
CERGE-EI FOUNDATION

FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CERGE-EI Foundation
Teaneck, New Jersey

We have audited the accompanying financial statements of CERGE-EI Foundation (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 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 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 entity'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 entity'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 CERGE-EI Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note K to the financial statements, an error in the classification of a restricted contribution erroneously recorded as unrestricted for the year ended December 31, 2017 was discovered by management of the Organization during the current year. Accordingly, amounts reported as without donor restrictions and with donor restrictions have been restated in the 2017 financial statements now presented. Total net assets at December 31, 2017 was not affected. Our opinion is not modified with respect to that matter.

Respectfully,

Bennett & Associates, CPAs PLLC

Ann Arbor, Michigan
May 30, 2019

CERGE-EI FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31,

| | 2018 | RESTATED 2017 |
|---|---------------|------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,124,661 | \$ 2,229,802 |
| Grants receivable | 156,649 | - |
| Promises to give | - | 83,858 |
| Prepaid expenses | 3,354 | 272,804 |
| Investments | | |
| Investments held for non-endowment | 4,888,033 | 3,613,496 |
| Investments held for endowment purposes | 5,098,430 | 5,817,269 |
| | 9,986,463 | 9,430,765 |
| TOTAL ASSETS | \$ 12,271,127 | \$ 12,017,229 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 342,614 | \$ 24,281 |
| Deferred tuition revenue | 303,650 | 121,358 |
| TOTAL LIABILITIES | 646,264 | 145,639 |
| NET ASSETS | | |
| Without donor restrictions | | |
| Undesignated | 5,619,450 | 5,353,122 |
| Board designated | 172,810 | 170,310 |
| With donor restrictions | 5,832,603 | 6,348,158 |
| TOTAL NET ASSETS | 11,624,863 | 11,871,590 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 12,271,127 | \$ 12,017,229 |

CERGE-EI FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended December 31,

| | 2018 | RESTATE 2017 |
|---|---------------|-----------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| SUPPORT AND REVENUE | | |
| Grants and contributions | \$ 108,026 | \$ 121,864 |
| Tuition income | 1,488,517 | 1,466,397 |
| Net investment return | 38,395 | 39,466 |
| Net assets released from restriction | 2,180,818 | 2,010,117 |
| TOTAL SUPPORT AND REVENUE | 3,815,756 | 3,637,844 |
| EXPENSES | | |
| Program services | | |
| Teaching and research | 3,354,702 | 3,063,692 |
| Supporting services | | |
| Management and general | 136,863 | 151,698 |
| Fundraising | 55,363 | 44,715 |
| TOTAL EXPENSES | 3,546,928 | 3,260,105 |
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | 268,828 | 377,739 |
| NET ASSETS WITH DONOR RESTRICTIONS | | |
| Grants and contributions | 2,384,102 | 2,353,638 |
| Endowment contributions | 1,050 | 32,780 |
| Net investment return on endowment funds | (719,889) | 1,025,296 |
| Net assets released from restriction | (2,180,818) | (2,010,117) |
| CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS | (515,555) | 1,401,597 |
| CHANGE IN NET ASSETS | (246,727) | 1,779,336 |
| NET ASSETS AT BEGINNING OF YEAR | 11,871,590 | 10,092,254 |
| NET ASSETS AT END OF YEAR | \$ 11,624,863 | \$ 11,871,590 |

CERGE-EI FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the year ended December 31, 2018 with comparative totals for 2017

