

The Fund for American Studies and Affiliate

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

Twenty (20) Months Ended August 31, 2022

The Fund for American Studies and Affiliate

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Independent Auditor's Report

To the Board of Trustees
The Fund for American Studies
Washington, D.C.

Opinion

We have audited the accompanying consolidated financial statements of The Fund for American Studies and Affiliate (the "Fund"), which comprise the consolidated statement of financial position as of August 31, 2022, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the twenty (20) months then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Fund for American Studies and Affiliate as of August 31, 2022, and the changes in their net assets and their cash flows for the twenty (20) months then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Fund for American Studies and Affiliate and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Fund's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Bethesda, Maryland
March 1, 2023

The Fund for American Studies and Affiliate
Consolidated Statement of Financial Position
August 31, 2022

Assets

Cash and cash equivalents	\$	341,430
Restricted cash		28,000
Accounts receivable		302,907
Pledges receivable, net		1,399,997
Prepaid expenses		175,293
Property and equipment, net		4,802,110
Investments		15,198,374
Deposits		250,000
Other assets		1,320,031
Remainder interests		251,389
Cash surrender value - life insurance		31,749
		\$ 24,101,280
		\$ 24,101,280

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$	998,210
Deferred revenue		4,500
Line of credit		4,800,000
Capital lease obligations		50,604
Annuities payable		1,154,636
		7,007,950
Total liabilities		
		7,007,950
Net assets		
Without donor restrictions		7,583,772
With donor restrictions		9,509,558
		17,093,330
Total net assets		
		17,093,330
		\$ 24,101,280
		\$ 24,101,280

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate

**Consolidated Statement of Activities and Change in Net Assets
Twenty (20) Months Ended August 31, 2022**

	2022		Total
	Without donor restrictions	With donor restrictions	
Revenue and support			
Tuition, registration, housing and other fees, net of scholarships of \$3,400,050	\$ 4,918,841	\$ -	\$ 4,918,841
Contributions	4,269,227	6,591,500	10,860,727
Conference income	79,765	-	79,765
Other income	25,105	-	25,105
Net assets released from restrictions	8,177,310	(8,177,310)	-
Total revenue and support	17,470,248	(1,585,810)	15,884,438
Expenses			
Program services			
Graduate and professional programs	2,276,443	-	2,276,443
Undergraduate programs	7,802,220	-	7,802,220
High school programs	4,090,183	-	4,090,183
Other programs	540,198	-	540,198
Total program services	14,709,044	-	14,709,044
Supporting services			
General and administrative	1,540,397	-	1,540,397
Fundraising	3,796,756	-	3,796,756
Total supporting services	5,337,153	-	5,337,153
Total expenses	20,046,197	-	20,046,197
Change in net assets before investment loss	(2,575,949)	(1,585,810)	(4,161,759)
Investment loss	(613,385)	(297,778)	(911,163)
Change in net assets	(3,189,334)	(1,883,588)	(5,072,922)
Net assets, beginning of period	10,773,106	11,393,146	22,166,252
Net assets, end of period	<u>\$ 7,583,772</u>	<u>\$ 9,509,558</u>	<u>\$ 17,093,330</u>

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate
Consolidated Statement of Functional Expenses
Twenty (20) Months Ended August 31, 2022

