Board of Directors, Audit Committee and Management
National FFA Foundation, Inc.
Indianapolis, Indiana

As part of our audit of the consolidated financial statements of National FFA Foundation, Inc. (Foundation) as of and for the year ended December 31, 2012, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor’s Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Foundation’s significant accounting policies are described in Note 1 of the audited consolidated financial statements.

Alternative Accounting Treatments

No matters are reportable.
Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management’s estimation process and our procedures for testing the reasonableness of those estimates:

- Collectability and valuation of contributions/grants receivable
- Allocation of certain overhead costs between program and supporting services

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Note 8 - Endowment
- Note 9 - Related Party Transactions
- Note 10 - Disclosures About Fair Value of Financial Instruments
- Note 11 - Management’s Consideration of Operational Challenges

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the consolidated financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

- Proposed Audit Adjustments Recorded
  - Adjust net assets released from restriction

- Proposed Audit Adjustments Not Recorded
  - Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements as a whole.

Auditor’s Judgments About the Quality of the Entity’s Accounting Principles

No matters are reportable.
Significant Issues Discussed With Management

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Going concern consideration

Other Material Written Communications

The only other material written communications between management and us related to the audit is the management representation letter, a copy of which is attached.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the consolidated financial statements of the Foundation as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Foundation’s consolidated financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation’s consolidated financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
We observed the following matters that we consider to be a deficiency.

**Deficiency**

**Net Assets**

As noted previously, a journal entry to correct net assets released from restriction was identified by BKD as a result of our audit procedures. Since this adjustment was not identified by the Foundation's internal controls over financial reporting, we consider this to be indicative of a deficiency in internal control.

In addition to the adjustment noted above, there were two other matters that were identified during the audit. The Endowment Fund Management Fee of 1% that is charged to endowment funds was implemented in 2012 and was charged to almost all endowment funds. In reviewing initial donor agreements, it was noted that some of the agreements do not include language to allow for the fee to be charged. As such, it is not appropriate to charge the funds a fee that did not have initial donor permission of such charge. In addition, upon reviewing these endowment agreements, it was noted that one fund requires a reinvestment of 20% of the allocated income back into the corpus and this is not currently being done.

**OTHER MATTERS**

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the consolidated financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

**Sustainability of the Foundation**

The Foundation has faced some difficult financial times in recent years. A number of factors have contributed to this situation and management has attempted to address these factors in a variety of ways and with some success. However, the primary obstacle to a return to fiscal soundness has been the Foundation’s inability to raise or attract sufficient unrestricted resources to cover its operating costs and build its reserves. Consequently, the Foundation has been borrowing against its restricted resources to meet its operating costs for a number of years now.

Unless the Foundation is able to attract a significant influx of unrestricted resources in the short-term, it is unclear how the Foundation will be able to regain its financial stability. The financial model under which the Foundation has operated in the past is not likely to generate the financial results needed to produce a turnaround.
We therefore recommend the following, which we acknowledge, in some respects, will require a cultural shift for the Foundation. Some of these recommendations have already been implemented or suggested by management and we encourage the board to support management's efforts in this regard.

- Continue to pursue the growth of individual giving, with particular emphasis being placed on identifying and closing large transformational gifts of an unrestricted nature
- Continue to develop and implement unrestricted giving initiatives (like Blue Jackets, Blue Banners and Rising Sun) to provide other avenues for obtaining unrestricted support
- Consider a special one-time or multi-year appeal to sponsors and alumni to build an operating reserve and/or an endowment that will help to ensure the sustainability of the Foundation for future generations
- Develop and implement a formal operating reserve policy
- Continue the efforts to broaden the restrictions placed on sponsorships and gifts so as to allow for greater flexibility, both programmatically and operationally
- Closely monitor operating expenses, being careful to balance the need for cost reductions with the need for added resources to accomplish your goals
- Continue an absolute mandate against unfunded initiatives and require that monies be in hand before new programs are introduced

We are available to assist the Foundation in any way we can as it considers the decision to implement or continue any or all of these suggested strategies.

**Simplify Internal Accounting Systems**

During the audit this year, we experienced some difficulty working with the Foundation’s accounting system to resolve various audit issues we encountered. This is not a new circumstance, but one that is further compounded by the complexity of the issues that the Foundation is facing. We have also observed in recent years that management personnel have experienced their own difficulties and frustrations with the accounting system and processes. This is largely driven by the design of the Foundation’s chart of accounts, which is a function of the level of accounting detail that is being maintained in the system, among other things.

We therefore recommend the Foundation give serious consideration to redesigning its chart of accounts, as well as certain accounting processes and workflows, in order to simplify its financial recordkeeping and reporting. This would also lead to a less cumbersome financial reporting process and enable management to more effectively monitor its financial condition.

