



Young America's Foundation

Financial Statements
For the Years Ended
December 31, 2006 and 2005
With Independent Auditors' Report

Young America's Foundation
Financial Statements
For the Years Ended December 31, 2006 and 2005
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
YOUNG AMERICA'S FOUNDATION
Herndon, Virginia

We have audited the accompanying statements of financial position of YOUNG AMERICA'S FOUNDATION (the "Foundation") as of December 31, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 YOUNG AMERICA'S FOUNDATION as of December 31, 2006 and 2005, and the change in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Fitzgerald, Snyder & Co., P.C.

McLean, Virginia
November 9, 2007

Young America's Foundation

Statements of Financial Position

December 31, 2006 and 2005

| | 2006 | 2005 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 4,276,343 | \$ 2,211,910 |
| Investments | 1,988,782 | 3,610,186 |
| Accounts receivable, net of allowance | 63,922 | 43,066 |
| Bequests receivable | - | 1,776,244 |
| Promises to give | 2,496,275 | 1,485,293 |
| Total current assets | <u>8,825,322</u> | <u>9,126,699</u> |
| NONCURRENT INVESTMENTS | 3,797,503 | 1,572,270 |
| PROPERTY, BUILDINGS & EQUIPMENT, net | 22,235,887 | 9,908,848 |
| CONSTRUCTION IN PROCESS | - | 4,652,630 |
| OTHER ASSETS: | | |
| Promises to give, net | 1,147,980 | 461,604 |
| Bequests receivable | - | 1,000,000 |
| Property held for sale | 320,000 | 320,000 |
| Collections | 949,108 | 913,336 |
| Deposits | 37,525 | 24,360 |
| Derivative Asset | 45,298 | 9,405 |
| Beneficial interests in charitable remainder trusts | 47,453 | 42,620 |
| Total other assets | <u>2,547,364</u> | <u>2,771,325</u> |
| | <u>\$ 37,406,076</u> | <u>\$ 28,031,772</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 858,527 | \$ 1,099,494 |
| Annuities payable | 140,387 | 126,476 |
| Deposit liability | - | 2,400 |
| Note payable | 542,276 | 10,295 |
| Total current liabilities | <u>1,541,190</u> | <u>1,238,665</u> |
| LONG-TERM LIABILITIES: | | |
| Notes payable | 5,759,455 | 2,461,969 |
| Annuities payable | 630,322 | 588,335 |
| Total long-term liabilities | <u>6,389,777</u> | <u>3,050,304</u> |
| Total liabilities | <u>7,930,967</u> | <u>4,288,969</u> |
| COMMITMENTS | - | - |
| NET ASSETS: | | |
| Unrestricted | 22,692,546 | 18,006,335 |
| Temporarily restricted | 4,432,563 | 4,466,468 |
| Permanently restricted | 2,350,000 | 1,270,000 |
| Total net assets | <u>29,475,109</u> | <u>23,742,803</u> |
| | <u>\$ 37,406,076</u> | <u>\$ 28,031,772</u> |

