

The Fund for American Studies and Affiliate

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

**December 31, 2018
(With December 31, 2017 Summarized Comparative
Financial Information)**

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

The Fund for American Studies and Affiliate

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Independent Auditor's Report

To the Board of Trustees
The Fund for American Studies
Washington, D.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Fund for American Studies and Affiliate (the "Fund"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, in 2018, The Fund adopted new accounting guidance related to the presentation of financial statements of not-for-profit entities and investments that are measured at net asset value. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited The Fund for American Studies and Affiliate's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 3, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Bethesda, Maryland
June 18, 2019

The Fund for American Studies and Affiliate
Consolidated Statement of Financial Position
December 31, 2018
(With Summarized Comparative Financial Information for December 31, 2017)

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 774,987	\$ 1,142,120
Accounts receivable	331,011	4,757
Pledges receivable, net	6,529,123	4,772,140
Prepaid expenses	233,584	312,390
Property and equipment, net	5,551,020	5,650,554
Investments	12,441,895	15,164,372
Deposits	250,000	250,000
Cash surrender value - life insurance	27,378	26,298
	<u>\$ 26,138,998</u>	<u>\$ 27,322,631</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Accounts payable and accrued expenses	\$ 299,025	\$ 386,481
Deferred revenue	63,409	65,447
Capital lease obligations	63,595	78,725
Line of credit	4,800,000	4,800,000
	<u>5,226,029</u>	<u>5,330,653</u>
Total liabilities	5,226,029	5,330,653
Net assets		
Without donor restrictions	11,027,333	13,346,472
With donor restrictions	9,885,636	8,645,506
	<u>20,912,969</u>	<u>21,991,978</u>
Total net assets	<u>\$ 26,138,998</u>	<u>\$ 27,322,631</u>

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate

**Consolidated Statement of Activities and Change in Net Assets
Year Ended December 31, 2018**

(With Summarized Comparative Financial Information for Year Ended December 31, 2017)

	2018			2017 Total
	Without donor restrictions	With donor restrictions	Total	
Revenue and support				
Tuition, registration, housing and other fees	\$ 5,132,843	\$ -	\$ 5,132,843	\$ 5,042,816
Less: Scholarships granted	(2,413,910)	-	(2,413,910)	(2,145,950)
	2,718,933	-	2,718,933	2,896,866
Contributions	2,152,999	6,392,476	8,545,475	9,882,040
Conference income	128,237	-	128,237	107,029
Investment income (loss)	(554,623)	(162,596)	(717,219)	1,663,409
Other income	108,642	-	108,642	93,444
Net assets released from restrictions	4,989,750	(4,989,750)	-	-
Total revenue and support	<u>9,543,938</u>	<u>1,240,130</u>	<u>10,784,068</u>	<u>14,642,788</u>
Expenses				
Program services				
Graduate and professional programs	1,296,215	-	1,296,215	1,117,238
Undergraduate programs	5,382,216	-	5,382,216	5,630,978
High school programs	1,898,275	-	1,898,275	1,885,888
Other programs	243,071	-	243,071	306,236
Total program services	<u>8,819,777</u>	<u>-</u>	<u>8,819,777</u>	<u>8,940,340</u>
Supporting services				
General and administrative	1,394,993	-	1,394,993	821,983
Fundraising	1,648,307	-	1,648,307	1,856,424
Total supporting services	<u>3,043,300</u>	<u>-</u>	<u>3,043,300</u>	<u>2,678,407</u>
Total expenses	<u>11,863,077</u>	<u>-</u>	<u>11,863,077</u>	<u>11,618,747</u>
Change in net assets	(2,319,139)	1,240,130	(1,079,009)	3,024,041
Net assets, beginning of year	<u>13,346,472</u>	<u>8,645,506</u>	<u>21,991,978</u>	<u>18,967,937</u>
Net assets, end of year	<u>\$ 11,027,333</u>	<u>\$ 9,885,636</u>	<u>\$ 20,912,969</u>	<u>\$ 21,991,978</u>

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018
(With Summarized Comparative Financial Information for Year Ended December 31, 2017)

