Young America's Foundation

Financial Statements

Years Ended December 31, 2018 and 2017

DHG
DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Reston, Virginia
Young America's Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Young America's Foundation (a not-for-profit organization), 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.

Auditors' 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 audits 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 auditors' 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 Young America's 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.

Restatement of Prior Year Financial Statements

As discussed in Note 3 to the financial statements, the 2017 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

DIXON HUGHES GOODMAN LLP

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Foundation adopted FASB ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities in 2018. Our opinion is not modified with respect to that matter.

Dixon Hughes Goodman LLP

Tysons, Virginia
May 31, 2019

Young America's Foundation
Statements of Financial Position
December 31, 2018 and 2017

	2018	(Restated and Adjusted) 2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 3,231,924**	$ 12,070,691
Investments and deferred compensation	**25,739,712**	24,153,545
Accounts receivable, net	**383,611**	618,742
Bequests receivable, current portion	**3,000,000**	1,720,500
Promises to give, current portion	**2,235,000**	1,665,283
Prepaid expenses	**341,450**	315,826
Total current assets	**34,931,697**	40,544,587
Cash held for long term purposes	**100,000**	100,001
Restricted cash	**-**	55,786
Certificate of deposit, restricted	**55,801**	-
Bequests receivable, less current portion, net of discount	**7,483,767**	4,613,228
Promises to give, less current portion, net of discount	**1,152,963**	1,257,894
Property, building and equipment, net	**28,146,904**	26,770,904
Collections	**1,501,712**	840,122
Other assets	**1,384,542**	1,483,988
Total noncurrent assets	**39,825,689**	35,121,923
Total assets	**$ 74,757,386**	$ 75,666,510
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	**$ 1,102,259**	$ 1,307,355
Annuities payable, current portion	**119,968**	112,809
Note payable, current portion	**1,000,000**	2,000,000
Deferred revenue	**1,998**	600
Total current liabilities	**2,224,225**	3,420,764
Annuities payable, less current portion	**725,702**	751,948
Deferred rent	**787,093**	1,020,938
Deferred compensation plans	**1,006,240**	985,931
Total liabilities	**4,743,260**	6,179,581
Net assets:		
Without donor restrictions	**32,896,065**	35,632,216
With donor restrictions	**37,118,061**	33,854,713
Total net assets	**70,014,126**	69,486,929
Total liabilities and net assets	**$ 74,757,386**	$ 75,666,510

See accompanying notes.

Young America's Foundation
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018			(Restated and Adjusted) 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support and other changes:						
Contributions	**$ 14,768,639**	**$ 2,851,106**	**$ 17,619,745**	$ 10,672,424	$ 5,343,853	$ 16,016,277
Bequests	**548,782**	**6,165,556**	**6,714,338**	1,231,605	4,299,629	5,531,234
Conference income	**274,663**	**-**	**274,663**	213,967	-	213,967
Speaker income	**463,800**	**-**	**463,800**	252,587	-	252,587
List rental income	**102,293**	**-**	**102,293**	89,384	-	89,384
Publication sales	**19,908**	**-**	**19,908**	14,565	-	14,565
Change in value of split interest agreement	**-**	**(283,724)**	**(283,724)**	-	178,304	178,304
Rental income	**47,831**	**-**	**47,831**	74,188	-	74,188
Investment income (loss)	**(170,310)**	**(1,239,098)**	**(1,409,408)**	1,548,149	1,878,008	3,426,157
Other income	**605,970**	**-**	**605,970**	4,443	-	4,443
Gain (Loss) on disposal of fixed assets	**39**	**-**	**39**	-	-	-
Loss on accounts receivable	**-**	**-**	**-**	(16,286)	(127,486)	(143,772)
Net assets released from restrictions	**4,230,492**	**(4,230,492)**	**-**	8,654,778	(8,654,778)	-
Total support and revenue	**20,892,107**	**3,263,348**	**24,155,455**	22,739,804	2,917,530	25,657,334
Expenses:						
Program services:						
Public information	**4,690,529**	**-**	**4,690,529**	5,124,009	-	5,124,009
Special projects	**14,753,355**	**-**	**14,753,355**	14,392,344	-	14,392,344
Total program services	**19,443,884**		**19,443,884**	19,516,353	-	19,516,353
Supporting services:						
Fundraising	**1,506,188**	**-**	**1,506,188**	1,807,296	-	1,807,296
Management and general	**2,678,186**	**-**	**2,678,186**	2,307,155	-	2,307,155
Total supporting services	**4,184,374**		**4,184,374**	4,114,451	-	4,114,451
Total expenses	**23,628,258**	**-**	**23,628,258**	23,630,804	-	23,630,804
Change in net assets	**(2,736,151)**	**3,263,348**	**527,197**	(891,000)	2,917,530	2,026,530
Net assets, beginning of year	**35,632,216**	**33,854,713**	**69,486,929**	36,523,216	30,937,183	67,460,399
Net assets, end of year	**$ 32,896,065**	**$ 37,118,061**	**$ 70,014,126**	$ 35,632,216	$ 33,854,713	$ 69,486,929

See accompanying notes.