Young America's Foundation

Statements of Activities

For the Years Ended December 31, 2006 and 2005

| | 2006 | | | | 2005 | | | |
|--------------------------------------|----------------------|------------------------|------------------------|----------------------|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| SUPPORT AND REVENUE: | | | | | | | | |
| Contributions | \$ 10,260,702 | \$ 5,434,561 | \$ 1,080,000 | \$ 16,775,263 | \$ 7,036,422 | \$ 5,716,706 | \$ - | \$ 12,753,128 |
| Bequests | 285,607 | - | - | 285,607 | 3,289,760 | - | 1,000,000 | 4,289,760 |
| Conference income | 23,602 | - | - | 23,602 | 22,325 | - | - | 22,325 |
| Speaker income | 683,710 | - | - | 683,710 | 515,645 | - | - | 515,645 |
| List rental income | 197,248 | - | - | 197,248 | 166,321 | - | - | 166,321 |
| Publication sales | 6,116 | - | - | 6,116 | 10,032 | - | - | 10,032 |
| Gain on interest rate swap | 35,893 | - | - | 35,893 | 9,405 | - | - | 9,405 |
| Change in value of annuities | (1,490) | - | - | (1,490) | - | 9,108 | - | 9,108 |
| Rental income | 32,830 | - | - | 32,830 | 35,040 | - | - | 35,040 |
| Investment return | 770,776 | - | - | 770,776 | 40,946 | - | - | 40,946 |
| Other income | 79,521 | - | - | 79,521 | 210,383 | - | - | 210,383 |
| Net assets released from restriction | 5,468,466 | (5,468,466) | - | - | 3,726,548 | (3,726,548) | - | - |
| Total support and revenue | <u>17,842,981</u> | <u>(33,905)</u> | <u>1,080,000</u> | <u>18,889,076</u> | <u>15,062,827</u> | <u>1,999,266</u> | <u>1,000,000</u> | <u>18,062,093</u> |
| EXPENSES: | | | | | | | | |
| Program services: | | | | | | | | |
| Public information | 3,806,069 | - | - | 3,806,069 | 3,112,964 | - | - | 3,112,964 |
| Special projects | 7,399,029 | - | - | 7,399,029 | 6,792,430 | - | - | 6,792,430 |
| Total program services | <u>11,205,098</u> | <u>-</u> | <u>-</u> | <u>11,205,098</u> | <u>9,905,394</u> | <u>-</u> | <u>-</u> | <u>9,905,394</u> |
| Supporting services: | | | | | | | | |
| Fundraising | 1,470,771 | - | - | 1,470,771 | 2,129,834 | - | - | 2,129,834 |
| Management and general | 480,901 | - | - | 480,901 | 706,764 | - | - | 706,764 |
| Total supporting services | <u>1,951,672</u> | <u>-</u> | <u>-</u> | <u>1,951,672</u> | <u>2,836,598</u> | <u>-</u> | <u>-</u> | <u>2,836,598</u> |
| Total expenses | <u>13,156,770</u> | <u>-</u> | <u>-</u> | <u>13,156,770</u> | <u>12,741,992</u> | <u>-</u> | <u>-</u> | <u>12,741,992</u> |
| CHANGE IN NET ASSETS | 4,686,211 | (33,905) | 1,080,000 | 5,732,306 | 2,320,835 | 1,999,266 | 1,000,000 | 5,320,101 |
| NET ASSETS, BEGINNING OF YEAR, | <u>18,006,335</u> | <u>4,466,468</u> | <u>1,270,000</u> | <u>23,742,803</u> | <u>15,685,500</u> | <u>2,467,202</u> | <u>270,000</u> | <u>18,422,702</u> |
| NET ASSETS, END OF YEAR | <u>\$ 22,692,546</u> | <u>\$ 4,432,563</u> | <u>\$ 2,350,000</u> | <u>\$ 29,475,109</u> | <u>\$ 18,006,335</u> | <u>\$ 4,466,468</u> | <u>\$ 1,270,000</u> | <u>\$ 23,742,803</u> |

