FOUNDATION FOR TEACHING ECONOMICS

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2011 AND 2010

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, 2011 and 2010, 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, 2011 and 2010, 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 13, 2012

2880 Gateway Oaks Drive, Suite 100 • Sacramento, CA 95833
101 Parkshore Drive, Suite 100 • Folsom, CA 95630
Phone: 916.646.6464 • Fax: 916.929.6836 • gilbertcpa.com

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and equivalents	$ 182,491	$ 702,319
Investments - readily marketable	6,460,753	4,358,177
Investments - not readily marketable		269,672
Accounts receivable	4,648	6,340
Contributions receivable	1,294,065	250,401
Prepaid expenses and deposits	37,266	115,784
Furniture and equipment, net	44,792	59,064
TOTAL ASSETS	$ 8,024,015	$ 5,761,757
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 254,093	$ 262,724
Capital lease obligations	25,704	39,902
Total liabilities	279,797	302,626
NET ASSETS:		
Unrestricted	7,096,979	5,271,762
Temporarily restricted	647,239	187,369
Total net assets	7,744,218	5,459,131
TOTAL LIABILITIES AND NET ASSETS	$ 8,024,015	$ 5,761,757

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

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Contributions and promises to give	$ 978,037	$ 1,030,496
Program income	197,600	118,395
Dividend and interest income	292,658	207,866
Net unrealized and realized gain (loss) on investments	(331,597)	319,489
Gain on redemption of common stock	3,673,958	
Subtotal	4,810,656	1,676,246
Net assets released from restrictions	435,630	761,549
Total revenues and support	5,246,286	2,437,795
EXPENSES:		
Educational programs	2,780,742	3,067,683
Public affairs and development	335,737	348,588
Management and general	304,590	272,494
Total expenses	3,421,069	3,688,765
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	1,825,217	(1,250,970)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and promises to give	895,500	291,585
Net assets released from restrictions	(435,630)	(761,549)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	459,870	(469,964)
INCREASE (DECREASE) IN NET ASSETS	2,285,087	(1,720,934)
NET ASSETS, Beginning of Year	5,459,131	7,180,065
NET ASSETS, End of Year	$ 7,744,218	$ 5,459,131

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

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 2,285,087	$ (1,720,934)
Reconciliation to net cash used in operating activities:		
Depreciation	24,050	23,797
Net unrealized and realized (gain) loss on investments	331,597	(319,489)
Gain on redemption of common stock	(3,673,958)	
Changes in assets and liabilities:		
Accounts receivable	1,692	121,973
Contributions receivable	(1,043,664)	466,228
Prepaid expenses and deposits	78,518	(558)
Accounts payable and accrued expenses	(8,631)	(17,096)
Net cash used in operating activities	(2,005,309)	(1,446,079)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(9,778)	(9,691)
Purchase of investments	(3,898,874)	(699,876)
Proceeds from sale of investments	5,408,331	2,546,770
Net cash provided by investing activities	1,499,679	1,837,203
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease	(14,198)	(12,397)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(519,828)	378,727
CASH AND EQUIVALENTS, Beginning of Year	702,319	323,592
CASH AND EQUIVALENTS, End of Year	$ 182,491	$ 702,319
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - Cash paid for interest	$ 3,727	$ 4,348
NONCASH FINANCING TRANSACTION -		
Acquisition of assets under capital lease	$	$ 31,000

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

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.

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

Contributions receivable – Contributions receivable consist of unconditional promises to give, primarily from private foundation grants. Contributions receivable totaling $1,234,065 and $250,401 are expected to be collected within one year as of December 31, 2011 and 2010, respectively. The balance of the contributions receivable is expected within 1-5 years. No discount was applied to long-term contributions receivable as it was considered immaterial.

Investments – All debt and equity securities with readily determinable fair values are carried at estimated fair value, using quoted market prices. Other investments, include common stock in a closely-held private company 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. As of December 31, 2011, all of the common stock has been redeemed. The common 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 were recorded as investment income. A member of the Executive Committee of the Foundation is a director of this company in which the Foundation held common stock.

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.

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 and of functional expenses. 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 implemented the amended 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 2007. The Foundation did not incur any income tax expense for the years ended December 31, 2011 and 2010.

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 – The Foundation values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. 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 in which there is little or no market data, which require management to develop their own assumptions.

Subsequent events have been reviewed through March 13, 2012, the date the financial statements were available to be issued.

2. INVESTMENTS

Investments consist of the following at:

	2011		2010	
	Carrying Value	Estimated Market Value	Carrying Value	Estimated Market Value
Cash and cash equivalents:	$ 28,260	$ 28,260	$ 8,847	$ 8,847
Readily marketable:				
Mutual funds:				
Fixed income funds	3,889,654	3,889,654	2,365,325	2,365,325
Index funds	960,867	960,867	662,869	662,869
Growth funds	764,871	764,871	754,078	754,078
Institutional funds	642,211	642,211	431,995	431,995
Commodity funds	162,983	162,983	120,438	120,438
Equity investments:				
Financial services	11,907	11,907	14,625	14,625
Not readily marketable - Common stock			269,672	3,954,326
Total	$ 6,460,753	$ 6,460,753	$ 4,627,849	$ 8,312,503

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 contributions and grants for the following purposes:

	2011	2010
General contributions restricted for the following year	$ 500,000	
Economics for Leaders	134,000	
Environment and the Economy	12,839	$ 175,000
Scholarship Fund	400	685
Economics of Disasters		11,684
Total	$ 647,239	$ 187,369

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 maintain payouts to supplement the Foundation's operating budget 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).

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

	2011	2010
Endowment net assets, beginning of year	$ 4,632,485	$ 6,283,566
Net unrealized and realized gain	3,342,361	319,489
Amounts appropriated for expenditure	(1,509,992)	(1,970,570)
Endowment net assets, end of year	$ 6,464,854	$ 4,632,485

4. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	2011	2010
Furniture and equipment	$ 144,990	$ 144,990
Computer equipment	110,528	100,750
Less accumulated depreciation	(210,726)	(186,676)
Furniture and equipment, net	$ 44,792	$ 59,064

Included in the amounts above are property and equipment under capital lease arrangements with a net book value of $30,246 and $36,967 at December 31, 2011 and 2010, respectively.

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 $74,586 and $73,149 for the years ended December 31, 2011 and 2010, respectively. Future minimum payments under such lease agreements are as follows:

Years Ending December 31,	Operating Lease	Capital Leases
2012	$ 76,077	$ 10,117
2013	67,725	7,410
2014		7,410
2015		3,705
Minimum lease payments	$ 143,802	28,642
Less amount representing interest		(2,938)
Capital lease obligation		$ 25,704

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 $61,675 and $64,395 for the years ended December 31, 2011 and 2010, respectively.

7. CONCENTRATIONS

The Foundation receives revenues from various donors. Approximately 58% and 51% of contributions was from two foundations during 2011 and 2010, respectively.