

GREAT PUBLIC SCHOOLS FOR EVERY STUDENT

SECRETARY-TREASURER | INDEPENDENT AUDITORS FINANCIAL REPORTS

PRESENTED TO THE REPRESENTATIVE ASSEMBLY
JULY 2010



National Education Association

The National Education Association is the nation's largest professional employee organization, representing 3.2 million elementary and secondary teachers, higher education faculty, education support professionals, school administrators, retired educators, and students preparing to become teachers.

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**A REPORT FROM
NEA SECRETARY-TREASURER
BECKY PRINGLE**

As NEA Secretary-Treasurer, I am pleased to present the Financial Reports of the National Education Association for the fiscal year ended August 31, 2009, as well as the interim financial statements through April 30, 2010 with projections to our August 31, 2010 fiscal year end.

Every single day, the educators of America touch the lives of 55 million public school students in more ways than most people realize. We are the men and women who rise before dawn to drive children to school, safely and on time. We stand on our feet in hot kitchens to prepare nutritious meals for them, so they have the strength to learn. We keep their schools safe and clean, and counsel them when they are sad or confused. We educate them so that they can get an education that will open the door of opportunity and change their lives for the better. Together, we valiantly embody our vision of a *Great Public School for Every Student*. Our commitment to this vision will continue to drive every budgetary decision.

These are very hard times for our nation and for our members. State budget shortfalls are at historic levels. Layoffs are coming at an alarming rate. The economic crisis is not only threatening education funding, but is impacting the daily lives of our students and their families. And while the tycoons of Wall Street are being saved by taxpayer dollars, the educators of our nation are being left behind. Whether we like it or not, this economy is forcing us to change. As an organization, we are accustomed to expanding programs, developing new ideas and nurturing old ones. This moment in our history is an urgent call for our organization to embrace every opportunity to create a better, stronger and more efficient organization.

The road ahead is paved with both tremendous challenge as well as opportunity. You can be assured that we will remain industrious in our efforts to enhance our stewardship of your dues dollars and safeguard the assets of the Association. We know that if we are in a better financial situation, we can do more things and participate more effectively in the transformation of education.

With the framework for the 2010–2012 Strategic Plan adopted by the NEA Board of Directors at its September meeting, I believe we have the opportunity to provide better clarity for ourselves and others about what we must focus on to advance our work. This is the first of five budget cycles until the year 2020. We must work to move closer in these next two years. Our system needs to begin transforming; and our students need to flourish in these next two years. And, the NEA needs to be seen as the education leader within these next two years.

To achieve this goal, we will continue to work closely with our affiliates to assess their financial health and assist with navigating these difficult times. And more importantly, we will seek out new ways of doing business at all levels of the association to ensure organizational effectiveness so the needs of our affiliates and members continue to be served, and our collective power is harnessed to achieve our vision. As we travel this road together, let's not wait for a crisis to make change. The time to change is now.

These reports are designed to provide you with the information needed to fully understand the fiscal condition of the NEA. They include three sections (1) the audit report for 2008–2009; (2) the financial statements detailing our current year expenditures through April 30, 2010, together with projections to the end of the 2009–2010 fiscal year, and a schedule of governance allocations from the Contingency Fund; and (3) a summary of our membership by state and membership category.

THE AUDIT REPORT FOR 2008–2009

On pages 5–36 you will find a complete audit report as prepared by our certified public accounting firm, PricewaterhouseCoopers LLP. NEA is required to present consolidated financial statements, which includes all of NEA's various funds as well as our Member Benefits Corporation. The audit report is divided into four parts:

1. The auditor's opinion letter;
2. The actual financial statements on which the audit is based;
3. Footnotes to the financial statements which help explain some of the individual items; and
4. Supplemental statements and schedules showing additional detail by fund.

The auditor's opinion letter states that their work was conducted in accordance with generally accepted auditing standards, and that the consolidated financial statements and the supplemental schedules present fairly the financial position and results of operations. It is an unqualified opinion, or a 'clean opinion', meaning it was issued without any qualifying comments. An unqualified opinion is the highest level of opinion given by an independent auditor.

The Consolidated Statements of Financial Position present the Association's assets, liabilities and net assets as of August 31, 2009 and 2008. One important indicator of an organization's financial strength is its net assets (the difference between total assets and total liabilities). Net assets should be a positive balance and sufficient to serve as a source of funds for special projects, future growth, and to stabilize an organization in troubled times. NEA's consolidated net asset balance is over \$143 million, a level at which we can take both pride and comfort. In addition, NEA has continuously demonstrated a healthy current ratio, which means that NEA is in a solid position to meet our current obligations by using cash and other current assets.

The accompanying footnotes provide supplemental information that gives a more detailed explanation of aspects of the financial statements presented, and I would encourage you to read them.

The supplemental statements and schedules reflect a detailed breakdown of the general operations, capital improvement fund and special purpose funds that, taken together, represent the consolidated statements.

The General Operating Fund Supplemental Statement of Activities and Changes in Net Assets reflects total revenue and expenses by strategic goals and core service areas. Note that the increase in revenue generated from an increase in membership allowed for additional expenditures in many of the strategic goals and core service areas.

Financial statements contained within the audit include:

1. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION as of August 31, 2009 and 2008 (p.6). This statement shows total current assets of \$135,739,545 and total current liabilities of \$37,771,931 resulting in a healthy current ratio of 3.6:1. NEA's consolidated Unrestricted Net Assets, which represents the difference between what it owns (total assets of \$203,771,339) and what it owes (total liabilities of \$60,207,990), is a positive \$143,563,349.
2. CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS for the years ended August 31, 2009 and 2008 (p.7). This statement shows that the total revenue for the fiscal year 2008–09 was \$407,040,373 and the total expenses, including the Change in Actuarial Loss from Defined Benefit Plan, were \$406,711,640. The excess of total revenue over total expenses resulted in a surplus of \$328,733.
3. CONSOLIDATED STATEMENTS OF CASH FLOWS for the years ended August 31, 2009 and 2008 (p.8). These statements reflect the sources and uses of cash for the two fiscal years, and are designed to analyze the period-to-period fluctuations in key elements in the Consolidated Statements of Financial Position.
4. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (pp. 9–29). The notes to the financial statements discuss the significant accounting policies of the Association as well as provide explanatory information on elements of the financial statements.
5. SUPPLEMENTAL STATEMENTS AND SCHEDULES (pp. 31–36). The supplemental statements and schedules provide additional details for the NEA General Fund as well as the Capital Improvement and Special Purpose Funds.

Let's focus on the statement that reflects the activity of NEA's General Fund on pp. 32–33. When comparing the 2009 Budget amount with the Actual amount for revenues, you can see the effect of another year of positive membership growth. Total revenue was \$349,243,504 and exceeded the amount budgeted by \$3,244,771. The total expenses of \$348,781,913 for our Strategic Goals and Core Service Areas exceeded the budget adopted by the 2008 Representative Assembly subject to adjustments made throughout the year, including allocations from the contingency fund. Overall, our revenues exceeded expenses resulting in a surplus of \$461,591, which was added to our General Operating Fund Undesignated Net Assets.

INTERIM FINANCIAL STATEMENTS FOR 2009–2010

On pages 39–41 you will find the General Operating and Capital Improvement Funds Statements of Financial Position (unaudited) as of April 30, 2010 and the General Operating Fund – Statement of Activities and Changes in Net Assets (unaudited) for the eight months ended April 30, 2010, which includes a projection of revenue and expenses for the remaining four months of our current fiscal year.

The General Operating Fund – Statement of Activities and Changes in Net Assets (unaudited) indicates that we anticipate falling short of our budgeted revenue for 2009–2010, due primarily to membership losses. The decrease in membership also calls for a decrease in the Ballot Initiatives and Media Campaign allocations, and the Uniserv allocation, both bylaw requirements. The major variances between budget and actual expenditures for the Core Service Areas and Strategic Goals are due mainly to the reduction or reallocation of resources to reflect the efforts required to have a significant impact on achieving the Strategic Plan.

Contingency Fund Expenditures

On page 42 you will find a schedule indicating the original amount approved and authorized for the fiscal year 2009–2010 Contingency Fund adopted at last year’s Representative Assembly. It also identifies the dates, level of governance approval and purposes for which allocations from the fund were made.

MEMBERSHIP COMPARISON BY STATE

Pages 44–45 contain a detailed schedule arranged by state and membership category reflecting an increase in membership of 18,614 from fiscal year 2008 to 2009. Membership is the lifeblood of our organization. Efforts to maintain our membership base and expand it are essential to our fiscal health.

I hope the information in this report will be informative, and provide you with a glimpse of the complex financial network in place to meet the varied needs of our 3.2 million members, and advance our vision of **A Great Public School for Every Student**.

Respectfully submitted,



Rebecca S. Pringle
NEA Secretary-Treasurer

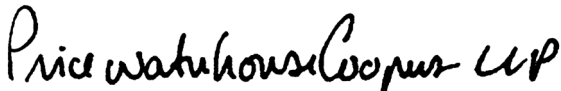
REPORT OF INDEPENDENT AUDITORS

To the Executive Committee and Members of
National Education Association of the United States
Washington, D.C.

In our opinion, the accompanying consolidated statements of financial position and the related statements of activities, and cash flows present fairly, in all material respects, the financial position of the National Education Association of the United States (a nonprofit corporation incorporated by an Act of the United States Congress) and its subsidiaries (“NEA”) at August 31, 2009, and August 31, 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of NEA’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental statements and schedule listed in the Table of Contents are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual funds, and are not a required part of the basic consolidated financial statements. This additional information is the responsibility of NEA’s management. Such information, except for that marked “unaudited,” has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

As discussed in Note 2 to the consolidated financial statements, effective September 1, 2008, NEA adopted Financial Accounting Standard Board (FASB) Statement No. 157, *Fair Value Measurements*.



