

Foundation for Free Enterprise Education

Independent Auditor's Report and Financial Statements

September 30, 2019

With Comparative Totals for 2018



Foundation for Free Enterprise Education

September 30, 2019

With Comparative Totals for 2018

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Independent Auditor's Report

Board of Directors
Foundation for Free Enterprise Education
Erie, Pennsylvania

We have audited the accompanying financial statements of Foundation for Free Enterprise Education (Foundation), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Foundation for Free Enterprise Education

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for Free Enterprise Education as of September 30, 2019, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation for Free Enterprise Education 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As described in Note 12 to the financial statements, in 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Erie, Pennsylvania
October 30, 2019

Foundation for Free Enterprise Education
Statements of Financial Position
September 30, 2019
With Comparative Totals for 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 843,051	\$ 679,422
Pledges receivable, net of allowance; 2019 and 2018 - \$1,000	65,850	47,067
Prepaid expenses and other	25,345	28,447
Investments	3,115,321	2,883,588
Property and equipment, net	336,006	329,958
Total assets	\$ 4,385,573	\$ 3,968,482
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 407,448	\$ 415,066
Accrued payroll, vacation and taxes	64,266	62,643
Accrued pension plan contribution	-	33,914
Long-term debt	81,462	99,744
Total liabilities	553,176	611,367
 Net Assets		
Without donor restrictions		
Undesignated	3,535,304	3,118,825
Designated by the Board for endowment	75,000	75,000
With donor restrictions		
Time-restricted for future periods	222,093	163,290
Total net assets	3,832,397	3,357,115
Total liabilities and net assets	\$ 4,385,573	\$ 3,968,482

Foundation for Free Enterprise Education
Statements of Activities and Changes in Net Assets
Year Ended September 30, 2019
With Comparative Totals for 2018

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
Public Support				
Scholarship income	\$ 1,064,219	\$ 118,658	\$ 1,182,877	\$ 1,040,089
Contributions	33,513	-	33,513	45,436
Contributed services	1,514,938	-	1,514,938	1,527,880
Patron fund income	-	-	-	1,350
Net assets released from restrictions	69,970	(69,970)	-	-
Total public support	2,682,640	48,688	2,731,328	2,614,755
Revenue				
Registration fees - PFEW	498,989	-	498,989	464,436
Stock market game fees	25,290	-	25,290	-
Net interest and dividend income	149,320	10,051	159,371	85,427
Net realized/unrealized gains (losses)	(5,230)	64	(5,166)	124,154
Other income	5,944	-	5,944	3,575
Total revenue	674,313	10,115	684,428	677,592
Total public support and revenue	3,356,953	58,803	3,415,756	3,292,347
Expenses				
Program services	2,341,002	-	2,341,002	2,388,293
General and administrative	390,879	-	390,879	427,399
Fundraising	208,593	-	208,593	230,608
Total expenses	2,940,474	-	2,940,474	3,046,300
Change in Net Assets	416,479	58,803	475,282	246,047
Net Assets, Beginning of Year	3,193,825	163,290	3,357,115	3,111,068
Net Assets, End of Year	\$ 3,610,304	\$ 222,093	\$ 3,832,397	\$ 3,357,115

See Notes to Financial Statements

Foundation for Free Enterprise Education
Statements of Functional Expenses
Year Ended September 30, 2019
With Comparative Totals for 2018