Young America's Foundation
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services			Supporting Services			
	Public Information	Special Projects	Total	Fundraising	Management and General	Total	Total
Advertising and marketing	$ 2,687	$ 833,499	$ 836,186	$ -	$ -	$ -	$ 836,186
Animal care	-	-	-	-	20,459	20,459	20,459
Bank fees and charges	45,419	49,678	95,097	15,548	6,987	22,535	117,632
Books, subscriptions and reference	23,658	155,374	179,032	-	28,214	28,214	207,246
Conferences, banquets & meetings	-	35,113	35,113	-	11,164	11,164	46,277
Depreciation expense	154,993	1,058,120	1,213,113	78,986	198,211	277,197	1,490,310
Equipment rental & maintenance	24,477	214,549	239,026	-	138,041	138,041	377,067
Equipment < $1000	1,362	2,504	3,866	-	11,215	11,215	15,081
Honoraria	-	1,638,581	1,638,581	-	1,000	1,000	1,639,581
Housing	-	1,012,347	1,012,347	-	7,027	7,027	1,019,374
Insurance	-	1,060	1,060	-	156,408	156,408	157,468
Interest expense	-	-	-	-	8,290	8,290	8,290
Landscaping & maintenance	-	-	-	-	106,647	106,647	106,647
List rental expense	255,388	-	255,388	78,783	-	78,783	334,171
Meals	-	1,661,303	1,661,303	-	29,155	29,155	1,690,458
Other expenses	1,169	3,958	5,127	15	7,280	7,295	12,422
Outsourcing & consulting	140,385	387,269	527,654	60,868	87,818	148,686	676,340
Payroll benefit fees	1,223	8,344	9,567	617	1,559	2,176	11,743
Payroll taxes	29,152	199,100	228,252	14,731	36,875	51,606	279,858
Penalties and fines	-	-	-	-	250	250	250
Personal property tax	401	-	401	-	19,702	19,702	20,103
Postage and shipping	1,392,565	110,453	1,503,018	443,120	57,771	500,891	2,003,909
Printing & copying	1,634,506	346,419	1,980,925	448,463	34,792	483,255	2,464,180
Professional development	815	1,220	2,035	-	4,629	4,629	6,664
Professional fees	91,657	350,004	441,661	12,989	225,085	238,074	679,735
Real estate tax	-	17,736	17,736	-	100,884	100,884	118,620
Rent and occupancy	64,781	446,306	511,087	32,680	248,655	281,335	792,422
Office repairs & maintenance	-	515	515	-	1,636	1,636	2,151
Salaries and benefits	570,237	3,913,217	4,483,454	277,287	723,486	1,000,773	5,484,227
Scholarships	-	238,580	238,580	-	-	-	238,580
Supplies	102,284	116,878	219,162	42,101	11,666	53,767	272,929
Taxes, other	-	-	-	-	18,782	18,782	18,782
License and registration fees	-	-	-	-	7,137	7,137	7,137
IT web services	144,563	651,019	795,582	-	314,599	314,599	1,110,181
Telephone & telecommunications	8,804	68,470	77,274	-	17,825	17,825	95,099
Travel	3	1,231,739	1,231,742	-	34,937	34,937	1,266,679
	$ 4,690,529	$ 14,753,355	$ 19,443,884	$ 1,506,188	$ 2,678,186	$ 4,184,374	$ 23,628,258

See accompanying notes.

Young America's Foundation
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services			Supporting Services			
	Public Information	Special Projects	Total	Fundraising	Management and General	Total	Total
Advertising and marketing	$ 74,945	$ 902,656	$ 977,601	$ 3,865	$ -	$ 3,865	$ 981,466
Animal care	-	10,095	10,095	-	4,255	4,255	14,350
Bank fees and charges	44,034	33,586	77,620	14,145	5,999	20,144	97,764
Books, subscriptions and reference	10,854	201,812	212,666	200	21,733	21,933	234,599
Conferences, banquets & meetings	21,500	57,572	79,072	-	9,095	9,095	88,167
Depreciation expense	163,901	1,072,625	1,236,526	74,519	178,781	253,300	1,489,826
Equipment rental & maintenance	30,902	299,759	330,661	-	85,194	85,194	415,855
Equipment < $1000	-	7,289	7,289	-	2,604	2,604	9,893
Honoraria	-	1,242,459	1,242,459	-	-	-	1,242,459
Housing	-	771,500	771,500	-	13,166	13,166	784,666
Insurance	2,150	19,612	21,762	-	305,279	305,279	327,041
Interest expense	-	-	-	-	11,991	11,991	11,991
Landscaping & maintenance	-	77,840	77,840	-	43,501	43,501	121,341
List rental expense	192,106	9,960	202,066	56,672	-	56,672	258,738
Meals	210	1,184,424	1,184,634	-	30,971	30,971	1,215,605
Other expenses	2,616	10,013	12,629	956	20,878	21,834	34,463
Outsourcing & consulting	275,897	420,166	696,063	83,157	143,730	226,887	922,950
Payroll benefit fees	1,396	9,831	11,227	706	1,716	2,422	13,649
Payroll taxes	32,796	193,033	225,829	14,229	35,080	49,309	275,138
Penalties and fines	-	16	16	-	637	637	653
Personal property tax	-	-	-	-	9,600	9,600	9,600
Postage and shipping	1,528,465	140,434	1,668,899	389,158	132,325	521,483	2,190,382
Preservation expenses	-	1,591	1,591	-	838	838	2,429
Printing & copying	1,825,941	322,710	2,148,651	415,378	9,193	424,571	2,573,222
Professional development	16,420	3,886	20,306	19,530	7,489	27,019	47,325
Professional fees	109,857	530,004	639,861	337,609	249,100	586,709	1,226,570
Real estate tax	5,894	18,256	24,150	-	59,963	59,963	84,113
Rent and occupancy	62,353	639,076	701,429	31,526	114,471	145,997	847,426
Office repairs & maintenance	-	12,420	12,420	-	10,320	10,320	22,740
Salaries and benefits	546,798	4,069,198	4,615,996	308,772	701,614	1,010,386	5,626,382
Scholarships	-	201,455	201,455	-	-	-	201,455
Supplies	113,231	248,170	361,401	55,939	34,761	90,700	452,101
Taxes, other	-	-	-	-	8,315	8,315	8,315
License and registration fees	-	421	421	299	5,670	5,969	6,390
IT web services	48,475	383,035	431,510	-	14,587	14,587	446,097
Telephone & telecommunications	8,359	55,844	64,203	636	18,283	18,919	83,122
Travel	4,909	1,241,596	1,246,505	-	16,016	16,016	1,262,521
	$ 5,124,009	$ 14,392,344	$ 19,516,353	$ 1,807,296	$ 2,307,155	$ 4,114,451	$ 23,630,804

See accompanying notes.

