



The NEA Foundation for the Improvement of Education

Financial Statements and
Independent Auditor's Report
Years Ended August 31, 2009
and 2008

TCBA

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**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The NEA Foundation for the
Improvement of Education
Washington, D.C.

We have audited the accompanying statements of financial position of The NEA Foundation for the Improvement of Education (the Foundation) as of August 31, 2009 and 2008, and the related 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 audits 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of August 31, 2009 and 2008, 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 described in Notes 2 and 9 to the financial statements, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, and the provisions of FASB Staff Position No. FAS 117-1: *Endowments of Not-for-Profit Organizations, Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* in 2009.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Program Services on pages 20 and 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Washington, D.C.
November 16, 2009

Thompson, Cobb, Bazilio & Associates, PC

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,777,216	\$ 939,356
Contributions receivable	130,772	243,044
Interest, dividends and proceeds receivable	2,563	36,293
Prepaid expenses	86,193	79,705
Total current assets	1,996,744	1,298,398
 INVESTMENTS	 38,728,800	 45,922,684
 PROPERTY AND EQUIPMENT		
Furniture and fixtures	57,351	58,599
Equipment and software, including computers	46,446	88,224
Equipment under capital lease	15,802	30,500
	119,599	177,323
Less accumulated depreciation and amortization	(84,803)	(151,327)
Net value of property and equipment	34,796	25,996
TOTAL ASSETS	\$ 40,760,340	\$ 47,247,078

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 269,625	\$ 335,476
Grants payable	688,350	332,895
Accrued payroll and payroll taxes	19,441	23,719
Accrued vacation payable	20,906	22,267
Capital lease obligation, current portion	2,722	2,144
Total current liabilities	1,001,044	716,501
 LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	11,612	-
Total liabilities	1,012,656	716,501
 NET ASSETS		
Unrestricted	39,423,673	46,204,614
Temporarily restricted	324,011	325,963
Total net assets	39,747,684	46,530,577
TOTAL LIABILITIES AND NET ASSETS	\$ 40,760,340	\$ 47,247,078

See accompanying notes to financial statements.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Special events:						
Gross revenue	\$ 274,725	\$ 127,750	\$ 402,475	\$ 464,148	\$ 120,900	\$ 585,048
Cost of direct benefits to participants	(106,480)	-	(106,480)	(103,031)	-	(103,031)
Net income from special events	168,245	127,750	295,995	361,117	120,900	482,017
Contributions:						
From NEA - direct	238,000	-	238,000	238,000	-	238,000
From NEA members passed through NEA	2,141,235	-	2,141,235	2,125,035	-	2,125,035
From all others	70,429	279,592	350,021	48,835	205,677	254,512
Interest and dividends	581,260	-	581,260	931,402	-	931,402
Net realized loss on investments	(718,433)	-	(718,433)	(922,541)	-	(922,541)
Net unrealized loss on investments	(3,557,005)	-	(3,557,005)	(3,861,023)	-	(3,861,023)
Net assets released from restrictions from satisfaction of purpose restrictions	409,294	(409,294)	-	201,920	(201,920)	-
Total support and revenue	(666,975)	(1,952)	(668,927)	(877,255)	124,657	(752,598)
EXPENSES						
Program services	4,804,587	-	4,804,587	3,971,449	-	3,971,449
Supporting services						
Management and general	795,654	-	795,654	731,173	-	731,173
Development	513,725	-	513,725	567,057	-	567,057
Total expenses	6,113,966	-	6,113,966	5,269,679	-	5,269,679
CHANGE IN NET ASSETS	(6,780,941)	(1,952)	(6,782,893)	(6,146,934)	124,657	(6,022,277)
NET ASSETS AT BEGINNING OF YEAR	46,204,614	325,963	46,530,577	52,351,548	201,306	52,552,854
NET ASSETS AT END OF YEAR	\$ 39,423,673	\$ 324,011	\$ 39,747,684	\$ 46,204,614	\$ 325,963	\$ 46,530,577

