FOUNDATION FOR TEACHING ECONOMICS

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2008 AND 2007

Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Foundation for Teaching Economics
Davis, California

We have audited the accompanying statement of financial position of the Foundation for Teaching Economics (the Foundation) as of December 31, 2008, and the related statements of activities and of cash flows for the year 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 audit. The financial statements of the Foundation as of December 31, 2007, were audited by other auditors whose report dated February 29, 2008, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

April 14, 2009

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FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
Cash and equivalents	$ 1,038,835	$ 464,488
Investments - readily marketable	6,210,750	11,566,311
Investments - not readily marketable	269,672	269,672
Accounts receivable	18,767	2,656
Contributions receivable	830,193	846,095
Prepaid expenses and deposits	59,590	105,259
Furniture and equipment, net	63,031	77,979
TOTAL ASSETS	$ 8,490,838	$ 13,332,460
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 286,670	$ 238,336
Capital lease obligations	35,152	48,038
Total liabilities	321,822	286,374
NET ASSETS:		
Unrestricted	6,966,879	11,512,025
Temporarily restricted	1,202,137	1,534,061
Total net assets	8,169,016	13,046,086
TOTAL LIABILITIES AND NET ASSETS	$ 8,490,838	$ 13,332,460

The accompanying notes are an integral part of these financial statements.

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Contributions and promises to give	$ 1,070,147	$ 957,242
Program income	106,825	74,765
Dividend and interest income	559,651	919,212
Net unrealized and realized loss on investments	(3,339,180)	(628,033)
Subtotal	(1,602,557)	1,323,186
Net assets released from restrictions	1,391,351	1,523,420
Total revenues and support	(211,206)	2,846,606
EXPENSES:		
Educational programs	3,682,941	3,760,601
Management and general	277,267	274,337
Public affairs and development	373,732	380,083
Total expenses	4,333,940	4,415,021
DECREASE IN UNRESTRICTED NET ASSETS	(4,545,146)	(1,568,415)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and promises to give	1,059,427	2,234,481
Net assets released from restrictions	(1,391,351)	(1,523,420)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(331,924)	711,061
DECREASE IN NET ASSETS	(4,877,070)	(857,354)
NET ASSETS - Beginning of Year	13,046,086	13,903,440
NET ASSETS - End of Year	$ 8,169,016	$ 13,046,086

FOUNDATION FOR TEACHING ECONOMICS

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	$ (4,877,070)	$ (857,354)
Reconciliation to net cash used in operating activities:		
Depreciation	25,835	24,712
Gain on sale of property		(1,752)
Net unrealized and realized loss on investments	3,339,180	628,033
Changes in assets and liabilities:		
Accounts receivable	(16,111)	207,942
Contributions receivable	15,902	(768,601)
Prepaid expenses and deposits	45,669	20,477
Accounts payable and accrued expenses	48,334	28,932
Net cash used in operating activities	(1,418,261)	(717,611)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(10,887)	(6,162)
Proceeds from the sale of equipment		3,893
Purchase of investments	(1,528,522)	(4,118,478)
Proceeds from sale of investments	3,544,903	4,222,699
Net cash provided by investing activities	2,005,494	101,952
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease	(12,886)	(15,266)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	574,347	(630,925)
CASH AND EQUIVALENTS, Beginning of Year	464,488	1,095,413
CASH AND EQUIVALENTS, End of Year	$ 1,038,835	$ 464,488
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - Cash paid for interest	$ 3,060	$ 3,203
NONCASH FINANCING TRANSACTION - Acquisition of assets under capital lease	$	$ 43,250

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Foundation for Teaching Economics (The Foundation) 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 financial statements are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. In accordance with SFAS No. 117, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of December 31, 2008 and 2007, the Foundation had no permanently restricted net assets.

Revenue recognition – Contributions, including private foundation grants, are recognized in full when received or unconditionally promised, in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made.*

Restricted grants from private sources and donor-restricted contributions are reported as an increase in temporarily restricted net assets. When restrictions expire, as funds are expended for the specified purpose or through the passage of time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 Foundation.

Cash and equivalents – For financial statement purposes, the Foundation considers all investments with maturity at purchase of three months or less to be cash equivalents.

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 Foundation. 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 Foundation is a director of this company in which the Foundation has a material investment.

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

Contributions receivable – Contributions receivable consist of unconditional promises to give, primarily from private foundation grants. Contributions receivable totaling $410,333 as of December 31, 2008 are expected to be collected within one year. The balance of the contributions receivable is expected within 2-5 years. No discount was applied to long-term contributions receivable as it was considered immaterial.

