The Foundation for Economic Education, Inc.

Financial Statements
and Independent Auditors' Report

March 31, 2016

The Foundation for Economic Education, Inc.

Financial Statements
March 31, 2016

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Foundation for Economic Education, Inc.

We have audited the accompanying financial statements of The Foundation for Economic Education, Inc. ("the Foundation"), which comprise the statement of financial position as of March 31, 2016, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of March 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rogers + Company PLLC

Vienna, Virginia
October 13, 2016

The Foundation for Economic Education, Inc.

Statement of Financial Position
March 31, 2016

Assets	
Current assets:	
Cash and cash equivalents	$ 549,397
Contributions receivable	120,000
Inventory	156,029
Prepaid expenses and other current assets	92,845
Total current assets	918,271
Property and equipment, net	226,365
Investments	6,293,973
Annuity reserve fund	155,127
Assets held in charitable remainder trust	257,664
Beneficial interest in third-party trusts	76,495
Total assets	$ 7,927,895
Liabilities and Net Assets	
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	$ 238,689
Income taxes payable	21,755
Deferred revenue	38,192
Deferred rent	615
Charitable gift annuities	2,738
Total current liabilities	301,989
Due to other beneficiaries of charitable remainder trust	128,832
Total liabilities	430,821
Net Assets	
Unrestricted	5,720,003
Temporarily restricted	229,251
Permanently restricted	1,547,820
Total net assets	7,497,074
Total liabilities and net assets	$ 7,927,895

See accompanying notes.

The Foundation for Economic Education, Inc.

Statement of Activities
For the Year Ended March 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	$ 2,986,837	$ 310,013	$ -	$ 3,296,850
Publications	53,802	-	-	53,802
Royalties	11,705	-	-	11,705
Investment income, net	78,908	85	9,337	88,330
Change in value of split interests	-	19,111	-	19,111
Miscellaneous	9,642	-	-	9,642
Released from restrictions	596,632	(596,632)	-	-
Total revenue and support	3,737,526	(267,423)	9,337	3,479,440
Expenses				
Program services:				
Seminars and lectures	1,536,444	-	-	1,536,444
Books and publications	621,171	-	-	621,171
Website outreach	894,527	-	-	894,527
Total program services	3,052,142	-	-	3,052,142
Supporting services:				
Management and general	142,707	-	-	142,707
Fundraising and development	707,527	-	-	707,527
Total supporting services	850,234	-	-	850,234
Total expenses	3,902,376	-	-	3,902,376
Change in Net Assets	(164,850)	(267,423)	9,337	(422,936)
Net Assets, beginning of year	5,884,853	496,674	1,538,483	7,920,010
Net Assets, end of year	$ 5,720,003	$ 229,251	$ 1,547,820	$ 7,497,074

See accompanying notes.

The Foundation for Economic Education, Inc.

Statement of Cash Flows
For the Year Ended March 31, 2016

Cash Flows from Operating Activities	
Change in net assets	$ (422,936)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net unrealized loss on investments	217,853
Net realized gain on investments	(13,283)
Donated securities	(27,225)
Depreciation and amortization	93,840
Loss on sale of property and equipment	351
Change in annuity reserve fund	14,488
Change in value of charitable remainder trust	(12,273)
Change in value of beneficial interest in third-party trusts	(17,866)
Change in present-value discount on contributions receivable	(8,159)
Change in operating assets and liabilities:	
(Increase) decrease in:	
Contributions receivable	225,000
Inventory	(69,601)
Prepaid expenses and other current assets	(25,459)
Increase (decrease) in:	
Accounts payable and accrued expenses	(15,856)
Income taxes payable	(78,495)
Deferred revenue	38,192
Deferred rent	(7,384)
Due to other beneficiaries of charitable remainder trust	8,151
Net cash used in operating activities	(100,662)
Cash Flows from Investing Activities	
Purchases of property and equipment	(153,582)
Proceeds from sale of property and equipment	1,450
Purchases of investments	(780,973)
Proceeds from sales of investments	683,480
Net cash used in investing activities	(249,625)
Cash Flows from Financing Activity	
Payment of charitable gift annuities	(21,013)
Net cash used in financing activity	(21,013)
Net Decrease in Cash and Cash Equivalents	(371,300)
Cash and Cash Equivalents, beginning of year	920,697
Cash and Cash Equivalents, end of year	$ 549,397

See accompanying notes.