	Program Services	General and Administrative	Fundraising	Totals	
				2019	2018
Student room, board and related expenses	\$ 404,729	\$ -	\$ -	\$ 404,729	\$ 409,109
Salaries and benefits	339,807	177,226	169,989	687,022	768,598
Insurance	-	19,664	-	19,664	18,321
Travel and conferences	30,380	17,906	329	48,615	44,239
Promotion	-	80,748	15,196	95,944	93,382
Contract labor	3,373	13,290	2,877	19,540	27,078
Supplies and office expense	51	4,400	2,448	6,899	9,010
Telephone	-	4,391	-	4,391	4,434
Postage and copying	6,042	7,888	15,862	29,792	27,930
Legal and professional	-	11,470	-	11,470	7,743
Depreciation	-	19,131	-	19,131	19,883
Company advisors and speakers	40,619	-	-	40,619	42,345
Contributed services	1,514,938	-	-	1,514,938	1,527,880
Computer expense	1,063	17,467	1,342	19,872	22,381
Utilities	-	3,913	-	3,913	4,281
Miscellaneous	-	588	-	588	357
Uncollectible pledges	-	44	-	44	3,442
Dues and subscriptions	-	5,573	550	6,123	9,309
Supply storage	-	3,000	-	3,000	3,000
Interest expense	-	4,180	-	4,180	3,578
	<u>\$ 2,341,002</u>	<u>\$ 390,879</u>	<u>\$ 208,593</u>	<u>\$ 2,940,474</u>	<u>\$ 3,046,300</u>

See Notes to Financial Statements

Foundation for Free Enterprise Education
Statements of Cash Flows
Year Ended September 30, 2019
With Comparative Totals for 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 475,282	\$ 246,047
Items not requiring (providing) cash		
Depreciation	19,131	19,883
Net realized and unrealized gains (losses) on investments	5,166	(124,154)
Changes in		
Pledges receivable	(18,783)	13,841
Prepaid expenses and other	3,102	(4,297)
Accounts payable	(7,618)	(2,473)
Accrued payroll, vacation and taxes	1,623	(23,709)
Accrued pension plan contribution	(33,914)	6,800
Net cash provided by operating activities	443,989	131,938
Investing Activities		
Purchase of investments	(751,707)	(474,407)
Sales of investments	514,808	479,046
Purchase of property and equipment	(25,179)	(8,705)
Net cash used in investing activities	(262,078)	(4,066)
Financing Activities		
Payments on mortgage loan payable	(18,282)	(18,199)
Net cash used in financing activities	(18,282)	(18,199)
Increase in Cash and Cash Equivalents	163,629	109,673
Cash and Cash Equivalents, Beginning of Year	679,422	569,749
Cash and Cash Equivalents, End of Year	\$ 843,051	\$ 679,422
Supplemental Disclosure of Cash Flows Information		
Cash paid for interest	\$ 4,180	\$ 3,578

See Notes to Financial Statements

Foundation for Free Enterprise Education

Notes to Financial Statements

September 30, 2019

With Comparative Totals for 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Foundation for Free Enterprise Education (the Foundation) is a Pennsylvania non-profit corporation organized exclusively for educational purposes. The primary educational purpose is for the explanation of the American Free Enterprise System to the general public and student groups.

The Foundation conducts educational programs for high school students. A summer program, conducted at two college campuses, is known as Pennsylvania Free Enterprise Week (PFEW). The Pennsylvania business community contributes scholarships and manpower for these purposes.

The Foundation also became the exclusive Pennsylvania coordinator for The Stock Market Game™ (SMG). SMG is an internationally acclaimed interactive in-school program that teaches students in Grades 4-12 about global capital markets, investing and personal finance.

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's 2018 financial statements from which the information was derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$415,000.

Foundation for Free Enterprise Education

Notes to Financial Statements

September 30, 2019

With Comparative Totals for 2018

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Pledge Receivables

Pledge receivables are recorded at their net realizable value. The Foundation estimates an allowance for doubtful accounts and bad debts based on management's assessment of the collectability of pledge receivables and prior experience. The Foundation's allowance for estimated uncollectible accounts is \$1,000 as of September 30, 2019 and 2018. Substantially all of the pledge receivables are due from Pennsylvania organizations.

The Foundation has no accounts accruing interest charges as of September 30, 2019 and 2018. The Foundation charges off receivables based on management experience with contributors. Pledge receivables are typically written off after repeated attempts to collect the balance have been unsuccessful.

Property and Equipment

Property and equipment acquisitions over \$500 are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Equipment	3 - 15 years
Building	40 years
Building and land improvements	5 - 15 years

Foundation for Free Enterprise Education

Notes to Financial Statements

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Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Foundation for Free Enterprise Education

Notes to Financial Statements

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Contributions

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Scholarship Contributions

Scholarship contributions are used to pay program, administrative and fundraising expenses of the Foundation.