| | Program Services | | Supporting Services | | 2018 Total | 2017 Total |
|--|--------------------------|---------------------------|---------------------|------------------|---------------------|---------------------|
| | Teaching and Research | Management and General | Fund- Raising | Fund- Raising | | |
| Grants and Other Support | | | | | | |
| Grants to CERGE-EI and other organizations | \$ 651,548 | \$ - | \$ - | | \$ 651,548 | \$ 435,857 |
| Grants to individuals | 818,212 | - | - | | 818,212 | 815,824 |
| CERGE-EI faculty and administrative support | 785,454 | 43,949 | 22,675 | | 852,078 | 810,944 |
| | <u>2,255,214</u> | <u>43,949</u> | <u>22,675</u> | | <u>2,321,838</u> | <u>2,062,625</u> |
| Other Expenses | | | | | | |
| Compensation of officers and directors | 55,561 | 23,342 | 7,781 | | 86,684 | 87,184 |
| Accounting fees | - | 14,562 | - | | 14,562 | 13,913 |
| Legal fees | - | 850 | - | | 850 | 34,201 |
| Office expenses | 10,002 | 15,594 | 399 | | 25,995 | 19,128 |
| Travel | 30,626 | 1,286 | - | | 31,912 | 29,823 |
| Conferences and meetings | 45,560 | 27,615 | - | | 73,175 | 28,824 |
| Insurance | - | 4,454 | - | | 4,454 | 4,247 |
| UPCES administration, faculty, and other expenses | 793,848 | - | - | | 793,848 | 800,429 |
| MAE administration, faculty, and other expenses | 136,894 | - | - | | 136,894 | 142,475 |
| Other | 26,997 | 5,211 | 24,508 | | 56,716 | 37,256 |
| Total Expenses | <u>\$ 3,354,702</u> | <u>\$ 136,863</u> | <u>\$ 55,363</u> | | <u>\$ 3,546,928</u> | <u>\$ 3,260,105</u> |

CERGE-EI FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the year ended December 31, 2017

| | Program Services | | Supporting Services | | 2017 Total |
|--|--------------------------|---------------------------|---------------------|--|---------------------|
| | Teaching and Research | Management and General | Fund- Raising | | |
| Grants and Other Support | | | | | |
| Grants to CERGE-EI and other organizations | \$ 435,857 | \$ - | \$ - | | \$ 435,857 |
| Grants to individuals | 815,824 | - | - | | 815,824 |
| CERGE-EI faculty and administrative support | 741,550 | 47,161 | 22,233 | | 810,944 |
| | <u>1,993,231</u> | <u>47,161</u> | <u>22,233</u> | | <u>2,062,625</u> |
| Other Expenses | | | | | |
| Compensation of officers & directors | 55,728 | 23,592 | 7,864 | | 87,184 |
| Accounting fees | - | 13,913 | - | | 13,913 |
| Legal fees | - | 34,201 | - | | 34,201 |
| Office expenses | 2,426 | 16,352 | 350 | | 19,128 |
| Travel | 28,886 | 937 | - | | 29,823 |
| Conferences and meetings | 26,976 | 1,848 | - | | 28,824 |
| Insurance | - | 4,247 | - | | 4,247 |
| UPCES administration, faculty, and other expenses | 800,429 | - | - | | 800,429 |
| MAE administration, faculty, and other expenses | 142,475 | - | - | | 142,475 |
| Other | 13,541 | 9,447 | 14,268 | | 37,256 |
| Total Expenses | <u>\$ 3,063,692</u> | <u>\$ 151,698</u> | <u>\$ 44,715</u> | | <u>\$ 3,260,105</u> |

CERGE-EI FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended December 31,

| | 2018 | 2017 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (246,727) | \$ 1,779,336 |
| Adjustments to reconcile change in net assets to net cash provided/(used) by operations: | | |
| Realized and unrealized (gains)/losses on investments | 1,069,503 | (795,218) |
| Change in accounts receivable | - | 13,509 |
| Change in grants receivable | (156,649) | - |
| Change in prepaid expenses | 269,450 | (1,207) |
| Change in unconditional promises to give | 83,858 | (49,165) |
| Change in accounts payable | 318,333 | (1,457) |
| Change in deferred revenue | 182,292 | (193,938) |
| Contributions restricted for long-term purposes | (1,050) | (32,780) |
| Net cash provided/(used) by operations | 1,519,010 | 719,080 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 2,019,795 | 1,374,222 |
| Purchases of investments | (3,644,996) | (2,149,807) |
| Net cash provided/(used) by investing activities | (1,625,201) | (775,585) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Collection of endowment fund contributions | 1,050 | 32,780 |
| Net cash provided/(used) by financing activities | 1,050 | 32,780 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (105,141) | (23,725) |
| Cash and cash equivalents at beginning of year | 2,229,802 | 2,253,527 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 2,124,661 | \$ 2,229,802 |