1. Nature of Operations

The Foundation for Economic Education, Inc. ("the Foundation") is a nonprofit foundation incorporated in the State of New York. Its mission is to inspire, educate, and connect young adults with the economic, ethical, and legal principles of a free society. These principles include individual liberty, free-market economics, entrepreneurship, private property, high moral character, and limited government. The Foundation produces nationwide seminars, classroom resources, social media, free online courses, and engaging daily content at FEE.org–all educating on the ideas of a free society. Additionally, the Foundation supports and connects alumni through the FEE Alumni Network, provides professional development opportunities through internships and networking, and recognizes the most extraordinary alumni leaders with the annual Leonard E. Read Distinguished Alumni Award.

2. Summary of Significant Accounting Policies

<u>Basis of Accounting and Presentation</u>

The Foundation's financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions.

<u>Classification of Net Assets</u>

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Foundation's operations.

- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Foundation or by the passage of time.

- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for general operations or for restricted purposes imposed by the donors.

<u>Use of Estimates</u>

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Contributions Receivable

Contributions receivable are all due in one year, recorded at net realizable value, and represent unconditional amounts committed to the Foundation. Management determines the allowance for doubtful accounts based upon review of outstanding receivables, historical collection information, and existing economic conditions. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Management believes that all contributions receivable are collectible at March 31, 2016, and accordingly, no allowance for uncollectible receivables has been established.

Inventory

The Foundation maintains an inventory of its publications for sale, including books, pamphlets, and magazines to be given away or sold at conferences and seminars. Additionally, inventory consists of logo items and other small branding items. Inventory is stated at the lower of cost or market determined on a first-in first-out basis. The Foundation periodically reviews inventory for slow-moving or obsolete items and determines if a reserve is necessary. At March 31, 2016, there was no obsolete inventory.

Property and Equipment

Property and equipment acquisitions with a cost greater than $1,000 and a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. Upon disposal of depreciable assets, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to income. Leasehold improvements are amortized over the term of the lease. Expenditures for repairs and maintenance are expensed as incurred.

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses are reported as a component of net investment income in the accompanying statement of activities.

Split-Interest Agreements

The Foundation receives certain planned gift donations that benefit not only the Foundation, but also another beneficiary designated by the donor. These contributions are termed split-interest agreements that consist of charitable remainder trusts and charitable gift annuities. Irrevocable split-interest agreements are recorded as revenue when the trust agreements are executed. Revenue from the split-interest agreements is based on the present value of the expected cash flows to be received by the Foundation.

Annuity obligations stemming from split-interest gifts are recognized as charitable gift annuities in the accompanying statement of financial position. The initial liabilities resulting from these gifts are measured at fair value using the present value of the future payments to be made to beneficiaries. These liabilities are subsequently remeasured at the present value of future payments to beneficiaries based on changes in life expectancy and other actuarial assumptions.

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation reports contributions as temporarily 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 statement of activities as net assets released from restrictions. However, restrictions met in the same accounting period in which the related contribution was received are treated as unrestricted.

Revenue from registrations and tuition related to the summer seminars is recognized at the time the events are held, with any amounts received in advance deferred until that time. Seminar tuition revenue fees that are applicable to the following year are recorded as deferred revenue in the amount of $38,192 in the accompanying statement of financial position.

Revenue from all other sources is recognized when earned.

2. Summary of Significant Accounting Policies (continued)

Donated Goods

Donated goods are recorded in the accompanying statement of activities at their estimated fair value at the date of receipt. Donated goods consist of various publication items to be included with the Foundation's inventory. There was $60,000 of donated goods during the year ended March 31, 2016.

Donated Services

Donated services meeting the criteria for recognition under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Revenue Recognition – Contributions Received*, are recognized at fair value at the time of receipt. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or if the services required specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. During the year ended March 31, 2016, the Foundation received donated services consisting of professional fees and advertising services with an estimated fair value of $86,111. In addition, volunteers provide assistance with specific programs that is not recognized as revenue since the recognition criteria were not met.