Young America's Foundation
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	(Restated) 2017
Cash flows from operating activities:		
Change in net assets	**$ 527,197**	$ 2,026,530
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	**1,490,310**	1,489,826
Loss on accounts receivable	**-**	143,772
Loss on disposal of property, buildings and equipment	**39**	-
Change in value of split interest agreement	**46,466**	(143,579)
Realized and unrealized (gain) loss on investment related to annuities	**78,062**	(145,688)
Realized and unrealized (gain) loss on investment	**2,551,937**	(873,235)
Change in present value discount on promises to give and bequests	**169,393**	20,248
Receipt of restricted contributions, endowment	**(1,099,424)**	(3,800,000)
Change in:		
Accounts receivable, net	**235,131**	328,702
Bequests receivable, net	**(4,279,500)**	(862,976)
Promises to give, net	**(504,718)**	2,829,170
Prepaid expense	**(25,625)**	(160,203)
Other assets	**52,980**	(166)
Accounts payable and accrued expenses	**(205,096)**	289,522
Deferred revenue	**1,398**	-
Deferred rent	**(233,845)**	(211,865)
Deferred compensation plans	**20,309**	482,268
Net cash provided by (used in) operating activities	**(1,174,986)**	1,412,326
Cash flows from investing activities:		
Sales of investments	**8,926,862**	18,605,361
Purchases of investments	**(13,064,966)**	(10,801,968)
Redemption of certificates of deposit, restricted	**-**	56,002
Purchases of certificates of deposit	**(55,801)**	
Purchases of property, buildings and equipment	**(2,866,349)**	(3,180,592)
Purchases of collections	**(661,590)**	(9,367)
Net cash provided by (used in) investing activities	**(7,721,844)**	4,669,436
Cash flows from financing activities:		
Proceeds from annuities issued	**20,603**	36,800
Payments of annuities	**(117,750)**	(118,543)
Payments of notes payable	**(1,000,000)**	-
Receipt of restricted contributions, endowment	**1,099,424**	3,800,000
Net cash provided by financing activities	**2,277**	3,718,257
Net change in cash and cash equivalents	**(8,894,553)**	9,800,019
Cash and cash equivalents, beginning of year	**12,126,477**	2,326,458
Cash and cash equivalents, end of year	**$ 3,231,924**	$ 12,126,477
Supplemental disclosure of cash flow information:		
Property purchased with promissory note	**$ -**	$ 2,000,000

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

Young America's Foundation (the "Foundation") is a not-for-profit organization chartered on November 18, 1969 and headquartered in Reston, Virginia. The Foundation was organized to promote, encourage, and support the development of youth leadership through a series of programs designed to assist young people 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, Young Americans for Freedom student chapters, 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:

> Premier youth-oriented conferences introducing students to the ideas that make our country great: individual freedom, limited government, a strong national defense, free enterprise, and traditional values. These conferences are held in various locations around the country and are geared to college and high school students.
>
> Campus initiatives include lectures, training materials, and a network of Young Americans for Freedom student chapters. The Foundation provides conservative students with the necessary information, tools and resources to effectively advance conservative ideas on their college or high school campus.
>
> 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 Reagan Ranch, Western White House, 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.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying policies of the organization are in accordance with accounting principles generally accepted in the United States of America applied on a basis consistent with that of the preceding years. The Foundation reports information regarding its financial position and activities under standards for not-for-profit organizations issued by the Financial Accounting Standards Board (FASB).

Basis of accounting

These financial statements are prepared under the accrual basis of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as incurred.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates also affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates and assumptions.

Classification of net assets

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Under the standards for not-for-profit organizations issued by FASB, the Foundation is required to report information regarding its financial position and activities in two classes of net assets as follows:

> <u>Net assets without donor restrictions</u> – not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.
>
> <u>Net assets with donor restrictions</u> – subject to stipulations imposed to donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Cash and cash equivalents

For financial statement purposes, the Foundation considers highly liquid debt instruments purchased with original maturities of ninety days or less to be cash equivalents. At times, the Foundation's cash may exceed federally insured limits. The Foundation does not believe that this results in any significant credit risk. Cash held for long-term purposes includes cash received with donor-imposed restrictions that limit their use to long-term purposes within net assets with donor restrictions.

Certificate of deposit

The certificate of deposit totaled $55,801 and $0 as of December 31, 2018 and 2017, respectively.

Investments

Investments are reported at fair value and contributions of marketable securities are recorded at their fair value at the date of donation. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the Statements of Activities. Dividends and interest are recognized as earned.

Accounts receivable

Accounts receivable are amounts due from colleges and universities for speaker reimbursements and contributions received postmarked by, but not deposited until after December 31. 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 for the allowance for doubtful accounts on historical losses and current economic conditions. Accounts receivable are determined to be past due on a contractual term of 30 days. There was no allowance for doubtful accounts as of December 31, 2018 and 2017.

