



Foundation for Free Enterprise Education

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2021
WITH COMPARATIVE TOTALS FOR 2020

FOUNDATION FOR FREE ENTERPRISE EDUCATION
TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....1

FINANCIAL STATEMENTS

 Statements of Financial Position.....3

 Statements of Activities and Changes in Net Assets.....4

 Statements of Functional Expenses.....5

 Statements of Cash Flows.....6

 Notes to Financial Statements.....7



2402 West 8th Street
Erie, PA 16505
814.453.6594
Fax: 814.455.3642
www.mpbcpa.com

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, 2021, and the related statements of activities and changes in net assets, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation for Free Enterprise Education as of September 30, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 2, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As described in Note A to the financial statements, in 2021, the Foundation adopted ASU 2014-09, *Revenue from Contracts with Customers Topic (606)*. Our opinion is not modified with respect to this matter.

McGill, Power, Bell & Associates, LLP

McGill, Power, Bell & Associates, LLP
Erie, Pennsylvania
November 1, 2021

FOUNDATION FOR FREE ENTERPRISE EDUCATION
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2021
WITH COMPARATIVE TOTALS FOR 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,141,019	\$ 869,872
Pledges Receivable, Net of Allowance; 2021 and 2020 - \$1,000	54,751	70,111
Employer Retention Tax Credit Receivable	202,152	-
Prepaid Expenses and Other Assets	19,356	20,139
Investments	4,268,226	3,331,347
Property and Equipment, Net	<u>336,828</u>	<u>344,847</u>
TOTAL ASSETS	<u>\$ 6,022,332</u>	<u>\$ 4,636,316</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 213,782	\$ 26,179
Accrued Payroll, Vacation and Taxes	79,391	74,082
Deferred Registration Fees	220	170,924
Paycheck Protection Program First Draw Loan	-	123,700
Long-Term Debt	<u>42,463</u>	<u>62,383</u>
TOTAL LIABILITIES	<u>335,856</u>	<u>457,268</u>
NET ASSETS		
Without Donor Restrictions		
Undesignated	5,200,537	3,694,185
Designated by the Board for Endowment	95,000	75,000
With Donor Restrictions		
Time-Restricted for Future Periods	<u>390,939</u>	<u>409,863</u>
TOTAL NET ASSETS	<u>5,686,476</u>	<u>4,179,048</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,022,332</u>	<u>\$ 4,636,316</u>

See notes to financial statements.

FOUNDATION FOR FREE ENTERPRISE EDUCATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
WITH COMPARATIVE TOTALS FOR 2020

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2021	2020
PUBLIC SUPPORT				
Scholarship Income	\$ 685,225	\$ 164,179	\$ 849,404	\$ 254,673
Contributions	49,705	30,090	79,795	51,040
Contributed Services	1,326,885	-	1,326,885	14,850
Patron Fund Income	80,010	-	80,010	662,751
Net Assets Released from Restrictions	246,398	(246,398)	-	-
TOTAL PUBLIC SUPPORT	2,388,223	(52,129)	2,336,094	983,314
REVENUE				
Registration Fees - PFEW	379,596	-	379,596	-
Stock Market Game Fees	17,530	-	17,530	28,430
Net Interest and Dividend Income	83,897	6,845	90,742	109,260
Net Realized/Unrealized Gains	512,055	26,360	538,415	119,696
Other Income	1,575	-	1,575	3,606
Government Assistance Revenues	347,400	-	347,400	-
Employer Retention Tax Credit	202,152	-	202,152	-
TOTAL REVENUE	1,544,205	33,205	1,577,410	260,992
TOTAL PUBLIC SUPPORT AND REVENUE	3,932,428	(18,924)	3,913,504	1,244,306
EXPENSES				
Program Services	1,929,426	-	1,929,426	352,933
General and Administrative	301,776	-	301,776	351,611
Fundraising	174,874	-	174,874	193,111
TOTAL EXPENSES	2,406,076	-	2,406,076	897,655
CHANGE IN NET ASSETS	1,526,352	(18,924)	1,507,428	346,651
NET ASSETS, BEGINNING OF YEAR	3,769,185	409,863	4,179,048	3,832,397
NET ASSETS, END OF YEAR	\$ 5,295,537	\$ 390,939	\$ 5,686,476	\$ 4,179,048

See notes to financial statements.

