)
Adjustments to reconcile changes in net assets to cash flows from operating activities		
Permanently restricted contributions	(16,000)	(14,000)
Net loss on investments	2,283,066	402,193
Loss of sale of office equipment	-	5,573
Depreciation	94,341	110,525
Changes in operating assets and liabilities		
Accounts receivable	19,609	40,683
Promises to give receivable	97,320	(89,795)
Prepaid expenses	(867)	1,111
Accounts payable and accrued expenses	(20,533)	(85,746)
Total Adjustments	2,456,936	370,544
Net Cash from Operating Activities	66,049	(345,344)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and building improvements	(1,891)	-
Net sales of short term investments	76,808	(39,002)
Proceeds from sales/maturities of investments	3,828,963	7,497,936
Purchases of investments	(3,749,651)	(7,124,103)
Net Cash from Investing Activities	154,229	334,831
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	16,000	14,000
Repayment of bank advances	-	(100,000)
Principal payments on equipment leases	(8,221)	(8,796)
Net Cash from Financing Activities	7,779	(94,796)
Net Change in Cash and Cash Equivalents	228,057	(105,309)
CASH AND CASH EQUIVALENTS		
Beginning of year	70,699	176,008
End of year	\$ 298,756	\$ 70,699
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during year for interest	\$ 756	\$ 8,816
Noncash investing and financing activities		
Acquisition and refinancing of lease obligations	\$ -	\$ 23,604
See notes to financial statements		

**The English-Speaking Union of the United States
National Headquarters**

Notes to Financial Statements

1. Organization and Taxation

The English-Speaking Union of the United States, ("ESU" or the "English Speaking Union") is a not-for-profit organization incorporated in the State of Delaware for charitable and educational purposes. Seventy-one branches of The English-Speaking Union operate through independent governing boards throughout the United States. These branches support their own scholarships and programs as well as those of The English-Speaking Union. Each branch pays an assessment to The English-Speaking Union for each of its members. Since 1920, the organization has grown to include a broad domestic and international education and exchange base both in the United States and in fifty-five countries worldwide.

The accompanying financial statements reflect the financial position and operations of The English-Speaking Union - National Headquarters only and do not include the assets, liabilities, net assets, revenue or expenses of the constituent branches of The English-Speaking Union, since they are independently governed.

The English-Speaking Union is exempt from income tax under Sections 501(c)(3) and 509(a) of the Internal Revenue Code of 1986.

2. Summary of Significant Accounting Policies

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 at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of The English-Speaking Union and changes therein are classified and reported as unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents

For statements of cash flow purposes, the English-Speaking Union considers all highly liquid debt instruments purchased with an initial maturity of three months or less when purchased, except for such items in its investment account, to be cash equivalents.

**The English-Speaking Union of the United States
National Headquarters**

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Investments

The English-Speaking Union follows FASB 157 “Fair Value Measurements” which established a fair value hierarchy organized into three levels based upon the “input” assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices that are observable, either directly or indirectly with fair value being determined through the use of models or other valuation methodologies. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments are held in a combined portfolio and carried at fair value which is determined by fair value input levels for June 30, 2009 and similar methods for June 30, 2008. Gains and losses on investments, both realized and unrealized, are allocated based on the percentage of each participating fund to the total participating funds at the end of the preceding fiscal year adjusted for additions and withdrawals during the year.

Building, Building Improvements and Office Equipment

The English-Speaking Union follows the practice of capitalizing material expenditures for building, improvements and equipment having a useful life of more than one year. Depreciation is expensed on a straight-line basis over the estimated useful lives of the assets.

Contributions

Contributions received, including unconditional promises to give, are recognized as support in the period received at their fair values. Contributions are recorded 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts-in-Kind

Contributions of services and use of facilities are recognized at their fair value when they create or enhance nonfinancial assets or they require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The value of the contributed services and use of facilities recognized as revenue and expense in the Statement of Activities for the years ended June 30, 2009 and 2008 were \$83,700 and \$90,200 with \$79,800 allocated to program services and \$3,900 to supporting services the year ended 2009 and \$86,300 allocated to program services and \$3,900 to supporting service for the year ended 2008.