Bequests 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. Bequests receivable are reviewed for collectability and a provision for uncollectible promises to give is recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. As of December 31, 2018 and 2017, the allowance for uncollectible bequests was $0.

Promises to give

Unconditional promises to give are recorded as contributions when received. Amounts expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on promises to give made prior to January 1, 2009 are computed using risk-free interest rates applicable to the years in which the amounts are pledged. The discounts on promises to give made after January 1, 2009 are computed using a discount rate equal to the prevailing local borrowing rate. Amortization of the discount is included in contribution revenue. Management does not believe that an allowance for uncollectible promises to give is necessary.

Property and equipment

Property, buildings and equipment are stated at cost and are 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, building and equipment additions and improvements acquired at a cost greater than $1,000 are capitalized. Contributed property and equipment is recorded at fair value at the date of the donation. If donors stipulate how long the assets must be used, the contributions are recoded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Leasehold improvements

Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the asset.

Collections

The Foundation's collections are made up of historical treasures that are held for educational and curatorial purposes. Collections have been recorded as assets at cost, if purchased, or at estimated fair value as of the date of contribution, if contributed. Depreciation is not recorded on collections.

Beneficial interest in remainder trusts

The Foundation is named as the beneficiary in remainder trusts held by third parties. The trusts, which are invested in cash equivalents, equity and fixed income funds and other assets, are measured at the present value of the future distribution expected to be received over the term of the agreement. The discount rates used in the present value calculation are between 7% and 7.5%. The trusts are included in other assets on the Statements of Financial Position.

Beneficial interest in perpetual trust

The Foundation is named as the beneficiary in a perpetual trust held by a third party. Perpetual trusts are initially recorded as permanently restricted public support (bequest or contribution revenue, depending on the initial source of the gift) at fair value, based on the Foundation's interest in the fair value of the underlying trust assets at the time of the gift. Subsequent changes to the trust's fair value are reported as permanently restricted net unrealized gains or losses on perpetual trusts and are included in change in value of split interest agreement on the Statements of Activities. Income received from the trust is reported as temporarily restricted or unrestricted investment income, depending on the existence or absence of donor-imposed restrictions. The trust is included in other assets on the Statements of Financial Position.

Under the term of the trust, the Foundation has an irrevocable right to receive a portion of the income earned on the trust assets in perpetuity. Distributions from the trust are based on the terms of the underlying trust agreement and generally require that investment income be distributed on at least an annual basis. The trust is invested in cash equivalents, municipal bonds, preferred securities, common stocks, mutual funds, real estate trusts and funds and real property.

Annuities payable

The liability for annuities is based on actuarially determined present values considering the income, beneficiaries and applicable discount rates based on federal tables. Actuarial adjustments are recognized in the Statements of Activities for the changes in the value and are included in change in value of split interest agreements (see Note 11).

Deferred rent

The Foundation recognizes the minimum non-contingent rents required under operating leases as rent expense on a straight-line basis over the life of the lease. Differences between amounts recognized as expense and the amounts actually paid are recorded as deferred rent on the Statements of Financial Position.

Revenue recognition

Contributions **-** Contributions, which include unconditional promises to give, are reported at net realizable value at the date the contribution is received. 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. Restricted contributions received in the current year whose restrictions are met during the current year are classified as support without donor restrictions.

Bequests **-** Income from bequests is recognized when notification is received from the estate of an unconditional bequest that is measurable.

Conference income **-** Conference income is recognized on the date that the conference takes place.

Speaker income **-** Speaker income is recognized on the date the speech takes place.

List rental income **-** List rental income is recognized when a contract with a mailing house is fulfilled.

Publication sales **-** Publication sales income is recognized at the point of the sale of the materials.

In-kind contribution - In-kind contributions are recorded at their fair value at the earlier of when promised or received, provided there is an objective basis for such valuation.

Donated securities

The Foundation classifies cash receipts from the sale of donated securities that upon receipt were converted nearly immediately into cash and contained no donor-imposed restrictions as cash flows from operations on the Statements of Cash Flows, while cash receipts from the sale of donated securities with donor-imposed long-term restrictions are classified as financing activities. Otherwise, receipts from the sale of donated securities are classified as cash flows from investing activities.

Functional allocation of expenses

The costs of furthering the mission of the Foundation through programs and activities are reflected in the financial statements on a functional basis. As such, certain costs have been allocated among programs and supporting activities. Management on a fair and equitable basis determines such allocations.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries & benefits	Time and effort
Depreciation	Department salary
Rent & occupancy	Department salary
Postage & shipping	Analysis of purpose
Printing	Analysis of purpose
Equipment rental & maintenance	Analysis of purpose
Outsourcing & consulting	Analysis of purpose
Professional fees	Analysis of purpose
IT	Analysis of purpose
Travel	Analysis of purpose
Meals	Analysis of purpose

Costs of joint activities

The Foundation accounts for costs of joint activities which are part fundraising and have elements of one or more other functions, such as program or management and general, according to certain criteria of purpose, audience and content in order to allocate any portion of the costs of joint activities to a functional area other than fundraising.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2018 and 2017, advertising costs totaled $569,843 and $314,732, respectively.

Income tax status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent of any unrelated business income. Therefore, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2018 and 2017. The Foundation is classified as a public charity.

New Accounting Pronouncement

During 2018, the Foundation adopted ASU No. 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The 2017 financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources. These disclosures have been presented for 2018 as allowed by ASU No. 2016-14. See note 3 for the effects of the retrospective application to net assets.