	Program services				Supporting services			Total
	Graduate and professional programs	Undergraduate programs	High school programs	Other programs	Program services	General and administrative	Fundraising	
Salaries, payroll taxes and benefits	\$ 1,046,102	\$ 2,456,452	\$ 1,071,622	\$ 119,517	\$ 4,693,693	\$ 1,036,225	\$ 1,979,441	\$ 7,709,359
Faculty salaries and guest lecturers	37,998	297,041	617,159	-	952,198	-	-	952,198
Events	26,904	330,136	4,380	1,469	362,889	11,889	1,812	376,590
Student housing and campus costs	185,420	1,997,116	1,317,542	6	3,500,084	8	8	3,500,100
Student recruitment	3,500	56,568	188,461	-	248,529	57,645	-	306,174
Bank and credit card fees	13,425	88,651	13,503	5,951	121,530	28,477	6,752	156,759
University overhead	60,677	851,911	-	-	912,588	-	-	912,588
Depreciation and amortization	46,564	303,077	46,211	20,047	415,899	63,939	23,105	502,943
Professional fees	40,681	268,364	53,879	17,985	380,909	92,959	192,940	666,808
Meetings and conferences	286,429	29,140	4,216	303,416	623,201	2,934	2,108	628,243
Travel	22,555	144,784	277,606	10,092	455,037	14,813	132,879	602,729
Student meals	2,362	21,899	-	-	24,261	-	-	24,261
Books, curriculum and program materials	5	188	239,817	2	240,012	3	2	240,017
Facility costs	22,838	147,264	95,590	9,637	275,329	35,901	11,234	322,464
Interest expense	19,093	123,666	18,861	8,128	169,748	26,307	9,430	205,485
Printing and publications	7,748	46,730	9,445	2,973	66,896	8,988	81,553	157,437
Telephone	3,670	23,968	3,639	1,576	32,853	5,823	1,837	40,513
Equipment and software	60,788	392,742	66,354	25,478	545,362	107,529	94,807	747,698
Postage	623	3,746	8,362	234	12,965	437	13,491	26,893
Internet access and web pages	6,638	43,283	6,665	2,863	59,449	8,969	3,295	71,713
Photography	1,587	9,884	1,432	587	13,490	8,217	716	22,423
Supplies	2,944	16,272	1,940	733	21,889	1,762	2,270	25,921
Alumni programs events	8,545	-	-	-	8,545	-	-	8,545
Marketing and sponsorships	22,347	144,355	29,468	9,318	205,488	29,713	793,104	1,028,305
Shipping and delivery	977	4,980	14,005	186	20,148	260	1,325	21,733
Novak Fellowship grants	305,000	-	-	-	305,000	-	-	305,000
Novak Fellowship grant expense accounts	40,903	-	-	-	40,903	-	-	40,903
Direct mail campaign	-	-	-	-	-	-	432,096	432,096
Other	120	3	26	-	149	(2,401)	12,551	10,299
Total expenses	\$ 2,276,443	\$ 7,802,220	\$ 4,090,183	\$ 540,198	\$ 14,709,044	\$ 1,540,397	\$ 3,796,756	\$ 20,046,197

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate

Consolidated Statement of Cash Flows Twenty (20) Months Ended August 31, 2022

Cash flows from operating activities	
Change in net assets	\$ (5,072,922)
Adjustments to reconcile change in net assets to net cash (used in) operating activities	
Depreciation and amortization	502,943
Net realized and unrealized loss on investments	1,796,263
Change in discount on pledges receivable	(15,286)
Annuities payable	(2,647)
Remainder interests	(213,218)
Increase in cash surrender value of life insurance	(2,144)
Changes in	
Accounts receivable	(250,795)
Pledges receivable, net	1,157,178
Prepaid expenses	(10,332)
Accounts payable and accrued expenses	699,271
Deferred revenue	(95,984)
Net cash (used in) operating activities	<u>(1,507,673)</u>
Cash flows from investing activities	
Purchases of property and equipment	(3,230)
Proceeds from sales of investments	7,110,624
Purchases of investments	<u>(5,967,739)</u>
Net cash provided by investing activities	<u>1,139,655</u>
Cash flows from financing activities	
Principal payments on capital lease	(30,592)
Payments made on annuities payable	<u>(104,385)</u>
Net cash (used in) financing activities	<u>(134,977)</u>
Net decrease in cash and cash equivalents	(502,995)
Cash, cash equivalents and restricted cash, beginning of period	<u>872,425</u>
Cash, cash equivalents and restricted cash, end of period	<u><u>\$ 369,430</u></u>
Supplemental cash flow information	
Cash paid for interest	<u><u>\$ 205,485</u></u>
Equipment acquired under capital lease obligation	<u><u>\$ 48,896</u></u>

See Notes to Consolidated Financial Statements.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

Note 1 - Nature of activities

The Fund for American Studies and Affiliate (the "Fund") is comprised of two entities: The Fund for American Studies ("TFAS") and Foundation for Teaching Economics ("FTE"). TFAS was originally incorporated in the District of Columbia on February 6, 1967, as the Charles Edison Youth Fund. The Fund currently operates educational programs for selected college students, law students, and young professionals from all parts of the country and around the world. These programs include Washington, DC-based Academic Internship Programs for undergraduate students each summer, fall and spring, including tracks in International Affairs, Journalism and Communications, Public Policy and Economics, Business and Government Affairs, and Leadership and the American Presidency. In addition, TFAS hosts international academic programs for current university students and young professionals from around the world held outside of the United States. As a matter of principle, neither TFAS nor FTE accepts or participates in any government funding, as TFAS and FTE believe maintaining that independence is key to the organization's mission and an important component of its educational programming.