	Program Services				Supporting Services			Total	2017 Total
	Graduate and professional programs	Undergraduate programs	High school programs	Other programs	Program services	General and administrative	Fundraising		
Salaries and benefits	\$ 521,578	\$ 1,514,114	\$ 461,170	\$ 79,453	\$ 2,576,315	\$ 588,827	\$ 1,109,235	\$ 4,274,377	\$ 3,833,985
Faculty salaries and guest lecturers	26,341	242,978	274,000	-	543,319	-	-	543,319	577,317
Events	18,658	250,144	560	2,229	271,591	6,714	1,399	279,704	262,465
High school program events, housing, classrooms	-	-	730,223	-	730,223	-	-	730,223	599,930
Student housing	55,143	1,593,588	-	-	1,648,731	-	-	1,648,731	1,512,872
Student recruitment	7,302	133,511	79,530	-	220,343	47,152	-	267,495	250,745
Bank and credit card fees	3,912	33,466	869	869	39,116	27,401	2,173	68,690	76,790
University overhead	31,561	550,446	-	-	582,007	-	-	582,007	550,734
Depreciation and amortization	14,109	201,011	13,961	5,003	234,084	12,507	12,507	259,098	245,761
Professional fees	11,479	74,624	6,916	1,912	94,931	166,290	141,818	403,039	746,752
Meetings and conferences	265,000	114,500	2,939	140,251	522,690	14,947	30,612	568,249	905,467
Travel	20,098	143,668	165,871	1,196	330,833	14,908	104,869	450,610	417,391
Student meals	1,424	28,880	-	-	30,304	-	-	30,304	28,297
Books, curriculum and program materials	181	1,189	66,783	-	68,153	7,747	-	75,900	83,253
Facility costs	10,494	89,770	2,332	2,332	104,928	65,969	5,829	176,726	201,564
Interest expense	11,286	96,558	2,508	2,508	112,860	30,970	6,270	150,100	195,508
Printing and publications	1,560	14,221	402	347	16,530	5,374	54,080	75,984	129,439
Telephone	1,980	16,432	449	413	19,274	18,346	2,074	39,694	36,668
Equipment and software	17,681	158,125	3,601	3,601	183,008	87,550	24,133	294,691	291,887
Postage	1,003	6,334	491	136	7,964	5,786	17,337	31,087	55,057
Internet access and web pages	2,177	19,287	385	385	22,234	9,767	7,496	39,497	34,711
Photography	2,046	18,480	455	455	21,436	1,136	1,643	24,215	19,899
Supplies	1,128	13,681	328	237	15,374	5,816	1,187	22,377	22,432
Alumni programs events	57,794	-	-	-	57,794	-	-	57,794	11,943
Marketing and sponsorships	7,944	65,394	62,634	1,699	137,671	6,005	15,113	158,789	97,953
Shipping and delivery	332	1,815	5,542	45	7,734	1,786	606	10,126	14,301
Novak Fellowship grants	170,833	-	-	-	170,833	-	-	170,833	146,170
Novak Fellowship grant expense accounts	22,827	-	-	-	22,827	-	-	22,827	26,991
Direct mail campaign	-	-	-	-	-	-	104,727	104,727	185,299
Student travel scholarships	-	-	16,326	-	16,326	-	-	16,326	21,120
Bad debt expense	-	-	-	-	-	250,000	-	250,000	-
Other	10,344	-	-	-	10,344	19,995	5,199	35,538	36,046
Total expenses	\$ 1,296,215	\$ 5,382,216	\$ 1,898,275	\$ 243,071	\$ 8,819,777	\$ 1,394,993	\$ 1,648,307	\$ 11,863,077	\$ 11,618,747

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate

Consolidated Statement of Cash Flows

Year Ended December 31, 2018

(With Summarized Comparative Financial Information for Year Ended December 31, 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (1,079,009)	\$ 3,024,041
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	259,098	245,761
Net realized and unrealized (gain) loss on investments	1,177,017	(1,442,617)
Bad debt expense	250,000	-
Change in discount on pledges receivable	17,832	42,398
Changes in		
Accounts receivable	(326,254)	67,098
Pledges receivable, net	(2,024,815)	(2,860,619)
Prepaid expenses	78,806	(91,938)
Accounts payable and accrued expenses	(87,456)	5,895
Deferred revenue	(2,038)	(20,586)
	<u>(1,736,819)</u>	<u>(1,030,567)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(159,564)	(53,236)
Increase in cash surrender value of life insurance	(1,080)	(1,088)
Proceeds from sales of investments	7,393,875	16,165,638
Purchases of investments	(5,848,415)	(16,679,214)
	<u>1,384,816</u>	<u>(567,900)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Advances from line of credit	-	4,800,000
Principal payments on notes payable	-	(5,042,585)
Principal payments on capital lease	(15,130)	(15,556)
	<u>(15,130)</u>	<u>(258,141)</u>
Net cash used in financing activities		
Net decrease in cash and cash equivalents	(367,133)	(1,856,608)
Cash and cash equivalents, beginning of year	<u>1,142,120</u>	<u>2,998,728</u>
Cash and cash equivalents, end of year	<u>\$ 774,987</u>	<u>\$ 1,142,120</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 150,100</u>	<u>\$ 195,508</u>
Equipment acquired under capital lease obligation	<u>\$ -</u>	<u>\$ 83,693</u>