November 19, 2009

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AUGUST 31, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 60,802,749	\$ 71,606,015
Investments	8,756,336	8,585,126
Membership dues and notes receivable - net	56,482,281	52,364,599
Amount due from affiliates and other organizations	696,822	1,284,340
Publication and advertising receivables	23,600	180,990
Accounts receivable	6,647,784	7,745,876
Prepaid expenses	932,168	2,793,273
Deferred income taxes	276,979	225,980
Other current assets	<u>1,120,826</u>	<u>1,354,230</u>
Total current assets	<u>135,739,545</u>	<u>146,140,429</u>
LONG-TERM ASSETS:		
Investments	8,287,912	9,234,071
Pension asset	4,809,954	3,568,013
Property and equipment - net	<u>54,933,928</u>	<u>53,097,418</u>
Total long-term assets	<u>68,031,794</u>	<u>65,899,502</u>
TOTAL ASSETS	<u>\$ 203,771,339</u>	<u>\$ 212,039,931</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Mortgage loan payable	\$ 5,077,272	\$ 5,028,860
Accounts payable	6,738,619	11,906,708
Accrued liabilities	17,321,441	17,898,166
Accrued annual leave and fringe benefits	7,802,826	6,855,337
Amount held for affiliates and other organizations	<u>831,773</u>	<u>704,083</u>
Total current liabilities	<u>37,771,931</u>	<u>42,393,154</u>
LONG-TERM LIABILITIES:		
Mortgage loan payable	—	5,077,270
Accrued severance pay	6,364,031	5,950,163
Deferred retirement benefit	145,300	203,420
Deferred income	14,946,783	14,585,527
Deferred income taxes	<u>979,945</u>	<u>595,781</u>
Total long-term liabilities	<u>22,436,059</u>	<u>26,412,161</u>
Total liabilities	<u>60,207,990</u>	<u>68,805,315</u>
UNRESTRICTED NET ASSETS:		
Undesignated net assets	116,294,873	121,650,853
Net assets designated for postretirement benefits	<u>27,268,476</u>	<u>21,583,763</u>
Total unrestricted net assets	<u>143,563,349</u>	<u>143,234,616</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 203,771,339</u>	<u>\$ 212,039,931</u>

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED AUGUST 31, 2009 AND 2008

	2009	2008
OPERATING ACTIVITIES		
UNRESTRICTED REVENUES:		
NEA Programs:		
Dues	\$ 348,490,641	\$ 334,131,442
Other	<u>488,147</u>	<u>142,560</u>
Total NEA Programs	<u>348,978,788</u>	<u>334,274,002</u>
Member Benefits Programs:		
Program Revenues - Suppliers	57,824,890	57,409,314
Other	<u>236,695</u>	<u>1,482,504</u>
Total Member Benefits Programs	<u>58,061,585</u>	<u>58,891,818</u>
TOTAL UNRESTRICTED REVENUES	<u>407,040,373</u>	<u>393,165,820</u>
EXPENSES:		
Program Services:		
NEA Programs	289,704,511	261,733,080
Member Benefits Programs	<u>48,454,410</u>	<u>46,651,461</u>
Total Program Services	<u>338,158,921</u>	<u>308,384,541</u>
Support Services:		
NEA Programs	58,926,739	56,069,071
Member Benefits Programs	<u>8,419,299</u>	<u>9,085,358</u>
Total Support Services	<u>67,346,038</u>	<u>65,154,429</u>
TOTAL EXPENSES	<u>405,504,959</u>	<u>373,538,970</u>
CHANGE IN NET ASSETS FROM OPERATIONS	1,535,414	19,626,850
NON-OPERATING ACTIVITIES		
Change In Actuarial Loss From Defined Benefit Plan	<u>(1,206,681)</u>	<u>(1,398,113)</u>
CHANGES IN NET ASSETS	<u>328,733</u>	<u>18,228,737</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>143,234,616</u>	<u>125,005,879</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 143,563,349</u>	<u>\$ 143,234,616</u>

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 328,733	\$ 18,228,737
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,176,494	6,157,752
Net realized loss on investments	882,602	402,624
Net unrealized (gain) or loss on investments	(6,974)	1,269,922
Loss on sale of furniture and equipment	22,851	825
Write-off of furniture and equipment	—	494,233
Deferred income taxes	333,165	84,988
Loss from Defined Benefit Pension Plan	1,206,681	1,398,113
Changes in assets and liabilities:		
Increase in membership dues and note receivable	(4,117,682)	(5,394,223)
Decrease in amount due from affiliates and other organizations	587,518	152,857
Decrease (increase) in publication and advertising receivables	157,390	(26,881)
Decrease in accounts receivable	1,098,092	522,334
Decrease in prepaid expenses	1,861,105	852,777
Decrease in other current assets	233,404	216,750
Increase in prepaid pension costs	(2,448,622)	(4,153,080)
(Decrease) increase in accounts payable	(5,168,089)	1,661,971
(Decrease) increase in accrued liabilities	(576,725)	408,597
Increase (decrease) in accrued annual leave/fringe benefits	947,489	(503,369)
Increase in amount held for affiliates and other organizations	127,690	190,410
Increase in accrued severance pay	413,868	433,219
Increase in deferred income	361,256	226,956
Decrease in deferred retirement benefit	(58,120)	(62,963)
Net cash provided by operating activities	<u>2,362,126</u>	<u>22,562,549</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(23,614,512)	(22,428,197)
Proceeds on sales of investments	23,513,833	21,383,787
Purchases of furniture and equipment	(8,035,855)	(3,591,369)
Net cash used in investing activities	<u>(8,136,534)</u>	<u>(4,635,779)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgage loan payable	(5,028,858)	(6,492,275)
Net cash used in financing activities	<u>(5,028,858)</u>	<u>(6,492,275)</u>
NET CHANGES IN CASH AND CASH EQUIVALENTS	(10,803,266)	11,434,495
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>71,606,015</u>	<u>60,171,520</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 60,802,749</u>	<u>\$ 71,606,015</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION-Cash paid during the year for:		
Interest	<u>\$ 823,731</u>	<u>\$ 1,387,968</u>
Income taxes (Member Benefits Corporation)	<u>\$ 351,146</u>	<u>\$ 3,107,421</u>

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

1. ORGANIZATION

The National Education Association of the United States (“NEA”) is a not-for-profit organization incorporated under an Act of the United States Congress. Its mission statement reads: “to advocate for education professionals and to unite our members and the nation to fulfill the promise of public education to prepare every student to succeed in a diverse and interdependent world.”

To help realize this mission, the NEA adopted a vision of “a great public school for every student.” This vision guided NEA’s strategic plan and budget, which is organized around five Core Services Areas and five Strategic Goals.

The Core Service areas address regular, ongoing programs and services:

- *Creating the best learning conditions for students and working conditions for education employees*—Promote policies and programs that create teaching and learning conditions that close the achievement gaps and recruit and retain a quality workforce by improving compensation, retirement benefits, and other working conditions of education employees.
- *Programs and services that focus on membership growth, retention and engagement, and build affiliate capacity*—Supporting a wide array of technical and financial support to affiliates to increase membership, build affiliate capacity through leadership training and address the concerns of minorities and women in teaching.
- *Communicating with leaders, staff, and the general public*—Publicizing the goals and accomplishments of NEA and its members using media and public relations activities.
- *Governance activities and leadership development*—Enhancing leadership within the Association and govern NEA in an efficient and effective manner based on its mission, vision, and core values.
- *Business Operations*—Providing NEA with the foundation and framework to ensure organizational effectiveness and maintain a sound internal infrastructure that supports the basic operational services of the association.

The Strategic Goals address five key challenges:

- *Authentic accountability systems*—Assisting state affiliates with research, technical assistance, and/or other appropriate strategic support to secure public policy that redesigns accountability systems to authentically assess student learning and achievement gaps.
- *Reaching out to ethnic minority communities*—Increasing the positive image and support of NEA by ethnic-minority opinion leaders and sustaining the support among the general ethnic minority public.
- *Improving education members’ salaries*—Improving starting salaries for teachers, at least a living wage for education support professionals and assisting higher education locals to engage in effective salary campaigns.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

- *Political action and member communications*—Building affiliate political capacity and establishing a political program to elect a pro-public education President and increase pro-public education majorities in the U.S. House and Senate.
- *Providing strategic support on tax and economic policies and school funding*—Ensuring all state affiliates have available research, technical assistance, and strategic support to develop and implement a plan to increase and stabilize funding for public schools.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of NEA, its wholly owned subsidiary: NEA’s Member Benefits Corporation (“MBC”), and MBC’s wholly-owned subsidiary, the NEA Professional Services Corporation; and an affiliated entity, National Education Employees Assistance Fund, Inc., (“NEEAF”). MBC serves as a contractor for NEA’s member bene functions. NEEAF is combined with the accounts of NEA due to common control and an economic interest (Note 10). All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting—The accompanying statements are prepared on the accrual basis of accounting. To ensure observance of its bylaws, the resources of NEA are classified internally for accounting and reporting purposes into funds established according to their nature and purpose. The assets, liabilities, net assets, and changes in net assets are reported in the following two fund groups:

General Fund

- *General Operating Fund*—The bylaws of NEA provide that the General Operating Fund shall comprise all income received in the form of dues, interest, dividends, fees, earnings from advertising, sales of NEA publications, payments for services, and funds received by gift, bequest, devise, or transfer to NEA, which are not specifically designated for deposit in the Capital Improvement Fund.
- *Special Purpose Funds*—NEA has various Special Purpose Funds that consist of funds designated for specific projects and purposes. Special Purpose Funds include activities such as the UniServ Fund, National Education Employees Assistance Fund (Note 10), Special Dues Ballot Fund, Special Dues Media Fund, Great Public Schools Fund, NEA Properties, Inc., NEA-Retired Program Fund, and the administration of various services such as insurance plans for members. These funds also include the activities of MBC, which provides support to the Member Benefits Programs, primarily in the areas of membership services, affiliate support, marketing, and training. Additionally, on July 22, 2009, NEA established a wholly owned subsidiary, NEA Properties, Inc. (“NEAPI”). NEAPI is a real estate holding company exempt under section 501(c)(2) on the Internal Revenue Code. As of August 31, 2009, NEAPI had no financial activity.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Capital Improvement Fund

- The bylaws of NEA provide that the Capital Improvement Fund shall comprise the properties and permanent investments of NEA and other funds or properties received by gift, devise, bequest, or transfer for deposit in the Fund. Disbursements from the Capital Improvement Fund to acquire new properties or to provide for major long-term improvements in existing properties shall be authorized by a two-thirds vote of the Board of Directors. Expenditures from this Fund for any other purpose shall be authorized by a two-thirds vote of the Representative Assembly.

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 revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the deferred revenue, useful life of fixed assets, pension liability and deferred tax. Actual results could differ materially, in the near term, from the amounts reported.

Concentration of Risks—Financial instruments that potentially subject NEA to significant concentrations of credit risk principally consist of cash and accounts receivable. NEA places its cash in a financial institution that is federally insured under the Federal Depository Insurance Corporation Act (FDICA). At August 31, 2009 and 2008, the cash aggregate balances were in excess of the FDIC insurance limits by \$45,107,147 and \$64,516,087, respectively, and therefore, bear some risk, since they were not collateralized. NEA has not experienced any losses on its cash to date related to FDICA insurance limits. Concentrations of credit risk with respect to accounts receivable are limited due to the majority of receivables being from widely diversified customers.