FOUNDATION FOR FREE ENTERPRISE EDUCATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021
WITH COMPARATIVE TOTALS FOR 2020

	Program Services	General and Administrative	Fundraising	Totals	
				2021	2020
Student Room, Board and Related Expenses	\$ 191,807	\$ -	\$ -	\$ 191,807	\$ 14,945
Salaries and Benefits	364,885	178,585	141,337	684,807	662,029
Insurance	-	11,823	-	11,823	15,597
Travel and Conferences	16,140	9,206	-	25,346	12,773
Promotion	-	9,237	13,432	22,669	64,702
Contract Labor	2,924	6,781	6,393	16,098	15,599
Supplies and Office Expense	-	3,242	2,625	5,867	6,871
Telephone	-	2,999	-	2,999	3,622
Postage and Copying	4,760	3,256	9,862	17,878	19,208
Legal and Professional	-	12,231	-	12,231	13,100
Depreciation	-	22,071	-	22,071	18,777
Company Advisors and Speakers	20,429	-	-	20,429	1,047
Contributed Services	1,326,885	-	-	1,326,885	14,850
Computer Expense	1,596	12,340	-	13,936	12,229
Utilities	-	3,155	-	3,155	3,484
Miscellaneous	-	127	-	127	100
Uncollectible Pledges	-	16,400	-	16,400	6,929
Dues and Subscriptions	-	4,782	1,225	6,007	5,410
Supply Storage	-	3,000	-	3,000	3,000
Interest Expense	-	2,541	-	2,541	3,383
	<u>\$ 1,929,426</u>	<u>\$ 301,776</u>	<u>\$ 174,874</u>	<u>\$ 2,406,076</u>	<u>\$ 897,655</u>

See notes to financial statements.

FOUNDATION FOR FREE ENTERPRISE EDUCATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
WITH COMPARATIVE TOTALS FOR 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,507,428	\$ 346,651
Items not Requiring (Providing) Cash		
Gain from Forgiveness of PPP First Draw Loan	(123,700)	-
Depreciation	22,071	18,777
Net Realized and Unrealized Gains on Investments	(538,415)	(119,696)
Changes in		
Pledges Receivable	15,360	(4,261)
Employer Retention Tax Credit Receivable	(202,152)	-
Prepaid Expenses and Other	783	5,206
Accounts Payable	187,603	(381,269)
Accrued Payroll, Vacation and Taxes	5,309	9,816
Deferred Registration Fees	(170,704)	170,924
	<u>703,583</u>	<u>46,148</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(1,541,404)	(850,708)
Sales of Investments	1,142,940	754,378
Purchase of Property and Equipment	(14,052)	(27,618)
	<u>(412,516)</u>	<u>(123,948)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP First Draw Loan	-	123,700
Payments on Mortgage Loan Payable	(19,920)	(19,079)
	<u>(19,920)</u>	<u>104,621</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	271,147	26,821
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>869,872</u>	<u>843,051</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u>\$ 1,141,019</u>	<u>\$ 869,872</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash Paid for Interest	\$ 2,541	\$ 3,383

See notes to financial statements.

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

NOTE A 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.

Prior Year Comparative Information

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 2020 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, 2021 and 2020, cash equivalents consisted primarily of money market accounts with brokers.

At September 30, 2021, the Foundation's cash accounts exceeded federally insured limits by approximately \$717,000.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and 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.

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

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, 2021 and 2020. Substantially all of the pledge receivables are due from Pennsylvania organizations.

The Foundation has no accounts accruing interest charges as of September 30, 2021 and 2020. 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

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, 2021 and 2020.