Foundation for Free Enterprise Education

Notes to Financial Statements

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Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Estimated values of \$1,514,938 and \$1,527,880 have been reflected in the 2019 and 2018 statements of activities, respectively, for donated services provided by company advisors and speakers. These donated services have been valued at an average of \$150 per hour in 2019 and 2018, based on a study done by Wellesley Hills Group, LLC that analyzed billing rates across a variety of professional service firms.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of equipment and expendable items from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended September 30, 2019 and 2018, \$23,463 and \$12,936, respectively, were received in in-kind contributions.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general, and fundraising services benefited based on the direct identification method and time expended and other methods.

Foundation for Free Enterprise Education

Notes to Financial Statements

September 30, 2019

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Note 2: Pledge Receivables

Pledge receivables consisted of the following:

	September 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ 36,499	\$ -	\$ 36,499
Due in one to five years	-	30,351	30,351
	36,499	30,351	66,850
Less			
Allowance for uncollectible contributions	(1,000)	-	(1,000)
	\$ 35,499	\$ 30,351	\$ 65,850
	September 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ 37,655	\$ -	\$ 37,655
Due in one to five years	-	10,412	10,412
	37,655	10,412	48,067
Less			
Allowance for uncollectible contributions	(1,000)	-	(1,000)
	\$ 36,655	\$ 10,412	\$ 47,067

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Note 3: Property and Equipment

Property and equipment at September 30, 2019 and 2018 consists of:

	2019	2018
Land	\$ 143,318	\$ 143,318
Building	145,048	145,048
Equipment	96,469	96,469
Land and building improvements	129,406	104,228
	514,241	489,063
Less accumulated depreciation	178,235	159,105
	\$ 336,006	\$ 329,958

Note 4: Note Payable to Bank

The Foundation has a \$100,000 revolving bank line of credit with no expiration date. At September 30, 2019 and 2018, there was nothing borrowed against this line. The line is collateralized by substantially all of the Foundation's assets. Interest varies with the bank's prime rate, which was 5.00% and 5.25% on September 30, 2019 and 2018, respectively, and is payable monthly.

Note 5: Long-Term Debt

Long-term debt at September 30, 2019 and 2018 consisted of a mortgage loan of \$250,000. The outstanding borrowings are payable monthly, including interest at a fixed rate of 4.25% over a 15-year term, maturing September 2023. The loan is collateralized by all of the assets of the Foundation. The outstanding balance of the loan at September 30, 2019 and 2018 was \$81,462 and \$99,744, respectively. Payments are approximately \$1,800 per month.

Foundation for Free Enterprise Education
Notes to Financial Statements
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Required minimum principal maturities of debt based on the borrowings outstanding as of September 30, 2019, are as follows:

2020	\$ 19,375
2021	19,964
2022	20,572
2023	<u>21,551</u>
	<u>\$ 81,462</u>

Note 6: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at September 30 are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Contributions for Subsequent Programs	\$ 118,658	\$ 61,220
Scholarship Funds		
Henry P. Glendinning Memorial Scholarship Fund	7,716	7,591
B. Craig Tierney Memorial Scholarship Fund	9,192	8,985
Jensen-Landis Memorial Scholarship Fund	12,899	12,793
Frank J. Trombetta Memorial Scholarship Fund	5,565	5,624
John C. Daniels Memorial Scholarship Fund	3,898	3,988
Sumner E. Kibbe Memorial Scholarship Fund	2,275	2,147
Edward J. Meell Scholarship Fund	5,063	5,087
Harvey and Winifred Bradley Scholarship Fund	11,377	11,356
The Lawrence B. Sheppard Scholarship Fund	4,305	4,681
Murphy and D'Avino Scholarship Fund	25,393	25,200
Frederick W. Anton III Scholarship Fund		
(excluding \$25,000 of board designated funds)	3,262	2,911
Lewis W. Hull Memorial Scholarship Fund		
(excluding \$10,000 of board designated funds)	3,098	2,981
Raymond G. Weber Memorial Scholarship Fund		
(excluding \$20,000 of board designated funds)	4,141	4,022
Terry Cieri Memorial Scholarship Fund		
(excluding \$10,000 of board designated funds)	<u>5,251</u>	<u>4,704</u>
	<u>\$ 222,093</u>	<u>\$ 163,290</u>