Functional Allocation of Expenses

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

Advertising Expenses

The Foundation expenses advertising costs as incurred. Advertising and promotional expenses totaled $119,528 for the year ended March 31, 2016.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 13, 2016, the date the financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Foundation maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Foundation has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

4. Split-Interest Agreements

Charitable Gift Annuities

The Foundation has entered into irrevocable agreements with donors whereby in exchange for the gift from the donor, the Foundation is obligated to provide an annuity to the donor or other designated beneficiary over the life of the annuitant. A liability is recognized for the estimated present value of the annuity obligation, and the assets are recorded at their fair value. The discount rate and actuarial assumptions used in calculating the annuity are those provided in the Internal Revenue Service (IRS) guidelines and actuarial tables.

Under New York State Insurance Law, the Foundation is required to maintain qualified reserves reported herein as assets reserved under charitable gift annuity agreements. The minimum required reserve level is $100,000 and as of March 31, 2016, the Foundation maintained a segregated reserve of $155,127.

The obligations under the agreements are reported in the accompanying statement of financial position as liabilities under charitable gift annuity agreements. The obligations are estimated at the time of the agreement based on the present value of future cash flows expected to be paid to the donors. The obligations are subject to adjustments to reflect amortization of any discount and changes in the life expectancies of the donors. The assumptions used in computing the liabilities under charitable gift annuity agreements include discount rates ranging from 5.1% to 9.1% and life expectancies based on published single and multiple life expectancy tables.

4. Split-Interest Agreements (continued)

Assets Held in Charitable Remainder Trust

The Foundation is a trustee for one charitable remainder trust – *Warren Trust.* The fair value of assets held by the trust is reported as an asset. The asset is offset by a liability presented in the accompanying statement of financial positions as "due to other beneficiaries of charitable remainder trust."

Beneficial Interest in Third-Party Trusts

The Foundation is a remainderman to certain charitable remainder trusts. Upon the death of the beneficiaries of these remainder trusts, the assets will revert to the Foundation to be used according to the donors' wishes. Assets held in trust by and for the Foundation are valued at either fair-value or at the discounted present value of the estimated future receipts from the trusts. Where applicable, estimated future payments are discounted at a risk-free rate of return based on the expected term of the split-interest agreements at the time the agreements are created, ranging from 3% to 6%.

The Foundation had beneficial interest in the following trusts at March 31, 2016:

Katherine L. Lyness Unitrust ("the Trust"), which is held and administered by an independent third-party trustee. Upon termination of the Trust, the Trust's assets will be distributed to the Foundation. The Trust's assets held are reported at their fair value of $45,285 at March 31, 2016. The Trust assets are not restricted by the grantor, but are recorded as temporarily restricted net assets pending the passage of the Trust until trust termination, at which time the assets will be released from restriction. Net investment income from the beneficial trust totaled $19,111, including realized and unrealized gains and losses, interest income, and investment fees, which was reported in the statement of activities for the year ended March 31, 2016.

The Krogdahl Trust is administered by a third-party trustee. The trust is to be held in perpetuity and generated income may be used for unrestricted purposes. Total assets of this trust were $31,210 at March 31, 2016.

4. Split-Interest Agreements (continued)

In addition, the Foundation is the beneficiary of two additional charitable remainder trusts that are held and administered by others on its behalf. The Foundation's right to these trust assets remains conditional, and therefore, the Foundation's share of trust assets is not recorded on the statement of financial position. When the conditional status is changed such that the Foundation has an unconditional right to these trust assets, the related investments will be recorded on the statement of financial position. The Foundation received distributions from these two trusts approximating $2,971 during 2016, and recognized this amount in investment income on the statement of activities.

5. Investments and Fair Value Measurements

The Foundation follows FASB ASC 820, *Fair Value Measurements and Disclosures,* for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs.

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

5. Investments and Fair Value Measurements (continued)

The Foundation used the following methods and significant assumptions to estimate fair value of assets and liabilities:

Investments and Annuity Reserve Fund

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 includes mutual funds, exchange traded funds, and stocks held as investments and within the annuity reserve fund.

Charitable Remainder Trusts

Level 1 Assets

Charitable remainder trust assets for which the Foundation is a trustee are invested in a diversified portfolio of mutual funds and common stocks, which are valued at fair value based on quoted market prices of the underlying investments, and are therefore classified within Level 1.