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

Note 1 - Nature of activities and significant accounting policies

Nature of activities

The Fund for American Studies and Affiliate (the "Fund") is comprised of two entities: The Fund for American Studies ("TFAS") and Foundation for Teaching Economics ("FTE"). TFAS was originally incorporated in the District of Columbia on February 6, 1967, as the Charles Edison Youth Fund. The Fund currently operates education programs for selected college students from all parts of the country and around the world. These institutes are the Institute on Comparative Political and Economic Systems, Institute on Economics and International Affairs, Institute on Political Journalism, Institute on Business and Government Affairs, American Institute on Political and Economic Systems, Institute on Philanthropy and Voluntary Service, Legal Studies Institute, Asia Institute for Political Economy and Institute for Leadership in the Americas. Three of these institutes are held outside of the United States. In addition, the Fund operates Spring and Fall Capital Semester programs and organizes conferences for students and young professionals.

FTE was organized for the purpose of introducing young individuals, selected for their leadership potential, to an economic way of thinking about national and international issues and to promote excellence in economic education by helping teachers of economics become more effective educators.

Note 2 - Summary of significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned, unconditional support is recognized when received and expenses are recognized when incurred.

Basis of consolidation

The accompanying consolidated financial statements include the accounts of TFAS and FTE. All significant intercompany accounts and transactions between the organizations have been eliminated for consolidation.

Cash and cash equivalents

The Fund considers all short-term money market accounts to be cash equivalents. All cash and investments, regardless of maturity, held by the investment advisor are considered investments.

Investments

Investments are recorded at fair value. Accordingly, unrealized gains and losses, due to market fluctuations during the year, are recognized at year-end. Realized gains or losses are recognized upon sale or disposal. Donated investments are reflected as contributions at their fair values at date of receipt. It is reasonably possible that changes in interest rate and market risk in the near term could result in a change in fair value of investment balances, which could be material.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

Accounts receivable

The Fund records receivables at cost, less an allowance for doubtful accounts as determined by management. The allowance is provided based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be worthless. At December 31, 2018, management believes all accounts receivable to be fully collectible, and, as such, no allowance for doubtful accounts has been provided for in these consolidated financial statements.

Pledges receivable

Pledges receivable are recognized as revenue in the period the promise is made. Conditional pledges receivable are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges receivable are carried at original amount promised less an estimate made for doubtful pledges based on a review of all outstanding pledges on a monthly basis. Pledges receivable include bequests from estates, and the timing and amounts to be received depend on the liquidation of the estates. Management determines the allowance for doubtful pledges by regularly evaluating individual promises to give and considering prior history of donors and proven collectability of past donations. Pledges are written off when deemed uncollectible. Recoveries of pledges previously written off are recorded when received. Management has estimated an allowance for doubtful accounts to be \$250,000 at December 31, 2018.

Pledges receivable expected to be collected beyond one year are reflected at the net present value of their estimated future cash flows using a risk-adjusted interest rate. Amortization of the discount on pledges receivable is reflected as contribution revenue.

Property and equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally 3 to 31 years. Website costs are amortized over an estimated useful life of five years. The Fund capitalizes all expenditures for property and equipment in excess of \$3,500 with an estimated useful life of greater than one year.

Valuation of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

Net assets

Net assets without donor restrictions:

Net assets without donor restrictions are net assets that are not restricted by donor stipulations for a time or purpose restriction.

TFAS segregates its net assets without donor restrictions into the following fund categories:

Undesignated - Represents the net assets that are not earmarked by the Board of Trustees or restricted by donors for time or purpose restrictions.

Board-designated endowment funds - Represents net assets that the Board of Trustees has earmarked for specific purposes.

Net assets with donor restrictions:

Net assets with donor restrictions result from contributions and bequests, investment income earned on restricted contributions, and investment income earned and appropriated from endowments. Use of net assets with donor restrictions is limited by donor-imposed purposes or time restrictions that have not yet been fulfilled by actions of the Fund pursuant to these stipulations or by the passage of time.

Net assets with donor restrictions also result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Fund's actions. The donors of these assets permit the Fund to use the income and gains earned on related investments for operations or for specific purposes stipulated by the donors.

Revenue and support

Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. The Fund recognizes income from bequests and contributions in the year the promise to give becomes unconditional.

Income from tuition, registrations, housing and other fees for the institutes is recognized as revenue when the respective institute is held. The tuition for students who receive reduced or waived tuition (internally designated as scholarships by the Fund) is recorded in the accompanying consolidated statement of activities as scholarships, which is netted against the related revenue. Amounts received in advance of the institutes are recorded as deferred revenue.

