



# National 4-H Council and Controlled Affiliates

Consolidated Financial Statements and  
Independent Auditors' Report  
Years Ended June 30, 2011 and 2010

# National 4-H Council and Controlled Affiliates

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Years Ended June 30, 2011 and 2010

# National 4-H Council and Controlled Affiliates

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## Independent Auditors' Report

To the Board of Trustees  
**National 4-H Council and Controlled Affiliates**  
Chevy Chase, Maryland

We have audited the accompanying consolidated statement of financial position of **National 4-H Council and Controlled Affiliates** (collectively referred to as Council) as of June 30, 2011 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of Council's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Council's 2010 consolidated financial statements and, in our report dated November 22, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the financial position of **National 4-H Council and Controlled Affiliates** as of June 30, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

March 9, 2012

**Consolidated  
Financial Statements**

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## National 4-H Council and Controlled Affiliates

### Consolidated Statements of Financial Position

*June 30, 2011 (with comparative totals for June 30, 2010)*

	Unrestricted			Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
	General	Board Designated	Total Unrestricted				
<b>Current Assets</b>							
Cash and cash equivalents	\$ 4,126,821	\$ -	\$ 4,126,821	\$ -	\$ -	\$ 4,126,821	\$ 5,487,597
Short-term investments	-	395,067	395,067	9,141,576	-	9,536,643	6,657,202
Accounts receivable, net	2,091,316	-	2,091,316	-	-	2,091,316	1,136,844
Contributions receivable	79,002	461,128	540,130	4,626,150	-	5,166,280	3,444,011
Merchandise inventories, net	1,229,707	-	1,229,707	-	-	1,229,707	1,088,724
Other assets	98,541	-	98,541	-	-	98,541	113,045
<b>Total current assets</b>	<b>7,625,387</b>	<b>856,195</b>	<b>8,481,582</b>	<b>13,767,726</b>	<b>-</b>	<b>22,249,308</b>	<b>17,927,423</b>
<b>Noncurrent Assets</b>							
Contributions receivable	-	-	-	1,390,000	-	1,390,000	1,303,000
Long-term investments	2,325,559	6,262,932	8,588,491	2,790,533	235,397	11,614,421	10,772,462
	2,325,559	6,262,932	8,588,491	4,180,533	235,397	13,004,421	12,075,462
<b>Property and Equipment</b>							
Land and buildings	24,982,811	-	24,982,811	-	-	24,982,811	24,986,096
Furniture and equipment	8,922,515	-	8,922,515	-	-	8,922,515	7,746,243
	33,905,326	-	33,905,326	-	-	33,905,326	32,732,339
Less accumulated depreciation and amortization	(24,946,090)	-	(24,946,090)	-	-	(24,946,090)	(23,798,283)
	8,959,236	-	8,959,236	-	-	8,959,236	8,934,056
<b>Total noncurrent assets</b>	<b>11,284,795</b>	<b>6,262,932</b>	<b>17,547,727</b>	<b>4,180,533</b>	<b>235,397</b>	<b>21,963,657</b>	<b>21,009,518</b>
<b>Total assets</b>	<b>\$ 18,910,182</b>	<b>\$ 7,119,127</b>	<b>\$ 26,029,309</b>	<b>\$ 17,948,259</b>	<b>\$ 235,397</b>	<b>\$ 44,212,965</b>	<b>\$ 38,936,941</b>

*See accompanying summary of accounting policies and notes to consolidated financial statements.*

## National 4-H Council and Controlled Affiliates

### Consolidated Statements of Financial Position

*June 30, 2011 (with comparative totals for June 30, 2010)*

	Unrestricted			Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
	General	Board Designated	Total Unrestricted				
<b>Current Liabilities</b>							
Accounts payable and accrued expenses	\$ 3,668,146	\$ -	\$ 3,668,146	\$ -	\$ -	\$ 3,668,146	\$ 2,764,683
Line of credit	-	-	-	-	-	-	100,000
Accrued postretirement benefit liability	90,709	-	90,709	-	-	90,709	83,328
Deferred revenue	1,444,608	-	1,444,608	-	-	1,444,608	1,073,513
Agency funds and other	1,058,122	-	1,058,122	-	-	1,058,122	960,662
<b>Total current liabilities</b>	<b>6,261,585</b>	<b>-</b>	<b>6,261,585</b>	<b>-</b>	<b>-</b>	<b>6,261,585</b>	<b>4,982,186</b>
<b>Noncurrent Liabilities, net of current portion</b>							
Accrued postretirement benefit liability	2,224,107	-	2,224,107	-	-	2,224,107	2,465,764
Deferred revenue	108,092	-	108,092	-	-	108,092	9,840
Unfunded pension liability	4,543,424	-	4,543,424	-	-	4,543,424	5,809,854
<b>Total noncurrent liabilities</b>	<b>6,875,623</b>	<b>-</b>	<b>6,875,623</b>	<b>-</b>	<b>-</b>	<b>6,875,623</b>	<b>8,285,458</b>
<b>Total liabilities</b>	<b>13,137,208</b>	<b>-</b>	<b>13,137,208</b>	<b>-</b>	<b>-</b>	<b>13,137,208</b>	<b>13,267,644</b>
<b>Net Assets</b>							
Undesignated	(3,186,262)	461,128	(2,725,134)	-	-	(2,725,134)	(6,141,877)
Plant fund	8,959,236	390,841	9,350,077	-	-	9,350,077	9,259,395
Program support	-	-	-	15,656,125	-	15,656,125	15,088,869
Endowment fund	-	3,267,158	3,267,158	2,292,134	235,397	5,794,689	4,462,910
Long-term reserve	-	3,000,000	3,000,000	-	-	3,000,000	3,000,000
<b>Total net assets</b>	<b>5,772,974</b>	<b>7,119,127</b>	<b>12,892,101</b>	<b>17,948,259</b>	<b>235,397</b>	<b>31,075,757</b>	<b>25,669,297</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,910,182</b>	<b>\$ 7,119,127</b>	<b>\$ 26,029,309</b>	<b>\$ 17,948,259</b>	<b>\$ 235,397</b>	<b>\$ 44,212,965</b>	<b>\$ 38,936,941</b>

*See accompanying summary of accounting policies and notes to consolidated financial statements.*

## National 4-H Council and Controlled Affiliates

### Consolidated Statements of Activities

*For the year ended June 30, 2011 (with comparative totals for June 30, 2010)*

	Unrestricted			Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
	General	Board Designated	Total Unrestricted				
<b>Operating</b>							
<b>Revenue</b>							
Contributions received from the public	\$ 1,066,294	\$ 461,128	\$ 1,527,422	\$ 12,792,992	-	\$ 14,320,414	\$ 14,788,303
Federal grant revenue	2,078,489	-	2,078,489	-	-	2,078,489	858,150
In-kind services	466,765	-	466,765	-	-	466,765	328,440
Registration fees and tuitions	19,425	-	19,425	-	-	19,425	17,760
National 4-H Youth Conference Center	11,203,504	-	11,203,504	-	-	11,203,504	11,320,110
National 4-H Supply Service	4,611,476	-	4,611,476	-	-	4,611,476	4,978,579
Investment return allocated to operations	488,892	-	488,892	-	-	488,892	617,208
Other	157,300	-	157,300	-	-	157,300	223,128
Net assets released from restrictions	12,273,217	-	12,273,217	(12,273,217)	-	-	-
<b>Total revenue</b>	<b>32,365,362</b>	<b>461,128</b>	<b>32,826,490</b>	<b>519,775</b>	<b>-</b>	<b>33,346,265</b>	<b>33,131,678</b>
<b>Expenses</b>							
<b>Program services</b>							
Education programs	17,237,855	-	17,237,855	-	-	17,237,855	13,823,832
<b>Other programs</b>							
National 4-H Youth Conference Center	7,456,919	-	7,456,919	-	-	7,456,919	7,383,755
National 4-H Supply Service	3,990,010	-	3,990,010	-	-	3,990,010	4,018,808
<b>Total other programs</b>	<b>11,446,929</b>	<b>-</b>	<b>11,446,929</b>	<b>-</b>	<b>-</b>	<b>11,446,929</b>	<b>11,402,563</b>
<b>Total program services</b>	<b>\$ 28,684,784</b>	<b>\$ -</b>	<b>\$ 28,684,784</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,684,784</b>	<b>\$ 25,226,395</b>