**The English-Speaking Union of the United States
National Headquarters**

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

Expenses, including depreciation, have been charged to program and supporting services either directly, when identifiable, or indirectly based on management's estimation of the services benefited.

Accounting for Uncertainty in Income Taxes

The English-Speaking Union's current accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management of ESU is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 10, 2009.

3. Credit Risk Concentration

The English-Speaking Union places its cash in highly rated financial institutions. At times cash balances held at financial institutions were in excess of federally insured limits. The English-Speaking Union does not have a material concentration of credit risk with respect to accounts receivable.

4. Promises to Give Receivable

Promises to give receivable at June 30, 2009 total \$52,670 and are expected to be collected in the next fiscal year. Promises to give are deemed to be fully collectible by management. Thus, no allowance has been provided for potential uncollectibility.

5. Investments and Investment Returns

The English-Speaking Union utilizes a total return investment approach with its asset allocation diversified over multiple asset classes. Target allocation percentages are established for various asset classes and are modified over time. Performance is measured against a composite benchmark of investment indices reflecting the target asset allocation.

**The English-Speaking Union of the United States
National Headquarters**

Notes to Financial Statements

5. Investments and Investment Return (continued)

Investments held by the English-Speaking Union at June 30, 2009 and 2008 including accrued income of \$36,142 and \$38,639, consisted of the following:

	<u>2009</u>		<u>2008</u>	
Level 1 Investments				
Equity securities	\$ 5,466,708	69%	\$ 7,695,650	75%
Fixed income securities	<u>2,469,921</u>	<u>31%</u>	<u>2,603,357</u>	<u>25%</u>
Total securities	7,936,629	<u>100%</u>	10,299,007	<u>100%</u>
Money market funds	<u>27,058</u>		<u>103,866</u>	
	<u>\$ 7,963,687</u>		<u>\$10,402,873</u>	

The English-Speaking Union has adopted the total return concept for the purpose of withdrawing earnings from its combined investments. The budgeted annual distribution rate was 5% of the three year average market value of the combined portfolio. Such spending rate is scheduled at 5% for the year ending June 30, 2009.

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
Dividends and interest	\$ 361,607	\$ 21,803	\$ 383,410	\$ 364,562
Realized gain on investment sales	(687,934)	(41,479)	(729,413)	302,259
Unrealized (depreciation) appreciation	(1,465,302)	(88,351)	(1,553,653)	(704,452)
Custody and advisory fees	<u>(36,375)</u>	<u>(2,193)</u>	<u>(38,568)</u>	<u>(48,561)</u>
Total investment return	(1,828,004)	(110,220)	(1,938,224)	(86,192)
Allocated to operating income:				
Operating investment income	\$ 379,654	\$ 22,891	\$ 402,545	\$ 389,911
Speaker and member services	4,058	245	4,303	3,998
Education	78,681	4,744	83,425	80,565
Book service	<u>25,926</u>	<u>1,565</u>	<u>27,491</u>	<u>25,776</u>
Total operating investment income	<u>488,319</u>	<u>29,445</u>	<u>517,764</u>	<u>500,250</u>
Non-operating investment income	<u>\$(2,316,323)</u>	<u>\$ (139,665)</u>	<u>\$(2,455,988)</u>	<u>\$ (586,442)</u>

**The English-Speaking Union of the United States
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Notes to Financial Statements

5. Investments and Investment Return (continued)

The following is a reconciliation of the investment activity for 2009 in the donor restricted and board designated unrestricted funds:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2008	\$ 9,243,873	\$ 224,413	\$ 452,365	\$ 9,920,651
Contributions	88,604	-	16,000	104,604
Allocated operating income	466,612	31,646	-	498,258
Interest and dividends	361,606	8,970	-	370,576
Custody fees	(36,375)	(902)	-	(37,277)
Realized depreciation	(687,934)	(17,067)	-	(705,001)
Unrealized depreciation	(1,465,302)	(36,354)	-	(1,501,655)
Non-operating income	(488,319)	(12,115)	-	(500,435)
Transfers	(402,545)	-	-	(402,545)
Appropriation for expenditure	(148,484)	(24,782)	-	(173,266)
Balance, June 30, 2009	<u>\$ 6,931,736</u>	<u>\$ 173,809</u>	<u>\$ 468,365</u>	<u>\$ 7,573,910</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 173,809	\$ 468,365	\$ 642,174
Board designated funds	<u>6,931,736</u>	<u>-</u>	<u>-</u>	<u>6,931,736</u>
Total funds	<u>\$ 6,931,736</u>	<u>\$ 173,809</u>	<u>\$ 468,365</u>	<u>\$ 7,573,910</u>