Income from investments is recognized as earned. Investment income includes interest, dividends and realized gains and losses on investment transactions. Since all investments are carried at fair value, the net change in the fair value of investments is recognized as an unrealized gain or loss on investments.

Annuities payable

Charitable gift annuities are irrevocable gifts under which the Fund agrees in turn to pay a life annuity to the donor or designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the Fund, subject to the Fund maintaining an actuarial reserve in accordance with District of Columbia law.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

The Fund initially values deferred gifts of cash at face value and those of equities at market value; annuity values are then actuarially discounted. Published Internal Revenue Service discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these deferred giving arrangements.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but that provide for the overall support and direction of the Fund.

Salaries and benefits are allocated based on the level of effort. Student recruitment and other student program event costs are allocated to programs based on enrollment. All general overhead costs, including utilities, postage, printing, depreciation and travel, are allocated to programs based on program enrollment with a portion allocated to general and administrative and fundraising functions.

Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Income taxes

TFAS and FTE are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Fund believes it has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Fund recognizes interest expense and penalties related to unrecognized tax positions in accounts payable and accrued expenses and other expense on the consolidated financial statements. The Fund reported no penalties and interest related to unrecognized tax positions for the year ended December 31, 2018. Tax years prior to 2015 are no longer subject to examination by the Internal Revenue Service or the tax jurisdictions of the District of Columbia and California.

Prior year information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Fund's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Credit risk

The Fund has no cash balances in excess of Federal Deposit Insurance Corporation ("FDIC") limits at December 31, 2018. TFAS and FTE both have a short-term investment in repurchase agreements consisting of U.S. government securities and U.S. government-backed securities at December 31, 2018 in amount of \$755,000.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

Change in accounting principle

During the year ended December 31, 2018, the Fund adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, the beginning balances of the donor-restricted net assets categories (temporarily and permanently restricted) have been retrospectively adjusted to consolidate all donor-restricted net assets into one classification, *with donor restrictions*. The ASU requires additional disclosures in the areas of liquidity and availability and requires reclassification of investment expenses which are netted in investment return to include internal investment expenses. In addition, it requires any underwater portion of the Fund's endowment funds to be adjusted from net assets without donor restrictions to net assets with donor restrictions. The Fund has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

During the year ended December 31, 2018, the Fund also adopted the provisions of Accounting Standards Update 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate NAV per share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy. Removing investments measured using the practical expedient from the fair value hierarchy is intended to eliminate the diversity in practice that currently exists with respect to the categorization of these investments.

Reclassifications

Certain amounts in the 2017 summarized comparative information have been reclassified to conform to the 2018 consolidated financial statements, with no effect on the previously reported change in net assets.

Subsequent events

The Fund has evaluated subsequent events through June 18, 2019, which is the date the consolidated financial statements were available to be issued.

Note 3 - Liquidity and availability of resources

The Fund regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Fund has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, lines of credit, and commercial paper facilities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, The Fund considers all expenditures related to its ongoing activities of operating education programs for selected college students, high school students and teachers, and professionals from all parts of the world.

In addition to financial assets available to meet general expenditures over the next 12 months, The Fund operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Fund budgets annual spending from its Board and donor-restricted endowments, which is defined as approximately 5% of the trailing 12-quarter (three-year) market value of the endowment.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

As of December 31, 2018, the following tables show the total financial assets held by The Fund and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end	
Cash and cash equivalents	\$ 774,987
Accounts receivable, net	331,011
Pledges receivable, net	6,529,123
Investments	12,441,895
Cash surrender value - life insurance	27,378
	<hr/>
	\$ 20,104,394
Less: those unavailable for general expenditure within one year	
Pledges receivable due in excess of one year	(1,693,323)
Investments held as collateral	(8,000,000)
Investments held for donor restricted endowments	(1,964,920)
Investments held for charitable gift annuities	(157,194)
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	\$ 8,288,957
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As noted in Note 10, TFAS has an additional \$1,664,000 available to draw upon from their line of credit to meet general expenditures.

Note 4 - Related party transactions

TFAS paid \$24,000 in compensation for services (speaking and advising) provided by a Trustee, Fred Barnes, who has served as a senior fellow since 1992 and was elected to the Board of Trustees in April 2003.

TFAS paid \$95,000 in compensation to Randal Teague for his services beyond the traditional governance roles of a trustee or officer. In the role of an independent contractor, these services included professional time focused on extraordinary levels of development associated with donors and prospective donors, student and alumni engagement, and US and international program development and representation.

