

**THE FOUNDATION FOR ECONOMIC
EDUCATION, INC.**

**FINANCIAL STATEMENTS AND ADDITIONAL
INFORMATION**

Year Ended March 31, 2014



Mayer Hoffman McCann P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

Report on the Financial Statements

We have audited the accompanying financial statements of the Foundation for Economic Education, Inc. (the "Foundation"), which comprise the statement of financial position as of March 31, 2014, 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.

Auditors' 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 auditors' 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 the Foundation for Economic Education, Inc. as of March 31, 2014, 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.

Correction of Error

As described in Note 12 to the financial statements, the Foundation recorded an adjustment to net assets as of March 31, 2013 to record its interest in a beneficial remainder trust that was granted to the Foundation in a prior period and not recorded in the financial statements. In addition, a reclassification adjustment was recorded to classify beneficial interest previously recorded as unrestricted net assets to temporarily restricted net assets. Our opinion is not modified with respect to that matter.

Mayer Hoffman McCann P.C.

Atlanta, Georgia
October 1, 2014

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

STATEMENT OF NET ASSETS

March 31, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	972,562
Unconditional promises to give, net - current		239,201
Inventory		64,188
Investments		1,407,428
Accrued interest receivable		7,836
Prepaid income taxes		34,702
Prepaid expenses and other current assets		280,276
TOTAL CURRENT ASSETS		<u>3,006,193</u>

PROPERTY AND EQUIPMENT, net

260,375

NONCURRENT ASSETS

Unconditional promises to give, net - noncurrent		326,841
Investments - restricted for long term purposes		1,509,356
Investment in privately held company		1,774,000
Investments - held in trust		121,058
Beneficial interests in investments - held in trust by others		593,361
TOTAL NONCURRENT ASSETS		<u>4,324,616</u>

TOTAL ASSETS

\$ 7,591,184

LIABILITIES

CURRENT LIABILITIES

Accounts payable and other accrued expenses	\$	363,149
Deferred revenue		100,188
Current portion of charitable gift annuity		11,904
TOTAL CURRENT LIABILITIES		<u>475,241</u>

LONG-TERM LIABILITIES

Charitable gift annuity, net of current portion		10,300
Funds held in trust		121,058
TOTAL LONG-TERM LIABILITIES		<u>131,358</u>

TOTAL LIABILITIES

606,599

NET ASSETS

Unrestricted		4,078,586
Unrestricted - reserve on charitable gift annuity		100,000
TOTAL UNRESTRICTED		<u>4,178,586</u>
Temporarily restricted		1,296,643
Permanently restricted		1,509,356
TOTAL NET ASSETS		<u>6,984,585</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>7,591,184</u>

See Notes to Financial Statements

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

STATEMENT OF ACTIVITIES

Year Ended March 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 3,076,336	\$ 747,029	\$ -	\$ 3,823,365
Contributions in-kind	347,560	-	-	347,560
Publication income, net of cost of \$17,173	9,698	-	-	9,698
Royalties	31,808	-	-	31,808
Net investment income, net of custodial fees of \$20,975	504,901	3,733	14,051	522,685
Miscellaneous	39,592	-	-	39,592
	<u>4,009,895</u>	<u>750,762</u>	<u>14,051</u>	<u>4,774,708</u>
Net assets released from restrictions	<u>249,007</u>	<u>(249,007)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	<u>4,258,902</u>	<u>501,755</u>	<u>14,051</u>	<u>4,774,708</u>
EXPENSES				
Program Services				
Seminars and lectures	1,580,323	-	-	1,580,323
Books and publications	816,503	-	-	816,503
Website outreach	544,269	-	-	544,269
Total Program Services	<u>2,941,095</u>	<u>-</u>	<u>-</u>	<u>2,941,095</u>
Support Services				
Management and general	360,839	-	-	360,839
Fundraising/development	522,022	-	-	522,022
Total Support Services	<u>882,861</u>	<u>-</u>	<u>-</u>	<u>882,861</u>
TOTAL EXPENSES	<u>3,823,956</u>	<u>-</u>	<u>-</u>	<u>3,823,956</u>
INCREASE IN NET ASSETS	434,946	501,755	14,051	950,752
NET ASSETS, beginning of year as restated	<u>3,743,640</u>	<u>794,888</u>	<u>1,495,305</u>	<u>6,033,833</u>
NET ASSETS, end of year	<u>\$ 4,178,586</u>	<u>\$ 1,296,643</u>	<u>\$ 1,509,356</u>	<u>\$ 6,984,585</u>