See accompanying notes to financial statements.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	<u>2009</u>					<u>2008</u>				
	PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL	PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL
	Total	Management and General	Development	Total Supporting Services		Total	Management and General	Development	Total Supporting Services	
Grants and awards	\$ 2,590,297	\$ 10,000	\$ -	\$ 10,000	\$ 2,600,297	\$ 2,129,055	\$ -	\$ -	\$ -	\$ 2,129,055
Salaries	742,199	260,421	299,484	559,905	1,302,104	632,626	218,543	299,060	517,603	1,150,229
Pension	114,084	40,029	46,034	86,063	200,147	87,371	30,182	41,303	71,485	158,856
Employee benefits	110,106	40,882	45,396	86,278	196,384	93,409	37,831	43,320	81,151	174,560
Payroll taxes	51,794	18,173	20,899	39,072	90,866	45,295	15,648	21,412	37,060	82,355
Audit	11,115	3,900	4,485	8,385	19,500	12,100	4,180	5,720	9,900	22,000
Bad debt	40,000	-	-	-	40,000	-	-	-	-	-
Bank charges	2,780	1,163	-	1,163	3,943	306	4,391	-	4,391	4,697
Conferences and workshops	695	375	3,140	3,515	4,210	1,245	-	1,350	1,350	2,595
Consultants	527,901	15,707	17,091	32,798	560,699	384,681	55,765	46,000	101,765	486,446
Contract labor	-	-	-	-	-	500	-	-	-	500
Data processing	-	-	-	-	-	-	1,223	-	1,223	1,223
Depreciation and amortization	6,420	2,253	2,590	4,843	11,263	7,270	3,207	3,437	6,644	13,914
Dues and memberships	187	8,531	3,105	11,636	11,823	1,440	6,719	8,524	15,243	16,683
Equipment rental and maintenance	43,345	3,314	6,151	9,465	52,810	5,004	4,887	-	4,887	9,891
Giveaways	5,034	15,800	-	15,800	20,834	20,902	28	451	479	21,381
Insurance	4,360	913	1,050	1,963	6,323	4,840	885	1,211	2,096	6,936
Interest	-	932	-	932	932	-	1,000	-	1,000	1,000
Investment consulting fees	-	75,000	-	75,000	75,000	-	75,000	-	75,000	75,000
Investment management fees	-	143,285	-	143,285	143,285	-	101,979	-	101,979	101,979
Legal	-	16,355	-	16,355	16,355	-	25,038	21,970	47,008	47,008
Other miscellaneous expenses	501	12,567	97	12,664	13,165	3,354	13,527	2,715	16,242	19,596
Periodicals	1,151	1,956	105	2,061	3,212	325	2,106	436	2,542	2,867
Photocopy costs	1,529	76	172	248	1,777	2,006	(2,034)	696	(1,338)	668
Postage and mailing	6,326	2,955	678	3,633	9,959	9,080	2,593	567	3,160	12,240
Printing	36,087	6,261	475	6,736	42,823	28,710	1,444	3	1,447	30,157
Production management	184,525	-	-	-	184,525	154,222	-	-	-	154,222
Professional development	596	336	-	336	932	-	5,653	-	5,653	5,653
Promotion and advertising	17,357	5,337	-	5,337	22,694	65,571	9,256	2,815	12,071	77,642
Rent	155,660	48,050	54,740	102,790	258,450	147,827	45,220	62,587	107,807	255,634
Supplies	3,834	11,277	51	11,328	15,162	6,583	12,732	145	12,877	19,460
Software and ISP fees	61	-	-	-	61	2,239	-	-	-	2,239
Telephone	337	4,768	-	4,768	5,105	57	2,892	28	2,920	2,977
Travel	146,155	45,038	7,982	53,020	199,175	85,760	51,278	3,307	54,585	140,345
Video production	151	-	-	-	151	39,671	-	-	-	39,671
Total Expenses	\$ 4,804,587	\$ 795,654	\$ 513,725	\$ 1,309,379	\$ 6,113,966	\$ 3,971,449	\$ 731,173	\$ 567,057	\$ 1,298,230	\$ 5,269,679

See accompanying notes to financial statements.

