

**FOUNDATION FOR TEACHING
ECONOMICS**

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

**YEARS ENDED
DECEMBER 31, 2013 AND 2012**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Foundation for Teaching Economics (the Foundation), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and of cash flows for the years 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 control 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 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 audits 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 Foundation'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 Foundation'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.

To the Board of Trustees
Foundation for Teaching Economics
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for Teaching Economics as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

May 30, 2014

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS:		
Cash and cash equivalents	\$ 350,726	\$ 241,897
Investments	21,465	5,983,598
Accounts receivable	29,886	29,350
Contributions receivable	724,000	119,351
Prepaid expenses and deposits	59,484	60,798
Furniture and equipment, net	<u>32,743</u>	<u>43,121</u>
TOTAL ASSETS	<u>\$ 1,218,304</u>	<u>\$ 6,478,115</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 252,429	\$ 263,373
Capital lease obligations	<u>18,858</u>	<u>29,908</u>
Total liabilities	<u>271,287</u>	<u>293,281</u>
 NET ASSETS:		
Unrestricted	666,717	6,084,834
Temporarily restricted	<u>280,300</u>	<u>100,000</u>
Total net assets	<u>947,017</u>	<u>6,184,834</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,218,304</u>	<u>\$ 6,478,115</u>

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

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT:		
Contributions and promises to give	\$ 2,220,310	\$ 458,388
Program income	419,675	345,373
Dividend and interest income	10,236	224,449
Net unrealized and realized gain on investments	14,521	394,883
Subtotal	<u>2,664,742</u>	<u>1,423,093</u>
Net assets released from restrictions	411,200	771,789
Total revenues and support	<u>3,075,942</u>	<u>2,194,882</u>
EXPENSES:		
Educational programs	2,411,049	2,579,464
Public affairs and development	316,252	337,780
Management and general	280,248	289,783
Total expenses	<u>3,007,549</u>	<u>3,207,027</u>
INCOME (LOSS) FROM OPERATIONS	68,393	(1,012,145)
CONTRIBUTION OF INVESTMENTS TO JAQUELIN HUME FOUNDATION	<u>(5,486,510)</u>	<u> </u>
DECREASE IN UNRESTRICTED NET ASSETS	<u>(5,418,117)</u>	<u>(1,012,145)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and promises to give	591,500	224,550
Net assets released from restrictions	<u>(411,200)</u>	<u>(771,789)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>180,300</u>	<u>(547,239)</u>
DECREASE IN NET ASSETS	(5,237,817)	(1,559,384)
NET ASSETS, Beginning of Year	<u>6,184,834</u>	<u>7,744,218</u>
NET ASSETS, End of Year	<u>\$ 947,017</u>	<u>\$ 6,184,834</u>

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

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (5,237,817)	\$ (1,559,384)
Reconciliation to net cash used in operating activities:		
Contribution of investments to		
Jaquelin Hume Foundation	5,486,510	
Depreciation	14,878	19,950
Net unrealized and realized gain on investments	(14,521)	(394,883)
Changes in assets and liabilities:		
Accounts receivable	(536)	(24,702)
Contributions receivable	(604,649)	1,174,714
Prepaid expenses and deposits	1,314	(23,532)
Accounts payable and accrued expenses	<u>(10,944)</u>	<u>9,280</u>
Net cash used in operating activities	<u>(365,765)</u>	<u>(798,557)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(4,500)	(3,679)
Purchase of investments	(9,856)	(2,144,052)
Proceeds from sale of investments	<u>500,000</u>	<u>3,016,090</u>
Net cash provided by investing activities	<u>485,644</u>	<u>868,359</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease	<u>(11,050)</u>	<u>(10,396)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	108,829	59,406
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>241,897</u>	<u>182,491</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 350,726</u>	<u>\$ 241,897</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - Cash paid for interest	<u>\$ 1,870</u>	<u>\$ 2,765</u>
NONCASH FINANCING TRANSACTION:		
Acquisition of assets under capital lease	<u>\$</u>	<u>\$ 14,600</u>

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

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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 and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Foundation has no permanently restricted net assets.

Revenue recognition – Contributions, including private foundation grants, are recognized in full when received or unconditionally promised, in accordance with professional standards.

All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Restricted grants from private sources and donor-restricted amounts are reported as an increase in temporarily restricted net assets. Temporarily restricted net assets become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose.

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

The Foundation minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to cash.

Contributions receivable – Contributions receivable consist of unconditional promises to give, primarily from private foundation grants. Contributions receivable totaling \$724,000 and \$89,351 are expected to be collected within one year as of December 31, 2013 and 2012, respectively. Contributions receivable totaling \$30,000 at December 31, 2012 are expected within 1-5 years. No discount was applied to long-term contributions receivable as it was considered immaterial.