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

Deferred Registration Fees

Deferred registration fees represent funds collected for PFEW 2020 but not earned as of September 30, 2020. As a result of the COVID-19 pandemic, PFEW 2020 was cancelled, and the Foundation provided 2020 registrants the opportunity to defer the 2020 registration fees to PFEW 2021. At September 30, 2020, the Foundation recognized \$170,924 of deferred registration fees for PFEW 2021. At September 30, 2021, the remaining balance was \$220.

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.

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:

<u>Nature of the Gift</u>	<u>Value Recognized</u>
<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

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

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.

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 \$1,326,885 and \$14,850 have been reflected in the 2021 and 2020 statements of activities, respectively, for donated services provided by company advisors and speakers. These donated services have been valued at an average of \$195 and \$150 per hour in 2021 and 2020, respectively, based on a study done by a third party 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, 2021 and 2020, \$13,465 and \$9,929, respectively, were received in in-kind contributions.

Revenue Recognition

The Foundation has two revenue streams that are accounted for as reciprocal exchange transactions including registration fees for their summer educational program, Pennsylvania Free Enterprise Week (PFEW), and registration fees for their interactive in-school program, The Stock Market Game™ (SMG).

Because the Foundation's performance obligations relate to contracts with a duration of less than one year, the Foundation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), *Revenue from Contracts with Customers*, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. There are no incremental costs of obtaining a contract and no significant financing components.

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

The Foundation elected to use the portfolio approach provided (606-10-10-4) to evaluate contracts. As a practical expedient, the portfolio approach may be applied to a portfolio of contracts (or performance obligations) with similar characteristics. The Foundation reasonably expects that the effects of applying this guidance to the portfolio would not differ materially from applying the guidance to the individual contracts (or performance obligations) within the portfolio.

The Foundation elected the practical expedient (606-10-32-18), which allows the Foundation to recognize the promised amount of consideration without adjusting for the time value of money for contracts that have a duration of one year or less.

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.

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.

Accounting Pronouncement Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers Topic (606)*. This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Foundation adopted this ASU on October 1, 2020.

FOUNDATION FOR FREE ENTERPRISE EDUCATION
NOTES TO FINANCIAL STATEMENTS

NOTE B PLEDGE RECEIVABLES

Pledge receivables consisted of the following:

	September 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Due Within One Year	\$ 39,876	\$ 15,875	\$ 55,751
Due in One to Five Years	-	-	-
	<u>39,876</u>	<u>15,875</u>	<u>55,751</u>
Less			
Allowance for Uncollectible Contributions	(1,000)	-	(1,000)
	<u>\$ 38,876</u>	<u>\$ 15,875</u>	<u>\$ 54,751</u>
	September 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Due Within One Year	\$ 6,085	\$ 2,000	\$ 8,085
Due in One to Five Years	-	63,026	63,026
	<u>6,085</u>	<u>65,026</u>	<u>71,111</u>
Less			
Allowance for Uncollectible Contributions	(1,000)	-	(1,000)
	<u>\$ 5,085</u>	<u>\$ 65,026</u>	<u>\$ 70,111</u>

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

NOTE C EMPLOYEE RETENTION TAX CREDIT RECEIVABLE

As part of the Coronavirus, Aid, Relief and Economic Securities Act (CARES Act) and the Consolidated Appropriations Act (CAA), the Foundation qualified for eligibility for the Employee Retention Tax Credit (ERTC). The ERTC provides organizations the opportunity to receive refunds and credits for quarterly payroll taxes if they met certain gross receipts or government shutdown order tests. The Foundation met the guidelines for eligibility for these credits for the second and third quarters of calendar year 2020 and the first, second and third quarters of calendar year 2021.

The Foundation recognized \$202,152 of ERTC during the year ended September 30, 2021. These credits are recognized as Employee Retention Tax Credit Receivable on the statements of financial position and as Employee Retention Tax Credit on the statements of activities.

