

NATIONAL CONGRESS OF PARENTS AND TEACHERS
FINANCIAL STATEMENTS
Year Ended December 31, 2009

NATIONAL CONGRESS OF PARENTS AND TEACHERS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

NATIONAL CONGRESS OF PARENTS AND TEACHERS

We have audited the accompanying combined statement of financial position of the National Congress of Parents and Teachers and The Endowment Fund of the National Congress of Parents and Teachers (collectively the "National PTA") as of December 31, 2009, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the National PTA's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the National PTA as of December 31, 2009, and the changes in their net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

Chicago, Illinois
March 26, 2010

NATIONAL CONGRESS OF PARENTS AND TEACHERS
COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 6,435,138
Accounts receivable	
Membership dues	818,142
Grants, contracts and other	794,517
Prepaid expenses	471,422
Inventory	5,840
Total current assets	8,525,059

INVESTMENTS

11,385,914

PROPERTY AND EQUIPMENT - net

854,844

Total assets

\$ 20,765,817

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 759,394
Deferred revenue	874,338
Total current liabilities	1,633,732

DEFERRED LEASE LIABILITY

993,359

PENSION COST LIABILITY

154,046

Total liabilities

2,781,137

NET ASSETS

Unrestricted	14,672,076
Temporarily restricted	1,168,218
Permanently restricted	2,144,386
Total net assets	17,984,680

Total liabilities and net assets

\$ 20,765,817

See Accompanying Notes to Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

COMBINED STATEMENT OF ACTIVITIES

Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE				
Membership fees	\$ 8,544,667	\$ -	\$ -	\$ 8,544,667
Contributions, sponsorships and grants	1,042,881	1,000,000	36,653	2,079,534
Convention income	400,385	-	-	400,385
Interest and dividends	334,982	4,686	-	339,668
Net unrealized and realized gain on investments	1,671,338	656	-	1,671,994
Advertising income	184,417	-	-	184,417
Member benefits	435,277	-	-	435,277
Subscriptions	179,472	-	-	179,472
Royalties	57,780	-	-	57,780
Legislative conferences	18,200	-	-	18,200
Resources	1,395	-	-	1,395
Parent Involvement Certification Program	500	-	-	500
Leadership conferences	14,535	-	-	14,535
Gain (loss) on sale of assets	(508)	-	-	(508)
Miscellaneous	11,456	-	-	11,456
Net assets released from restrictions				
Satisfaction of program restrictions	26,924	(26,924)	-	-
Total revenue	<u>12,923,701</u>	<u>978,418</u>	<u>36,653</u>	<u>13,938,772</u>
EXPENSES				
Program services				
Programs	1,443,490	-	-	1,443,490
Field Operations/Training/Membership	5,088,741	-	-	5,088,741
Advocacy	1,374,230	-	-	1,374,230
Convention	1,229,749	-	-	1,229,749
Officers/Meetings	1,142,399	-	-	1,142,399
Total program services	<u>10,278,609</u>	<u>-</u>	<u>-</u>	<u>10,278,609</u>
Supporting services				
General and administrative	1,812,873	-	-	1,812,873
Development	459,571	-	-	459,571
Advertising expenses	209,811	-	-	209,811
Total supporting services	<u>2,482,255</u>	<u>-</u>	<u>-</u>	<u>2,482,255</u>
Total expenses	<u>12,760,864</u>	<u>-</u>	<u>-</u>	<u>12,760,864</u>
CHANGE IN NET ASSETS BEFORE LOSS ON SUBLEASE	162,837	978,418	36,653	1,177,908
LOSS ON SUBLEASE	<u>(479,152)</u>	<u>-</u>	<u>-</u>	<u>(479,152)</u>
CHANGE IN NET ASSETS	<u>(316,315)</u>	<u>978,418</u>	<u>36,653</u>	<u>698,756</u>
NET ASSETS				
Beginning of year, as previously reported	14,988,391	1,364,800	2,107,733	18,460,924
Change in net assets due to restatement	-	<u>(1,175,000)</u>	-	<u>(1,175,000)</u>
Beginning of year, as restated	<u>14,988,391</u>	<u>189,800</u>	<u>2,107,733</u>	<u>17,285,924</u>
End of year	<u>\$ 14,672,076</u>	<u>\$ 1,168,218</u>	<u>\$ 2,144,386</u>	<u>\$ 17,984,680</u>

