

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the Foundation for Teaching Economics
Davis, California

We have audited the accompanying statements of financial position of the Foundation for Teaching Economics (the "Foundation") as of December 31, 2007 and 2006, and the related statements of activities and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

February 29, 2008
Sacramento, CA

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2007 AND 2006

ASSETS	2007	2006
CASH AND CASH EQUIVALENTS	\$ 464,488	\$ 1,095,417
CONTRIBUTIONS RECEIVABLE	115,429	77,494
INVESTMENTS:		
Readily marketable—at fair value	11,566,311	12,298,565
Not readily marketable—at cost	269,672	269,672
Total investments	11,835,983	12,568,237
PREPAIDS AND OTHER ASSETS	107,915	336,330
FURNITURE AND EQUIPMENT—Net	77,979	55,420
TOTAL	\$ 12,601,794	\$ 14,132,898
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 238,336	\$ 200,153
Capital lease obligations	48,038	29,305
Total Liabilities	286,374	229,458
NET ASSETS:		
Unrestricted:		
Operating	(326,065)	303,614
Board-designated endowment	11,838,090	12,776,826
Total unrestricted net assets	11,512,025	13,080,440
Temporarily restricted	803,395	823,000
Total net assets	12,315,420	13,903,440
TOTAL	\$ 12,601,794	\$ 14,132,898

See notes to financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

	2007				2006	
	Unrestricted		Board-Designated Endowment	Temporarily Restricted	Total	Total
	Operating			Total	Total	
REVENUES AND SUPPORT:						
Contributions and promises to give	\$ 957,242	\$ -	\$ 1,503,815	\$ 2,461,057	\$ 2,988,971	
Program income	74,765			74,765	57,295	
Dividend income	909,212			909,212	731,473	
Interest and other income	10,000			10,000	14,596	
Net unrealized and realized gain (loss) on investments		(628,033)		(628,033)	775,794	
Net assets released from restriction	1,523,420		(1,523,420)	-	-	
Total revenues and support	3,474,639	(628,033)	(19,605)	2,827,001	4,568,129	
EXPENSES:						
Educational programs	3,760,601			3,760,601	3,581,004	
Management and general	274,337			274,337	287,572	
Public affairs and development	380,083			380,083	348,633	
Total expenses	4,415,021	-	-	4,415,021	4,217,209	
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(940,382)	(628,033)	(19,605)	(1,588,020)	350,920	
TRANSFERS	310,703	(310,703)	-	-	-	
NET ASSETS—Beginning of year	303,614	12,776,826	823,000	13,903,440	13,552,520	
NET ASSETS—End of year	\$ (326,065)	\$ 11,838,090	\$ 803,395	\$ 12,315,420	\$ 13,903,440	

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets from operating activities	\$ (1,588,020)	\$ 350,920
Adjustments to reconcile to net assets to net cash used in operating activities:		
Depreciation	24,712	25,166
Gain on sale of property	(1,752)	
Net unrealized and realized (loss) gain on investments	628,033	(775,794)
Changes in assets and liabilities:		
Contributions receivables	(37,935)	473,961
Prepays and other assets	228,415	(255,396)
Accounts payable and accrued liabilities	28,932	39,674
Net cash used in operating activities	(717,615)	141,469
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(6,162)	(10,474)
Proceeds from the sale of equipment	3,893	
Purchase of investments	(4,118,478)	(3,506,441)
Proceeds from sale of investments	4,222,699	4,014,613
Net cash provided by investing activities	101,952	497,698
CASH FLOWS FROM FINANCING ACTIVITIES—Payments on capital lease		
	(15,266)	(12,625)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(630,929)	343,604
CASH AND CASH EQUIVALENTS—Beginning of year	1,095,417	751,813
CASH AND CASH EQUIVALENTS—End of year	\$ 464,488	\$ 1,095,417
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for:		
Interest	\$ 3,203	\$ 2,817
Income tax	\$ -	\$ -
NONCASH TRANSACTION—Acquisition of assets under capital lease		
	\$ 43,250	\$ -

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Organization – The Foundation for Teaching Economics (the “FTE”) is a not-for-profit entity organized for the purpose of introducing young individuals, selected for their leadership potential, to an economic way of thinking about national and international issues and to promote excellence in economic education by helping teachers of economics become more effective educators.

Basis of Presentation – The accompanying financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred. The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. As of December 31, 2007 and 2006, the Foundation had no permanently restricted net assets.

Temporarily restricted and unrestricted operating net assets represent expendable net assets that are available for support of the FTE operations. Temporarily restricted net assets represent contributions and promises to give that are designated for future periods or restricted by the donor for specific purposes. Temporarily restricted net assets were released from restriction in 2007 and 2006, primarily through the expenditure of funds for purposes which fulfilled donor-imposed restrictions. Promises to give are recorded as contributions revenue and contributions receivable in the period in which the promise is received.