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

Young America's Foundation

Statement of Functional Expenses

For the Year Ended December 31, 2006

| | Program Services | | | Supporting Services | | | Total 2006 |
|---|-----------------------|---------------------|----------------------|---------------------|---------------------------|---------------------|----------------------|
| | Public Information | Special Projects | Total | Fund- raising | Management and General | Total | |
| Accounting and legal | \$ - | \$ 38,109 | \$ 38,109 | \$ 1,800 | \$ 70,885 | \$ 72,685 | \$ 110,794 |
| Advertising | 4,841 | 70,715 | 75,556 | 10,861 | - | 10,861 | 86,417 |
| Bad debt | - | 88,470 | 88,470 | - | 1,017 | 1,017 | 89,487 |
| Bank charges and investment fees | 25,201 | 928 | 26,129 | - | 38,801 | 38,801 | 64,930 |
| Conferences, banquets & meetings | 5,938 | 883,909 | 889,847 | - | 234 | 234 | 890,081 |
| Communications | 1,039,271 | 264,637 | 1,303,908 | 339,325 | - | 339,325 | 1,643,233 |
| Consulting & outsourcing | 137,066 | 127,934 | 265,000 | 5,878 | 17,113 | 22,991 | 287,991 |
| Depreciation | 22,194 | 124,384 | 146,578 | 43,862 | 20,130 | 63,992 | 210,570 |
| Event Sponsorship | 10,000 | 10,270 | 20,270 | - | - | - | 20,270 |
| Equipment and maintenance | 24,860 | 192,368 | 217,228 | 53 | 3,414 | 3,467 | 220,695 |
| Honorarium | - | 1,038,228 | 1,038,228 | - | - | - | 1,038,228 |
| Insurance | 78 | 6,668 | 6,746 | 87 | 54,736 | 54,823 | 61,569 |
| Interest | - | - | - | - | - | - | - |
| List rental | 156,187 | 27,300 | 183,487 | 93,582 | - | 93,582 | 277,069 |
| Maintenance and preservation - Reagan Ranch | - | 90,413 | 90,413 | - | - | - | 90,413 |
| Other taxes and fees | - | 6,313 | 6,313 | - | 4,343 | 4,343 | 10,656 |
| Payroll taxes | 24,412 | 136,813 | 161,225 | 48,245 | 22,142 | 70,387 | 231,612 |
| Penalties | 259 | 1,604 | 1,863 | - | 641 | 641 | 2,504 |
| Personal property tax | - | 242 | 242 | - | 5,817 | 5,817 | 6,059 |
| Postage and shipping | 1,114,334 | 464,865 | 1,579,199 | 372,804 | 7,475 | 380,279 | 1,959,478 |
| Printing | 738,467 | 257,431 | 995,898 | 277,501 | 1,407 | 278,908 | 1,274,806 |
| Publications | 27,013 | 111,204 | 138,217 | 1,219 | 196 | 1,415 | 139,632 |
| Real estate tax | 2,115 | 103,027 | 105,142 | - | 8,503 | 8,503 | 113,645 |
| Rent and occupancy | 8,422 | 223,693 | 232,115 | 5,914 | 20,826 | 26,740 | 258,855 |
| Salaries and benefits | 363,349 | 2,317,395 | 2,680,744 | 259,853 | 182,684 | 442,537 | 3,123,281 |
| Scholarships | - | 77,171 | 77,171 | - | - | - | 77,171 |
| Supplies and miscellaneous | 81,581 | 127,392 | 208,973 | 6,484 | 7,731 | 14,215 | 223,188 |
| Telecommunications | 3,831 | 48,476 | 52,307 | 521 | 9,115 | 9,636 | 61,943 |
| Travel | 16,650 | 559,070 | 575,720 | 2,782 | 3,691 | 6,473 | 582,193 |
| | <u>\$ 3,806,069</u> | <u>\$ 7,399,029</u> | <u>\$ 11,205,098</u> | <u>\$ 1,470,771</u> | <u>\$ 480,901</u> | <u>\$ 1,951,672</u> | <u>\$ 13,156,770</u> |