See Accompanying Notes to Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

COMBINED STATEMENT OF CASH FLOWS

Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 698,756
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	232,121
Realized and unrealized (gain) on investments	(1,671,994)
Loss on disposal of assets	508
Decrease (increase) in operating assets	
Membership dues receivable	6,605
Grants, contracts and other receivables	(157,760)
Prepaid expenses	(266,250)
Inventory	6,930
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	(346,499)
Pension cost liability	(422,526)
Deferred revenue	854,945
Deferred lease liability	441,591
Net cash used in operating activities	<u>(623,573)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(110,283)
Purchase of investments	(17,888,964)
Proceeds on sale and redemption of investments	<u>22,854,082</u>
Net cash provided by investing activities	<u>4,854,835</u>
NET INCREASE IN CASH	4,231,262
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,203,876</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,435,138</u>

See Accompanying Notes to Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(1) DESCRIPTION OF ORGANIZATION

Reporting Entity - The reporting entity referred to as the National Congress of Parents and Teachers includes the National Congress of Parents and Teachers and The Endowment Fund of the National Congress of Parents and Teachers (collectively the "National PTA"). The two are commonly controlled; therefore, combined financial statements are presented and significant interorganizational transactions and balances have been eliminated.

Nature of Organization - The purpose of the National PTA is to promote the welfare of children and youth in the home, school, community and place of worship; raise the standards of home life; secure adequate laws for the care and protection of children and youth; bring into closer relationship the home and the school that parents and teachers may cooperate intelligently in the education of children and youth; and develop between educators and the general public such united efforts as will secure for all children and youth the highest advantages in physical, mental, social and spiritual education.

Tax-Exempt Status - The National Congress of Parents and Teachers and The Endowment Fund of the National Congress of Parents and Teachers have previously received notices from the Internal Revenue Service of exemption from income tax under Section 501(c)(3) of the Internal Revenue Code and have been classified as organizations which are not private foundations under Section 509(a) and which qualify for charitable contribution deductions by individual donors, as stated in Section 170. The National Congress of Parents and Teachers is subject to federal and state income tax on income from a trade or business that is unrelated to its tax-exempt purpose. The National PTA does engage in activities, such as selling advertising in periodicals, which are considered unrelated to its tax-exempt purpose. However, due to loss carry-forwards, no provision for income tax is deemed necessary. No tax payments were made in 2009. Accordingly, the accompanying combined financial statements contain no provision for income taxes. The National PTA evaluates its uncertain tax positions, if any, on a continual basis through a review of its policies and procedures and discussions with outside consultants.

Programs - The National PTA's major programs are as follows:

Programs - Develops and implements effective and informative programs, marketing campaigns, and materials for local PTA leaders devoted to the priorities of the organization as outlined in the strategic plan. Also conducts extensive fundraising for the economic sustainability of the organization.

Field Operations/Training/Membership - Provides vital information and training to assist National PTA leaders and potential leaders in developing organizational and leadership skills and knowledge needed to be successful in the National PTA and in their communities. Provides information and training to support membership retention and growth in the traditional setting as well as a variety of other membership services.

Advocacy - Advocates policies that benefit children and families via dissemination of its public policy agenda and issues briefs, lobbying in support or opposition to proposed federal legislation, regulations, and rulemaking, participation in programs, training and monitoring legislation.

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(1) DESCRIPTION OF ORGANIZATION (CONTINUED)

Programs (continued)

Convention - Facilitates the gathering of National PTA leadership, its membership, and strategic partners at the annual meeting and convention, which is rotated around the country.

Officers/Meetings - Facilitates the gathering of National PTA leadership including all board and committee meetings in support of the business, work and mission of the organization.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Assets - The National PTA reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets - Include the portion of net assets of the National PTA that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets - Include the portion of net assets of the National PTA resulting from contributions and other inflows of assets, the National PTA's use of which is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the National PTA pursuant to those stipulations.

Permanently Restricted Net Assets - Include the portion of net assets of the National PTA resulting from contributions and other inflows of assets, the use of which by the National PTA is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the National PTA.

Cash and Cash Equivalents - The National PTA considers all highly liquid investments with an initial maturity of three months or less at the date of acquisition to be cash equivalents.

Accounts Receivable - Accounts receivable are carried at cost. Management considers accounts receivable fully collectible; accordingly, no allowance for doubtful accounts is required. Amounts that become uncollectible will be written off when that determination is made.

