The Foundation for Economic Education, Inc.

Financial Statements
and Independent Auditors' Report

March 31, 2019

The Foundation for Economic Education, Inc.

Financial Statements
March 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
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, 2019; the related statements of activities, functional expenses, 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 from 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, 2019, 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.

Rogers + Company PLLC

Vienna, Virginia
August 15, 2019

The Foundation for Economic Education, Inc.

Statement of Financial Position
March 31, 2019

Assets	
Current assets:	
Cash and cash equivalents	$ 808,550
Contributions receivable	25,000
Inventory	145,893
Prepaid expenses and other current assets	79,008
Total current assets	1,058,451
Property and equipment, net	195,990
Investments	6,709,296
Assets held in charitable remainder trust	374,854
Beneficial interest in third-party trusts	79,894
Total assets	$ 8,418,485
Liabilities and Net Assets	
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	$ 230,071
Income taxes payable	28,791
Deferred revenue	273,199
Deferred rent	106,449
Total current liabilities	638,510
Due to other beneficiaries of charitable remainder trust	187,427
Total liabilities	825,937
Net Assets	
Without donor restrictions	5,063,605
With donor restrictions	2,528,943
Total net assets	7,592,548
Total liabilities and net assets	$ 8,418,485

See accompanying notes.

The Foundation for Economic Education, Inc.

Statement of Activities
For the Year Ended March 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	$ 2,590,350	$ 1,190,296	$ 3,780,646
Grants and contracts	667,510	-	667,510
Tuition and seminars revenue	150,661	-	150,661
Publications	18,105	-	18,105
Royalties	66,932	-	66,932
Investment income, net	799,108	216,421	1,015,529
Change in value of split interests	-	(18,275)	(18,275)
Released from restrictions	1,320,076	(1,320,076)	-
Total revenue and support	5,612,742	68,366	5,681,108
Expenses			
Program services:			
Seminars and lectures	2,262,824	-	2,262,824
Books and publications	374,908	-	374,908
Website outreach	2,157,368	-	2,157,368
Total program services	4,795,100	-	4,795,100
Supporting services:			
Management and general	569,045	-	569,045
Fundraising and development	910,481	-	910,481
Total supporting services	1,479,526	-	1,479,526
Total expenses	6,274,626	-	6,274,626
Change in Net Assets	(661,884)	68,366	(593,518)
Net Assets, beginning of year	5,725,489	2,460,577	8,186,066
Net Assets, end of year	$ 5,063,605	$ 2,528,943	$ 7,592,548

The Foundation for Economic Education, Inc.

Statement of Functional Expenses
For the Year Ended March 31, 2019

	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	$ 448,276	$ 102,135	$ 652,015	$ 1,202,426	$ 202,549	$ 409,835	$ 612,384	$ 1,814,810
Payroll taxes and employee benefits	67,511	15,382	98,194	181,087	30,504	61,722	92,226	273,313
Employee travel	7,564	1,723	11,002	20,289	3,418	6,915	10,333	30,622
Seminar student expense	1,565,390	-	-	1,565,390	39,328	7,875	47,203	1,612,593
Professional fees and outside services	45,049	-	1,213,756	1,258,805	209,270	305,170	514,440	1,773,245
Supplies	13,038	152,688	18,964	184,690	5,891	11,920	17,811	202,501
Telephone	5,193	1,183	7,553	13,929	2,346	4,748	7,094	21,023
Rental expenses	51,808	20,770	70,076	142,654	29,773	48,360	78,133	220,787
Insurance	6,943	1,582	10,098	18,623	3,137	6,347	9,484	28,107
Dues and subscriptions	3,867	881	5,625	10,373	1,747	3,536	5,283	15,656
Cost of goods sold	-	67,586	-	67,586	-	-	-	67,586
Bank charges	-	-	-	-	17,481	-	17,481	17,481
Depreciation and amortization	25,707	5,857	37,391	68,955	13,445	23,503	36,948	105,903
Income taxes	22,478	5,121	32,694	60,293	10,156	20,550	30,706	90,999
Total Expenses	$ 2,262,824	$ 374,908	$ 2,157,368	$ 4,795,100	$ 569,045	$ 910,481	$ 1,479,526	$ 6,274,626

The Foundation for Economic Education, Inc.