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,782,893)	\$ (6,022,277)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,263	13,914
Net realized and unrealized loss on investments	4,275,438	4,783,564
(Increase) decrease in:		
Contributions receivable	112,272	(45,082)
Interest and dividends receivable	33,730	236,610
Prepaid expenses	(6,488)	18,220
Increase (decrease) in:		
Accounts payable	(65,851)	111,263
Grants payable	355,455	(715,855)
Accrued payroll and payroll taxes	(4,278)	1,509
Accrued vacation payable	(1,361)	8,645
Net cash used in operating activities	<u>(2,072,713)</u>	<u>(1,609,489)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	3,409,571	15,548,600
Purchases of investments	(491,124)	(16,613,608)
Purchases of property and equipment	(4,262)	(6,960)
Net cash provided by (used in) investing activities	<u>2,914,185</u>	<u>(1,071,968)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on capital lease obligations	<u>(3,612)</u>	<u>(7,796)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 837,860	 (2,689,253)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>939,356</u>	 <u>3,628,609</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 1,777,216</u>	 <u>\$ 939,356</u>
 Supplemental disclosure of cash flows information:		
Cash paid for interest	<u>\$ 932</u>	<u>\$ 1,000</u>

See accompanying notes to financial statements.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 1 NATURE OF ACTIVITIES

The NEA Foundation is a nonprofit, 501(c)(3) public charity, created in 1969, sustained by contributions from educators, corporations, foundations and individuals. The Foundation offers grants and programs that support educators' efforts to close the achievement gaps, increase classroom innovations, salute excellence in education and provide professional development.

The description of the major programs of the Foundation is as follows:

Closing the Achievement Gaps Initiative – This signature initiative of the Foundation seeks to significantly reduce the disparity in achievement for low-income and minority students through better district and school policies and practices that accelerate academic progress while maintaining achievement gains for all. The initiative is based on a strong partnership between the union, school district and community organizations. It currently operates in three communities: Hamilton County, TN; Milwaukee, WI; and Seattle, WA. The Foundation provides financial support, which is matched locally, as well as technical assistance and national visibility to participating sites.

Student Achievement and Learning and Leadership Grants – The Foundation awards small grants to public school educators, through a competitive process in three rounds annually. These grants seek to improve student achievement and provide opportunities for professional growth to educators through the implementation of standards-based projects and professional activities.

Awards for Teaching Excellence (ATE) and Salute to Excellence in Education Gala – The ATE awards recognize, reward and promote excellence in teaching and advocacy for the profession. The award also honors public education. Every year the Foundation presents approximately 50 awards to the nation's top public school educators at the Salute to Excellence in Education Gala held in Washington, DC each February.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Foundation's financial statements have been prepared using the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when incurred in accordance with accounting principles generally accepted in the United States of America.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of these financial statements, the Foundation considers cash on hand, deposits in banks, and highly liquid investments with original maturities of 3 months or less to be cash equivalents.

Contributions Receivable

Unconditional promises to give 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. Pledges made to the Foundation for future contributions expected to be fully collectible are recorded as a receivable and as revenue at the present value of such future payments. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The allowance for doubtful accounts is based on specific identification of uncollectible accounts and the Foundation's historical collection experience. Management believes all accounts are collectible at August 31, 2009 and 2008.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support and investment earnings that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support or earnings are recognized. All other donor-restricted support and investment earnings are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction is fulfilled, temporarily restricted net assets are reclassified as

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue and Support (Continued)

unrestricted net assets and reported in the Statements of Activities as new assets released from restrictions.

Donated Facilities

The Foundation has received donated office space from the National Education Association (NEA). The value of the donated office space was estimated to be \$238,000 annually for each of the years ended August 31, 2009 and 2008, and is reflected in contribution revenue and as rent expense. NEA has the right to terminate the arrangement at any time.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 support and revenues and expenses during the reporting period. Actual results could differ from the estimates.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as *other than a private foundation*. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. For the year ended August 31, 2009 the Foundation had \$3,750 in unrelated business income. For the year ended August 31, 2008, the Foundation had no unrelated business income.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of Interpretation 48 for the year ended August 31, 2009. The Foundation evaluates its uncertain tax positions using the provision of FASB Statement No. 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probably that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of August 31, 2009, there were no liabilities for uncertain tax positions.

Investments

The Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* as of September 1, 2008. In accordance with SFAS 157, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. SFAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical investments.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Level 2 - other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment spreads, credit risk, etc)
- Level 3 – significant unobservable inputs (including the Foundation’s own assumptions in determining the fair value of investments)

See Note 5 for a summary of the inputs used as of August 31, 2009 in determining the fair value of the Foundation’s investments.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of related assets. Useful lives range from 3 to 7 years. Purchase of equipment, furniture, or computer software is capitalized if it is in excess of \$1,000. Expenditures for repairs and maintenance are charged to expense as incurred.

