

National FFA Foundation, Inc.

Accountants' Report and Consolidated Financial Statements

December 31, 2008 and 2007

National FFA Foundation, Inc.
December 31, 2008 and 2007

Contents

Independent Accountants' Report..... 1

Consolidated Financial Statements

Statements of Financial Position 2

Statements of Activities..... 4

Statements of Functional Expenses 6

Statements of Cash Flows 8

Notes to Financial Statements 9

Independent Accountants' Report

Board of Trustees
National FFA Foundation, Inc.
Indianapolis, Indiana

We have audited the accompanying consolidated statements of financial position of National FFA Foundation, Inc. (Foundation) as of December 31, 2008 and 2007, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National FFA Foundation, Inc. as of December 31, 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.

As discussed in Note 10, the Foundation changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157 in 2008.

BKD_{LLP}

July 14, 2009

National FFA Foundation, Inc.
Consolidated Statements of Financial Position
December 31, 2008 and 2007

Assets

		2008		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and cash equivalents	\$ (133,878)	\$ 133,878	\$ -	\$ -
Contributions receivable	579,639	3,816,823	95,226	4,491,688
Accounts receivable - National FFA Organization	-	-	-	-
Other receivables	324,663	2,034	-	326,697
Prepaid expenses and other	87,446	65,167	-	152,613
Investments	(284,378)	4,861,935	2,685,154	7,262,711
Total assets	<u>\$ 573,492</u>	<u>\$ 8,879,837</u>	<u>\$ 2,780,380</u>	<u>\$ 12,233,709</u>

Liabilities

Accounts payable - trade	\$ 1,344,034	\$ -	\$ -	\$ 1,344,034
Accounts payable - National FFA Organization	201,687	-	-	201,687
Due to National Council	-	351,292	-	351,292
Due to affiliated organizations	-	69,722	-	69,722
Accrued payroll and other liabilities	184,496	-	-	184,496
Total liabilities	<u>1,730,217</u>	<u>421,014</u>	<u>-</u>	<u>2,151,231</u>

Net Assets

Unrestricted				
General	(2,153,360)	-	-	(2,153,360)
Ag Ed Strategic Opportunities Fund	1,056,878	-	-	1,056,878
Endowment and development	(60,243)	-	-	(60,243)
	<u>(1,156,725)</u>	<u>-</u>	<u>-</u>	<u>(1,156,725)</u>
Temporarily restricted				
General	-	8,335,305	-	8,335,305
Ag Ed Strategic Opportunities Fund	-	-	-	-
Endowment and development	-	123,518	-	123,518
	<u>-</u>	<u>8,458,823</u>	<u>-</u>	<u>8,458,823</u>
Permanently restricted - endowment and development	-	-	2,780,380	2,780,380
Total net assets	<u>(1,156,725)</u>	<u>8,458,823</u>	<u>2,780,380</u>	<u>10,082,478</u>
Total liabilities and net assets	<u>\$ 573,492</u>	<u>\$ 8,879,837</u>	<u>\$ 2,780,380</u>	<u>\$ 12,233,709</u>

2007			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 160,841	\$ 279,957	\$ -	\$ 440,798
224,052	3,023,690	2,500	3,250,242
51,080	-	-	51,080
288,374	5,208	-	293,582
293,708	-	-	293,708
2,233,328	5,595,956	2,531,935	10,361,219
<u>\$ 3,251,383</u>	<u>\$ 8,904,811</u>	<u>\$ 2,534,435</u>	<u>\$ 14,690,629</u>
\$ 1,549,616	\$ -	\$ -	\$ 1,549,616
-	-	-	-
-	12,117	-	12,117
-	-	-	-
246,499	-	-	246,499
<u>1,796,115</u>	<u>12,117</u>	<u>-</u>	<u>1,808,232</u>
105,290	-	-	105,290
1,320,236	-	-	1,320,236
29,742	-	-	29,742
<u>1,455,268</u>	<u>-</u>	<u>-</u>	<u>1,455,268</u>
-	7,661,780	-	7,661,780
-	215,853	-	215,853
-	1,015,061	-	1,015,061
<u>-</u>	<u>8,892,694</u>	<u>-</u>	<u>8,892,694</u>
-	-	2,534,435	2,534,435
<u>1,455,268</u>	<u>8,892,694</u>	<u>2,534,435</u>	<u>12,882,397</u>
<u>\$ 3,251,383</u>	<u>\$ 8,904,811</u>	<u>\$ 2,534,435</u>	<u>\$ 14,690,629</u>