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

Young America's Foundation

Statement of Functional Expenses

For the Year Ended December 31, 2005

| | Program Services | | | Supporting Services | | | Total 2005 |
|---|-----------------------|---------------------|---------------------|---------------------|---------------------------|---------------------|----------------------|
| | Public Information | Special Projects | Total | Fund- raising | Management and General | Total | |
| Accounting and legal | \$ - | \$ 79,313 | \$ 79,313 | \$ - | \$ 66,052 | \$ 66,052 | \$ 145,365 |
| Advertising | 3,100 | 142,299 | 145,399 | 2,300 | - | 2,300 | 147,699 |
| Bad debt | - | - | - | - | 32,585 | 32,585 | 32,585 |
| Bank charges and investment fees | - | - | - | - | 36,881 | 36,881 | 36,881 |
| Conferences, banquets & meetings | - | 989,667 | 989,667 | - | 5,358 | 5,358 | 995,025 |
| Communications | 754,110 | 579,741 | 1,333,851 | 457,206 | - | 457,206 | 1,791,057 |
| Consulting & Outsourcing | 136,075 | 161,724 | 297,799 | 30,303 | 136,062 | 166,365 | 464,164 |
| Depreciation | 43,238 | 122,886 | 166,124 | 40,962 | 20,480 | 61,442 | 227,566 |
| Event Sponsorship | - | 100 | 100 | - | - | - | 100 |
| Equipment & Maintenance | - | - | - | - | 163,672 | 163,672 | 163,672 |
| Honorarium | - | 604,183 | 604,183 | - | - | - | 604,183 |
| Insurance | 713 | 50,994 | 51,707 | 793 | 4,419 | 5,212 | 56,919 |
| Interest | - | 59,679 | 59,679 | - | - | - | 59,679 |
| List rental | 187,279 | 31,543 | 218,822 | 95,166 | - | 95,166 | 313,988 |
| Maintenance and preservation - Reagan Ranch | - | 172,524 | 172,524 | - | - | - | 172,524 |
| Other taxes and fees | 226 | 8,404 | 8,630 | - | 8,413 | 8,413 | 17,043 |
| Payroll taxes | 27,177 | 77,240 | 104,417 | 25,747 | 12,873 | 38,620 | 143,037 |
| Penalties | 2,856 | 8117 | 10,973 | 2,706 | 1,353 | 4,059 | 15,032 |
| Personal property tax | - | - | - | - | 4,960 | 4,960 | 4,960 |
| Postage and shipping | 1,336,227 | 358,162 | 1,694,389 | 807,546 | 3,764 | 811,310 | 2,505,699 |
| Printing | 244,229 | 502,771 | 747,000 | 388,140 | - | 388,140 | 1,135,140 |
| Publications | 6,196 | 107,414 | 113,610 | - | 501 | 501 | 114,111 |
| Real estate tax | - | 63,568 | 63,568 | - | 23,385 | 23,385 | 86,953 |
| Rent and occupancy | 30,350 | 86,258 | 116,608 | 28,753 | 14,376 | 43,129 | 159,737 |
| Salaries and benefits | 313,924 | 2,002,080 | 2,316,004 | 224,506 | 157,834 | 382,340 | 2,698,344 |
| Scholarships | - | 29,000 | 29,000 | - | - | - | 29,000 |
| Supplies and miscellaneous | 18,352 | 57,907 | 76,259 | 17,386 | 8,694 | 26,080 | 102,339 |
| Telecommunications | 8,614 | 24,481 | 33,095 | 8,160 | 4,080 | 12,240 | 45,335 |
| Travel | 298 | 472,375 | 472,673 | 160 | 1,022 | 1,182 | 473,855 |
| | <u>\$ 3,112,964</u> | <u>\$ 6,792,430</u> | <u>\$ 9,905,394</u> | <u>\$ 2,129,834</u> | <u>\$ 706,764</u> | <u>\$ 2,836,598</u> | <u>\$ 12,741,992</u> |

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

Young America's Foundation

Statements of Cash Flows

For the Years Ended December 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 5,732,306 | \$ 5,320,101 |
| Adjustments to reconcile change in net assets to net cash provide by operating activities: | | |
| Depreciation | 210,570 | 227,566 |
| Contributed investments | (452,176) | (1,474,790) |
| Unrealized gain on interest rate swap | (35,893) | (9,405) |
| Contributed collections | (4,833) | - |
| Actuarial change in annuity liability | 99,080 | (39,355) |
| Unrealized (gain) loss on marketable securities | (451,588) | 132,338 |
| Receipt of permanently restricted contributions | (2,080,000) | - |
| Changes in assets and liabilities affecting operations: | | |
| Accounts receivable | (20,856) | (32,566) |
| Bequests receivable | 2,776,244 | (2,776,244) |
| Promises to give | (1,697,358) | (152,107) |
| Deposits | (13,165) | (1,250) |
| Accounts payable and accrued expenses | (240,967) | 70,021 |
| Deposit liability | (2,400) | - |
| Net cash provided by operating activities | <u>3,818,964</u> | <u>1,264,309</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sales of investments | 593,965 | 3,857,671 |
| Purchase of investments | (291,626) | (1,630,094) |
| Purchase of property and equipment | (7,920,751) | (154,965) |
| Construction in process | - | (3,852,669) |
| Net cash used in investing activities | <u>(7,618,412)</u> | <u>(1,780,057)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from new borrowings | 3,829,467 | 2,472,264 |
| Repayments of notes payable | - | (710,000) |
| Annuities issued | 87,459 | 185,000 |
| Payments on annuities | (133,045) | (116,992) |
| Repayments of capital leases | - | (2,558) |
| Receipt of permanently restricted contributions | 2,080,000 | - |
| Net cash provided by financing activities | <u>5,863,881</u> | <u>1,827,714</u> |
| NET CHANGE IN CASH | 2,064,433 | 1,311,966 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,211,910</u> | <u>899,944</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ <u>4,276,343</u> | \$ <u>2,211,910</u> |
| SUPPLEMENTAL DISCLOSURES: | | |
| Interest paid during the year | \$ <u>403,635</u> | \$ <u>59,679</u> |
| Interest capitalized during the year | \$ <u>403,635</u> | <u>-</u> |

