

The Foundation for Economic Education, Inc.

Financial Statements
and Independent Auditors' Report

March 31, 2020

The Foundation for Economic Education, Inc.

Financial Statements
March 31, 2020

Contents

Independent Auditors' Report.....	1-2
<i>Financial Statements</i>	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7-27

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Foundation for Economic Education, Inc.

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, 2020; the related statements of activities, functional expenses, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of March 31, 2020, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The word "Rogers" is written in a large, stylized cursive font, followed by a plus sign and the words "Company PLLC" in a smaller, more standard cursive font.

Vienna, Virginia
August 21, 2020

The Foundation for Economic Education, Inc.

Statement of Financial Position March 31, 2020

Assets

Current assets:

Cash and cash equivalents	\$ 172,062
Contributions receivable, due within one year	175,000
Investments, short-term portion	1,894,636
Inventory	239,476
Prepaid expenses and other current assets	76,973

Total current assets	2,558,147
Property and equipment, net	161,670
Contributions receivable, long-term portion, net	122,789
Investments, long-term portion	3,922,911
Assets held in charitable remainder trust	325,162
Beneficial interest in third-party trusts	67,002

Total assets \$ 7,157,681

Liabilities and Net Assets

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 34,730
Deferred revenue	474
Deferred rent	129,190

Total current liabilities	164,394
Due to other beneficiaries of charitable remainder trust	162,581

Total liabilities 326,975

Net Assets

Without donor restrictions	4,678,267
With donor restrictions	2,152,439

Total net assets 6,830,706

Total liabilities and net assets \$ 7,157,681

The Foundation for Economic Education, Inc.

Statement of Activities
For the Year Ended March 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 3,831,477	\$ 1,471,400	\$ 5,302,877
Grants and contracts	450,266	-	450,266
Tuition and seminars revenue	68,387	-	68,387
Publications	16,317	-	16,317
Royalties	31,062	-	31,062
Investment return	778,907	(168,512)	610,395
Change in value of split interests	-	1,393	1,393
Miscellaneous	10,132	-	10,132
Released from restrictions	1,680,785	(1,680,785)	-
Total revenue and support	6,867,333	(376,504)	6,490,829
Expenses			
Program services:			
Seminars and lectures	3,526,958	-	3,526,958
Books and publications	722,196	-	722,196
Website outreach	1,432,408	-	1,432,408
Total program services	5,681,562	-	5,681,562
Supporting services:			
Management and general	525,807	-	525,807
Fundraising and development	1,045,302	-	1,045,302
Total supporting services	1,571,109	-	1,571,109
Total expenses	7,252,671	-	7,252,671
Change in Net Assets	(385,338)	(376,504)	(761,842)
Net Assets, beginning of year	5,063,605	2,528,943	7,592,548
Net Assets, end of year	\$ 4,678,267	\$ 2,152,439	\$ 6,830,706

See accompanying notes.

The Foundation for Economic Education, Inc.

Statement of Functional Expenses
For the Year Ended March 31, 2020

	Program Services				Supporting Services			Total Expenses
	Seminars and Lectures	Books and Publications	Website Outreach	Total Program Services	Management and General	Fundraising and Development	Total Supporting Services	
Salaries	\$ 795,010	\$ 311,629	\$ 759,565	\$ 1,866,204	\$ 130,836	\$ 381,804	\$ 512,640	\$ 2,378,844
Payroll taxes and employee benefits	141,338	55,402	135,037	331,777	26,853	67,878	94,731	426,508
Employee travel	3,615	1,403	3,385	8,403	6,735	1,700	8,435	16,838
Seminar student expense	2,263,274	221,748	246,805	2,731,827	15,083	310,970	326,053	3,057,880
Professional fees and outside services	226,760	83,300	196,424	506,484	189,562	237,139	426,701	933,185
Supplies	7,700	2,988	7,209	17,897	14,318	3,621	17,939	35,836
Telephone	2,457	954	2,300	5,711	4,578	1,155	5,733	11,444
Rental expenses	40,274	15,630	37,709	93,613	75,036	18,940	93,976	187,589
Insurance	4,369	1,696	4,091	10,156	8,141	2,055	10,196	20,352
Dues and subscriptions	2,947	1,144	2,760	6,851	5,491	1,386	6,877	13,728
Cost of goods sold	-	11,001	-	11,001	-	-	-	11,001
Bank charges	-	-	-	-	12,303	-	12,303	12,303
Depreciation and amortization	17,908	6,950	16,767	41,625	33,365	8,422	41,787	83,412
Income taxes	21,306	8,351	20,356	50,013	3,506	10,232	13,738	63,751
Total Expenses	\$ 3,526,958	\$ 722,196	\$ 1,432,408	\$ 5,681,562	\$ 525,807	\$ 1,045,302	\$ 1,571,109	\$ 7,252,671