See Notes to Financial Statements

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

STATEMENT OF CASH FLOWS

Year Ended March 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Net increase in net assets	\$ 950,752
Adjustments to reconcile net increase in net assets to net cash flows from operating activities:	
Depreciation	66,991
Unrealized gain on investments	(495,639)
Realized loss on sale of investments	8,070
Interest on charitable gift annuities	2,233
Contribution of investments	(1,045,727)
Decrease (increase) in operating assets:	
Unconditional promises to give, net Inventory	(531,529)
Accrued interest receivable	(48,872)
Prepaid expenses and other current assets	9,104
(155,828)	(155,828)
Increase in operating liabilities:	
Accounts payable and other accrued expenses	85,460

NET CASH FLOWS FROM OPERATING ACTIVITIES (1,154,985)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(95,006)
Distributions from investment in privately held company	204,274
Purchase of investments	(1,908,913)
Proceeds from sale of investments	3,143,191

NET CASH FLOWS FROM INVESTING ACTIVITIES 1,343,546

CASH FLOWS FROM FINANCING ACTIVITIES

Payment of charitable gift annuities	(13,250)
Payment of capital lease	(6,300)

NET CASH FLOWS FROM FINANCING ACTIVITIES (19,550)

NET INCREASE IN CASH 169,011

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD 803,551

CASH AND CASH EQUIVALENTS, END OF PERIOD \$ 972,562

See Notes to Financial Statements

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Nature of organization and summary of significant accounting policies

Nature of activities - The Foundation for Economic Education, Inc. ("Foundation") is a non-profit Foundation incorporated in the State of New York. Its purpose is to promote the principles of sound economics, including individual freedom, private property, limited government and free trade. The Foundation publishes pamphlets, books and *The Freeman* monthly magazine, as well as opinion editorials dealing with topics of economics, history and moral philosophy. The Foundation also conducts introductory and advanced seminars, debates and runs web sites promoting economic education.

Basis of accounting - The Foundation prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

Basis of presentation - The Foundation's financial statement presentation follows the recommendations of FASB ASC 958, *Not-for-Profit Entities*. Under FASB ASC 958, 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.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of estimates - The preparation of financial statements in conformity with U.S. GAAP 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 financial statements, and the reported amounts of revenues and expenses during the reporting period.

Material estimates that are particularly susceptible to significant change relate to the determination of the fair value of investment (Note 2), in particular the Level 3 investments. Actual results could differ from those estimates.

Cash and cash equivalents - The Foundation considers cash on hand, money markets, unrestricted demand deposits in banks, and certificates of deposit with original maturities of three months or less, to be cash equivalents for the purpose of the statement of cash flows.

Inventory - The Foundation maintains an inventory of its publications for sale. Inventory is stated at the lower of cost or market determined on a first-in first-out basis.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(1) **Nature of organization and summary of significant accounting policies - continued**

Investments - The Foundation has adopted FASB ASC 958-320, *Accounting for Certain Investments Held by Not-For-Profit Foundations*, whereby investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Gains and losses on investments are recognized in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

On September 17, 2010, New York State passed the New York State Prudent Management of Institutional Funds Act ("NYPMIF A"), its version of the Uniform Prudent Management of Institutional Funds Act ("UPMIF A"). All not-for-profit Foundations formed in New York must apply this law. The Foundation classifies donor-restricted endowment funds as permanently restricted net assets, unless otherwise stipulated by the donor: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds.

