

The Fund for American Studies and Affiliate

**Consolidated Financial Statements
and Independent Auditor's Report**

**December 31, 2019
(With December 31, 2018 Summarized
Comparative Financial Information)**

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, 2019, 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, in 2019, the Fund adopted the provisions of Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU 2014-09") and Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Fund for American Studies and Affiliate's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Bethesda, Maryland
August 7, 2020

The Fund for American Studies and Affiliate
Consolidated Statement of Financial Position
December 31, 2019
(With Summarized Comparative Financial Information for December 31, 2018)

Assets

	2019	2018
Cash and cash equivalents	\$ 691,974	\$ 774,987
Accounts receivable	12,689	331,011
Pledges receivable, net	3,165,768	6,529,123
Prepaid expenses	115,624	233,584
Property and equipment, net	5,405,947	5,551,020
Investments	17,251,453	12,441,895
Deposits	250,000	250,000
Cash surrender value - life insurance	28,503	27,378
	\$ 26,921,958	\$ 26,138,998

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 526,120	\$ 299,025
Deferred revenue	91,384	63,409
Capital lease obligations	48,123	63,595
Line of credit	4,800,000	4,800,000
	5,465,627	5,226,029
Net assets		
Without donor restrictions	10,891,228	11,027,333
With donor restrictions	10,565,103	9,885,636
	21,456,331	20,912,969
	\$ 26,921,958	\$ 26,138,998

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, 2019**

(With Summarized Comparative Financial Information for Year Ended December 31, 2018)

	2019		Total	2018
	Without donor restrictions	With donor restrictions		
Revenue and support				
Tuition, registration, housing and other fees	\$ 5,313,220	\$ -	\$ 5,313,220	\$ 5,132,843
Less scholarships granted	<u>(2,461,634)</u>	<u>-</u>	<u>(2,461,634)</u>	<u>(2,413,910)</u>
Tuition, registration, housing and other fees, net	2,851,586	-	2,851,586	2,718,933
Contributions	2,287,471	4,806,892	7,094,363	8,545,475
Conference income	113,212	-	113,212	128,237
Investment income (loss)	1,926,172	477,256	2,403,428	(717,219)
Other income	89,333	-	89,333	108,642
Net assets released from restrictions	<u>4,604,681</u>	<u>(4,604,681)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>11,872,455</u>	<u>679,467</u>	<u>12,551,922</u>	<u>10,784,068</u>
Expenses				
Program services				
Graduate and professional programs	1,387,102	-	1,387,102	1,296,215
Undergraduate programs	5,897,372	-	5,897,372	5,382,216
High school programs	2,033,803	-	2,033,803	1,898,275
Other programs	<u>304,738</u>	<u>-</u>	<u>304,738</u>	<u>243,071</u>
Total program services	<u>9,623,015</u>	<u>-</u>	<u>9,623,015</u>	<u>8,819,777</u>
Supporting services				
General and administrative	708,615	-	708,615	1,394,993
Fundraising	<u>1,676,930</u>	<u>-</u>	<u>1,676,930</u>	<u>1,648,307</u>
Total supporting services	<u>2,385,545</u>	<u>-</u>	<u>2,385,545</u>	<u>3,043,300</u>
Total expenses	<u>12,008,560</u>	<u>-</u>	<u>12,008,560</u>	<u>11,863,077</u>
Change in net assets	(136,105)	679,467	543,362	(1,079,009)
Net assets, beginning of year	<u>11,027,333</u>	<u>9,885,636</u>	<u>20,912,969</u>	<u>21,991,978</u>
Net assets, end of year	<u>\$ 10,891,228</u>	<u>\$ 10,565,103</u>	<u>\$ 21,456,331</u>	<u>\$ 20,912,969</u>

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2019
(With Summarized Comparative Financial Information for Year Ended December 31, 2018)