Recently Adopted Accounting Standards—Effective September 1, 2008, NEA adopted Financial Accounting Standards Board (“FASB”) Statement No. 157, *Fair Value Measurements* (“FAS 157”), which establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. FAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. FAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, FAS 157 does not require any new fair value measurements. Adopting FAS 157 did not have a material impact on NEA’s financial position and results of operations (See Note 16).

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (“FAS 159”), which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. NEA did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

Cash and Cash Equivalents—Cash equivalents consist of interest-bearing deposits and securities with maturity of less than three months when purchased and are recorded at cost, which approximates fair value.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Investments—Investments consist of corporate, municipal and U.S. government bonds and common stock and are recorded at fair value, with any gains or losses reflected in the consolidated statements of activities and changes in net assets. Included in other income for the years ended August 31, 2009 and 2008, were net unrealized gain and loss of approximately \$6,974 and \$1,269,922, respectively.

Property and Equipment—Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives range from 2 to 15 years for furniture, fixtures, equipment, and software and 25 to 40 years for buildings and leasehold improvements. Depreciation expense was \$6,176,494 and \$6,157,752 for the years ended August 31, 2009 and 2008, respectively.

Accrued Severance Pay—NEA has a policy entitling employees with over 10 years of service to severance pay equal to 10 weeks of salary. NEA's accrued severance pay has been calculated to approximate Statement of Financial Accounting Standards No. 112, Employers' Accounting for Post Retirement Benefits ("SFAS No. 112"), issued by the Financial Accounting Standards Board.

NEA-Retired Program ("NEA-Retired")—NEA offers life membership through a Special Purpose Fund known as the NEA-Retired Program. NEA-Retired dues qualify retired members for certain services provided to active members, as well as services designed specifically for retired persons. NEA-Retired income is recorded as deferred income when received and amortized over the estimated life expectancy of its members.

Membership Dues—Membership dues are recognized as income over the membership year, which is September 1 through August 31. Dues are assessed to members as provided in the bylaws. An estimated provision for uncollectibles, write-offs, and cancellations is charged against membership dues revenues.

In accordance with the bylaws, a percentage of the membership dues is allocated to UniServ grants, which are included in NEA's program services expenses, whereby NEA provides grants to state affiliates to assist in funding their staff representatives, whose responsibilities are to implement, improve, and coordinate programs of NEA and the state affiliates.

Program Revenue—MBC's program revenues from suppliers represent fees from contracts with various program suppliers. Fees are recognized as revenue in the period in which they are earned.

Reclassifications—Certain amounts from the prior year have been reclassified to conform with the current year presentation.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

3. INVESTMENTS

Investments, at fair value, consist of the following at August 31:

	2009	2008
Common stock	\$ <u>8,756,336</u>	\$ <u>8,585,126</u>
Corporate bonds	3,137,096	3,498,571
U.S. government bonds	<u>5,150,816</u>	<u>5,735,500</u>
Total long-term bonds	<u>8,287,912</u>	<u>9,234,071</u>
Total investments	<u>\$ 17,044,248</u>	<u>\$ 17,819,197</u>

Common stock includes equity securities and proprietary funds purchased and held for sale in the near future during normal business activities. Investments in debt security, including corporate and foreign obligations and U.S. government bonds, are intended to be held to maturity for normally longer than a year.

4. NOTES RECEIVABLE

On June 1, 2009, NEA loaned the Indiana State Teachers Association (“ISTA”) \$2,800,000. The loan is due and payable in full by December 1, 2009 and bears interest at the rate of 1.5% per annum compounded semiannually. The note is collateralized by a second deed of trust on two commercial real estate buildings owned by the ISTA’s wholly owned subsidiary, I.S.T.A. Center, Inc.

On June 17, 2009, NEA loaned the ISTA \$3,800,000. The loan is due and payable in full on June 17, 2010 and bears interest at the rate of 1.5% per annum compounded semiannually. The note is secured by a mortgage and an assignment of ISTA’s interest in leases, rents, and contracts, and is further secured by a security agreement, financing statement and fixture filing on the commercial real estate property currently owned by I.S.T.A. Center, Inc. On September 8, 2009, ISTA repaid both loans in full with all accumulated interest related thereto (See Note 17).

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at August 31:

	2009	2008
Land:		
NEA headquarters	\$ 1,753,777	\$ 1,753,777
MBC headquarters	837,002	837,002
Building and improvements:		
NEA headquarters	78,892,100	78,206,243
MBC headquarters	5,543,612	5,326,387
Furniture, fixtures, and equipment	14,471,276	13,401,592
Software development costs	<u>43,281,927</u>	<u>38,018,353</u>
	144,779,694	137,543,354
Less accumulated depreciation and amortization	<u>(89,845,766)</u>	<u>(84,445,936)</u>
Total property and equipment	<u>\$ 54,933,928</u>	<u>\$ 53,097,418</u>

6. MORTGAGE PAYABLE

Special Purpose Fund—A loan in the amount of \$3,000,000 and collateralized by NEA's Member Benefits Corporation's headquarters office building and personal property was entered into with a bank in July 1995. The note was amended and restated in December 2000 and bears interest at 8.50 % per annum.

Interest only on the unpaid principal was due and payable monthly commencing December 1, 2000. Commencing January 2, 2001, through and including December 1, 2007, principal and interest is due and payable in equal installments based on a 15-year amortization schedule. The entire unpaid principal, together with interest accrued and unpaid thereon, was paid in full on December 12, 2007.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Capital Improvement Fund—A mortgage loan with a 20-year maturity in the amount of \$52,000,000 was entered into with an insurance company in October 1991. The loan is evidenced by five notes, with varying maturity dates and interest rates. The interest rates of the mortgage notes range from 10.00% to 10.40%, which are collateralized by NEA’s headquarters office building and personal property. The future maturities of the mortgage loans payable are as follows:

Year Ending August 31	Capital Improvement Fund
2010	\$ <u>5,077,272</u>
Total mortgage payable	\$ <u>5,077,272</u>

The NEA is indebted to Prudential Insurance on certain loans that are collateralized by its headquarters building. NEA’s management believes that the book value of these loans approximate fair value.

7. COMMITMENTS AND CONTINGENCIES

NEA and MBC lease office space and personal property at a number of locations under noncancelable operating leases expiring through 2011. Future minimum lease payments under these leases are as follows:

August 31	
2010	102,818
2011	77,141
2012	<u>53,461</u>
Total future minimum lease payments	\$ <u>233,420</u>

Rental expense for all operating leases was approximately \$327,000 and \$348,000 during 2009 and 2008, respectively.

NEA has been named as a party in several legal matters, the outcome of which cannot presently be determined. Management believes that the aggregate net results of these claims will not have a significant impact on NEA’s consolidated financial position or changes in net assets and cash flows.

The Internal Revenue Service (“IRS”) examined NEA’s income tax returns for the years 2001 through 2003 and proposed adjustments for those years. NEA appealed the proposed adjustments and while it believes the related tax returns are in accordance with prevailing tax rulings it has established an adequate provision for any obligations that might arise from the unresolved issues.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

8. BANK LINE OF CREDIT

NEA has a line of credit from a commercial bank at an interest rate of LIBOR (London Interbank Offered Rate) plus 1.50%. At August 31, 2009, the prevailing rate was 1.76%. The amount available varies during the year with a maximum estimated usage of \$10,000,000. As of August 31, 2009 and 2008, no borrowings were outstanding. The line of credit will expire February 28, 2010.

9. RETIREMENT BENEFITS

NEA – Defined Benefit Plan—NEA participates in a multiemployer, defined benefit retirement plan which is noncontributory for NEA employees and covers substantially all permanent employees. NEA employs approximately 43.1% of the employees covered under the plan; the remaining 56.9% are employees of participating state and local affiliates of NEA. NEA's policy is to fund retirement costs as accrued.

NEA's retirement contribution expenses for the years ended August 31, 2009 and 2008, respectively, were \$20,103,983 and \$16,388,204. The accumulated plan benefits and plan net assets available for benefits as of the date of the latest actuarial valuation are presented below:

	2009	January 1, 2008
Actuarial present value of accumulated plan benefits:		
Total vested benefits	\$ 521,762,187	\$ 484,028,532
Total nonvested benefits	<u>30,026,803</u>	<u>39,612,828</u>
Total accumulated plan benefits	<u>\$ 551,788,990</u>	<u>\$ 523,641,360</u>
Net assets available for benefits	<u>\$ 389,471,094</u>	<u>\$ 573,387,625</u>

The increase in the actuarial present value of accumulated plan benefits reflects interest earned on benefits.

The actuarial present value of accumulated plan benefits ignores the effects of future compensation increases on the benefits that participants will receive for their past service. If this value were adjusted for projected salary increases, consistent with the assumed rate of return, the projected benefits obligation would be \$601,112,391 and \$576,035,255 as of January 1, 2009 and 2008, respectively. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.75% for 2009 and 2008. As of August 31, 2009 and 2008, the net assets available for benefits were \$449,087,053 and \$519,369,217, respectively.

NEA – 401(k) Retirement Savings Plan—NEA's employees are also eligible to participate in the 401(k) Retirement Savings Plan of the National Education Association (the "Plan") in which the employee can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Subsection 401(k) and has received a favorable determination as to its tax status. NEA's contributions to the Plan, based on a set percentage of employee contributions, amounted to \$4,122,243 and \$4,076,091 for the years ended August 31, 2009 and 2008, respectively.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

NEA - Postretirement Benefit Plan—In addition to providing pension benefits, NEA provides certain healthcare and life insurance benefits to retirees. Prior to March 1, 2000, NEA provided these benefits under a single employer defined postretirement plan.

Effective March 1, 2000, NEA established and adopted the National Education Association and Affiliate Retiree Health Plan (the “Plan”) and Trust (the “Trust”) for the purpose of providing certain healthcare and life insurance benefits to eligible and retired employees of NEA and to participating affiliates. The plan is a multiemployer postretirement benefits plan. The Internal Revenue Service has approved the Plan and the Trust.

As a result of the adoption of the multiemployer plan, the Trust assumed the responsibility for the payment of benefits and all future obligations under the Plan. NEA’s liability under the single employer plan as of March 1, 2000, which amounted to \$29,427,901 was recognized as a nonoperating charge in NEA’s consolidated statement of activities and changes in net assets. As of August 31, 2009 and 2008, NEA net assets of \$27,268,476 and \$21,583,763, respectively were designated for postretirement benefit obligation.

