

The Foundation for Economic Education, Inc.

Financial Statements
and Independent Auditors' Report

March 31, 2021

The Foundation for Economic Education, Inc.

Financial Statements
March 31, 2021

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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, 2021; 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, 2021, 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.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The "R" is large and stylized, with a loop at the top. The rest of the text is written in a cursive, handwritten style.

Vienna, Virginia
September 28, 2021

The Foundation for Economic Education, Inc.

Statement of Financial Position
March 31, 2021

Assets

Current assets:

Cash and cash equivalents	\$ 1,195,550
Contributions receivable, due within one year	150,000
Investments, short-term portion	2,420,144
Inventory	215,242
Prepaid expenses and other current assets	84,473

Total current assets 4,065,409

Non-current assets:

Property and equipment, net	101,204
Contributions receivable, long-term portion, net	24,975
Investments, long-term portion	4,346,266
Cryptocurrencies	2,359,522
Assets held in charitable remainder trust	318,109
Beneficial interest in third-party trusts	82,717

Total non-current assets 7,232,793

Total assets \$ 11,298,202

Liabilities and Net Assets

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 101,848
Deferred revenue	67,502
Deferred rent	59,009

Total current liabilities 228,359

Due to other beneficiaries of charitable remainder trust 89,334

Total liabilities 317,693

Net Assets

Without donor restrictions	6,771,597
With donor restrictions	4,208,912

Total net assets 10,980,509

Total liabilities and net assets \$ 11,298,202

The Foundation for Economic Education, Inc.

Statement of Activities
For the Year Ended March 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 4,785,271	\$ 2,105,000	\$ 6,890,271
Grants and contracts	132,498	-	132,498
Publications	71,826	-	71,826
Royalties	53,731	-	53,731
Investment return	483,106	859,234	1,342,340
Unrealized appreciation on cryptocurrencies	254,984	139,792	394,776
Change in value of split interests	-	62,831	62,831
Miscellaneous	212,012	-	212,012
Released from restrictions	1,110,384	(1,110,384)	-
Total revenue and support	<u>7,103,812</u>	<u>2,056,473</u>	<u>9,160,285</u>
Expenses			
Program services:			
Webinars and seminars	1,805,710	-	1,805,710
Books and publications	685,651	-	685,651
Online media	1,302,337	-	1,302,337
Total program services	<u>3,793,698</u>	<u>-</u>	<u>3,793,698</u>
Supporting services:			
Management and general	351,067	-	351,067
Fundraising and development	865,717	-	865,717
Total supporting services	<u>1,216,784</u>	<u>-</u>	<u>1,216,784</u>
Total expenses	<u>5,010,482</u>	<u>-</u>	<u>5,010,482</u>
Change in Net Assets	2,093,330	2,056,473	4,149,803
Net Assets, beginning of year	<u>4,678,267</u>	<u>2,152,439</u>	<u>6,830,706</u>
Net Assets, end of year	<u><u>\$ 6,771,597</u></u>	<u><u>\$ 4,208,912</u></u>	<u><u>\$ 10,980,509</u></u>

See accompanying notes.

The Foundation for Economic Education, Inc.