Statement of Cash Flows
For the Year Ended March 31, 2019

Cash Flows from Operating Activities	
Change in net assets	$ (593,518)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net unrealized gain on investments	(624,637)
Net realized gain on investments	(16,240)
Depreciation and amortization	105,903
Change in value of charitable remainder trust	(32,373)
Change in value of beneficial interest in third-party trusts	1,024
Change in operating assets and liabilities:	
Decrease (increase) in:	
Contributions receivable	125,000
Inventory	(15,514)
Prepaid expenses and other current assets	31,597
(Decrease) increase in:	
Accounts payable and accrued expenses	(50,053)
Income taxes payable	21,438
Deferred revenue	(197,427)
Deferred rent	52,803
Due to other beneficiaries of charitable remainder trust	16,187
Net cash used in operating activities	(1,175,810)
Cash Flows from Investing Activities	
Purchases of property and equipment	(66,784)
Purchases of investments	(143,519)
Proceeds from sales of investments	29,953
Short term investments, net	1,475,025
Net cash provided by investing activities	1,294,675
Net Increase in Cash and Cash Equivalents	118,865
Cash and Cash Equivalents, beginning of year	689,685
Cash and Cash Equivalents, end of year	$ 808,550

See accompanying notes.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2019

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

Basis of Accounting and Presentation

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.

Classification of Net Assets

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

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 within one year, are recorded at net realizable value or at net present value based on projected cash flows, 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. Management believes that all contributions receivable are collectible at March 31, 2019, 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, 2019, 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 consist of common stocks, mutual funds, exchange-traded funds, and a limited partnership. Investments in marketable securities are recorded at fair value based on quoted market prices. Beneficial interest in third-party trusts are recorded at fair value based on unobservable inputs.

Certain limited partnership investments have no readily-determinable market value and are valued at fair value as estimated by the general partners and corporations. Because of inherent uncertainty of valuation, it is reasonably possible that estimated values may differ significantly from the values that would have been used as ready market for the securities existed, and the differences could be material. In addition, certain investments may also have risk associated with concentrations of investments in one geographic region and in certain industries. The limited partnership's ability to liquidate certain of its investments may be inhibited since the issuers may be privately held or the limited partnership may own a relatively large portion of the issuers' equity securities.

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 a charitable remainder trust 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.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions are reported as net assets without donor restrictions if the restrictions are met in the same period as received.

Milestone grants are recorded as revenue when grant milestones are achieved. Funds received in advance and not spent are included in deferred revenue in the amount of $270,197 in the accompanying statement of financial position at March 31, 2019. Any grant expenses related to work in progress before the milestone is complete are recorded as grants receivable in the accompanying statement of financial position.

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 $3,002 in the accompanying statement of financial position at March 31, 2019.

Revenue from all other sources is recognized when earned.

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, 2019, the Foundation received donated services consisting of advertising services with an estimated fair value of $262,889, which are included in contributions in the accompanying statement of activities. In addition, volunteers provide assistance with specific programs, which is not recognized as revenue since the recognition criteria were not met.

2. Summary of Significant Accounting Policies (continued)

Donated Goods

Donated goods are recorded at their estimated fair value at the date of receipt, and consist of various publication items to be included with the Foundation's inventory. There were no donated goods received during the year ended March 31, 2019.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. 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 $79,145 for the year ended March 31, 2019.

Adopted Accounting Pronouncement

On August 18, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The implementation had no impact on previously reported net assets.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in the Foundation's fiscal year 2021.

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 15, 2019, the date the financial statements were available to be issued.

3. Liquidity and Availability

The Foundation has $3,566,543 of financial assets available within one year of the statement of financial position date. The Foundation strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Management periodically reviews the Foundation's liquid asset needs and adjusts the cash and cash equivalents balances as necessary. Amounts in excess of operating liquidity are invested in various short-term and highly liquid securities.

Additionally, the Foundation considers net assets with donor restrictions, including unappropriated endowment earnings, for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

These financial assets that are available for general expenditures within one year of the statement of financial position date, comprise the following at March 31, 2019:

Cash and cash equivalents	$ 808,550
Contributions receivable	25,000
Short-term investments	4,291,286
Less: endowment corpus	(1,558,293)
Total available for general expenditures	$ 3,566,543

4. 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 Deposit 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.

5. Split-Interest Agreements

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 a beneficial interest in the following trusts at March 31, 2019:

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 $44,924 at March 31, 2019. The Trust assets are not restricted by the grantor, but are recorded as restricted net assets pending the passage of the Trust until trust termination, at which time the assets will be released from restriction. Net investment loss from the beneficial trust totaled $2,088, 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, 2019.

The Krogdahl Trust, which 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 $34,970 at March 31, 2019.

5. Split-Interest Agreements (continued)

Beneficial Interest in Third-Party Trusts (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 one of these trusts approximating $5,903 during 2019, and recognized this amount in net investment income on the statement of activities.

6. 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.