See accompanying notes.

The Foundation for Economic Education, Inc.

Statement of Cash Flows
For the Year Ended March 31, 2020

Cash Flows from Operating Activities	
Change in net assets	\$ (761,842)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net unrealized loss on investments	196,235
Net realized gain on investments	(465,549)
Donated securities	(123,276)
Depreciation and amortization	83,412
Change in value of charitable remainder trust	49,692
Change in value of beneficial interest in third-party trusts	12,892
Change in present-value discount on contributions receivable	2,211
Change in operating assets and liabilities:	
(Increase) decrease in:	
Contributions receivable	(275,000)
Inventory	(93,583)
Prepaid expenses and other current assets	2,035
(Decrease) increase in:	
Accounts payable and accrued expenses	(195,341)
Income taxes payable	(28,791)
Deferred revenue	(272,725)
Deferred rent	22,741
Due to other beneficiaries of charitable remainder trust	(24,846)
	<hr/>
Net cash used in operating activities	(1,871,735)
	<hr/>
Cash Flows from Investing Activities	
Purchases of property and equipment	(49,092)
Purchases of investments	(1,915,427)
Proceeds from sales of investments	2,699,128
Short term investments, net	500,638
	<hr/>
Net cash provided by investing activities	1,235,247
	<hr/>
Net Decrease in Cash and Cash Equivalents	(636,488)
	<hr/>
Cash and Cash Equivalents, beginning of year	808,550
	<hr/>
Cash and Cash Equivalents, end of year	\$ 172,062
	<hr/> <hr/>

See accompanying notes.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

1. Nature of Operations

The Foundation for Economic Education, Inc. (“the Foundation”) is a nonprofit foundation incorporated in the State of New York. Its mission is to inspire, educate, and connect young adults with the economic, ethical, and legal principles of a free society. These principles include individual liberty, free-market economics, entrepreneurship, private property, high moral character, and limited government. The Foundation produces nationwide seminars, classroom resources, social media, free online courses, and engaging daily content at FEE.org—all educating on the ideas of a free society. Additionally, the Foundation supports and connects alumni through the FEE Alumni Network, provides professional development opportunities through internships and networking, and recognizes the most extraordinary alumni leaders with the annual Leonard E. Read Distinguished Alumni Award.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Foundation’s financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions.

Classification of Net Assets

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Contributions Receivable

Contributions receivable are all due within one year, are recorded at net realizable value or at net present value based on projected cash flows, and represent unconditional amounts committed to the Foundation. Contributions receivable due in more than one year are discounted to present value based on management's estimate of the risk of adjusted rate of return. The discount on contributions receivable was \$2,211 at March 31, 2020. Management determines the allowance for doubtful accounts based upon review of outstanding receivables, historical collection information, and existing economic conditions. Management believes that all contributions receivable are collectible at March 31, 2020, and accordingly, no allowance for uncollectible receivables has been established.

Investments

Investments consist of money market funds, common stocks, mutual funds, exchange-traded funds, and a limited partnership. Investments in marketable securities are recorded at fair value based on quoted market prices. Beneficial interest in third-party trusts is recorded at fair value based on unobservable inputs.