Inventory - Inventory consists of publications not yet issued. Inventory is carried at cost; cost being determined on the first-in, first-out basis of accounting.

Investments - The investments of the National PTA are reported at fair value. The fair value of a financial instrument is the amount that would be received to sell that asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date (the exit price).

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

The National PTA follows the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices in markets that are not considered to be active or for which significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Common stock and fixed income securities are traded in active markets on national and international securities exchanges and are valued at closing prices on the last business day of the year. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Securities that trade infrequently and therefore have little or no price transparency are valued using the investment manager's best estimates.

Mutual funds represent investments with various investment managers. The respective fair values of these investments are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Shares held in mutual funds are traded on national securities exchanges and are valued at the net asset value as of December 31, 2009.

Certificates of deposit are valued from new issue market and direct dealer quotes. Cash investments including money market funds are valued at cost which approximates their fair value.

Purchases and sales of the investments are reflected on a trade-date basis. Dividend income is recorded on the ex dividend date.

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment - Purchased property and equipment are stated at cost. The National PTA capitalizes all capital expenditures in excess of \$500. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the National PTA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The National PTA reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation is computed for financial statement purposes using the following methods and estimated useful lives:

<u>Assets</u>	<u>Principal Methods</u>	<u>Useful Lives</u>
Condominiums	Straight-line	30 years
Furniture and equipment	Straight-line	5-10 years
Computer equipment	Straight-line	3 years

Concentration of Credit Risk - Financial instruments that potentially subject the National PTA to concentrations of credit risk consist principally of short-term and long-term investments, demand deposit accounts, and short-term cash investments. The National PTA places its funds with high quality financial institutions. Effective in October 2008, balances are insured up to \$250,000 per institution by the Federal Deposit Insurance Corporation (FDIC). This limit increase is temporary and set to expire on December 31, 2013. As of December 31, 2009, the National PTA's balances in excess of FDIC insurance coverage totaled approximately \$4,234,830.

Concentrations of credit risk with respect to member dues are limited due to the large number of members comprising the National PTA's membership base and its dispersion across different geographic areas located primarily in the United States.

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. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction is met, or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

Donated Assets - Significant donated marketable securities and other noncash assets are recorded as contributions at their estimated fair values at the date of donation.

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions, Sponsorships, and Grants - Contributions, sponsorships, and grants consist of amounts due from public and private organizations. Contributions are recorded as revenue when received or pledged. Donor-restricted amounts are reported as temporarily restricted support until the donor restriction expires, at which time the temporarily restricted net assets are reported in the combined statement of activities as net assets released from restrictions. Sponsorships and grants are recorded in a manner similar to contributions if they represent general support for the mission of the National PTA. Sponsorships and grants that more closely resemble exchange transactions are recorded as revenue in the year earned.

Membership Fees - Membership fees received are recorded as unrestricted support in a manner similar to contributions, as membership fees are considered to be substantially paid in support of the general mission of the organization. Membership fees allocated for subscriptions to the periodical *Our Children* are \$173,205 for the year ended December 31, 2009.

Deferred Revenue - Income from contracts, convention exhibit fees, and subscription fees that has not yet been earned is deferred and recognized over the periods to which the fees relate.

Advertising Expense - The National PTA uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed the first time the advertising takes place. Advertising expense for the year ended December 31, 2009 was \$217,695.

Investment Expenses - Expenses relating to investment revenues, including custodial fees and investment advisory fees, were \$40,905 for the year ended December 31, 2009 and are netted against unrealized and realized gain on investments in the combined statement of activities.

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

Estimates - The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(3) INVESTMENTS

The following summary presents at December 31, 2009, the fair value for each of the investment categories:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Common stock	\$ 707,232	\$ 647,172	\$ 60,060
Mutual funds	7,346,520	7,499,902	(153,382)
Corporate obligations	3,332,162	3,275,412	56,750
	<u>\$ 11,385,914</u>	<u>\$ 11,422,486</u>	<u>\$ (36,572)</u>

The following table sets forth by level within the fair value hierarchy the National PTA's investment assets at fair value as of December 31, 2009. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Common stock	\$ 707,232	\$ 707,232	\$ -	\$ -
Mutual funds	7,346,520	7,346,520	-	-
Corporate obligations	3,332,162	-	3,332,162	-
Total	<u>\$ 11,385,914</u>	<u>\$ 8,053,752</u>	<u>\$ 3,332,162</u>	<u>\$ -</u>

(4) PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows at December 31, 2009:

Condominiums	\$ 616,738
Furniture and equipment	459,488
Computer equipment	1,544,353
	<u>2,620,579</u>
Less accumulated depreciation	<u>(1,765,735)</u>
Total	<u>\$ 854,844</u>

Depreciation expense for the year ended December 31, 2009 was \$232,121.