Investments – Investments are carried at estimated fair value, using quoted market prices. 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.

Furniture and equipment – Furniture and computer equipment is stated at cost. The Foundation capitalizes all expenditures for furniture and equipment in excess of \$500. Depreciation is computed using the straight-line method over estimated five-year useful lives.

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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

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 applied the accounting principles related to the accounting for uncertainty in income taxes 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 state income tax examinations by tax authorities for years prior to 2009. The Foundation did not incur any income tax expense for the years ended December 31, 2013 and 2012.

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.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same; to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, 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 for the asset or liability. |

Subsequent events have been reviewed through May 30, 2014, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2013 that require recognition or disclosure in the financial statements.

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

2. ACQUISITION AGREEMENT

On September 1, 2012, the Foundation entered into an acquisition agreement with The Fund for American Studies (TFAS), and the Jaquelin Hume Foundation (JHF). Under the terms of the agreement, the Foundation has amended its bylaws, effective January 1, 2013, to designate TFAS as the sole member of FTE and to empower JHF to designate one Trustee. The agreement provides for the continuation of the mission of the Foundation under the control of TFAS with funding by JHF. In accordance with the agreement, during 2013 the Foundation transferred a significant portion of its investments to JHF to be held as the Foundation for Teaching Economics Fund (the Fund). See Note 4.

3. INVESTMENTS

Investments consist of the following at:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		\$ 524,252
Mutual funds:		
Fixed income funds		4,197,028
Institutional funds		1,113,011
Commodity funds		137,426
Equity investments:		
Financial services	\$ 21,465	11,881
Total	<u>\$ 21,465</u>	<u>\$ 5,983,598</u>

The Foundation's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets for identical assets.

4. FOUNDATION FOR TEACHING ECONOMICS FUND

As part of the acquisition agreement described in Note 2, the Foundation transferred investments with a fair value of \$5,486,510 to JHF in March 2013, with the understanding that the income and principal pertaining to these assets would be distributed to the Foundation annually based on a budget provided by the Foundation. The Fund is to be used exclusively to support the Foundation's programs so long as TFAS carries out these programs in a manner consistent with the Foundation's mission. Because JHF maintains variance power over these funds and has final discretion over distributions to the Foundation, the Foundation has accounted for the transfer as a contribution to JHF in its statement of activities for the year ended December 31, 2013. The Foundation recognized distributions from the Fund totaling \$1,644,000 during 2013, which are included in contributions and promises to give in the statement of activities. Contributions receivable include \$444,000 due from JHF at December 31, 2013.

The Fund had a fair value of \$4,223,792 at December 31, 2013.

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

5. NET ASSETS

Temporarily restricted net assets consist of unexpended contributions and grants for the following purposes:

	<u>2013</u>	<u>2012</u>
Economics for Leaders	\$ 229,800	\$ 80,000
Environment and the Economy	35,000	
Host Committee	15,500	
Contributions restricted for the following year's programs	<u> </u>	<u>20,000</u>
Total	<u>\$ 280,300</u>	<u>\$ 100,000</u>

Prior to January 1, 2013, the Foundation's Board of Trustees had designated a portion of its net assets as an endowment. The endowment's purpose was to supplement spending in years where fundraising and investment income was less than budgeted expenses for operations and programs. The Foundation's endowment spending policy was primarily demand driven.

As part of the acquisition agreement described in Note 2, the foundation's endowment net assets were transferred to JHF.

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

	<u>2013</u>	<u>2012</u>
Endowment net assets, beginning of year	\$ 5,983,598	\$ 6,464,854
Net unrealized and realized gain	2,912	394,883
Transfer of assets to Jaquelin Hume Foundation	(5,486,510)	
Amounts appropriated for expenditure	<u>(500,000)</u>	<u>(876,139)</u>
Endowment net assets, end of year	<u>\$</u>	<u>\$ 5,983,598</u>

FOUNDATION FOR TEACHING ECONOMICS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

6. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 92,431	\$ 126,844
Computer equipment	71,549	112,953
Less accumulated depreciation	<u>(131,237)</u>	<u>(196,676)</u>
Furniture and equipment, net	<u>\$ 32,743</u>	<u>\$ 43,121</u>

Included in the amounts above are property and equipment under capital lease arrangements with a net book value of \$17,005 and \$28,072 at December 31, 2013 and 2012, respectively.

7. 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 \$75,978 and \$76,077 for the years ended December 31, 2013 and 2012, 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>
2014	\$ 51,500	\$ 12,920
2015	<u>45,843</u>	<u>6,919</u>
Minimum lease payments	<u>\$ 97,343</u>	19,839
Less amount representing interest		<u>(981)</u>
Capital lease obligation		<u>\$ 18,858</u>

8. 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 \$59,928 and \$58,853 for the years ended December 31, 2013 and 2012, respectively.