Note 5 - Pledges receivable

Pledges receivable at December 31, 2018 consist of the following:

Pledges receivable less than one year	\$ 4,845,800
Pledges receivable less than one to five years	1,757,500
More than five years	10,000
	<hr/>
	6,603,300
Less: Unamortized discount	(74,177)
	<hr/>
Pledges receivable, net	\$ 6,529,123
	<hr/> <hr/>

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

Pledges receivable due in excess of one year were discounted by \$74,177 at December 31, 2018, based on discount rates ranging from 2.5% to 3.52%.

Note 6 - Property and equipment

Property and equipment at December 31, 2018, consists of the following:

Buildings	\$ 5,293,836
Furniture and equipment	1,449,657
Website	40,295
Land	<u>2,327,023</u>
	9,110,811
Less: Accumulated depreciation and amortization	<u>(3,559,791)</u>
	<u><u>\$ 5,551,020</u></u>

Note 7 - Investments

Investments at December 31, 2018, consist of the following:

Equity funds	\$ 6,619,123
Fixed income funds	3,560,809
Cash and money market funds	778,119
Certificates of deposit	765,000
Alternative investment strategies	597,706
Deferred compensation assets	82,261
Beneficial interest in trust	<u>38,877</u>
	<u><u>\$ 12,441,895</u></u>

Alternative investments are comprised of an investment in a fund of funds, which is reported at NAV. This investment objective is to achieve above-average appreciation by opportunistically trading and investing in a wide variety of securities, instruments, and other investment opportunities and engaging in a broad array of trading and investment strategies. Redemption is required via tender offer signed by the President of TFAS, and liquidation happens on a quarterly basis. The alternative investment fund requires NAV per share to be calculated based on measurement of all the underlying investments in the funds in accordance with FASB Accounting Standards Board Codification ("FASB ASC") Topic 820, *Fair Value Measurement*. As of December 31, 2018, there are no unfunded commitments.

Investment income (loss) for the year ended December 31, 2018, consists of the following:

Interest and dividends, net	\$ 459,798
Net realized and unrealized losses on investments	<u>(1,177,017)</u>
	<u><u>\$ (717,219)</u></u>

In 2016, TFAS received a donation of 3,182 common shares of private company stock. Given there is no active market for this stock, no contribution or asset has been recorded in these financial statements. The contribution will be recorded if/when the stock is sold.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements

December 31, 2018

Note 8 - Annuities payable

TFAS has received annuity gifts, whereby the donors have contributed assets to TFAS in exchange for the right to receive a fixed-dollar annual return during their lifetime.

The fair value of the annuity gifts over the present value of the liabilities for future payments, determined on an actuarial basis, has been recognized as contributions at the dates of the gifts.

The assets and corresponding liabilities (including payments currently due and the present value of the estimated future actuarial liability to annuitants, reported in accounts payable and accrued expenses) of the gift annuity at December 31, 2018 are as follows:

Investment	<u>\$ 164,213</u>
Annuities payable	<u>\$ 81,535</u>

Note 9 - Capital lease obligations

In 2017, TFAS entered into a 60-month equipment lease that qualifies as a capital lease obligation, and terminated its old equipment lease with no future obligation. The aggregate cost and accumulated amortization of the equipment totaled \$83,693 and \$18,825, respectively, at December 31, 2018, and the amortization expense of the leased asset amounted to \$15,102 for the year ended December 31, 2018.

Future minimum lease payments under the capital lease agreements in each of the years subsequent to December 31, 2018 are as follows:

2019	\$ 16,739
2020	16,739
2021	16,739
2022	<u>16,409</u>
	66,626
Less: Amounts representing interest	<u>(3,031)</u>
	<u>\$ 63,595</u>

The Fund for American Studies and Affiliate

**Notes to Consolidated Financial Statements
December 31, 2018**

Note 10 - Long-term debt

On March 29, 2017, TFAS entered into a line of credit agreement of up to \$6,464,000, secured by TFAS's investments. TFAS used the line of credit to pay off previous loans. Advances on the line of credit have the option of being at fixed or variable rates, at TFAS's request and the bank's approval. The advances require payments of interest only with principal and any accrued interest due upon maturity or upon demand by the lender. The following is a summary of the amounts outstanding at December 31, 2018:

<u>Type</u>	<u>Amount outstanding December 31, 2018</u>	<u>Interest</u>	<u>Maturity date</u>
Fixed rate loan	\$ 1,440,000	3.12%	March 29, 2023
Fixed rate loan	1,440,000	2.89%	June 14, 2023
Variable rate loan	<u>1,920,000</u>	LIBOR + 1%	Demand
Total	<u>\$ 4,800,000</u>		

Interest expense for the year ended December 31, 2018 totaled \$150,100.