Postretirement benefit expense under the multiemployer plan was \$7,014,406 and \$7,181,644 for the years ended August 31, 2009 and 2008, respectively.

A discount rate of 7.75% was used to determine the postretirement benefit expense for the years ended August 31, 2009 and 2008.

MBC - 401(k) Salary Deferral Plan—NEA’s Member Benefits Corporation (“MBC”) maintains a Section 401(k) cash or deferred plan in which the employees can make voluntary, tax-deferred contributions within specific limits. The plan was established under the provision of the Internal Revenue Code Subsection 401(k), and has received a favorable determination as to its tax status. MBC’s contributions to the Plan, based upon a set percentage of employee contributions, amounted to \$233,211 and \$219,616, for the years ended August 31, 2009 and 2008, respectively.

MBC - Defined Contribution Plan—MBC maintains a Defined Contribution Plan and Trust, which is noncontributory for MBC’s employees, and covers substantially all members covered by MBC’s Collective Bargaining Agreement. MBC contributes to the Plan a percentage of compensation as set forth in a collective bargaining agreement with NEA’s Staff Organization (“NEASO”). MBC’s contributions to the Plan during the years ended August 31, 2009 and 2008 were \$463,277 and \$393,406, respectively.

MBC - Defined Benefit Plan—MBC maintains a noncontributory defined benefit pension plan covering substantially all employees not covered by a collective bargaining agreement. MBC has an August 31 measurement date for its pension plan.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement No. 158 *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132R. Statement No. 158 requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its consolidated Balance Sheet and to recognize changes in that funded status in the year in which the changes occur through the consolidated Statement of Operations. The funded status of the plan is presented on consolidated financials as Pension Asset. Statement No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The effective date of the recognition and disclosure provisions for non-public companies is for fiscal year ending after June 15, 2007.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Changes in the projected benefit obligations and plan assets and the funded status of the plans follow:

Change in Benefit Obligation	2009	2008
Benefit obligation at beginning of year	\$ 7,782,120	\$ 5,526,667
Service cost	811,411	834,813
Interest cost	542,591	358,982
Actuarial loss (gain)	582,254	1,078,415
Benefit paid	<u>(36,693)</u>	<u>(16,757)</u>
Benefit obligation at end of year	9,681,683	7,782,120
Change in Plan Assets		
Fair value of plan assets at beginning of year	11,350,133	6,339,712
Actual return on plan assets	(988,803)	(722,843)
Employer contributions prior to measurement date	4,167,000	5,750,021
Benefits paid	<u>(36,693)</u>	<u>(16,757)</u>
Fair value of plan assets at end of year	<u>14,491,637</u>	<u>11,350,133</u>
Funded status	<u>\$ 4,809,954</u>	<u>\$ 3,568,013</u>
Amounts recognized in the statement of financial position consist of:		
Noncurrent assets	\$ -	\$ -
Current liabilities	-	-
Noncurrent liabilities	<u>(4,809,954)</u>	<u>(3,568,013)</u>
	<u>\$ (4,809,954)</u>	<u>\$ (3,568,013)</u>
Amounts Recognized in Accumulated Other Comprehensive Income consist of		
Net actuarial loss (gain)	5,573,562	3,390,225
Prior service cost (credit)	1,104,020	1,337,215
Unrecognized net initial obligation (asset)	<u>-</u>	<u>-</u>
Total (before tax effects)	<u>\$ 6,677,582</u>	<u>\$ 4,727,440</u>

The accumulated benefit obligation is \$7,556,672 and \$5,880,954, at August 31, 2009 and 2008, respectively.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

	2009	2008
Net periodic benefit cost		
Service cost	\$ 811,411	\$ 834,813
Interest cost	542,591	358,982
Expected return on plan assets	(905,545)	(715,520)
Recognized prior service cost (credit)	293,265	233,195
Recognized actuarial (gain) loss	<u>233,195</u>	<u>34,065</u>
Net periodic benefit cost	<u>\$ 974,917</u>	<u>\$ 745,535</u>

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

Net loss (gain)	\$ 2,476,602	\$ 2,516,778
Prior service cost (credit)	-	-
Amortization of net loss (gain)	(293,265)	(34,065)
Amortization of prior service cost	<u>(233,195)</u>	<u>(233,195)</u>
Total recognized in other comprehensive income	<u>\$ 1,950,142</u>	<u>\$ 2,249,518</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 2,925,059</u>	<u>\$ 2,995,053</u>

Amounts Expected to be Recognized in Net Periodic Cost in the Coming Year

(Gain)/Loss recognition	\$ 558,105
Prior service cost recognition	\$ 233,195

Actuarial assumptions used to determine net periodic benefit cost for the years beginning September 1, 2008 and 2007 were as follows:

	2008	2007
Discount rate	7.00%	6.50%
Rate of salary increases	4.50%	4.50%
Expected long-term rate of return on assets	8.00%	8.00%

MBC determines the long-term expected rate of return on plan assets by examining historic capital market returns, correlations between asset classes and the Plan's normal asset allocation. Current and near-term market factors such as inflation and interest rates are then evaluated to arrive at the expected return on Plan assets. Peer group, or benchmarking data are also reviewed to ensure a reasonable and appropriate return assumption.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Pension plan asset allocations at August 31 by asset category were as follows:

	2009	2008
Asset category:		
Equities	44%	54%
Fixed income securities	26%	21%
Cash equivalents	<u>30%</u>	<u>25%</u>
Total	<u>100%</u>	<u>100%</u>

Contributions to the plan were made on August 13, 2009, August 28, 2008 and October 10, 2007. Therefore, the asset allocations reflected above indicate a higher allocation in cash equivalents at August 31 than typically exists throughout the year due to the fact that the contributions have not yet been invested in securities at fiscal year-end.

Expected long-term rate of return and projected asset allocation are as follows:

	<u>Expected Rate of Return</u>	<u>Expected Net Rate of Return</u>
Asset category:		
Equities	9.50%	6.175%
Fixed income securities	5.30%	1.855%
Cash Equivalents	3.50%	<u>–</u>
		<u>8.03%</u>
	<u>Guideline Allocation</u>	<u>Permissible Range</u>
Asset category:		
Equities	65.00%	Up to 65%
Fixed income securities	35.00%	Not less than 35%

MBC utilizes a total return investment approach based on modern portfolio theory. Multiple asset classes are implemented in order to obtain the benefits of diversification and maximize long-term total return for a given level of risk. Risk tolerance is developed by reviewing the funded status of the plan, duration of the plan liabilities, the income and liquidity requirements, legal constraints and the financial condition of MBC. The investment portfolio is comprised of a diversified combination of equities, fixed income securities and cash equivalents. MBC's investment policy states that equities normally comprise up to 65% of total assets, fixed income securities not less than 35% and cash equivalents a nominal amount. The allocation among equities and fixed income securities is determined by prevailing market conditions and relative valuations between asset classes. The Plan's financial condition is monitored on an on-going basis by means of quarterly investment portfolio reviews, an annual independent actuarial valuation and periodic asset/liability studies.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

For fiscal year 2010, MBC expects to contribute the maximum deductible amount to its pension plan as determined by the January 1, 2010, actuarial valuation.

Benefit payments expected to be paid over the next five years and accumulated over the five years thereafter are as follows:

August 31

2010	\$	105,032
2011	\$	175,145
2012	\$	263,844
2013	\$	353,216
2014	\$	430,381
2015–2019	\$	3,464,404

MBC – Deferred Retirement Benefit—MBC has recognized a noncurrent liability representing a deferred retirement benefit for a former officer that was due in 2007 and will be paid over a five-year period ending April 2012.

10. NATIONAL EDUCATION EMPLOYEES ASSISTANCE FUND, INC.

The National Education Employees Assistance Fund, Inc. (“NEEAF”) is a nonprofit corporation established for the purpose of providing financial and other assistance to member organizations and their individual members involved in disputes over terms and conditions of employment. In this capacity, NEEAF, from time to time, has guaranteed loans made by lending institutions to members who were involved in such disputes. These loans are collateralized by letters of credit from those state affiliates that are members of NEEAF and by NEA’s line of credit in the amount of approximately \$7,080,454. In the event of default on a loan, the bylaws of NEEAF provide that the bank shall first draw upon the letter of credit of the state affiliate from which the funds were transmitted and, thereafter, proportionately from all other letters of credit and/or lines of credit.

As of August 31, 2009 and 2008, NEA was contingently liable in the event of default for \$9,140 and \$16,530, respectively.

11. THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

The NEA Foundation for the Improvement of Education (“NFIE”) was created in 1969 by NEA as a tax-exempt public charity to improve the quality of public education in the United States. The NFIE has a separate Board of Directors and operates independently of NEA. Accordingly, the accompanying financial statements do not include the activities of NFIE.

The NFIE empowers public education employees to innovate, take risks, and become agents for change to improve teaching and learning in our society.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

During the years ended August 31, 2009 and 2008, payments totaling \$2,146,814 and \$2,135,360, respectively, were made to NFIE for an endowment that will help fund programs to meet critical needs of students and education employees in years to come. Such amounts are reflected as reductions in “NEA Programs—Dues” (see page 3) in the Consolidated Statements of Activities and Changes in Net Assets for the years ended August 31, 2009 and 2008.

12. NEA HEALTH INFORMATION NETWORK

The NEA Health Information Network (“NEA-HIN”), a legally separate 501 (c)(3) not-for-profit organization, was created in 1987 to provide a link between the education and health professions to assure that public school employees and their students have the knowledge and skills necessary to make decisions that enhance the quality of their lives, improve the environment in which they work and learn, and build relationships within the communities they serve.

NEA-HIN manages and implements programs that provide training, technical assistance, information, and referrals for NEA members and staff on a variety of health and safety issues affecting school employees and students. NEA-HIN secures funds from public and private sources to implement these programs.

NEA-HIN establishes collaborative partnerships with other public and private entities to enhance the content and scope of its activities and to bring the education employee/student perspective into the planning and development process of relevant health initiatives at the national, state, and local levels.

NEA’s appropriations for NEA-HIN for each of the years ended August 31, 2009 and 2008, were \$650,000.

13. NEA MEMBERS INSURANCE TRUST

The National Education Association Members Insurance Trust (“NEA-MIT”) was organized to provide certain employee welfare benefits to NEA members and their dependents, pursuant to the NEA Members Insurance Plan.

NEA is the sponsor and administrator of the welfare plans that NEA-MIT provides. NEA may appoint and remove the trustees of NEA-MIT. NEA-MIT maintains an agreement with MBC to provide administrative and promotional services for the programs.