Certain limited partnership investments have no readily-determinable market value and are valued at fair value as estimated by the general partners and corporations. Because of inherent uncertainty of valuation, it is reasonably possible that estimated values may differ significantly from the values that would have been used as ready market for the securities existed, and the differences could be material. In addition, certain investments may also have risk associated with concentrations of investments in one geographic region and in certain industries. The limited partnership's ability to liquidate certain of its investments may be inhibited since the issuers may be privately held or the limited partnership may own a relatively large portion of the issuers' equity securities.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

Realized and unrealized gains and losses are reported as a component of investment return in the accompanying statement of activities.

Inventory

The Foundation maintains an inventory of its publications for sale, including books, pamphlets, and magazines to be given away or sold at conferences and seminars. Additionally, inventory consists of logo items and other small branding items. Inventory is stated at the lower of cost or market determined on a first-in, first-out basis. The Foundation periodically reviews inventory for slow-moving or obsolete items and determines if a reserve is necessary. At March 31, 2020, there was no obsolete inventory.

Property and Equipment

Property and equipment acquisitions with a cost greater than \$1,000 and a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. Upon disposal of depreciable assets, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to income. Leasehold improvements are amortized over the term of the lease. Expenditures for repairs and maintenance are expensed as incurred.

Split-Interest Agreements

The Foundation receives certain planned gift donations that benefit not only the Foundation, but also another beneficiary designated by the donor. These contributions are termed split-interest agreements that consist of a charitable remainder trust and charitable gift annuities. Irrevocable split-interest agreements are recorded as revenue when the trust agreements are executed. Revenue from the split-interest agreements is based on the present value of the expected cash flows to be received by the Foundation.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Split-Interest Agreements (continued)

Annuity obligations stemming from split-interest gifts are recognized as charitable gift annuities in the accompanying statement of financial position. The initial liabilities resulting from these gifts are measured at fair value using the present value of the future payments to be made to beneficiaries. These liabilities are subsequently remeasured at the present value of future payments to beneficiaries based on changes in life expectancy and other actuarial assumptions.

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions are reported as net assets without donor restrictions if the restrictions are met in the same period as received.

Milestone grants are recorded as revenue when grant milestones are achieved. Funds received in advance and not spent are included in deferred revenue in the accompanying statement of financial position at March 31, 2020. Any grant expenses related to work in progress before the milestone is complete are recorded as grants receivable in the accompanying statement of financial position.

Revenue from registrations and tuition related to the summer seminars is recognized at the time the events are held, with any amounts received in advance deferred until that time. Seminar tuition revenue fees that are applicable to the following year are recorded as deferred revenue in the amount of \$474 in the accompanying statement of financial position at March 31, 2020.

Revenue from all other sources is recognized when earned.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Donated Services

Donated services meeting the criteria for recognition under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Revenue Recognition – Contributions Received*, are recognized at fair value at the time of receipt. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or if the services required specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. During the year ended March 31, 2020, the Foundation received donated services consisting of advertising services with an estimated fair value of \$436,403, which are included in contributions in the accompanying statement of activities. In addition, volunteers provide assistance with specific programs, which is not recognized as revenue since the recognition criteria were not met.

Donated Goods

Donated goods are recorded at their estimated fair value at the date of receipt, and consist of various publication items to be included with the Foundation's inventory. There were no donated goods received during the year ended March 31, 2020.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Advertising Expenses

The Foundation expenses advertising costs as incurred. Advertising and promotional expenses totaled \$146,500 for the year ended March 31, 2020.

Adopted Accounting Pronouncements

FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, supersedes or replaces nearly all revenue recognition guidance under accounting principles generally accepted in the United States of America. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Foundation has implemented Topic 606 and has adjusted, if applicable, the presentation in these financial statements accordingly. The implementation had no impact on the previously reported net assets.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in these financial statements under a modified prospective basis. The implementation had no impact on the previously reported net assets.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in the Foundation's fiscal year 2022.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 21, 2020, the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen that are likely to impact the Foundation. The extent of the impact of COVID-19 on the Foundation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and its impact on the Foundation's clients and donors, all of which are uncertain and cannot be predicted. The Foundation has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended March 31, 2020 have not been adjusted to reflect their impact. At this point, the extent to which COVID-19 may impact the Foundation's financial condition or results of operations is uncertain.