Board-designated endowment net assets represent unrestricted assets that are subject to self-imposed or Executive Committee-designated restrictions of gift instruments. During 1986, the primary donor of endowment assets placed the authority for determining future use of the endowment assets with the Executive Committee of the FTE.

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 and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents – Cash and cash equivalents include all investments with maturities at the time of purchase of three months or less.

Furniture and Equipment – Furniture and computer equipment are stated at cost. Depreciation on furniture and equipment is computed using the straight-line method over estimated useful lives of five years.

Contributions Receivable – Contributions receivable consist of unconditional promises to give. All contributions receivable recorded at December 31, 2007 and 2006, were expected to be collected within one year. Conditional promises to give are not included as support until the conditions are substantially met. Conditional promises to give, adjusted for discounts, were \$712,952 at year-end.

Investments – All debt and equity securities with readily determinable fair values are carried at estimated fair value, using quoted market prices. Other investments, such as an equity investment in a closely-held private company, are stated at cost. Investments received through gifts are recorded at estimated fair value at the date of donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur.

Investments consist of common stock, equity investments, and mutual funds. There is no public market for the common stock. The issuing company of the common stock has redeemed such securities from time to time based on its net book value at redemption, but this entity is not obligated to redeem the securities held by the FTE. The contributed stock was recorded at its fair market value as of the contribution date, and the carrying value has been adjusted subsequently for stock redeemed. Dividends received from this investment are recorded as investment income. A member of the Executive Committee of the FTE is a director of this company in which the FTE has a material investment.

Income Tax Status – The FTE is a not-for-profit corporation, exempt from federal and state income taxes under Internal Revenue Service Code Section 501(c)(3). The FTE is, however, subject to unrelated business income taxes on any income generated from operations not related to its exempt purpose, primarily income generated by the FTE's share of earnings on its investment in limited partnership units. The FTE did not incur any income tax expense for the years ended December 31, 2007 and 2006.

2. INVESTMENTS

During 2006, the FTE redeemed 1,399,492 shares of Class C common stock of Basic American, Inc., realizing a gain of \$227,096.

Investments at December 31, 2007 consisted of the following:

	Carrying Value	Estimated Market Value
Readily marketable:		
Mutual funds	\$ 11,549,988	\$ 11,549,988
Equity investments	16,323	16,323
Not readily marketable (unaudited):		
Common stock	269,672	6,085,448
	<u>\$ 11,835,983</u>	<u>\$ 17,651,759</u>

Investments at December 31, 2006 consisted of the following:

	Carrying Value	Estimated Market Value
Readily marketable:		
Mutual funds	\$ 10,130,117	\$ 10,130,117
Equity investments	2,168,448	2,168,448
Not readily marketable (unaudited):		
Common stock	269,672	5,529,250
	<u>\$ 12,568,237</u>	<u>\$ 17,827,815</u>

Net unrealized and realized (loss) gain on investments included in the accompanying statement of activities and changes in net assets for the years ended December 31, 2007 and 2006, consist of the following:

	2007	2006
Net unrealized (loss) gain	\$ (734,095)	\$ 482,144
Net realized gain	106,062	293,650
	<u>\$ (628,033)</u>	<u>\$ 775,794</u>

3. FURNITURE AND EQUIPMENT

Furniture and equipment at December 31, 2007 and 2006, consist of the following:

	2007	2006
Furniture and fixtures	\$ 161,560	\$ 156,221
Computer equipment	121,264	107,408
	<u>282,824</u>	<u>263,629</u>
Less accumulated depreciation	(204,845)	(208,209)
Net property and equipment	<u>\$ 77,979</u>	<u>\$ 55,420</u>

4. LEASES

The FTE is obligated under capital and non-cancelable operating leases for office equipment and an office facility. Total rent expense for operating leases was \$74,081 and \$72,287 for the years ended December 31, 2007 and 2006, respectively. Future minimum payments on capital and operating leases as of December 31, 2007, are as follows:

	Operating Leases	Capital Leases
Years ending December 31:		
2008	\$ 73,149	\$ 15,947
2009	65,310	15,947
2010		12,107
2011		8,120
2012		2,712
Minimum lease payments	<u>\$ 138,459</u>	<u>54,833</u>
Less amount representing interest		(6,795)
Capital lease obligation		<u>\$ 48,038</u>

Furniture and fixtures under capital lease arrangements had a net book value of \$66,700 as of December 31, 2007, net of accumulated depreciation of \$20,821.