Foundation for Free Enterprise Education

Notes to Financial Statements

September 30, 2019

With Comparative Totals for 2018

Net Assets Without Donor Restrictions

Net assets without donor restrictions at September 30 have been designated for the following purposes:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 3,535,304	\$ 3,118,825
Scholarship Funds		
John J. Trombetta Scholarship Fund	10,000	10,000
Frederick W. Anton III Scholarship Fund	25,000	25,000
Lewis W. Hull Memorial Scholarship Fund	10,000	10,000
Raymond G. Weber Memorial Scholarship Fund	20,000	20,000
Terry Cieri Memorial Scholarship Fund	<u>10,000</u>	<u>10,000</u>
	<u>75,000</u>	<u>75,000</u>
	<u>\$ 3,610,304</u>	<u>\$ 3,193,825</u>

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2019</u>	<u>2018</u>
Expiration of time restrictions	\$ 61,220	\$ 75,472
Scholarships awarded from scholarship funds	<u>8,750</u>	<u>8,050</u>
	<u>\$ 69,970</u>	<u>\$ 83,522</u>

Note 7: Endowment

The Foundation's endowment includes funds designated by the Board of Directors to function as endowments (\$75,000) and the scholarship funds that are without donor restriction as listed in Note 6 totaling \$103,435. The purpose of this endowment is to provide financial support to the Foundation for operations and capital projects. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Foundation for Free Enterprise Education

Notes to Financial Statements

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Interpretation of Relevant Law

The current relevant law for the investment and distribution of restricted endowment and trust funds in the Commonwealth of Pennsylvania is PA Act 141 (Act 141). The Foundation's endowment fund consists of donations received with a restriction to invest the funds and use a portion, determined by management, to provide scholarships for PFEW. Since there is no restriction on the use of principal, these funds are not subject to Act 141.

Endowment by Net Asset Class

The composition of net assets by type of endowment fund at September 30, 2019 and 2018 was:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary	Permanent	
Donor-restricted endowment funds	\$ -	\$ 103,435	\$ -	\$ 103,435
Board-designated endowment funds	75,000	-	-	75,000
Total endowment funds	\$ 75,000	\$ 103,435	\$ -	\$ 178,435
	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary	Permanent	
Donor-restricted endowment funds	\$ -	\$ 102,070	\$ -	\$ 102,070
Board-designated endowment funds	75,000	-	-	75,000
Total endowment funds	\$ 75,000	\$ 102,070	\$ -	\$ 177,070

Foundation for Free Enterprise Education

Notes to Financial Statements

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Changes in endowment net assets for the years ended September 30, 2019 and 2018, were as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 75,000	\$ 102,070	\$ 177,070
Investment return			
Investment income	-	10,051	10,051
Net appreciation	-	1,614	1,614
Total investment return	-	11,665	11,665
Contributions / additions	-	-	-
Transfers	-	-	-
Appropriation of endowment assets for expenditure	-	(8,750)	(8,750)
Investment fees	-	(1,550)	(1,550)
Endowment net assets, end of year	<u>\$ 75,000</u>	<u>\$ 103,435</u>	<u>\$ 178,435</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 40,000	\$ 68,160	\$ 108,160
Investment return			
Investment income	-	6,065	6,065
Net appreciation	-	4,548	4,548
Total investment return	-	10,613	10,613
Contributions / additions	-	32,500	32,500
Transfers	35,000	-	35,000
Appropriation of endowment assets for expenditure	-	(8,050)	(8,050)
Investment fees	-	(1,153)	(1,153)
Endowment net assets, end of year	<u>\$ 75,000</u>	<u>\$ 102,070</u>	<u>\$ 177,070</u>

Foundation for Free Enterprise Education

Notes to Financial Statements

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Investment and Spending Policies