National FFA Foundation, Inc.
Consolidated Statements of Activities
Years Ended December 31, 2008 and 2007

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support				
Public support				
Regular contributions	\$ 566,812	\$ -	\$ -	\$ 566,812
Special project contributions	6,105,964	6,398,923	245,872	12,750,759
Special project operational contributions	1,449,772	-	-	1,449,772
Interest and dividend income	294,477	175,157	73	469,707
Program fees	483,350	-	-	483,350
Net gains (losses) from investments	(1,984,398)	(917,271)	-	(2,901,669)
	<u>6,915,977</u>	<u>5,656,809</u>	<u>245,945</u>	<u>12,818,731</u>
Net assets released from restrictions	<u>6,090,680</u>	<u>(6,090,680)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>13,006,657</u>	<u>(433,871)</u>	<u>245,945</u>	<u>12,818,731</u>
Expenses				
Program services				
Leadership development	2,224,629	-	-	2,224,629
Personal growth	1,443,947	-	-	1,443,947
Career development	6,476,534	-	-	6,476,534
Professional development and other	2,039,944	-	-	2,039,944
Total program services	<u>12,185,054</u>	<u>-</u>	<u>-</u>	<u>12,185,054</u>
Management and general	1,489,535	-	-	1,489,535
Fundraising	1,944,061	-	-	1,944,061
Total expenses	<u>15,618,650</u>	<u>-</u>	<u>-</u>	<u>15,618,650</u>
Change in Net Assets	(2,611,993)	(433,871)	245,945	(2,799,919)
Net Assets, Beginning of Year	<u>1,455,268</u>	<u>8,892,694</u>	<u>2,534,435</u>	<u>12,882,397</u>
Net Assets, End of Year	<u>\$ (1,156,725)</u>	<u>\$ 8,458,823</u>	<u>\$ 2,780,380</u>	<u>\$ 10,082,478</u>

2007			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 309,039	\$ -	\$ -	\$ 309,039
4,964,739	5,025,682	152,869	10,143,290
1,700,379	-	-	1,700,379
547,081	233,210	267	780,558
291,725	-	-	291,725
270,777	115,986	-	386,763
8,083,740	5,374,878	153,136	13,611,754
6,108,797	(6,108,797)	-	-
14,192,537	(733,919)	153,136	13,611,754
2,215,215	-	-	2,215,215
1,409,393	-	-	1,409,393
6,455,278	-	-	6,455,278
2,828,920	-	-	2,828,920
12,908,806	-	-	12,908,806
1,393,981	-	-	1,393,981
1,949,609	-	-	1,949,609
16,252,396	-	-	16,252,396
(2,059,859)	(733,919)	153,136	(2,640,642)
3,515,127	9,626,613	2,381,299	15,523,039
\$ 1,455,268	\$ 8,892,694	\$ 2,534,435	\$ 12,882,397

National FFA Foundation, Inc.
Consolidated Statement of Functional Expenses
Year Ended December 31, 2008