*See accompanying summary of accounting policies and notes to consolidated financial statements.*



## National 4-H Council and Controlled Affiliates

### Consolidated Statements of Activities

*For the year ended June 30, 2011 (with comparative totals for June 30, 2010)*

	Unrestricted			Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
	General	Board Designated	Total Unrestricted				
<b>Supporting services</b>							
Management and general	\$ 1,404,035	\$ -	\$ 1,404,035	\$ -	\$ -	\$ 1,404,035	\$ 1,888,801
Fundraising	2,261,919	-	2,261,919	-	-	2,261,919	2,173,468
<b>Total supporting services</b>	<b>3,665,954</b>	<b>-</b>	<b>3,665,954</b>	<b>-</b>	<b>-</b>	<b>3,665,954</b>	<b>4,062,269</b>
<b>Total expenses before pension costs</b>	<b>32,350,738</b>	<b>-</b>	<b>32,350,738</b>	<b>-</b>	<b>-</b>	<b>32,350,738</b>	<b>29,288,664</b>
<b>Change in net assets before pension costs</b>	<b>14,624</b>	<b>461,128</b>	<b>475,752</b>	<b>519,775</b>	<b>-</b>	<b>995,527</b>	<b>3,843,014</b>
<b>Pension costs - operating</b>	<b>644,621</b>	<b>-</b>	<b>644,621</b>	<b>-</b>	<b>-</b>	<b>644,621</b>	<b>677,902</b>
<b>Change in net assets from operating activities</b>	<b>(629,997)</b>	<b>461,128</b>	<b>(168,869)</b>	<b>519,775</b>	<b>-</b>	<b>350,906</b>	<b>3,165,112</b>
<b><u>Nonoperating</u></b>							
Contributions	-	19,987	19,987	32,138	-	52,125	35,285
Investment return	(313,953)	78,178	(235,775)	28,808	-	(206,967)	(553,931)
Unrealized gain on investment	2,103,432	873,521	2,976,953	417,739	-	3,394,692	2,021,010
Named fund spending	-	(1,500)	(1,500)	(4,109)	-	(5,609)	(1,500)
Postretirement medical costs	234,276	-	234,276	-	-	234,276	(262,979)
Pension related changes other than net periodic pension costs	1,587,037	-	1,587,037	-	-	1,587,037	(546,918)
<b>Change in net assets from nonoperating activities</b>	<b>3,610,792</b>	<b>970,186</b>	<b>4,580,978</b>	<b>474,576</b>	<b>-</b>	<b>5,055,554</b>	<b>690,967</b>
<b>Change in net assets</b>	<b>2,980,795</b>	<b>1,431,314</b>	<b>4,412,109</b>	<b>994,351</b>	<b>-</b>	<b>5,406,460</b>	<b>3,856,079</b>
<b>Net assets, beginning of year</b>	<b>2,792,179</b>	<b>5,687,813</b>	<b>8,479,992</b>	<b>16,953,908</b>	<b>235,397</b>	<b>25,669,297</b>	<b>21,813,218</b>
<b>Net assets, end of year</b>	<b>\$ 5,772,974</b>	<b>\$ 7,119,127</b>	<b>\$ 12,892,101</b>	<b>\$ 17,948,259</b>	<b>\$ 235,397</b>	<b>\$ 31,075,757</b>	<b>\$ 25,669,297</b>

*See accompanying summary of accounting policies and notes to consolidated financial statements.*

## National 4-H Council and Controlled Affiliates

### Consolidated Statements of Functional Expenses

*For the year ended June 30, 2011 (with comparative totals for June 30, 2010)*

	Program Services				Supporting Services			2011 Total	2010 Total
	Education Programs	National 4-H Youth Conference Center	National 4-H Supply Service	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries, payroll taxes and employee benefits	\$ 5,025,366	\$ 3,417,220	\$ 874,755	\$ 9,317,341	\$ 750,155	\$1,197,308	\$1,947,463	\$11,264,804	\$ 11,505,732
Organizational training	22,399	2,272	-	24,671	17,395	104	17,499	42,170	24,917
Awards, scholarships and grants	4,406,455	-	-	4,406,455	-	13,185	13,185	4,419,640	3,349,337
Cost of goods sold	1,859	703,542	1,895,297	2,600,698	-	-	-	2,600,698	2,822,090
Staff and participant travel and meetings	914,798	64,238	40,320	1,019,356	34,384	147,689	182,073	1,201,429	1,132,072
Program/operating resources and office supplies	463,204	496,582	39,314	999,100	56,886	59,040	115,926	1,115,026	871,614
Printing and publications	161,228	12,754	61,720	235,702	27,272	15,258	42,530	278,232	241,113
Professional fees	4,974,560	810,660	179,248	5,964,468	250,343	682,676	933,019	6,897,487	5,188,005
Utilities and telephone	99,222	757,333	42,594	899,149	14,896	23,592	38,488	937,637	967,056
Postage and shipping	28,213	7,503	476,871	512,587	3,591	7,879	11,470	524,057	459,517
Insurance	30,649	70,251	-	100,900	31,393	-	31,393	132,293	127,006
Equipment maintenance & rental	62,993	35,291	14,240	112,524	61,981	-	61,981	174,505	173,334
Facilities rental	29,852	-	149,903	179,755	2,574	1,432	4,006	183,761	158,383
Public relations and promotion	400,081	69,598	83,899	553,578	649	43,248	43,897	597,475	457,088
In-kind services	424,549	3,185	-	427,734	-	6,920	6,920	434,654	328,440
Other	43,975	63,519	85,254	192,748	37,602	7,702	45,304	238,052	236,054
Depreciation and amortization	148,452	942,971	46,595	1,138,018	114,914	55,886	170,800	1,308,818	1,246,906
<b>Total expenses before operating pension costs</b>	<b>17,237,855</b>	<b>7,456,919</b>	<b>3,990,010</b>	<b>28,684,784</b>	<b>1,404,035</b>	<b>2,261,919</b>	<b>3,665,954</b>	<b>32,350,738</b>	<b>29,288,664</b>
Pension costs - operating	258,487	205,671	51,754	515,912	55,832	72,877	128,709	644,621	677,902
<b>Total expenses after operating pension costs</b>	<b>\$17,496,342</b>	<b>\$ 7,662,590</b>	<b>\$ 4,041,764</b>	<b>\$ 29,200,696</b>	<b>\$ 1,459,867</b>	<b>\$2,334,796</b>	<b>\$3,794,663</b>	<b>\$32,995,359</b>	<b>\$ 29,966,566</b>

*See accompanying summary of accounting policies and notes to consolidated financial statements.*