Note 11 - Net assets without donor restrictions

Net assets without donor restrictions consists of the following at December 31, 2018:

Board-designated endowment funds	
Engalitcheff Endowment Fund	\$ 9,143,252
Freedom Center Building Fund	1,818,336
David R. and Corinne Watt Jones Scholarship Fund	520,060
Lady Blanka Rosenstiel Scholarship Fund	69,100
Manuela P. Strong Endowment Fund	<u>48,470</u>
	11,599,218
Undesignated	<u>(571,885)</u>
	<u>\$ 11,027,333</u>

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements

December 31, 2018

Note 12 - Net assets with donor restrictions

As of December 31, 2018, net assets with donor restrictions are restricted for the following purposes:

Subject to expenditure for specified time and purpose	
George Viksnins Scholarship Fund	\$ 141,743
Fred Barnes Scholarship Fund	37,822
Don and Martha Sundquist Scholarship Fund	32,512
Randal C. Teague Scholarships and Fellowships Fund	96,128
Don Lavoie Scholarship Fund	49,422
Kevin Burket Memorial Scholarship Fund	43,223
Ream Family Fund	23,264
David R. and Corinne Watt Jones Scholarships and Fellowships Fund	466,274
Eben Tisdale Fellowship	338,203
Dixie Davis Scholarship Fund	94,249
Rowny Paderewski Scholarship Fund	250,494
Reach Your Peak Scholarship Fund	32,517
Alan and Rella Bates Scholarship Fund	224,949
Krista and Paul Ritacco Scholarship Fund	25,801
Neal B. Freeman Lecture Fund	81,534
Other named scholarship funds	26,780
50th Anniversary Campaign	391,803
Multi-year initiatives	2,139,222
FTE programs	391,187
Fred Long estate gift for scholarships	2,766,455
Other scholarships and support	216,280
Subject to the passage of time	50,854
	<hr/>
	7,920,716
	<hr/>
Corpus and expendable portion of the following endowments	
Fred and Georganna Long Scholarship Fund	325,357
Arnold Garrison Scholarship Fund	181,011
John Cataldo Scholarship Fund	150,123
Hunter Hunt Scholarship Fund	182,284
James Mrazek Scholarship Fund	163,201
Dell Thurmond Woodard Fellowship	112,766
Hybl Family Scholarship	89,179
David Martin Scholarship Fund	78,034
Joseph Rago Memorial Fellowship for Excellence in Journalism	491,496
H.L. Harris Endowment at George Mason University	38,877
Branch Family Scholarship Fund	23,889
Steve and Eileen Berlin Scholarship Fund	74,223
Patt Patterson Scholarship Fund	29,643
Jimmy Dimos Family Scholarship Fund	24,837
	<hr/>
	1,964,920
	<hr/>
	\$ 9,885,636
	<hr/>

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

Note 13 - Endowments

The Fund's endowments consist of 19 funds established to support a variety of programs at the Fund. Its endowments consist of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets established with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets - interpretation of relevant law

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted into law in Washington, D.C. on January 23, 2008, 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 Fund classifies in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity, are subject to appropriation for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the Fund
- (2) The preservation of the Fund and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Fund
- (7) The investment policies of the Fund

Funds with deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted endowments may fall below the level that the donor or UPMIFA requires the Fund to retain as a fund of perpetual duration (underwater endowments). The Fund has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$1,287,739, fair values of \$1,225,559 and deficiencies of \$62,180 were reported in net assets with donor restrictions.

The endowments' return objective and risk parameters

The Fund considers all board-designated net assets to be quasi-endowments with an objective of capital preservation and purchasing power protection consistent with the promotion of the long-term financial stability of the Fund. Achievement of this goal will be measured over three-year rolling periods, as well as a complete market cycle. The total return of the portfolio over a complete market cycle should exceed inflation by 5%. A strategic asset allocation policy for the portfolio has been established, based on the belief that individual asset classes exhibit differing behavior under

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

various market conditions and that a multi-asset class portfolio will result in a portfolio with superior risk and return characteristics. This strategic plan for investing the portfolio assets has been established with a time horizon of 10 years and will be reviewed each year to determine if it should be modified given existing changes in either the Fund's needs or the long-term prospects for the capital markets.

Spending policy

The Fund's annual spending is defined as approximately 5% of the trailing 12-quarter (three-year) market value of the quasi-endowment.

