

# **Foundation for Teaching Economics**

Financial Report  
December 31, 2015

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RSM US LLP

## Independent Auditor's Report

To the Board of Trustees  
Foundation for Teaching Economics  
Davis, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Foundation for Teaching Economics (the Foundation), which comprise the statement of financial position as of December 31, 2015, and 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 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 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 Foundation for Teaching Economics as of December 31, 2015, 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.

**Report on Summarized Comparative Information**

We have previously audited the Foundation's 2014 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which is has been derived.

*RSM US LLP*

Washington, D.C.  
August 8, 2016

## Foundation for Teaching Economics

### Statement of Financial Position

December 31, 2015

(With Comparative Totals for 2014)

	2015	2014
<b>Assets</b>		
Cash	\$ 1,426,749	\$ 1,127,237
Investments	132,975	65,029
Accounts receivable	6,113	22,697
Contributions receivable	235,063	414,536
Prepaid expenses and deposits	14,849	51,200
Furniture and equipment, net	21,888	23,823
	<u>\$ 1,837,637</u>	<u>\$ 1,704,522</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 87,070	\$ 280,196
Deferred revenue	10,445	-
Capital lease obligations	-	6,848
	<u>97,515</u>	<u>287,044</u>
Commitments (Note 6)		
Net assets:		
Unrestricted	1,420,812	989,711
Temporarily restricted	319,310	427,767
	<u>1,740,122</u>	<u>1,417,478</u>
	<u>\$ 1,837,637</u>	<u>\$ 1,704,522</u>

See notes to financial statements.

**Foundation for Teaching Economics**

**Statement of Activities**

**Year Ended December 31, 2015**

**(With Comparative Totals for 2014)**

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Total	
Revenues and support:				
Contributions	\$ 1,733,772	\$ 402,310	\$ 2,136,082	\$ 2,637,813
Program income	458,316	-	458,316	488,328
Investment income	17,796	-	17,796	1,591
Net assets released from restrictions	510,767	(510,767)	-	-
<b>Total revenues and support</b>	<b>2,720,651</b>	<b>(108,457)</b>	<b>2,612,194</b>	<b>3,127,732</b>
Expenses:				
Educational programs	1,675,333	-	1,675,333	2,043,938
Management and general	285,069	-	285,069	312,726
Public affairs and development	329,148	-	329,148	300,607
<b>Total expenses</b>	<b>2,289,550</b>	<b>-</b>	<b>2,289,550</b>	<b>2,657,271</b>
<b>Change in net assets</b>	<b>431,101</b>	<b>(108,457)</b>	<b>322,644</b>	<b>470,461</b>
Net assets:				
Beginning	989,711	427,767	1,417,478	947,017
Ending	<b>\$ 1,420,812</b>	<b>\$ 319,310</b>	<b>\$ 1,740,122</b>	<b>\$ 1,417,478</b>

See notes to financial statements.

**Foundation for Teaching Economics**

**Statement of Cash Flows**

**Year Ended December 31, 2015**

**(With Comparative Totals for 2014)**

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 322,644	\$ 470,461
Reconciliation of change in net assets to net cash provided by operating activities:		
Depreciation	17,493	15,630
Net unrealized and realized gain on investments	(17,342)	(1,170)
Changes in assets and liabilities:		
Decrease in:		
Accounts receivable	16,584	7,189
Contributions receivable	179,473	309,464
Prepaid expenses and deposits	36,351	8,284
Increase in:		
Accounts payable and accrued expenses	(193,126)	27,767
Deferred revenue	10,445	-
<b>Net cash provided by operating activities</b>	<b>372,522</b>	<b>837,625</b>
Cash flows from investing activities:		
Purchase of furniture and equipment	(15,558)	(6,710)
Purchase of investments	(50,604)	(42,394)
<b>Net cash used in investing activities</b>	<b>(66,162)</b>	<b>(49,104)</b>
Cash flows from financing activities:		
Payments on capital lease	(6,848)	(12,010)
<b>Net cash used in financing activities</b>	<b>(6,848)</b>	<b>(12,010)</b>
<b>Net increase in cash</b>	<b>299,512</b>	<b>776,511</b>
Cash:		
Beginning	1,127,237	350,726
Ending	\$ 1,426,749	\$ 1,127,237
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 152	\$ 1,075

See notes to financial statements.

## Foundation for Teaching Economics

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Foundation for Teaching Economics (the Foundation) is a nonprofit 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.

A summary of the Foundation's significant accounting policies follows:

**Basis of accounting:** The financial statements are prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

**Basis of presentation:** The accompanying financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this ASC, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2015, the Foundation had no permanently restricted net assets.

Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

**Financial risk:** 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 and believes the Foundation is not exposed to any significant risk related to cash.