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(5) RETIREMENT PLANS

The National PTA maintains a non-contributory defined benefit pension plan and a contributory defined contribution plan. Benefits are primarily based upon eligible years of service and final levels of employee compensation for the last five years of service.

The following sets forth the funded status of the defined benefit plan and the amount recognized in the combined statement of financial position at December 31, 2009:

Projected benefit obligation	\$ 3,349,027
Plan assets at fair value	<u>3,194,981</u>
Funded status (pension cost liability)	<u>\$ (154,046)</u>
Accumulated benefit obligation	\$ 3,084,129
Employer contributions for the year	\$ 442,596
Benefits paid for the year	\$ 456,482
Amounts recognized in the combined statement of activities:	
Net periodic pension cost:	
Service cost at January 1, 2009 plus interest at 6.25%	\$ 228,682
Interest cost on projected benefit obligation on January 1, 2009 at 6.25%	215,098
Expected return on plan assets on January 1, 2009 at 7.00%	(207,083)
Amortization items at January 1, 2009	
Amortization of accumulated net loss or (gain)	155,985
Amortization of unrecognized prior service cost	<u>3,964</u>
Net periodic pension cost for year beginning January 1, 2009	<u>396,646</u>
Pension-related changes other than net periodic pension cost:	
Net (income) loss	(216,627)
Amortization of net (income) loss	(155,985)
Amortization of prior service credit	(16,934)
Administrative costs	<u>102,142</u>
Total pension-related changes other than net periodic pension cost	<u>(287,404)</u>
Total	<u>\$ 109,242</u>
Amounts not yet recognized as periodic pension cost:	
Accumulated losses	<u>\$ 1,175,347</u>

The estimated net loss that will be amortized from changes in unrestricted net assets into net periodic benefit credit in 2010 is \$97,004.

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(5) RETIREMENT PLANS (CONTINUED)

Significant actuarial assumptions:

Discount rate	6.25%
Expected return on plan assets*	7.00%
Rate of compensation increase	5.00%

*The expected return on plan assets reflects the average rate of earnings as of January 1, 2009 expected on the funds invested to provide for the benefits included in the projected benefit obligations. Factors used in determining that rate include historic returns on plan assets and current market information on long-term returns.

The basic objective for the investment management of the plan assets is growth primarily and income secondarily. The target allocation for the equity portion of the portfolio is between 40% and 60% of the total portfolio. The target allocation for the fixed income portion of the portfolio is between 40% and 60% of the total portfolio. Plan asset allocations are reviewed periodically and rebalanced to achieve target allocation among the asset categories when necessary. The asset categories at December 31, 2009 are as follows:

Equities	52.9 %
Fixed income	43.9
Cash and cash equivalents	3.2
Total	<u>100.0 %</u>

The amount expected to be contributed to the plan in 2010 is \$238,038.

The National PTA is expected to make the following benefit payments over the next 10 fiscal years:

Estimated future benefit payments:

2010	\$ 395,029
2011	87,531
2012	86,694
2013	270,828
2014	149,313
2015 - 2019	986,252
	<u>\$ 1,975,647</u>

As of December 31, 2009, the National PTA has closed the current defined benefit plan for new participants. Current participants have selected to remain in the current plan or begin benefits with the new defined contribution plan effective in 2010.

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(6) COMMITMENTS

As of December 31, 2009, the National PTA has lease agreements for office space in Washington, D.C., and Chicago, Illinois, with lease terms expiring in 2016. Future minimum rental payments required for noncancelable operating leases having terms in excess of one year are as follows:

Years ending December 31,	
2010	\$ 535,452
2011	549,200
2012	567,634
2013	581,723
2014	596,180
Thereafter	<u>1,152,168</u>
Total	<u>\$ 3,982,357</u>

Rent expense is recognized using the straight-line method over the life of the lease. Rent expense for the year ended December 31, 2009 was \$691,581.