Statement of Functional Expenses
For the Year Ended March 31, 2021

	Program Services				Supporting Services			Total Expenses
	Webinars and Seminars	Books and Publications	Online Media	Total Program Services	Management and General	Fundraising and Development	Total Supporting Services	
Salaries	\$ 961,168	\$ 276,165	\$ 487,512	\$ 1,724,845	\$ 118,925	\$ 445,635	\$ 564,560	\$ 2,289,405
Payroll taxes and employee benefits	143,312	47,553	86,105	276,970	22,708	75,861	98,569	375,539
Employee travel	-	127	445	572	-	23,752	23,752	24,324
Seminar student expense	171,821	200,049	602,446	974,316	-	4,000	4,000	978,316
Professional fees and outside services	251,266	13,088	51,570	315,924	-	179,066	179,066	494,990
Supplies	92,899	28,782	18,398	140,079	21,273	18,256	39,529	179,608
Telephone	14,649	2,989	2,649	20,287	6,985	3,046	10,031	30,318
Rental expenses	87,023	18,527	19,431	124,981	50,062	17,609	67,671	192,652
Insurance	19,025	3,130	2,513	24,668	1,215	3,365	4,580	29,248
Dues and subscriptions	4,576	1,538	1,035	7,149	1,468	919	2,387	9,536
Mailings	-	51,933	-	51,933	-	65,994	65,994	117,927
Cost of goods sold	-	24,552	-	24,552	-	-	-	24,552
Bank charges	-	-	-	-	17,779	-	17,779	17,779
Depreciation and amortization	21,399	5,848	10,162	37,409	13,190	9,867	23,057	60,466
Human resource, legal, and state registration fees	-	-	-	-	75,122	-	75,122	75,122
Income taxes	38,572	11,370	20,071	70,013	22,340	18,347	40,687	110,700
Total Expenses	\$ 1,805,710	\$ 685,651	\$ 1,302,337	\$ 3,793,698	\$ 351,067	\$ 865,717	\$ 1,216,784	\$ 5,010,482

See accompanying notes.

The Foundation for Economic Education, Inc.

Statement of Cash Flows For the Year Ended March 31, 2021

Cash Flows from Operating Activities	
Change in net assets	\$ 4,149,803
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized gain on investments	(428,081)
Realized gain on investments	(617,493)
Unrealized appreciation on cryptocurrencies	(394,776)
Donated securities	(82,302)
Donated cryptocurrencies	(2,013,455)
Depreciation and amortization	60,466
Change in value of charitable remainder trust	7,053
Change in value of beneficial interest in third-party trusts	(15,715)
Change in present-value discount on contributions receivable	(2,186)
Change in operating assets and liabilities:	
Decrease (increase) in:	
Contributions receivable	125,000
Inventory	24,234
Prepaid expenses and other current assets	(7,500)
Increase (decrease) in:	
Accounts payable and accrued expenses	67,118
Deferred revenue	67,028
Deferred rent	(70,181)
Due to other beneficiaries of charitable remainder trust	(73,247)
Net cash provided by operating activities	<u>795,766</u>
Cash Flows from Investing Activities	
Purchases of investments	(3,808,297)
Proceeds from sales of investments	3,672,080
Payments in the form of cryptocurrencies	48,709
Short term investments, net	<u>315,230</u>
Net cash provided by investing activities	<u>227,722</u>
Net Increase in Cash and Cash Equivalents	1,023,488
Cash and Cash Equivalents, beginning of year	<u>172,062</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 1,195,550</u></u>

See accompanying notes.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2021

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, 2021

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 \$25 at March 31, 2021. 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, 2021, 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, 2021

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

Interest and dividends, along with realized and unrealized gains and losses, are reported as a component of investment return in the accompanying statement of activities.

Cryptocurrencies

The Foundation's investment policy does not allow direct purchase of cryptocurrencies, and all holdings of cryptocurrencies have been received from outside donors. The Foundation holds cryptocurrencies for appreciation where required by donor intent, and utilizes the value as a peer-to-peer payment system in the normal course of business operations.

The Foundation has the capability to transact in various types of cryptocurrencies, including Bitcoin Cash (BCH), Bitcoin (BTC), and Ethereum (ETH). The majority of cryptocurrencies held by the Foundation consist of BCH. BCH trades on all major platforms, and the Foundation considers it to be liquid. The advantage is that larger blocks are processed on the blockchain, allowing for fast transactions times and minimal fees. BTC and ETH are both decentralized coins traded on a peer-to-peer network, and rely on the same blockchain technology.

All cryptocurrencies held by the Foundation are reported at fair value as determined by digital asset market exchanges with realized appreciation and depreciation calculated on a trade date basis as the difference between the fair value and donated value of cryptocurrencies transferred. The Foundation recognizes the fair value changes in unrealized appreciation or depreciation on cryptocurrencies 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, 2021, there was no obsolete inventory.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2021

2. Summary of Significant Accounting Policies (continued)

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.

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

Revenue Accounted for in Accordance with Contribution Accounting

Grants and contributions that are nonreciprocal are recognized as revenue when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. The Foundation reports gifts of cash and other assets as restricted support if they are received or promised with donor stipulations that limit the use of the donated funds to one of the Foundation's programs or to a future year.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for in Accordance with Contribution Accounting (continued)

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.