6. Investments and Fair Value Measurements (continued)

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

Investments

Mutual Funds

The Foundation's holdings in publicly traded mutual funds consist principally of debt and equity securities carried at their aggregate market value that is determinable by quoted market prices. Valuation is based on Level 1 inputs within the hierarchy used in measuring fair value.

Common Stocks

Common stocks are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded, using the market approach. Valuation is based on Level 1 inputs within the hierarchy used in measuring fair value.

Alternative Investments

Alternative investments consist of an investment in a limited partnership, where the Foundation has a 1.38% ownership. Investment in private company stock is determined using techniques consistent with both the market and income approaches, based on the estimates and assumptions in the absence of observable market data. The market approach considers comparable companies, comparable transactions, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers and acquisitions, and the current financial position and operating results. The income approach considers the projected operating performance of the portfolio company. Valuation is based on Level 3 inputs within the investment hierarchy used in measuring fair value.

Charitable Remainder Trusts

Level 1 Assets

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

6. Investments and Fair Value Measurements (continued)

Level 3 Assets

Charitable trust assets also include the fair value of the Foundation's beneficial interest in third party trusts 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.

The following table presents the Foundation's fair value hierarchy for assets measured on a recurring basis at March 31, 2019:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Mutual funds	$ 836,129	$ -	$ -	$ 836,129
Common stocks	3,455,167	-	-	3,455,167
Alternative investments	-	-	2,418,000	2,418,000
Total investments	4,291,296	-	2,418,000	6,709,296
Assets held in charitable remainder trust:				
Common stocks	374,854	-	-	374,854
Total assets held in charitable remainder trust	374,854	-	-	374,854
Beneficial interest in third-party trusts:				
Mutual funds	-	-	69,858	69,858
Exchange-traded funds	-	-	10,036	10,036
Total beneficial interest in third-party trusts:	-	-	79,894	79,894
Total assets at fair value	$ 4,666,150	$ -	$ 2,497,894	$ 7,164,044

6. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for liabilities measured on a recurring basis at March 31, 2019:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Charitable remainder trust	$ -	$ -	$ 187,427	$ 187,427
Total liabilities at fair value	$ -	$ -	$ 187,427	$ 187,427

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 for the year ended March 31, 2019:

	Alternative Investments	Beneficial Interest in Third-Party Trusts	Total
Beginning asset balance	$ 1,972,000	$ 80,918	$ 2,052,918
Interest and dividends	259,000	2,114	261,114
Unrealized gain (loss)	187,000	(3,138)	183,862
Ending asset balance	$ 2,418,000	$ 79,894	$ 2,497,894

	Charitable Gift Annuities	Charitable Remainder Trust	Total
Beginning liability balance	$ -	$ 171,240	$ 171,240
Change in value	-	16,187	16,187
Ending liability balance	$ -	$ 187,427	$ 187,427

6. Investments and Fair Value Measurements (continued)

Investment Income

Net investment income consists of the following for the year ended March 31, 2019:

Interest and dividends	$	374,652
Net unrealized gain		624,637
Net realized gain		16,240
Investment income, net	$	1,015,529

There were no investment management fees incurred for the year ended March 31, 2019.

7. Property and Equipment

Property and equipment consists of the following at March 31, 2019:

Computer equipment	$	468,221
Software		417,346
Leasehold improvements		49,181
Total property and equipment		934,748
Less: accumulated depreciation and amortization		(738,758)
Property and equipment, net	$	195,990

8. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at March 31, 2019:

Net assets with purpose restrictions:		
Hecht Foundation – summer seminars	$	110,000
Charitable remainder trust		71,144
Maughmer/WSU Project		99,662
Whitman scholarships		33,890
Eugene Thorpe award		33,977
Western Mass. discussion		9,593
Unappropriated endowment earnings:		
Maughmer Bequest		498,312
Berkheimer Endowment		41,798
Warren Trust		29,810
Charlene Barr Chalberg Endowment		39,541
Krogdahl Trust		2,923
Endowment corpus:		
Maughmer Bequest		1,108,055
Berkheimer Endowment		170,574
Warren Trust		157,617
Charlene Barr Chalberg Endowment		90,000
Krogdahl Trust		32,047
Total net assets with donor restrictions	$	2,528,943

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 be 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 net assets with donor restrictions, and is reported as an investment on the statement of financial position.

8. Net Assets With Donor Restrictions (continued)

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.

9. Endowment

The Foundation's endowment 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.

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 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.

A portion of each donor-restricted endowment fund is 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.

9. Endowment (continued)

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 would be reported by the Foundation in net assets without donor restrictions. At March 31, 2019, there were no fund deficiencies.