Recently issued accounting standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)". The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The FASB issued four additional standards that amended and/or clarified certain guidance and provisions in ASU 2014-09, all of which are effective for the Foundation January 1, 2019. The Foundation is currently evaluating the impact on its financial statements as a result of the adoption of these new standards.

Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions (Topic 958)". Under this guidance, it provides clarification for determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional. The FASB issued four additional standards that amended and/or clarified certain guidance and provisions in ASU 2018-08, all of which are effective for the Foundation January 1, 2019. The Foundation is currently evaluating the impact on its financial statements as a result of the adoption of these new standards.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases". Under the new standards, lessees will need to recognize a right-of-use asset and a lease liability for virtually all their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. For income statement purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. Extensive quantitative and qualitative disclosures will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The new standard will be effective for the Foundation January 1, 2020, and the Foundation is currently evaluating the effect this accounting standard may have on its financial statements.

Subsequent events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 31, 2019, the date the financial statements were available to be issued.

3. Correction of an Error, Prior Period Restatement and Adjustment for Adoption of ASU No. 2016-14

The 2017 financial statements have been restated to reflect a permanently restricted contribution which had been erroneously classified as unrestricted as well as a temporarily restricted contribution that was mistakenly classified as a permanently restricted contribution in the presentation of the financial statements. The effect of the restatement on the statements of financial position and activities as of and for the year ended December 31, 2017 are as follows:

Statement of Financial Position:	**Unrestricted Net Assets**	**Temporarily Restricted Net Assets**	**Permanently Restricted Net Assets**	**Total Net Assets**
As previously presented at 12/31/2017:	$ 37,632,216	$ 12,009,489	$ 19,845,224	$ 69,486,929
Effect of Restatement	(2,000,000)	500,000	1,500,000	-
As restated at 12/31/2017	$ 35,632,216	$ 12,509,489	$ 21,345,224	$ 69,486,929

Statement of Activities:	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
As previously presented at 12/31/2017:				
Contributions	$ 12,672,424	$ 1,510,853	$ 1,833,000	$ 16,016,277
Effect of Restatement	(2,000,000)	500,000	1,500,000	-
As restated at 12/31/2017	$ 10,672,424	$ 2,010,853	$ 3,333,000	$ 16,016,277
As previously presented at 12/31/2017:				
Total support and revenue, net of net of net assets released from restrictions	$ 24,841,711	$ (1,013,428)	$ 1,930,958	$ 25,759,241
Effect of Restatement	(2,000,000)	500,000	1,500,000	-
As restated at 12/31/2017	$ 22,841,711	$ (513,428)	$ 3,430,958	$ 25,759,241

Statement of Activities (continued):	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
As previously presented at 12/31/2017:				
Change in net assets	$ 1,109,000	$ (1,013,428)	$ 1,930,958	$ 2,026,530
Effect of Restatement	(2,000,000)	500,000	1,500,000	-
As restated at 12/31/2017	$ (891,000)	$ (513,428)	$ 3,430,958	$ 2,026,530
As previously presented at 12/31/2017				
Net assets, end of year	$ 37,632,216	$ 12,009,489	$ 19,845,224	$ 69,486,929
Effect of Restatement	(2,000,000)	500,000	1,500,000	-
As restated at 12/31/2017	$ 35,632,216	$ 12,509,489	$ 21,345,224	$ 69,486,929

The effect of the adjustment for ASU 2016-14 is as follows:

	ASU 2016-14 Classifications		
Statements of Financial Position	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
As restated above:			
Unrestricted	$ 35,632,216	$ -	$ 35,632,216
Temporarily restricted	-	12,509,489	12,509,489
Permanently restricted	-	21,345,224	21,345,224
Net assets as reclassified	$ 35,632,216	$ 33,854,713	$ 69,486,929

Statements of Activities	**ASU 2016-14 Classifications** Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As restated above:			
Contributions	$ 10,672,424	$ 5,343,853	$ 16,016,277
Total support and revenue	22,841,711	2,917,530	25,759,241
Change in net assets	(891,000)	2,917,530	2,026,530
Net assets, end of year as reclassified	$ 35,632,216	$ 33,854,713	$ 69,486,929

4. Availability and Liquidity

As part of its liquidity management, the Foundation has a policy to structure its financial assets to be available as its general expenses, liabilities, and other obligations come due. The Foundation seeks to cover 2 months of budgeted operational expenses (approximately $4 million). Excess cash is invested in the Foundation's investment portfolio (see Note 5). The Foundation has working capital of $32,707,472 and average days cash on hand of 60 days at December 31, 2018.

Financial assets available for general expenditure within one year of the statements of financial position consist of the following at December 31, 2018:

Current financial assets:	
Cash and cash equivalents	$ 3,231,924
Investments	24,733,472
Accounts receivable, net	383,611
Bequests receivable, current portion	3,000,000
Promises to give, current portion	2,235,000
Prepaid expenses	341,450
Total current financial assets	33,925,457
Less amounts not available to be used within one year:	
Short-term investments and bequests with donor restrictions	24,842,190
Financial assets available to meet general expenditures over the next twelve months	$ 9,083,267

5. Investments

The Foundation considers investment return on restricted funds to be unrestricted support if restrictions are met during the fiscal year. The Foundation received donations with respect to charitable gift annuities from various donors (see Note 11). The funds are restricted until the obligations under the annuities have been met.