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

CERGE-EI Foundation (the Foundation) was founded with the purpose of raising funds to support CERGE-EI, a joint workplace in the field of economics, associated with two highly respected institutions, Charles University in Prague and the Academy of Sciences of the Czech Republic. It also supports similar institutions and individuals engaged in modern economics in transition societies. Funding is derived from endowment funds, corporate and foundation grants, contributions, and tuition income.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed 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 donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less and money market mutual funds to be cash, except for money market funds held as a portion of the Foundation's endowment portfolio, in which case they are classified as long-term investments and are not considered to be cash equivalents for purpose of the statement of cash flows.

Office Equipment

Acquisitions of equipment in excess of \$2,000 are capitalized. Equipment is carried at cost. Depreciation is computed using the straight-line method.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation of officers and directors and CERGE-EI faculty and administrative support services, which are allocated on the basis of estimates of time and effort.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax Status

The Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3). The Foundation is not a private operating foundation.

Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation. Such reclassifications have no effect on the previously reported changes in net assets.

Subsequent Events

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

NOTE B - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

| | |
|--|--------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 2,124,661 |
| Grants receivable | 156,649 |
| Investments held for non-endowment | 4,888,033 |
| Investments held for endowment purposes | 5,098,430 |
| Total financial assets | 12,267,773 |
| Less financial assets held to meet donor-imposed restrictions: | |
| Purpose-restricted net assets | (734,173) |
| Donor-restricted endowment funds | (5,098,430) |
| Less board-designated funds | (172,810) |
| Available for general expenditures within one year | \$ 6,262,360 |

The above table reflects donor-restricted endowment funds as unavailable because it is the organization's intention to invest those resources for the long-term support of the organization. However, in the case of need, the Board of Directors could appropriate resources from the donor-restricted funds (\$5,098,430, of which \$3,862,330 is the original gift). Note G provides more information about those funds and about the spending policies for the endowment funds.

As part of its liquidity management plan, it invests cash in excess of daily requirements in certificates of deposit, mutual funds, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its staff replacement reserve and video facility fund, which was \$172,810 as of December 31, 2018.

NOTE C - INVESTMENTS

FASB ASC 820 provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Foundation’s own assumptions in determining the fair value of investments)

Investments at December 31, 2018 and 2017 are classified in the following tables:

| | 2018 | | | Total |
|---|-------------------------------|-------------|-------------|---------------------|
| | Fair Value Measurements Using | | | |
| | Level 1 | Level 2 | Level 3 | |
| <u>Equity securities:</u> | | | | |
| Mutual fund - foreign large cap value | \$ 1,706,138 | \$ - | \$ - | \$ 1,706,138 |
| Mutual fund - mid cap value | 856,429 | - | - | 856,429 |
| <u>Fixed income securities:</u> | | | | |
| Mutual fund - intermediate-term bond | 1,823,037 | - | - | 1,823,037 |
| <u>Money market funds:</u> | | | | |
| US Money Market | 2,512,220 | - | - | 2,512,220 |
| Total assets in the fair value hierarchy | <u>\$ 6,897,824</u> | <u>\$ -</u> | <u>\$ -</u> | 6,897,824 |
| Investments measured at net asset value | | | | <u>1,135,794</u> |
| Investments at fair value | | | | 8,033,618 |
| Other investments - certificates of deposit | | | | <u>1,952,845</u> |
| Total investments | | | | <u>\$ 9,986,463</u> |