The Foundation receives certain promises to give, collected over multiple accounting periods, and classifies the portion receivable in future accounting periods as restricted revenue. The Foundation discounts the promises to give using an appropriate discount rate over the contribution period, if material.

Conditional contributions contain a donor-imposed condition that represents a barrier that must be overcome before the Foundation is entitled to the assets transferred or promised. Failure to overcome the barrier gives the donor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets. Conditional contributions are recognized as revenue, either with or without donor restrictions, when donor-imposed conditions are substantially met, and any barriers are overcome. Donor restrictions are also satisfied when qualifying expenditures are incurred for the donor-specified program.

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, 2021. 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. At March 31, 2021, deferred revenue for the milestone grant totaled \$67,502, and is reflected in the accompanying statement of financial position.

Donated services consist primarily of advertising services. These in-kind donations are recorded at their fair value at the time of donation as a component of contributions in the accompanying statement of activities.

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.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for as Contracts with Customers

Revenue is recognized when the Foundation satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration the Foundation expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, the Foundation combines it with other performance obligations until a distinct bundle of goods or services exists. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the statement of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Revenue from registrations and tuition related to the summer seminars is recognized at the time the events are held and services are provided, with any amounts received in advance deferred until that time. Amounts received in advance are deferred and recognized when the performance obligations are met.

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.

Advertising Expenses

The Foundation expenses advertising costs as incurred. Advertising and promotional expenses totaled \$120,714 for the year ended March 31, 2021.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

2. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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 2023.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 28, 2021, the date the financial statements were available to be issued.

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.

The Foundation relies entirely on private donations, and accordingly, the Board of Trustees and management recognize the need to maintain substantial cash and fixed income assets necessary to maintain operations through seasonal periods of lower contributions and potential economic downturns. The Board of Trustees' approved policy requires a minimum reserve for operations at the beginning of each fiscal year, equivalent to 25% of the upcoming fiscal year's operating budget, excluding any expenses with dedicated donor funding. The Foundation also requires a reserve controlled by the Board of Trustees set aside for contingencies, which is equal to 30% of the same budget. Both the operational reserve and the contingency reserve are held in ultra short-term bond exchange-traded funds.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

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, 2021:

Cash held in checking and savings accounts	\$	1,190,179
Contributions receivable, due within one year		150,000
Investments without donor restrictions		<u>2,293,014</u>
Total available for general expenditures	\$	<u><u>3,633,193</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, 2021:

Due in less than one year	\$	150,000
Due in one to five years		<u>25,000</u>
Total contributions receivable		175,000
Less: present value discount		<u>(25)</u>
Contributions receivable, net	\$	<u><u>174,975</u></u>

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

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, 2021:

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 \$50,286 at March 31, 2021. 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 \$13,910, 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, 2021.

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 \$32,431 at March 31, 2021.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2021

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 both of these trusts totaling \$7,354 during the year ended March 31, 2021, and recognized this amount in investment return in the statement of activities.

7. Investments and Fair Value Measurements

The Foundation follows FASB Accounting Standards Codification 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 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.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2021

7. Investments and Fair Value Measurements (continued)

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.

Privately Held S-Corp Holding

The privately held S-corp holding consists 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. The private valuation of the limited partnership is performed annually by Gordon Brothers, an independent global advisory investment firm. The valuation is then provided to its investors, including the Foundation, which uses the valuation report to adjust the value of its ownership. Valuation is based on Level 3 inputs within the investment hierarchy used in measuring fair value.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2021

7. Investments and Fair Value Measurements (continued)

Charitable Remainder Trusts

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.

Beneficial Interest in Third-Party Trusts

Level 1 Assets

Charitable trust assets include the fair value of the Foundation's beneficial interest in a third-party trust where the Foundation is not a trustee. The fair value is measured upon quoted market prices of the underlying investments, provided to the Foundation on an interval basis, 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 a third-party trust 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.