From time to time, the fair value of the assets associated with an individual donor-restricted endowment fund may fall below the fund's historical dollar value. Under NYPMIFA, the Foundation may spend below the historical dollar value of its endowment funds, if determined to be prudent, unless specific donors have stipulated to the contrary. FASB ASC 958-205 *Not for Profit Entities Presentation of Financial Statements* requires the portion of a donor restricted endowment fund that is not classified as permanently restricted to be classified as temporarily restricted net assets until appropriated for expenditure.

The Foundation's investment policies, as approved by the Board of Trustees, are as follows. Unrestricted funds are considered a liquid reserve for expenses, to the extent they amount to less than twelve months' budgeted expenses, and as such they are invested in short-term highly-rated fixed-income instruments. Restricted funds are invested as directed by the donors, where applicable, and otherwise in a combination of short- and medium-term highly-rated fixed-income instruments. The primary objective at this time is preservation of principal, while generating a modest yield.

On an annual or more frequent basis, the Foundation calculates the amounts distributable from each of its restricted accounts and releases such amounts for expenditure on the purposes specified by the respective donors, as summarized in Note 3.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Nature of organization and summary of significant accounting policies - continued

Contributions and unconditional promises to give - The Foundation has adopted Financial Accounting Standards Board (FASB) Codification Section 958-605 *Not for Profit Entities Revenue Recognition*. FASB Codification Section 958-605 requires that unconditional promises to give (pledges) be recorded as receivables and revenue and requires that the Foundation distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation uses the allowance method to determine uncollectible promises receivable. The allowance is based upon prior years' experience and managements' analysis of specific promise made. Management believes that all of the unconditional promises to give are collectible, and therefore no allowance was recorded at March 31, 2014.

Contributed services - Donated services are recognized as contributions if the services create or enhance non-financial assets or if the services required specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. In addition, volunteers provide assistance with specific programs that is not recognized as revenue since the recognition criteria were not met.

During 2014, the Foundation received donated services related to the production of a video and inventory of DVD's for distribution from one donor. This service was recorded at the estimate retail value of approximately \$298,000, and is recorded as contributions in-kind on the statement of activities, and as supplies expense under the books and publications program service on the schedule of functional expense. Additional contributions in-kind received during 2014 were for donated facilities for seminars, software licenses, and other items.

Donated property and equipment - Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(1) **Nature of organization and summary of significant accounting policies - continued**

Donated property and equipment - continued - On December 1, 2013, the Foundation received a donation of 1,000 Bitcoin from a donor that was unrestricted for use and purpose. This donation was recorded at fair value of approximately \$992,000 as an unrestricted contribution. The Foundation sold 995 Bitcoin over the following days, resulting in a gain of approximately \$48,000. The Foundation holds approximately 13 Bitcoin at March 31, 2014 with a recorded value of approximately \$6,000 recorded in prepaid expenses and other current assets on the statement of net assets. The Foundation holds these Bitcoin to facilitate transactions with vendors and donors that wish to transact in this alternative currency. Transactions occurring with Bitcoin are recorded at fair value, and were immaterial in 2014.

Depreciation - Property and equipment are stated at cost and depreciated using an accelerated method over the estimated useful lives. Maintenance and repairs, which do not extend the life of an asset, are expensed as incurred. Property is evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Estimated useful lives are as follows:

<u>Assets</u>	<u>Useful Lives</u>
Computer equipment and software	3 - 5 years
Furniture and equipment	5 - 7 years
Building and improvements	10 – 39 years

Advertising - Advertising costs are expensed as incurred. For the year ended March 31, 2014, the costs expended were \$66,312.

Income taxes - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") of 1954, as amended, and, as such, is not subject to income taxes on income received for exempt purposes. Income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Foundation holds an investment in an S-Corporation that is considered a pass-through entity under the IRC. Accordingly, the Foundation is liable for any income tax generated from this unrelated business income received from its investment. During the year ended March 31, 2014, the Foundation recorded income tax expense of \$69,949 on this unrelated business activity. Income taxes paid totaled \$182,789 for 2014.