NEA and NEA-MIT have an agreement whereby NEA provides systems administration, maintenance, software development and facilities management in the amount of \$847,266 and \$820,193 for the years ended August 31, 2009 and 2008, respectively.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

14. INCOME TAXES

Under provisions of Section 501(c) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, NEA is exempt from taxes on income, other than taxes on unrelated business income.

MBC follows the liability method of accounting for income taxes as required by Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, (“SFAS No. 109”), issued by the Financial Accounting Standards Board. Income tax expense is recognized based on the amount of income taxes currently payable or refundable plus the net change during the year in the deferred tax liability or asset. The current or deferred tax consequences of all events that have been recognized in the financial statements are measured based on provisions of enacted tax law.

Included in MBC’s support services in the statement of activities and changes in net assets is an income tax provision of \$782,092 and \$1,856,853 for the years ended August 31, 2009 and 2008, respectively. The provision for Federal and State income taxes consists of the following:

	2009	2008
Current provision:		
Federal	\$ (263,772)	\$ 827,740
State	<u>(30,762)</u>	<u>92,700</u>
	<u>(294,534)</u>	<u>920,440</u>
Deferred provision:		
Federal	958,105	833,900
State	<u>118,521</u>	<u>102,513</u>
	<u>1,076,626</u>	<u>936,413</u>
Total	<u>\$ 782,092</u>	<u>\$ 1,856,853</u>

A reconciliation of income taxes at the statutory rate to the provision for income taxes in the financial statements is as follows:

	2009	2008
Federal income tax provision at the statutory rate	\$ 694,333	\$ 1,661,640
State income tax expense, net of federal benefit	<u>87,759</u>	<u>195,213</u>
Total	<u>\$ 782,092</u>	<u>\$ 1,856,853</u>

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

At August 31, 2009 and 2008, the deferred tax assets and liabilities represent the tax effects of the following temporary differences:

	2009	2008
Assets:		
Deferred Income	\$ 640,238	\$ 601,964
Accrued vacation	303,111	257,280
Other	<u>210,778</u>	<u>155,880</u>
Gross deferred tax assets	<u>1,154,127</u>	<u>1,015,124</u>
Liabilities:		
Pension costs	(1,820,225)	(1,346,105)
Other	<u>(36,868)</u>	<u>(38,820)</u>
Gross deferred tax liabilities	<u>(1,857,093)</u>	<u>(1,384,925)</u>
Total	<u>\$ (702,966)</u>	<u>\$ (369,801)</u>

Amounts recognized in the consolidated statements of financial position at August 31:

	2009	2008
Current deferred tax asset	\$ 313,847	\$ 264,800
Current deferred tax liability	<u>(36,868)</u>	<u>(38,820)</u>
	276,979	225,980
Noncurrent deferred tax asset	840,280	750,324
Noncurrent deferred tax liability	<u>(1,820,225)</u>	<u>(1,346,105)</u>
	(979,945)	(595,781)
Total	<u>\$ (702,966)</u>	<u>\$ (369,801)</u>

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

15. OTHER NON-OPERATING EXPENSE

The tax effects allocated to each component of Other Non-Operating Expense for the year ended August 31, 2009 are:

	<u>Before-Tax Amount</u>	<u>Tax (Expense) or Benefit</u>	<u>Net-of-tax Amount</u>
Defined Benefit Pension Plan: Net Loss Arising During Period	\$ (2,476,602)	\$ 944,166	\$ (1,532,436)
Less: Amortization of Loss Included In Net Periodic Pension Cost	293,265	(111,803)	181,462
Less: Amortization of Prior Service Cost Included in Net Periodic Pension Cost	<u>233,195</u>	<u>(88,902)</u>	<u>144,293</u>
Other Non-Operating Expense	<u>\$ (1,950,142)</u>	<u>\$ 743,461</u>	<u>\$ (1,206,681)</u>

16. FAIR VALUE MEASUREMENTS

FAS 157 establishes how reporting entities should measure fair value for measurement and disclosure purposes. The Standard does not require any new fair value measurements but rather establishes a common definition of fair value applicable to all assets and liabilities measured at fair value. 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. The fair value hierarchy established by FAS 157 prioritizes the inputs into 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 measurements involving significant unobservable inputs (Level 3 measurements). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The three levels of the hierarchy are as follows:

- *Level 1* - Observable inputs such as quoted prices for identical assets or liabilities in active markets;
- *Level 2* - Inputs, other than the quoted prices in active markets, that are observable either indirectly or indirectly; and
- *Level 3* - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

The assets' or liabilities' categorization within the valuation hierarchy is based upon the lowest level of input that is significant to their fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value:

- *Money market* - Valued at unadjusted quoted price;
- *Overnight sweep* - Valued at cost, which approximates fair value. Valuations are based on observable inputs, such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly;
- *Common stock* - Valued at the closing price reported on an active market;
- *Mutual funds* - Valued at net asset value ("NAV") of shares held;
- *Corporate bonds* - Valued by matrix pricing using quoted prices for similar issues and other market information;
- *U.S. treasuries* - Valued based on observable inputs, such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly;
- *U.S. government agency bonds and Agency CMOS* - Valued at observable market data by correlation or other means; and
- *Corporate mortgaged/asset-backed bonds* - Valued from pricing obtained from a third party vendor that uses a model which may use inputs that are observable.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while NEA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

The following table presents NEA's fair value hierarchy for financial assets measured on a recurring basis at August 31, 2009:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money Market - Cash Equivalent	\$ 36,437,903	\$ -	\$ -	\$ 36,437,903
Overnight Sweeps - Cash Equivalent	-	7,688,428	-	7,688,428
Common Stock	5,226,530	-	-	5,226,530
Mutual Funds	-	3,529,806	-	3,529,806
Corporate Bonds	-	2,390,908	-	2,390,908
Corporate Bonds - CMOS & ABS	-	-	746,188	746,188
U.S. Treasuries	-	1,974,089	-	1,974,089
U.S. Govt Agency Passthroughs- GNMA, FNMA, FHLMC Pool	-	2,644,794	-	2,644,794
Agency Bonds- CMOS	-	531,932	-	531,932
	<u>\$ 41,664,433</u>	<u>\$ 18,759,957</u>	<u>\$ 746,188</u>	<u>\$ 61,170,578</u>

Assets classified as Level 3 in the fair value hierarchy represent NEA's investments in financial instruments in which there are significant unobservable inputs in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments at August 31, 2009:

	Corporate bonds - CMOS & ABS
Balance at September 1, 2008	\$ 1,220,653
Purchase of investment securities	786,753
Sale of investment securities	(1,302,722)
Unrealized gain on investment securities	36,608
Net realized gain on sale of securities	4,896
Balance at August 31, 2009	<u>\$ 746,188</u>

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

17. SUBSEQUENT EVENTS

Management has performed a subsequent event review from September 1, 2009 to November 19, 2009, being the date that the consolidated financial statements were available to be issued.

On September 8, 2009, NEA transferred \$14,900,000 to NEA Properties, Inc. as its initial capital investment. Immediately following the transfer, NEA Properties, Inc. paid \$14,693,985 to complete a cash out merger with I.S.T.A Center, Inc., an Indiana real estate holding company exempt under section 501(c)(2) of the Internal Revenue Code. Prior to the cash out merger, I.S.T.A. Center existed as a wholly owned subsidiary of the Indiana State Teachers Association. Under the terms of the cash out merger, NEA Properties, Inc. acquired all of the existing assets and liabilities of I.S.T.A. Center as of September 1, 2009. NEA Properties, Inc. acquired three commercial office buildings appraised at \$14,000,000 and cash and current assets valued at \$1,125,712. NEA Properties, Inc. assumed liabilities totaling \$431,727.

The NEA General Operating Fund maintains a line-of-credit with Bank of America for normal operating purposes. On October 8, 2009, NEA increased its operating credit line from \$10,000,000 to \$20,000,000. The remaining terms and conditions of the line-of-credit remain unchanged. As of November 19, 2009, NEA has not drawn on the line-of-credit.

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NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

SUPPLEMENTAL STATEMENTS OF FINANCIAL POSITION BY FUND INFORMATION AUGUST 31, 2009 (WITH COMPARATIVE TOTALS AS OF AUGUST 31, 2008)

	General Operating Fund	Special Purpose Funds	Capital Improvement Fund	Consolidating Entries	2009 Total Funds	2008 Total Funds
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 35,184,311	\$ 25,533,032	\$ —	\$ 85,406	\$ 60,802,749	\$ 71,606,015
Investments	—	8,756,336	—	—	8,756,336	8,585,126
Membership dues and notes receivable	56,482,281	—	—	—	56,482,281	52,364,599
Amount due from affiliates and other organizations	1,435,020	—	—	(738,198)	696,822	1,284,340
Publication and advertising receivables	23,600	—	—	—	23,600	180,990
Accounts receivable	16,994	6,764,553	—	(133,763)	6,647,784	7,745,876
Prepaid expenses	463,625	468,543	—	—	932,168	2,793,273
Pension asset	—	—	—	—	—	—
Amount due from general fund	—	6,399,776	—	(6,399,776)	—	—
Deferred income tax - current portion	—	276,979	—	—	276,979	225,980
Other current assets	1,120,826	—	—	—	1,120,826	1,354,230
Total current assets	<u>94,726,657</u>	<u>48,199,219</u>	<u>—</u>	<u>(7,186,331)</u>	<u>135,739,545</u>	<u>146,140,429</u>
LONG-TERM ASSETS:						
Investments	—	8,287,912	—	—	8,287,912	9,234,071
Prepaid pension costs	—	4,809,954	—	—	4,809,954	3,568,013
Property and equipment - net	10,951,348	5,119,522	38,863,058	—	54,933,928	53,097,418
Total long-term assets	<u>10,951,348</u>	<u>18,217,388</u>	<u>38,863,058</u>	<u>—</u>	<u>68,031,794</u>	<u>65,899,502</u>
TOTAL ASSETS	<u>\$ 105,678,005</u>	<u>\$ 66,416,607</u>	<u>\$ 38,863,058</u>	<u>\$ (7,186,331)</u>	<u>\$ 203,771,339</u>	<u>\$ 212,039,931</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Mortgage loan payable	\$ —	\$ —	\$ 5,077,272	\$ —	\$ 5,077,272	\$ 5,028,860
Accounts payable	5,432,543	2,092,632	—	(786,555)	6,738,620	11,906,708
Accrued liabilities	13,054,878	4,266,562	—	—	17,321,440	17,898,166
Accrued annual leave and fringe benefits	7,802,826	—	—	—	7,802,826	6,855,337
Amount due to other funds	6,399,776	—	—	(6,399,776)	—	—
Amount held for affiliates and other organizations	831,773	—	—	—	831,773	704,083
Total current liabilities	<u>33,521,796</u>	<u>6,359,194</u>	<u>5,077,272</u>	<u>(7,186,331)</u>	<u>37,771,931</u>	<u>42,393,154</u>
LONG-TERM LIABILITIES:						
Mortgage loan payable	—	—	—	—	—	5,077,270
Accrued severance pay	6,364,031	—	—	—	6,364,031	5,950,163
Deferred retirement benefit	—	145,300	—	—	145,300	203,420
Deferred income	—	14,946,783	—	—	14,946,783	14,585,527
Deferred income taxes	—	979,945	—	—	979,945	595,781
Total long-term liabilities	<u>6,364,031</u>	<u>16,072,028</u>	<u>—</u>	<u>—</u>	<u>22,436,059</u>	<u>26,412,161</u>
Total liabilities	<u>39,885,827</u>	<u>22,431,222</u>	<u>5,077,272</u>	<u>(7,186,331)</u>	<u>60,207,990</u>	<u>68,805,315</u>
UNRESTRICTED NET ASSETS:						
Undesignated net assets	38,523,702	43,985,385	33,785,786	—	116,294,873	121,650,853
Net assets designated for postretirement benefits	27,268,476	—	—	—	27,268,476	21,583,763
Total unrestricted net assets	<u>65,792,178</u>	<u>43,985,385</u>	<u>33,785,786</u>	<u>—</u>	<u>143,563,349</u>	<u>143,234,616</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 105,678,005</u>	<u>\$ 66,416,607</u>	<u>\$ 38,863,058</u>	<u>\$ (7,186,331)</u>	<u>\$ 203,771,339</u>	<u>\$ 212,039,931</u>