Cryptocurrencies

Cryptocurrencies consist of BCH, BTC, and ETH, as defined in Note 2. These cryptocurrencies are carried at their fair value and are revalued to their current market at each reporting date. Fair value is determined based on the price quoted on the digital asset market exchange, which is an average of quoted rates from various cryptocurrency exchanges. The Foundation classifies its digital currencies as a Level 1 input, as these digital asset markets are readily available and values are constantly observable in these traded markets.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

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, 2021:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Money market funds	\$ 2,420,144	\$ -	\$ -	\$ 2,420,144
Common stocks	689,829	-	-	689,829
Exchange-traded funds	690,037	-	-	690,037
Privately held S-corp holding	-	-	2,966,400	2,966,400
Total investments	3,800,010	-	2,966,400	6,766,410
Assets held in charitable remainder trust:				
Money market funds	1,638	-	-	1,638
Exchange-traded funds	158,323	-	-	158,323
Common stocks	158,148	-	-	158,148
Total assets held in charitable remainder trust	318,109	-	-	318,109
Beneficial interest in third-party trusts:				
Money market funds	164	-	-	164
Mutual funds	16,083	-	50,286	66,369
Exchange-traded funds	16,184	-	-	16,184
Total beneficial interest in third-party trusts	32,431	-	50,286	82,717
Cryptocurrencies:				
BCH	2,346,582	-	-	2,346,582
BTC	7,408	-	-	7,408
ETH	5,532	-	-	5,532
Total cryptocurrencies	2,359,522	-	-	2,359,522
Total assets at fair value	\$ 6,510,072	\$ -	\$ 3,016,686	\$ 9,526,758

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

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, 2021:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Charitable remainder trust	\$ -	\$ -	\$ 89,334	\$ 89,334
Total liabilities at fair value	\$ -	\$ -	\$ 89,334	\$ 89,334

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, 2021:

	Privately Held S-Corp Holding	Beneficial Interest in Third- Party Trusts	Total
Beginning asset balance	\$ 2,704,767	\$ 36,376	\$ 2,741,143
Interest and dividends	260,400	-	260,400
Unrealized gain	1,233	13,910	15,143
Ending asset balance	\$ 2,966,400	\$ 50,286	\$ 3,016,686

	Charitable Gift Annuities	Charitable Remainder Trust	Total
Beginning liability balance	\$ -	\$ 187,247	\$ 187,247
Change in value	-	(97,913)	(97,913)
Ending liability balance	\$ -	\$ 89,334	\$ 89,334

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

7. Investments and Fair Value Measurements (continued)

Investment return consists of the following for the year ended March 31, 2021:

Interest and dividends	\$ 296,766
Realized gain on investments	617,493
Unrealized gain on investments	<u>428,081</u>
Total investment return	<u>\$ 1,342,340</u>

There were no investment management fees incurred for the year ended March 31, 2021.

8. Property and Equipment

Property and equipment consists of the following at March 31, 2021:

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>(882,637)</u>
Property and equipment, net	<u>\$ 101,204</u>

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2021

9. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at March 31, 2021:

Net assets with purpose restrictions:	
Roger Ver Crypto Dedicated Giving	\$ 899,961
Hecht Foundation – summer seminars	253,680
Charitable remainder trust	135,368
Maughmer/WSU Project	25,993
Whitman scholarships	33,890
Dennis G. Punches Charitable Foundation Scholarship	15,000
Western Mass. discussion	6,746
Unappropriated endowment earnings:	
Maughmer Bequest	129,964
Berkheimer Endowment	(2,313)
Warren Trust	1,438
Charlene Barr Chalberg Endowment	877
Krogdahl Trust	384
Roger Ver Endowed Bitcoin Cash Fund for Liberty Education	139,792
Endowment corpus:	
Maughmer Bequest	1,108,055
Berkheimer Endowment	180,413
Warren Trust	157,617
Charlene Barr Chalberg Endowment	90,000
Krogdahl Trust	32,047
Roger Ver Endowed Bitcoin Cash Fund for Liberty Education	<u>1,000,000</u>
Total net assets with donor restrictions	<u><u>\$ 4,208,912</u></u>

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2021

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.