On December 2, 2009, the National PTA entered into an agreement to purchase an office building in Alexandria, Virginia, for \$9,100,000 in order to consolidate operations into a single location. The agreement required an escrow deposit of \$250,000 upon executing the agreement and a second \$250,000 deposit to be paid by April 2010. The purchase is subject to the assignment of a mortgage with an outstanding balance of approximately \$7,000,000. The closing date for this acquisition is currently pending.

On December 28, 2009, the National PTA entered into a sublease agreement with an unrelated entity for substantially all of the office space in Chicago. The sublease term will begin on November 1, 2010 and continue through October 31, 2016, the end of the master lease. The lease commitments detailed above will be offset by payments to be received under the sublease as follows:

Years ending December 31,	
2010	\$ 69,773
2011	420,731
2012	433,354
2013	446,357
2014	459,741
Thereafter	<u>877,871</u>
	<u>\$ 2,707,827</u>

The currently recognizable economic loss attributable to the current value of the future shortfall of the sublease payments is estimated at \$479,152. Deferred lease liabilities related to the recognition of rents using the straight-line method and related rental costs at December 31, 2009 are approximately \$992,000, which will be recognized over the remaining life of the leases.

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NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(7) ENDOWMENTS

In August 2008, U.S. generally accepted accounting principles ("GAAP") adopted new guidance – *Endowments for 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* – which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The state of Illinois approved a version of UPMIFA in 2008 with an effective date of January 1, 2009. The National PTA adopted this guidance on January 1, 2009. The adoption of this guidance resulted in no reclassifications of net assets.

The National PTA's endowments consist of two individual funds: (1) The Endowment Fund of the National Congress of Parents and Teachers ("The Endowment Fund") and (2) National Congress of Parents and Teachers Endowments (the "National PTA Endowments"). The Endowment Fund was established for the purpose of protecting and growing the assets of the organization for the future. Its endowment is composed of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

The National PTA Endowments consist of individual funds established for a variety of purposes. Its endowment is composed of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Trustees of The Endowment Fund and the Board of Directors of the National PTA (for the National PTA Endowments) have interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the 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 Endowment Fund and the National PTA Endowments both classify 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 the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, The Endowment Fund and the National PTA Endowments both consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(7) ENDOWMENTS (CONTINUED)

Return Objectives and Risk Parameters - The Endowment Fund and the National PTA Endowments both have adopted investment policies for endowed assets that have the dual goals of striving to preserve assets in addition to maximizing the fund's total rate of return. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy approved by the Board of Trustees/Directors, the endowment assets are invested in a manner that is intended to produce results that should achieve a rate of return in excess of inflation (Consumer Price Index) over a period of three to five years while assuming a reasonable level of risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy - For The Endowment Fund, an amount equal to the net income of the fund with respect to each fiscal year of The Endowment Fund is paid in cash to the National PTA after the end of such fiscal year (releasing those net assets from their temporary restrictions), provided however that the National PTA may direct The Endowment Fund not to pay to it any portion of such net income, in which case such portion is added to the principal of the unrestricted net assets of The Endowment Fund. All regular compensation paid to attorneys, investment counsel, custodians and accountants, all costs of investing and reinvesting The Endowment Fund's assets, and all taxes are charged against income. For the National PTA Endowments, the fund utilizes the interest generated from the endowment funds to provide several awards and grants related to artistic expression and education. Any surplus interest is added to the principal investment. In the event the endowed investment does not provide the funds needed to provide the awards, the National Congress of Parents and Teachers provides the balance of funds needed.

Financial Information - Financial information for The Endowment Fund, which is included in the combined financial statements at December 31, 2009 and for the year then ended is as follows:

Statement of Financial Position

Assets:

Cash and cash equivalents	\$ 144,053
Investments	3,836,071
Total assets	<u>\$ 3,980,124</u>

Liabilities:

Accounts payable	<u>\$ 37,745</u>
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Net assets:

Unrestricted	2,314,484
Permanently restricted	1,627,895
Total net assets	<u>3,942,379</u>
Total liabilities and net assets	<u>\$ 3,980,124</u>

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(7) ENDOWMENTS (CONTINUED)

Financial Information (continued)