NOTE D PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2021 and 2020 consists of:

	<u>2021</u>	<u>2020</u>
Land	\$ 143,318	\$ 143,318
Building	146,315	145,048
Equipment	118,528	109,743
Land and Building Improvements	<u>132,304</u>	<u>132,304</u>
	540,465	530,413
Less Accumulated Depreciation	<u>203,637</u>	<u>185,566</u>
	<u><u>\$ 336,828</u></u>	<u><u>\$ 344,847</u></u>

NOTE E NOTE PAYABLE TO BANK

The Foundation has a \$100,000 revolving bank line of credit with no expiration date. At September 30, 2021 and 2020, 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 3.25% and 4.25% on September 30, 2021 and 2020, respectively, and is payable monthly.

NOTE F LONG-TERM DEBT

Long-term debt at September 30, 2021 and 2020 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, 2021 and 2020 was \$42,463 and \$62,383, respectively. Payments are approximately \$1,800 per month.

FOUNDATION FOR FREE ENTERPRISE EDUCATION
NOTES TO FINANCIAL STATEMENTS

Required minimum principal maturities of debt based on the borrowings outstanding as of September 30, 2021, are as follows:

2022	\$	20,572
2023		<u>21,891</u>
	\$	<u><u>42,463</u></u>

Paycheck Protection Program Loan (First Draw)

In April 2020, the Foundation received loan proceeds in the amount of \$123,7000 under the Paycheck Protection Program (“PPP”). The PPP provided opportunity for full forgiveness should the Foundation utilize the proceeds for eligible purposes. At September 30, 2020, the Foundation has utilized the proceeds within the confines of the PPP, however, had not submitted nor been approved for forgiveness. As a result, the Foundation recognized the loan proceeds as a liability on the statements of financial position for the year ended September 30, 2020. See Note L for additional information.

FOUNDATION FOR FREE ENTERPRISE EDUCATION
NOTES TO FINANCIAL STATEMENTS

NOTE G NET ASSETS

Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Contributions for Subsequent Programs	\$ 228,203	\$ 292,055
Scholarship Funds		
Henry P. Glendinning Memorial Scholarship Fund	9,434	8,340
B. Craig Tierney Memorial Scholarship Fund	11,302	9,936
Jensen-Landis Memorial Scholarship Fund	15,665	13,943
Frank J. Trombetta Memorial Scholarship Fund	7,578	6,021
John C. Daniels Memorial Scholarship Fund	4,931	4,213
Sumner E. Kibbe Memorial Scholarship Fund	2,878	2,459
Edward J. Meell Scholarship Fund	6,404	5,472
Harvey and Winifred Bradley Scholarship Fund	14,066	12,298
The Lawrence B. Sheppard Scholarship Fund	5,445	4,653
Murphy and D'Avino Scholarship Fund	32,131	27,455
John M. Jensen Memorial Fund	5,977	-
Silvio M. DiPietro Memorial Fund	6,922	-
John J. Trombetta Scholarship Fund (excluding \$10,000 of board designated funds)	2,732	731
Frederick W. Anton III Scholarship Fund (excluding \$25,000 of board designated funds)	9,448	5,549
Lewis W. Hull Memorial Scholarship Fund (excluding \$10,000 of board designated funds)	5,917	4,158
Raymond G. Weber Memorial Scholarship Fund (excluding \$20,000 of board designated funds)	9,887	6,095
Terry Cieri Memorial Scholarship Fund (excluding \$10,000 of board designated funds)	8,641	6,485
James M. Golding Memorial Fund (excluding \$20,000 of board designated funds)	3,378	-
	<u>\$ 390,939</u>	<u>\$ 409,863</u>

FOUNDATION FOR FREE ENTERPRISE EDUCATION
NOTES TO FINANCIAL STATEMENTS

Net Assets Without Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 5,200,537	\$ 3,694,185
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	10,000	10,000
James M. Golding Memorial Fund	20,000	-
	<u>95,000</u>	<u>75,000</u>
	<u>\$ 5,295,537</u>	<u>\$ 3,769,185</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>2021</u>	<u>2020</u>
Expiration of Time Restrictions	\$ 241,398	\$ 90,501
Scholarships Awarded from Scholarship Funds	5,000	-
	<u>\$ 246,398</u>	<u>\$ 90,501</u>

