

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

Financial Statements

June 30, 2008 and 2007



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, 2008 and 2007, 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, 2008 and 2007 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 25, 2008
New York, New York

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

Statements of Financial Position

June 30,

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 70,699	\$ 176,008
Accounts receivable	30,538	71,221
Promises to give receivable	149,990	60,195
Prepaid expenses and deposits	3,665	4,776
Investments	10,402,873	11,139,897
Headquarters building, net of accumulated depreciation	3,642,231	3,725,442
Office equipment, net of accumulated depreciation	44,885	48,595
	<u>\$14,344,881</u>	<u>\$15,226,134</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 67,909	\$ 153,655
Bank advances	100,000	200,000
Equipment leases payable	31,014	10,633
Total Liabilities	<u>198,923</u>	<u>364,288</u>
 Net Assets		
Unrestricted		
Investment in headquarters building	3,642,231	3,725,442
Undesignated	242,092	229,161
Board designated	9,243,873	9,808,308
Total Unrestricted	<u>13,128,196</u>	<u>13,762,911</u>
Temporarily Restricted	565,397	660,570
Permanently Restricted	452,365	438,365
Total Net Assets	<u>14,145,958</u>	<u>14,861,846</u>
	<u>\$14,344,881</u>	<u>\$15,226,134</u>

See notes to financial statements

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

Statement of Activities

Year Ended June 30, 2008

(With comparative totals for 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
					(Restated)
OPERATING REVENUE					
Membership dues	\$ 238,554	\$ -	\$ -	\$ 238,554	\$ 230,142
General contributions	187,028	-	-	187,028	195,374
Board allocated investment income	389,911	-	-	389,911	373,509
Speakers and conferences	129,576	-	-	129,576	42,628
Education department	254,365	80,231	-	334,596	300,509
Book services	5,085	35,776	-	40,861	25,626
Special events income, net of expenses of \$430 and \$169,944	1,600	-	-	1,600	194,666
Other income	23,537	-	-	23,537	1,200
Net assets released from restrictions	<u>174,649</u>	<u>(174,649)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenue	<u>1,404,305</u>	<u>(58,642)</u>	<u>-</u>	<u>1,345,663</u>	<u>1,363,654</u>
OPERATING EXPENSES					
Program services					
Membership services	113,896	-	-	113,896	96,621
Speakers and conferences	300,220	-	-	300,220	141,620
Education	562,059	-	-	562,059	537,233
Book services	36,025	-	-	36,025	42,166
ESU communications	<u>52,513</u>	<u>-</u>	<u>-</u>	<u>52,513</u>	<u>63,798</u>
Total Program Services	<u>1,064,713</u>	<u>-</u>	<u>-</u>	<u>1,064,713</u>	<u>881,438</u>
Supporting services					
Management and general	283,517	-	-	283,517	305,352
Fundraising	119,253	-	-	119,253	68,263
Branch services	<u>111,626</u>	<u>-</u>	<u>-</u>	<u>111,626</u>	<u>89,860</u>
Total Supporting Services	<u>514,396</u>	<u>-</u>	<u>-</u>	<u>514,396</u>	<u>463,475</u>
Total Operating Expenses	<u>1,579,109</u>	<u>-</u>	<u>-</u>	<u>1,579,109</u>	<u>1,344,913</u>
Net Gain (Loss) from Operations	(174,804)	(58,642)	-	(233,446)	18,741
NON-OPERATING ITEMS					
Investment return, net of allocations	(549,911)	(36,531)	-	(586,442)	1,008,291
Bequests and endowment contributions	<u>90,000</u>	<u>-</u>	<u>14,000</u>	<u>104,000</u>	<u>257,166</u>
Change in Net Assets	(634,715)	(95,173)	14,000	(715,888)	1,284,198
NET ASSETS					
Beginning of year	<u>13,762,911</u>	<u>660,570</u>	<u>438,365</u>	<u>14,861,846</u>	<u>13,577,648</u>
End of year	<u>\$ 13,128,196</u>	<u>\$ 565,397</u>	<u>\$ 452,365</u>	<u>\$ 14,145,958</u>	<u>\$ 14,861,846</u>

See notes to financial statements

**The English-Speaking Union of the United States
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Statement of Activities

Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total (Restated)</u>
OPERATING REVENUE				
Membership dues	\$ 230,142	\$ -	\$ -	\$ 230,142
General contributions	183,179	12,195	-	195,374
Board allocated investment income	373,509	-	-	373,509
Speakers and conferences	42,628	-	-	42,628
Education department	237,192	63,317	-	300,509
Book services	935	24,691	-	25,626
Special events income, net of expenses of \$169,944 and \$543	194,666	-	-	194,666
Other income	1,200	-	-	1,200
Net assets released from restrictions	<u>167,183</u>	<u>(167,183)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue	<u>1,430,634</u>	<u>(66,980)</u>	<u>-</u>	<u>1,363,654</u>
OPERATING EXPENSES				
Program services				
Membership services	96,621	-	-	96,621
Speakers and conferences	141,620	-	-	141,620
Education	537,233	-	-	537,233
Book services	42,166	-	-	42,166
ESU communications	<u>63,798</u>	<u>-</u>	<u>-</u>	<u>63,798</u>
Total Program Services	<u>881,438</u>	<u>-</u>	<u>-</u>	<u>881,438</u>
Supporting services				
Management and general	305,352	-	-	305,352
Fundraising	68,263	-	-	68,263
Branch services	<u>89,860</u>	<u>-</u>	<u>-</u>	<u>89,860</u>
Total Supporting Services	<u>463,475</u>	<u>-</u>	<u>-</u>	<u>463,475</u>
Total Operating Expenses	<u>1,344,913</u>	<u>-</u>	<u>-</u>	<u>1,344,913</u>
Net Gain (Loss) from Operations	85,721	(66,980)	-	18,741
NON-OPERATING ITEMS				
Investment return, net of allocations	909,233	99,058	-	1,008,291
Bequests and endowment contributions	<u>251,066</u>	<u>-</u>	<u>6,100</u>	<u>257,166</u>
Change in Net Assets	1,246,020	32,078	6,100	1,284,198
NET ASSETS				
Beginning of year	<u>12,516,891</u>	<u>628,492</u>	<u>432,265</u>	<u>13,577,648</u>
End of year	<u>\$13,762,911</u>	<u>\$ 660,570</u>	<u>\$ 438,365</u>	<u>\$14,861,846</u>

See notes to financial statements

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

Statements of Cash Flows

Years Ended June 30,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (715,888)	\$ 1,284,198
Adjustments to reconcile changes in net assets to cash flows provided (used) by operating activities		
Permanently restricted contributions	(14,000)	(6,100)
Net loss (gain) on investments	402,193	(1,168,015)
Loss of sale of fixed assets	5,573	
Depreciation	110,525	103,646
Changes in operating assets and liabilities		
Accounts receivable	40,683	(43,220)
Promises to give receivable	(89,795)	(7,120)
Prepaid expenses	1,111	5,680
Accounts payable and accrued expenses	(85,746)	57,389
Total Adjustments	370,544	(1,057,740)
Net Cash (Used) Provided by Operating Activities	(345,344)	226,458
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and building improvements	-	(1,715)
Net sales of short term investments	(39,002)	(35,592)
Proceeds from sales/maturities of investments	7,497,936	5,358,557
Purchases of investments	(7,124,103)	(5,425,907)
Net Cash Provided (Used) by Investing Activities	334,831	(104,657)
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	14,000	6,100
Repayment of bank advances	(100,000)	-
Principal payments on equipment leases	(8,796)	(8,412)
Net Cash (Used) Provided by Financing Activities	(94,796)	(2,312)
Net Change in Cash and Cash Equivalents	(105,309)	119,489
CASH AND CASH EQUIVALENTS		
Beginning of year	176,008	56,519
End of year	\$ 70,699	\$ 176,008
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during year for interest	\$ 8,816	\$ 17,170
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-two 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
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Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Investments

Investments are held in a combined portfolio and carried at fair value which is determined by quoted market prices. 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 was \$90,200 with \$86,300 allocated to program services and \$3,900 to supporting services for both of the years ended 2008 and 2007.

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.

Reclassification

Certain financial statement amounts as of June 30, 2007 have been reclassified to be consistent with the financial statement presentation as of June 30, 2008.