3. Liquidity and Availability

The Foundation strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Management periodically reviews the Foundation's liquid asset needs and adjusts the cash and cash equivalents balances as necessary. Amounts in excess of operating liquidity are invested in various short-term and highly liquid securities.

Additionally, the Foundation considers net assets with donor restrictions, including unappropriated endowment earnings, for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. Excluded from total available for general expenditures is the portion of the endowments that is donor-restricted and held in perpetuity.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

3. Liquidity and Availability (continued)

Financial assets that are available for general expenditures within one year of the statement of financial position date comprise the following at March 31, 2020:

Cash and cash equivalents	\$	172,062
Contributions receivable, due within one year		175,000
Investments, short-term portion		1,894,636
Less: endowment corpus		<u>(1,561,193)</u>
Total available for general expenditures	\$	<u><u>680,505</u></u>

4. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Foundation maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Foundation has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

5. Contributions Receivable

Contributions receivable are due as follows at March 31, 2020:

Due in less than one year	\$	175,000
Due in one to five years		<u>125,000</u>
Total contributions receivable		300,000
Less: present value discount		<u>(2,211)</u>
Contributions receivable, net	\$	<u><u>297,789</u></u>

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

6. Split-Interest Agreements

Assets Held in Charitable Remainder Trust

The Foundation is a trustee for one charitable remainder trust – *Warren Trust*. The fair value of assets held by the trust is reported as an asset. The asset is offset by a liability presented in the accompanying statement of financial position as “due to other beneficiaries of charitable remainder trust.”

Beneficial Interest in Third-Party Trusts

The Foundation is a remainderman to certain charitable remainder trusts. Upon the death of the beneficiaries of these remainder trusts, the assets will revert to the Foundation to be used according to the donors’ wishes. Assets held in trust by and for the Foundation are valued at either fair value or at the discounted present value of the estimated future receipts from the trusts. Where applicable, estimated future payments are discounted at a risk-free rate of return based on the expected term of the split-interest agreements at the time the agreements are created, ranging from 3% to 6%.

The Foundation had a beneficial interest in the following trusts at March 31, 2020:

Katherine L. Lyness Unitrust (“the Trust”), which is held and administered by an independent third-party trustee. Upon termination of the Trust, the Trust’s assets will be distributed to the Foundation. The Trust’s assets held are reported at their fair value of \$36,376 at March 31, 2020. The Trust assets are not restricted by the grantor, but are recorded as net assets with donor restrictions pending the passage of the Trust until trust termination, at which time the assets will be released from restriction. Net investment return from the beneficial trust totaled \$8,548, including realized and unrealized gains and losses, interest income, and investment fees, which were reported in the statement of activities for the year ended March 31, 2020.

The Krogdahl Trust, which is administered by a third-party trustee. The trust is to be held in perpetuity, and generated returns may be used for purposes without donor restrictions. Total assets of this trust were \$30,626 at March 31, 2020.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

6. Split-Interest Agreements (continued)

Beneficial Interest in Third-Party Trusts (continued)

In addition, the Foundation is the beneficiary of two additional charitable remainder trusts that are held and administered by others on its behalf. The Foundation's right to these trust assets remains conditional, and, therefore, the Foundation's share of trust assets is not recorded in the statement of financial position. When the conditional status is changed such that the Foundation has an unconditional right to these trust assets, the related investments will be recorded in the statement of financial position. The Foundation received distributions from one of these trusts approximating \$7,322 during 2020, and recognized this amount in investment return in the statement of activities.

7. Investments and Fair Value Measurements

Investment Return

Investment return consists of the following for the year ended March 31, 2020:

Interest and dividends	\$	341,081
Net unrealized loss		(196,235)
Net realized gain		<u>465,549</u>
Total investment return	\$	<u><u>610,395</u></u>

There were no investment management fees incurred for the year ended March 31, 2020.