NOTE H ENDOWMENT

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (board-designated endowment funds). 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

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, 2021 and 2020 was:

	2021			
	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary	Permanent	
Donor-Restricted Endowment Funds	\$ -	\$ 162,736	\$ -	\$ 162,736
Board-Designated Endowment Funds	95,000	-	-	95,000
Total Endowment Funds	<u>\$ 95,000</u>	<u>\$ 162,736</u>	<u>\$ -</u>	<u>\$ 257,736</u>
	2020			
	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary	Permanent	
Donor-Restricted Endowment Funds	\$ -	\$ 117,808	\$ -	\$ 117,808
Board-Designated Endowment Funds	75,000	-	-	75,000
Total Endowment Funds	<u>\$ 75,000</u>	<u>\$ 117,808</u>	<u>\$ -</u>	<u>\$ 192,808</u>

FOUNDATION FOR FREE ENTERPRISE EDUCATION
NOTES TO FINANCIAL STATEMENTS

Changes in endowment net assets for the years ended September 30, 2021 and 2020, were as follows:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 75,000	\$ 117,808	\$ 192,808
Investment Return			
Investment Income	-	6,845	6,845
Net Appreciation	-	27,467	27,467
Total Investment Return	-	34,312	34,312
Contributions / Additions	20,000	16,723	36,723
Transfers	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(5,000)	(5,000)
Investment Fees	-	(1,107)	(1,107)
Endowment Net Assets, End of Year	<u>\$ 95,000</u>	<u>\$ 162,736</u>	<u>\$ 257,736</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 75,000	\$ 103,435	\$ 178,435
Investment Return			
Investment Income	-	7,556	7,556
Net Appreciation	-	8,173	8,173
Total Investment Return	-	15,729	15,729
Contributions / Additions	-	-	-
Transfers	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-
Investment Fees	-	(1,356)	(1,356)
Endowment Net Assets, End of Year	<u>\$ 75,000</u>	<u>\$ 117,808</u>	<u>\$ 192,808</u>

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

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 I 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, 2021 and 2020, comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 1,141,019	\$ 869,872
Short-Term Pledges Receivable	39,876	6,085
Investments (Less Quasi-Endowment Investments)	4,010,490	3,138,539
Estimated Payout on Quasi-Endowments for Use Over Next 12 Months	<u>7,175</u>	<u>8,125</u>
	<u>\$ 5,198,560</u>	<u>\$ 4,022,621</u>

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.

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

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 J RETIREMENT PLAN

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, 2021 and 2020 was \$26,065 and \$26,655, 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, 2021 and 2020, the Foundation's matching contributions were \$20,820 and \$21,321, respectively.

NOTE K 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

FOUNDATION FOR FREE ENTERPRISE EDUCATION
NOTES TO FINANCIAL STATEMENTS

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, 2021 and 2020:

	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, 2021				
Corporate Bonds and Notes	\$ 300,367	\$ -	\$ 300,367	\$ -
Preferred Stocks	108,220	108,220	-	-
Mortgage Backed Securities	-	-	-	-
Mutual Funds				
Fixed Income	998,179	998,179	-	-
Equities	2,861,460	2,861,460	-	-
Total Assets at Fair Value	<u>\$ 4,268,226</u>	<u>\$ 3,967,859</u>	<u>\$ 300,367</u>	<u>\$ -</u>

	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, 2020				
Corporate Bonds and Notes	\$ 307,274	\$ -	\$ 307,274	\$ -
Preferred Stocks	108,650	108,650	-	-
Mortgage Backed Securities	41,535	-	41,535	-
Mutual Funds				
Fixed Income	593,446	593,446	-	-
Equities	2,280,442	2,280,442	-	-
Total Assets at Fair Value	<u>\$ 3,331,347</u>	<u>\$ 2,982,538</u>	<u>\$ 348,809</u>	<u>\$ -</u>

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

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, 2021.