Level 3 Assets

Charitable trust assets also include the fair value of the Foundation's interest in charitable remainder trusts receivable where the Foundation is not a trustee. The fair value is measured upon the estimated net present value of amounts to be received. Distributions are to be made to the donor's designee (remainder trusts) during the terms of the agreements. At the end of the remainder trust terms, a portion of the remaining trust assets, as defined in the trust agreements, is to be distributed to the Foundation. The expected future cash inflows from the trusts are based on the fair value of the investments, future expected investment returns, and life expectancy of the donor or donor's designee, and have been recorded at present value. The value of these assets is based on unobservable inputs and the Foundation's own assumptions and are therefore classified within Level 3.

Limited Partnership

The Foundation has a 1.38% ownership in a privately held company. The estimate of the investment's fair value was $1,655,000 at March 31, 2016, and is recorded in noncurrent assets due to the illiquid nature of the investment. In 2016, the Foundation estimated fair value using a weighted-average estimate using both income and market approaches that incorporate observable inputs from comparable companies. However, the stock is not traded in an active market, and therefore the investment is recorded at fair value using Level 3 inputs.

5. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for assets and liabilities measured on a recurring basis at March 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Mutual funds	$ 3,389,190	$ -	$ -	$ 3,389,190
Exchange-traded funds	149,949	-	-	149,949
Common stock	1,099,834	-	1,655,000	2,754,834
Total investments	4,638,973	-	1,655,000	6,293,973
Annuity reserve fund:				
Mutual funds	155,127	-	-	155,127
Assets held in charitable remainder trust:				
Mutual funds	45,520	-	-	45,520
Common stock	212,144	-	-	212,144
Total assets held in charitable remainder trust	257,664	-	-	257,664
Beneficial interest in third-party trusts:				
Mutual funds	-	-	76,495	76,495
Total assets at fair value	$ 5,051,764	$ -	$ 1,731,495	$ 6,783,259
Liabilities:				
Charitable gift annuities	$ -	$ -	$ 2,738	$ 2,738
Charitable remainder trust	-	-	128,832	128,832
Total liabilities at fair value	$ -	$ -	$ 131,570	$ 131,570

5. Investments and Fair Value Measurements (continued)

Level 3 Inputs

In cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Activities for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows:

	Limited Partnership	Charitable Remainder Trust	Total
Beginning asset balance	$ 1,780,000	$ 58,629	$ 1,838,629
Interest and dividends	234,000	997	234,997
Unrealized (loss) gain	(359,000)	16,869	(342,131)
Ending asset balance	$ 1,655,000	$ 76,495	$ 1,731,495

	Charitable Gift Annuities	Charitable Remainder Trust	Total
Beginning liability balance	$ 23,751	$ 120,681	$ 144,432
Change in value	-	8,993	8,993
Payments	(21,013)	(842)	(21,855)
Ending liability balance	$ 2,738	$ 128,832	$ 131,570

Net investment income consists of the following for the year ended March 31, 2016:

Interest and dividends	$ 292,900
Net realized gain	13,283
Net unrealized loss	(217,853)
Total net investment income	$ 88,330

6. Property and Equipment

Property and equipment consists of the following at March 31, 2016:

Computer equipment	$	348,824
Software		223,220
Leasehold improvements		34,957
Total property and equipment		607,001
Less: accumulated depreciation and amortization		(380,636)
Property and equipment, net	$	226,365

7. Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for the following at March 31, 2016:

North American Foundation	$	94,217
Charitable remainder trust		45,285
Whitman scholarships		33,890
Eugene Thorpe award		25,675
Western Mass. discussion		14,561
Hecht Foundation – summer seminars		12,623
Duane Alton – Caesar reprinting		3,000
Total temporarily restricted net assets	$	229,251

Permanently Restricted Net Assets

Permanently restricted net assets were restricted for the following at March 31, 2016:

Maughmer Bequest	$	1,108,055
Berkheimer endowment		160,581
Warren Trust		157,617
Charlene Barr Chalberg Endowment		90,000
Krogdahl Trust		31,567
Total permanently restricted net assets	$	1,547,820

7. Net Assets (continued)

Permanently Restricted Net Assets (continued)

The *Maughmer Bequest* requires that 20% of net earnings be expended for agreed-upon projects of the Foundation for Economic Education-Maughmer Fund, located at Washington State University. The remaining 80% of net earnings is required to be expended by the Foundation on the education of students in the Mountain and/or Pacific States.