The *Roger Ver Endowed Bitcoin Cash Fund for Liberty Education* consists of a donor's gift of \$1,000,000 in Bitcoin Cash (BCH) that is required to be maintained in BCH perpetually, serving as the corpus of the endowment. Appreciation is evaluated annually each January, and those earnings are available to spend only in the form of BCH in the subsequent calendar year. Earnings from the fund are to be used for any expenditures supporting the Foundation's mission, and are required to be spent in the form of BCH, as no conversion to fiat is allowed. If the earnings remain unspent in the second fiscal year, the earnings will be added to the corpus amount of the endowment, and may not be carried forward to any future year's disbursements.

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, 2021

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.

Return Objectives, Risk Parameters, and Strategies

The Foundation's investment policies are monitored and approved by its Finance and Investment Committee. This committee consists of the Chairman, Treasurer, and two at-large members with financial backgrounds. The Treasurer reviews the investment performance prior to each meeting of the Board of Trustees. The committee meets at least annually to consider investment performance and its standing instruction to internal management. Liquid assets may be held in insured bank accounts and separate brokerage accounts, and invested in low-cost index funds, mutual funds, or exchange-traded funds, which may invest in or reference publicly-traded common and preferred stocks, convertible bonds, and fixed income securities. No other securities are permissible without approval from the committee, and individual holding of equities and debt is not allowable. While the Foundation receives contributions in the form of equity, its policy is to convert the equity investments to approved types of investments (as noted above) as soon as possible.

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

10. Endowment (continued)

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 Foundation 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, 2021, deficiencies of this nature totaled \$2,313 and are reflected in the Berkheimer Endowment. This deficiency was the result of market fluctuations and economic downturn at the end of the fiscal year. There were no other deficient funds at March 31, 2021.

Composition of Endowment Net Assets

Endowment net asset composition by type of fund was as follows at March 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted funds:			
Maughmer Bequest	\$ -	\$ 1,238,019	\$ 1,238,019
Berkheimer Endowment	-	178,100	178,100
Warren Trust	-	159,055	159,055
Charlene Barr Chalberg Endowment	-	90,877	90,877
Krogdahl Trust	-	32,431	32,431
Roger Ver Endowed Bitcoin Cash Fund for Liberty Education	-	1,139,792	1,139,792
Total endowment funds	<u>\$ -</u>	<u>\$ 2,838,274</u>	<u>\$ 2,838,274</u>

The Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

10. Endowment (continued)

Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended March 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	\$ -	\$ 1,687,029	\$ 1,687,029
Investment return:			
Interest and dividends	-	30,260	30,260
Net realized and unrealized gain	-	830,763	830,763
Total investment return	-	861,023	861,023
Unrealized appreciation on cryptocurrencies	-	139,792	139,792
Contributions	-	1,000,000	1,000,000
Appropriations of endowment assets for expenditures	-	(849,570)	(849,570)
Endowment net assets, ending	\$ -	\$ 2,838,274	\$ 2,838,274

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 Foundation for Economic Education, Inc.

Notes to Financial Statements
March 31, 2021

11. Commitments and Contingencies (continued)

Operating Leases (continued)

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 extended through February 2021. The lease required fixed monthly payments throughout the term of the lease.

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

2022	\$	170,813
2023		<u>102,450</u>
Total future minimum lease payments	\$	<u><u>273,263</u></u>

Rent expense under all operating leases was \$119,147 for the year ended March 31, 2021.

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.

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 the year ended March 31, 2021, the Foundation contributed \$34,121 for the employee contributions to this plan.

The Foundation for Economic Education, Inc.

Notes to Financial Statements

March 31, 2021

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, payroll taxes, and employee benefits, 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, 2021, the Foundation recorded income tax expenses on unrelated business activity. Income taxes paid totaled \$111,700 for March 31, 2021. Management has evaluated the Foundation's tax positions and concluded that the Foundation's financial statements do not include any uncertain tax positions.

15. COVID-19 Pandemic

The COVID-19 outbreak in the United States and around the world has caused business disruption due to mandatory lockdowns implemented in most states in order to slow down the spread of the virus. The Foundation's management has been monitoring the situation and implementing certain changes in its operations and upcoming events in order to mitigate the impact of this pandemic. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration, and the full financial impact cannot be reasonably estimated at this time.