FTE was organized for the purpose of introducing high school students, selected for their leadership potential, to an economic way of thinking about national and international issues and to promote excellence in economic education by helping teachers of economics become more effective educators.

During 2018, the Board of Trustees of TFAS and the Board of Trustees of FTE voted to transfer substantially all of the assets of FTE to TFAS as of December 31, 2018. Effective January 1, 2019, TFAS assumed responsibility for FTE programs. FTE remains a separate legal entity with minimal fundraising activity.

The Fund changed its fiscal year-end from December 31 to August 31 and these consolidated financial statements include the results of activities as of and for the twenty (20) months ended August 31, 2022. The Fund changed its fiscal year-end to August 31 in order to more closely coincide with the cycle of its academic programs. The operating results for the reporting period are impacted by the change of fiscal year-end because the twenty (20) month reporting period includes two academic program-year cycles. While the Fund receives tuition revenue for its academic programs, the Fund also relies on contributions to fund its programs and its general operations, and historically receives a significant amount of contributions in the fourth quarter of the calendar year. The twenty-month reporting period includes only one calendar year fourth quarter.

Note 2 - Summary of significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned, unconditional support is recognized when received and expenses are recognized when incurred.

Basis of consolidation

The accompanying consolidated financial statements include the accounts of TFAS and FTE. All significant intercompany accounts and transactions between the organizations have been eliminated for consolidation.

Cash and cash equivalents

The Fund considers all short-term money market accounts to be cash equivalents. All cash and investments, regardless of maturity, held by the investment advisor are considered investments.

The Fund for American Studies and Affiliate

**Notes to Consolidated Financial Statements
August 31, 2022**

Restricted cash consists of an escrow account held related to a charitable gift annuity.

Cash, cash equivalents and restricted cash on the statement of cash flows for the period ended August 31, 2022 is comprised of:

Cash and cash equivalents	\$	341,430
Restricted cash		<u>28,000</u>
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$	<u>369,430</u>

Investments

Investments are recorded at fair value. Accordingly, unrealized gains and losses, due to market fluctuations during the period, are recognized at period-end. Realized gains or losses are recognized upon sale or disposal. Donated investments are reflected as contributions at their fair values at date of receipt. It is reasonably possible that changes in interest rate and market risk in the near term could result in a change in fair value of investment balances, which could be material.

Accounts receivable

The Fund records receivables at cost, less an allowance for doubtful accounts as determined by management. The allowance is provided based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be worthless. At August 31, 2022, management believes all accounts receivable to be fully collectible, and, as such, no allowance for doubtful accounts has been provided for in these consolidated financial statements.

Pledges receivable

Pledges receivable are recognized as revenue in the period the promise is made. Conditional pledges receivable are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges receivable are carried at original amount promised less an estimate made for doubtful pledges based on a review of all outstanding pledges on a monthly basis. Pledges receivable include bequests from estates, and the timing and amounts to be received depend on the liquidation of the estates. Management determines the allowance for doubtful pledges by regularly evaluating individual promises to give and considering prior history of donors and proven collectability of past donations. Pledges are written off when deemed uncollectible. Recoveries of pledges previously written off are recorded when received. Management has estimated an allowance for doubtful accounts to be \$250,000 at August 31, 2022.

Pledges receivable expected to be collected beyond one year are reflected at the net present value of their estimated future cash flows using a risk-adjusted interest rate. Amortization of the discount on pledges receivable is reflected as contribution revenue.