## National 4-H Council and Controlled Affiliates

### Consolidated Statements of Cash Flows

Years ended June 30,	2011	2010
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 5,406,460	\$ 3,856,079
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>		
Depreciation and amortization	1,308,818	1,246,906
Provision for allowance of doubtful accounts	17,277	(11,469)
Loss on disposal of fixed assets	287	361
Net unrealized and realized gains on investments	(3,400,765)	(1,801,604)
<b>(Increase) decrease in assets</b>		
Accounts receivable	(971,749)	494,399
Contributions receivable	(1,809,269)	(1,117,857)
Merchandise inventories	(140,983)	164,706
Other assets	14,504	55,570
<b>Increase (decrease) in liabilities</b>		
Accounts payable and accrued expenses	903,463	351,083
Accrued postretirement benefit liability	(234,276)	376,797
Deferred revenue	469,347	(351,581)
Agency funds and other	97,460	(16,597)
Unfunded pension liability	(1,266,430)	1,007,835
<b>Net cash provided by operating activities</b>	<b>394,144</b>	<b>4,254,628</b>
<b>Cash flows from Investing Activities</b>		
Purchases of property and equipment	(1,334,285)	(1,144,610)
Purchases of investments	(1,206,840)	(1,166,975)
Proceeds from sales of investments	886,205	856,913
<b>Net cash used in investing activities</b>	<b>(1,654,920)</b>	<b>(1,454,672)</b>
<b>Cash flows from Financing Activities</b>		
Repayment of line of credit	(100,000)	-
<b>Net cash used in financing activities</b>	<b>(100,000)</b>	<b>-</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(1,360,776)</b>	<b>2,799,956</b>
Cash and cash equivalents, beginning of year	5,487,597	2,687,641
<b>Cash and cash equivalents, end of year</b>	<b>\$ 4,126,821</b>	<b>\$ 5,487,597</b>

*See accompanying summary of accounting policies and notes to consolidated financial statements.*

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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### Summary of Accounting Policies

#### Organization Purpose and Consolidation Policy

National 4-H Council is an Ohio not-for-profit corporation that utilizes private and government resources in its efforts to advance the 4-H youth development movement to build a world in which youth and adults learn, grow and work together as catalysts for positive change. The 4-H program is the youth education program of the Cooperative Extension System of the State Land-Grant Universities and the U.S. Department of Agriculture. National 4-H Council includes two major divisions, the National 4-H Youth Conference Center and National 4-H Supply Service.

National 4-H Activities Foundation (Activities Foundation) is an Ohio not-for-profit corporation that is a 501(c)(3) controlled affiliate of National 4-H Council. Activities Foundation was established in July 2000 to service the accounting and legal needs of nationally-operated 4-H initiatives.

Global Clover Network, Inc. (formerly National 4-H Foundation for Innovation, Inc.) is an Ohio not-for-profit corporation that is a 501(c)(3) controlled affiliate of National 4-H Council. There was no activity for Global Clover Network, Inc. in 2011 and 2010.

The consolidated financial statements include the accounts of National 4-H Council, National 4-H Activities Foundation, and Global Clover Network, Inc. (collectively referred to as Council). All significant transactions between the organizations, including all inter-organization balances, have been eliminated in consolidation.

#### Summarized Financial Information for 2010

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class in the consolidated statements of activities and by expense detail in the consolidated statements of functional expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Council's consolidated financial statements for the year ended June 30, 2010, from which the summarized information was derived.

#### Basis of Accounting

The consolidated financial statements of Council have been prepared on the accrual basis of accounting.

#### Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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 revenue and expenses during the reporting period. Significant estimates included in these financial statements include the retirement plan obligation, the postretirement plan obligation, and the accounts receivable reserve. Actual results could differ from those estimates.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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### Cash and Cash Equivalents

Cash and cash equivalents consist of operating cash accounts, petty cash and highly liquid, short-term instruments with original maturities of three months or less.

### Investments

Investments consist of marketable securities and are carried at readily determinable fair values. The fair values of Council's investments in hedge funds are based on management's evaluation of estimates and assumptions from information and representations provided by the fund in the absence of readily ascertainable market values. Unrealized and realized gains and losses are included in the consolidated statements of activities. Long-term investments represent amounts designated by Council or donors for use in future years.

### Financial Instruments and Credit Risk

Financial instruments which potentially subject Council to concentrations of credit risk consist principally of investments held at creditworthy financial institutions. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risk with respect to trade and other receivables is limited because Council deals with a large number of customers over a wide geographic area.

### Accounts Receivable

Accounts receivable consists primarily of amounts due from the sale of educational aids and rental of conference facilities. The allowance method is used to determine the uncollectible amounts. The allowance is based upon prior years' experience and management's analysis of subsequent collections. Accounts receivable are written off if reasonable collection efforts prove unsuccessful.

### Contributions Receivable

Contributions, which include unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. The discount computed for 2011 and 2010 was not material and has not been recorded in the accompanying consolidated financial statements. Management considers all promises to give to be fully collectible, therefore, no allowance for doubtful accounts has been established. Conditional promises to give are not included as support until the conditions are substantially met.

### Merchandise Inventories

Inventory, consisting of Supply Service and Campus Shop merchandise and educational aids, is stated at the lower of cost or market. Inventory is valued using the standard cost method of inventory valuation.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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### Property and Equipment

Property and equipment are recorded at cost, or if donated, such assets are capitalized at the estimated fair market value at the date of receipt. Council capitalizes all expenditures for property and equipment over \$500 (\$250 for electronic equipment). Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is recorded. Repairs and maintenance are charged to expense when incurred.

Council reports existing assets and gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### Impairment of Long-Lived Assets

Council reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, by a charge to the consolidated statements of activities, to its current fair value.

### Deferred Revenue

Deferred revenue consists primarily of grants that qualify as exchange transactions and prepayments for services to be rendered. Fees received in advance for programs and conferences to be held in the following fiscal year are recorded as deferred revenue until the related event has occurred.

### Agency Funds

Council holds certain funds on behalf of others for which it acts in an administrative capacity. These agency funds are included as liabilities and related assets in the form of short-term investments in the accompanying consolidated statements of financial position. Short-term investments include approximately \$196,000 and \$122,000 of agency funds which are being held on behalf of others, for the years ended June 30, 2011 and 2010, respectively. The activities involved in spending these funds are not included as revenue or expense in Council's consolidated statements of activities, as they are not expended on behalf of Council.

### Unrestricted Net Assets

Unrestricted net assets are available for use in general operations.

Unrestricted - board designated net assets consist of net assets designated by the Board for a specific use.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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### Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts that are subject to donor restrictions and income earned on permanently restricted net assets. Council is permitted to use up or expend the donated assets in accordance with the donor restrictions.

Council reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

### Permanently Restricted Net Assets

Permanently restricted net assets consist of assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of Council. The restrictions stipulate that resources be maintained permanently but permit Council to expend the income generated in accordance with the provisions of the agreement.

### Revenue Recognition

Revenue is recognized when earned. Contributions are reported when an unconditional promise to give or other asset is received (in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958.

### Functional Allocation of Expenses

The costs of providing various program and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and services benefited.

### In-Kind Services

A substantial number of individual volunteers have donated significant amounts of time to Council's program services and to its fundraising campaigns. No amounts have been recognized in the consolidated statements of activities since jobs done by Council volunteers do not fall into the criteria established by the Financial Accounting Standards Board in this area.