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

GENERAL OPERATING FUND - SUPPLEMENTAL STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED AUGUST 31, 2009

	Budget (Unaudited)	Actual
UNRESTRICTED REVENUES		
Membership Income	\$ 346,944,003	\$ 350,709,700
Other Income	1,200,000	673,526
NFIE Endowment Allocation	<u>(2,145,300)</u>	<u>(2,139,722)</u>
TOTAL UNRESTRICTED REVENUES	<u>345,998,733</u>	<u>349,243,504</u>
EXPENSES BY CORE SERVICE AREAS AND STRATEGIC GOALS		
Learning and working conditions		
1. Support state affiliates advocacy efforts to secure learning and working conditions	1,807,243	792,206
2. Assist affiliates to build capacity to enhance quality learning and working conditions	3,496,927	2,918,258
3. Partner with affiliates and other organizations to support quality teaching and learning	3,783,189	3,511,771
4. Provide research and information to close achievement gaps and increase graduation rates	46,243,048	45,838,061
5. Provide support related to the concerns of minorities and women in teaching and provide strategies and training regarding human and civil rights issues	<u>2,875,285</u>	<u>2,383,596</u>
Total learning and working conditions	<u>58,205,692</u>	<u>55,443,892</u>
Affiliate programs and services		
1. Build affiliate capacity through project funding and constituency assistance	82,012,496	79,603,350
2. Support state affiliates in development of comprehensive results-oriented plans that integrate state affiliates' and NEA priorities	3,712,639	3,220,590
3. Develop online engagement strategies at the state and national level	80,950	9,455
4. Provide data and information to facilitate targeted membership organizing	2,080,027	1,716,980
5. Assist affiliates increase membership in existing and new markets	<u>13,491,084</u>	<u>14,451,898</u>
Total affiliate programs and services	<u>101,377,196</u>	<u>99,002,273</u>
Communications with leaders, staff, members and the general public		
1. Promote products and programs for community and member outreach	1,536,521	1,720,215
2. Provide information on association goals through media and public relations	2,494,068	1,219,661
3. Messaging and branding	12,919,265	14,182,495
4. Communicate with members and the public through print and electronic media	<u>11,071,711</u>	<u>11,427,272</u>
Total communications with leaders, staff, members and the general public	<u>28,021,565</u>	<u>28,549,643</u>
Governance and leadership development		
1. Provide support to conduct the annual meeting and representative assembly	3,838,164	4,581,637
2. Provide constituency group assistance	724,471	603,192
3. Governance capacity building, engagement and leadership development	9,588,768	9,058,308
4. Provide support to governance and the NEA policy-making process	2,494,911	3,077,648
5. Advocate for education, human, and trade union rights through cooperative international partnerships	4,210,116	4,282,837
6. Advance NEA interests through outreach with other labor organizations	159,404	245,538
7. Provide members professional development and leadership training	<u>5,442,576</u>	<u>5,375,450</u>
Total governance and leadership development	<u>26,458,410</u>	<u>27,224,610</u>
Business operations		
1. Create and implement a business model and structure to evaluate and manage all non-dues revenue	1,307,927	753,996
2. Support engagement and outreach through external partnerships and support for policies promoting healthy environments for students, staff, and members	1,763,230	1,692,200
3. Provide facility services and logistical support	11,630,517	11,856,765
4. Provide business systems, legal and financial expertise to NEA and affiliates	17,266,573	18,433,265
5. Manage employee benefits and services, labor relations, and workforce costs	3,194,642	3,548,157
6. Provide departmental infrastructure and organizational support	5,757,539	9,138,403
7. Support and sustain NEA as a high-performance learning organization	19,584,564	23,626,575
8. Provide technologies for strategic, tactical, and day-to-day operations	<u>20,725,285</u>	<u>20,682,865</u>
Total business operations	<u>81,230,277</u>	<u>89,732,226</u>

(Continued)

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

GENERAL OPERATING FUND - SUPPLEMENTAL STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED AUGUST 31, 2009

	Budget (Unaudited)	Actual
Authentic accountability systems		
1. Advocate for legislative and regulatory changes to redesign accountability systems	850,539	86,062
2. Assist state affiliates secure public policy for redesigned accountability systems	240,785	101,581
3. Partnerships to assist in policy work to redesign accountability systems	343,809	289,321
4. Policy development, analysis, and support to redesign accountability systems	<u>323,034</u>	<u>509,631</u>
Total authentic accountability systems	<u>1,758,167</u>	<u>986,595</u>
Increased positive image and support from ethnic minority communities		
1. Strengthen relationships with current partners representing ethnic minority groups and create partnerships with key ethnic minority groups in their communities	1,726,137	1,704,832
2. Build affiliate and ethnic minority leader/organization capacity	273,596	77,428
3. Strengthen relationships with new and existing partners and create partnerships with key ethnic groups to build support for public education	1,681,904	1,470,978
4. Benchmark the opinions of ethnic-minority community organizations and leaders about NEA and related issues	826,925	551,549
5. Develop relevant content on effective practices and policies for safe schools as they relate to ethnic minority students	<u>116,117</u>	<u>159,164</u>
Total increased positive image and support from the ethnic minority communities	<u>4,624,679</u>	<u>3,963,951</u>
Improved education members' salaries		
1. Partner with state affiliates to integrate salary campaigns to achieve a professional level salary for all school employees	2,177,265	1,642,463
2. Partner with affiliates and outside organizations to improve the level of pay for school employees	300,435	189,049
3. Provide affiliates and the public quality research, data collection, and information on school employee pay and compensation systems	757,522	640,921
4. Provide training to affiliate staff and leaders to engage in effective salary campaigns	<u>676,782</u>	<u>202,935</u>
Total improved education members' salaries	<u>3,912,004</u>	<u>2,675,368</u>
Sound education policies through political and legislative programs		
1. Partner with labor groups and other organizations to advance and fund public education, and advocate NEA positions on public education with state and local officials	21,647,595	22,280,945
2. Develop and implement national and state member campaigns in targeted states to support Association recommended candidates and to increase member engagement	10,476,229	12,202,808
3. Partner with state affiliates to develop and implement a variety of tools and services to engage members, and advocate for NEA's positions on public education issues	2,951,891	2,940,661
4. Provide state affiliates quality voter and consumer databases and information management systems to assist in targeted state, district, and precinct level races	75,390	-
5. Develop and implement activities and grassroots training to build long-term, state-based political leadership and increase member political involvement	<u>936,429</u>	<u>492,668</u>
Total sound education policies through political and legislative programs	<u>36,087,534</u>	<u>37,917,082</u>
Tax and economic policies and school funding ("TEF")		
1. Provide support to affiliates to develop and introduce legislation around TEF	436,083	148,899
2. Provide TEF briefings, training to state leaders and staff, and support to develop and implement regional TEF plans	1,134,294	577,409
3. Build partnerships with business and intergovernmental agencies and organize community-family-educator partnerships	228,290	285,213
4. Provide research, data, and support to address TEF issues in states	<u>2,334,142</u>	<u>2,274,752</u>
Total tax and economic policies and school funding ("TEF")	<u>4,132,809</u>	<u>3,286,273</u>
Total Operating Fund Expenses	\$ 345,808,333	\$ 348,781,913
CHANGES IN NET ASSETS	\$ 190,400	\$ 461,591
UNDESIGNATED NET ASSETS, BEGINNING OF YEAR		65,330,587
UNDESIGNATED NET ASSETS, END OF YEAR		\$ 65,792,178

(Concluded)

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

GENERAL OPERATING FUND – SUPPLEMENTAL SCHEDULE OF EXPENSES BY TYPE YEARS ENDED AUGUST 31, 2009 AND 2008

	2009	2008
Salaries and benefits	\$ 114,761,333	\$ 104,210,733
Grants to, and joint projects with state and local associations	99,209,999	94,080,811
Kate Frank/DuShane Unified Legal Services Program	23,263,761	21,598,462
Travel	21,042,657	20,178,226
Publication costs, net of advertising income	4,499,607	4,719,632
Outside services (including Educators Employment Liability Insurance, Media Program, consultants)	38,406,214	37,782,316
Conference & Meetings	7,943,069	8,595,813
Machinery rentals, repairs, materials and supplies	5,056,468	4,690,901
Office	10,132,439	10,978,099
Administrative	<u>24,466,366</u>	<u>25,668,840</u>
TOTAL EXPENSES BY TYPE	<u>\$ 348,781,913</u>	<u>\$ 332,503,833</u>

(Concluded)