Uncertain tax positions - The Foundation accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. The Foundation has identified its tax status as a tax exempt entity as a tax position; however, the Foundation has determined that such tax position does not result in an uncertainty requiring recognition. The Foundation believes it is no longer subject to tax examinations for years prior to 2010.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(2) **Fair value measurements**

U.S. GAAP defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. Fair value is defined as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Observable inputs such as quoted market prices in active markets for identical assets or liabilities.

Level 2 - Directly or indirectly observable inputs for quoted and other than quoted prices for identical or similar assets or liabilities in active or non-active markets.

Level 3 - Unobservable inputs not corroborated by market data, therefore requiring the entity to use the best information available in the circumstances, including the entity's own data.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at March 31, 2014.

Obligations of the U.S. government or its agencies: Certain obligations are valued at the closing price reported on the active market on which the individual securities are traded. Others are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily Net Asset Value ("NAV") and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(2) Fair value measurements - continued

Common stock: The Foundation has a 1.38% ownership in a privately held company. The estimate of the investment's fair value was \$1,774,000 at March 31, 2014, and is recorded in noncurrent assets due to the illiquid nature of the investment. In 2014, the Foundation estimated fair value using a weighted-average estimate using both income and market approaches that incorporate observable inputs from comparable companies. However, the stock is not traded in an active market, and therefore the investment is recorded at fair value using level 3 inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Foundation's investments, including beneficial interests held in investments, at fair value as of March 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government securities	\$ 2,861,709	\$ -	\$ -	\$ 2,861,709
Common stock	-	-	1,774,000	1,774,000
Mutual funds	<u>769,494</u>	<u>-</u>	<u>-</u>	<u>769,494</u>
Total investments at fair value	<u>\$ 3,631,203</u>	<u>\$ -</u>	<u>\$ 1,774,000</u>	<u>\$ 5,405,203</u>

The following tables set forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended March 31, 2014. The unrealized gain from level 3 investment is recorded in net investment income on the statement of activities.

Balance, April 1, 2013	\$ 1,526,000
Unrealized gain	<u>248,000</u>
Balance, March 31, 2014	<u>\$ 1,774,000</u>

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(2) Fair value measurements - continued

The following table presents the Level 3 investment, the valuation techniques used to measure the fair value of that investment, and the significant unobservable inputs and the range of values for those inputs. Changes in these inputs may result in a significant change in the fair value of the investment.

<u>Description</u>	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Common Stock	\$ 1,774,000	Discounted cash flow	Weighted average cost of capital	12%
			Discount for lack of marketability	18%
		Capitalized earnings	Price to earnings multiple	13.31
			Discount for lack of marketability	28%

The following presents the fair value and cost basis of the investments as of March 31, 2014, and the composition of the net investment gain for the year then ended:

	<u>Cost</u>	<u>Fair Value</u>
Government securities	\$ 2,861,883	\$ 2,861,709
Common stock	890,585	1,774,000
Mututal funds	728,771	769,494
	<u>\$ 4,481,239</u>	<u>\$ 5,405,203</u>
 Net investment gain:		
Interest and dividends	\$ 56,091	
Realized loss	(8,070)	
Unrealized gains	495,639	
Investment fees	(20,975)	
Net investment income	<u>\$ 522,685</u>	

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Restrictions on net assets

The composition of endowment and restricted net assets and change in endowment and restricted net assets was as follows for the year ended March, 31, 2014:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investments, April 1, 2013	\$ 794,888	\$ 1,495,305	\$ 2,290,193
Investment income (loss)	3,733	14,051	17,784
Contributions	747,029	-	747,029
Amounts approved for expenditure	<u>(249,007)</u>	<u>-</u>	<u>(249,007)</u>
Investments, March 31, 2014	<u>\$ 1,296,643</u>	<u>\$ 1,509,356</u>	<u>\$ 2,805,999</u>

Temporarily restricted net assets

Temporarily restricted net asset are restricted either by time or for future programs. Temporarily restricted net assets are maintained in segregated investment accounts when required by the donor. These net assets are reflected in current investments on the statement of net assets. These restrictions are classified as follows at March 31, 2014:

Maughmer/WSU Project	\$ 12,047
Whitman Scholarships	34,390
Eugene Thorpe Award	25,303
Hecht Foundation - Summer Seminars	252,925
North American Foundation - unrestricted multi-year	288,117
Rupe Debate Award	79,500
Charles C. Koch Fdn. Seminar	11,000
Beneficial trusts (Note 5)	593,361
	<u>\$ 1,296,643</u>

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Restrictions on net assets - continued

Permanently restricted net assets

Permanently restricted net assets include contributions and grants specified by the donors to be used for endowment, and consisted of the following as of March 31, 2014. These investments are held for long-term purposes and are recorded in noncurrent investments and investments held in trust on the statements of net assets.