NOTE 3 CONCENTRATION OF RISK

The Foundation had cash balances with a financial institution totaling \$267,545 and \$552,645 at August 31, 2009 and 2008, respectively. The Foundation’s cash balances with the bank are insured up to a maximum of \$250,000 by the Federal Depository Insurance Corporation (FDIC).

The Foundation receives a significant amount of its support from members of NEA. Total revenues recognized from members of NEA were \$2,141,235 and \$2,125,035 for the years ended August 31, 2009 and 2008, respectively. This support amounts to approximately 35% and 40% of the Foundation’s expenses. Total revenues recognized from the NEA were \$238,000 annually for the years ended August 31, 2009 and 2008, respectively. This support amounts to approximately 4% and 5% of the Foundation’s expenses. Future revenues from these sources are expected to continue at similar levels.

NOTE 4 CONTRIBUTIONS RECEIVABLE

The Foundation has received promises to give for use with various programs. The promises to give recognized at August 31, 2009 and 2008 are \$130,772 and \$243,044, respectively. They are expected to be fully collected within one year.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 4 CONTRIBUTIONS RECEIVABLE (Continued)

As such, there is no discount applied and no allowance for doubtful accounts established.

NOTE 5 INVESTMENTS

At August 31, 2009 and 2008, the Foundation's investments consist of the following:

	<u>2009</u>	<u>2008</u>
Common trust funds	\$ 22,248,687	\$ 26,885,135
Pooled separate account	16,328,518	16,358,449
Corporate bonds	114,000	1,922,053
Mortgage-backed securities	<u>37,595</u>	<u>757,047</u>
 Total investments	 <u><u>\$ 38,728,800</u></u>	 <u><u>\$ 45,922,684</u></u>

Investment income (loss) was comprised of the following for the years ended August 31, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 581,260	\$ 931,402
Net realized and unrealized losses on investments	(4,275,438)	(4,783,564)
Investment fees:		
Third-party investment consulting fees	(75,000)	(75,000)
Third-party investment custodian and management fees	(143,284)	(101,979)
Investment loss, net	<u><u>\$ (3,912,462)</u></u>	<u><u>\$ (4,029,141)</u></u>

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 5 INVESTMENTS (Continued)

The following is a summary of the inputs used as of August 31, 2009 in valuing the Foundation's investments carried at fair value:

	August 31, <u>2009</u>	Quoted prices in active markets for identical assets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
Common trust fund	\$22,248,687	\$ -	\$ 22,248,687	\$ -
Pooled separate accounts	16,328,518	-	16,328,518	-
Corporate bonds	114,000	-	114,000	-
Mortgage-backed securities	37,595	-	37,595	-
Total	<u>\$38,728,800</u>	<u>\$ -</u>	<u>\$ 38,728,800</u>	<u>\$ -</u>

NOTE 6 CAPITAL LEASE

The Foundation leases a copier under a five-year capital lease expiring January 2014. The present value of the future minimum lease payments under the lease have been recorded in the financial statements as a capital lease obligation. The copier is amortized over its productive life. Amortization of \$4,630 and \$6,100 is included in depreciation and amortization expense at August 31, 2009 and 2008, respectively.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 6 CAPITAL LEASE (Continued)

Future minimum lease payments are as follows:

Year ending August 31, 2010	\$	4,020
Year ending August 31, 2011		4,020
Year ending August 31, 2012		4,020
Year ending August 31, 2013		4,020
Year ending August 31, 2014		1,675
Total minimum lease payments		17,755
Less amount representing interest		(3,421)
Present value of minimum lease payments		14,334
Less current portion		(2,722)
Long-term portion		\$ 11,612

NOTE 7 EMPLOYEE PENSION PLAN

The Foundation has a defined contribution pension plan, available to all employees, wherein the Foundation contributes 18.5% of an employee's gross salary after a six month introductory period. Contributions to the pension plan were \$200,147 and \$158,856, respectively, for the years ended August 31, 2009 and 2008.