The Foundation follows FASB ASC 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

7. Investments and Fair Value Measurements (continued)

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs.

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The Foundation used the following methods and significant assumptions to estimate fair value of assets and liabilities:

Investments

Mutual Funds

The Foundation's holdings in publicly traded mutual funds consist principally of debt and equity securities carried at their aggregate market value that is determinable by quoted market prices. Valuation is based on Level 1 inputs within the hierarchy used in measuring fair value.

Common Stocks

Common stocks are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded, using the market approach. Valuation is based on Level 1 inputs within the hierarchy used in measuring fair value.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

7. Investments and Fair Value Measurements (continued)

Investments (continued)

Alternative Investments

Alternative investments consist of an investment in a limited partnership, where the Foundation has a 1.38% ownership. Investment in private company stock is determined using techniques consistent with both the market and income approaches, based on the estimates and assumptions in the absence of observable market data. The market approach considers comparable companies, comparable transactions, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers and acquisitions, and the current financial position and operating results. The income approach considers the projected operating performance of the portfolio company. Valuation is based on Level 3 inputs within the investment hierarchy used in measuring fair value.

Charitable Remainder Trusts

Level 1 Assets

Charitable remainder trust assets for which the Foundation is a trustee are invested in a diversified portfolio of common stocks, which are valued at fair value based on quoted market prices of the underlying investments, and are therefore classified within Level 1.

Level 3 Assets

Charitable trust assets also include the fair value of the Foundation's beneficial interest in third party trusts where the Foundation is not a trustee. The fair value is measured upon the estimated net present value of amounts to be received. Distributions are to be made to the donor's designee (remainder trusts) during the terms of the agreements. At the end of the remainder trust terms, a portion of the remaining trust assets, as defined in the trust agreements, is to be distributed to the Foundation. The expected future cash inflows from the trusts are based on the fair value of the investments, future expected investment returns, and life expectancy of the donor or donor's designee, and have been recorded at present value. The value of these assets is based on unobservable inputs and the Foundation's own assumptions, and are therefore classified within Level 3.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

7. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for assets measured on a recurring basis at March 31, 2020:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Money market funds	\$ 1,735,019	\$ -	\$ -	\$ 1,735,019
Common stocks	1,377,761	-	-	1,377,761
Alternative investments	-	-	2,704,767	2,704,767
Total investments	3,112,780	-	2,704,767	5,817,547
Assets held in charitable remainder trust:				
Money market funds	159,571	-	-	159,571
Common stocks	165,591	-	-	165,591
Total assets held in charitable remainder trust	325,162	-	-	325,162
Beneficial interest in third-party trusts:				
Mutual funds	-	-	58,191	58,191
Exchange-traded funds	-	-	8,811	8,811
Total beneficial interest in third-party trusts	-	-	67,002	67,002
Total assets at fair value	\$ 3,437,942	\$ -	\$ 2,771,769	\$ 6,209,711

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

7. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for liabilities measured on a recurring basis at March 31, 2020:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Charitable remainder trust	\$ -	\$ -	\$ 162,581	\$ 162,581
Total liabilities at fair value	\$ -	\$ -	\$ 162,581	\$ 162,581

Level 3 Inputs

In cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Activities for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows for the year ended March 31, 2020:

	Alternative Investments	Beneficial Interest in Third-Party Trusts	Total
Beginning asset balance	\$ 2,418,000	\$ 79,894	\$ 2,497,894
Interest and dividends	254,200	1,383	255,583
Unrealized gain (loss)	32,567	(14,275)	18,292
Ending asset balance	\$ 2,704,767	\$ 67,002	\$ 2,771,769
	Charitable Gift Annuities	Charitable Remainder Trust	Total
Beginning liability balance	\$ -	\$ 187,247	\$ 187,247
Change in value	-	(24,666)	(24,666)
Ending liability balance	\$ -	\$ 162,581	\$ 162,581

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

8. Property and Equipment

Property and equipment consists of the following at March 31, 2020:

Computer equipment	\$	488,910
Software		445,750
Leasehold improvements		<u>49,181</u>
Total property and equipment		983,841
Less: accumulated depreciation and amortization		<u>(822,171)</u>
Property and equipment, net	\$	<u><u>161,670</u></u>

9. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at March 31, 2020:

Net assets with purpose restrictions:		
Hecht Foundation – summer seminars	\$	324,455
Charitable remainder trust		72,537
Maughmer/WSU Project		27,782
Whitman scholarships		33,890
Western Mass. discussion		6,746
Unappropriated endowment earnings:		
Maughmer Bequest		138,910
Berkheimer Endowment		(12,425)
Warren Trust		4,964
Charlene Barr Chalberg Endowment		(4,192)
Krogdahl Trust		(1,421)
Endowment corpus:		
Maughmer Bequest		1,108,055
Berkheimer Endowment		173,474
Warren Trust		157,617
Charlene Barr Chalberg Endowment		90,000
Krogdahl Trust		<u>32,047</u>
Total net assets with donor restrictions	\$	<u><u>2,152,439</u></u>

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

9. Net Assets With Donor Restrictions (continued)

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 Pacific States.

The *Berkheimer Endowment* requires that income generated from the endowment be first added to corpus up to the Consumer Price Index of the fund, and the remaining balance is to be used for unrestricted purposes.

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 net assets with donor restrictions, and is reported as an investment in the statement of financial position.

The *Charlene Barr Chalberg Endowment* requires that the income generated from the endowment be used for "Charlene Barr Memorial Scholarships" to support high school students attending the Freedom 101 Program.

The *Krogdahl Trust* does not restrict the use of income generated, and, therefore, can be used for unrestricted purposes.

10. Endowment

The Foundation's endowment has been funded by donor-restricted contributions to be held in perpetuity, the earnings of which can be used to fund either specific programs or general operations.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

10. Endowment (continued)

Interpretation of Relevant Law

The Foundation's Board of Trustees has interpreted New York's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (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 fund. A portion of each donor-restricted endowment fund is appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) duration and preservation of the fund; (2) purposes of the Foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) possible effect of inflation and deflation; (5) expected total return from income and the appreciation or depreciation of investments; (6) other resources of the Foundation; and (7) investment policies of the Foundation.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by the Foundation in net assets without donor restrictions. At March 31, 2020, deficiencies of this nature totaled \$18,038, and are reflected in various funds in Note 9, including \$12,425 in the Berkheimer Endowment, \$4,192 in the Charlene Barr Chalberg Endowment, and \$1,421 in the Krogdahl Trust. These deficiencies were the result of market fluctuations and economic downturn at the end of the fiscal year.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

10. Endowment (continued)

Return Objectives, Risk Parameters, and Strategies

The Foundation's investment policies, as approved by the Board of Trustees, are as follows: There will be a reserve for operations, with a target balance at each March 31 equal to the sum of (a) 25% of the upcoming fiscal year's modified expense budget (as defined below) and (b) any budgeted expenses that are to be funded from amounts in deferred revenue at March 31, to be invested in cash, near-cash, and short-term fixed-income instruments. There will be a reserve for contingencies, with a target balance at each March 31 equal to 30% of the upcoming fiscal year's modified expense budget, to be invested in cash, near-cash, and short- and medium-term fixed-income instruments. The modified expense budget equals the total expense budget, reduced by any expenses that are to be incurred only to the extent that specified, designated funding is received.

All other liquid assets are to be invested in accordance with the investment policies set forth by the Board; provided, however, that to the extent there are donor-imposed restrictions on an investment of specific funds that conflict with these investment policies, the donor-imposed restrictions will govern.

The following are the asset allocation guidelines set forth by the Foundation's Board of Trustees:

	<u>Long-Term Target</u>	<u>Allowable Range</u>
Equity	75%	50% – 100%
Fixed income	20%	0% – 35%
Cash	5%	0% – 20%

These percentages will be based on the fair market value of investments. Within the equity category, no more than 10% of total equity may be allocated to any one market subsector or industry sector.