**Due-to/Due-from Organization**

Certain National FFA Organization (Organization) employees working on behalf of the Foundation have the ability to post journal entries on the Foundation’s general ledger. This is appropriate as long as certain controls and approvals are in place to monitor the transactions being posted. We recommend the Foundation clarify the responsibilities of these employees as it pertains to recording Foundation activity in order to ensure that appropriate approvals occur in advance and supporting documentation is provided to Foundation management on a timely basis.
FASB Not-for-Profit Advisory Committee

The FASB Not-for-Profit Advisory Committee (NAC) met in March and September 2012. The NAC was established by the FASB in 2009 to assist in obtaining input from the not-for-profit sector on existing and proposed accounting and financial reporting matters affecting not-for-profits. A brief summary of the NAC’s previous meetings can be found at http://www.bkd.com/articles/2012/FASB-not-for-profit-advisory-committee.htm.

These meetings of the NAC expanded the nature of the discussions to include both near- and long-term matters, such as:

- Challenges with measuring the fair value of gifts-in-kind, including such gifts that are (a) to be used outside the United States and for which there are no active markets; and (b) reporting of gifts-in-kind that are received by one organization for distribution to another organization.

- Current developments on the application of International Financial Reporting Standards to U.S. public companies and the Financial Accounting Foundation’s progress on the establishment of the Private Companies Council, whose focus is to improve the process of setting accounting and reporting standards for private companies.

- Opportunities for FASB to improve the relevance of information currently required by generally accepted accounting principles, while reducing the complexity of, and cost to obtain, such information.

- Opportunities to include other financial and non-financial information to allow not-for-profit organizations to share additional information relevant to creditors, donors, and other users of financial statements. Such information could potentially be presented in a management, discussion and analysis (MD&A) presentation. Discussions have also focused on current disclosure framework and suggested improvements to meet the needs of financial statement users.

- Further discussions on the concept of “public accountability” and how it relates to not-for-profit financial reporting, as well as the different needs of users of financial statements of not-for-profit organizations, private companies and public companies.

- Nonpublic Entity Definition Project, its significance for private companies and whether there is a need for a similar public/private or other distinctions among financial reporting standards for not-for-profit (NFP) organizations.

- Additional information on the status of the FASB’s two not-for-profit financial reporting projects. One project focuses on net asset classification and financial reporting information regarding liquidity, financial performance and cash flows, while the other project is focused on communications other than financial reports used by not-for-profits to inform donors, creditors and other stakeholders.

We will continue to keep the Foundation apprised of the NAC’s activities as discussions progress.

Current Economic Conditions

The current economic conditions continue to present difficult circumstances and challenges for not-for-profit organizations. As a result, not-for-profit organizations are facing declines in the fair values of investments and other assets, reductions in the number and amount of contributions and constraints on liquidity. The values of the assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for contributions receivable, etc. that could negatively impact the Foundation’s ability to maintain sufficient liquidity.
This communication is intended solely for the information and use of management, the Audit Committee, the Board of Trustees and others within the Foundation and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 24, 2013
National FFA Foundation, Inc.
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

**QUANTITATIVE ANALYSIS**

<table>
<thead>
<tr>
<th></th>
<th>Before Misstatements</th>
<th>Misstatements</th>
<th>Subsequent to Misstatements</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>18,628,243</td>
<td>(30,000)</td>
<td>18,598,243</td>
<td>-0.16%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>(4,204,155)</td>
<td>30,000</td>
<td>(4,174,155)</td>
<td>-0.71%</td>
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<td>Net Assets</td>
<td>(14,424,088)</td>
<td></td>
<td>(14,424,088)</td>
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</tr>
<tr>
<td>Revenues &amp; Income</td>
<td>(21,589,562)</td>
<td></td>
<td>(21,589,562)</td>
<td></td>
</tr>
<tr>
<td>Costs &amp; Expenses</td>
<td>18,177,087</td>
<td>(13,849)</td>
<td>18,163,238</td>
<td>-0.08%</td>
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<tr>
<td>Net Increase</td>
<td>(3,412,475)</td>
<td>(13,849)</td>
<td>(3,426,324)</td>
<td>0.41%</td>
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<td>Description</td>
<td>Financial Statement Line Item</td>
<td>Actual (F), Judgmental (J), or Projected (P)</td>
<td>Assets</td>
<td>Liabilities</td>
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<tr>
<td>-----------------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td>---------------------------------------------</td>
<td>--------</td>
<td>-------------</td>
</tr>
<tr>
<td>Prior year PAJE to accrue for legal fees</td>
<td>F</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To adjust for prepaid expenses/accrual payable</td>
<td>F</td>
<td>(30,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To reduce releases from restriction for fees charged to PRMA but should not have been</td>
<td>F</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Taxable passed adjustments:
- Times (1 - estimated tax rate of 0%):
  - Taxable passed adjustments net of tax impact:
    - Taxable passed adjustments:
      - (30,000)
      - 100%
      - (13,849)
      - 100%
      - (30,000)
      - 100%
      - (13,849)
      - 100%
      - (30,000)
      - 100%
      - (13,849)
      - 100%

Impact on Net Assets:
- (13,849)