	Required Balance	Net Assets
Berkheimer Endowment	\$ 159,347	\$ 159,288
Krogdahl Trust	31,561	31,561
Maughmer Bequest	1,116,901	1,104,854
Warren Trust	157,617	122,688
Charlene Barr Chalberg Endowment	90,000	90,965
Corpus	1,555,426	
Market reduction	(46,070)	
Adjusted Corpus	\$ 1,509,356	\$ 1,509,356

The following is a brief summary of the stipulations of the donor for the previously mentioned endowment funds:

- a. The Berkheimer Endowment requires that income generated from the endowment is first added to corpus up to the CPI index of the fund and the remaining balance is to be used for unrestricted purposes.
- b. The Krogdahl Trust does not restrict the use of income generated and therefore, can be used for unrestricted purposes.
- c. The Maughmer bequest requires that 20% of net earnings be expended for agreed-upon projects of the Foundation for Economic Education-Maughmer Fund, located at Washington State University. The remaining 80% of net earnings is required to be expended by the Foundation on the education of students in the Mountain and/or in the Pacific States.
- d. The Warren Trust does not restrict the use of income generated and therefore, can be used for unrestricted purposes. The corpus of the trust was equally divided between the Foundation and another not-for-profit Foundation. The funds are held in a separate investment account and the income generated, if any, is distributed in accordance with the trust. The Foundation's share of the corpus is reflected as permanently restricted net assets, and is reported as investment held in trust on the statement of net assets.
- e. The Charlene Barr Chalberg Endowment requires that the income generated from the endowment is to be used for "Charlene Barr Memorial Scholarships" to support high school students attending the Freedom 101 Program.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(4) Promises to give

Unconditional promises to give consist of the following at March 31, 2014. Long-term promises to give have been discounted at a risk-adjusted rate of approximately 2%.

Due in less than one year	\$ 250,000
Due in two to five years	220,000
Due in greater than five years	<u>115,000</u>
	585,000
Less: unamortized discount	<u>(18,958)</u>
	566,042
Current portion	<u>239,201</u>
Noncurrent portion	<u>\$ 326,841</u>

(5) Beneficial trusts

The Foundation is the beneficiary of charitable remainder trusts. The trustees of these trusts are not the Foundation and they are held and administered by others on its behalf. When the trusts are terminated, the trust assets will be distributed to the Foundation. The combined trust assets held are reported at their fair value of \$593,361 with a cost basis of \$563,076 at March 31, 2014. These trust assets are not restricted by the grantor, but are recorded as temporarily restricted net assets pending the passage of time until trust termination, at which time the assets will be released from restriction. Net investment income from the beneficial trusts totaled \$4, including realized/unrealized gains and losses and interest income, was reported in the statement of activities for the year ended March 31, 2014.

(6) Charitable gift annuities

On December 3, 2007, a charitable gift annuity agreement (split-dollar agreement) was executed by a donor with the Foundation. The donor provided the Foundation with a charitable gift of \$50,000 to establish a segregated investment account. An annual annuity payment of \$4,550, paid on a quarterly basis, was calculated using a 9.1 % discount rate. The present value of the future annuity payments to the beneficiaries, using a 5.3481% actuarial rate, was \$4,315 at March 31, 2014. The present value is to be re-calculated on annual basis and any adjustments are to be reported in the statement of activities. For the year ended March 31, 2014, quarterly payments of \$1,138 totaling \$4,550 were made and interest expense of \$588 was reported on the statements of activities.