The Foundation has adopted an investment policy to produce a return commensurate with the portfolio's risk as measured against specific indices. Additionally, the Foundation desires to focus its investment efforts on safety first, followed by yield second and third, consideration of liquidity. The Foundation has also established a "buy and hold" philosophy, wherever possible, to minimize turnover, recognizing that the manager will be expected to engage in proactive management of assets and, if need be, to take appropriate defensive action to protect principal as a primary objective. Finally, the Foundation has also set an objective to comply with all applicable trust, fiduciary, and due diligence requirements that experienced investment professionals would reasonably be expected to follow, and to comply with all applicable federal, state and local laws, rules, and regulations governing the actions of investment managers.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Management makes decisions regarding fund disbursements based upon the appreciation in value of the funds over time. Management's intent is to maintain or increase slightly the value of these funds over time; although, from time-to-time, due to market conditions, there may be slight decreases in the value of these funds.

Note 8: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of September 30, 2019 and 2018, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 843,051	\$ 679,422
Short-term pledges receivable	36,499	37,655
Estimated payout on quasi-endowments for use over next 12 months	<u>8,500</u>	<u>8,050</u>
	<u>\$ 888,050</u>	<u>\$ 725,127</u>

Foundation for Free Enterprise Education

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The Foundation's endowment funds consist of board-restricted endowments and funds designated to make discretionary annual payouts to support students attending Pennsylvania Free Enterprise Week; and, whereas, it is the goal to maintain each fund's principal, payout a maximum of 4% from each fund in the form of student scholarships to be used in the current year's presentation of Pennsylvania Free Enterprise Week. The staff, specifically the CEO, is to follow the guidelines set out by the Board of Directors. Additionally, the CEO has the discretion to reduce the annual payout of a specific fund in order to meet the primary goal of maintaining the fund's accumulated principal balance.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation evaluates its future cash flows and monitors its liquidity and reserves regularly.

Note 9: Retirement Plan

Effective, October 1, 2017, the Foundation changed the allocation method of its defined contribution profit sharing plan from age-based to wage-based. The plan covers all employees who are 21 years of age or older who have completed one year of service. The Foundation's retirement contributions are reduced by any forfeitures during the year. Pension expense recorded for the years ended September 30, 2019 and 2018 was \$26,193 and \$28,695, respectively. The plan also has a Safe Harbor 401(k) provision, which enables eligible participants to make pre-tax contributions to the plan. Under the provisions of the plan, the Foundation will match 100% of the first 3% of compensation, and 50% on the next 2% of compensation. For the years ended September 30, 2019 and 2018, the Foundation's matching contributions were \$20,911 and \$23,749, respectively.

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Note 10: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and 2018:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Corporate bonds and notes	\$ 268,722	\$ -	\$ 268,722	\$ -
Preferred stocks	82,750	82,750	-	-
Mortgage backed securities	49,417	-	49,417	-
Mutual funds				
Fixed income	630,858	630,858	-	-
Equities	2,083,574	2,083,574	-	-
Total assets at fair value	<u>\$ 3,115,321</u>	<u>\$ 2,797,182</u>	<u>\$ 318,139</u>	<u>\$ -</u>

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	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Corporate bonds and notes	\$ 175,039	\$ -	\$ 175,039	\$ -
Preferred stocks	81,460	81,460	-	-
Mortgage backed securities	57,596	-	57,596	-
Mutual funds				
Fixed income	602,256	602,256	-	-
Equities	1,967,237	1,967,237	-	-
Total assets at fair value	<u>\$ 2,883,588</u>	<u>\$ 2,650,953</u>	<u>\$ 232,635</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2019.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 11: Subsequent Events

Subsequent events have been evaluated through October 30, 2019, which is the date the financial statements were available to be issued.

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Note 12: Changes in Accounting Principles

In 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position (Note 8).
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

Additionally, in 2019, the Foundation early adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This change had no impact on previously reported total change in net assets.

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Note 13: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities. The Foundation is in the process of evaluating the impact the standard will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Foundation is evaluating the impact the standard will have on the financial statements.