Property and equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally 3 to 31 years. Website costs are amortized over an estimated useful life of five years. The Fund capitalizes all expenditures for property and equipment in excess of \$3,500 with an estimated useful life of greater than one year.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

Other assets

Other assets represent condominium units received under a charitable gift annuity agreement. The asset was recorded at its appraised value at the time of donation, and is being depreciated over an estimated useful life of 27.5 years. As of August 31, 2022, the cost of the asset is \$1,414,319 with accumulated depreciation of \$94,288.

Remainder interests

TFAS has entered into charitable remainder trust agreements. Upon the death of the donor, remaining trust assets will be distributed to the Fund. Remainder interests are classified as net assets with donor restrictions and are stated at the net present value of future distributions expected to be received, based upon the life expectancy of the donor, fair value of the trust assets and a discount rate of 7.25 percent.

Valuation of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Net assets

Net assets without donor restrictions:

Net assets without donor restrictions are net assets that are not restricted by donor stipulations for a time or purpose restriction.

TFAS segregates its net assets without donor restrictions into the following fund categories:

Undesignated - Represents the net assets that are not earmarked by the Board of Trustees or restricted by donors for time or purpose restrictions.

Board-designated endowment funds - Represents net assets that the Board of Trustees has earmarked for specific purposes.

Net assets with donor restrictions:

Net assets with donor restrictions result from contributions and bequests, investment income earned on restricted contributions, and investment income earned and appropriated from endowments. Use of net assets with donor restrictions is limited by donor-imposed purposes or time restrictions that have not yet been fulfilled by actions of the Fund pursuant to these stipulations or by the passage of time.

Net assets with donor restrictions also result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Fund's actions. The donors of these assets permit the Fund to use the income and gains earned on related investments for operations or for specific purposes stipulated by the donors.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

Revenue recognition

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

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

Contributions and grants are classified as either conditional or unconditional. Unconditional contributions and grants, including unconditional promises to give are recognized at fair value when the commitment to contribute is received and are reported as without donor restrictions revenue and support unless specifically restricted by the donor or by law. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as revenue and support with donor restrictions. Revenue is recognized on a conditional contribution after the Fund overcomes a barrier or hurdle to be entitled to the resource, and the resource provider no longer has the right of return.

Income from investments is recognized as earned. Investment income includes interest, dividends and realized gains and losses on investment transactions. Since all investments are carried at fair value, the net change in the fair value of investments is recognized as an unrealized gain or loss on investments.

Annuities payable

Annuities payable include obligations to pay a life annuity to the donor or designated beneficiary, or other benefit, such as donor or beneficiary use of property when the irrevocable gift involves real estate. The contributed assets and the annuitant liabilities immediately become part of the general assets and liabilities of the Fund, subject to the Fund maintaining an actuarial reserve in accordance with District of Columbia law.

The Fund initially values deferred gifts of cash at face value, those of equities at market value and gifts of property at their appraised value; annuity values are then actuarially discounted. Published Internal Revenue Service discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these deferred giving arrangements.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. General and

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

administrative expenses include those expenses that are not directly identifiable with any other specific function, but that provide for the overall support and direction of the Fund.

Salaries and benefits are allocated based on the level of effort. Student recruitment and other student program event costs are allocated to programs based on enrollment. All general overhead costs, including utilities, postage, printing, depreciation and travel, are allocated to programs based on program enrollment with a portion allocated to general and administrative and fundraising functions.

Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Income taxes

TFAS and FTE are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Fund believes it has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Fund recognizes interest expense and penalties related to unrecognized tax positions in accounts payable and accrued expenses and other expense on the consolidated financial statements. The Fund reported no penalties and interest related to unrecognized tax positions for the twenty (20) months ended August 31, 2022. Tax years prior to 2018 are no longer subject to examination by the Internal Revenue Service or the tax jurisdictions of the District of Columbia and California.

Credit risk

The Fund has no cash balances in excess of Federal Deposit Insurance Corporation ("FDIC") limits at August 31, 2022. TFAS has a short-term investment in repurchase agreements consisting of U.S. government securities and U.S. government-backed securities at August 31, 2022 in amount of \$273,000.

Note 3 - Liquidity and availability of resources

The Fund regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Fund has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, lines of credit, and commercial paper facilities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Fund considers all expenditures related to its ongoing activities of operating education programs for selected college students, high school students and teachers, and professionals from all parts of the world.