Endowment net asset composition by type of fund at December 31, 2018 is as follows:

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	\$ 11,599,218	\$ -	\$ 11,599,218
Donor-restricted endowment funds	-	1,964,920	1,964,920
	\$ 11,599,218	\$ 1,964,920	\$ 13,564,138

Changes in endowment net assets for the year ended December 31, 2018 is as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, January 1, 2018	\$ 12,684,826	\$ 1,578,290	\$ 14,263,116
Reclassification of underwater funds due to adoption of ASU 2016-14	4,820	(4,820)	-
Contributions	5,200	513,152	518,352
Interest, dividends, net of fees	338,290	40,959	379,249
Realized and unrealized loss, net	(902,097)	(106,736)	(1,008,833)
Appropriations	(531,821)	(55,925)	(587,746)
Endowment net assets, December 31, 2018	\$ 11,599,218	\$ 1,964,920	\$ 13,564,138

Note 14 - Commitments

The Fund has entered into a lease agreement for student housing space through August 2019. The future minimum lease payments under the operating lease agreements subsequent to December 31, 2018 is \$205,409 to be paid in 2019.

The Fund also has a three-year agreement with a university to collaborate with the Fund on the delivery of high quality courses in the arts and humanities. This contract required the Fund to advance \$250,000 to cover start-up costs, etc., which will remain on deposit with the university throughout the term of the agreement. The contract was set to expire July 23, 2018, and was amended to extend the contract term for an additional three years.

Note 15 - Retirement plans

TFAS employees are eligible to participate in The Fund for American Studies Defined Contribution and Retirement Plan (the "Plan") as long as they are salaried employees. Employees can make voluntary tax-deferred contributions up to specified limits. The Fund matches 100% of the first 3%

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

of salary deferred and 50% of the next 2% of salary deferred, after the employee completes one year of service. In addition, the Fund may make an employer-elected contribution to employees. The Fund's total contribution to the Plan was \$83,297 for the year ended December 31, 2018.

TFAS also established a 457(b) deferred compensation plan for its President in 2011. No contributions were made for the year ended December 31, 2018.

FTE maintains a retirement plan (the "FTE Plan"), under Internal Revenue Section 403(b), that is available to all active employees of FTE. FTE contributes to the FTE Plan at a rate of 100% of the first 3% of salary deferred and 50% of the next 2% of salary deferred, after the employee completes one year of service. Total contributions to the FTE Plan charged to expense were \$16,635 for the year ended December 31, 2018.

Note 16 - Fair value measurements

The Fund has determined the fair value of certain assets and liabilities through application of the *Fair Value Measurement* Topic of the FASB ASC. Fair values of assets and liabilities measured on a recurring basis at December 31, 2018 are as follows:

	Fair value	Fair value measurements at reporting date using			
		Net asset value	Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2018					
Equity funds	\$ 6,619,123	\$ -	\$ 6,619,123	\$ -	\$ -
Fixed income funds	3,560,809	-	3,560,809	-	-
Cash and money market funds	778,119	-	778,119	-	-
Certificates of deposit	765,000	-	-	765,000	-
Alternative investment strategies	597,706	597,706	-	-	-
Deferred compensation assets	82,261	-	-	82,261	-
Beneficial interest in trust	38,877	-	-	-	38,877
Total assets	\$ 12,441,895	\$ 597,706	\$ 10,958,051	\$ 847,261	\$ 38,877
Liabilities					
Deferred compensation obligations	\$ 82,261	\$ -	\$ -	\$ 82,261	\$ -

This FASB ASC topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide highest quality inputs. Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets in active or inactive markets or other significant observable inputs. Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. The Fund uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Fund measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There have been no changes in the valuation methodologies during the current year. Money market funds reported as Level 1 inputs have been valued at the closing price reported by the fund sponsor from an actively traded exchange. Equity funds and fixed income funds have been valued at the closing price reported on the active market in which the individual securities are traded. Certificates of deposit are not exchange-traded investments and are valued using a market approach based on quoted prices in an inactive market from pricing sources utilized by investment managers and are therefore Level 2

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2018

investments. The value of the deferred compensation obligation is based upon the underlying fair value of the deferred compensation assets. The Level 3 asset is a split interest agreement with George Mason University, who hold the assets related to the H.L. Harris Endowment. There have been no changes in the valuation methodologies used during the current year. All assets have been valued using a market approach.

Under ASU 2015-07, investments that are measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

The alternative investments consist of private investment funds, which meet the criteria under generally accepted accounting principles for investments that calculate NAV per share. Inputs include the underlying equity in private investment funds, subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

The following table reconciles the changes in Level 3 assets at fair value for the year ended December 31, 2018:

Balance at January 1, 2018	\$	37,082
Investment gain		2,485
Appropriations		<u>(690)</u>
Balance at December 31, 2018	\$	<u>38,877</u>

Note 17 - Foundation for Teaching Economics Asset Transfer

During 2018, the Board of Trustees of TFAS and the Board of Trustees of FTE voted to transfer substantially all of the assets of FTE to TFAS as of December 31, 2018. Effective January 1, 2019, TFAS assumed responsibility for FTE programs. A request was sent to the California Attorney General to approve the plan, which was accepted on January 9, 2019. FTE assets will be transferred to TFAS in 2019 and TFAS will assume responsibility for FTE programs.