NOTE C - INVESTMENTS, *continued*

| | 2017 | | | |
|---|-------------------------------|-------------|-------------|---------------------|
| | Fair Value Measurements Using | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Equity securities:</u> | | | | |
| Mutual fund - foreign large cap value | \$ 2,514,665 | \$ - | \$ - | \$ 2,514,665 |
| Mutual fund - mid cap value | 1,252,109 | - | - | 1,252,109 |
| <u>Fixed income securities:</u> | | | | |
| Mutual fund - intermediate-term bond | 1,236,876 | - | - | 1,236,876 |
| <u>Money market funds:</u> | | | | |
| US Money Market | 1,319,074 | - | - | 1,319,074 |
| Total assets in the fair value hierarchy | <u>\$ 6,322,724</u> | <u>\$ -</u> | <u>\$ -</u> | 6,322,724 |
| Investments measured at net asset value | | | | <u>1,270,790</u> |
| Investments at fair value | | | | 7,593,514 |
| Other investments - certificates of deposit | | | | <u>1,837,251</u> |
| Total investments | | | | <u>\$ 9,430,765</u> |

Investments Measured at Net Asset Value

Investments measured at net asset value consist entirely of the MLM US Focused Equity Fund, LLC at December 31, 2018 and 2017. Fair value of the MLM US Focused Equity Fund, LLC at December 31, 2018 and 2017 is calculated based on the value of the Foundation's Class C member capital account, as provided by the investment manager. The Foundation's investment in this LLC has certain redemption restrictions. A member may require the LLC to redeem his interest (in whole or in part) as of the last day of any month if written notice has been given to the managing member at least 30 days prior to the redemption date. There are no unfunded commitments in this investment.

MLM US Focused Equity Fund, LLC is a Delaware limited liability company with an investment objective of appreciation of its assets through trading. The LLC will trade pursuant to Mount Lucas Management Corporation's proprietary MLM Focused Equity Trading Program. The MLM US Focused Equity Trading Program is a concentrated equity model developed by Mount Lucas that selects stocks from the S&P 500. The model chooses stocks based on a combination of value fundamentals and price momentum criteria. The portfolio seeks to achieve returns over and above the S&P 500 with low trading costs.

NOTE C - INVESTMENTS, *continued*

Investment Return

The following schedules summarize the net investment return and its classification in the statements of activities for the years ended December 31:

| | 2018 | |
|------------------------------|-------------------------------|----------------------------|
| | Without Donor Restrictions | With Donor Restrictions |
| Dividends and interest | \$ 43,967 | \$ 350,737 |
| Unrealized gains / (losses) | (5,572) | (1,295,247) |
| Realized gains / (losses) | - | 231,316 |
| Investment fees and expenses | - | (6,695) |
| Total net investment return | \$ 38,395 | \$ (719,889) |

| | 2017 | |
|------------------------------|-------------------------------|----------------------------|
| | Without Donor Restrictions | With Donor Restrictions |
| Dividends and interest | \$ 43,123 | \$ 231,683 |
| Unrealized gains / (losses) | (3,657) | 786,702 |
| Realized gains / (losses) | - | 12,173 |
| Investment fees and expenses | - | (5,262) |
| Total net investment return | \$ 39,466 | \$ 1,025,296 |

NOTE D - RISKS AND UNCERTAINTIES

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of activities. The Foundation's investments other than marketable Certificates of Deposit are not covered by FDIC insurance.

NOTE E - BOARD DESIGNATED NET ASSETS

Board designated net assets at December 31 consist of the following designations:

| | 2018 | 2017 |
|---------------------------|------------|------------|
| Staff replacement reserve | \$ 150,000 | \$ 150,000 |
| Video facility | 22,810 | 20,310 |
| Totals | \$ 172,810 | \$ 170,310 |