Investments consisted of the following as of December 31:

	2018	2017
Money market mutual funds	**$ 66,249**	$ 80,254
Domestic equity mutual funds	**15,717,210**	11,414,529
Equities	**3,627,846**	4,256,541
Fixed income mutual funds	**5,840,866**	7,935,967
Government securities	**476,520**	454,959
Exchange traded funds	**11,021**	11,295
Total investments	**$ 25,739,712**	$ 24,153,545

Investment income (loss) consisted of the following for the year ended December 31:

	2018	2017
Investment income:		
Interest and dividends	**$ 747,914**	$ 746,020
Investment fees	**(94,770)**	(101,907)
Realized and unrealized gains (losses)	**(2,003,650)**	2,614,439
Gross investment income (loss)	**(1,350,506)**	3,258,552
Plus: investment income (loss) included in change in value of annuities	**(58,902)**	167,605
Total investment income (loss)	**$ (1,409,408)**	$ 3,426,157

6. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* provides the framework for measuring and reporting financial assets and liabilities at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The codification establishes a three-level hierarchy which prioritizes the inputs used in measuring fair values. These tiers include:

Level 1: quoted prices in active markets for identical assets or liabilities as of the reporting date;

Level 2: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices (such as interest rate and yield curves).

Level 3: uses inputs that are unobservable, supported by little or no market activity and reflect significant management judgment.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurements at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Mutual funds*:* Valued at the quoted market value of the net asset value (NAV) of shares held by the Foundation at year end. The mutual funds held by the Foundation are deemed to be actively traded.

Equity securities: Valued at the closing price reported in the active market in which individual securities are traded.

Government securities: Valued at the quoted market price or dealer quotes for similar instruments that are used to estimate the fair value.

Exchange traded funds: Valued at the quoted market price of the net asset value (NAV) of shares held by the Foundation at year-end.

The tables below summarize investments, by level, for items measured at fair value on a recurring basis at December 31, 2018 and 2017:

	Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Beneficial interest in remainder trusts	**$ -**	**$ -**	**$ 292,761**	**$ 292,761**
Beneficial interest in perpetual trust	**$ -**	**$ -**	**$ 905,232**	**$ 905,232**
Charitable gift annuity liability	**$ -**	**$ -**	**$ (845,670)**	**$ (845,670)**
Investments:				
Money market mutual funds	**$ 66,249**	**$ -**	**$ -**	**$ 66,249**
Domestic equity mutual funds	**15,717,210**	**-**	**-**	**15,717,210**
Equities	**3,627,846**	**-**	**-**	**3,627,846**
Fixed income mutual funds	**5,840,866**	**-**	**-**	**5,840,866**
Government securities	**-**	**476,520**	**-**	**476,520**
Exchange traded funds	**11,021**	**-**	**-**	**11,021**
Total investments	**$ 25,263,192**	**$ 476,520**	**$ -**	**$ 25,739,712**

	Fair Value as of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Beneficial interest in remainder trusts	$ -	$ -	$ 335,279	$ 335,279
Beneficial interest in perpetual trust	$ -	$ -	$ 994,216	$ 994,216
Charitable gift annuity liability	$ -	$ -	$ (864,757)	$ (864,757)
Investments:				
Money market mutual funds	$ 80,254	$ -	$ -	$ 80,254
Domestic equity mutual funds	11,414,529	-	-	11,414,529
Equities	4,256,541	-	-	4,256,541
Fixed income mutual funds	7,935,967	-	-	7,935,967
Government securities	-	454,959	-	454,959
Exchange traded funds	11,295	-	-	11,295
Total investments	$ 23,698,586	$ 454,959	$ -	$ 24,153,545

The Foundation recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the years ended December 31, 2018 and 2017.

Level 3 beneficial interest in remainder trusts, which are invested in cash equivalents, equity and fixed income funds, and other assets are measured at the present value of the future distributions expected to be received over the term of the agreement, discounted at rates between 7% and 7.5%, which reflect current market conditions, adjusted for the life expectancy of the lead beneficiary using IRS actuarial tables.

The following is a reconciliation of the beginning to ending balance of the beneficial interests in remainder trusts measured at fair value using significant unobservable inputs (level 3) during the periods ended December 31:

Beneficial interest in remainder trusts	**2018**	**2017**
Beginning balance	**$ 335,279**	$ 289,658
Unrealized gain (loss) on trusts	**(42,518)**	45,621
Ending balance	**$ 292,761**	$ 335,279

The valuation of the beneficial interest in the perpetual trusts falls under level 3, as there are no significant observable inputs. The trust valuation is based on the Foundation's interest in the fair value of the underlying trust assets.

The following is a reconciliation of the beginning to ending balance of the beneficial interest in perpetual trust measured at fair value using significant unobservable inputs (Level 3) during the periods ended December 31:

Beneficial interest in perpetual trust	**2018**	**2017**
Beginning balance	**$ 994,216**	$ 896,258
Change in value	**(88,984)**	97,958
Ending balance	**$ 905,232**	$ 994,216

The unrealized gain (loss) on trusts is the change in value of the split-interest agreement and is recorded in revenue on the Statements of Activities.

The Level 3 charitable gift annuity liability is valued using the income approach, in the form of present value using interest rates ranging from 1% and 6.2%, and the 2000 Annuity life expectancy tables as of December 31, 2018 and 2017. As of January 1, 2015, any new gift annuity received is discounted based on the 2012 IAR table. The discount rate is determined based on the individual annuity agreement. The discount associated with the liability is adjusted for changes in life expectancies.