	Program services				Supporting services			Total	2018 total
	Graduate and professional programs	Undergraduate programs	High school programs	Other programs	Program services	General and administrative	Fundraising		
Salaries and benefits	\$ 568,163	\$ 1,815,396	\$ 443,893	\$ 75,285	\$ 2,902,737	\$ 585,301	\$ 942,658	\$ 4,430,696	\$ 4,274,377
Faculty salaries and guest lecturers	4,690	228,289	254,750	-	487,729	-	-	487,729	543,319
Events	10,543	237,657	233	235	248,668	1,110	586	250,364	279,704
Student housing and campus costs	153,623	1,292,909	837,463	-	2,283,995	-	-	2,283,995	2,378,954
Student recruitment	3,654	172,572	99,382	-	275,608	-	-	275,608	267,495
Bank and credit card fees	5,730	62,793	1,600	1,593	71,716	4,157	3,984	79,857	68,690
University overhead	30,207	516,129	-	-	546,336	-	-	546,336	582,007
Depreciation and amortization	19,239	208,964	5,301	5,307	238,811	13,268	13,268	265,347	259,098
Professional fees	26,797	228,424	9,743	4,742	269,706	12,016	93,884	375,606	403,039
Meetings and conferences	267,060	235,817	5,980	198,563	707,420	17,106	14,954	739,480	568,249
Travel	20,862	182,870	174,118	2,468	380,318	4,511	111,337	496,166	450,610
Student meals	2,497	28,871	-	-	31,368	-	-	31,368	30,304
Books, curriculum and program materials	566	5,322	97,757	67	103,712	168	215	104,095	75,900
Facility costs	13,361	145,135	3,681	3,686	165,863	9,215	9,215	184,293	176,726
Interest expense	11,051	120,042	3,045	3,049	137,187	8,631	7,622	153,440	150,100
Printing and publications	1,606	21,480	1,058	439	24,583	1,097	45,246	70,926	75,984
Telephone	1,712	17,866	483	442	20,503	1,104	2,151	23,758	39,694
Equipment and software	18,929	201,461	26,759	4,604	251,753	11,510	11,510	274,773	294,691
Postage	2,131	9,894	11,644	221	23,890	571	7,509	31,970	31,087
Internet access and web pages	3,959	42,156	967	968	48,050	2,420	2,420	52,890	39,497
Photography	717	9,426	200	198	10,541	3,494	527	14,562	24,215
Supplies	1,132	12,722	367	302	14,523	754	1,522	16,799	22,377
Alumni programs events	1,756	-	-	-	1,756	-	-	1,756	57,794
Marketing and sponsorships	8,705	94,544	39,259	2,401	144,909	6,003	163,159	314,071	158,789
Shipping and delivery	1,073	6,633	3,639	168	11,513	419	515	12,447	10,126
Novak Fellowship grants	127,500	-	-	-	127,500	-	-	127,500	170,833
Novak Fellowship grant expense accounts	20,348	-	-	-	20,348	-	-	20,348	22,827
Direct mail campaign	-	-	-	-	-	-	235,093	235,093	104,727
Bad debt expense	-	-	-	-	-	25,000	-	25,000	250,000
Student travel scholarships	-	-	12,481	-	12,481	-	-	12,481	16,326
Other	59,491	-	-	-	59,491	760	9,555	69,806	35,538
Total expenses	\$ 1,387,102	\$ 5,897,372	\$ 2,033,803	\$ 304,738	\$ 9,623,015	\$ 708,615	\$ 1,676,930	\$ 12,008,560	\$ 11,863,077

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate

**Consolidated Statement of Cash Flows
Year Ended December 31, 2019**

(With Summarized Comparative Financial Information for Year Ended December 31, 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 543,362	\$ (1,079,009)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	265,347	259,098
Net realized and unrealized (gain) loss on investments	(1,937,150)	1,177,017
Bad debt expense	25,000	250,000
Change in discount on pledges receivable	(20,097)	17,832
Changes in		
Accounts receivable	318,322	(326,254)
Pledges receivable, net	3,358,452	(2,024,815)
Prepaid expenses	117,960	78,806
Accounts payable and accrued expenses	227,095	(87,456)
Deferred revenue	27,975	(2,038)
Net cash provided by (used in) operating activities	2,926,266	(1,736,819)
Cash flows from investing activities		
Purchases of property and equipment	(120,274)	(159,564)
Increase in cash surrender value of life insurance	(1,125)	(1,080)
Proceeds from sales of investments	2,465,496	7,393,875
Purchases of investments	(5,337,904)	(5,848,415)
Net cash (used in) provided by investing activities	(2,993,807)	1,384,816
Cash flows from financing activities		
Principal payments on capital lease	(15,472)	(15,130)
Net cash used in financing activities	(15,472)	(15,130)
Net decrease in cash and cash equivalents	(83,013)	(367,133)
Cash and cash equivalents, beginning of year	774,987	1,142,120
Cash and cash equivalents, end of year	\$ 691,974	\$ 774,987
Supplemental cash flow information		
Cash paid for interest	\$ 153,440	\$ 150,100