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

A. ORGANIZATION

Young America's Foundation (the "Foundation") is a not-for-profit organization chartered on November 18, 1969. The Foundation was organized to promote, encourage, and support the development of campus leadership through a series of programs designed to assist young people on the campus in acquiring the techniques of leadership, experience in the national life, and generally to encourage leadership roles in the life of the community and nation.

The Foundation's two main programs are special projects and public information. The special projects include lectures, conferences, internships, the National Journalism Center, and the Reagan Ranch program. The public information category provides educational and informational materials through the Foundation's media and communications activities including its web site, newsletters and mailings to the Foundation's target audience in support of its programs.

The Foundation's program activities include:

The Reagan Ranch Program is devoted to preserving and protecting President Ronald Reagan's Rancho del Cielo located in California and educating young people on the President's ideas of individual freedom, limited government, patriotism, and traditional values.

The National Journalism Center is devoted to accuracy, balance, and comprehension of the issues, training students in the skills of press work, and assigning internships at cooperating media locations.

The National Conservative Student Conference is a premier youth-oriented, week-long conference introducing students to the ideas that make our country great: individual freedom, limited government, a strong national defense, free enterprise and traditional values.

The High School Conference is similar to the college conference, giving teenage students the same opportunities as the college conference, only geared to a more youthful group of students.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this basis, revenue is recognized when earned and expenses are recognized as incurred.

Use of estimates and assumptions - Management uses estimates and assumptions in preparing financial statements in accordance 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 revenues and expenses. Actual results could vary from the estimates that were used. Significant estimates relate to the valuation of contributed assets, depreciation, discounting pledges and annuities payable.

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation - 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, 2006 and 2005, the Foundation had \$4,432,563 and \$4,466,468, respectively, in temporarily restricted net assets and \$2,350,000 and \$1,270,000 in permanently restricted net assets respectively.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets represent endowments to be held in perpetuity.

Temporarily restricted contributions received in the current year whose restrictions are met during the current year are classified as unrestricted support.

Cash and cash equivalents - For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents with donor imposed restrictions that limit their use to long-term purposes are classified as non-current investments.

Investments - Investments are reported at fair market value and contributions of marketable securities are recorded at their fair market value at the date of donation. Fair market value is determined from published market data. Non-current investments include investments received with donor-imposed restrictions that limit their use to long-term purposes as temporarily or permanently restricted investments.

Property, buildings and equipment - Property, buildings and equipment is stated at cost and is depreciated using the straight-line method over an estimated useful life of three to five years for equipment and thirty to forty years for property. Property, buildings and equipment additions, and improvements acquired at a cost greater than \$500 are capitalized. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Accounts receivable - The Foundation uses the allowance method to account for amounts, if any, of its accounts receivable, which are considered uncollectible. The Foundation bases its assessment of the allowance for doubtful accounts on historical losses and current economic conditions. Accounts receivable are determined to be past due based on a contractual term of 30 days. As of December 31, 2006 and 2005, the allowance for doubtful accounts was \$49,370 and \$43,085, respectively.

Bequest receivable - The Foundation records bequests to be received as income when it has received notification from the estate of an unconditional bequest that is measurable.

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to give - As of December 31, 2006 and 2005, the outstanding balances of promises to give made by donors were \$3,792,237 and \$2,035,293, respectively. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows and are reflected net of a discount of \$147,982 and \$88,396 for the years ended December 31, 2006 and 2005, calculated using a discount rate of five percent. Management does not believe that any allowance for uncollectible promises to give is necessary. All of the promises to give are expected to be collected within five years.