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 for the purposes specified by the respective donors.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

10. Endowment (continued)

Composition of Endowment Net Assets

Endowment net asset composition by type of fund was as follows at March 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted funds:			
Maughmer Bequest	\$ -	\$ 1,246,965	\$ 1,246,965
Berkheimer Endowment	-	161,049	161,049
Warren Trust	-	162,581	162,581
Charlene Barr Chalberg Endowment	-	85,808	85,808
Krogdahl Trust	-	30,626	30,626
	<u> </u>	<u> </u>	<u> </u>
Total endowment funds	<u>\$ -</u>	<u>\$ 1,687,029</u>	<u>\$ 1,687,029</u>

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended March 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning	\$ -	\$ 2,170,677	\$ 2,170,677
Investment return:			
Interest and dividends	-	37,490	37,490
Net realized and unrealized loss	-	(134,241)	(134,241)
	<u> </u>	<u> </u>	<u> </u>
Total investment return	<u>-</u>	<u>(96,751)</u>	<u>(96,751)</u>
Appropriations of endowment assets for expenditures	-	(386,897)	(386,897)
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, ending	<u>\$ -</u>	<u>\$ 1,687,029</u>	<u>\$ 1,687,029</u>

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2020

11. Commitments and Contingencies

Operating Leases

On January 5, 2016, the Foundation entered into a lease for office space, which commenced on May 1, 2016 and expires on October 31, 2022. On June 14, 2018, the Foundation entered into an amendment with the landlord of the office to begin leasing additional space under an amended lease agreement. The Foundation expanded into additional space on July 1, 2018, and began leasing a final additional space on September 1, 2019. The lease and amendment require fixed monthly payments for the initial 12 months, after an abatement period of 6 months, and an annual 3% increase in monthly payments for the remainder of the lease term. Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statement of financial position.

In addition, the Foundation leases office equipment under an operating lease, which extends through February 2021. The lease requires fixed monthly payments of approximately \$338.

Future minimum lease payments under all operating leases are as follows for the years ending March 31:

2021	\$	169,551
2022		170,813
2023		<u>102,450</u>
Total future minimum lease payments	\$	<u><u>442,814</u></u>

Rent expense under all operating leases was \$187,589 for the year ended March 31, 2020.

Hotel Commitments

The Foundation has entered into agreements with hotels and venues for future events. The agreements indicate the Foundation may be liable for certain cancellation fees and liquidated damages in the event of cancellation. Management does not expect any cancellations.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2020

12. Retirement Plan

On February 1, 2017, the Foundation began sponsoring a 401(k) plan, which substantially covers all employees meeting certain age and service requirements. All employees are eligible to participate in the 401(k) plan after one year of employment. The Foundation matches 50% of all employee contributions to the 401(k) plan, and the matching contribution has a limit of \$4,000. During 2020, the Foundation contributed \$44,281 for the employee contributions to this plan.

13. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Program expenses represent direct costs that result in the Foundation fulfilling its mission. Fundraising and development expenses represent costs that involve seeking, soliciting, or securing grants and contributions. Management and general expenses represent costs necessary for the operations of the Foundation that are not easily identifiable with specific program or fundraising activities. The Foundation utilizes direct allocation for specific expenses, such as cost of goods sold and professional fees, as these types of expenses can be directly associated with certain functions. The majority of the expenses for the Foundation are allocated using the indirect allocation method. The expenses that are allocated using the indirect method include salaries, employee benefits, payroll taxes, among other types of expenses, and are allocated on the basis of estimates of time and effort.

14. Income Taxes

The Foundation is exempt from payment of taxes on income other than net unrelated business income under Internal Revenue Code (IRC) Section 501(c)(3). 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, 2020, the Foundation recorded income tax expenses on unrelated business activity. Income taxes paid totaled \$63,571 for March 31, 2020. Management has evaluated the Foundation's tax positions and concluded that the Foundation's financial statements do not include any uncertain tax positions.