

Foundation for Teaching Economics

**Financial Statements
and Independent Auditor's Report**

December 31, 2016
**(With December 31, 2015 Summarized Comparative
Financial Information)**

Foundation for Teaching Economics

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Independent Auditor's Report

To the 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 statement of financial position as of December 31, 2016, and the related statements of activities and change in net assets 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 misstatements 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 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of the Foundation for Teaching Economics as of December 31, 2015 were audited by other auditors, whose report dated August 8, 2016 expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended December 31, 2015, is derived from the financial statements audited by the other auditors.

CohnReznick LLP

Bethesda, Maryland
September 11, 2017

Foundation for Teaching Economics

Statement of Financial Position

December 31, 2016

With Summarized Comparative Financial Information for December 31, 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Assets		
Cash	\$ 1,768,735	\$ 1,426,749
Investments	175,165	132,975
Accounts receivable	8,156	6,113
Pledges receivable	72,128	235,063
Prepaid expenses and deposits	10,450	14,849
Furniture and equipment, net	20,407	21,888
	<u>\$ 2,055,041</u>	<u>\$ 1,837,637</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 65,004	\$ 87,070
Deferred revenue	11,525	10,445
Total liabilities	76,529	97,515
Net assets		
Unrestricted	1,460,604	1,420,812
Temporarily restricted	517,908	319,310
Total net assets	<u>1,978,512</u>	<u>1,740,122</u>
	<u>\$ 2,055,041</u>	<u>\$ 1,837,637</u>

See Notes to Financial Statements.

Foundation for Teaching Economics

**Statement of Activities and Change in Net Assets
Year Ended December 31, 2016**

With Summarized Comparative Financial Information for Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
Revenue and support				
Tuition income	\$ 608,312	\$ -	\$ 608,312	\$ 558,116
Less: Scholarships granted	<u>(88,770)</u>	<u>-</u>	<u>(88,770)</u>	<u>(102,100)</u>
Tuition income, net	519,542	-	519,542	456,016
Contributions	1,521,890	648,206	2,170,096	2,136,082
Investment income	4,305	-	4,305	17,796
Other income	8,744	-	8,744	2,300
Net assets released from restrictions	<u>449,608</u>	<u>(449,608)</u>	<u>-</u>	<u>-</u>
Total revenue and support	2,504,089	198,598	2,702,687	2,612,194
Expenses				
Educational programs	1,938,263	-	1,938,263	1,675,333
Management and general	174,247	-	174,247	285,069
Fundraising	<u>351,787</u>	<u>-</u>	<u>351,787</u>	<u>329,148</u>
Total expenses	<u>2,464,297</u>		<u>2,464,297</u>	<u>2,289,550</u>
Change in net assets	39,792	198,598	238,390	322,644
Net assets, beginning of year	<u>1,420,812</u>	<u>319,310</u>	<u>1,740,122</u>	<u>1,417,478</u>
Net assets, end of year	<u>\$ 1,460,604</u>	<u>\$ 517,908</u>	<u>\$ 1,978,512</u>	<u>\$ 1,740,122</u>

See Notes to Financial Statements.

Foundation for Teaching Economics

Statement of Cash Flows Year Ended December 31, 2016

With Summarized Comparative Financial Information for Year Ended December 31, 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 238,390	\$ 322,644
Reconciliation of change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,997	17,493
Net realized and unrealized gain on investments	(4,305)	(17,342)
Changes in:		
Accounts receivable	(2,043)	16,584
Contributions receivable	162,935	179,473
Prepaid expenses and deposits	4,399	36,351
Accounts payable and accrued expenses	(22,066)	(193,126)
Deferred revenue	1,080	10,445
Net cash provided by operating activities	384,387	372,522
Cash flows from investing activities:		
Proceeds from sales of investments	(37,885)	(50,604)
Purchases of property and equipment	(4,516)	(15,558)
Net cash used in investing activities	(42,401)	(66,162)
Cash flows from financing activities:		
Payments on capital lease	-	(6,848)
Net cash used in financing activities	-	(6,848)
Net increase in cash	341,986	299,512
Cash, beginning of year	1,426,749	1,127,237
Cash, end of year	\$ 1,768,735	\$ 1,426,749
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ -	\$ 152

See Notes to Financial Statements.

Foundation for Teaching Economics

Notes to Financial Statements December 31, 2016

Note 1 - Organization

Nature of the business

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.

On September 1, 2012, the Foundation entered into an acquisition agreement with The Fund for American Studies ("TFAS"), and the Jaquelin Hume Foundation ("JHF") effective January 1, 2013. Under the terms of the agreement, the Foundation 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.

As part of the acquisition agreement, in March 2013, the Foundation transferred investments with a fair value of \$5,486,510 to JHF to be held as the Foundation for Teaching Economics Fund ("the Fund"), 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. For the year ended December 31, 2016, the Foundation recognized distributions from the Fund totaling \$895,000, which is included in contributions in the statement of activities and change in net assets.

Note 2 - Summary of significant accounting policies

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 the obligations are incurred.

Cash

The Foundation considers all short-term money market accounts to be cash. All cash and investments, regardless of maturity, held by the investment advisor are considered investments.

