2008 ANNUAL REVIEW

Vision and Direction:

Adapting to a Changing Regulatory Landscape

NATIONAL FUTURES ASSOCIATION®

An organization's Annual Review, by its very nature, focuses the reader's attention on past events. However, as we prepare this year's Annual Review for publication, the world's financial markets are experiencing unprecedented turmoil, and our attention, by necessity, must focus on the present – and the future.

The causes of this turmoil are many and they are complex. However, voices raised in Congress blame many of the economic problems on a regulatory breakdown and vow that the regulatory structure of the financial markets must be changed.

While we support a thorough review of the current regulatory framework, Congress should be careful not to attempt to fix those areas of regulation that are not broken. It's critical to remember that during the current crisis, the regulatory safeguards in place in the futures industry functioned as they were intended and no customer funds were lost due to a Futures Commission Merchant's insolvency.

We believe that futures regulation in the United States is strong and effective, but we also believe that regulatory organizations must continually examine and adapt their programs and policies to meet the demands of an evolving marketplace.

That's what we have always tried to do at NFA. During our 25 years of operation, we have witnessed firsthand the evolution of a dynamic industry. And as the industry evolved, NFA amended its rules, strengthened its enforcement capabilities and developed new efficiencies in order to stay true to its mission of protecting investors and safeguarding market integrity.

The achievements noted in this Annual Review, covering our most recent fiscal year (July 1, 2007 through June 30, 2008), illustrate NFA's ability to adapt to an expanding marketplace and a changing regulatory landscape.

For example, the CFTC Reauthorization Act of 2008 that was enacted as part of the Farm Bill in May 2008, will have far-reaching impact for NFA and for the futures industry. The legislation contains several provisions that NFA recommended to Congress over the past few years through testimony provided at congressional hearings, individual meetings held with congressional leaders and their staff members and discussions conducted with futures industry and government representatives.

In particular, we urged Congress to enhance the CFTC's regulatory authority over the off-exchange retail foreign exchange (forex) market, increase the minimum net capital requirements for firms acting as counterparties to retail forex transactions and require that all forex solicitors, trading advisors and fund managers register with the CFTC. We were very pleased to see all of these provisions included in the reauthorization legislation—provisions that will give the CFTC and NFA greater regulatory authority and consequently strengthen investor protection in this previously under-regulated market.

In the pages that follow, you will read a traditional Annual Review, outlining NFA's achievements during the past fiscal year. We are justifiably proud of all that we have accomplished. Yet we know that more work needs to be done, and we are prepared to face the great challenges that lie ahead.

The advent of a new administration in Washington and increased calls for stronger regulation of the financial markets require that NFA continue to demonstrate its effectiveness as it adapts to new regulatory realities. We must continue to demonstrate through our actions that self-regulation in the futures industry has been and will continue to be successful in safeguarding market integrity and protecting investors.

Daniel J. Roth
President and CEO

W. Robert Felker
Chairman of the Board


NFA
NATIONAL
FUTURES
ASSOCIATION

Registration

Throughout Fiscal Year 2008 NFA's Registration Department prepared for the anticipated provisions in the CFTC Reauthorization Act relating to new registration requirements for firms and individuals conducting business in the retail off-exchange foreign currency (forex) markets. The legislation, enacted by Congress as part of the Farm Bill in May 2008, creates a new registration category (Registered Foreign Exchange Dealer) for any firm that acts as the counterparty to forex contracts. In addition, the legislation requires any firm or individual whose business involves retail forex contracts to register with the CFTC and become Members of NFA.

Because of the new requirements, NFA made several enhancements to its Online Registration System (ORS). NFA also developed a new proficiency examination specific to retail forex activity, called the Series 34 exam. NFA has recommended to the CFTC that its forex rules require any individual applying for registration as a Forex AP to take and pass both the Series 3 exam and the Series 34.

Other ORS enhancements, not related to forex requirements, include a phonetic name search capability to ORS, allowing the registration staff at Member firms to locate the registration records of current and pending Associated Persons more efficiently. NFA also added four additional email notifications that NFA Members can subscribe to receive.

These notifications indicate when an individual branch office manager status is withdrawn; when an individual's floor broker and/or floor trader registration is conditioned, suspended, revoked or denied; when a registered firm has no listed principal that is also a registered Associated Person of the firm or a registered floor broker; and when a registered firm's last individual principal is withdrawn.

In October 2007, NFA began requiring firms to complete an electronic annual registration update through ORS. NFA developed this new electronic update process to maintain the integrity of the registration information, protect the privacy of each registrant's information and ensure the accuracy of the registration information. The process, similar to filing a Form 7-R, requires a firm to review all of its current registration information and, with certain exceptions, make appropriate changes online.

