

**FOUNDATION FOR TEACHING  
ECONOMICS**

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

**YEARS ENDED  
DECEMBER 31, 2012 AND 2011**

## **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, 2012 and 2011, 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 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.

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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, 2012 and 2011, 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.

*Subsequent Event*

As discussed in Note 8 to the financial statements, the Foundation entered into an acquisition agreement during 2012 with The Fund for American Studies (TFAS). Under the terms of the agreement, TFAS became the sole member of the Foundation effective January 1, 2013. Our opinion is not modified with respect to that matter.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**May 8, 2013**

# FOUNDATION FOR TEACHING ECONOMICS

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2012 AND 2011

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	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 241,897	\$ 182,491
Investments	5,983,598	6,460,753
Accounts receivable	29,350	4,648
Contributions receivable	119,351	1,294,065
Prepaid expenses and deposits	60,798	37,266
Furniture and equipment, net	<u>43,121</u>	<u>44,792</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,478,115</u>	<u>\$ 8,024,015</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 263,373	\$ 254,093
Capital lease obligations	<u>29,908</u>	<u>25,704</u>
Total liabilities	<u>293,281</u>	<u>279,797</u>
<b>NET ASSETS:</b>		
Unrestricted	6,084,834	7,096,979
Temporarily restricted	<u>100,000</u>	<u>647,239</u>
Total net assets	<u>6,184,834</u>	<u>7,744,218</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 6,478,115</u>	<u>\$ 8,024,015</u>

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

# FOUNDATION FOR TEACHING ECONOMICS

## STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>UNRESTRICTED NET ASSETS:</b>		
<b>REVENUES AND SUPPORT:</b>		
Contributions and promises to give	\$ 458,388	\$ 978,037
Program income	345,373	197,600
Dividend and interest income	224,449	292,658
Net unrealized and realized gain (loss) on investments	394,883	(331,597)
Gain on redemption of common stock		<u>3,673,958</u>
Subtotal	1,423,093	4,810,656
Net assets released from restrictions	<u>771,789</u>	<u>435,630</u>
Total revenues and support	<u>2,194,882</u>	<u>5,246,286</u>
<b>EXPENSES:</b>		
Educational programs	2,579,464	2,780,742
Public affairs and development	337,780	335,737
Management and general	<u>289,783</u>	<u>304,590</u>
Total expenses	<u>3,207,027</u>	<u>3,421,069</u>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<u>(1,012,145)</u>	<u>1,825,217</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions and promises to give	224,550	895,500
Net assets released from restrictions	<u>(771,789)</u>	<u>(435,630)</u>
<b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>(547,239)</u>	<u>459,870</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(1,559,384)	2,285,087
<b>NET ASSETS, Beginning of Year</b>	<u>7,744,218</u>	<u>5,459,131</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 6,184,834</u>	<u>\$ 7,744,218</u>

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

# FOUNDATION FOR TEACHING ECONOMICS

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ (1,559,384)	\$ 2,285,087
Reconciliation to net cash used in operating activities:		
Depreciation	19,950	24,050
Net unrealized and realized (gain) loss on investments	(394,883)	331,597
Gain on redemption of common stock		(3,673,958)
Changes in assets and liabilities:		
Accounts receivable	(24,702)	1,692
Contributions receivable	1,174,714	(1,043,664)
Prepaid expenses and deposits	(23,532)	78,518
Accounts payable and accrued expenses	<u>9,280</u>	<u>(8,631)</u>
Net cash used in operating activities	<u>(798,557)</u>	<u>(2,005,309)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(3,679)	(9,778)
Purchase of investments	(2,144,052)	(3,898,874)
Proceeds from sale of investments	<u>3,016,090</u>	<u>5,408,331</u>
Net cash provided by investing activities	<u>868,359</u>	<u>1,499,679</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on capital lease	<u>(10,396)</u>	<u>(14,198)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	59,406	(519,828)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>182,491</u>	<u>702,319</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 241,897</u>	<u>\$ 182,491</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - Cash paid for interest</b>	<u>\$ 2,765</u>	<u>\$ 3,727</u>
<b>NONCASH FINANCING TRANSACTION:</b>		
Acquisition of assets under capital lease	<u>\$ 14,600</u>	<u>\$</u>

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

# FOUNDATION FOR TEACHING ECONOMICS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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### 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 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 \$89,351 and \$1,234,065 are expected to be collected within one year as of December 31, 2012 and 2011, 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** – 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, 2012 AND 2011

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**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 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. The Foundation did not incur any income tax expense for the years ended December 31, 2012 and 2011.

**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 8, 2013, the date the financial statements were available to be issued.

# FOUNDATION FOR TEACHING ECONOMICS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

### 2. INVESTMENTS

Investments consist of the following at:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 524,252	\$ 28,260
Mutual funds:		
Fixed income funds	4,197,028	3,889,654
Institutional funds	1,113,011	642,211
Commodity funds	137,426	162,983
Index funds		960,867
Growth funds		764,871
Equity investments:		
Financial services	<u>11,881</u>	<u>11,907</u>
Total	<u>\$ 5,983,598</u>	<u>\$ 6,460,753</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.

### 3. NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Economics for Leaders	\$ 80,000	\$ 134,000
Contributions restricted for the following year's programs	20,000	
General contributions restricted for the following year		500,000
Environment and the Economy		12,839
Scholarship Fund	<u>                    </u>	<u>400</u>
Total	<u>\$ 100,000</u>	<u>\$ 647,239</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.

# FOUNDATION FOR TEACHING ECONOMICS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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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:

	<u>2012</u>	<u>2011</u>
Endowment net assets, beginning of year	\$ 6,464,854	\$ 4,632,485
Net unrealized and realized gain	394,883	3,342,361
Amounts appropriated for expenditure	<u>(876,139)</u>	<u>(1,509,992)</u>
Endowment net assets, end of year	<u>\$ 5,983,598</u>	<u>\$ 6,464,854</u>

#### 4. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 126,844	\$ 144,990
Computer equipment	112,953	110,528
Less accumulated depreciation	<u>(196,676)</u>	<u>(210,726)</u>
Furniture and equipment, net	<u>\$ 43,121</u>	<u>\$ 44,792</u>

Included in the amounts above are property and equipment under capital lease arrangements with a net book value of \$28,072 and \$30,246 at December 31, 2012 and 2011, respectively.

# FOUNDATION FOR TEACHING ECONOMICS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

### 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 \$76,077 and \$74,586 for the years ended December 31, 2012 and 2011, 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>
2013	\$ 67,725	\$ 12,920
2014		12,920
2015		<u>6,919</u>
Minimum lease payments	<u>\$ 67,725</u>	32,759
Less amount representing interest		<u>(2,851)</u>
Capital lease obligation		<u>\$ 29,908</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 \$58,853 and \$61,675 for the years ended December 31, 2012 and 2011, respectively.

### 7. CONCENTRATIONS

The Foundation receives revenues from various donors. Approximately 58% of contributions were from two foundations during 2011. There were no donors that made up a significant concentration of contributions in 2012.

### 8. SUBSEQUENT EVENT

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.