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

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

| | 2018 | 2017 |
|---|--------------|--------------|
| Subject to expenditure for specified purpose: | | |
| Regional Research Competition | \$ 87,515 | \$ 87,515 |
| Institute for Democracy & Economic Analysis | 45,152 | 22,760 |
| Teaching Fellows | 592,126 | 396,746 |
| Other | 9,380 | 23,868 |
| | 734,173 | 530,889 |
| Endowments: | | |
| Subject to NFP endowment spending policy and appropriation: | | |
| Citigroup Professorship Endowment | 1,500,000 | 1,500,000 |
| Citigroup Scholarship Endowment | 1,000,000 | 1,000,000 |
| Mellon Associate Professorship Endowment | 1,000,000 | 1,000,000 |
| Vannerson Scholarship Endowment | 300,000 | 300,000 |
| Svejnar-Terrell (teaching prize) | 28,500 | 28,500 |
| Jan Kmenta Library Fund | 33,830 | 32,780 |
| Accumulated investment return | 2,068,100 | 2,787,989 |
| Appropriation of endowment assets | (832,000) | (832,000) |
| Total endowments | 5,098,430 | 5,817,269 |
| | \$ 5,832,603 | \$ 6,348,158 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|--------------------------------------|--------------|--------------|
| Satisfaction of purpose restrictions | | |
| Teaching Fellows | \$ 1,961,020 | \$ 1,963,707 |
| USAID ASHA grant program | 210,700 | - |
| Other | 9,098 | 46,410 |
| | \$ 2,180,818 | \$ 2,010,117 |

NOTE G - ENDOWMENT

The Foundation’s endowment (the Endowment) consists of multiple individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted the relevant Pennsylvania and New Jersey law as requiring the preservation of the historical dollar value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with its spending policy. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment Composition by Type of Fund

The following schedule summarizes the endowment net asset composition by type of fund as of December 31, 2018:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|--------------|
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$ 3,862,330 | \$ 3,862,330 |
| Accumulated investment gains | - | 1,236,100 | 1,236,100 |
| | \$ - | \$ 5,098,430 | \$ 5,098,430 |

The following schedule summarizes the endowment net asset composition by type of fund as of December 31, 2017:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|--------------|
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$ 3,861,280 | \$ 3,861,280 |
| Accumulated investment gains | - | 1,955,989 | 1,955,989 |
| | \$ - | \$ 5,817,269 | \$ 5,817,269 |

NOTE G – ENDOWMENT, *continued*

Change in Endowment Net Assets

The changes in endowment net assets for the year ended December 31, 2018 are presented in the following schedule:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| Net assets, beginning of year | \$ - | \$ 5,817,269 | \$ 5,817,269 |
| Contributions | - | 1,050 | 1,050 |
| Appropriation of endowment assets for expenditure | - | - | - |
| Dividends and interest | - | 350,737 | 350,737 |
| Net appreciation / (depreciation) (realized and unrealized) | - | (1,063,931) | (1,063,931) |
| Investment fees and expenses | - | (6,695) | (6,695) |
| Other changes | - | - | - |
| Net assets, end of year | <u>\$ -</u> | <u>\$ 5,098,430</u> | <u>\$ 5,098,430</u> |

The changes in endowment net assets for the year ended December 31, 2017 are presented in the following schedule:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| Net assets, beginning of year | \$ - | \$ 4,759,193 | \$ 4,759,193 |
| Contributions | - | 32,780 | 32,780 |
| Appropriation of endowment assets for expenditure | - | - | - |
| Dividends and interest | - | 231,683 | 231,683 |
| Net appreciation / (depreciation) (realized and unrealized) | - | 798,875 | 798,875 |
| Investment fees and expenses | - | (5,262) | (5,262) |
| Other changes | - | - | - |
| Net assets, end of year | <u>\$ -</u> | <u>\$ 5,817,269</u> | <u>\$ 5,817,269</u> |

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity.

Under this policy, as approved by the Board of Directors, the Foundation's goal is to earn a stable and predictable amount of current income from the endowment, while reinvesting additional interest in years when the Foundation's investments do well.

