

**FOUNDATION FOR TEACHING
ECONOMICS**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2010 AND 2009**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Foundation for Teaching Economics
Davis, California**

We have audited the accompanying statements of financial position of the Foundation for Teaching Economics (the Foundation) as of December 31, 2010 and 2009, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the Foundation as of December 31, 2010 and 2009, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 16, 2011

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and equivalents	\$ 702,319	\$ 323,592
Investments - readily marketable	4,358,177	5,885,582
Investments - not readily marketable	269,672	269,672
Accounts receivable	6,340	128,313
Contributions receivable	250,401	716,629
Prepaid expenses and deposits	115,784	115,226
Furniture and equipment, net	<u>59,064</u>	<u>42,170</u>
TOTAL ASSETS	<u>\$ 5,761,757</u>	<u>\$ 7,481,184</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 262,724	\$ 279,820
Capital lease obligations	<u>39,902</u>	<u>21,299</u>
Total liabilities	<u>302,626</u>	<u>301,119</u>
NET ASSETS:		
Unrestricted	5,271,762	6,522,732
Temporarily restricted	<u>187,369</u>	<u>657,333</u>
Total net assets	<u>5,459,131</u>	<u>7,180,065</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,761,757</u>	<u>\$ 7,481,184</u>

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Contributions and promises to give	\$ 1,030,496	\$ 902,917
Program income	118,395	99,870
Dividend and interest income	207,866	377,540
Net unrealized and realized gain on investments	<u>319,489</u>	<u>210,228</u>
Subtotal	1,676,246	1,590,555
Net assets released from restrictions	<u>761,549</u>	<u>1,130,581</u>
Total revenues and support	<u>2,437,795</u>	<u>2,721,136</u>
 EXPENSES:		
Educational programs	3,067,683	2,585,629
Public affairs and development	348,588	321,183
Management and general	<u>272,494</u>	<u>258,471</u>
Total expenses	<u>3,688,765</u>	<u>3,165,283</u>
 DECREASE IN UNRESTRICTED NET ASSETS	<u>(1,250,970)</u>	<u>(444,147)</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and promises to give	291,585	585,777
Net assets released from restrictions	<u>(761,549)</u>	<u>(1,130,581)</u>
 DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(469,964)</u>	<u>(544,804)</u>
 DECREASE IN NET ASSETS	(1,720,934)	(988,951)
 NET ASSETS - Beginning of Year	<u>7,180,065</u>	<u>8,169,016</u>
 NET ASSETS - End of Year	<u>\$ 5,459,131</u>	<u>\$ 7,180,065</u>

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (1,720,934)	\$ (988,951)
Reconciliation to net cash used in operating activities:		
Depreciation	23,797	25,095
Net unrealized and realized gain on investments	(319,489)	(210,228)
Changes in assets and liabilities:		
Accounts receivable	121,973	(109,546)
Contributions receivable	466,228	113,564
Prepaid expenses and deposits	(558)	(55,636)
Accounts payable and accrued expenses	<u>(17,096)</u>	<u>(6,850)</u>
Net cash used in operating activities	<u>(1,446,079)</u>	<u>(1,232,552)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(9,691)	(4,234)
Purchase of investments	(699,876)	(9,446,078)
Proceeds from sale of investments	<u>2,546,770</u>	<u>9,981,474</u>
Net cash provided by investing activities	<u>1,837,203</u>	<u>531,162</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease	<u>(12,397)</u>	<u>(13,853)</u>
 NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	 378,727	 (715,243)
 CASH AND EQUIVALENTS, Beginning of Year	 <u>323,592</u>	 <u>1,038,835</u>
 CASH AND EQUIVALENTS, End of Year	 <u>\$ 702,319</u>	 <u>\$ 323,592</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - Cash paid for interest	 <u>\$ 4,348</u>	 <u>\$ 2,092</u>
 NONCASH FINANCING TRANSACTION -		
Acquisition of assets under capital lease	<u>\$ 31,000</u>	<u>\$</u>

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Foundation for Teaching Economics (the Foundation) is a not-for-profit entity organized for the purpose of introducing young individuals, selected for their leadership potential, to an economic way of thinking about national and international issues and to promote excellence in economic education by helping teachers of economics become more effective educators.