NOTE 8 RELATED PARTY TRANSACTIONS

Since its inception, the Foundation has received contributions from the NEA members and the NEA to partially fund some program and supporting services. During the years ended August 31, 2009 and 2008, the Foundation received revenues from NEA members and the NEA as follows:

	<u>2009</u>	<u>2008</u>
Contributions from NEA Members	\$ 2,141,235	\$2,125,035
Donated office space	238,000	238,000
Total	\$ 2,379,235	\$2,363,035

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 8 RELATED PARTY TRANSACTIONS (Continued)

Additionally, NEA provides some administrative services to the Foundation. NEA periodically bills the Foundation for expenses such as telephone, insurance, broadcast services, other services and office expenses.

NOTE 9 FUNDS FUNCTIONING AS AN ENDOWMENT

The Foundation implemented the provisions of FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds in 2009*.

Effective January 23, 2008, the District of Columbia enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. UPMIFA requires organizations to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds. Currently the Foundations does not have any donor-restricted endowment funds. However, the Foundation has funds functioning as an endowment which consist of the Foundation's entire long-term investment portfolio. As required by generally accepted accounting principles, net assets associated with the funds functioning as an endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

If the Foundation were to receive donor-restricted endowment funds in the future it would adopt the District of Columbia Uniform Prudent Management of Institutional Funds Act requirements.

Funds Functioning as an Endowment Net Asset Composition by Type of Fund as of August 31, 2009 and 2008

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
August 31, 2009	\$ 38,728,800	\$ -	\$ -	\$ 38,728,800
August 31, 2008	\$ 45,922,684	\$ -	\$ -	\$ 45,922,684

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 9 FUNDS FUNCTIONING AS AN ENDOWMENT (Continued)

Changes in Funds Functioning as an Endowment (FFE) Net Assets for the Fiscal Years Ended August 31, 2009 and 2008

	<u>Unrestricted</u>	<u>Total</u>
FFE net assets, August 31, 2007	\$ 49,641,240	\$ 49,641,240
Investment return:		
Investment income	850,835	850,835
Net depreciation (realized & unrealized)	(4,783,564)	(4,783,564)
Total investment return	<u>(3,932,729)</u>	<u>(3,932,729)</u>
Assets transferred from cash equivalents	<u>2,214,173</u>	<u>2,214,173</u>
Appropriation of assets for expenditure	<u>(2,000,000)</u>	<u>(2,000,000)</u>
FFE net assets, August 31, 2008	<u>45,922,684</u>	<u>45,922,684</u>
Investment return:		
Investment income	564,314	564,314
Net depreciation (realized & unrealized)	(4,275,438)	(4,275,438)
Total investment return	<u>(3,711,124)</u>	<u>(3,711,124)</u>
Assets transferred to cash equivalents	(1,122,760)	(1,122,760)
Appropriation of assets for expenditure	<u>(2,360,000)</u>	<u>(2,360,000)</u>
FFE net assets, August 31, 2009	<u>\$ 38,728,800</u>	<u>\$ 38,728,800</u>

Return Objectives and Risk Parameters

The Foundation has adopted investment goals and spending policies for the funds functioning as an endowment. The Foundation's investment goal, as approved by the Board of Directors, is to invest its assets in a manner predicated to achieve a real return of 4%, adjusted for contributions and withdrawals. The portfolio is to be thoroughly diversified with respect to asset class, geography, economic factors, sector and other market factors. The portfolio is constructed in such a manner as to minimize the amount of risk in the portfolio for any given level of desired return.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
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AUGUST 31, 2009 AND 2008

NOTE 9 FUNDS FUNCTIONING AS AN ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives

Based on the financial condition analysis conducted by the Foundation's investment consultant and the ongoing goals of the Foundation, an asset allocation policy has been established. The recommended long-term asset allocation policy is identified by strategic target weights to each of the major asset classes. In addition, minimum and maximum allocations are provided to serve as guidelines for the range of the asset classes.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Board of Directors has adopted a spending policy for the Foundation. The distribution rate is based upon a total return approach, which utilizes both income and capital appreciation to be withdrawn for spending. The allowable spending rate for the fiscal year ended August 31, 2009 was 6.0%. The spending rate is re-evaluated annually.