Annuities payable - The liability for annuities is based upon actuarially determined present values considering the annuities payable to the income beneficiaries and the life expectancies and applicable discount rates based on federal tables. An actuarial adjustment is recognized in the statements of activities for changes in the value.

Advertising costs - Advertising costs are expensed as incurred. For the years ended December 31, 2006 and 2005, advertising costs totaled \$86,417 and \$147,699, respectively.

Functional allocation of expenses - The Foundation's expenses have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the areas benefited.

Costs of joint activities - Statement of Position 98-2, "Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fundraising", establishes accounting standards for recording costs associated with joint activities (activities which are part fundraising and have elements of one or more other functions, such as program or management and general). The pronouncement requires that the criteria of purpose, audience and content be met in order to allocate any portion of the costs of joint activities to a functional area other than fundraising.

Contributed assets - The Foundation records contributed assets based on fair value at the time of contribution unless the fair value is not determinable within reasonable limits in accordance with Accounting Principles Board Opinion 29 "Accounting for Non-monetary Transactions."

Income taxes - The Internal Revenue Service has recognized the Foundation as a Section 501(c)(3) organization exempt from income tax under Section 501(a) of the Internal Revenue Code and applicable income tax regulations of the Commonwealth of Virginia.

Reclassifications - Certain 2005 financial information has been reclassified to conform to the 2006 presentation.

C. INVESTMENTS

Investments at December 31, 2006 and 2005 consisted of short-term investments in marketable equity and debt securities and mutual funds totaling \$1,988,782 and \$3,610,186, respectively and non-current investments in the amounts of \$3,797,503 and \$1,572,270, respectively. The Foundation considers investment return on restricted funds to be unrestricted support if restrictions are met during the fiscal year. All investments are recorded at their fair market value using published market data.

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

C. INVESTMENTS (continued)

The Foundation received donations with respect to charitable gift annuities from various donors (See Note M). The funds are restricted until the obligations under the annuities have been met.

Investments consisted of the following as of December 31:

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|---------------------|---------------------|
| Short-term investments: | | |
| Equity securities | \$ 1,891,917 | \$ 1,693,045 |
| Debt securities | 96,865 | 471,167 |
| Mutual funds | - | 1,446,074 |
| | <u>1,988,782</u> | <u>3,610,186</u> |
| Noncurrent investments: | | |
| Permanently restricted net assets: | | |
| Investment cash | - | 70,000 |
| Equities and mutual funds | <u>2,350,000</u> | <u>200,000</u> |
| | <u>2,350,000</u> | <u>270,000</u> |
| Annuities: | | |
| Investment cash | 72,049 | 78,041 |
| Equity securities | 547,089 | 490,880 |
| Mutual funds | <u>828,365</u> | <u>733,349</u> |
| | <u>1,447,503</u> | <u>1,302,270</u> |
| Total noncurrent investments | <u>3,797,503</u> | <u>1,572,270</u> |
| Total investments | \$ <u>5,786,285</u> | \$ <u>5,182,456</u> |

Investment return consisted of the following for the years ended December 31:

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|------------------|
| Investment return: | | |
| Interest and dividends | \$ 429,510 | \$ 245,891 |
| Realized/unrealized gains (losses) | <u>451,588</u> | <u>(132,338)</u> |
| Gross investment return | 881,098 | 113,553 |
| Less: Investment gain on annuities included in change in value of annuities | <u>(110,322)</u> | <u>(72,607)</u> |
| | \$ <u>770,776</u> | \$ <u>40,946</u> |

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2006 and 2005 are available for the following purposes:

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Program assistance: | | |
| Wood Lecture Series | \$ 76,498 | \$ 113,248 |
| Time restricted for periods after December 31: | | |
| Promises to give | 3,644,255 | 1,946,897 |
| Bequests receivable | - | 1,776,244 |
| Beneficial interests in charitable trusts | 47,453 | 42,620 |
| Gift annuities | <u>664,357</u> | <u>587,459</u> |
| | <u>4,356,065</u> | <u>4,353,220</u> |
| Total temporarily restricted net assets | \$ <u>4,432,563</u> | \$ <u>4,466,468</u> |

E. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of donations made with the restriction that the principal be maintained in perpetuity. The income earned on this principal is restricted for the purpose of internships, scholarships, the annual high school conference and the Reagan Ranch. Permanently restricted assets amounted to \$2,350,000 and 1,270,000 as of December 31, 2006 and 2005 respectively.