The *Berkheimer Endowment* requires that income generated, from the endowment is first added to corpus up to the Consumer Price Index of the fund and the remaining balance is to be used for unrestricted purposes.

The *Warren Trust* does not restrict the use of income generated, and therefore, can be used for unrestricted purposes. The corpus of the trust was equally divided between the Foundation and another not-for-profit foundation. The funds are held in a separate investment account and the income generated, if any, is distributed in accordance with the trust. The Foundation’s share of the corpus is reflected as permanently restricted net assets, and is reported as an investment on the statement of financial position.

The *Charlene Barr Chalberg Endowment* requires that the income generated from the endowment be used for “Charlene Barr Memorial Scholarships” to support high school students attending the Freedom 101 Program.

The *Krogdahl Trust* does not restrict the use of income generated, and therefore, can be used for unrestricted purposes.

8. Endowment

The Foundation’s endowment (permanently restricted net assets) has been funded by donor-restricted contributions to be held in perpetuity, the earnings of which can be used to fund either specific programs or general operations.

8. Endowment (continued)

Interpretation of Relevant Law

The Foundation's Board of Trustees has interpreted New York's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) duration and preservation of the fund; (2) purposes of the Foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) possible effect of inflation and deflation; (5) expected total return from income and the appreciation or depreciation of investments; (6) other resources of the Foundation; and (7) investment policies of the Foundation.

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 UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $47,940 at March 31, 2016. These deficiencies resulted from unfavorable market fluctuations that occurred during the year.

8. Endowment (continued)

Return Objectives, Risk Parameters, and Strategies

The Foundation's investment policies, as approved by the Board of Trustees, are as follows: There will be a cash reserve for operations, with a target balance at each March 31 equal to 30% of the coming fiscal's year's expenditure budget, to be invested in cash and near-cash instruments. There will be a liquidity reserve for contingencies, with a target balance at each March 31 equal to 30% of the coming fiscal year's expenditure budget, to be invested in cash, near-cash and medium-term fixed-income instruments. Finally, all other investable funds are to be invested in accordance with the investment policies set forth by the Board; provided, however, that to the extent there are donor-imposed restrictions on investment of specific funds that conflict with these investment policies, the donor-imposed restrictions will govern.

The following are the asset allocation guidelines set forth by the Foundation's Board of Trustees:

	Long-Term Target	Allowable Range
Equity	75%	50% – 90%
Fixed income	20%	0% – 35%
Cash	5%	0% – 20%

These percentages will be based on the fair market value of investments. Additionally, within the equity category, up to 20% of total domestic equity may be allocated to small- and mid-cap value funds. Further, an allocation of up to 20% of total equity may be allocated to international equities.

On an annual or more frequent basis, the Foundation calculates the amounts distributable from each of its restricted accounts and releases such amounts for expenditure on the purposes specified by the respective donors.

8. Endowment (continued)

Composition of Endowment Net Assets

Endowment net asset composition by type of fund was as follows at March 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds:				
Maughmer Bequest	$ (7,750)	$ -	$ 1,108,055	$ 1,100,305
Berkheimer endowment	(10,082)	-	160,581	150,499
Warren Trust	(28,785)	-	157,617	128,832
Charlene Barr Chalberg Endowment	(966)	-	90,000	89,034
Krogdahl Trust	(357)	-	31,567	31,210
Total endowment funds	$ (47,940)	$ -	$ 1,547,820	$ 1,499,880

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended March 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ (53,035)	$ -	$ 1,538,483	$ 1,485,448
Investment return:				
Interest and dividends	28,101	-	-	28,101
Net realized and unrealized (loss) gain	(23,006)	-	9,337	(13,669)
Total investment return	5,095	-	9,337	14,432
Endowment net assets, ending	$ (47,940)	$ -	$ 1,547,820	$ 1,499,880

9. Commitments and Contingencies

Operating Leases

During 2016, the Foundation leased office space under an operating lease, which expired on April 30, 2016. The lease required fixed monthly payments for the term of the period, and included an abatement period of three months. Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statement of financial position.

On January 5, 2016, the Foundation entered into a new lease for office space, commencing on May 1, 2016 and expiring on October 31, 2022. The new lease requires fixed monthly payments for the initial 12 months, after an abatement period of 6 months, and an annual 3% increase in monthly payments for the remainder of the lease term.