The allowable spending rate is determined by multiplying the spending rate by the three-year rolling average value of the Foundation's investment account. The three-year rolling average value is annually computed as an average of the prior three years actual investment value at December 31st. This is consistent with the Foundation's objective to achieve a real return of 4%, adjusted for contributions and withdrawals.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
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AUGUST 31, 2009 AND 2008

NOTE 10 RESTRICTIONS OF NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are available for specific purposes. The following reflects activity affecting temporarily restricted net assets:

	<u>August 31,</u> <u>2007</u>	<u>Grants and</u> <u>Contributions</u>	<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>August 31,</u> <u>2008</u>	<u>Grants and</u> <u>Contributions</u>	<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>August 31,</u> <u>2009</u>
Programs:							
Small grants	\$ 50,000	\$ -	\$ (50,000)	\$ -	\$ 849	\$ (461)	\$ 388
American Library Association	15,772	-	(15,772)	-	-	-	-
Books Across America	7,034	2,837	(7,648)	2,223	11,382	(2,732)	10,873
13th Annual Salute to Excellence in Education	128,500	-	(128,500)	-	-	-	-
Donna Rhodes Memorial	-	52,840	-	52,840	132,361	(185,201)	-
AT&T Foundation	-	150,000	-	150,000	75,000	(95,000)	130,000
14th Annual Salute to Excellence in Education	-	120,900	-	120,900	-	(120,900)	-
NC conference (fiscal agent)	-	-	-	-	5,000	(5,000)	-
Western Union Foundation (fiscal agent)	-	-	-	-	5,000	-	5,000
Staples Foundation for Learning	-	-	-	-	50,000	-	50,000
15th Annual Salute to Excellence in Education	-	-	-	-	127,750	-	127,750
	<u>\$ 201,306</u>	<u>\$ 326,577</u>	<u>\$ (201,920)</u>	<u>\$ 325,963</u>	<u>\$ 407,342</u>	<u>\$ (409,294)</u>	<u>\$ 324,011</u>

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 11 COMMITMENTS

The Foundation entered into a contract with a venue and a hotel for sleeping rooms for the NEA Foundation's 15th Annual *Salute to Excellence in Education* Gala. In addition, the Foundation entered into a contract with a company to plan and produce the 15th Annual *Salute to Excellence in Education* Gala. All payments, except a 5% retainage fee, are due before the event date.

NOTE 12 SUBSEQUENT EVENT

The Foundation's contribution to the defined contribution pension plan will be 10% of an employee's gross salary after a six-month introductory period for employees hired September 1, 2009 or later.

SUPPLEMENTARY INFORMATION

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
SCHEDULE OF PROGRAM SERVICES
FOR THE YEAR ENDED AUGUST 31, 2009

	Closing the Achievement Gaps	Small Grants	Strategic Plan	Awards For Teaching Excellence	New Program Development	Books Across America	Other Grants & Awards	Program Administration	Communi- cations	Program Services Total
Grants and awards	\$ 1,391,000	\$ 560,859	\$ 426,000	\$ 102,750	\$ 8,500	\$ 50,000	\$ 51,188	\$ -	\$ -	\$ 2,590,297
Salaries	-	-	-	-	-	-	-	520,842	221,358	742,200
Pension	-	-	-	-	-	-	-	80,059	34,025	114,084
Employee benefits	-	-	-	-	-	-	-	76,722	33,384	110,106
Payroll taxes	-	-	-	-	-	-	-	36,347	15,447	51,794
Audit	-	-	-	-	-	-	-	7,800	3,315	11,115
Bad debt	-	-	-	40,000	-	-	-	-	-	40,000
Bank charges	-	-	-	2,780	-	-	-	-	-	2,780
Conferences and workshops	-	-	-	-	-	-	-	695	-	695
Consultants	-	10,000	451,703	-	884	-	-	10,720	54,594	527,901
Depreciation and amortization	-	-	-	-	-	-	-	4,505	1,915	6,420
Dues and memberships	-	-	-	-	-	-	-	187	-	187
Equipment rental and maintenance	-	-	11,012	28,178	-	-	-	417	3,738	43,345
Giveaways	-	-	-	-	-	-	3,735	198	1,101	5,034
Insurance	-	-	-	1,760	-	-	-	1,825	776	4,361
Other miscellaneous expenses	-	-	117	275	-	-	-	109	-	501
Periodicals	-	-	-	-	-	-	-	1,151	-	1,151
Photocopy costs	-	-	19	257	-	-	-	611	641	1,528
Postage and mailing	-	-	357	3,115	16	-	30	1,355	1,452	6,325
Printing	-	-	14,236	7,743	-	-	-	-	14,107	36,086
Production management	-	-	-	184,525	-	-	-	-	-	184,525
Professional development	-	-	-	-	465	-	-	-	131	596
Promotion and advertising	-	-	-	-	-	-	-	-	17,357	17,357
Rent	-	-	-	20,000	-	-	-	95,200	40,460	155,660
Supplies	-	-	901	1,614	56	-	-	654	610	3,835
Software and ISP fees	-	-	-	-	-	-	-	34	27	61
Telephone	-	-	20	64	-	-	-	135	119	338
Travel	-	5,000	44,514	17,214	38,925	-	-	25,043	15,459	146,155
Video production	-	-	-	-	-	-	-	-	150	150
Total expenses	\$ 1,391,000	\$ 575,859	\$ 948,879	\$ 410,275	\$ 48,846	\$ 50,000	\$ 54,953	\$ 864,609	\$ 460,166	\$ 4,804,587