Another program administered by the Registration Department is NFA's restitution program, designed to distribute money to investors involved in judgments awarded in cases brought by the CFTC involving commodity fraud. In 2008, NFA made 12 distributions to 437 investors totaling over $2 million. During the last 10 years, NFA has distributed over $15.6 million to more than 7,300 investors.

Compliance

Retail forex continued to be a priority for NFA's Compliance Department in FY 2008. Although forex dealers make up less than one percent of NFA's membership, NFA expends 20% of its total compliance resources on forex firms.

However, NFA's Compliance Department also continued to experience increased operational efficiencies, a direct result of the restructuring of the department in July 2006. For example, the new investigations group of the department has allowed NFA to address problem firms more quickly, reducing the critical time from the start of an audit to the issuance of a complaint.

Another important efficiency was achieved by focusing NFA's audit resources on the areas of the firm which pose the greatest risk to the firm's operations. Subsequently, NFA conducted approximately 750 audits in FY 2008, a 20% increase over the past two fiscal years. This number includes regular audits of NFA firms, audits of firms applying for NFA membership and examinations related to anti-money laundering programs. While increasing the number of audits conducted, NFA at the same time decreased the average length of time it takes to issue audit reports by 33%.

In addition to conducting audits and investigations, NFA's Compliance Department reviewed over 4,600 financial statements filed by FCMs and IBs and 1,900 statements filed by CPOs. NFA also reviewed nearly 3,700 CPO and CTA disclosure documents, a 12% increase from the prior fiscal year. In addition, NFA reviewed over 1,700 pieces of promotional material, 30% more than in FY 2007.

Helping NFA Members understand and fulfill their regulatory requirements is another important function of NFA's Compliance Department. Working in collaboration with the Communications and Education Department, Compliance staff held workshops for NFA Members on promotional material and compliance issues for small firms. NFA also produced a Web seminar on promotional material and co-sponsored a Web seminar with the National Introducing Brokers Association discussing how to prepare for an NFA audit. In addition, NFA continued its series of "Issues and Answers" meetings with NFA Members in Boston and Los Angeles, providing NFA with valuable feedback from NFA Members on a variety of regulatory issues.

"... the new investigations group of the department has allowed NFA to address problem firms more quickly, reducing the critical time from the start of an audit to the issuance of a complaint."

Rule Development and Enforcement

Rulemaking related to retail off-exchange foreign currency (forex) trading again dominated NFA's agenda in 2008. NFA increased the minimum net capital requirement for Forex Dealer Members (FDMs) to $5 million on December 21, 2007. NFA also adopted Disclosure Document requirements for forex pool operators and trading advisors, defined "Acceptable Collateral" for forex security deposits and established a requirement that FDMs provide NFA with an internal control report prepared and certified by an independent public accountant before commencing its retail forex business.

In addition, NFA made several amendments to various interpretive notices to include the following requirements:

- The employee at a Forex Dealer Member (FDM) who is responsible for reviewing promotional materials must be under the supervision of a principal who is also an NFA Associate. As a result of this amendment, an individual principal of the FDM may be held responsible for the use of fraudulent or misleading promotional materials;
- FDMs must disclose to its retail customers that the FDM is acting as a principal in its transactions with its customers and may profit from the market moving against the customer; and
- FDMs must submit to NFA two types of reports regarding its electronic trading system: exception reports for trades meeting certain parameters and transaction reports to aid the firm and NFA auditors in calculating the FDM assessment fee.

In addition to forex-related rules, NFA addressed issues including misuse of trade secrets and anti-money laundering requirements.

NFA adopted a new interpretive notice entitled "Compliance Rule 2-4: Misuse of Trade Secrets and Proprietary Information". The notice, which became effective on September 5, 2007, states that Compliance rule 2-4 prohibits Members and Associates from knowingly obtaining or seeking to obtain another Member's or Associate's confidential information or trade secrets without that person's permission and from knowingly or recklessly misusing confidential information or trade secrets in their possession when these activities may harm customers.

In March 2008, NFA's amended interpretive notice detailing anti-money laundering programs became effective, incorporating additional requirements and guidance provided by the Financial Crimes Enforcement Network.

Equally important as rule development is rule enforcement. In FY 2008, NFA's Business Conduct Committee issued 43 Complaints. The Complaints involved various rule violations, including sales practice, financial and recordkeeping, late filing of pool financial statements, and failure to supervise. NFA's disciplinary committees issued 59 Decisions, ordering 28 expulsions from membership and assessing over $2 million in fines. NFA also issued 8 Member Responsibility Actions against firms whose actions posed immediate threats to the markets and their customers.

