

NRECA International Foundation

Financial Report
December 31, 2008

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
NRECA International Foundation
Arlington, Virginia

We have audited the accompanying balance sheet of NRECA International Foundation (the Foundation) as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Foundation's 2007 financial statements and, in our report dated April 2, 2008, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of NRECA International Foundation as of December 31, 2008, and the change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Vienna, Virginia
April 21, 2009

NRECA International Foundation

Balance Sheet

December 31, 2008

(With Comparative Totals For 2007)

Assets	2008	2007
Cash and Cash Equivalents	\$ 38,480	\$ 100,022
Accounts Receivable, net	24,730	61,371
Project Advances	330	-
Pledges Receivable	52,194	77,437
Intercompany Receivable from NRECA	475,007	357,207
Prepaid Expenses	-	21,451
Inventory	4,091	4,144
	<u>\$ 594,832</u>	<u>\$ 621,632</u>
Liabilities And Net Assets		
Liabilities		
Accounts payable	\$ 21,622	\$ 70,885
Deferred income	34,200	-
	<u>55,822</u>	<u>70,885</u>
Net Assets		
Unrestricted	358,270	444,786
Temporarily restricted	180,740	105,961
	<u>539,010</u>	<u>550,747</u>
	<u>\$ 594,832</u>	<u>\$ 621,632</u>

See Notes To Financial Statements.

NRECA International Foundation

Statement Of Activities
 Year Ended December 31, 2008
 (With Comparative Totals For 2007)

	2008			2007 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Contributions – cash	\$ 423,828	\$ 164,242	\$ 588,070	\$ 495,203
Contributions – in-kind	502,750	-	502,750	408,900
Grants	48,479	-	48,479	46,056
Miscellaneous income	36,612	-	36,612	7,780
Special fundraising event, net	-	25,283	25,283	55,457
Equipment and product sales	174	-	174	2,172
Net assets released from restrictions	114,746	(114,746)	-	-
Total support and revenue	1,126,589	74,779	1,201,368	1,015,568
Expenses:				
Program activities	1,035,452	-	1,035,452	818,930
General and administrative	145,584	-	145,584	92,691
Fundraising activities	32,069	-	32,069	23,948
Total expenses	1,213,105	-	1,213,105	935,569
Change in net assets	(86,516)	74,779	(11,737)	79,999
Net assets:				
Beginning	444,786	105,961	550,747	470,748
Ending	\$ 358,270	\$ 180,740	\$ 539,010	\$ 550,747

See Notes To Financial Statements.

NRECA International Foundation

Statement Of Cash Flows
 Year Ended December 31, 2008
 (With Comparative Totals For 2007)

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	\$ (11,737)	\$ 79,999
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	36,641	(46,056)
Pledges receivable	25,243	(27,125)
Project advances	(330)	3,000
Intercompany receivable from NRECA	(117,800)	(357,207)
Prepaid expenses	21,451	(21,451)
Inventory	53	26
Increase (decrease) in:		
Accounts payable	(49,263)	48,572
Intercompany payable to NRECA	-	(79,830)
Deferred revenue	34,200	-
Net cash (used in) operating activities	(61,542)	(400,072)
Net (decrease) in cash and cash equivalents	(61,542)	(400,072)
Cash And Cash Equivalents		
Beginning	100,022	500,094
Ending	<u>\$ 38,480</u>	<u>\$ 100,022</u>

See Notes To Financial Statements.

NRECA International Foundation

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: NRECA International Foundation (the Foundation) is a non-profit foundation created by National Rural Electric Cooperative Association (NRECA). The Foundation is the charitable arm of NRECA's International Program Division that also includes another NRECA affiliated company, NRECA International, Ltd. The purpose of the Foundation is to enhance and improve the lives of people living in developing countries through rural electrification.

The Foundation's major program activities include (1) Donated Materials and Equipment Program, wherein, U.S. electric cooperatives donate materials and equipment the Foundation either ships to overseas electric cooperatives or sells to fund other Foundation programs; (2) Sister Cooperative Program, which promotes the partnering of overseas electric cooperatives with U.S. electric cooperatives for purposes of providing technical assistance and support; and (3) Electrification Program, which promotes and assists U.S. electric cooperatives with funding and developing rural electrification projects overseas. Programs are primarily funded by cash and in-kind contributions received from U.S. electric cooperatives and their employees.