	2008								
	Program Services				Total	Supporting Services			Total Expenses
	Leadership Development	Personal Growth	Career Development	Professional Development and Other		Management and General	Fundraising	Total	
Awards, grants and scholarships	\$ 238,121	\$ 172,860	\$ 3,940,490	\$ 88,863	\$ 4,440,334	\$ 206	\$ 585	\$ 791	\$ 4,441,125
Programs and activities	264,360	223,605	465,288	478,862	1,432,115	-	-	-	1,432,115
Salaries, payroll taxes and employee benefits	50,436	206,741	192,349	182,307	631,833	938,077	1,218,526	2,156,603	2,788,436
Materials and supplies	402,103	51,097	180,712	87,329	721,241	14,042	20,310	34,352	755,593
Telephone and fax	9,803	13,134	5,902	33,842	62,681	11,247	22,079	33,326	96,007
Postage, freight, shipping and handling	43,910	5,981	26,956	2,725	79,572	15,569	35,480	51,049	130,621
Occupancy	-	-	-	5,552	5,552	30,793	42,039	72,832	78,384
Maintenance, repairs and rental	94,516	9,250	24,825	12,551	141,142	125,727	175,949	301,676	442,818
Printing and publications	140,570	87,279	69,383	21,587	318,819	44,032	61,260	105,292	424,111
Travel, meals and lodging	514,661	313,747	945,553	492,506	2,266,467	84,711	239,880	324,591	2,591,058
Conferences, conventions, workshops and meetings	341,384	136,393	406,321	82,299	966,397	2,483	44,009	46,492	1,012,889
Training and development	87,249	77,328	20,760	59,164	244,501	7,052	6,538	13,590	258,091
Bank, credit card and state fees	51	-	114	1,280	1,445	8,113	8,579	16,692	18,137
Professional fees - other	37,465	146,133	176,059	491,077	850,734	107,473	34,121	141,594	992,328
Accounting and legal fees	-	399	21,822	-	22,221	42,860	-	42,860	65,081
Miscellaneous	-	-	-	-	-	57,150	34,706	91,856	91,856
Totals	<u>\$ 2,224,629</u>	<u>\$ 1,443,947</u>	<u>\$ 6,476,534</u>	<u>\$ 2,039,944</u>	<u>\$ 12,185,054</u>	<u>\$ 1,489,535</u>	<u>\$ 1,944,061</u>	<u>\$ 3,433,596</u>	<u>\$ 15,618,650</u>

National FFA Foundation, Inc.

Statement of Functional Expenses

Year Ended December 31, 2007

	2007									
	Program Services					Supporting Services				
	Leadership Development	Personal Growth	Career Development	Professional Development and Other	Total	Management and General	Fundraising	Total	Total Expenses	
Awards, grants and scholarships	\$ 257,617	\$ 126,808	\$ 3,087,748	\$ 245,440	\$ 3,717,613	\$ -	\$ -	\$ -	\$ 3,717,613	
Programs and activities	251,007	199,090	560,174	497,800	1,508,071	-	-	-	1,508,071	
Salaries, payroll taxes and employee benefits	52,033	273,699	177,500	183,348	686,580	868,538	1,248,535	2,117,073	2,803,653	
Materials and supplies	409,214	129,517	137,339	155,569	831,639	13,692	23,173	36,865	868,504	
Telephone and fax	4,392	17,012	4,792	59,153	85,349	11,660	24,436	36,096	121,445	
Postage, freight, shipping and handling	13,365	2,578	63,420	18,334	97,697	11,876	28,536	40,412	138,109	
Occupancy	-	-	-	3,420	3,420	25,048	34,196	59,244	62,664	
Maintenance, repairs and rental	88,598	20,385	14,520	10,902	134,405	122,768	161,524	284,292	418,697	
Printing and publications	191,462	177,011	217,842	116,814	703,129	52,679	51,271	103,950	807,079	
Travel, meals and lodging	485,371	258,574	893,125	502,221	2,139,291	113,349	224,844	338,193	2,477,484	
Conferences, conventions, workshops and meetings	284,335	87,954	1,199,471	143,465	1,715,225	6,237	18,843	25,080	1,740,305	
Training and development	101,265	8,453	36,417	31,417	177,552	15,127	10,306	25,433	202,985	
Bank, credit card and state fees	-	-	-	-	-	9,689	7,613	17,302	17,302	
Professional fees - other	76,556	105,993	62,930	820,378	1,065,857	48,852	56,329	105,181	1,171,038	
Accounting and legal fees	-	2,319	-	40,659	42,978	39,524	10,630	50,154	93,132	
Miscellaneous	-	-	-	-	-	54,942	49,373	104,315	104,315	
Totals	<u>\$ 2,215,215</u>	<u>\$ 1,409,393</u>	<u>\$ 6,455,278</u>	<u>\$ 2,828,920</u>	<u>\$ 12,908,806</u>	<u>\$ 1,393,981</u>	<u>\$ 1,949,609</u>	<u>\$ 3,343,590</u>	<u>\$ 16,252,396</u>	