Services and assets donated by organizations are recorded at fair value at the date of donation. Council records donated services, including advertising, consulting, and printing services, and donated assets at the respective fair value of the services and assets received. The amount of donated services and assets recorded as revenue and expense was \$466,765 and \$328,440 for the years ended June 30, 2011 and 2010, respectively.

### Measure of Operations

For purposes of this presentation, Council considers revenue not available in the current period, based on Board designation or donor intent, and expenses incurred outside of its operations as non-operating. Council has defined operating investment income as the maximum of 5% of the

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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rolling average of the beginning unrestricted market value of the immediately preceding three years, excluding the Plant Fund assets. All other investment income is recorded as non-operating and supports the net asset class as designated by the donor.

### Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation.

### Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements* (ASU 2010-06) in January 2010. It requires improved disclosures about fair value measurements, including reporting of significant transfers between Level 1 and Level 2 assets and presenting purchases, sales, issuances and settlements on a gross basis (instead of as one net amount) in the reconciliation of activity in Level 3 assets. These requirements are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure of Level 3 purchases, sales, issuances and settlements on a gross basis, which is effective for interim and annual reporting periods beginning after December 15, 2010. Council does not expect ASU 2010-06 to have a material effect on its financial statements.

## 1. Tax Status

National 4-H Council has been granted exemption by the Internal Revenue Service (IRS) from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has also determined that National 4-H Council is not a private foundation. National 4-H Council is required to report unrelated business income to the Internal Revenue Service and the State of Maryland. National 4-H Council earns unrelated business income on facility rental and advertising. National 4-H Council incurred income tax expense of \$2,985 and \$2,502 for the years ended June 30, 2011 and 2010, respectively.

National 4-H Activities Foundation (Activities Foundation) has been granted exemption by the Internal Revenue Service (IRS) from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has also determined that Activities Foundation is not a private foundation. Activities Foundation is required to report unrelated business income to the Internal Revenue Service and the State of Maryland. Activities Foundation had no sources of unrelated business income for the years ended June 30, 2011 and 2010.

Global Clover Network, Inc. has been granted exemption by the Internal Revenue Service (IRS) from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has also determined that Global Clover Network, Inc. is not a private foundation. Global Clover Network, Inc. is required to report unrelated business income to the Internal Revenue Service and the State of Maryland. Global Clover Network, Inc. had no sources of unrelated business income for the years ended June 30, 2011 and 2010.

Council has adopted the provisions of FASB ASC 740. Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. Council does not believe there are any



# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

Council has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, Council has filed Internal Revenue Service Form 990 and Form 990-T tax returns, as required, and all other applicable returns in jurisdictions where it is required. Council believes that it is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years prior to 2008. No interest or penalties were accrued as of July 1, 2007 as a result of the adoption of ASC 740. For the years ended June 30, 2011 and 2010, no interest or penalties were recorded or included in the consolidated statements of activities.

### 2. Concentration of Credit Risk

Council maintains cash balances, which, at times, may exceed federally insured limits.

### 3. Accounts Receivable

Accounts receivable consist of the following at:

<i>June 30,</i>	2011	2010
Federal awards	\$ 1,163,153	\$ 240,281
National 4-H Youth Conference Center customers	581,599	500,647
National 4-H Supply Service customers	393,582	388,273
Other	6,294	43,678
	2,144,628	1,172,879
Less allowance for doubtful accounts	(53,312)	(36,035)
Accounts receivable, net	\$ 2,091,316	\$ 1,136,844

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

### 4. Investments

The components of Council's investments are as follows at:

<i>June 30,</i>	2011	2010
First Western Company		
Equity fund	\$ 5,366,610	\$ 4,112,241
Fixed income	3,143,857	2,838,149
International	2,451,376	1,887,696
Real estate equity fund	666,314	538,165
Cash reserves	560	-
Gabelli Funds		
Equity fund	4,841,189	3,653,730
Fixed income	2,707,617	2,621,794
International	478,725	349,843
Aetos hedge funds	1,494,816	1,428,046
	21,151,064	17,429,664
Less short-term investments	(9,536,643)	(6,657,202)
Long-term investments	\$ 11,614,421	\$ 10,772,462

Council invests in mutual funds, which define realized gains as capital gains, interest, gains and dividend distributions. The interest and dividends earned and realized gain/loss incurred on these investments are recorded as investment return in the accompanying consolidated statements of activities. Council pays First Western Company and Gabelli Funds an advisory and administration fee based on the average daily balance invested in the funds. Such fees are netted with investment return on the accompanying consolidated statements of activities.

Investment return, net of expenses of \$22,558 and \$110,739 for the years ended June 30, 2011 and 2010, respectively, is as follows:

<i>June 30,</i>	2011	2010
Interest and dividends	\$ 764,744	\$ 282,683
Realized gain (loss)	6,073	(219,406)
Unrealized gain	3,394,692	2,021,010
Total investment return	\$ 4,165,509	\$ 2,084,287

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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### 5. Fair Value Measurements

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

#### *Basis of Fair Value Measurement*

**Level 1 Inputs:** Valuation based on quoted prices in active markets for identical unrestricted assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2 Inputs:** Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

**Level 3 Inputs:** Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects Council's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following tables set forth by level within the fair value hierarchy Council's investment assets at fair value as of June 30, 2011 and 2010. As required by FASB ASC 820, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Total Council investment assets at fair value classified within level 3 are \$1,494,816 and \$1,428,046 as of June 30, 2011 and 2010, respectively, which primarily consists of managed hedge funds. Such amounts were 7.1% and 8.2% of total investments on Council's consolidated statements of financial position as of June 30, 2011 and 2010, respectively.

#### *Mutual Funds:*

The fair values of the participation units owned by Council in mutual funds, invested in securities portfolios, are based on the underlying investments and are based on the net asset value of the shares held by Council at the end of the year. Investment income from the mutual funds in Council's financial statements reflects earnings of the respective underlying funds, including investment income and investment return of the fair value of the investments.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

### *Alternative Investments:*

Council's alternative investments are held in private investment funds which are valued based on level 3 inputs within the investment hierarchy used in measuring fair value. Given the absence of market quotations, the alternative investments fair value is estimated based on management's estimates and assumptions using information provided to Council by the investment manager. The values are based on estimates that require varying degrees of judgments. Individual holdings within the alternative investments may include investments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly-traded securities, and other investment vehicles. The investments may directly expose Council to the effects of securities lending, short sale of securities, and trading in futures and forward contracts, options, swap contracts, and other derivative products. While these financial instruments contain varying degrees of risk, Council's exposure with respect to each such investment is limited to its carrying amount (fair value as described above) in each investment. The financial statements of the investees are audited annually by a nationally recognized firm of independent auditors. Council does not directly invest in the underlying securities of the investment fund and due to restrictions on transferability and timing of withdrawals from the funds, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions.