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2019

Note 1 - 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 educational programs for selected college students, law students, and young professionals from all parts of the country and around the world. These programs include Washington, DC-based Academic Internship Programs for undergraduate students each summer, fall and spring, including tracks in International Affairs, Journalism and Communications, Public Policy and Economics, Business and Government Affairs, and Leadership and the American Presidency. In addition, TFAS hosts international academic programs for current university students and young professionals from around the world held outside of the United States. As a matter of principle, neither TFAS nor FTE accepts or participates in any government funding, as TFAS and FTE believe maintaining that independence is key to the organization's mission and an important component of its educational programming.

FTE was organized for the purpose of introducing high school students, 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.

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 transferred \$1,517,366 of assets and \$50,304 of liabilities to TFAS, as well as a grant of \$1,467,062, which is eliminated on the consolidated statement of activities and change in net assets. FTE remains a separate legal entity with minimal fundraising activity.

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, 2019

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, 2019, 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 \$275,000 at December 31, 2019.

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.

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.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2019

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 recognition

The Fund recognizes revenue through the five-step model prescribed by the Financial Accounting Standards Board ("FASB") in the Accounting Standards Codification ("ASC"), *Revenue from Contracts with Customers*: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when a performance obligation is met. The Fund applies the practical expedient in ASC 606-10-50-14 and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Fund recognizes revenue from student tuition, registrations, housing and other fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course when the respective program is held. Contracts for tuition, room, and board are combined into a single portfolio of similar contracts. Payment for tuition and housing is required before the start of the program. All amounts received prior to the commencement of the program, including enrollment deposits, are deferred to the applicable period. Scholarships provided to students are recorded as a reduction from the posted tuition. Amounts received in advance of the programs are recorded as deferred revenue.

Contributions and grants are classified as either conditional or unconditional. Unconditional contributions and grants, including unconditional promises to give are recognized at fair value when the commitment to contribute is received and are reported as without donor restrictions revenue and support unless specifically restricted by the donor or by law. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as revenue and support with donor restrictions. Revenue is recognized on a conditional contribution or grant once a barrier or hurdle to be entitled to the resource is overcome and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if the Fund fails to overcome the barrier.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2019

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 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, 2019. Tax years prior to 2016 are no longer subject to examination by the Internal Revenue Service or the tax jurisdictions of the District of Columbia and California.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2019

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, 2018, 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, 2019. TFAS has a short-term investment in repurchase agreements consisting of U.S. government securities and U.S. government-backed securities at December 31, 2019 in amount of \$329,000.

Adoption of new accounting principles

During the year ended December 31, 2019, the Fund adopted the provisions of Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This ASU provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers which reflects the consideration to which the Fund expects to be entitled in exchange for those goods or services. Adopting the standard did not have a material effect on the timing of the Fund's revenue recognition for the year ended December 31, 2019.

During the year ended December 31, 2019, the Fund adopted FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Adopting the new standard did not have a material effect on the timing of the Fund's revenue recognition for the year ended December 31, 2019.

Reclassifications

Certain amounts in the 2018 summarized comparative information have been reclassified to conform to the 2019 consolidated financial statements, with no effect on the previously reported change in net assets.

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.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2019

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.

As of December 31, 2019, 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	\$ 691,974
Accounts receivable, net	12,689
Pledges receivable, net	3,165,768
Investments	17,251,453
Cash surrender value - life insurance	<u>28,503</u>
	21,150,387
Less those unavailable for general expenditure within one year	
Pledges receivable due in excess of one year	(649,296)
Investments held as collateral	(7,917,080)
Investments held for donor restricted endowments	(3,239,725)
Investments held for deferred compensation	(105,033)
Investments held for charitable gift annuities	<u>(154,987)</u>
	<u>\$ 9,084,266</u>

As noted in Note 10, TFAS has an additional \$1,664,000 available to draw upon from its line of credit to meet general expenditures.

Note 4 - Related party transactions

TFAS paid \$24,000 for 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. Fred Barnes' compensation as a senior fellow concluded on December 31, 2019.