The following is a reconciliation of the beginning to ending balance of the charitable gift annuity liability measured at fair value using significant unobservable inputs (level 3) during the years ended December 31:

Charitable gift annuity liability	**2018**	**2017**
Beginning balance	$ **864,757**	$ 859,240
Additions	**20,604**	36,800
Payments	**(117,751)**	(118,543)
Actuarial change in value	**78,060**	87,260
Ending balance	$ **845,760**	$ 864,757

The following tables summarize the valuation techniques and significant unobservable inputs used for the Foundation's assets and liabilities categorized within Level 3 of fair value hierarchy at December 31, 2018 and 2017:

Assets and liabilities	Valuation Techniques	Unobservable Input	Range of Significant Input Values	Fair Value at December 31, 2018
Beneficial interest in remainder trusts	**Income approach**	**Discount rate**	**7% - 7.5%**	**$ 292,761**
	Present value of future cash flows	**Life expectancy**	**IRS Actuarial Table Pub. 1458**	
Beneficial interest in perpetual trust	**Income approach Discounted cash flow analysis of assets contributed to the trust**	**Beneficial interest based on assets contributed to the trust**	**N/A**	**$ 905,232**
Charitable gift annuity liability	**Income approach**	**Discount rate**	**1% - 6.2%**	**$ 845,760**
	Present value of future cash flows	**Life expectancy**	**Annuity 2000 Tables and 2012 IAR Tables**	

Assets and liabilities	Valuation Techniques	Unobservable Input	Range of Significant Input Values	Fair Value at December 31, 2017
Beneficial interest in remainder trusts	Income approach	Discount rate	7% - 7.5%	$ 335,279
	Present value of future cash flows	Life expectancy	IRS Actuarial Table Pub. 1458	
Beneficial interest in perpetual trust	Income Approach Discounted cash flow analysis of assets contributed to the trust	Beneficial interest based on assets contributed to the trust	N/A	$ 994,216
Charitable gift annuity liability	Income approach	Discount rate	1% - 6.2%	$ (864,757)
	Present value of future cash flows	Life expectancy	Annuity 2000 Tables and 2012 IAR Tables	

7. Promises to Give

As of December 31 promises to give are comprised of the following:

	2018	2017
Promises to give expected in:		
Less than one year	**$ 2,235,000**	$ 1,665,283
Two to five years	**1,246,132**	1,311,132
	3,481,132	2,976,415
Less: discount	**(93,169)**	(53,238)
Total promises to give, net	**$ 3,387,963**	$ 2,923,177

Unconditional promises to give are discounted to their present value using risk free rates of return rates between 4.40% and 4.51%.

As of December 31, 2018, one donor had a pledge balance outstanding which represented 57% of total promises to give. As of December 31, 2017, one donor had a pledge balance outstanding which represented 68% of total promises to give.

8. Bequests Receivable

Bequests receivable are comprised of the following at December 31:

	2018	2017
Bequests expected in:		
Less than one year	$ 3,000,000	$ 1,720,500
One to five years	8,000,000	5,000,000
	11,000,000	6,720,500
Less: discount	(516,223)	(386,772)
Total bequests receivable, net	$ 10,483,767	$ 6,333,728

Bequests receivable are discounted to their present value using a risk free rate of return rates between 2.72% and 4.51%.

As of December 31, 2018, four donors had bequest receivable balances outstanding which represent 100% of total bequest receivables. As of December 31, 2017, two donors had bequest receivable balances outstanding which represent 97% of total bequest receivables.

9. Property, Buildings and Equipment

Property, buildings and equipment is as follows at December 31:

	2018	2017
Land and improvements	$ 12,453,966	$ 12,018,966
Buildings and improvements	24,166,416	22,132,741
Furniture and equipment	4,192,410	3,794,775
Vehicles	100,484	100,484
	40,813,276	38,046,966
Less: accumulated depreciation	(12,766,372)	(11,276,062)
Property, buildings and equipment, net	$ 28,146,904	$ 26,770,904

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 historic treasure. Property, buildings and equipment include the cost of the Reagan Ranch.

In 2017, the Foundation purchased the Smith Ranch in California, which is adjacent to the Reagan Ranch, for $5,000,000. The Foundation has a promissory note with the seller of the property with a balance of $1,000,000 and $2,000,000 at December 31, 2018 and 2017, respectively. See Note 12 for more information.

In 2018, the Foundation purchased a house in Washington, D.C. for approximately $2.4 million. The space will serve as a unique location for intimate receptions, supporter dinners and meetings, staff and ally office space, National Journalism Center and alumni gatherings and as well as other smaller events.

Depreciation expense totaled $1,490,310 and $1,489,826 for the years ended December 31, 2018 and 2017, respectively.

10. Collections

The Foundation holds collections for education purpose 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 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 these collections.

11. Annuities

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 and financial statement purposes.

The Foundation invests the assets in a financial institution separately from its other investments and considered these investments to be net assets with donor restrictions until the beneficiary's death. The Foundation maintains a separate brokerage account specifically for charitable gift annuities governed by the laws of California. The balance of this account as December 31, 2018 and 2017, totaled $827,389, and $926,642, respectively. Total assets separately maintained as cash and investments relating to charitable gift annuities totaled $1,435,896 and $1,627,202, as of December 31, 2018 and 2017, respectively.

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 contribution 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 donor restricted revenue. For the years ended December 31, 2018 and 2017, contributions related to gift annuities were $45,425 and $100,000, respectively. Gift annuity liabilities terminated as a result of annuitant deaths during 2018 and 2017 were $57,778 and $0, respectively. The annuity liability is adjusted annually based upon actuarially computed present values.