### Investment Assets at Fair Value as of June 30, 2011

	Level 1	Level 2	Level 3	Total
<b>Mutual funds:</b>				
Bond - Inter-term investment	\$ 5,040,176	\$ -	\$ -	\$ 5,040,178
Stock - large cap: value	4,121,971	-	-	4,121,971
Stock - large cap: blend	2,634,016	-	-	2,634,016
Stock - international large cap: blend	1,949,987	-	-	1,949,987
Stock - small cap: blend	1,840,627	-	-	1,840,627
Stock - large cap: growth	1,611,185	-	-	1,611,185
Bond - short-term investment	811,298	-	-	811,298
Stock - real estate	666,314	-	-	666,314
Stock - emerging markets large cap: blend	501,390	-	-	501,390
Stock - international large cap: growth	478,724	-	-	478,722
<b>Alternative investments:</b>				
Aetos Long/Short Strategies Cayman Fund	-	-	689,497	689,497
Aetos Multi-Strategy Arbitrage Cayman Fund	-	-	473,300	473,300
Aetos Distressed Investments Strategy Cayman Fund	-	-	332,019	332,019
Cash reserves:	560	-	-	560
<b>Total investments at fair value</b>	<b>\$ 19,656,248</b>	<b>\$ -</b>	<b>\$ 1,494,816</b>	<b>\$ 21,151,064</b>

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

Investment Assets at Fair Value as of June 30, 2010				
	Level 1	Level 2	Level 3	Total
<b>Mutual funds</b>				
Bond - Inter-term investment	\$ 4,735,311	\$ -	\$ -	\$ 4,735,311
Stock - large cap: value	3,110,007	-	-	3,110,007
Stock - large cap: blend	2,015,534	-	-	2,015,534
Stock - international large cap: blend	1,474,113	-	-	1,474,113
Stock - small cap: blend	1,407,404	-	-	1,407,405
Stock - large cap: growth	1,233,025	-	-	1,233,025
Bond - short-term investment	724,632	-	-	724,632
Stock - real estate	538,165	-	-	538,165
Stock - emerging markets large cap: blend	413,584	-	-	413,583
Stock - international large cap: growth	349,843	-	-	349,843
<b>Alternative investments:</b>				
Aetos Long/Short Strategies Cayman Fund	-	-	600,098	600,098
Aetos Multi-Strategy Arbitrage Cayman Fund	-	-	449,063	449,063
Aetos Distressed Investments Strategy Cayman Fund	-	-	315,101	315,101
Aetos Capital Opportunities Cayman Fund	-	-	63,784	63,784
<b>Total investments at fair value</b>				
	\$ 16,001,618	\$ -	\$ 1,428,046	\$ 17,429,664

### Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of Council's level 3 investment assets for the years ended June 30, 2011 and 2010. As reflected in the table below, the net unrealized gains on level 3 investment assets was \$66,770 and \$181,080, respectively.

Level 3 Investment Assets and Liabilities Year Ended June 30,	2011	2010
Balance, beginning of year	\$ 1,428,046	\$ 1,246,966
Realized gains	-	-
Unrealized gains relating to instruments still held at the reporting date	66,770	181,080
Purchases, issuances, and settlements	-	-
Transfers in/out of level 3	-	-
<b>Balance, end of year</b>		
	\$ 1,494,816	\$ 1,428,046

Unrealized gains and losses are recorded in the consolidated statements of activities as part of nonoperating income.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

### Net Asset Value (NAV) Per Share

In accordance with ASU 2009-12, Council expanded its disclosures to include the category, redemption frequency, and redemption notice period for those assets whose fair value is estimated using the net asset value per share or its equivalent for which the fair value is not readily determinable, as of June 30, 2011. For Council, such assets include investments in the Aetos hedge funds.

The following table for June 30, 2011, sets forth a summary of Council's investments with a reported NAV.

Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
<b>Aetos hedge funds:</b>				
Aetos Long/Short Strategies				
Cayman Fund (a)	\$ 689,497	\$ -	Quarterly	90 days
Aetos Multi-Strategy Arbitrage				
Cayman Fund (b)	473,300	-	Quarterly	90 days
Aetos Distressed Investments				
Strategy Cayman Fund (c)	332,019	-	Quarterly	90 days
	\$ 1,494,816	\$ -		

(a) This category includes investments in hedge funds and allocates its assets amongst portfolio managers across a variety of long/short strategies. The fair market values of investments in this category have been estimated using the net asset value per share of these investments.

(b) This category includes investments in hedge funds and allocates its assets amongst portfolio managers that use a variety of arbitrage strategies, including identification of mispricing in securities that will be resolved through an anticipated event. Such events include mergers, acquisitions and spinoffs. The fair market values of investments in this category have been estimated using the net asset value per share of these investments.

(c) This category includes investments in hedge funds and allocates its assets amongst portfolio managers that use a variety of distressed investment strategies. The fund's managers buy the securities (generally bonds and bank loans) of companies that are in bankruptcy or in danger of bankruptcy. The fair market values of investments in this category have been estimated using the net asset value per share of these investments.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

### 6. Property and Equipment

Property and equipment consists of the following at:

<i>June 30,</i>	2011	2010
Buildings	\$ 24,682,811	\$ 24,686,096
Land	300,000	300,000
	<u>24,982,811</u>	<u>24,986,096</u>
Furniture and equipment	8,922,515	7,746,243
	<u>33,905,326</u>	<u>32,732,339</u>
Less accumulated depreciation and amortization	<u>(24,946,090)</u>	<u>(23,798,283)</u>
Property and equipment, net	<u>\$ 8,959,236</u>	<u>\$ 8,934,056</u>

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 was \$1,308,818 and \$1,246,906, respectively.

### 7. Line of Credit

Council maintains a \$3,000,000 line of credit with Wachovia Bank. Interest on the line is calculated at a variable rate of 1% over the LIBOR Market Index Rate.

The principal balance outstanding as of June 30, 2011 and 2010 was \$0 and \$100,000, respectively. The interest rate at June 30, 2011 and 2010 was 2.185% and 2.34%, respectively.

### 8. Deferred Revenue

Deferred revenue represents amounts received by Council in advance for services to be performed or events to be held subsequent to year end. Deferred revenue consists of the following at:

<i>June 30,</i>	2011	2010
National 4-H Youth Conference Center registration and housing fees paid in advance	\$ 1,524,800	\$ 1,071,278
Other	27,900	12,075
	<u>1,552,700</u>	<u>1,083,353</u>
Less short-term portion	<u>(1,444,608)</u>	<u>(1,073,513)</u>
Long-term deferred revenue	<u>\$ 108,092</u>	<u>\$ 9,840</u>

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

### 9. Net Assets

Temporarily restricted net assets are restricted by donors as follows:

<i>June 30,</i>	2011	2010
Purpose restricted	\$ 11,932,109	\$ 12,285,769
Purpose and time restricted for period after June 30, 2011 and 2010	6,016,150	4,668,139
<b>Total temporarily restricted net assets</b>	<b>\$ 17,948,259</b>	<b>\$ 16,953,908</b>

Temporarily restricted net assets are available for the following purposes:

<i>June 30,</i>	2011	2010
Education program activities	\$ 15,656,125	\$ 15,088,869
Quasi endowment activities	2,292,134	1,865,039
<b>Total temporarily restricted net assets</b>	<b>\$ 17,948,259</b>	<b>\$ 16,953,908</b>

Quasi endowment activities represent temporarily restricted net assets whose realized earnings are used as intended by the donor.

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes or by the passage of time, releasing time restrictions, as follows:

<i>June 30,</i>	2011	2010
Purpose restrictions accomplished	\$ 466,765	\$ 328,440
Purpose and time restrictions accomplished and expired	11,806,452	9,569,502
<b>Total net assets released from restrictions</b>	<b>\$ 12,273,217</b>	<b>\$ 9,897,942</b>

Permanently restricted net assets represent a donor-restricted endowment composed of various named funds to be held in perpetuity. Investment income earned on the majority of the named funds within this endowment is temporarily restricted until appropriated by the Board for uses which align with the donor's interest. Temporarily restricted investment income is used according to the donor-imposed restriction. Permanently restricted net assets of \$235,397 as of June 30, 2011 and 2010 are available for endowment purposes.