NFA's enforcement efforts also extend to the criminal courtroom where NFA staff has helped prosecutors by providing expert testimony in commodity fraud cases. NFA also refers matters to other regulators, such as the SEC and FINRA, and law enforcement agencies, such as the FBI. In addition, we continued our regular enforcement liaison meetings with the U.S. Department of Justice's Securities and Commodities Fraud Working Group, the Chicago U.S. Attorney's Office, FBI, CFTC, U.S. Postal Inspector's Office and the Illinois Department of Securities.

"NFA's disciplinary committees issued 59 Decisions, ordering 28 expulsions from membership and assessing over $2 million in fines."

Arbitration

In Fiscal Year 2008, NFA's Arbitration Department received 176 arbitration claims and closed 97 cases either through settlement or award. In addition, the department expanded its arbitrator education programs and amended NFA's Arbitration Code and Member Arbitration Rules to encourage more cases to be decided by summary proceedings rather than oral hearings.

Enlisting qualified, impartial arbitrators is a crucial element to the success of NFA's arbitration program. NFA Arbitrators are required to demonstrate proficiency in arbitration principles and procedures with NFA at least once every three years. In July 2007, NFA launched an online learning program for its arbitrators to help them fulfill their ongoing training requirements.

The program consists of five modules covering various aspects of NFA's arbitration program and four quizzes. Once an arbitrator completes the program, the test scores are sent electronically to NFA and stored in a data base.

Under NFA's Code of Arbitration, the criteria for determining whether an arbitration case will be decided by a summary proceeding where one arbitrator decides the case based on the parties' written submissions or by an oral hearing is based on the amount of the claim. For the past several years, all cases with claim amounts under $25,000 were administered by a summary proceeding. However, parties with claims between $5,000 and $25,000 could request an oral hearing. These requests can substantially increase the processing time and fees for these cases, which is a detriment to both customers and Members and increases NFA resources needed to process the case.

In April 2008, the CFTC approved amendments to NFA's Code of Arbitration increasing the level at which parties can request an oral hearing to $15,000 and requiring a $525 fee to accompany any request for an oral hearing.

"Enlisting qualified, impartial arbitrators is a crucial element to the success of NFA's arbitration program. In July 2007, NFA launched an online learning program for its arbitrators to help them fulfill their ongoing training requirements."

Investor Education

With an almost endless array of financial products to choose from, investors are faced with extraordinary challenges, and the need for independent, comprehensive educational resources is critical. In Fiscal Year 2008, NFA expanded its investor education programs and developed partnerships with other investor education organizations to enhance distribution of NFA educational materials.

In October 2007, NFA introduced an online learning program designed for individuals who want to learn about exchange-traded futures products. The program, based on NFA's publication "Opportunity and Risk: An Educational Guide to Trading Futures and Options on Futures", consists of four self-directed modules, a series of quizzes to help reinforce basic concepts and a complete glossary of terms related to futures trading. Since its launch, more than 10,000 investors have accessed the program, which is offered free of charge on NFA's Web site.

NFA gave educational presentations at the American Association of Individual Investors conference in Orlando in November 2007 and at a futures trading seminar sponsored by the CME Group in New York in February 2008. In addition, NFA continued its collaboration with the Federal Reserve Bank of Chicago's annual Money Smart Week. The event offers a wide variety of finance-related programs throughout Chicago and the surrounding suburbs.

Conducting due diligence is essential to every investor, and NFA provides valuable resources to help investors. NFA's Background Affiliation Status Information Center (BASIC) is an extensive database of registration and disciplinary information on futures firms and individuals that is available through NFA's Web site. Last year more than 1.4 million background checks were conducted through BASIC.

Investors, as well as NFA Members, also use NFA's Information Center and Web site as important information resources. NFA's Information Center Representatives received more than 47,000 calls in FY 2008 and more than 2 million visitor sessions were logged in on NFA's Web site.

"In Fiscal Year 2008, NFA expanded its investor education programs and developed partnerships with other investor education organizations to enhance distribution of NFA educational materials."

Looking ahead

The debate over the most effective regulatory structure for the financial markets has been going on for many years, but the need for a thorough review of how best to regulate an increasingly complex marketplace has arguably never been greater. .

As the discussion continues in Washington, it's important to note that futures industry regulation has an impressive track record and that NFA's self-regulatory model has been praised and replicated by financial markets worldwide.