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 U.S. and international program development and representation.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2019

Note 5 - Pledges receivable

Pledges receivable at December 31, 2019 consist of the following:

Pledges receivable less than one year	\$ 2,516,472
Pledges receivable one to five years	969,376
More than five years	<u>9,000</u>
	3,494,848
Less: Allowance for doubtful accounts	(275,000)
Less: unamortized discount	<u>(54,080)</u>
Pledges receivable, net	<u>\$ 3,165,768</u>

Pledges receivable due in excess of one year were discounted by \$54,080 at December 31, 2019, based on discount rates ranging from 2.5% to 3.5%.

Note 6 - Property and equipment

Property and equipment at December 31, 2019 consists of the following:

Buildings	\$ 5,359,054
Furniture and equipment	1,449,657
Website	95,357
Land	<u>2,327,023</u>
	9,231,091
Less accumulated depreciation and amortization	<u>(3,825,144)</u>
	<u>\$ 5,405,947</u>

Note 7 - Investments

Investments at December 31, 2019 consist of the following:

Equity funds	\$ 11,046,574
Fixed income funds	5,086,171
Cash and money market funds	336,583
Alternative investment strategies	637,502
Deferred compensation assets	105,033
Beneficial interest in trust	<u>39,590</u>
	<u>\$ 17,251,453</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 Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements December 31, 2019

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, 2019, there are no unfunded commitments.

Investment income for the year ended December 31, 2019, consists of the following:

Interest and dividends	\$ 532,045
Net realized and unrealized gains on investments	<u>1,937,150</u>
	2,469,195
Investment fees	<u>(65,767)</u>
	<u>\$ 2,403,428</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.

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, 2019 are as follows:

Investment	<u>\$ 154,987</u>
Annuities payable	<u>\$ 99,071</u>

Note 9 - Capital lease obligations

In 2018, 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 \$34,268, respectively, at December 31, 2019, and the amortization expense of the leased asset amounted to \$15,443 for the year ended December 31, 2019.

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**Notes to Consolidated Financial Statements
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Future minimum lease payments under the capital lease agreements in each of the years subsequent to December 31, 2019 are as follows:

2020	\$	16,739
2021		16,739
2022		<u>16,409</u>
		49,887
Less amounts representing interest		<u>(1,764)</u>
	\$	<u><u>48,123</u></u>

Note 10 - Long-term debt

On March 29, 2018, 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, 2019:

Type	Amount outstanding December 31, 2019	Interest	Maturity date
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><u>\$ 4,800,000</u></u>		

Interest expense for the year ended December 31, 2019 totaled \$153,440.

On April 3, 2020, the variable rate loan was changed to a fixed rate loan bearing interest at 1.8%, with a maturity date of March 30, 2027.

Note 11 - Net assets without donor restrictions

Net assets without donor restrictions consists of the following at December 31, 2019:

Board-designated endowment funds		
Engalitcheff Endowment Fund	\$	2,220,302
Freedom Center Building Fund		2,040,029
David R. and Corinne Watt Jones Scholarship Fund		583,541
Lady Blanka Rosenstiel Scholarship Fund		77,525
Manuela P. Strong Endowment Fund		<u>50,380</u>
		4,971,777
Undesignated		<u>5,919,451</u>
	\$	<u><u>10,891,228</u></u>

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Notes to Consolidated Financial Statements

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Note 12 - Net assets with donor restrictions

As of December 31, 2019, net assets with donor restrictions are restricted for the following purposes:

Subject to expenditure for specified time and purpose	
David R. and Corinne Watt Jones Scholarships and Fellowships Fund	\$ 512,698
Eben Tisdale Fellowship	350,087
Rowny Paderewski Scholarship Fund	274,584
Alan and Rella Bates Scholarship Fund	241,128
George Viksnins Scholarship Fund	153,187
Randal C. Teague Scholarship and Fellowships Fund	107,475
Dixie Davis Scholarship Fund	105,740
Neal B. Freeman Lecture Fund	79,271
Don Lavoie Scholarship Fund	53,977
Kevin Burket Memorial Scholarship Fund	47,832
Fred Barnes Scholarship Fund	40,542
Don and Martha Sundquist Scholarship Fund	35,850
Reach Your Peak Scholarship Fund	36,481
Ream Family Fund	35,087
Krista and Paul Ritacco Scholarship Fund	32,657
Other named scholarship funds	39,057
Other scholarships and support	404,119
50th Anniversary Campaign	743,837
Fred Long estate gift for scholarships	1,766,455
Multi-year initiatives	1,718,448
High school (FTE) Programs	530,866
Subject to the passage of time	16,000
	<hr/>
	7,325,378
	<hr/>
Corpus and expendable portion of the following endowments	
Fred and Georganna Long Scholarship Fund	349,025
Arnold Garrison Scholarship Fund	194,028
John Cataldo Scholarship Fund	161,926
Hunter Hunt Scholarship Fund	702,009
James Mrazek Scholarship Fund	174,938
Dell Thurmond Woodard Fellowship	120,876
Hybl Family Scholarship	97,576
David Martin Scholarship Fund	89,548
Joseph Rago Memorial Fellowship for Excellence in Journalism	743,608
H.L. Harris Endowment at George Mason University	41,744
Branch Family Scholarship Fund	25,607
Steve and Eileen Berlin Scholarship Fund	79,561
Patt Patterson Scholarship Fund	31,775
Jimmy Dimos Family Scholarship Fund	28,223
Philip Friedmann Scholarship Fund	183,671
Goossen Family Scholarship Fund	25,000
Marilyn and John Woodhouse Scholarship Fund	190,610
	<hr/>
	3,239,725
	<hr/>
	\$ 10,565,103
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Notes to Consolidated Financial Statements December 31, 2019