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Notes to Financial Statements

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, 2008 total \$149,990 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 Return

Investments held by the English-Speaking Union at June 30, 2008 and 2007 including accrued income of \$38,639 and \$43,044, consisted of the following:

	<u>2008</u>		<u>2007</u>	
Equity securities	\$ 7,695,650	75%	\$ 8,407,153	76%
Fixed income securities	<u>2,603,357</u>	<u>25%</u>	<u>2,667,879</u>	<u>24%</u>
Total securities	10,299,007	<u>100%</u>	11,075,032	<u>100%</u>
Money market funds	<u>103,866</u>		<u>64,865</u>	
	<u>\$10,402,873</u>		<u>\$11,139,897</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>2008 Total</u>	<u>2007 Total</u>
Dividends and interest	\$ 325,508	\$ 39,054	\$ 364,562	\$ 364,437
Realized gain on investment sales	283,431	18,828	302,259	599,151
Unrealized (depreciation) appreciation	(660,571)	(43,881)	(704,452)	568,863
Custody and advisory fees	<u>(45,536)</u>	<u>(3,025)</u>	<u>(48,561)</u>	<u>(44,954)</u>
Total investment return	(97,168)	10,976	(86,192)	1,487,497

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

Notes to Financial Statements

5. Investments and Investment Return (continued)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2008 <u>Total</u>	2007 <u>Total</u>
Allocated to operating income:				
Operating investment income	\$ 389,911	\$ -	\$ 389,911	\$ 373,509
Speaker and member services	3,998	-	3,998	3,830
Education	58,834	21,731	80,565	77,176
Book service	<u>-</u>	<u>25,776</u>	<u>25,776</u>	<u>24,691</u>
Total operating investment income	<u>452,743</u>	<u>47,507</u>	<u>500,250</u>	<u>479,206</u>
Non-operating investment income	<u>\$ (549,911)</u>	<u>\$ (36,531)</u>	<u>\$ (586,442)</u>	<u>\$1,008,291</u>

6. Headquarters Building and Office Equipment

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

	<u>2008</u>	<u>2007</u>
Land	\$ 930,900	\$ 930,900
Building and improvements	<u>3,274,487</u>	<u>3,274,487</u>
	4,205,387	4,205,387
Less accumulated depreciation	<u>563,156</u>	<u>479,945</u>
	<u>\$ 3,642,231</u>	<u>\$ 3,725,442</u>
Office equipment	\$ 143,174	\$ 163,596
Less accumulated depreciation	<u>98,289</u>	<u>115,001</u>
	<u>\$ 44,885</u>	<u>\$ 48,595</u>

Depreciation for the years ended June 30, 2008 and 2007 in the amounts of \$110,525 and \$103,646 has been allocated to various programs (\$72,593 and \$68,067) and supporting services (\$37,932 and \$35,579) based on management's estimate of the benefit provided. Office equipment includes asset held under a capital lease totaling \$23,604 and \$33,404 and related accumulated depreciation of \$3,934 and \$19,486 as of June 30, 2008 and 2007.

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Notes to Financial Statements

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 bear interest at 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 (4% 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:

2009	\$ 9,792
2010	9,792
2011	9,792
2012	<u>3,264</u>
Total lease payments	32,640
Less portion representing interest	<u>1,626</u>
Present value of net minimum capital lease payment	<u>\$ 31,014</u>

9. Temporarily Restricted Net Assets

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

	<u>2008</u>	<u>2007</u>
Education	\$ 291,225	\$ 368,775
Book services	<u>254,172</u>	<u>269,600</u>
Program related net assets	545,397	638,375
Subsequent years activities	<u>20,000</u>	<u>22,195</u>
Total temporarily restricted net assets	<u>\$ 565,397</u>	<u>\$ 660,570</u>

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

9. Temporarily Restricted Net Assets (continued)

During the years ended June 30, 2008 and 2007, the restrictions on certain temporarily restricted net assets were satisfied as follows:

	<u>2008</u>	<u>2007</u>
Education	\$ 116,678	\$ 89,417
Book services	<u>35,776</u>	<u>24,691</u>
Program related net assets released	152,454	114,108
Subsequent years activities	<u>22,195</u>	<u>53,075</u>
Net assets released from restrictions	<u>\$ 174,649</u>	<u>\$ 167,183</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>2008</u>	<u>2007</u>
Education	\$ 150,600	\$ 136,600
Book services	<u>301,765</u>	<u>301,765</u>
Total permanently restricted net assets	<u>\$ 452,365</u>	<u>\$ 438,365</u>

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 \$30,742 in 2008 and \$27,593 in 2007.

12. Restatement

2007 operating revenue and expenses have been restated to recognize the value of contributed services and the use of donated facilities. The effect of this restatement is an increase to both revenue and expenses in the amount of \$90,200 with no impact on the change in net assets for the year ended June 30, 2007.