In addition, the Foundation leases office equipment under an operating lease, which extends through March 2017. The lease requires fixed monthly payments of approximately $702.

Future minimum lease payments under all operating leases are as follows for the years ending March 31:

2017	$ 59,191
2018	112,030
2019	115,397
2020	118,867
2021	122,440
Thereafter	201,761
Total future minimum lease payments	$ 729,686

Rent expense under all operating leases was $86,197 for the year ended March 31, 2016.

10. Retirement Plan

The Foundation sponsors a tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code (IRC). All employees are eligible to participate in this plan, to which they may contribute any whole percentage of their salary up to the maximum permitted by law. During 2016, the Foundation contributed approximately $23,362 to the trustee for the employee contributions to this plan.

11. Income Taxes

The Foundation is exempt from payment of taxes on income other than net unrelated business income under IRC Section 501(c)(3). In addition, the Foundation holds an investment in an S-Corporation that is considered a pass-through entity under the IRC. Accordingly, the Foundation is liable for any income tax generated from this unrelated business income received from its investment. During the year ended March 31, 2016, the Foundation recorded income tax expense of $79,750 on this unrelated business activity. Income taxes paid totaled $158,245 for March 31, 2016. Management has evaluated the Foundation’s tax positions and concluded that the Foundation’s financial statements do not include any uncertain tax positions.

SUPPLEMENTARY INFORMATION

The Foundation for Economic Education, Inc.

Schedule of Functional Expenses
For the Year Ended March 31, 2016

	Program Services				Supporting Services			
	Seminars and Lectures	Books and Publications	Website Outreach	Total Program Services	Management and General	Fundraising and Development	Total Supporting Services	Total Expenses
Salaries	$ 414,660	$ 66,614	$ 315,680	$ 796,954	$ 65,946	$ 230,560	$ 296,506	$ 1,093,460
Payroll taxes and employee benefits	78,257	9,368	66,185	153,810	8,463	39,854	48,317	202,127
Employee travel	131,400	-	15,266	146,666	8,356	63,456	71,812	218,478
Internship	41,985	-	12,838	54,823	-	-	-	54,823
Grants to organization/donations	326	2	29	357	5	13	18	375
Seminar student expense	292,059	-	10	292,069	2	5	7	292,076
Professional fees	199,279	212,129	176,732	588,140	21,299	148,727	170,026	758,166
Outside services	146,179	178,459	66,830	391,468	1,395	104,982	106,377	497,845
Supplies	8,615	3,502	18,965	31,082	2,652	6,594	9,246	40,328
Postage and delivery	29,942	83,744	2,005	115,691	571	28,154	28,725	144,416
Telephone	7,098	1,081	7,432	15,611	5,283	5,654	10,937	26,548
Maintenance and repairs	82	6	1,439	1,527	16	41	57	1,584
Rental expenses	30,169	2,268	32,891	65,328	5,671	15,198	20,869	86,197
Travel – other	36,868	1,605	4,419	42,892	753	11,061	11,814	54,706
Advertising and promotional expenses	29,041	90	86,292	115,423	-	4,105	4,105	119,528
Insurance	4,388	330	4,783	9,501	8,175	2,210	10,385	19,886
Real estate taxes	656	49	716	1,421	123	331	454	1,875
Dues and subscriptions	6,886	508	1,823	9,217	885	3,817	4,702	13,919
Cost of goods sold	-	55,996	-	55,996	-	-	-	55,996
Small gifts and awards	7,817	10	2,679	10,506	178	937	1,115	11,621
Bank charges	2,556	192	2,787	5,535	825	1,288	2,113	7,648
Credit card and other fees	3,073	231	3,350	6,654	577	7,741	8,318	14,972
License and permits	3,688	369	4,414	8,471	457	1,858	2,315	10,786
Statutory fees	499	38	544	1,081	94	251	345	1,426
Depreciation and amortization	33,091	2,488	36,077	71,656	5,514	16,670	22,184	93,840
Income taxes	27,830	2,092	30,341	60,263	5,467	14,020	19,487	79,750
Total Expenses	$ 1,536,444	$ 621,171	$ 894,527	$ 3,052,142	$ 142,707	$ 707,527	$ 850,234	$ 3,902,376