We believe that NFA has the experience, qualifications and commitment to investor protection to adapt to whatever changes may be made to the current regulatory landscape.

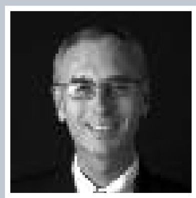
NATIONAL FUTURES ASSOCIATION®

Officers & Board of Directors

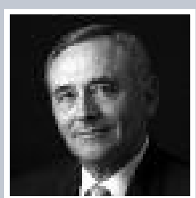
As of June 30, 2008

Officers

Daniel J. Roth*
President & CEO



Daniel A. Driscoll
Exec. Vice-President
Chief Operating Officer



Kenneth F. Haase
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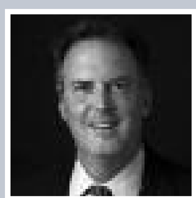
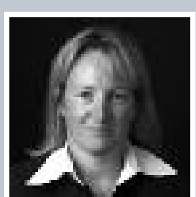
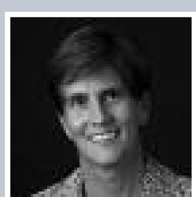
Information Systems



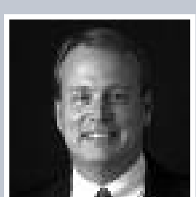
Thomas Sexton III
Sr. Vice-President
General Counsel
& Secretary



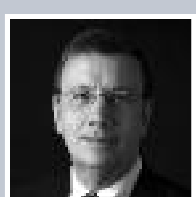
Regina Thoele
Sr. Vice-President
Compliance



Karen K. Wuertz
Sr. Vice-President
Strategic Planning
and Communications



David Hawrysz
Vice-President
Chief Financial Officer
Treasurer



Gregory C. Prusik
Vice-President
Registration

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Chairman of the Board
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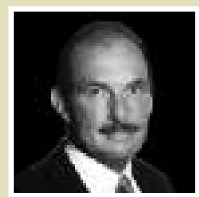
Chief Executive Officer
Penson GHCO

Commodity Pool Operator and Commodity Trading Advisor Representatives

Craig L. Caudle
Chief Executive Officer
Liberty Funds Group, Inc.



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Campbell & Company, Inc.

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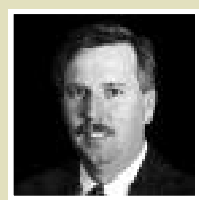
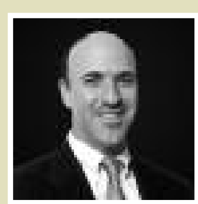
Co-Chairman & Co-CEO
The Millburn Corp.



Robert E. Murray
Chief Operating Officer
Graham Capital
Management LP

Introducing Broker Representatives

Paul J. Georgy*
President
Allendale, Inc.



John A. Vassallo
President
Coquest, Inc.

* *Member of the Executive Committee*

Futures Commission Merchant Representatives

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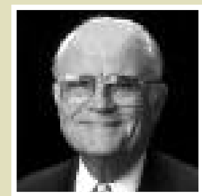
Rosenthal Collins Group LLC

William F. McCoy
Managing Director
Morgan Stanley

Michael R. Schaefer*
Managing Director
Citigroup Global Markets, Inc.

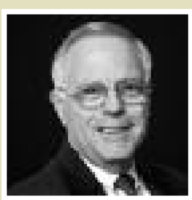
Special Advisors

Leo Melamed
Permanent Special Advisor to the Board & Executive Committee

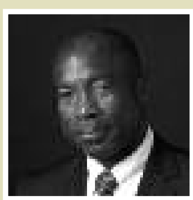


Robert K. Wilmouth
Special Policy Advisor

Public Representatives



Thomas W. Ewing
Attorney
Davis & Harman LLP



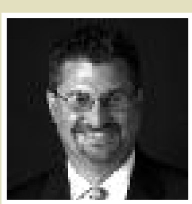
Douglas E. Harris
Managing Director
Promontory Financial Group L.L.C.

Silas Keehn
Past President
Federal Reserve Bank of Chicago

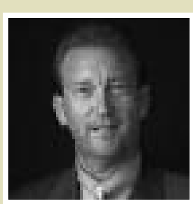
Todd E. Petzel*
Chief Investment Officer
Offit Capital Advisors LLC

Susan M. Phillips
Dean
School of Business
The George Washington University

Exchange Representatives

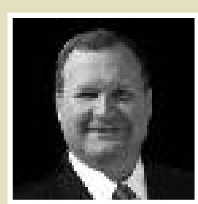


Mark G. Bagan*
President & CEO
Minneapolis Grain Exchange



Jeffrey C. Borchardt
President & CEO
Kansas City Board of Trade

David S. Goone
Senior Vice-President & Chief Strategic Officer
IntercontinentalExchange, Inc.