### 10. Endowment

Council's endowment consists of individual funds established for a variety of purposes as discussed in note 9. Council's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by general accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.



# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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### *Interpretation of Relevant Law*

In accordance with FASB ASC 958, Council treats all donor restricted endowment funds as permanently restricted net assets. These endowment funds are invested in a pool with all other investments of Council. The returns on the endowment funds invested have been included in temporarily restricted investment return in the consolidated statements of activities.

### **Endowment Net Asset Composition**

The following table represents the composition of Council's endowment by net asset class at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,292,134	\$ 235,397	\$ 2,527,531
Board-designated endowment funds	7,119,127	-	-	7,119,127
<b>Total</b>	<b>\$ 7,119,127</b>	<b>\$ 2,292,134</b>	<b>\$ 235,397</b>	<b>\$ 9,646,658</b>

The following table represents the composition of Council's endowment by net asset class at June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (11,717)	\$ 1,865,039	\$ 235,397	\$ 2,088,719
Board-designated endowment funds	5,699,530	-	-	5,699,530
<b>Total</b>	<b>\$ 5,687,813</b>	<b>\$ 1,865,039</b>	<b>\$ 235,397</b>	<b>\$ 7,788,249</b>

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

### *Changes in Endowment Net Assets*

The following table represents the changes in endowment net assets during the year ended:

<i>June 30, 2011:</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 5,687,813	\$ 1,865,039	\$ 235,397	\$ 7,788,249
Interest and dividends	87,728	32,120	-	119,848
Net appreciation of investments	863,979	414,428	-	1,278,407
Contributions	481,107	188,449	-	669,556
Amounts appropriated for expenses	(1,500)	(207,902)	-	(209,402)
Endowment net assets, end of the year	\$ 7,119,127	\$ 2,292,134	\$ 235,397	\$ 9,646,658

The following table represents the changes in endowment net assets during the year ended:

<i>June 30, 2010:</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 5,079,415	\$ 1,908,352	\$ 210,347	\$ 7,198,114
Interest and dividends	83,779	32,694	-	116,473
Net appreciation of investments	525,094	161,553	-	686,647
Contributions	1,025	9,210	25,050	35,285
Amounts appropriated for expenses	(1,500)	(246,770)	-	(248,270)
Endowment net assets, end of the year	\$ 5,687,813	\$ 1,865,039	\$ 235,397	\$ 7,788,249

### *Return Objectives and Risk Parameters*

By policy, through prudent investing the invested assets of Council are invested and maintained in a balanced investment program. The primary objective is to provide maximum growth consistent with a policy of prudent investment and protection of assets. Growth will be attained through appreciation of assets, inclusion of additional funds when available, and from retention of earnings of the fund.

Under this policy, the invested assets achieve a long-term growth rate, which will surpass the long-run rate of inflation for a blended benchmark, whichever is greater according to the certain performance standards. Real growth will be measured by combining security price appreciation with earned income for a total return review and subsequently comparing this figure to the Consumer Price Index.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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

In order to protect the endowments against losses and to insure relative stability in its annual earnings the spending policy determines how much of the total return will be distributed to support programs. The spending policy aims to achieve a reasonable degree of stability and predictability in income available for current operations. The spending rule allows Council management to spend up to 5% of the average of the prior three years' beginning fiscal year unrestricted market value, excluding Plant fund assets, for programmatic purposes, regardless of the current year's market performance or earnings in the form of dividends, interest, or capital appreciation/depreciation. The spending policy will be reviewed periodically to determine its impact on the investment portfolio and organizational net assets.

### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires Council to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, as of June 30, 2011 and 2010, \$0 and (\$11,717) in deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investments of permanently restricted contributions.

## **11. Employee Retirement Plans and Postretirement Benefit Plan**

### *Employee Retirement Plan*

Council has a noncontributory, defined benefit pension plan (the Retirement Plan) that provides benefits for most of Council's employees upon attaining the age of 20 and one-half and completing at least 1,000 hours of service during their first year of employment or any subsequent Plan year. Council makes annual contributions to the Retirement Plan equal to the minimum funding standards of ERISA and accrues pension expense based upon actuarial cost methods. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The fair value of the plan assets was less than the estimated benefit obligation at June 30, 2011 and 2010. No contributions were required for the years ended June 30, 2011 and 2010 to satisfy the Retirement Plan's funding requirements for the year per the actuarial computation. Council contributed \$324,014 and \$216,985 in fiscal years 2011 and 2010, respectively, and is not required to make a contribution for fiscal year 2012 but anticipates it will contribute \$1,081,000 during the 2012 fiscal year.

The following is a summary of the funded status of the Retirement Plan as of June 30 and the key assumptions used by the Retirement Plan's actuary. These calculations are performed based on a measurement date of July 1, 2010 and 2009 for fiscal years ended June 30, 2011 and 2010, respectively.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

### Change in Benefit Obligation

<i>Years ended June 30,</i>	2011	2010
Benefit obligation, beginning of year	\$ (14,976,208)	\$ (13,419,298)
Service cost	-	-
Interest cost	(764,414)	(812,710)
Actuarial loss	(101,767)	(1,571,292)
Benefits paid	818,952	827,092
Plan amendments	-	-
<b>Benefit obligation, end of year</b>	<b>\$ (15,023,437)</b>	<b>\$ (14,976,208)</b>

The retirement plan was frozen effective June 30, 2009 and no additional benefits were earned by participants after that date. This plan freeze resulted in a curtailment accounting under FASB ASC 715. However, the gain, or reduction, in the projected benefit obligation (PBO) due to the freeze was less than the unrecognized net loss. Therefore, there is no immediate effect of the curtailment that needs to be recognized in the consolidated statements of activities. Rather, this reduction in PBO is recognized as a reduction in the unrecognized net loss on the Retirement Plan's Statement of Net Assets Available for Benefits.

Amounts recognized in the consolidated statements of financial position consist of the following at:

<i>June 30,</i>	2011	2010
Accumulated benefit obligation	\$ (15,023,437)	\$ (14,976,208)
Projected benefit obligation	(15,023,437)	(14,976,208)
Fair value of plan assets	10,480,013	9,166,354
<b>Funded status - under funded</b>	<b>\$ (4,543,424)</b>	<b>\$ (5,809,854)</b>
<b>Unfunded pension liability</b>	<b>\$ (4,543,424)</b>	<b>\$ (5,809,854)</b>

Items not yet recognized as a component of net periodic postretirement benefit cost:

<i>Year ended June 30,</i>	2011	2010
Actuarial loss	\$ 6,712,104	\$ 8,299,141
<b>Total</b>	<b>\$ 6,712,104</b>	<b>\$ 8,299,141</b>

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

Components of net periodic benefit cost recognized as expenses in the accompanying consolidated statements of activities:

<i>Year ended June 30,</i>	2011	2010
Service cost	\$ -	\$ -
Interest cost	764,414	812,710
Expected return on plan assets	(743,786)	(697,114)
Amortization of prior service cost	-	-
Amortization of prior losses	623,993	562,306
Net periodic benefit cost	\$ 644,621	\$ 677,902

Amounts of net gain and net prior service cost recognized in the accompanying consolidated statements of activities apart from expenses:

<i>Year ended June 30,</i>	2011	2010
Amendment (curtailment)	\$ -	\$ -
Amount reclassified to net periodic benefit cost	(623,993)	(562,306)
Amount arising during the period	(963,044)	1,109,224
Total	\$ (1,587,037)	\$ 546,918

Estimated amounts to be amortized during the following year:

<i>Year ended June 30,</i>	2011
Transition obligation	\$ -
Prior service cost	-
Actuarial loss	491,487
Total	\$ 491,487

The components of plan assets and the average asset allocations by asset category are as follows:

<i>June 30,</i>	2011		2010	
Mutual funds - Equity	\$ 4,188,804	40%	\$ 3,358,938	37%
Mutual funds - Fixed income	2,246,156	21%	2,188,008	24%
Mutual funds-International equity	1,962,008	19%	1,571,269	17%
Aetos hedge funds	1,315,446	12%	1,240,340	13%
Real estate equity fund	511,337	5%	460,196	5%
Group annuity contract	172,347	2%	193,574	2%
Short-term fund	83,915	1%	154,029	2%
Total plan assets at fair value	\$ 10,480,013		\$ 9,166,354	100%

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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The plan also follows ASC 820 (see Note 5). Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies at June 30, 2011 and 2010.