Basis of presentation – The financial statements are presented in conformity with Accounting Standards Codification (ASC) 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of December 31, 2010 and 2009, the Foundation had no permanently restricted net assets.

Revenue recognition – Contributions, including private foundation grants, are recognized in full when received or unconditionally promised, in accordance with ASC 958-605, *Not-For-Profit Entities – Revenue Recognition*.

Restricted grants from private sources and donor-restricted contributions are reported as an increase in temporarily restricted net assets. When restrictions expire, as funds are expended for the specified purpose or through the passage of time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Board-designated endowment net assets represent unrestricted assets that are subject to self-imposed or Executive Committee-designated restrictions of gift instruments. The primary donor of endowment assets has placed the authority for determining future use of the endowment assets with the Executive Committee of the Foundation.

Cash and equivalents – For financial statement purposes, the Foundation considers all investments with maturity at purchase of three months or less to be cash equivalents, unless held for long-term investing purposes.

Investments – All debt and equity securities with readily determinable fair values are carried at estimated fair value, using quoted market prices. Other investments, such as an equity investment in a closely-held private company, are stated at cost. Investments received through gifts are recorded at estimated fair value at the date of donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur.

Investments consist of common stock, equity investments, and mutual funds. There is no public market for the common stock. The issuing company of the common stock has redeemed such securities from time to time based on its net book value at redemption, but this entity is not obligated to redeem the securities held by the Foundation. The contributed stock was recorded at its fair market value as of the contribution date, and the carrying value has been adjusted subsequently for stock redeemed. Dividends received from this investment are recorded as investment income. A member of the Executive Committee of the Foundation is a director of this company in which the Foundation holds common stock.

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Furniture and equipment – Furniture and computer equipment are stated at cost. Depreciation on furniture and equipment is computed using the straight-line method over the estimated useful lives of five years.

Contributions receivable – Contributions receivable consist of unconditional promises to give, primarily from private foundation grants, and are expected to be collected within one year.

Income taxes – The Foundation is publicly supported and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is, however, subject to unrelated business income taxes on any income generated from operations not related to its exempt purpose. The Foundation has implemented the amended accounting principles related to the accounting for uncertainty in income taxes (ASC 740), and has determined there is no material impact on the financial statements. With some exceptions, the Foundation is no longer subject to U.S. federal and California income tax examinations by tax authorities for years prior to 2006. The Foundation did not incur any income tax expense for the years ended December 31, 2010 and 2009.

Functional allocation of expenses – The costs of providing the program services have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and on resource usage.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events have been reviewed through March 16, 2011, the date the financial statements were available to be issued.

Recent accounting pronouncements – In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. The guidance requires new disclosures about significant transfers in and out of Levels 1 and 2 fair value measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. The new guidance also clarifies existing disclosure requirements regarding inputs and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities for which separate fair value measurements should be disclosed. Other than requiring additional disclosures, adoption of this update will not have a material effect on the Foundation's financial statements.

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Fair value measurements – Assets and liabilities measured at fair value are recorded in accordance with ASC 820, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Inputs Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 Inputs Inputs other than quoted prices in active markets that are observable either directly or indirectly.
- Level 3 Inputs Unobservable inputs in which there is little or no market data, which require management to develop their own assumptions.

2. INVESTMENTS

Investments consist of the following at December 31, 2010:

	<u>Carrying Value</u>	<u>Estimated Market Value</u>
Cash and equivalents	\$ 8,847	\$ 8,847
Readily marketable:		
Mutual funds:		
Fixed income funds	2,365,325	2,365,325
Growth funds	754,078	754,078
Index funds	662,869	662,869
Institutional funds	431,995	431,995
Commodity funds	120,438	120,438
Equity investments:		
Financial services	14,625	14,625
Not readily marketable:		
Common stock:		
Consumer goods	<u>269,672</u>	<u>3,954,326</u>
Total	<u>\$ 4,627,849</u>	<u>\$ 8,312,503</u>