Strategies Employed for Achieving Objectives

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 capital appreciation (realized and unrealized) and current yield (interest and dividends). Pursuant to Board instructions, the Foundation reviews investment allocation annually or more often as conditions warrant.

NOTE G – ENDOWMENT, *continued*

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation annually transfers funds from its endowment to its general fund in an amount equal to 5% of at least the monthly average balance for the prior year. Transfers will not be made if doing so would bring the account value below the original endowment investment amount unless allowed under the terms of the gift. Also, the Board may reduce or increase this annual transfer if such a change is deemed to be in the best interests of the Foundation. No transfers were made in 2018 or 2017.

NOTE H - CONCENTRATIONS

Concentrations of Credit Risk

The Foundation maintains its cash balances in various banks. Cash and cash equivalents exceeding federally insured limits totaled approximately \$902,393 at December 31, 2018.

Promises to give at December 31, 2017 were due from Nadace CERGE-EI. Nadace CERGE-EI is a Czech non-profit entity created to raise funds that help support economics education in the Czech Republic and throughout Central and Eastern Europe.

Concentration of Funders

In 2018 and 2017, the Foundation received approximately 67% and 45%, respectively, of its total revenue from one donor.

NOTE I - RELATED PARTY TRANSACTIONS

In 2018 and 2017, some board members participated in the Foundation’s grant-funded programs and received payment for these services. Payments to board members in 2018 and 2017 totaled \$86,684 and \$87,184, respectively.

Contributions from board members totaled \$51,523 and \$80,919 in 2018 and 2017, respectively.

NOTE J - CHANGE IN ACCOUNTING PRINCIPLES

The Foundation implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note B).

The changes have the following effect on net assets at January 1, 2017:

| Net Asset Class | As Originally Presented | After Adoption of ASU 2016-14 |
|---------------------------------------|-------------------------|-------------------------------|
| Unrestricted net assets | \$ 5,145,693 | |
| Temporarily restricted net assets | 1,118,061 | |
| Permanently restricted net assets | 3,828,500 | |
| Net assets without donor restrictions | | \$ 5,145,693 |
| Net assets with donor restrictions | | 4,946,561 |
| Total net assets | <u>\$ 10,092,254</u> | <u>\$ 10,092,254</u> |

NOTE K - PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2018, the Foundation discovered an error in the classification of a restricted contribution erroneously recorded as unrestricted. The financial statements for the year ended December 31, 2017 have been restated to reflect the correct amounts.

The following financial statement line items as of and for the year ended December 31, 2017 were affected by this prior period adjustment:

| | As Previously Stated | As Stated | Effect of Correction |
|--|-------------------------|----------------|-------------------------|
| STATEMENT OF FINANCIAL POSITION | | | |
| Net assets without donor restrictions | | | |
| Undesignated | \$ 5,666,010 | \$ 5,353,122 | \$ (312,888) |
| Net assets with donor restrictions | \$ 6,035,270 | \$ 6,348,158 | \$ 312,888 |
| STATEMENT OF ACTIVITIES | | | |
| Net assets without donor restrictions | | | |
| Grants and contributions | \$ 2,278,264 | \$ 121,864 | \$ (2,156,400) |
| Net assets released from restriction | \$ 166,605 | \$ 2,010,117 | \$ 1,843,512 |
| Net assets with donor restrictions | | | |
| Grants and contributions | \$ 197,238 | \$ 2,353,638 | \$ 2,156,400 |
| Net assets released from restriction | \$ (166,605) | \$ (2,010,117) | \$ (1,843,512) |

Opening balances for 2017 were not affected.

NOTE L - NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, a principles-based standard to recognize revenue from customer contracts. ASU No. 2014-09 will be effective beginning in 2019. The Foundation is currently evaluating the impact the adoption of ASU No. 2014-09 will have on its financial statements.

The FASB also issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU No. 2016-15 will be effective for fiscal years beginning after December 15, 2018. Early adoption is allowed. The Foundation is currently evaluating the impact the adoption of ASU No. 2016-15 will have on its financial statements.