National FFA Foundation, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Cash received from contributors and others	\$ 12,656,409	\$ 11,908,735
Interest and dividends received	469,633	780,291
Cash paid to employees, suppliers, etc.	(14,036,934)	(15,485,634)
Net cash used in operating activities	<u>(910,892)</u>	<u>(2,796,608)</u>
Investing Activities		
Proceeds from sales and maturities of investments	4,412,785	4,475,897
Purchases of investments	(4,215,873)	(1,701,367)
Net cash provided by investing activities	<u>196,912</u>	<u>2,774,530</u>
Financing Activities		
Proceeds from contributions restricted for investment in endowment	245,872	152,869
Other	27,310	-
Net cash provided by financing activities	<u>273,182</u>	<u>152,869</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(440,798)	130,791
Cash and Cash Equivalents, Beginning of Year	<u>440,798</u>	<u>310,007</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ 440,798</u>
Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities		
Change in net assets	\$ (2,799,919)	\$ (2,640,642)
Items not requiring (providing) cash		
Realized and unrealized (gains) losses on investments	2,901,669	(386,763)
Reinvested interest and dividends	(73)	(267)
Contributions restricted for long-term investment	(245,872)	(152,869)
Changes in		
Receivables	(1,223,480)	503,347
Prepaid expenses	141,095	(130,465)
Accounts payable and accrued expenses	<u>315,688</u>	<u>11,051</u>
Net cash used in operating activities	<u>\$ (910,892)</u>	<u>\$ (2,796,608)</u>

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

General

National FFA Foundation, Inc. (Foundation) commenced operations in March 1944 and was incorporated as a not-for-profit foundation in January 1945, under the laws of the District of Columbia. The Foundation was organized for the overall purpose of furthering the education and development of National FFA members with emphasis in all segments of the industry of agriculture in America at the national, state and local levels.

During 2007, the Foundation developed a wholly owned subsidiary, the FFA Pooled Investment Trust, LLC (Trust) for the collective investment and reinvestment of certain funds of both the Foundation and affiliated organizations of the National FFA Organization (Organization). In addition, FFA Trust Management, LLC (Company), the Fund's wholly owned subsidiary, was formed to organize and serve as the manager of the Fund.

Principles of Consolidation

The consolidated financial statements of National FFA Foundation, Inc. include the accounts of the Foundation, the Trust and the Company. All material inter-organization accounts and transactions have been eliminated in consolidation.

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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013.

In addition, the financial institution holding the Foundation's cash account is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the accounts.

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the changes in net assets in the accompanying consolidated statements of activities.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation is not considered to be a private foundation.

Uncertain Tax Positions

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Foundation has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ending December 31, 2009. The Foundation has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Statement No. 5, *Accounting for Contingencies*.

Promises to Give

Unconditional promises to give (contributions receivable) are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

While contributions, including promises to give, are required to be recorded as revenue in the year received, expenses funded by such contributions normally occur in subsequent years. This means fluctuations between years in the amount of contributions received or receivable can have a significant impact on the total change in net assets of the Foundation, as can the timing of program expenses which result therefrom.

Support and Revenue

The Foundation 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 to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions from various donors. It is the policy of the Foundation to record the estimated fair market value of certain in-kind donations as an asset or expense in its consolidated financial statements, and similarly increase donations by a like amount. For the years ended December 31, 2008 and 2007, in-kind contributions amounted to \$1,101,031 and \$871,507, respectively.

Expense Allocation

Expenses have been classified as program services, management and general, and fundraising based on the actual direct expenditures and cost allocations based upon estimates of time spent by Foundation personnel.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Contributions Receivable

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Due within one year	\$ 579,639	\$ 3,420,691	\$ 95,226	\$ 4,095,556
Due in one to five years	-	463,100	-	463,100
	579,639	3,883,791	95,226	4,558,656
Discount (approximately 6%)	-	(66,968)	-	(66,968)
	<u>\$ 579,639</u>	<u>\$ 3,816,823</u>	<u>\$ 95,226</u>	<u>\$ 4,491,688</u>

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Due within one year	\$ 224,052	\$ 2,436,221	\$ 2,500	\$ 2,662,773
Due in one to five years	-	712,100	-	712,100
	224,052	3,148,321	2,500	3,374,873
Discount (approximately 6%)	-	(124,631)	-	(124,631)
	<u>\$ 224,052</u>	<u>\$ 3,023,690</u>	<u>\$ 2,500</u>	<u>\$ 3,250,242</u>

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Contributions receivable designated for specific purposes are as follows:

	2008	2007
Leadership development	\$ 680,840	\$ 277,048
Personal growth	995,074	1,102,902
Career development	1,336,122	1,068,825
Professional development and other	869,936	494,168
Future periods	30,077	83,247
	<u>\$ 3,912,049</u>	<u>\$ 3,026,190</u>