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Investments consist of the following at December 31, 2009:

	<u>Carrying Value</u>	<u>Estimated Market Value</u>
Cash and equivalents	\$ 215,542	\$ 215,542
Readily marketable:		
Mutual funds	5,657,074	5,657,074
Equity investments	12,966	12,966
Not readily marketable -		
Common stock	<u>269,672</u>	<u>4,375,689</u>
Total	<u>\$ 6,155,254</u>	<u>\$ 10,261,271</u>

The Foundation's investments that are recorded at fair market value (which excludes the common stock that is not readily marketable) are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets for identical assets.

3. NET ASSETS

Temporarily restricted net assets consist of unexpended grants restricted by grantors as follows:

	<u>2010</u>	<u>2009</u>
Environment and the Economy	\$ 175,000	\$ 250,000
Economics of Disasters	11,684	25,000
Scholarship Fund	685	
"Is capitalism good for the poor?" Programs		19,000
Economics for Leaders	<u> </u>	<u>363,333</u>
Total	<u>\$ 187,369</u>	<u>\$ 657,333</u>

The Foundation's Board has designated a portion of its net assets as an endowment. The endowment's purpose is to supplement spending in years where fundraising and investment income is less than budgeted expenses for operations and programs. The Foundation's endowment spending policy is primarily demand driven. The Chairman and the Board may authorize the use of funds from the endowment to meet demands from teachers for the Foundation's educational programs.

The Foundation's primary investment objective is to obtain adequate returns to ensure inflationary-adjusted \$2.5 million payouts through 2015. Inflation is based upon the Consumer Price Index. Additionally, the total portfolio and underlying asset classes are to be measured against relevant market benchmarks over intermediate time horizons (3 years).

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Changes in Board-designated endowment net assets are as follows:

	<u>2010</u>	<u>2009</u>
Endowment net assets, beginning of year	\$ 6,283,566	\$ 6,498,754
Net unrealized and realized gain	319,489	210,228
Amounts appropriated for expenditure	<u>(1,970,570)</u>	<u>(425,416)</u>
Endowment net assets, end of year	<u>\$ 4,632,485</u>	<u>\$ 6,283,566</u>

4. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 144,990	\$ 146,690
Computer equipment	100,750	91,059
Less accumulated depreciation	<u>(186,676)</u>	<u>(195,579)</u>
Furniture and equipment, net	<u>\$ 59,064</u>	<u>\$ 42,170</u>

Included in the amounts above are property and equipment under capital lease arrangements with a net book value of \$36,967 and \$19,199 at December 31, 2010 and 2009, respectively.

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

5. LEASE OBLIGATIONS

The Foundation is obligated under a non-cancelable operating lease agreement for its office facility and capital leases for office equipment. Total rent expense for the facility was \$73,149 and \$65,310 for the years ended December 31, 2010 and 2009, respectively. Future minimum payments under such lease agreements are as follows:

<u>Years Ending December 31,</u>	<u>Operating Lease</u>	<u>Capital Leases</u>
2011	\$ 74,586	\$ 15,530
2012	76,077	10,117
2013	67,725	7,410
2014		7,410
2015		<u>3,705</u>
Minimum lease payments	<u>\$ 218,388</u>	44,172
Less amount representing interest		<u>(4,270)</u>
Capital lease obligation		<u>\$ 39,902</u>

6. RETIREMENT PLAN

The Foundation maintains a retirement plan (the Plan), under Internal Revenue Code Section 403(b), that is available to all active employees. The Foundation contributes to the Plan at a rate of 10% of the employee's total compensation. Total contributions to the Plan charged to expense were \$64,395 and \$73,936 for the years ended December 31, 2010 and 2009, respectively.

7. CONCENTRATIONS

The Foundation receives revenues from various donors. During 2010 and 2009, the Foundation received approximately 34% of total revenue from two foundations.

The Foundation maintains its cash in bank deposit accounts which at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes the Foundation is not exposed to any significant credit risk related to cash.