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

SPECIAL PURPOSE FUNDS – SUPPLEMENTAL STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED AUGUST 31, 2009 AND 2008

	UniServ Fund	Member Benefits Program	National Education Employees Assistance Fund	Special Dues Ballot Fund	Special Dues Media Fund	Great Public Schools Fund	NEA Properties, Inc.	NEA- Retired Program Fund	Totals
NET ASSETS -									
September 1, 2007	\$ 616,691	\$ 25,212,808	\$ 47,951	\$ 171,461	\$ 3,503,314	\$ 16,139	\$ -	\$ 6,166,334	\$ 35,734,698
Revenues:									
NEA Appropriation	64,061,592	-	32,550	13,651,867	9,897,017	-	-	835,269	88,478,295
MBC Program revenue	-	58,891,818	-	-	-	-	-	-	58,891,818
Other	-	-	50	10,410	44,671	-	-	146,450	201,581
Expenses									
	(64,031,502)	(55,936,818)	(13,564)	(6,767,466)	(5,486,135)	-	-	(2,045,767)	(134,281,252)
Change in actuarial loss from Defined Benefit Pension Plan									
	-	(1,398,113)	-	-	-	-	-	-	(1,398,113)
NET ASSETS -									
August 31, 2008	646,781	26,769,695	66,987	7,066,272	7,958,867	16,139	-	5,102,286	47,627,027
Revenues:									
NEA Appropriation	67,124,792	-	32,550	14,474,010	10,449,510	-	-	870,663	92,951,525
MBC Program revenue	-	58,061,585	-	-	-	-	-	-	58,061,585
Other	-	-	92	1,191	6,134	(16,139)	-	1,061,749	1,053,027
Expenses									
	(67,093,859)	(56,873,709)	(14,533)	(18,260,816)	(9,981,787)	-	-	(2,276,394)	(154,501,098)
Change in actuarial loss from Defined Benefit Pension Plan									
	-	(1,206,681)	-	-	-	-	-	-	(1,206,681)
NET ASSETS -									
August 31, 2009	\$ 677,714	\$ 26,750,890	\$ 85,096	\$ 3,280,657	\$ 8,432,724	\$ -	\$ -	\$ 4,758,304	\$ 43,985,385

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

CAPITAL IMPROVEMENT FUND – SUPPLEMENTAL STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED AUGUST 31, 2009 AND 2008

NET ASSETS, September 1, 2007	\$ 26,822,451
Appropriation from General Fund	6,408,164
Depreciation expense	(1,647,152)
Interest expense	<u>(1,306,461)</u>
NET ASSETS, August 31, 2008	30,277,002
Appropriation from General Fund	6,000,124
Depreciation expense	(1,676,339)
Interest expense	<u>(815,001)</u>
NET ASSETS, August 31, 2009	<u>\$ 33,785,786</u>

**2009–2010
INTERIM
FINANCIAL
STATEMENTS**

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NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

GENERAL OPERATING AND CAPITAL IMPROVEMENT FUNDS STATEMENTS OF FINANCIAL POSITION (UNAUDITED) APRIL 30, 2010

	General Operating Fund	Capital Improvement Fund
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 42,263,187	\$ —
Membership dues and notes receivable - net	151,722,649	—
Amount due from affiliates and other organizations	1,937,369	—
Publication and advertising receivables	17,993	—
Prepaid expenses	10,720,994	—
Other current assets	<u>1,243,978</u>	<u>—</u>
Total current assets	<u>207,906,170</u>	<u>—</u>
LONG-TERM ASSETS:		
Equipment: Net of accumulated depreciation	10,224,030	—
Land	—	1,753,777
Building: Net of accumulated depreciation	—	36,284,831
Amount due from the General Fund	<u>—</u>	<u>—</u>
Total long-term assets	<u>10,224,030</u>	<u>38,038,608</u>
TOTAL ASSETS	<u>\$ 218,130,200</u>	<u>\$ 38,038,608</u>
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Deferred membership dues	\$ 118,335,063	\$ —
Accounts payable	2,032,231	—
Accrued liabilities	7,227,751	—
Accrued annual leave/fringe benefits	8,574,913	—
Amount held for affiliates and other organizations	885,439	—
Amount due to other funds	2,998,800	—
Mortgage loan payable - current portion	<u>—</u>	<u>1,432,843</u>
Total current liabilities	<u>140,054,197</u>	<u>1,432,843</u>
LONG-TERM LIABILITIES:		
Accrued severance pay	6,879,360	—
Mortgage loan payable - long-term portion	<u>—</u>	<u>—</u>
Total long-term liabilities	<u>6,879,360</u>	<u>—</u>
Total liabilities	<u>146,933,557</u>	<u>1,432,843</u>
UNRESTRICTED NET ASSETS:		
Undesignated net assets	43,928,167	36,605,765
Net assets designated for post-retirement benefits	<u>27,268,476</u>	<u>—</u>
Total unrestricted net assets	<u>71,196,643</u>	<u>36,605,765</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 218,130,200</u>	<u>\$ 38,038,608</u>

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

GENERAL OPERATING FUND - STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (UNAUDITED) FOR THE EIGHT MONTHS ENDED APRIL 30, 2010 AND PROJECTIONS FOR THE REMAINING FOUR MONTHS ENDED AUGUST 31, 2010

	Actual Eight Months Ended 4/30/10	Projected Four Months Ended 8/31/10	Projected Total for Fiscal Year	Adjusted Budget
UNRESTRICTED REVENUES				
Membership Income	\$ 236,425,841	\$ 118,381,596	\$ 354,807,437	\$ 356,752,733
Other Income	354,443	100,000	454,443	1,200,000
NFIE Endowment Allocation	(1,433,867)	(700,933)	(2,134,800)	(2,152,800)
TOTAL UNRESTRICTED REVENUES	235,346,417	117,780,663	353,127,080	355,799,933
EXPENSES BY CORE SERVICE AREA AND STRATEGIC GOAL				
Learning and working conditions				
1. Support state affiliates advocacy efforts to secure learning and working conditions	508,768	488,155	996,923	1,969,189
2. Assist affiliates to build capacity to enhance quality learning and working conditions	1,538,649	1,241,470	2,780,119	3,528,772
3. Partner with affiliates and other organizations to support quality teaching and learning	2,179,769	1,652,665	3,832,434	4,105,244
4. Research and information to close achievement gaps and increase graduation rates	31,435,567	16,712,342	48,147,909	47,616,929
5. Provide support related to the concerns of minorities and women in teaching and provide strategies and training regarding human and civil rights issues	672,185	1,725,877	2,398,062	2,930,772
Total learning and working conditions	36,334,938	21,820,509	58,155,447	60,150,906
Affiliate programs and services				
1. Build affiliate capacity through project funding and constituency assistance	53,800,657	27,004,776	80,805,433	85,077,693
2. Support state affiliates in development of comprehensive, results-oriented plans that integrate state affiliates and NEA's priorities	2,399,114	1,934,574	4,333,688	5,003,023
3. Develop online engagement strategies at the state and national level	73,329	40,331	113,660	85,517
4. Provide data and information to facilitate targeted membership organizing	885,341	947,176	1,832,517	2,203,526
5. Assist affiliates increase membership in existing and new markets	8,932,963	6,675,475	15,608,438	14,587,061
Total affiliate programs and services	66,091,404	36,602,332	102,693,736	106,956,820
Communications with leaders, staff, members, and the general public				
1. Promote products and programs for community and member outreach	1,082,834	524,210	1,607,044	1,692,312
2. Provide information on Association goals through media and public relations	655,006	727,615	1,382,621	2,630,269
3. Messaging and branding	7,719,401	6,422,542	14,141,943	13,401,694
4. Communicate with members and the public through print and electronic media	6,854,868	3,426,805	10,281,673	11,848,051
Total communications with leaders, staff, members, and the general public	16,312,109	11,101,172	27,413,281	29,572,326
Governance and leadership development				
1. Provide support to conduct the annual meeting and representative assembly	1,001,509	3,176,472	4,177,981	3,937,733
2. Provide constituency group assistance	444,171	271,664	715,835	813,924
3. Governance capacity building, engagement, and leadership development	4,614,121	3,741,654	8,355,775	9,710,191
4. Provide support to governance and the NEA policy-making process	2,067,417	1,130,955	3,198,372	2,754,977
5. Advocate for education, human, and trade union rights through cooperative international partnerships	3,165,538	1,431,240	4,596,778	4,269,681
6. Advance NEA's interests through outreach with other labor organizations	190,399	111,751	302,150	168,616
7. Provide members professional development and leadership training	3,528,691	1,921,931	5,450,622	5,993,654
Total governance and leadership development	15,011,846	11,785,667	26,797,513	27,648,776
Business operations				
1. Create and implement a business model and structure to evaluate and manage all non-dues revenue	343,267	333,688	676,955	807,942
2. Support engagement and outreach through external partnerships and support for policies promoting healthy environments for students, staff, and members	1,220,583	710,576	1,931,159	1,797,226
3. Provide facility services and logistical support	7,240,035	4,229,840	11,469,875	12,071,075
4. Provide business systems, legal, and financial expertise to NEA and affiliates	10,904,692	8,013,981	18,918,673	17,844,848
5. Manage employee benefits and services, labor relations, and workforce costs	2,513,036	1,369,948	3,882,984	3,206,844
6. Provide departmental infrastructure and organizational support	4,983,712	3,345,148	8,328,860	6,196,116
7. Support and sustain NEA as a high-performance learning organization	17,246,236	9,705,775	26,952,011	21,172,748
8. Provide technologies for strategic, tactical, and day-to-day operations	13,589,014	8,826,486	22,415,500	20,519,187
Total business operations	58,040,575	36,535,442	94,576,017	83,615,986

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

GENERAL OPERATING FUND - STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (UNAUDITED) FOR THE EIGHT MONTHS ENDED APRIL 30, 2010 AND PROJECTIONS FOR THE REMAINING FOUR MONTHS ENDED AUGUST 31, 2010