The Foundation received an endowment in the amount of \$200,000 for the purpose of supporting the Foundation's intern program. Additionally, the Foundation received endowments in the amount of \$50,000 for the purpose of awarding scholarships, \$1,000,000 for the high school conference and \$20,000 for the Reagan Ranch Program. During 2006, the Foundation received an endowment of \$1,080,000 for the Reagan Ranch Program. Funds related to endowments are permanently restricted and are to be held in perpetuity.

F. NET ASSETS RELEASED FROM RESTRICTION

Net assets released from donor restriction by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, are as follows for the years ended December 31, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|-----------------|---------------------|---------------------|
| Honorariums | \$ 36,750 | \$ 10,500 |
| Internships | - | 25,588 |
| Time Restricted | <u>5,431,716</u> | <u>3,690,460</u> |
| | <u>\$ 5,468,466</u> | <u>\$ 3,726,548</u> |

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

G. PROPERTY, BUILDINGS AND EQUIPMENT

The following is a summary of property, buildings and equipment, and accumulated depreciation as of December 31, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|--------------------------------|----------------------|---------------------|
| Building and land | \$ 22,572,142 | \$ 10,604,815 |
| Furniture and equipment | <u>1,255,098</u> | <u>684,816</u> |
| | 23,827,240 | 11,289,631 |
| Less: accumulated depreciation | <u>(1,591,353)</u> | <u>(1,380,783)</u> |
| | \$ <u>22,235,887</u> | \$ <u>9,908,848</u> |

Among other properties, the Foundation owns and maintains a 688 acre ranch in California, previously owned by President and Mrs. Ronald Reagan. The Foundation considers this ranch to be a historical treasure. The Reagan Ranch Home Collection was acquired with the purchase of the ranch and is included in the carrying cost of the Reagan Ranch. Property, buildings and equipment includes the cost of the Reagan Ranch.

Depreciation expense totaled \$210,570 and \$227,566, respectively for the years ended December 31, 2006 and 2005.

H. COLLECTIONS

The Foundation holds collections for educational purposes such as exhibition to the public or public research and not for financial gain. These items are protected, cared for and preserved in keeping with standard museum practice. The Foundation has not adopted a policy that requires revenue from the sale of any collections to be reinvested in other collections. The Foundation has no plans to sell or de-accessorize these collections. Collections have been recorded as assets at cost, if purchased or at estimated fair market value of the date of contribution, if contributed. Depreciation is not recorded on collections.

I. NOTES PAYABLE

The Foundation has a note payable with a financial institution in the amount of \$6,258,419 with an interest rate of 7.75%. The note payable is secured by a deed of trust on a four-story commercial real estate property owned by the Foundation in Santa Barbara, California ("the Property"). The note calls for quarterly payments of interest plus 1/48 of the outstanding principal balance with the principal payment rounded up to the next \$10,000. The note has a maturity date of January 31, 2012.

Additionally, the Foundation purchased two vehicles during 2005 for use at the Reagan Ranch in Santa Barbara, California. These vehicles were financed with four year notes payable through the selling dealership. At December 31, 2006 the two notes had balances of \$15,096, on which the Foundation is paying 9.9% interest, and \$28,216, on which the Foundation is paying 8.25% interest.

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

I. NOTES PAYABLE (continued)

Future maturities of the notes payable and capital leases at December 31, 2006 are as follows:

For the years ending December 31,

| | |
|----------------|---------------------|
| 2007 | \$ 542,276 |
| 2008 | 538,720 |
| 2009 | 534,316 |
| 2010 | 524,000 |
| 2011 and after | <u>4,162,419</u> |
| | <u>\$ 6,301,731</u> |

J. DERIVATIVE INSTRUMENT

In July 2005, the Foundation entered into a debt related interest rate swap agreement with a financial institution. This interest rate swap was used as a cash flow hedge to synthetically fix the rate on the note payable and to eliminate changes in the market interest rates. The Foundation documents its risk management strategy and hedge effectiveness at the inception and during the term of the hedge. The fair market value of the swap at December 31, 2006 totaled an asset of \$45,298 as provided by the financial institution. The change in the value has been recorded as an unrealized gain from interest rate swap on the Statement of Activities. Additionally, at contract maturity in 2011, all assets or liabilities related to the swap convert to zero.