Statement of Activities

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue:			
Contributions:			
Life achievement awards	\$ -	\$ 19,279	\$ 19,279
Other	-	17,374	17,374
Interest and dividends	91,035	-	91,035
Net unrealized and realized gain on investments	<u>573,403</u>	-	<u>573,403</u>
Total revenue	<u>664,438</u>	<u>36,653</u>	<u>701,091</u>
Expenses:			
General and administrative	<u>9,548</u>	-	<u>9,548</u>
Change in net assets	654,890	36,653	691,543
Net assets:			
Beginning of year	<u>1,659,594</u>	<u>1,591,242</u>	<u>3,250,836</u>
End of year	<u>\$ 2,314,484</u>	<u>\$ 1,627,895</u>	<u>\$ 3,942,379</u>

Financial information for the National PTA Endowments as of December 31, 2009 is as follows:

Components of Net Assets

Temporarily restricted	\$ 90,071
Permanently restricted	<u>516,491</u>
Total net assets	<u>\$ 606,562</u>

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(7) ENDOWMENTS (CONTINUED)

Financial Information (continued)

Statement of Activities

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue:				
Interest and dividends	\$ -	\$ 4,686	\$ -	\$ 4,686
Net unrealized and realized gain on investments	-	656	-	656
Released from restriction	<u>4,274</u>	<u>(4,274)</u>	<u>-</u>	<u>-</u>
Total revenue	4,274	1,068	-	5,342
Expenses:				
General and administrative	<u>4,274</u>	<u>-</u>	<u>-</u>	<u>4,274</u>
Change in net assets	-	1,068	-	1,068
Net assets:				
Beginning of year	<u>-</u>	<u>89,003</u>	<u>516,491</u>	<u>605,494</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ 90,071</u></u>	<u><u>\$ 516,491</u></u>	<u><u>\$ 606,562</u></u>

(8) RESTRICTED AND BOARD DESIGNATED NET ASSETS

Restricted net assets as of December 31, 2009 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
National Congress of Parents and Teachers		
Government, corporate and foundation grants	\$ 1,078,147	\$ -
Educator of the Year Award - Hearst Foundation	48,948	300,000
Reflection Awards		
Enhancement Grant Program	17,682	90,256
Visual Arts	5,307	26,880
Literature Scholarship	6,125	33,119
Music Scholarship	6,125	33,118
Photography Scholarship	5,884	33,118
	<u>1,168,218</u>	<u>516,491</u>
The Endowment Fund of the National Congress of Parents and Teachers		
Combined Total	<u>-</u>	<u>1,627,895</u>
	<u><u>\$ 1,168,218</u></u>	<u><u>\$ 2,144,386</u></u>

See Accompanying Combined Financial Statements

NATIONAL CONGRESS OF PARENTS AND TEACHERS

NOTES TO COMBINED FINANCIAL STATEMENTS

(8) RESTRICTED AND BOARD DESIGNATED NET ASSETS (CONTINUED)

Temporarily restricted net assets at December 31, 2009 consist of amounts relating to program purpose restrictions for Reflection - Arts and Education, After School Initiative, and Hearst Awards.

Permanently restricted net assets at December 31, 2009 consist of assets that are restricted in perpetuity, the income of which is expendable for program use.

The Board of Directors of the National PTA has designated \$4,410,535 of unrestricted net assets for future costs related to the organizations' new headquarters in Washington, D.C.

(9) LINE OF CREDIT

The National PTA established a line of credit with Bank of America (formerly LaSalle Bank) in September 2002 and extended it until December 31, 2009, at which time it expired. The maximum borrowing under the line of credit is \$2,000,000. No borrowings were made against the line of credit in the year ended December 31, 2009.

(10) PRIOR PERIOD ADJUSTMENT

An adjustment has been recorded to correct the previously stated balance of Temporarily Restricted Net Assets. Certain accounting errors resulting in the early recognition of revenues from grant contracts were discovered in the current year. Contracts entered in a prior year have been determined to represent exchange transactions. As such, revenues from those contracts are to be recognized in the period that they were earned. Previously, those revenues were recognized in full as temporarily restricted activity. Accordingly, an adjustment was made to decrease the current year's opening balances of Accounts Receivable – Grants, Contracts and Other and Temporarily Restricted Net Assets by \$1,175,000, the amount of the revenues that were recognized early.

(11) SUBSEQUENT EVENTS

The National PTA has evaluated subsequent events through March 26, 2010, the date which the financial statements were available to be issued.

See Accompanying Combined Financial Statements