In addition to financial assets available to meet general expenditures over the next 12 months, the Fund operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Fund budgets annual spending from its Board and donor-restricted endowments, which is defined as approximately 5% of the trailing 12-quarter (three-year) market value of the endowment.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

As of August 31, 2022, the following tables show the total financial assets held by The Fund and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end	
Cash and cash equivalents	\$ 341,430
Restricted cash	28,000
Accounts receivable, net	302,907
Pledges receivable, net	1,399,997
Investments	15,198,374
Remainder interests	251,389
Cash surrender value - life insurance	31,749
	<hr/>
	17,553,846
Less those unavailable for general expenditure within one year	
Pledges receivable due in excess of one year	(680,408)
Restricted cash	(28,000)
Investments held as collateral	(8,692,361)
Investments held for donor restricted endowments	(4,077,560)
Investments held for deferred compensation	(116,327)
Investments held for charitable gift annuities	(132,892)
Remainder interests	(251,389)
	<hr/>
	<u>\$ 3,574,909</u>

As noted in Note 10, TFAS has an additional \$200,000 available to draw upon from its line of credit to meet general expenditures.

Note 4 - Related party transactions

The Board of Trustees approved \$95,000 in annual compensation to Randal Teague, its Chairman, for his services beyond traditional governance roles and levels of engagement of a trustee or an officer. Compensation for the twenty (20) months ended August 31, 2022 was \$162,000. These services and levels of engagement include focuses on strategic planning for the organization's future, institutional development and fundraising, relations with cooperating and other organizations, student and alumni engagement, participation in program events, and national and international programs content.

The Fund for American Studies and Affiliate

**Notes to Consolidated Financial Statements
August 31, 2022**

Note 5 - Pledges receivable

As of August 31, 2022 pledges receivable are due in the following periods:

Pledges receivable less than one year	\$	719,589
Pledges receivable one to five years		983,000
More than five years		<u>10,000</u>
		1,712,589
Less: Allowance for doubtful accounts		(250,000)
Less: unamortized discount		<u>(62,592)</u>
Pledges receivable, net	\$	<u><u>1,399,997</u></u>

Pledges receivable due in excess of one year were discounted by \$62,592 at August 31, 2022, based on discount rates ranging from 1.8% to 3.5%.

Note 6 - Property and equipment

Property and equipment at August 31, 2022 consists of the following:

Buildings	\$	5,367,940
Furniture and equipment		1,531,450
Website		95,357
Land		<u>2,327,023</u>
		9,321,770
Less accumulated depreciation and amortization		<u>(4,519,660)</u>
	\$	<u><u>4,802,110</u></u>

Note 7 - Investments

Investments at August 31, 2022 consist of the following:

Equity funds	\$	9,817,852
Fixed income funds		4,105,634
Cash and money market funds		285,604
Alternative investment strategies		872,957
Deferred compensation assets		<u>116,327</u>
	\$	<u><u>15,198,374</u></u>

Alternative investments consist of exchange-traded funds and an investment in a fund of funds, which is reported at net asset value ("NAV"). This investment objective is to achieve above-average appreciation by opportunistically trading and investing in a wide variety of securities, instruments, and other investment opportunities and engaging in a broad array of trading and investment strategies. Redemption of shares in the fund of funds is required via tender offer signed by the President of TFAS, and liquidation happens on a quarterly basis. The investment in the fund of funds requires NAV per share to be calculated based on measurement of all the underlying

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**Notes to Consolidated Financial Statements
August 31, 2022**

investments in the funds in accordance with FASB Accounting Standards Board Codification ("FASB ASC") Topic 820, *Fair Value Measurement*. As of August 31, 2022, there are no unfunded commitments.

Investment loss for the twenty (20) months ended August 31, 2022, consists of the following:

Interest and dividends	\$ 1,005,536
Net realized and unrealized losses on investments	<u>(1,796,263)</u>
	(790,727)
Investment fees	<u>(120,436)</u>
	<u>\$ (911,163)</u>

In 2016, TFAS received a donation of 3,182 common shares of private company stock. Given there is no active market for this stock, no contribution or asset has been recorded in these financial statements. The contribution will be recorded if/when the stock is sold.