Investments

Investments are recorded at fair value. Accordingly, unrealized gains and losses, due to market fluctuations during the year, are recognized at year-end. Realized gains or losses are recognized upon sale or disposal. Donated investments are reflected as contributions at their fair values at date of receipt. Money market funds held in investment accounts with investment institutions are classified as investments on the statements of financial position. It is reasonably possible that changes in interest rate and market risk in the near term could result in a change in fair value of investment balances, which could be material.

Accounts receivable

The Foundation records receivables at cost, less an allowance for doubtful accounts as determined by management. The allowance is provided based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be worthless. At December 31, 2016, management believes all accounts receivable to be fully collectible, and, as such, no allowance for doubtful accounts has been provided for in these financial statements.

Foundation for Teaching Economics

Notes to Financial Statements December 31, 2016

Pledges receivable

Pledges 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 pledges 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. Pledges receivable are written off when deemed uncollectible. At December 31, 2016, pledges receivable were \$72,128 and are expected to be fully collected in 2017. Management believes pledges receivable are fully collectible and no provision for doubtful receivables is necessary.

Property and equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally five years. Website costs are amortized over an estimated useful life of five years. The Foundation capitalizes all expenditures for furniture and equipment in excess of \$500 with an estimated useful life of greater than one year.

Net assets

Unrestricted net assets:

Unrestricted net assets are net assets that are neither temporarily restricted nor permanently restricted by donor stipulations for a time or purpose restriction.

Temporarily restricted net assets:

Temporarily restricted net assets result from contributions or grants 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 future periods or specified purposes.

Permanently restricted net assets:

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation's actions. As of December 31, 2016, the Foundation had no permanently restricted net assets.

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 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.

Foundation for Teaching Economics

Notes to Financial Statements December 31, 2016

Functional presentation of expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain costs have been allocated among the programs, administration and other and fundraising activities.

Estimates

Management uses estimates and assumptions in preparing these financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Income taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. There has been no unrelated business income or income tax expense for the year ended December 31, 2016. Management believes that the Foundation has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation recognizes interest expense and penalties related to unrecognized tax positions in accounts payable and accrued expenses and other expense on the financial statements. The Foundation reported no penalties and interest related to unrecognized tax positions for the year ended December 31, 2016. Tax years prior to 2013 are no longer subject to examination by the IRS or the tax jurisdiction of the California.

Credit risk

The Foundation has cash balances in excess of Federal Deposit Insurance Corporation ("FDIC") limits totaling approximately \$1,422,000 as of December 31, 2016.

Subsequent events

The Foundation has evaluated events and transactions for potential recognition or disclosure through September 11, 2017, the date the financial statements were available to be issued.

Reclassifications

Certain 2015 amounts were reclassified to conform to the 2016 presentation. The tuition income was previously presented net of scholarships, and is now shown as gross. As a result of this change tuition income increased by \$102,100, and scholarships of \$102,100 are shown to arrive at the net tuition income. This change had no effect on the previously reported change in net assets.

Prior year information

The financial statements include certain summarized comparative information as of and for the year ended December 31, 2015. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Note 3 - Investments

Investments consist of \$175,165 of money market funds at December 31, 2016.

Investment income for the year ended December 31, 2016 consisted of \$4,305 in realized gains.

Foundation for Teaching Economics

Notes to Financial Statements December 31, 2016

Note 4 - Furniture and equipment

Furniture and equipment consist of the following at December 31, 2016:

Furniture and equipment	\$	50,765
Computer equipment		89,885
Website		<u>4,515</u>
Total		145,165
Less: Accumulated depreciation and amortization		<u>(124,758)</u>
	\$	<u>20,407</u>

Note 5 - Net assets

Temporarily restricted net assets consist of the following at December 31, 2016:

Economics for Leaders	\$	499,308
Foundation for Teaching Economics Programs		<u>18,600</u>
	\$	<u>517,908</u>

Note 6 - Lease obligations

The Foundation was obligated under a non-cancelable operating lease agreement for its office facility through November 15, 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.

Note 7 - Retirement plan

The Foundation maintains a retirement plan (the "Plan"), under Internal Revenue Section 403(b), that is available to all active employees of the Foundation. The Foundation contributes to the Plan at a rate of 100% of the first 3% of salary deferred and 50% of the next 2% of salary deferred, after the employee completes one year of service. Total contributions to the Plan charged to expense were \$14,777 for the year ended December 31, 2016.

Note 8 - Related party transactions

During the year ended December 31, 2016, The Fund for American Studies ("TFAS") provided certain administrative support to the Foundation in the approximate amount of \$234,000, which was reimbursed by the Foundation.

Note 9 - Fair Value Measurements

The Foundation has determined the fair value of certain assets through FASB ASC Topic 820, *Fair Value Measurement*. Fair values of assets are measured on a recurring basis. At December 31, 2016 the Foundation had investments in money market funds that are valued using a Level 1 input.

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Notes to Financial Statements December 31, 2016

FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets in active or inactive markets as significant other observable inputs. Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Money market funds reported as Level 1 inputs have been valued at the closing price reported by the fund sponsor from an actively traded exchange. There have been no changes in the valuation methodologies used during the current year. All assets have been valued using a market approach.

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