The Foundation invests in professionally managed portfolio that contains money market funds and common stock. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

**Contributions receivable:** Contributions receivable consist of unconditional promises to give, primarily from private foundation grants. These are carried at original amount pledged less an estimate made for doubtful promises based on a review of all outstanding pledges on an annual basis. The Foundation's contributions receivable are due in the next year. Management determines the allowance for doubtful accounts by regularly evaluating individual promises to give and considering history of donors and proven collectability of past donations. Contributions receivable are written off when deemed uncollectible. Recoveries of previously written-off contributions receivable are recorded when received. Contributions receivable totaling \$235,063 is expected to be collected in 2016. Management believes accounts receivable are fully collectible and no provision for doubtful receivables is necessary.

**Investments:** Investments in marketable securities are reflected at their fair market value (based on closing values at 4 p.m. Eastern Time on the last trading day of the fiscal year). To adjust the carrying value of these investments, realized and unrealized gains and losses are recorded as realized and unrealized gains on investments in the statement of activities.



## Foundation for Teaching Economics

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**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.

**Revenue recognition:** Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in unrestricted, temporarily restricted or permanently restricted net assets, according to donor stipulations. Income from tuition, registrations and other fees for the Foundation is recognized as program income when the respective programs are held. Income received in advance is recorded as deferred revenue.

Income from investments is recognized as earned. Investment income includes dividends and realized gains and losses on investment transactions. Since all investments are carried at fair value, the net change in the fair value of investments is recognized as an unrealized gain or loss on investments.

**Income taxes:** The Foundation is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Foundation did not have any significant net unrelated business income for the year ended December 31, 2015.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2012.

**Functional allocation of expenses:** The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## Foundation for Teaching Economics

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Upcoming accounting pronouncements:** In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Foundation is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

**Subsequent events:** The Foundation evaluated subsequent events through August 8, 2016, which is the date the financial statements were available to be issued.

#### Note 2. Foundation for Teaching Economics Fund

On September 1, 2012, the Foundation entered into an acquisition agreement with The Fund for American Studies (TFAS), and the Jaquelin Home Foundation (JHF) effective January 1, 2013. Under the terms of the agreement, the Foundation has amended its bylaws, effective January 1, 2013, to designate TFAS as the sole member of the Foundation 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).

As part of the acquisition agreement, 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. The Foundation recognized distributions from the Fund totaling \$950,000 during 2015, which are included in contributions in the statement of activities.

#### Note 3. Investments and Fair Value Measurements

Investments consist of the following at December 31, 2015:

Money market	\$ 96,078
Common stock	36,897
	<u>\$ 132,975</u>

The Fair Value Measurement Topic of the Codification establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

**Level 1:** Quoted market prices in active markets for identical assets or liabilities

**Level 2:** Observable market-based inputs or unobservable inputs corroborated by market data

**Level 3:** Unobservable inputs that are not corroborated by market data

## Foundation for Teaching Economics

### Notes to Financial Statements

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#### Note 3 Investments and Fair Value Measurements (Continued)

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets that are subject to the Fair Value Measurement Topic. Investments in common stock are classified as Level 1 instruments, as they are publicly traded on public exchanges.

The table below reconciles total investments at December 31, 2015:

Investments at cost	\$ 96,078
Investment at fair value	36,897
	<u>\$ 132,975</u>

#### Note 4. Furniture and Equipment

Furniture and equipment consist of the following at December 31, 2015:

Furniture and equipment	\$ 50,765
Computer equipment	89,884
	<u>140,649</u>
Less accumulated depreciation	(118,761)
	<u>\$ 21,888</u>

#### Note 5. Net Assets

Net assets of \$510,767 were released from restrictions during the year ended December 31, 2015, due to the expiration of time restrictions or satisfaction of purposes, or by the occurrence of other events, as specified by the donors.

Temporarily restricted net assets consist of the following at December 31, 2015:

Economics for Leaders	\$ 284,310
Foundation for Teaching Economics Programs	35,000
	<u>\$ 319,310</u>

#### Note 6. Lease Obligations

The Foundation was obligated under a non-cancelable operating lease agreement for its office facility through November 15, 2015. Rental expense was \$52,265 during the year ended December 31, 2015. A new lease for the same office space was executed in January 2016 for a two-year term expiring on December 31, 2017. Monthly rent under the new agreement is \$1,400, per month.

#### Note 7. 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 \$29,365 for the year ended December 31, 2015.

## **Foundation for Teaching Economics**

### **Notes to Financial Statements**

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#### **Note 8. Related Party Transactions**

During the year ended December 31, 2015, TFAS provided certain administrative support to the Foundation in the approximate amount of \$120,000.