Income taxes – The Foundation is publicly supported and exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Foundation is, however, subject to unrelated business income taxes on any income generated from operations not related to its exempt purpose. The Foundation did not incur any income tax expense for the years ended December 31, 2008 and 2007.

Functional allocation of expenses – The costs of providing the program services have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and on resource usage.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recent accounting pronouncements – In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The adoption of SFAS 157 for financial assets and liabilities on January 1, 2008 did not have a material impact on the Foundation's statements of financial position or the related statements of activities and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of SFAS 159 for financial assets and liabilities on January 1, 2008 did not have a material impact on the Foundation's statements of financial position or the related statements of activities and cash flows.

Fair value measurements – Assets and liabilities measured at fair value are recorded in accordance with SFAS 157, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs in which there is little or no market data, which require management to develop its own assumptions.

2. INVESTMENTS

Investments consist of the following:

	2008		2007	
	Carrying Value	Estimated Market Value	Carrying Value	Estimated Market Value
Readily marketable:				
Mutual funds	$ 6,197,217	$ 6,197,217	$ 11,549,988	$ 11,549,988
Equity investments	13,533	13,533	16,323	16,323
Not readily marketable - Common stock	269,672	5,036,580	269,672	6,085,448
Total	$ 6,480,422	$ 11,247,330	$ 11,835,983	$ 17,651,759

The Foundation's investments that are recorded at fair market value (which excludes the common stock that is not readily marketable) are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Interest and investment income consists of the following:

	2008	2007
Net unrealized loss	$ (2,832,971)	$ (734,095)
Net realized gain (loss)	(506,209)	106,062
Total	$ (3,339,180)	$ (628,033)

3. NET ASSETS

Temporarily restricted net assets consist of unexpended grants restricted by grantors as follows:

	2008	2007
Economics for Leaders	$ 847,667	$ 1,077,999
Environment and the Economy	265,000	315,000
"Is capitalism good for the poor?" programs	46,000	64,000
Economic Forces in American History	25,000	47,000
Economics of Disasters	18,470	2,648
Property Rights		21,690
European programs		5,724
Total	$ 1,202,137	$ 1,534,061

The Foundation's Board has designated a portion of its net assets as an endowment. The endowment's purpose is to supplement spending in years where fundraising and investment income is less than budgeted expenses for operations and programs. The Foundation's endowment spending policy is primarily demand driven. The Chairman and the Board may authorize the use of funds from the endowment to meet demands from teachers for the Foundation's educational programs.

The Foundation's primary investment objective is to obtain adequate returns to ensure inflationary-adjusted $2.5 million payouts. Inflation is based upon the Consumer Price Index. Additionally, the total portfolio and underlying asset classes are to be measured against relevant market benchmarks over intermediate time horizons (3 years).

Changes in Board-designated endowment net assets are as follows:

	2008	2007
Endowment net assets, beginning of year	$ 11,838,090	$ 12,776,826
Net depreciation (realized and unrealized)	(3,339,180)	(628,033)
Amounts appropriated for expenditure	(2,000,156)	(310,703)
Endowment net assets, end of year	$ 6,498,754	$ 11,838,090

4. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	2008	2007
Furniture and equipment	$ 88,888	$ 161,560
Computer equipment	146,355	121,264
Less accumulated depreciation	(172,212)	(204,845)
Furniture and equipment, net	$ 63,031	$ 77,979

5. LEASE OBLIGATIONS

The Foundation is obligated under capital and non-cancelable operating lease agreements for office equipment and its office facility. Total rent expense for operating leases was $73,149 and $74,081 for the years ended December 31, 2008 and 2007, respectively. Future minimum payments under such lease agreements are as follows:

Years Ending December 31,	Operating Lease	Capital Leases
2009	$ 65,310	$ 15,947
2010		12,107
2011		8,120
2012		2,707
Minimum lease payments	$ 65,310	38,882
Less amount representing interest		(3,730)
Capital lease obligation		$ 35,152

Equipment under capital lease arrangements had a net book value of $66,700 as of December 31, 2008, net of accumulated depreciation of $34,161 and $20,821 at December 31, 2008 and 2007, respectively.

6. PRIOR PERIOD ADJUSTMENT

Net assets at December 31, 2007 were restated to recognize private foundation grants previously treated as conditional. The grants should have been recorded at the date they were awarded. This change resulted in an increase in temporarily restricted net assets at December 31, 2007 of $730,666 and a corresponding increase in temporarily restricted contributions and related receivables.