### *Mutual funds*

Investments in mutual funds represent units of participation in the respective funds and the fair value is determined by reference to the respective fund's underlying assets, which are principally marketable equities and fixed income securities. Shares held in mutual funds are traded on national securities exchanges and are valued at the net asset value.

### *Aetos hedge funds*

The alternative investments fair value is estimated based on the Plan's management's estimates and assumptions using information provided to the Plan by the investment manager. The values are based on estimates that require varying degrees of judgments and are classified as level 3 inputs within the investment hierarchy. Individual holdings within the alternative investments may include investments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly-traded securities, and other investment vehicles. The investments may directly expose the Plan to the effects of securities lending, short sale of securities, and trading in futures and forward contracts, options, swap contracts, and other derivative products. While these financial instruments contain varying degrees of risk, the Plan's exposure with respect to each such investment is limited to its carrying amount (fair value as described above) in each investment. The financial statement of the investees are audited annually by a nationally recognized firm of independent auditors. The Plan does not directly invest in the underlying securities of the investment fund and due to restrictions on transferability and timing of withdrawals from the funds, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions.

### *Group annuity contract*

The group annuity contract, consisting of an immediate participation guarantee (IPG) contract entered into during 1976, is stated at contract value (see also Note 5). Contract value represents contributions made under the contract plus interest at the contract rate less funds used to provide retirement benefits and pay administration expenses charged by the insurance company and the group contract administrator, and approximates fair value. There are no reserves against contract value for credit risk of the contract issuers or others.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

The following table sets forth, by level within the fair value hierarchy, the Plan's investment assets that are measured at fair value on a recurring basis as of June 30, 2011. As required by ASC 820, investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Asset Category:	Investment Assets at Fair Value			2011 Total
	Level 1	Level 2	Level 3	
<b>Mutual funds:</b>				
U.S. Core Equity Fund Class E	\$ 1,017,000	\$ -	-	\$ 1,017,000
Quantitative Equity Fund Class E	722,349	-	-	722,349
U.S. Growth Fund Class E	1,028,769	-	-	1,028,769
U.S. Value Class E	405,231	-	-	405,231
U.S. Small & Mid Cap Fund Class E	1,015,455	-	-	1,015,455
International Fund E	1,556,969	-	-	1,556,969
Emerging Markets Class E	405,039	-	-	405,039
Investment Grade Bond Fund Class E	1,068,068	-	-	1,068,068
Strategic Bond Fund Class E	594,000	-	-	594,000
Short Duration Bond Class E	584,088	-	-	584,088
Real Estate Fund E	511,337	-	-	511,337
<b>Aetos hedge funds:</b>				
Long/Short Strategies Cayman Fund	-	-	606,720	606,720
Multi-Strategy Arbitrage Cayman Fund	-	-	416,554	416,554
Distressed Investment Strategy Cayman Fund	-	-	292,172	292,172
<b>Group annuity contract:</b>				
Lincoln National Life Insurance Company Group annuity contract	-	-	172,347	172,347
<b>Short term fund:</b>	83,915	-	-	83,915
<b>Total investments at fair value</b>	<b>\$ 8,992,220</b>	<b>\$ -</b>	<b>\$ 1,487,793</b>	<b>\$10,480,013</b>

Level 3 investments were 14% of total plan assets at fair value.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

Asset Category:	Investment Assets at Fair Value			2010 Total
	Level 1	Level 2	Level 3	
<b>Mutual funds:</b>				
U.S. Core Equity Fund Class E	\$ 821,142	\$ -	\$ -	\$ 821,142
Quantitative Equity Fund Class E	572,327	-	-	572,327
U.S. Growth Fund Class E	824,496	-	-	824,496
U.S. Value Class E	321,278	-	-	321,278
U.S. Small & Mid Cap Fund Class E	819,696	-	-	819,696
International Fund E	1,222,970	-	-	1,222,970
Emerging Markets Class E	348,299	-	-	348,299
Investment Grade Bond Fund Class E	1,056,042	-	-	1,056,042
Strategic Bond Fund Class E	582,348	-	-	582,348
Short Duration Bond Class E	549,617	-	-	549,617
Real Estate Fund E	460,196	-	-	460,196
<b>Aetos hedge funds:</b>				
Long/Short Strategies Cayman Fund			527,079	527,079
Multi-Strategy Arbitrage Cayman Fund	-	-	386,932	386,932
Distressed Investment Strategy Cayman Fund	-	-	270,047	270,047
Capital Opportunities Cayman Fund	-	-	56,282	56,282
<b>Group annuity contract:</b>				
Lincoln National Life Insurance Company Group annuity contract	-	-	193,574	193,574
<b>Short term fund:</b>	154,029	-	-	154,029
<b>Total investments at fair value</b>	<b>\$ 7,732,440</b>	<b>\$ -</b>	<b>\$ 1,433,914</b>	<b>\$ 9,166,354</b>

Level 3 investments were 16% of total plan assets at fair value.

The following table sets forth the reconciliation of beginning and ending balances related to fair value measurements using significant unobservable inputs (Level 3):

	Aetos hedge funds	Guaranty annuity contract	Total
Balance as of July 31, 2009	\$ 1,097,332	\$ 213,713	\$ 1,311,045
Interest	-	5,683	5,683
Payments and settlements	-	(25,822)	(25,822)
Net appreciation	143,008	-	143,008
Balance as of June 30, 2010	1,240,340	193,574	1,433,914
Interest	-	5,675	5,675
Payments and settlements	-	(26,902)	(26,902)
Net appreciation	75,106	-	75,106
Balance as of June 30, 2011	<b>\$ 1,315,446</b>	<b>\$ 172,347</b>	<b>\$ 1,487,793</b>

Refer to Note 5 for Net Asset Value disclosure of the Aetos hedge funds.



# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

Council utilizes a target allocation of 50%-70% of the portfolio to be invested in equities with up to 30% of that to be invested in international equities. The fixed income portfolio should represent 30%-50% of the total portfolio. Due to ongoing economic conditions, Council did not maintain the allocations noted above; however, the investment policy allows discretionary levels between the upper and lower ranges.

Weighted average assumptions used to determine the benefit obligation and net periodic benefit cost are as follows:

<i>Years ended June 30,</i>	2011	2010
<i>Benefits Obligation:</i>		
Discount rate	5.25%	5.25%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	8.5%	8.50%
<i>Net Periodic Benefit Cost:</i>		
Discount rate	5.25%	6.25%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	8.50%	8.50%

The expected long-term rate of return on assets was determined by multiplying the historical rate of return for an asset class by the percentage of plan assets invested in that class and then adding the result for all classes. In general, it was based on returns for the Retirement Plan and the Retirement Plan's target asset allocation.