Note 13 - Endowments

The Fund's endowments consist of 22 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, 2019, funds with original gift values of \$626,983, fair values of \$606,828 and deficiencies of \$20,155 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

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**Notes to Consolidated Financial Statements
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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, 2019 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 4,971,777	\$ -	\$ 4,971,777
Donor-restricted endowment funds	-	3,239,725	3,239,725
	<u>\$ 4,971,777</u>	<u>\$ 3,239,725</u>	<u>\$ 8,211,502</u>

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2019	\$ 11,599,218	\$ 1,964,920	\$ 13,564,138
Undesignation of board-designated endowment	(7,500,000)	-	(7,500,000)
Contributions	75	1,109,440	1,109,515
Interest, dividends, net of fees	220,687	36,645	257,332
Realized and unrealized gain, net	1,193,499	201,047	1,394,546
Appropriations	<u>(541,702)</u>	<u>(72,327)</u>	<u>(614,029)</u>
Endowment net assets, December 31, 2019	<u>\$ 4,971,777</u>	<u>\$ 3,239,725</u>	<u>\$ 8,211,502</u>

Note 14 - Commitments

The Fund has entered into a lease agreement for student housing space through August 2021. The future minimum lease payments under the operating lease agreements subsequent to December 31, 2019 are as follows:

2020	\$ 318,868
2021	<u>212,578</u>
	<u>\$ 531,446</u>

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Notes to Consolidated Financial Statements December 31, 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 current contract is set to expire in 2021.

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% 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 \$115,579 the year ended December 31, 2019.

TFAS also established a 457(b) deferred compensation plan for its President in 2011. No contributions were made for the year ended December 31, 2019. The deferred compensation plan totals \$105,033, with the asset included in investments, and the liability included in accounts payable and accrued expenses on the consolidated statement of financial position.

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, 2019 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, 2019					
Equity funds	\$ 11,046,574	\$ -	\$ 11,046,574	\$ -	\$ -
Fixed income funds	5,086,171	-	5,086,171	-	-
Cash and money market funds	336,583	-	336,583	-	-
Alternative investment strategies	637,502	637,502	-	-	-
Deferred compensation assets	105,033	-	-	105,033	-
Beneficial interest in trust	39,590	-	-	-	39,590
Total assets	\$ 17,251,453	\$ 637,502	\$ 16,469,328	\$ 105,033	\$ 39,590
Liabilities					
Deferred compensation obligations	\$ 105,033	\$ -	\$ -	\$ 105,033	\$ -

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

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the active market in which the individual securities are traded. 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, 2019:

Balance at January 1, 2019	\$	38,877
Investment gain		1,403
Appropriations		<u>(690)</u>
Balance at December 31, 2019	\$	<u>39,590</u>

Note 17 - Subsequent events

The Fund has evaluated subsequent events from the statement of financial position date through August 7, 2020, the date at which the financial statements were issued.

COVID-19

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally, and this pandemic is leading to an overall decline in economic activity which could result in a loss of revenue and other material adverse effects to the Fund's financial position, results of operations, and cash flows. The economic impact of the business disruptions caused by COVID-19 is uncertain. The extent of any effects that these disruptions may have on the operations and financial position of the Fund will depend on future developments, which cannot be determined at this time.



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