On December 1, 2009, another charitable gift annuity agreement (split-dollar agreement) was executed by the same donor above with the Foundation. The donor provided the Foundation with a charitable gift of \$100,000. An annual annuity payment of \$8,700, paid on a quarterly basis, was calculated using an 8.7% discount rate. The present value of the future annuity payments to the beneficiaries, using a 5.129% actuarial rate, was \$17,889 at March 31, 2014. The present value is to be recalculated on annual basis and any adjustments are to be reported in the statement of activities. For the year ended March 31, 2014, quarterly payments of \$2,175 totaling \$8,700 were made and interest expense of \$1,645 was reported on the statements of activities.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(6) **Charitable gift annuities - continued**

New York State required that the Foundation establish a reserve account for its charitable gift annuities. The Foundation has established a \$100,000 reserve account. The future maturities of the charitable gift annuities are as follows at March 31, 2014:

2015	\$	11,904
2016		8,164
2017		<u>2,136</u>
Total	\$	<u>22,204</u>

(7) **Building sale contract**

On January 26, 2011, the Foundation entered into a Purchase and Sale Agreement to sell its real property in Irvington, New York, for a price of \$3,100,000. The Purchaser's obligation to purchase was contingent upon securing certain approvals from local and state authorities (the "Approvals") necessary to develop a project of certain size on the property for use as an assisted living and memory care facility. Upon execution of the Agreement, the Purchaser remitted to an escrow account a non-refundable deposit of \$100,000, creditable against purchase price. This amount, together with interest thereon, was released to the Foundation (per the Agreement) after one year of the Approval Period had elapsed. Additional deposits were due under the Agreement, but were not remitted by the Purchaser. The Approvals were not secured from the related authorities as of March 31, 2013. Due to the uncertainty with respect to the securing of the Approvals, the Foundation did not record a receivable for the additional deposit required under the Agreement as of March 31, 2013.

On April 3, 2014, the Foundation and Purchaser amended Purchase and Sale Agreement, and the Purchaser then assigned their rights under the amended Purchase and Sale Agreement with the Foundation to a new purchaser (the "Assigned Purchaser"). The amended Purchase and Sale Agreement reduced the sales price to \$2,975,000, requires non-refundable deposits payable on April 3, 2014 of \$500,000, removes the contingent provision with respect to the Approvals, and requires closing by September 30, 2014. The Foundation received the required \$500,000 on April 3, 2014 and anticipates that closing will take place on or prior to October 8, 2014, by subsequent agreement. Deferred revenue of \$100,188 relating to the non-refundable deposit with the prior Purchaser will be recognized as other revenue in 2015 in accordance with the terms of the amendment and assignment of the Purchase and Sale Agreement.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(8) **Property and equipment**

Property and equipment consist of the following:

Cost	
Land	\$ 9,122
Building and improvements	954,569
Furniture and equipment	683,331
Computer equipment and software	562,688
Total cost	<u>2,209,710</u>
Accumulated depreciation	<u>1,949,335</u>
Net property and equipment	<u>\$ 260,375</u>

(9) **Retirement plan**

The Foundation sponsors a tax-deferred annuity plan under section 403 (b) of the Internal Revenue Code. All employees are eligible to participate in this plan, to which they may contribute any whole percentage of their salary up to the maximum permitted by law. During 2014, the Foundation contributed approximately \$7,000 to the trustee for the employee contributions to this plan.

(10) **Leases**

The Foundation leases office facilities and equipment under various, long-term, non-cancellable operating lease agreements expiring through March 2017. Approximate minimum lease payments under these operating leases are as follows:

2015	\$ 63,100
2016	72,400
2017	<u>13,100</u>
Total	<u>\$ 148,600</u>

Rent expense, net of deferred lease incentive amortization and including common area maintenance charges, was approximately \$158,000 for the year ended March 31, 2014.