Note 3: Investments

The Foundation's investments are as follows:

	2008	Market 2007
Uninvested cash	\$ 309,318	\$ 506,735
Bond mutual funds	2,504,395	2,812,010
Equity mutual funds	4,318,318	6,447,224
Alternative investments - mutual funds	130,680	595,250
Total	<u>\$ 7,262,711</u>	<u>\$ 10,361,219</u>
Unrestricted	\$ (284,378)	\$ 2,233,328
Temporarily restricted	4,861,935	5,595,956
Permanently restricted	2,685,154	2,531,935
	<u>\$ 7,262,711</u>	<u>\$ 10,361,219</u>

The following schedules summarize the investment return and its classification in the statements of activities for the years ended December 31, 2008 and 2007:

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 294,477	\$ 175,157	\$ 73	\$ 469,707
Net realized loss on investments	(208,319)	(26,078)	-	(234,397)
Net unrealized loss on investments	(1,776,079)	(891,193)	-	(2,667,272)
Total return on investments	<u>\$ (1,689,921)</u>	<u>\$ (742,114)</u>	<u>\$ 73</u>	<u>\$ (2,431,962)</u>

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 547,081	\$ 233,210	\$ 267	\$ 780,558
Net realized gains on investments	1,185,908	169,277	-	1,355,185
Net unrealized losses on investments	(915,131)	(53,291)	-	(968,422)
Total return on investments	<u>\$ 817,858</u>	<u>\$ 349,196</u>	<u>\$ 267</u>	<u>\$ 1,167,321</u>

Note 4: Interest in Charitable Trusts

During 2007, the Foundation was informed that it has been named the charitable beneficiary under two revocable charitable trusts from one donor. The estimated interest in the charitable trusts is approximately \$1,200,000. Due to the trusts being revocable, no asset has been recognized by the Foundation as of December 31, 2008 and 2007.

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2008	2007
Leadership development program activities	\$ 1,085,734	\$ 628,246
Personal growth program activities	1,627,763	2,012,690
Career development program activities	4,441,542	4,924,265
Professional development and other program activities	1,134,589	1,068,906
For periods after December 31, 2008 and 2007	<u>169,195</u>	<u>258,587</u>
	<u>\$ 8,458,823</u>	<u>\$ 8,892,694</u>

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Note 6: Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

	2008	2007
Investment in perpetuity, the income of which is expendable to support		
Leadership development program activities	\$ 41,963	\$ 41,891
Career development program activities	2,344,164	2,098,292
Professional development and other program activities	361,145	361,145
Any activity of the Foundation	33,108	33,107
	<u>\$ 2,780,380</u>	<u>\$ 2,534,435</u>

Note 7: Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2008	2007
Purpose restrictions accomplished and passage of time		
Leadership development program expenses	\$ 595,748	\$ 833,666
Personal growth program expenses	1,099,774	1,103,352
Career development program expenses	3,659,544	3,891,217
Professional development and other	735,614	280,562
	<u>\$ 6,090,680</u>	<u>\$ 6,108,797</u>

Note 8: Endowment

Interpretation of State Law

The Foundation maintains an Endowment Fund, which is comprised of certain donor-restricted permanently restricted funds functioning as an endowment to support a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

National FFA Foundation, Inc.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

The Foundation's governing body has interpreted the State of Indiana's Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

Investment Policy

Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods. Under the Foundation's investment policy, endowment assets are invested in a manner that is intended to preserve inflation adjusted values and provide annual budgetary support that is both stable and growing.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both a current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation, including, but not limited to, equity and fixed income instruments. The asset mix of the Endowment Funds is described in Note 3.

The composition of net assets by type of endowment fund at December 31, 2008 and 2007, was:

			2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (62,534)	\$ 120,118	\$ 2,685,154	\$ 2,742,738

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 27,451	\$ 1,012,563	\$ 2,531,935	\$ 3,571,949

Changes in endowment net assets for the years ended December 31, 2008 and 2007, were:

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 27,451	\$ 1,012,563	\$ 2,531,935	\$ 3,571,949
Investment return:				
Investment income	3,002	175,157	73	178,232
Net unrealized depreciation	(92,987)	(917,271)	-	(1,010,258)
Total investment return	(89,985)	(742,114)	73	(832,026)
Contributions received	-	-	153,146	153,146
Appropriation of endowment assets for expenditure	-	(150,331)	-	(150,331)
Endowment net assets, end of year	\$ (62,534)	\$ 120,118	\$ 2,685,154	\$ 2,742,738