James E. Newsome
President
New York Mercantile Exchange

John F. Sandner*
Special Policy Advisor & Retired Chairman of the Board
CME Group Inc.

2008 Financials

Report of Independent Certified Public Accountants

2008 Financials

Report of Independent Certified Public Accountants

Board of Directors
National Futures Association

We have audited the accompanying statement of financial position of National Futures Association (the "Association") as of June 30, 2008 and 2007, and the related statements of unrestricted revenues, expenses and changes in unrestricted net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 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 the Association'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 financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of National Futures Association as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
September 28, 2008

Statements of Financial Position

JUNE 30, 2008 AND 2007

	2008	2007
Assets		
Current Assets:		
Cash and cash equivalents, including $4,670,459 and $12,458,892 of interest-bearing deposits in 2008 and 2007, respectively	$5,360,200	$13,183,892
Short-term investments	37,171,820	20,944,273
Accrued interest	54,416	365,793
Assessments receivable	2,613,690	3,368,545
Other current assets, net	1,224,292	1,085,673
Total Current Assets	**46,424,418**	**38,948,176**
Long-Term Investments:	2,750,614	9,654,129
Furniture, Fixtures, Equipment, Leasehold Improvements and Software, net	10,533,862	3,846,376
Other Assets	3,029,992	2,760,534
Total Assets	**$62,738,886**	**$55,209,215**
Liabilities and Net Assets		
Current Liabilities:		
Unearned dues and fees	$1,886,394	$1,476,152
Accounts payable, accrued expenses and other current liabilities	3,273,401	2,115,955
Total Current Liabilities	**5,159,795**	**3,592,107**
Deferred Rent Credit	3,694,220	271,386
Other Long-Term Liabilities	3,957,861	3,813,332
Total Liabilities	**12,811,876**	**7,676,825**
Unrestricted Net Assets	49,927,010	47,532,390
Total Liabilities and Net Assets	**$62,738,886**	**$55,209,215**

The accompanying notes are an integral part of these statements.

Statements of Unrestricted Revenues, Expenses and Changes in Unrestricted Net Assets

YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Unrestricted Revenues		
Assessments	$27,595,613	$31,052,289
Membership dues	7,823,523	4,010,756
Registration and other fees	3,224,409	3,099,875
Regulatory services outsourcing	2,454,320	2,316,101
Investment income	345,809	2,034,618
Total Unrestricted Revenues	**41,443,674**	**42,513,639**
Unrestricted Expenses		
Salaries, wages and employee benefits	26,158,263	24,689,096
Space rental and related expenses	2,126,880	2,613,348
Travel and meetings	2,874,228	2,239,201
Computer expenditures	1,132,133	872,677
Depreciation and amortization	2,788,950	2,496,492
Outside consulting fees and services	1,364,512	1,093,886
Supplies, postage and telephone	336,454	350,025
Outside printing and publications	111,602	103,815
Board and committee fees and expenses	547,510	494,793
Insurance, recruiting, education, dues and other	1,608,522	1,366,407
Total Unrestricted Expenses	**39,049,054**	**36,319,740**
Increase in Unrestricted Net Assets	**2,394,620**	**6,193,899**
Unrestricted Net Assets at beginning of year	**47,532,390**	**41,338,491**
Unrestricted Net Assets at end of year	**$49,927,010**	**$47,532,390**

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Increase in unrestricted net assets	$2,394,620	$6,193,899
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Net unrealized loss (gain) on investments	1,178,632	(742,754)
Net realized (gain) loss on investments	(1,205)	184,406
Realized loss on sale of fixed assets	282,114	-
Depreciation and amortization	2,788,950	2,496,492
Changes in assets and liabilities:		
Assessments receivable	754,855	(159,676)
Accrued interest	311,377	(107,953)
Other assets	(408,077)	(193,065)
Unearned dues and fees	410,242	445,015
Accounts payable, accrued expenses and other liabilities	1,301,975	(383,346)
Deferred rent credit	3,422,834	(193,066)
Net Cash Provided by Operating Activities	**12,436,317**	**7,539,952**
Cash Flows from Investing Activities		
Purchases of fixed assets and software	(9,758,550)	(1,534,734)
Purchases of securities	(51,113,365)	(52,975,039)
Proceeds from sale of securities	34,991,354	44,562,003
Maturities of U.S. Treasury securities	5,620,552	10,036,730
Net Cash (used in) Provided by Investing Activities	**(20,260,009)**	**88,960**
Net (Decrease) Increase in Cash and Cash Equivalents	**(7,823,692)**	**7,628,912**
Cash and Cash Equivalents at beginning of year	**13,183,892**	**5,554,980**
Cash and Cash Equivalents at end of year	**$5,360,200**	**$13,183,892**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