(11) **Concentration of credit risk**

The Foundation maintains cash balances at several financial institutions and brokerage firms. The cash accounts at each of these financial institutions are insured by the Federal Deposit Insurance Corp., and other insurance organizations up to \$250,000. At March 31, 2014, the uninsured cash balance was approximately \$581,000.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

(12) Prior period adjustment

The Foundation has recorded an adjustment to the March 31, 2013 net assets for a beneficial remainder trust that was granted to the Foundation in 2011 and not previously recorded in the financial statements. In addition, beneficial trusts previously recorded in the financial statements have been classified from unrestricted to temporarily restricted net assets in the 2014 financial statements in order to reflect the appropriate passage of time restrictions related to these beneficial interests. As a result, temporarily restricted net assets as of March 31, 2013 increased by \$593,357, of which \$314,145 is related to the previously unrecorded beneficial remainder trust, and \$279,212 is a reclassification from unrestricted net assets. Total net assets as of March 31, 2013 increased \$314,145 as a result of this prior period adjustment.

(13) Subsequent events

The Company has evaluated subsequent events through October 1, 2014, which is the date the financial statements were available to be issued.



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Trustees

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

We have audited the financial statements of the Foundation for Economic Education, Inc. as of and for the year ended March 31, 2014, and have issued our report thereon dated October 1, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

Atlanta, Georgia
October 1, 2014

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended March 31, 2014

	Program Services				Support Services			Total
	Seminars & Lectures	Books & Publications	Website Outreach	Total Programs	Management & General	Fundraising / Development	Total Support Services	
Salaries	\$ 353,551	\$ 77,602	\$ 254,542	\$ 685,695	\$ 92,636	\$ 139,724	\$ 232,360	\$ 918,055
Payroll Taxes and Employee Benefits	24,089	16,816	16,685	57,590	129,122	11,706	140,828	198,418
Employee Training	3,416	2,099	1,510	7,025	555	1,360	1,915	8,940
Employee Travel	115,155	10,702	14,693	140,550	3,718	45,021	48,739	189,289
Internship	65,827	371	1,216	67,414	469	1,093	1,562	68,976
Grants to Organizations/Donations	5,833	-	10,000	15,833	-	4,250	4,250	20,083
Seminar Student Expenses	297,184	-	-	297,184	-	-	-	297,184
Professional Fees	225,163	122,805	75,602	423,570	10,303	72,810	83,113	506,683
Outside Services	94,341	156,641	22,942	273,924	4,878	98,247	103,125	377,049
Supplies	28,659	360,507	7,833	396,999	1,353	6,512	7,865	404,864
Postage and Delivery	44,905	30,684	8,150	83,739	2,832	53,730	56,562	140,301
Telephone	11,070	4,348	6,930	22,348	2,589	4,781	7,370	29,718
Utilities	22,302	4,892	16,052	43,246	6,185	8,812	14,997	58,243
Maintenance and Repairs	24,864	5,455	17,897	48,216	6,896	9,825	16,721	64,937
Rental Expenses	80,709	10,378	33,320	124,407	12,840	20,880	33,720	158,127
Travel - Other	86,271	429	1,469	88,169	543	583	1,126	89,295
Advertising and Promotional Expenses	34,813	322	11,373	46,508	345	19,459	19,804	66,312
Insurance	14,925	3,274	10,743	28,942	4,140	5,898	10,038	38,980
Real Estate Taxes	3,851	845	2,772	7,468	1,068	1,522	2,590	10,058
Dues and Subscriptions	2,602	492	1,399	4,493	533	1,333	1,866	6,359
Small Gifts and Awards	5,259	48	3,273	8,580	33	308	341	8,921
Bank Charges	4,663	1,021	3,350	9,034	1,291	1,839	3,130	12,164
Credit Card and Other Fees	5,078	1,114	3,955	10,147	1,408	2,139	3,547	13,694
Statutory Fees	140	31	101	272	39	55	94	366
Depreciation	25,653	5,627	18,462	49,742	7,114	10,135	17,249	66,991
Income Taxes	-	-	-	-	69,949	-	69,949	69,949
Total	\$ 1,580,323	\$ 816,503	\$ 544,269	\$ 2,941,095	\$ 360,839	\$ 522,022	\$ 882,861	\$ 3,823,956

See Independent Auditors' Report on Additional Information