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 21,397	\$ 783,888	\$ 2,381,274	\$ 3,186,559
Investment return:				
Investment income	4,048	233,210	267	237,525
Net unrealized appreciation	2,006	115,986	-	117,992
Total investment return	6,054	349,196	267	355,517
Contributions received	-	-	150,394	150,394
Appropriation of endowment assets for expenditure	-	(120,521)	-	(120,521)
Endowment net assets, end of year	\$ 27,451	\$ 1,012,563	\$ 2,531,935	\$ 3,571,949

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31, 2008 and 2007, consisted of:

	2008	2007
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 2,685,154</u>	<u>\$ 2,531,935</u>
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	<u>\$ 120,118</u>	<u>\$ 1,012,563</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$75,893 at December 31, 2008. These deficiencies resulted from unfavorable market fluctuations. There were no such deficiencies at December 31, 2007.

Note 9: Related Party Transactions

The Foundation currently has several of its trustees as directors of the National FFA Organization. However, neither organization appoints the trustees or directors of the other organization. During 2008 and 2007, the Foundation recorded revenues from the National FFA Organization as follows:

	2008	2007
Contributions from Alumni Association	\$ 10,500	\$ 19,275
Special project contributions and fees	149,353	330,497
Other reimbursements	1,033,784	595,243
Contributions from National FFA	<u>75,000</u>	<u>125,000</u>
Total	<u>\$ 1,268,637</u>	<u>\$ 1,070,015</u>

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Expenses incurred by the National FFA Organization on behalf of the Foundation are as follows. The Foundation reimburses the National FFA Organization for such expenses, including the salaries and benefits of Foundation staff.

	2008	2007
Management fees, salaries and benefits	\$ 3,436,118	\$ 3,373,309
Convention, Career Show and other support	1,207,579	1,374,453
Awards and scholarships	36,570	13,366
Other expenses	2,185,949	2,026,271
Operating reimbursements	414,556	383,644
	<hr/>	<hr/>
Total	<u>\$ 7,280,772</u>	<u>\$ 7,171,043</u>

At December 31, 2008 and 2007, the Foundation had receivables from the National FFA Organization of \$0 and \$51,080, respectively, and accounts payable to the National FFA Organization of \$201,687 and \$0, respectively.

Note 10: Disclosures About Fair Value of Financial Instruments

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157 (FAS 157), *Fair Value Measurements*. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include investment cash and various types of mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 2008:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 7,262,711	\$ 7,262,711	\$ -	\$ -

Note 11: Management's Consideration of Operational Challenges

The Foundation has experienced decreases in net assets for several years and currently has a negative unrestricted net asset balance due to recurring operating losses and negative cash flows from operations. Additionally, the Foundation's liquid assets are not sufficient to meet its temporarily restricted obligations.

Management has implemented or is in the process of implementing several strategies in an attempt to mitigate these conditions including the following:

- Expenditures for non-core programs will not be authorized until such time as the necessary funds have been raised and received by the Foundation
- Personnel expenses will be controlled through a hiring freeze and further reductions in personnel will be made if needed

National FFA Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

- Restrictions will be imposed on travel and travel-related expenses
- Changes in marketing strategies will be instituted that are designed to raise more unrestricted contributions, including the establishment of new levels of giving and an increase in the administrative fee assessed on contributed amounts

In addition to the steps listed above, management is in the process of drafting and approving a formal operating agreement with the Organization for the use of space and sharing of expenses that will allow it to better predict operating costs. Should these steps not provide the necessary resources to replenish the reserves of the Foundation, management has identified certain additional steps that can be implemented, including the transfer of certain core programs to the Organization, further reductions in personnel and overhead charged by the Organization, the redirection of gifts or portions of gifts to reserves, and the establishment of a short-term borrowing arrangement with the Organization.

Note 12: Significant Estimates and Concentrations

Current Economic Conditions

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions and constraints on liquidity. The consolidated financial statements have been prepared using values and information currently available to the Foundation.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue could have an adverse impact on the Foundation's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for contributions receivable that could negatively impact the Foundation's ability to maintain sufficient liquidity.