JUNE 30, 2008 AND 2007

NOTE A ORGANIZATION

The Commodity Futures Trading Commission has designated National Futures Association (the "Association") as a registered futures association. Among the Association's activities are qualification screening and registration, financial and trade practice surveillance, enforcement of customer protection rules and uniform business standards, arbitration of disputes and educational activities. The Association is financed through the payment of assessments and dues by its Members and registration fees by registrants.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates—The financial statements of the Association have been prepared, using the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amounts of 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 these estimates.

Federal Income Taxes—The Association is exempt from federal income taxes under Section 501(c)(6) of the U.S. Internal Revenue Code. The Internal Revenue Service has issued a determination letter to that effect.

Assessments—Assessments are reported monthly and are due within 30 days. They are recognized as revenue in the month to which they apply. Amounts reported, but not yet collected, are recognized as assessments receivable on the statements of financial position.

Investments—Investments are carried at fair value based on quoted market prices. Changes in fair values are included in investment income.

Membership Dues—Membership dues are non-refundable and are recognized as revenue on a pro rata basis over each Member's membership year. Amounts received, but not yet earned, are recognized in unearned dues and fees on the statements of financial position.

Registration Renewal Fees—Registration renewal fees are non-refundable and are recognized as revenue on a pro rata basis over each registrant's renewal period. Amounts received prior to the event are recognized in unearned dues and fees on the statements of financial position.

Regulatory Services Outsourcing—Regulatory services outsourcing revenue relates to the Association's market and trade practice surveillance services. This revenue consists of one-time non-refundable fees and monthly fees for ongoing services for each customer. One-time fees are used by the Association to purchase hardware and software necessary to perform surveillance services for a given customer and are recognized as revenue when paid by the customer. Monthly fees and a transaction fee for ongoing surveillance and other regulatory services are recognized as revenue on a monthly basis as services are performed.

Depreciation and Amortization—Furniture, fixtures, equipment and leasehold improvements are depreciated over three to seven years or the term of the lease, if applicable, on a straight-line basis. The Association uses the half-year convention so that the first and last years of depreciation and amortization are one-half the straight-line amount and all middle years are in direct proportion to the useful life of the capitalized item.

Purchased Software—Purchased software is included in fixed assets, and is capitalized and amortized over three years on a straight-line basis using the half-year convention.

Software Design and Development Costs—Software design and development costs consist of salaries and benefits of the Association's personnel involved in projects to develop software for internal use. Software design and development costs incurred in the preliminary stage of a project, as well as training and maintenance costs, are expensed as incurred. Software design and development costs associated with the application development stage of software projects are capitalized until such time that the software is substantially complete and ready for its intended use. Capitalized software design and development costs are amortized over three years on a straight-line basis using the half-year convention.

Deferred Rent Credit—Due to the terms of the Association's primary office space leases, a deferred rent credit was generated. The deferred rent credit is amortized over the remaining terms of the respective leases, which range from three to twelve years. The Association computed an average monthly rental for the entire term of each lease and charged this amount to rental expense each month. The difference between the average monthly rental and the actual monthly rental payment is accounted for as either an increase or reduction of the deferred rent credit.

Allowance for Doubtful Accounts—The allowance for doubtful accounts, related to membership dues receivable, registration revenue receivable and regulatory fines, is maintained at a level that in management's judgment is adequate to provide for estimated probable losses related to receivables and is based on the length of time receivables have been outstanding, historical experience and an assessment of business economic conditions. At June 30, 2008 and 2007, the allowance for doubtful accounts is $444,770 and $634,793, respectively, and is included in other current assets on the statements of financial position.

NOTE C CASH AND CASH EQUIVALENTS

The Association considers money market accounts and investments with an original maturity of less than three months to be cash equivalents.

NOTE D INVESTMENTS

The Association's investment portfolio is classified on the statements of financial position as short-term and long-term investments. Short-term investments consist of securities with maturity dates of one year or less. Long-term investments consist of securities with maturity dates greater than one year. Also included as short-term investments is the Association's investment in an equity and fixed income mutual funds.