A summary of the Foundation's significant accounting policies follows:

Basis of accounting: The Foundation prepares its financial statements on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation had no permanently restricted net assets at December 31, 2008.

Cash and cash equivalents: The Foundation considers all investments with an original maturity of three months or less to be cash equivalents.

Receivables: The accounts receivable balance reflects the reimbursable shipping and administrative costs due from beneficiaries and the sales proceeds due from equipment sales to customers. Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts was \$54,128 at December 31, 2008.

NRECA International Foundation

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Inventory: Inventory consists of Microhydro Source books and is valued at cost. Cost is determined by the weighted average method. Management determines the allowance for obsolete inventory by identifying unmarketable items and by using historical experience applied to recent sales. There was no provision for obsolete inventory at December 31, 2008.

Support and revenue: The Foundation recognizes contributions, which include unconditional promises to give (pledges), as revenue when received or promised, whichever is earlier. Conditional contributions are recorded when the conditions have been met. Contributions are considered to be unrestricted unless specifically restricted by the donor. The Foundation reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use.

When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released and reclassified to unrestricted net assets in the statement of activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

Donated equipment sales and reimbursable cost revenue are generally recognized upon delivery of the related goods or services to the customer or beneficiary.

Contributed services and materials: Contributed services are reported at fair value in the financial statements when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would typically be purchased if not donated. The Foundation recorded contributed services valued at approximately \$380,630 for the year ended December 31, 2008, as both revenue and expense in the accompanying statement of activities.

Donated materials and equipment are recorded at their fair value at the date of the gift. Donated materials and equipment are recognized as revenue, assets, decreases of liabilities, or expenses depending upon the nature of the benefits received. The Foundation received donated materials and equipment valued at approximately \$122,120 for the year ended December 31, 2008. Most of the items were donated electrical equipment the Foundation used in its Equipment and Materials Program. The value of the donated materials and equipment are reported as in-kind contribution revenue and donated services and equipment expense in the accompanying statement of activities.

In 2008, volunteers donated a considerable amount of time to the Foundation's administrative and fundraising campaigns. These contributed services, however, do not meet the requirements for recognition in the financial statements.

Fundraising cost allocation: In September 2004, the Foundation began allocating a proportionate share of its fundraising costs to restricted contributions. The fundraising allocation rate is calculated by dividing the total fundraising costs by total fundraising revenue. The fundraising rate for the year ended December 31, 2008 was 5.23%, which resulted in \$9,909 being allocated to restricted contributions. However, only \$1,262 was approved and paid from restricted contributions; the remaining allocation was absorbed by the Foundation's unrestricted contributions. Foundation management has agreed with co-op project sponsors that the maximum amount of fundraising costs the Foundation will allocate to restricted contributions is 20%. If the actual fundraising rate exceeds 20%, the excess fundraising costs will be allocated to unrestricted contributions.

NRECA International Foundation

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Tax status and income taxes: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Foundation did not have any net unrelated business income for the year ended December 31, 2008.

Functional expense allocations: The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses that can be identified with a specific program or support service are charged directly according to their natural expense classification. Certain costs common to several functions have been allocated among the various programs benefited.

Estimates: The preparation of financial statements 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. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such 2007 summary information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Note 2. Pledges Receivable

This balance represents outstanding contributions pledged to the Foundation during the Fall 2007 and the Fall 2008 from the United Co-op Appeal campaigns in the amounts of \$16,774 and \$35,240 respectively. These pledges are expected to be fully collected within one year.

Note 3. Related Party Transactions

The Foundation is a not-for-profit entity created by NRECA. NRECA pays various expenses throughout the year on behalf of the Foundation and is reimbursed for those costs. The Foundation had an intercompany receivable balance of \$475,007 as of December 31, 2008.

Note 4. Temporarily Restricted Net Assets And Contributions

The Foundation had temporarily restricted net assets available to fund the following projects:

Guatemala Sister Cooperative: Contributions received to fund Sister Co-op Partnership between Kandiyohi Electric Co-op of Minnesota and Zacapa Municipal Electric Utility of Guatemala.