<i>Years ended June 30,</i>	2011	2010
Net periodic benefit cost	\$ 644,621	\$ 677,902
Employer contributions	\$ 324,014	\$ 216,985
Participant contributions	\$ -	\$ -
Benefits paid	\$ 818,952	\$ 827,092

### Estimated Future Benefit Payments

The following benefit payments, as appropriate, are expected to be paid:

<i>Years ending June 30,</i>	
2012	\$ 950,077
2013	975,413
2014	981,332
2015	966,184
2016	960,469
2017-2021	4,789,111
	\$ 9,622,586

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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### *403(b) Plan*

All employees are eligible to participate in a defined contribution retirement plan with Principal Trust Company after reaching the age of 21. Under the plan, Council contributes 2.5% of the employee's annual gross pay and 50 percent of the first 3 percent of eligible compensation deferred by participants. Employees may contribute up to 100 percent of their compensation not to exceed the annual maximum allowable amount under the Internal Revenue Code. Employee contributions may be in the form of a salary deduction or, more typically, a salary reduction whereby taxes on the contribution are deferred until retirement. Retirement expenses were \$296,580 and \$294,155 for the years ended June 30, 2011 and 2010, respectively.

### *Postretirement Benefit Plan*

Council also sponsors a postretirement health care benefit plan (the Postretirement Plan) that covers all full-time associates. The Postretirement Plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Participants become eligible for these benefits if they retire from Council after reaching age 55 with 10 or more years of service. The Postretirement Plan is contributory, with retiree contributions adjusted annually. The accounting for the Postretirement Plan anticipates future cost-sharing changes that are consistent with Council's announced policy regarding retiree premium contributions. Eligible participant retirees pay an amount equal to 10% of the total individual premium and 50% of the total individual premium if they wish to have this health coverage for a spouse. There are no requirements for Council to fund the Postretirement Plan, and as such no contribution has been made for the years ended June 30, 2011 and 2010. Council expects to contribute \$0 to its retiree medical plan in fiscal year 2012. The actuarial calculations are based on a measurement date of July 1, 2011 and 2010 for the years ended June 30, 2011 and 2010, respectively.

The measures of benefit obligations and net periodic postretirement benefit cost do reflect the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). However, there is no effect on Council's Plan due to the prescription drug benefit being ineligible for any federal subsidy.

The following table sets forth the Postretirement Plan's funded status and amounts recognized in Council's consolidated statements of financial position at:

<i>June 30,</i>	2011	2010
Accumulated benefit obligation	\$ (2,314,816)	\$ (2,549,092)
Fair value of plan assets	-	-
Funded status - under funded	\$ (2,314,816)	\$ (2,549,092)
Accrued benefits cost (including \$90,709 and \$83,328 reported as current liability for 2011 and 2010, respectively)	\$ (2,314,816)	\$ (2,549,092)

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

Items not yet recognized as a component of net periodic postretirement benefit cost:

<i>Year ended June 30,</i>	2011	2010
Actuarial gain	\$ 585,371	\$ 243,708

Components of net periodic postretirement cost in the accompanying consolidated statements of activities:

<i>Year ended June 30,</i>	2011	2010
Service cost	\$ 109,071	\$ 88,276
Interest cost	112,170	131,888
Actuarial gain	(27,261)	(21,078)
Net periodic postretirement benefit cost	\$ 193,980	\$ 199,086

Estimated amounts to be amortized during the following year:

<i>Year ended June 30,</i>	2011	2010
Actuarial gain	\$ 24,406	\$ -

Weighted average assumptions used to determine the postretirement benefit obligation are as follows:

<i>Years ended June 30,</i>	2011	2010
Discount rate	5.25%	5.25%
Health care cost trend rate		
Medical claims	5.0%	6.0%
Prescription drugs	5.0%	6.0%

The assumed trend of prescription drug costs is expected to continue to decrease through 2011 when it is projected to reduce to 5.0%. The following table sets forth the effect of a 1% increase and a 1% decrease in the trend assumption on the aggregate of the services and interest cost components of the net periodic postretirement benefit cost and the accumulated postretirement benefit obligation as of:

<i>June 30, 2011</i>	Assumed Trend	Assumed Trend +1%	Assumed Trend -1%
Service and interest cost	\$ 221,241	\$ 251,560	\$ 194,485
Accumulated postretirement obligation	\$ 2,314,816	\$ 2,597,241	\$ 2,063,313
<i>June 30, 2010</i>	Assumed Trend	Assumed Trend +1%	Assumed Trend -1%
Service and interest cost	\$ 220,164	\$ 249,850	\$ 193,947
Accumulated postretirement obligation	\$ 2,549,092	\$ 2,852,423	\$ 2,277,051

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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<i>Years ended June 30,</i>	2011	2010
Benefit cost	\$ 193,980	\$ 199,086
Benefits paid	\$ 86,593	\$ 84,290

### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<i>Years ending June 30,</i>	
2012	\$ 90,709
2013	93,219
2014	98,751
2015	99,347
2016	101,494
2017-2021	578,714
	<hr/>
	\$ 1,062,234

Given the estimates included in the calculations of these accumulated benefit obligations, it is possible amounts recorded under these plans may change in the near term. As stated earlier in the Summary of Accounting Policies, the value of Council's investments has a direct impact on its funded status. The actual impact, if any, and future required contributions cannot be determined at this time.

## 12. Commitments

### Operating Leases

Council has commitments under operating leases for office space and equipment expiring at various times through 2013. Some leases have scheduled rental increases and some contain options to renew.

Minimum rental payments under non-cancelable operating leases are as follows for the years ending June 30:

2012	\$ 62,236
2013	31,620
	<hr/>
Total minimum rental payments	\$ 93,856

For the years ended June 30, 2011 and 2010 rental expense was \$287,406 and \$268,676, respectively.

# National 4-H Council and Controlled Affiliates

## Notes to Consolidated Financial Statements

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### *Contingencies*

At any given time, Council may be involved in various claims or administrative matters. Management believes that at June 30, 2011, any liability that results from resolving these matters will not materially impact Council's consolidated financial position.

### 13. Consolidated Financial Information

The following chart of unrestricted operating revenue, operating expenses and change in net assets from unrestricted operating activities is presented for purposes of additional analysis of the consolidated financial statements.

<i>Year ended June 30, 2011</i>	National 4-H Council	National 4-H Activities Foundation	Total
Revenue	\$ 32,826,490	\$ -	\$ 32,826,490
Expenses	32,995,359	-	32,995,359
Decrease in net assets from operating activities	\$ (168,869)	\$ -	\$ (168,869)

  

<i>Year ended June 30, 2010</i>	National 4-H Council	National 4-H Activities Foundation	Total
Revenue	\$ 29,312,776	\$ 12,500	\$ 29,325,276
Expenses	29,954,066	12,500	29,966,566
Decrease in net assets from operating activities	\$ (641,290)	\$ -	\$ (641,290)

### 14. Subsequent Events

Council evaluated subsequent events through March 9, 2012, which is the date the consolidated financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these financial statements, except as noted below.

In October, 2011 Council lost a large customer of the National 4-H Youth Conference Center (the Center) due to an acquisition of that customer. This customer was expected to account for approximately \$2.9 million or 25% of fiscal year 2012 revenues related to the Center. Council is expected to recover \$1.3 million in revenues due to contracts signed with the new owners. In response to the projected reduction in revenues from this customer, the Center has taken steps to secure replacement business from additional clients.