In 2008, the Association liquidated its professionally managed bond portfolio into a self-directed bond portfolio. The majority of the funds were invested in an Intermediate Term Treasury Bond fund. Additionally, $5 million has been invested equally into two equity-based index funds, Developed Markets and Extended Markets Signal.

The aggregate fair value of investments by major type as of June 30, 2008 and 2007, is as follows:

Short-term:	**2008**	**2007**
U.S. Treasury securities	$3,647,536	$18,811,715
U.S. Government Agency securities	1,188,086	1,829,844
Developed Markets Index Fund	1,594,973	-
Extended Markets Signal Index Fund	1,631,966	-
Intermediate Term Treasury Bond Fund	24,612,143	-
S&P 500 Index Mutual Fund	4,497,116	-
Asset-backed securities	-	274,463
Mortgage-backed securities	-	28,251
Total short-term investments	**$37,171,820**	**$20,944,273**

Long-term:	**2008**	**2007**
U.S. Treasury securities	$836,548	$1,455,594
U.S. Government Agency securities	1,914,066	3,021,986
S&P 500 Index Mutual Fund	-	5,176,549
Total long-term investments	**$2,750,614**	**$9,654,129**
TOTAL	**$39,922,434**	**$30,598,402**

The composition of investment income, which includes interest-bearing cash and cash equivalent holdings, for the years ended June 30, 2008 and 2007, is as follows:

	2008	**2007**
Interest income	$1,523,236	$1,476,270
Net realized gain (loss) (includes management fee of $3,101 and $43,973 in 2008 and 2007, respectively)	1,205	(184,406)
Net unrealized (loss) gain	(1,178,632)	742,754
TOTAL	**$345,809**	**$2,034,618**

NOTE E FURNITURE, FIXTURES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND SOFTWARE

At June 30, 2008 and 2007, furniture, fixtures, equipment, leasehold improvements and software, and the related accumulated depreciation and amortization is as follows:

	2008	2007
Furniture and fixtures	$2,134,592	$2,217,047
Equipment	3,761,202	2,563,372
Leasehold improvements	5,456,767	6,018,544
Software	3,388,883	2,585,240
Total	**$14,741,444**	**$13,384,203**
Less accumulated depreciation and amortization	4,207,582	9,537,827
Furniture, fixtures, equipment, leasehold improvements and software, net	**$10,533,862**	**$3,846,376**

NOTE F COMMITMENTS AND CONTINGENCIES

The Association leases office space in Chicago and New York. The current Chicago lease expires on December 31, 2019. The current New York lease expires on October 31, 2011. The Association has a 24 month contract with a disaster recovery service provider that expires August 28, 2010. The Association has a 36 month contract with a telecommunication provider that expires October 26, 2010. The following is a schedule of future payments under both of the operating leases and the disaster recovery service contract that have remaining non-cancellable payment terms as of June 30, 2008:

Years ending June 30,

2009	$1,664,973
2010	1,657,137
2011	1,566,877
2012	1,104,579
2013	902,213
Thereafter	6,436,784
Total	**$13,332,563**

In the normal course of business, the Association is, at times, involved in pending legal proceedings. Management, after consultation with outside legal counsel, believes that the resolution of current proceedings will not have a material effect on the Association's net assets.

NOTE G EMPLOYEE BENEFIT PLANS

The Association sponsors an Employee Retirement Savings Plan (the "Savings Plan"). Contributions to the Savings Plan of up to 100% of employees' compensation can be made through payroll deductions. The Association will match, dollar-for-dollar, employee contributions up to 6% of the employee's eligible compensation. The Association may also contribute to the Savings Plan an additional, profit-sharing contribution expressed as a percent of the calendar year's compensation of participants who are employed on the last day of the calendar year. A profit-sharing contribution for 2007 of $922,349 was made in 2008. A profit-sharing contribution for 2006 of $853,538 was made in 2007. Employees are eligible to participate in the Savings Plan upon their date of hire. Employee contributions and any vested employer contributions are payable upon termination or retirement as stipulated in the Savings Plan.

The Association also sponsors the Retiree Medical Benefits Plan (the "Plan"), which covers substantially all retirees and their dependents. Effective December 31, 1993, employees who retire from the Association on or after attaining age 55 and who have at least 10 years of full-time service with the Association are entitled to receive benefits from the Plan. Individuals who attained age 65 on or before December 31, 1993, who have been employed by the Association on a full-time basis for at least five years, and who retired after July 1, 1993, were grandfathered under the Plan. The Plan pays a stated percentage of the cost of medical coverage for employees who retire prior to age 65. Coverage for employees who have retired and have reached age 65 is provided under a Medicare Supplemental Plan. Under the Medicare Supplemental Plan, the Association pays a stated percentage of the supplemental costs. Subsequent to July 1, 2003, the eligibility requirement was amended to reflect that employees can retire at age 55 or older but must have at least 10 years of service since their 45th birthday. All employees will retire having at least 10 years of service preceding their retirement.