Note 8 - Annuities payable

TFAS has received annuity gifts, whereby the donors have contributed assets to TFAS in exchange for the right to receive a fixed-dollar annual return during their lifetime.

During 2020, TFAS received donated condominium units as part of an annuity agreement. Ownership of the condominium units was received by TFAS and TFAS has a remainder interest in the condominium units. The donor will remain living in the property and is responsible for paying maintenance, insurance and taxes on the property. The donor will also receive quarterly payments of \$13,978 for the remainder of his life. The condominium units are recorded as part of other assets as of August 31, 2022.

The fair value of the annuity gifts over the present value of the liabilities for future payments and when applicable, the estimated value of the use of gifted property, determined on an actuarial basis, has been recognized as contributions at the dates of the gifts. Annuities are based on interest rates ranging from .6% to 5.6%, and the payment term is the annuitant's life expectancy. Following is a summary of the changes in the annuities payable for the twenty (20) months ended August 31, 2022:

Payments to annuitants	(104,385)
Adjustments to liability relating to passage of time and other factors	<u>(2,647)</u>
	<u>\$ (107,032)</u>

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

The assets and corresponding liabilities (including payments currently due and the present value of the estimated future actuarial liability to annuitants, reported in other liabilities) of the gift annuities at August 31, 2022 are as follows:

Investment	<u>\$ 132,892</u>
Other assets	<u>\$ 1,320,031</u>
Annuities payable	<u>\$ 1,154,636</u>

Note 9 - Capital lease obligations

In 2022, TFAS entered into a 60-month equipment lease that qualifies as a capital lease obligation, and terminated its old equipment lease with no future obligation. The aggregate cost and accumulated amortization of the equipment totaled \$48,896 and \$4,344, respectively, at August 31, 2022, and the amortization expense of the leased asset amounted to \$16,739 for the twenty (20) months ended August 31, 2022.

Future minimum lease payments under the capital lease agreements in each of the years subsequent to August 31, 2022 are as follows:

2023	\$ 10,908
2024	10,908
2025	10,908
2026	10,908
2027	<u>10,040</u>
	53,672
Less amounts representing interest	<u>(3,068)</u>
	<u>\$ 50,604</u>

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**Notes to Consolidated Financial Statements
August 31, 2022**

Note 10 - Line of credit

On November 15, 2019, TFAS entered into a line of credit agreement of up to \$5,000,000, secured by TFAS's investments. The line of credit agreement requires TFAS to maintain undesignated net assets to match a collateral amount, based on the release rates of each investment in the collateral investment account. TFAS used the line of credit to pay off previous loans. Advances on the line of credit have the option of being at fixed or variable rates, at TFAS's request and the bank's approval. The advances require payments of interest only with principal and any accrued interest due upon maturity or upon demand by the lender. If the advances are not paid in full by the maturity date, the advances will convert to a variable rate. The following is a summary of the amounts outstanding at August 31, 2022:

Type	Amount outstanding August 31, 2022	Interest	Maturity date
Fixed rate loan	\$ 1,440,000	3.12%	March 29, 2023
Fixed rate loan	1,440,000	2.89%	June 14, 2023
Fixed rate loan	1,920,000	1.81%	March 30, 2027
Total	\$ 4,800,000		

Interest expense on the line of credit for the twenty (20) months ended August 31, 2022 totaled \$205,348.

Note 11 - Net assets without donor restrictions

Net assets without donor restrictions consists of the following at August 31, 2022:

Board-designated endowment funds	
Engalitcheff Endowment Fund	\$ 72,930
Freedom Center Building Fund	2,394,084
David R. and Corinne Watt Jones Scholarship Fund	653,073
Lady Blanka Rosenstiel Scholarship Fund	105,954
Manuela P. Strong Endowment Fund	53,601
	3,279,642
Undesignated	4,304,130
	\$ 7,583,772

The Fund for American Studies and Affiliate

**Notes to Consolidated Financial Statements
August 31, 2022**

Note 12 - Net assets with donor restrictions

As of August 31, 2022, net assets with donor restrictions are restricted for the following purposes:

Subject to expenditure for specified time and purpose	
David R. and Corinne Watt Jones Scholarships and Fellowships Fund	\$ 565,955
Eben Tisdale Fellowship	394,937
Rowny Paderewski Scholarship Fund	310,709
Alan and Rella Bates Scholarship Fund	262,064
George Viksnins Scholarship Fund	167,013
Randal C. Teague Scholarships and Fellowships Fund	123,004
Dixie Davis Scholarship Fund	116,559
Neal B. Freeman Lecture Fund	72,233
Don Lavoie Scholarship Fund	61,789
Kevin Burket Memorial Scholarship Fund	52,846
Fred Barnes Scholarship Fund	48,420
Don and Martha Sundquist Scholarship Fund	42,506
Reach Your Peak Scholarship Fund	42,812
Ream Family Fund	40,012
Krista and Paul Ritacco Scholarship Fund	52,326
Other named scholarship funds	89,873
Other scholarships and support	558,600
50th Anniversary Campaign	23,466
Fred Long estate gift for scholarships	842,334
Multi-year initiatives	650,000
High school (FTE) Programs	453,332
Subject to the passage of time	461,208
	<hr/>
	5,431,998
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**Notes to Consolidated Financial Statements
August 31, 2022**

Corpus and expendable portion of the following endowments	
Fred and Georganna Long Scholarship Fund	358,606
Arnold Garrison Scholarship Fund	212,761
John Cataldo Scholarship Fund	586,428
Hunter Hunt Scholarship Fund	773,831
James Mrazek Scholarship Fund	192,836
Dell Thurmond Woodard Fellowship	130,385
Hybl Family Scholarship	109,132
David Martin Scholarship Fund	104,770
Joseph Rago Memorial Fellowship for Excellence in Journalism	939,633
H.L. Harris Endowment at George Mason University	37,197
Branch Family Scholarship Fund	37,643
Steve and Eileen Berlin Scholarship Fund	90,369
Patt Patterson Scholarship Fund	37,290
Jimmy Dimos Family Scholarship Fund	34,690
Philip Friedmann Scholarship Fund	195,771
Goossen Family Scholarship Fund	27,552
Marilyn and John Woodhouse Scholarship Fund	208,666
	<hr/>
	4,077,560
	<hr/>
	\$ 9,509,558
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Note 13 - Endowments

The Fund's endowments consist of 22 funds established to support a variety of programs at the Fund. Its endowments consist of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets established with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets - interpretation of relevant law

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted into law in Washington, D.C. on January 23, 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity, are subject to appropriation for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the Fund.
2. The preservation of the Fund and the donor-restricted endowment fund.
3. General economic conditions.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Fund.
7. The investment policies of the Fund.

Funds with deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted endowments may fall below the level that the donor or UPMIFA requires the Fund to retain as a fund of perpetual duration (underwater endowments). The Fund has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At August 31, 2022, a fund with an original gift value of \$660,000 had a fair value of \$586,428, resulting in a deficiency of \$73,572 being reported in net assets with donor restrictions.

The endowments' return objective and risk parameters

The Fund considers all board-designated net assets to be quasi-endowments with an objective of capital preservation and purchasing power protection consistent with the promotion of the long-term financial stability of the Fund. Achievement of this goal will be measured over three-year rolling periods, as well as a complete market cycle. The total return of the portfolio over a complete market cycle should exceed inflation by 5%. A strategic asset allocation policy for the portfolio has been established, based on the belief that individual asset classes exhibit differing behavior under various market conditions and that a multi-asset class portfolio will result in a portfolio with superior risk and return characteristics. This strategic plan for investing the portfolio assets has been established with a time horizon of 10 years and will be reviewed each year to determine if it should be modified given existing changes in either the Fund's needs or the long-term prospects for the capital markets.

Spending policy

The Fund's annual spending is defined as approximately 5% of the trailing 12-quarter (three-year) market value of the quasi-endowment.