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 reserve for operations, with a target balance at each March 31 equal to the sum of (a) 25% of the upcoming fiscal year's modified expense budget (as defined below) and (b) any budgeted expenses that are to be funded from amounts in deferred revenue at March 31, to be invested in cash, near-cash, and short-term fixed-income instruments. There will be a reserve for contingencies, with a target balance at each March 31 equal to 30% of the upcoming fiscal year's modified expense budget, to be invested in cash, near-cash, and short- and medium-term fixed-income instruments. The modified expense budget equals the total expense budget, reduced by any expenses that are to be incurred only to the extent that specified, designated funding is received.

All other liquid assets 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 an 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% – 100%
Fixed income	20%	0% – 35%
Cash	5%	0% – 20%

These percentages will be based on the fair market value of investments. Within the equity category, no more than 10% of total equity may be allocated to any one market subsector or industry sector.

9. Endowment (continued)

Return Objectives, Risk Parameters, and Strategies (continued)

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 for the purposes specified by the respective donors.

Composition of Endowment Net Assets

Endowment net asset composition by type of fund was as follows at March 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds:			
Maughmer Bequest	$ -	$ 1,606,367	$ 1,606,367
Berkheimer Endowment	-	212,372	212,372
Warren Trust	-	187,427	187,427
Charlene Barr Chalberg Endowment	-	129,541	129,541
Krogdahl Trust	-	34,970	34,970
Total endowment funds	$ -	$ 2,170,677	$ 2,170,677

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended March 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	$ -	$ 1,985,119	$ 1,985,119
Investment return:			
Interest and dividends	-	46,728	46,728
Net realized and unrealized gain	-	138,830	138,830
Total investment return	-	185,558	185,558
Endowment net assets, ending	$ -	$ 2,170,677	$ 2,170,677

10. Commitments and Contingencies

Operating Leases

On January 5, 2016, the Foundation entered into a lease for office space, which commenced on May 1, 2016 and expires on October 31, 2022. On June 14, 2018, the Foundation entered into an amendment with the landlord of the office to begin leasing additional space under an amended lease agreement. The Foundation expanded into additional space on July 1, 2018, and began leasing a final additional space on September 1, 2019. The lease and amendment require 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. 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.

In addition, the Foundation leases office equipment under an operating lease, which extends through February 2021. The lease requires fixed monthly payments of approximately $338.

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

2020	$	156,303
2021		169,551
2022		170,813
2023		102,450
Total future minimum lease payments	$	599,117

Rent expense under all operating leases was $220,787 for the year ended March 31, 2019.

Hotel Commitments

The Foundation has entered into agreements with hotels and venues for future events through 2021. The agreements indicate the Foundation may be liable for certain cancellation fees and liquidated damages in the event of cancellation. Management does not expect any cancellations.

10. Commitments and Contingencies (continued)

<u>Employment Agreement</u>

The Foundation has an employment agreement with the Executive Director. The agreement contains terms that require severance payments upon the occurrence of certain contractual events.

11. Retirement Plan

On February 1, 2017, the Foundation began sponsoring a 401(k) plan, which substantially covers all employees meeting certain age and service requirements. All employees are eligible to participate in the 401(k) plan after one year of employment. The Foundation matches 50% of all employee contributions to the 401(k) plan, and the matching contribution has a limit of $4,000. During 2019, the Foundation contributed $22,626 for the employee contributions to this plan.

12. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Program expenses represent direct costs that result in the Foundation fulfilling its mission. Fundraising and development expenses represent costs that involve seeking, soliciting, or securing grants and contributions. Management and general expenses represent costs necessary for the operations of the Foundation that are not easily identifiable with specific program or fundraising activities. The Foundation utilizes direct allocation for specific expenses such as cost of goods sold and professional fees, as these types of expenses can be directly associated with certain functions. The majority of the expenses for the Foundation are allocated using the indirect allocation method. The expenses that are allocated using the indirect method include salaries, employee benefits, payroll taxes, seminar student expenses, supplies, telephone, rental expenses, insurance, dues and subscriptions, depreciation and amortization, and income taxes, among other types of expenses, and are allocated on the basis of estimates of time and effort.

13. Income Taxes

The Foundation is exempt from payment of taxes on income other than net unrelated business income under Internal Revenue Code (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.

13. Income Taxes (continued)

During the year ended March 31, 2019, the Foundation recorded income tax expenses of $100,000 on this unrelated business activity. Income taxes paid totaled $91,000 for March 31, 2019. Management has evaluated the Foundation’s tax positions and concluded that the Foundation’s financial statements do not include any uncertain tax positions.