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 L GOVERNMENT ASSISTANCE REVENUES

Paycheck Protection Program Loans

On April 28, 2020, the Foundation received loan proceeds in the amount of \$123,700 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying organizations for amounts up to 2.5 times of certain 2019 average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable if the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its personnel count levels. The amount of the loan forgiveness was contingent on the Foundation maintaining their number of full-time equivalent employees and not reducing employees' salaries during their elected (8-week or 24-week) covered period.

In February 2021, the Foundation applied for and received full forgiveness of this PPP loan. The monies received by the Foundation were recognized as income in the year ended September 30, 2021 and are reported on the statements of activities within government assistance revenues.

In December 2020, the Consolidated Appropriations Act (CAA) (part of the Economic Aid Act) was signed into law. This Act reinstated the Paycheck Protection Program by allowing second draw loans to businesses and organizations who received first draw loans. In February 2021, the Foundation received a second draw PPP loan in the amount of \$123,700. In September 2021, the Foundation applied for and received full forgiveness of this PPP loan and has recognized the full amount in revenue and is reported on the statements of activities within government assistance revenues for the year ended September 30, 2021.

Erie County CARES Nonprofit Assistance Grant

On October 6, 2020, the Foundation received grant proceeds in the amount of \$100,000 under the Erie County CARES Nonprofit Assistance Grant. The CARES Grant, established as part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), provides funds used for eligible expenditures incurred, on a cash basis, during the period that begins on March 1, 2020 and ends on December 30, 2020. The expenditures allowed include expenditures incurred due to COVID-19 public health

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

emergency, such as, but not limited to, the purchase of Personal Protective Equipment (PPE), development of digital resources and processes, modification of a physical space to allow for physical distancing and public safety, considered general operating expenses, such as, but not limited to, mortgage, rent, utilities, salaries (that are not covered by PA unemployment or other sources), and related to existing or new programs and services that directly address challenges created or exacerbated by the COVID-19 public health emergency and/or need to be adapted to satisfy current CDC and Pennsylvania Department of Health guidelines related to COVID-19.

The Foundation met the conditions and expended the monies within the guidelines of the agreements, and these revenues are reported on the statements of activities within government assistance revenues for the year ended September 30, 2021.

NOTE M UNCERTAINTY

Current Economic Conditions

The Foundation continues to face uncertainty due to the impact of the COVID-19 pandemic on the current economic environment. This has presented a number of challenges and circumstances worldwide. Given the volatility of these economic conditions, management is evaluating the impact to the Foundation and their financial statements and believes the impact and duration cannot be reasonably estimated at this time.

NOTE N SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 1, 2021, which is the date the financial statements were available to be issued.

NOTE O FUTURE CHANGES IN ACCOUNTING PRINCIPLES

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, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Foundation is evaluating the impact the standard will have on the financial statements.

FOUNDATION FOR FREE ENTERPRISE EDUCATION

NOTES TO FINANCIAL STATEMENTS

Accounting for Contributed Nonfinancial Assets

The Financial Accounting Standards Board amended its standards related to the presentation and disclosures for not-for-profit entities for contributed nonfinancial assets. This amendment requires that contributed nonfinancial assets be presented as a separate line item in the statement of activities. The amendment also requires disclosure of the disaggregation of contributed nonfinancial assets by category, certain qualitative information about the utilization or monetization of the assets, a description of any donor-imposed restrictions on contributed nonfinancial assets, and a description of the valuation techniques used to arrive at a fair value measure in accordance with Topic 820, *Fair Value Measurement*. The amendments should be applied on a retrospective basis for annual periods beginning after June 15, 2021, and interim periods with annual periods beginning after June 15, 2022. The Foundation is in the process of evaluating the impact the standard will have on the financial statements.