	Actual Eight Months Ended 4/30/10	Projected Four Months Ended 8/31/10	Projected Total for Fiscal Year	Adjusted Budget
Authentic accountability systems				
1. Advocate for legislative and regulatory changes to redesign accountability systems	100,615	164,648	265,263	907,746
2. Assist state affiliates secure public policy for redesigned accountability systems	29,095	27,802	56,897	258,227
3. Partnerships to assist in policy work to redesign accountability systems	131,025	32,719	163,744	364,281
4. Policy development, analysis, and support to redesign accountability systems	181,525	96,496	278,021	306,079
Total authentic accountability systems	442,260	321,665	763,925	1,836,333
Increased positive image and support from the ethnic minority community				
1. Strengthen relationships with current partners representing ethnic minority groups and create partnerships with key ethnic minority groups in their communities	851,697	835,216	1,686,913	1,813,635
2. Build affiliate and ethnic minority leader/organization capacity	43,869	86,368	130,237	283,999
3. Strengthen relationships with new and existing partners and create partnerships with key ethnic groups to build support for public education	1,128,587	287,793	1,416,380	1,707,852
4. Benchmark the opinions of ethnic-minority community organizations and leaders about NEA and related issues	245,375	247,515	492,890	872,233
5. Develop relevant content on effective practices and policies for safe schools as they relate to ethnic minority students	83,972	45,174	129,146	131,091
Total increased positive image and support from the ethnic minority community	2,353,500	1,502,066	3,855,566	4,808,810
Improved education members' salaries				
1. Partner with state affiliates to integrate salary campaigns to achieve a professional level salary for all school employees	1,182,950	729,481	1,912,431	2,252,555
2. Partner with affiliates and outside organizations to improve the level of pay for school employees	75,990	68,675	144,665	321,361
3. Provide affiliates and the public quality research, data collection, and information on school employee pay and compensation systems	480,317	426,880	907,197	792,868
4. Provide training to affiliate staff and leaders to engage in effective salary campaigns	121,478	158,314	279,792	699,739
Total improved education members' salaries	1,860,735	1,383,350	3,244,085	4,066,523
Sound education policies through political and legislative programs				
1. Partner with labor groups and other organizations to advance and fund public education, and advocate NEA's positions on public education with state and local officials	11,607,117	9,542,306	21,149,423	21,910,933
2. Develop and implement national and state member campaigns in targeted states to support Association recommended candidates and to increase member engagement	3,011,696	3,267,758	6,279,454	6,513,650
3. Partner with state affiliates to develop and implement a variety of tools and services to engage members, and advocate for NEA's positions on public education issues	1,605,401	1,315,815	2,921,216	2,200,457
4. Provide state affiliates quality voter and consumer databases and information management systems to assist in targeted state, district, and precinct level races	-	-	-	84,324
5. Develop and implement activities and grassroots training to build long-term, state-based political leadership and increase member political involvement	399,197	223,504	622,701	985,973
Total sound education policies through political and legislative programs	16,623,411	14,349,383	30,972,794	31,695,337
Tax and economic policies and school funding ("TEF")				
1. Provide support to affiliates to develop and introduce legislation around TEF	158,269	79,740	238,009	461,927
2. Provide TEF briefings, training to state leaders and staff, and support to develop and implement regional TEF plans	297,515	200,360	497,875	1,177,734
3. Build partnerships with business and intergovernmental agencies and organize community-family-educator partnerships	150,735	91,370	242,105	244,650
4. Provide research, data, and support to address TEF issues in states	1,364,656	1,092,365	2,457,021	2,507,688
Total tax and economic policies and school funding ("TEF")	1,971,175	1,463,835	3,435,010	4,391,999
TOTAL UNRESTRICTED EXPENSES BY CORE SERVICE AREA AND STRATEGIC GOAL	\$ 215,041,953	\$ 136,865,421	\$ 351,907,374	\$ 354,743,816
CHANGES IN NET ASSETS	\$ 20,304,464	\$ (19,084,758)	\$ 1,219,706	\$ 1,056,117

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

GENERAL OPERATING - CONTINGENCY FUND EXPENDITURES AS OF MAY 31, 2010

<u>Amount</u>	<u>Governance Approval</u>	<u>Purpose</u>
\$ 2,500,000		Beginning Balance
(493,883)	Approved by the Board at the September Meeting	To fund the implementation of 2009 Representative Assembly New Business Items.
(200,000)	Approved by the Board at the September Meeting	To fund efforts to defeat Washington Initiative 1033.
(50,000)	Approved by the Executive Committee at the November Meeting	To fund a project to update the Model Standards for Beginning Teacher Licensing, Assessment and Development (INTASC).
(500,000)	Approved by the Board at the December Meeting	To fund efforts for NEA Priority Schools Campaign.
<u>(200,000)</u>	Approved by the Board at the December Meeting	To fund contribution to the Edward M. Kennedy Institute.
<u>\$ 1,056,117</u>		

MEMBERSHIP COMPARISON BY STATE

STATE	ACTIVE			Other Memberships*			Total Memberships		
	Professional, ESP and Life								
	2008-2009	2007-2008	Increase (Decrease)	2008-2009	2007-2008	Increase (Decrease)	2008-2009	2007-2008	Increase (Decrease)
ALABAMA	76,268	76,282	(14)	25,902	24,638	1,264	102,170	100,920	1,250
ALASKA	11,141	10,842	299	1,500	1,525	(25)	12,641	12,367	274
ARIZONA	31,246	31,684	(438)	2,498	2,470	28	33,744	34,154	(410)
ARKANSAS	13,444	13,497	(53)	2,710	2,797	(87)	16,154	16,294	(140)
CALIFORNIA	323,128	327,239	(4,111)	15,653	15,414	239	338,781	342,653	(3,872)
COLORADO	35,687	35,566	121	3,952	3,973	(21)	39,639	39,539	100
CONNECTICUT	38,062	37,887	175	4,985	4,893	92	43,047	42,780	267
DELAWARE	10,941	10,728	213	1,054	1,086	(32)	11,995	11,814	181
DISTRICT OF COLUMBIA	371	398	(27)	1,476	1,297	179	1,847	1,695	152
FEDERAL	5,697	5,777	(80)	400	409	(9)	6,097	6,186	(89)
FLORIDA	130,142	133,912	(3,770)	7,743	5,999	1,744	137,885	139,911	(2,026)
GEORGIA	33,744	32,897	847	8,212	6,494	1,718	41,956	39,391	2,565
HAWAII	12,594	12,901	(307)	5,100	4,820	280	17,694	17,721	(27)
HAWAII-UHPA	3,052	3,102	(50)	104	103	1	3,156	3,205	(49)
IDAHO	11,638	11,562	76	1,489	1,414	75	13,127	12,976	151
ILLINOIS	129,841	126,868	2,973	9,081	9,084	(3)	138,922	135,952	2,970
INDIANA	47,522	47,320	202	5,737	5,306	431	53,259	52,626	633
IOWA	36,412	36,646	(234)	2,075	2,016	59	38,487	38,662	(175)
KANSAS	26,402	26,410	(8)	3,209	3,359	(150)	29,611	29,769	(158)
KENTUCKY	32,193	32,265	(72)	8,555	7,866	689	40,748	40,131	617
LOUISIANA	14,367	14,185	182	901	956	(55)	15,268	15,141	127
MAINE	20,538	20,659	(121)	5,098	5,073	25	25,636	25,732	(96)
MARYLAND	66,547	66,172	375	3,270	3,156	114	69,817	69,328	489
MASSACHUSETTS	99,455	98,060	1,395	11,091	10,694	397	110,546	108,754	1,792
MICHIGAN	128,973	125,562	3,411	26,719	28,730	(2,011)	155,692	154,292	1,400
MINNESOTA	74,317	74,851	(534)	12,356	11,392	964	86,673	86,243	430
MISSISSIPPI	5,491	5,533	(42)	2,155	2,246	(91)	7,646	7,779	(133)
MISSOURI	29,810	29,132	678	5,557	5,284	273	35,367	34,416	951
MONTANA	13,854	13,799	55	1,569	1,614	(45)	15,423	15,413	10
NEBRASKA	22,202	22,034	168	5,690	5,611	79	27,892	27,645	247

STATE	ACTIVE			Other Memberships*			Total Memberships		
	Professional, ESP and Life								
	2008-2009	2007-2008	Increase (Decrease)	2008-2009	2007-2008	Increase (Decrease)	2008-2009	2007-2008	Increase (Decrease)
NEVADA	27,019	25,047	1,972	1,296	1,167	129	28,315	26,214	2,101
NEW HAMPSHIRE	15,762	15,573	189	1,538	1,461	77	17,300	17,034	266
NEW JERSEY	179,721	178,175	1,546	24,958	25,600	(642)	204,679	203,775	904
NEW MEXICO	8,230	7,924	306	1,168	1,224	(56)	9,398	9,148	250
NEW YORK	399,705	393,957	5,748	6,826	6,564	262	406,531	400,521	6,010
NORTH CAROLINA	48,001	48,423	(422)	13,213	13,131	82	61,214	61,554	(340)
NORTH DAKOTA	7,104	7,042	62	1,500	1,531	(31)	8,604	8,573	31
OHIO	119,431	118,821	610	8,186	8,007	179	127,617	126,828	789
OKLAHOMA	23,987	25,017	(1,030)	2,691	2,841	(150)	26,678	27,858	(1,180)
OREGON	42,472	42,181	291	2,796	2,474	322	45,268	44,655	613
PENNSYLVANIA	158,509	157,896	613	30,508	29,716	792	189,017	187,612	1,405
RHODE ISLAND	9,137	9,341	(204)	2,082	1,994	88	11,219	11,335	(116)
SOUTH CAROLINA	7,989	9,112	(1,123)	3,114	3,359	(245)	11,103	12,471	(1,368)
SOUTH DAKOTA	5,814	5,791	23	1,234	1,209	25	7,048	7,000	48
TENNESSEE	47,238	46,829	409	11,691	11,455	236	58,929	58,284	645
TEXAS	44,044	43,249	795	2,789	2,889	(100)	46,833	46,138	695
UTAH	18,182	18,193	(11)	1,400	1,358	42	19,582	19,551	31
UTAH-USEA	5,807	5,817	(10)	18	13	5	5,825	5,830	(5)
VERMONT	10,791	10,624	167	1,103	1,078	25	11,894	11,702	192
VIRGINIA	56,274	56,744	(470)	5,020	5,083	(63)	61,294	61,827	(533)
WASHINGTON	80,074	79,426	648	5,475	5,558	(83)	85,549	84,984	565
WEST VIRGINIA	11,571	12,100	(529)	1,547	1,476	71	13,118	13,576	(458)
WISCONSIN	87,813	87,109	704	11,895	12,016	(121)	99,708	99,125	583
WYOMING	5,832	5,784	48	910	893	17	6,742	6,677	65
DIRECT **	155	168	(13)	99	96	3	254	264	(10)
REPORT TOTAL	2,905,741	2,894,113	11,628	328,898	321,912	6,986	3,234,639	3,216,025	18,614

* Includes Substitute, Staff, Reserve, Student and Retired Memberships (Pre-Retired excluded)

** In general, this category refers to those members ineligible for state membership such as administrators, private school, etc., who join NEA directly, not through a local affiliate.

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