K. RELATED PARTY TRANSACTIONS

The Foundation has purchased publications from a publishing company owned, in part, by a member of the Board of Directors. Additionally, the Foundation's Vice President is a principal in a firm which provides consulting services to the Foundation. Board members are prohibited from participating in decisions for which they have an interest. The amount owed to related parties as of December 31, 2006 and 2005 totaled approximately \$15,000 and zero, respectively. Amounts purchased or incurred with these related parties totaled approximately \$49,000 and \$57,000 during 2006 and 2005, respectively. During 2006 and 2005, Board members contributed approximately \$105,000 and \$81,000, respectively, to the Foundation.

L. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of cash and investments. The Foundation maintains its cash accounts, in financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC insures cash balances up to \$100,000 at each institution and certain investment accounts are insured up to \$500,000 under the Securities Investment Protection Corporation. At December 31, 2006 and 2005, the Foundation had uninsured cash balances totaling approximately \$3,800,000 and \$2,700,000, respectively and uninsured investment balances totaling approximately, \$5,000,000 and \$4,100,000, respectively.

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

L. CONCENTRATION OF CREDIT RISK (continued)

For the year ended December 31, 2006, one individual donor contributed 11% of total support and revenue and one donor pledged 26% of total support and revenue. One donor had a pledge balance outstanding at December 31, 2006, which represented 79% of total pledges receivable.

M. ANNUITIES PAYABLE

The Foundation has established a gift annuity plan where donors may contribute assets to the Foundation in exchange for the right to receive a fixed dollar annual return during their lifetimes. A portion of the transfer is considered to be a charitable contribution for income tax purposes and for financial statement purposes.

The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as temporarily restricted contributions revenue at the date of the gift, since the gift portion is restricted until the obligations under the annuity have been met. Income earned on annuity investments and distributions paid are credited and charged, respectively, against temporarily restricted revenue. For the years ended December 31, 2006 and 2005, contributions related to gift annuities were \$76,898 and \$101,946, respectively.

The annuity liability is revalued annually based upon actuarially computed present values.

N. CHANGE IN VALUE OF ANNUITIES

Change in value of annuities consists of:

| | <u>2006</u> | <u>2005</u> |
|--|-------------------|------------------|
| Investment income | \$ 59,505 | \$ 50,343 |
| Realized and unrealized gains (losses) | 50,817 | 22,264 |
| Actuarial adjustment | (10,459) | 64,416 |
| Payments to beneficiaries and fees | <u>(101,353)</u> | <u>(127,915)</u> |
| | <u>\$ (1,490)</u> | <u>\$ 9,108</u> |

O. PENSION PLAN

The Foundation offers a tax-sheltered Section 403(b) annuity plan to its employees. All full time employees are eligible for participation six months after employment begins, however, no contributions are made by the Foundation to the plan.

Young America's Foundation

Notes to Financial Statements

December 31, 2006 and 2005

P. ALLOCATION OF JOINT COSTS

During 2006 and 2005, the Foundation incurred joint costs of \$4,425,751 and \$5,334,371, respectively, for informational materials primarily related to direct mail, house file mailings and newsletters that included fundraising appeals. Pursuant to SOP 98-2 (see Note B) these costs were allocated to the functional areas as follows for the years ended December 31, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|------------------------|---------------------|---------------------|
| Public Information | \$ 2,885,258 | \$ 2,459,751 |
| Special Projects | 479,193 | 1,129,969 |
| Fundraising | 1,059,978 | 1,740,887 |
| Management and general | <u>1,322</u> | <u>3,764</u> |
| | <u>\$ 4,425,751</u> | <u>\$ 5,334,371</u> |