Supplementary Information

Independent Auditor's Report on the Supplementary Information

To the Board of Trustees
The Fund for American Studies
Washington, D.C.

We have audited the consolidated financial statements of The Fund for American Studies and Affiliate (the "Fund") as of and for the year ended December 31, 2018, and our report thereon dated June 18, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CohnReznick LLP

Bethesda, Maryland
June 18, 2019

The Fund for American Studies and Affiliate

Supplementary Information

**Consolidating Statement of Financial Position
December 31, 2018**

	<u>Assets</u>			
	<u>TFAS</u>	<u>FTE</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 269,192	\$ 505,795	\$ -	\$ 774,987
Accounts receivable	330,027	984	-	331,011
Pledges receivable, net	6,406,117	123,006	-	6,529,123
Prepaid expenses	217,555	16,029	-	233,584
Property and equipment, net	5,533,933	17,087	-	5,551,020
Investments	11,587,430	854,465	-	12,441,895
Deposits	250,000	-	-	250,000
Cash surrender value - life insurance	27,378	-	-	27,378
	<u>\$ 24,621,632</u>	<u>\$ 1,517,366</u>	<u>\$ -</u>	<u>\$ 26,138,998</u>
<u>Liabilities and Net Assets</u>				
Liabilities				
Accounts payable and accrued expenses	\$ 253,346	\$ 45,679	\$ -	\$ 299,025
Deferred revenue	58,784	4,625	-	63,409
Capital lease obligations	63,595	-	-	63,595
Lines of credit	4,800,000	-	-	4,800,000
	<u>5,175,725</u>	<u>50,304</u>	<u>-</u>	<u>5,226,029</u>
Net assets				
Without donor restrictions	9,951,458	1,075,875	-	11,027,333
With donor restrictions	9,494,449	391,187	-	9,885,636
	<u>19,445,907</u>	<u>1,467,062</u>	<u>-</u>	<u>20,912,969</u>
	<u>\$ 24,621,632</u>	<u>\$ 1,517,366</u>	<u>\$ -</u>	<u>\$ 26,138,998</u>

See Independent Auditor's Report on Supplementary Information.

The Fund for American Studies and Affiliate

Supplementary Information

**Consolidating Statement of Activities and Change in Net Assets
Year Ended December 31, 2018**

	<u>TFAS</u>	<u>FTE</u>	<u>Eliminations</u>	<u>Total</u>
Revenue and support				
Tuition, registration, housing and other fees	\$ 4,092,510	\$ 1,040,333	\$ -	\$ 5,132,843
Less: Scholarships granted	<u>(2,231,310)</u>	<u>(182,600)</u>	<u>-</u>	<u>(2,413,910)</u>
	1,861,200	857,733	-	2,718,933
Contributions	7,441,948	1,168,527	(65,000)	8,545,475
Conference income	128,237	-	-	128,237
Investment income (loss)	(730,669)	13,450	-	(717,219)
Other income	<u>349,777</u>	<u>6,158</u>	<u>(247,293)</u>	<u>108,642</u>
Total revenue and support	<u>9,050,493</u>	<u>2,045,868</u>	<u>(312,293)</u>	<u>10,784,068</u>
Expenses				
Program services				
Graduate and professional programs	1,296,215	-	-	1,296,215
Undergraduate programs	5,382,216	-	-	5,382,216
High school programs	145,215	1,835,966	(82,906)	1,898,275
Other programs	<u>243,071</u>	<u>-</u>	<u>-</u>	<u>243,071</u>
Total program services	<u>7,066,717</u>	<u>1,835,966</u>	<u>(82,906)</u>	<u>8,819,777</u>
Supporting services				
General and administrative	1,165,868	416,903	(187,778)	1,394,993
Fundraising	<u>1,415,310</u>	<u>274,606</u>	<u>(41,609)</u>	<u>1,648,307</u>
Total supporting services	<u>2,581,178</u>	<u>691,509</u>	<u>(229,387)</u>	<u>3,043,300</u>
Total expenses	<u>9,647,895</u>	<u>2,527,475</u>	<u>(312,293)</u>	<u>11,863,077</u>
Change in net assets	(597,402)	(481,607)	-	(1,079,009)
Net assets, beginning of year	<u>20,043,309</u>	<u>1,948,669</u>	<u>-</u>	<u>21,991,978</u>
Net assets, end of year	<u>\$ 19,445,907</u>	<u>\$ 1,467,062</u>	<u>\$ -</u>	<u>\$ 20,912,969</u>

See Independent Auditor's Report on Supplementary Information.

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