**The English-Speaking Union of the United States
National Headquarters**

Notes to Financial Statements

7. Headquarters Building and Office Equipment

Building and office equipment at June 30 consisted of the following:

	2009	2008
Land	\$ 930,900	\$ 930,900
Building and improvements	3,274,487	3,274,487
	4,205,387	4,205,387
Less accumulated depreciation	646,368	563,156
	<u>\$ 3,559,019</u>	<u>\$ 3,642,231</u>
Office equipment	\$ 145,065	\$ 143,174
Less accumulated depreciation	109,418	98,289
	<u>\$ 35,647</u>	<u>\$ 44,885</u>

Depreciation for the years ended June 30, 2009 and 2008 in the amounts of \$94,341 and \$110,525 has been allocated to various programs (\$59,057 and \$72,593) and supporting services (\$35,284 and \$37,932) based on management's estimate of the benefit provided. Office equipment includes asset held under a capital lease totaling \$23,604 and related accumulated depreciation of \$9,835 and \$3,934 as of June 30, 2009 and 2008.

7. Bank Advances

The English – Speaking Union maintains a line of credit agreement with a bank that allows for borrowings up to \$300,000. Outstanding borrowings at June 30, 2009 totaling \$100,000 bears interest at the higher of the bank's prime rate minus 1% or the Federal Funds Rate plus ½%. The agreement expires on June 1, 2010 and is secured by ESU's investments held at the bank. The credit line bears a floating interest rate (2.25% at year end) and is due upon demand.

8. Equipment Lease

The English-Speaking Union is committed under a capital lease for office equipment. The lease expires at November 2008 and provides for minimum annual payments as follows:

2010	\$ 9,792
2011	9,792
2012	3,263
Total lease payments	22,847
Less portion representing interest	813
Present value of net minimum capital lease payment	<u>\$ 22,034</u>

**The English-Speaking Union of the United States
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Notes to Financial Statements

9. Temporarily Restricted Net Assets

Temporarily restricted net assets, by donor stipulation, are to be used for the following purposes or periods:

	<u>2009</u>	<u>2008</u>
Education	\$ 229,015	\$ 291,225
Book services	<u>189,084</u>	<u>254,172</u>
Program related net assets	418,099	545,397
Subsequent years activities	<u>12,500</u>	<u>20,000</u>
Total temporarily restricted net assets	<u>\$ 430,599</u>	<u>\$ 565,397</u>

During the years ended June 30, 2009 and 2008, the restrictions on certain temporarily restricted net assets were satisfied as follows:

	<u>2009</u>	<u>2008</u>
Education	\$ 18,720	\$ 116,678
Book services	<u>27,489</u>	<u>35,776</u>
Program related net assets released	46,209	152,454
Subsequent years activities	<u>20,000</u>	<u>22,195</u>
Net assets released from restrictions	<u>\$ 66,209</u>	<u>\$ 174,649</u>

10. Permanently Restricted Net Assets

Permanently restricted net assets represent gifts which have been restricted by the donor in perpetuity, and from which the income is to be used for the following purposes:

	<u>2009</u>	<u>2008</u>
Education	\$ 166,600	\$ 150,600
Book services	<u>301,765</u>	<u>301,765</u>
Total permanently restricted net assets	<u>\$ 468,365</u>	<u>\$ 452,365</u>

**The English-Speaking Union of the United States
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Notes to Financial Statements

11. Pension Plan

Eligible employees of The English-Speaking Union participate in a money purchase pension plan, maintained by the Teachers Insurance and Annuity Association, as defined in Section 403(b) of the Internal Revenue Code. Employer contributions are made for eligible employees at the rate of 7.5% of covered compensation. Pension expense amounted to \$26,957 in 2009 and \$30,742 in 2008.