GA Volunteer Crew: Contributions received to fund the Georgia volunteer lineman crew international activities, related to building and reconstructing distribution lines, improving maintenance, and training lineman.

Philippines Project: Minnesota contributions received to fund electrification projects in various villages in the Mindanao Region of the Philippines.

Rotary Grant: Contributions received for miscellaneous shipping expenses for the Haiti project.

NRECA International Foundation

Notes To Financial Statements

Note 4. Temporarily Restricted Net Assets And Contributions (Continued)

Ilocos Sur – Philippines: Contributions received from Kauai Electric Cooperative in Hawaii to assist their sister electric co-op Ilocos Sur in the Philippines.

Caribbean Disaster Relief Fund: Contributions received for disaster-related emergencies in the Caribbean.

J. Palk Fund: Contributions received to sponsor a youth tour.

Haiti Project: Contributions received to assist the electric cooperative started in Pignon, Haiti by the Minnesota Valley Electric Cooperative.

The following schedule summarizes the restricted net asset activity for the year ended December 31, 2008:

Restricted Projects	December 31, 2007 Balance	Contributions and Other Incomes	Contributions and Other Incomes Used	Fundraising Costs Allocation	Unrestricted Contributions Allocation	Transfer	December 31, 2008 Balance
Guatemala Sister Co-op	\$ 13,921	\$ 90,000	\$ (39,283)	\$ (4,706)	\$ 4,706	\$ -	\$ 64,638
GA Volunteer Crew	22,969	25,283	(35,611)	(1,322)	1,322	32,256	44,897
Philippines Project	40,678	15,000	(14,122)	(784)	784	-	41,556
Rotary Grant	-	35,100	(10,819)	(1,835)	1,835	-	24,281
Ilocos Sur – Philippines	6,946	-	-	-	-	-	6,946
Caribbean Disaster Relief Fund	1,000	-	-	-	-	-	1,000
J. Palk Fund	310	-	-	-	-	-	310
Costa Rica Project	32,256	-	-	-	-	(32,256)	-
Haiti Project	(12,119)	24,142	(13,649)	(1,262)	-	-	(2,888)
Total	\$ 105,961	\$ 189,525	\$ (113,484)	\$ (9,909)	\$ 8,647	\$ -	\$ 180,740

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Supplementary Information

To the Board of Directors
NRECA International Foundation
Arlington, Virginia

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information which follows is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Vienna, Virginia
April 21, 2009

NRECA International Foundation

Schedule Of Activities By Function
 Year Ended December 31, 2008
 (With Comparative Totals For 2007)

	2008			2007 Total	
	Program Activities	General and Administration	Fundraising Activities		Total
Revenue:					
Contributions – cash	\$ -	\$ -	\$ 588,070	\$ 588,070	\$ 495,203
Contributions – in-kind	502,750	-	-	502,750	408,900
Grants	48,479	-	-	48,479	46,056
Miscellaneous income	24,600	12,012	-	36,612	7,780
Special fundraising event, net	-	-	25,283	25,283	55,457
Equipment and product sales	174	-	-	174	2,172
Total revenue	576,003	12,012	613,353	1,201,368	1,015,568
Expenses:					
Donated equipment and services	502,750	-	-	502,750	408,900
Travel and transportation	218,086	11,991	1,664	231,741	119,254
Personnel costs	114,389	88,704	13,551	216,644	149,322
Grant issues	100,000	-	-	100,000	100,000
Professional fees	28,375	8,373	238	36,986	18,001
Other operating expenses	14,712	15,037	20	29,769	32,396
Project materials and equipment	24,260	-	-	24,260	85,019
Meetings and conferences	23,200	212	55	23,467	582
Printing, artwork and production cost	650	3,011	10,817	14,478	3,448
Supplies and materials	4,306	7,352	-	11,658	6,878
Communication	554	3,238	4,770	8,562	3,802
Allocated staff overhead	-	7,546	-	7,546	-
Other financial expenses	4,117	120	954	5,191	7,941
Cost of goods sold	53	-	-	53	26
Total expenses	1,035,452	145,584	32,069	1,213,105	935,569
Change in net assets	\$ (459,449)	\$ (133,572)	\$ 581,284	\$ (11,737)	\$ 79,999