Subsequent to July 1, 2003, the structure is based on age at retirement:

	Retiree's Share	
Age	**Pre-65**	**Post-65**
55-59	70%	40%
60-64	60%	30%
65 plus	50%	20%

At June 30, 2008 and 2007, the actuarial and recorded liabilities for the Plan, none of which has been funded, and the net periodic post-retirement benefit cost and benefits paid for the Plan that are included in other long-term liabilities, were as follows:

Amounts recognized in the statements of financial position	2008	2007
Accumulated post-retirement benefit obligations	$(2,645,486)	$(2,251,137)
Unrecognized prior service cost	(871,603)	(1,089,503)
Unrecognized net gain	(555,311)	(598,351)
Unrecognized transition obligation	134,725	153,972
Accrued post-retirement benefit cost	**$(3,937,675)**	**$(3,785,019)**

The estimated net periodic post-retirement benefit cost for the Plan for the year ending June 30, 2008, is $171,343 assuming a discount rate of 6.5%. The breakdown of the cost is as follows:

Net periodic post-retirement benefit cost	2008
Service cost	$254,830
Interest cost	155,394
Amortization of (gain) loss	(40,228)
Amortization of prior service cost	19,247
Amortization of transition obligation	(217,900)
Total net period post-retirement benefit cost	**$171,343**

The accumulated post-retirement benefit obligation was determined using an assumed weighted-average discount rate of 6.5% at June 30, 2008 and 6.25% at June 30, 2007. The rate of increase in the gross cost of covered healthcare benefits was assumed to be 8.00% for fiscal years 2008 and 2007. The rate of increase is assumed to decline by 1.00% for each year after 2009 to 6.00% in 2011. It is assumed that the rate will then decrease by 0.50% to 5.50% for 2012 and another 0.50% to 5.0% for 2013 and after.

The Association also participates in the purchase of life insurance on behalf of certain executive officers ("Executives") as part of the National Futures Association Split Dollar Life Insurance Plan (the "Split Dollar Plan"). The purpose of the Split Dollar Plan is to provide participating Executives with an insured death benefit during employment and after retirement. The insurance policy also allows for capital accumulation through the buildup of cash value. Upon termination of employment, death or maturity of the policy, the Association receives cash value equal to the cumulative premium paid by the Association. As of June 30, 2008 and 2007, the cumulative premium paid on behalf of the Executives is $2,975,869 and $2,696,952, respectively, and is classified in other assets on the statements of financial position.

NOTE H DEFERRED RENT CREDIT

Effective November 2001, the Association executed a 10-year operating lease for office premises in New York. Also, effective January 2008, the Association executed a 12-year operating lease for office premises in Chicago. The leases include rent incentives, and, accordingly, the Association is recognizing such abatement as an adjustment to a deferred rent credit over the terms of the lease on the straight-line basis. The total deferred rent credit at June 30, 2008 and 2007 was $4,010,997 and $439,574, respectively, of which $316,777 and $168,190, respectively, are included in accounts payable, accrued expenses and other current liabilities on the statements of financial position. For the years ended June 30, 2008 and 2007, the Association's rent expense was as follows:

	2008	2007
Cash payments for rent	$1,728,286	$2,424,197
Less amortization of deferred rent credits	73,253	(278,106)
Rent expense	**$1,801,539**	**$2,146,091**

National Futures Association has been designated by the Commodity Futures Trading Commission (CFTC) as a registered futures association. NFA is the premier independent provider of innovative and efficient regulatory programs that safeguard the integrity of the futures markets.

Accountability and Organization

Policy Development

25-member Board of Directors

- 14 FCM, IB, CPO, and CTA representatives
- 6 exchange representatives
- 5 public representatives

Policy Supervision

10-member Executive Committee

- NFA President
- NFA Chairman of the Board
- 3 directors/FCM or IB representatives
- 2 directors/exchange representatives
- 2 directors/CPO or CTA representatives
- 1 public representative

Policy Implementation

NFA officers and staff

Funding

NFA is totally self-financed with funds derived from membership dues and fees and from assessments paid by Members and users of the futures markets.

Total Employees (As of June 30, 2008)

275

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