Endowment net asset composition by type of fund at August 31, 2022 is as follows:

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	\$ 3,279,642	\$ -	\$ 3,279,642
Donor-restricted endowment funds	-	4,077,560	4,077,560
	<u>\$ 3,279,642</u>	<u>\$ 4,077,560</u>	<u>\$ 7,357,202</u>

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

Changes in endowment net assets for the twenty (20) months ended August 31, 2022 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2021	\$ 5,364,867	\$ 4,001,703	\$ 9,366,570
Contributions	11,000	579,156	590,156
Interest, dividends, net of fees	157,405	138,132	295,537
Realized and unrealized losses, net	(216,640)	(351,505)	(568,145)
Appropriations	<u>(2,036,990)</u>	<u>(289,926)</u>	<u>(2,326,916)</u>
Endowment net assets, August 31, 2022	<u>\$ 3,279,642</u>	<u>\$ 4,077,560</u>	<u>\$ 7,357,202</u>

Note 14 - Commitments

The Fund also has a three-year agreement with a university to collaborate with the Fund on the delivery of high-quality courses in the arts and humanities. This contract required the Fund to advance \$250,000 to cover start-up costs, etc., which will remain on deposit with the university throughout the term of the agreement. The current contract is set to expire in 2024.

Note 15 - Retirement plans

TFAS employees are eligible to participate in the Fund for American Studies Defined Contribution and Retirement Plan (the "Plan") as long as they are salaried employees. Employees can make voluntary tax-deferred contributions up to specified limits. The Fund matches 100% of the first 3% of salary deferred and 50% of the next 2% of salary deferred, after the employee completes one year of service. In addition, the Fund may make an employer-elected contribution to employees. The Fund's total contribution to the Plan was \$157,218 for the twenty (20) months ended August 31, 2022.

TFAS also established a 457(b) deferred compensation plan for its President in 2011. No contributions were made for the twenty (20) months ended August 31, 2022. The deferred compensation plan totals \$116,327, with the asset included in investments, and the liability included in accounts payable and accrued expenses on the consolidated statement of financial position.

The Fund for American Studies and Affiliate

Notes to Consolidated Financial Statements August 31, 2022

Note 16 - Fair value measurements

The Fund has determined the fair value of certain assets and liabilities through application of the *Fair Value Measurement* Topic of the FASB ASC. Fair values of assets and liabilities measured on a recurring basis at August 31, 2022 are as follows:

	Fair value	Fair value measurements at reporting date using			
		Net asset value	Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
August 31, 2022					
Equity funds	\$ 9,817,852	\$ -	\$ 9,817,852	\$ -	\$ -
Fixed income funds	4,105,634	-	4,105,634	-	-
Cash and money market funds	285,604	-	285,604	-	-
Alternative investment strategies	872,957	499,173	373,784	-	-
Deferred compensation assets	116,327	-	-	116,327	-
Reminder interests	251,389	-	-	-	251,389
Total assets	\$ 15,449,763	\$ 499,173	\$ 14,582,874	\$ 116,327	\$ 251,389
Liabilities					
Deferred compensation obligations	\$ 116,327	\$ -	\$ -	\$ 116,327	\$ -

This FASB ASC topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide highest quality inputs. Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets in active or inactive markets or other significant observable inputs. Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. The Fund uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Fund measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There have been no changes in the valuation methodologies during the twenty (20) months ended August 31, 2022. Money market funds reported as Level 1 inputs have been valued at the closing price reported by the fund sponsor from an actively traded exchange. Equity funds and fixed income funds have been valued at the closing price reported on the active market in which the individual securities are traded. The value of the deferred compensation obligation is based upon the underlying fair value of the deferred compensation assets. The value of the remainder interest trust is based upon the net present value of the assets held in trust. There have been no changes in the valuation methodologies used during the current twenty (20) months. All assets have been valued using a market approach.

Under ASU 2015-07, investments that are measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

There were no transfers into or out of level 3 of the fair value hierarchy above, nor were there any purchases or issues of Level 3 assets or liabilities during the twenty (20) months August 31, 2022.

The Fund for American Studies and Affiliate

**Notes to Consolidated Financial Statements
August 31, 2022**

Note 17 - Subsequent events

The Fund has evaluated subsequent events from the statement of financial position date through March 1, 2023, the date at which the financial statements were issued. Management has determined the following subsequent events require disclosure in the consolidated financial statements.

On February 3, 2023, the Board of Trustees de-designated \$2,795,870 of board designated net assets to increase undesignated net assets without donor restrictions to \$7,100,000.

In February 2023, the Fund listed a building and land that it owns in Washington, DC for sale.



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