See Accompanying Independent Auditor's Report

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION
SCHEDULE OF PROGRAM SERVICES
FOR THE YEAR ENDED AUGUST 31, 2008

	Direct Costs									
	Closing the Achievement Gaps	Small Grants	Strategic Plan	Awards For Teaching Excellence	New Program Development	Books Across America	Other Grants & Awards	Program Administration	Commun- ications	Program Services Total
Grants and awards	\$ 1,037,582	\$ 564,534	\$ 250,000	\$ 101,250	\$ 85,000	\$ 49,000	\$ 11,689	\$ 30,000	\$ -	\$ 2,129,055
Salaries	-	-	-	-	-	-	-	506,101	126,525	632,626
Pension	-	-	-	-	-	-	-	69,897	17,474	87,371
Employee benefits	-	-	-	-	-	-	-	75,188	18,221	93,409
Payroll taxes	-	-	-	-	-	-	-	36,236	9,059	45,295
Audit	-	-	-	-	-	-	-	9,680	2,420	12,100
Bank charges	-	-	306	-	-	-	-	-	-	306
Conferences and workshops	-	-	-	-	-	-	-	1,245	-	1,245
Consultants	171,020	-	145,675	-	11,450	-	-	34,880	21,656	384,681
Contract labor	-	-	-	-	-	-	-	500	-	500
Depreciation and amortization	-	-	-	-	-	-	-	5,816	1,454	7,270
Dues and memberships	-	-	-	-	-	-	-	1,440	-	1,440
Equipment rental and maintenance	-	-	-	-	-	-	-	4,992	12	5,004
Giveaways	-	-	-	-	-	-	-	348	20,554	20,902
Insurance	-	-	-	2,278	-	-	-	2,050	512	4,840
Other miscellaneous expenses	-	-	-	2,418	-	-	-	501	435	3,354
Periodicals	-	-	-	-	-	-	-	288	37	325
Photocopy costs	-	-	-	775	-	-	-	1,114	117	2,006
Postage and mailing	-	-	389	6,775	-	-	-	1,109	807	9,080
Printing	-	-	-	12,118	-	-	4,582	-	12,010	28,710
Production management	-	-	-	154,222	-	-	-	-	-	154,222
Promotion and advertising	-	-	-	4,500	-	-	-	-	61,071	65,571
Rent	-	-	-	16,666	-	-	-	104,720	26,441	147,827
Supplies	-	-	1,023	2,233	-	-	-	2,707	620	6,583
Software and ISP fees	-	-	2,028	-	-	-	-	211	-	2,239
Telephone	-	-	-	-	-	-	-	57	-	57
Travel	-	-	2,024	46,083	-	-	-	27,152	10,501	85,760
Video production	-	-	-	39,671	-	-	-	-	-	39,671
Total expenses	\$ 1,208,602	\$ 564,534	\$ 401,445	\$ 388,989	\$ 96,450	\$ 49,000	\$ 16,271	\$ 916,232	\$ 329,926	\$ 3,971,449

See Accompanying Independent Auditor's Report