The change in investments segregated for annuities, as reflected in the accompanying statement of activities, consists of the following at December 31:

	2018	**2017**
Investment income	**$ 33,994**	$ 31,713
Realized and unrealized gains (losses)	**(83,594)**	145,688
Investment fees	**(9,302)**	(9,794)
Payout at death	**(57,778)**	-
Actuarial adjustment	**(78,060)**	(87,260)
Change in value of investments segregated for annuities	**$ (194,740)**	$ 80,346

12. Note Payable

On March 30, 2017, the Foundation entered into a promissory note agreement with the sellers of the Smith Ranch in the amount of $2,000,000. Payments are due in installments. The first installment of $1,000,000 was paid in January of 2018 and the second installment of $1,000,000 is due on November 1, 2019, unless demanded sooner by the Holder. The seller made demand for accelerated payment of the balance and was paid in full January 2019. Interest on the note is based upon the Federal Funds rate which was 2.4% at December 31, 2018. Interest expense was $8,920 and $11,991 during 2018 and 2017, respectively.

13. Letter of Credit

A letter of credit for $55,778 has been issued on behalf of the Foundation by a bank in Virginia. The beneficiary is a business which requires it as part of a leasing agreement. The letter of credit expires on December 31, 2021.

14. Net Assets with Donor Restrictions

Net Assets with donor restrictions are available for the following purpose at December 31:

	2018	2017
Purpose restricted for period after December 31:		
Program assistance: unappropriated endowment earnings	**$ -**	$ 1,734,188
Unused restricted contributions – Reagan Ranch	**114,132**	-
Reclass from perm restricted – Reagan Ranch	**500,000**	500,000
	614,132	2,234,188
Time restricted for period after December 31:		
Beneficial interests in charitable trusts	**292,761**	335,279
Bequests receivable	**7,483,767**	6,333,728
Gift annuities	**488,377**	683,117
Promises to give	**3,387,963**	2,923,177
	11,652,868	10,275,301
Perpetual endowment		
High school conference	**$ 1,900,000**	$ 1,900,000
Internships	**275,000**	275,000
Promises to give-Reagan Ranch	**66,000**	66,000
Reagan Ranch endowment	**13,285,308**	13,185,884
Student education	**3,671,123**	671,124
Scholarships	**1,953,000**	1,953,000
Yale lecture series	**800,000**	800,000
General funds	2**,500,000**	1,500,000
Beneficial interest in perpetual trust	**905,232**	994,216
	$ 25,355,663	$ 21,345,224
Underwater endowment	**(504,602)**	**-**
Net assets with donor restrictions	**$ 37,118,061**	$ 33,854,713

15. 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 the donor, are as follows for the years ended December 31:

	2018	2017
Appropriated endowment earnings net of endowment investment return	**$ 999,691**	$ 903,475
Time restricted	**3,230,801**	7,751,303
Net assets released from restriction	**$ 4,230,492**	$ 8,654,778

16. Endowment Funds

The Foundation's endowment consists of restricted contributions established for a variety of purposes (see Note 12). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment net assets are composed entirely of donor-restricted funds.

Interpretation of relevant law

Management of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions – perpetual endowments (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified in net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

i. The duration and preservation of the fund;
ii. The purposes of the organization and donor-restricted endowment fund;
iii. General economic conditions;
iv. The possible effect of inflation and deflation;
v. The expected total return from income and appreciation of investments;
vi. Other resources of the organization;
vii. The investment policies of the organization.

Changes in endowment net assets for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 22,019,196	$ 22,019,196
Investment return:			
Investment income	-	460	460
Net depreciation (realized and unrealized)	-	(1,239,558)	(1,239,558)
Total investment return	-	(1,239,098)	(1,239,098)
Contributions	-	1,099,424	1,099,424
Appropriation of endowment assets for expenditure	-	(999,691)	(999,691)
Endowment net assets, end of year	$ -	$ 20,879,831	$ 20,879,831

Changes in endowment net assets for the year ended December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 17,744,663	$ 17,744,663
Investment return:			
Investment income	-	555,091	555,091
Net depreciation (realized and unrealized)	-	1,322,917	1,322,917
Total investment return	-	1,878,008	1,878,008
Contributions	-	3,300,000	3,300,000
Appropriation of endowment assets for expenditure	-	(903,475)	(903,475)
Endowment net assets, end of year	$ -	$ 22,019,196	$ 22,019,196

The endowment excludes promises to give which are included in net assets with donor restrictions on the Statements of Financial Position.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to return as a fund of perpetual duration. As of December 31, 2018 and 2017, there was an aggregated deficiency from endowment funds of $541,252 and $0, respectively.

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 preserve the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under the investment policy, the endowment assets are invested primarily in level one investments to assume a low level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 5% annually. Actual return in any given year may vary from this amount.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a return strategy in which investment returns are achieved through current yield (interest and dividends) and capital appreciation.

Spending policy and how the investment objectives relate to spending policy

The Foundation has a policy of appropriating for distribution each year the income earned on the endowment funds. In establishing this policy, the Foundation uses a 5% payout rate. Accordingly, over the long-term, the Foundation expects the current spending policy to remain consistent. This is consistent with the Foundation's objective to preserve the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

17. Concentration of Revenue

For the year ended December 31, 2018, one donor contributed 12% of total support and revenue. For the year ended December 31, 2017, one donor contributed 14% of total support and revenue.

18. Allocation of Joint Costs

During 2018 and 2017, the Foundation incurred joint costs of $4,479,140 and $5,221,890, respectively, for information materials primarily related to direct mail, house file mailing and newsletters that included fundraising appeals. Pursuant to joint cost rules (see Note 1), these costs were allocated to the functional areas as follows for the years ended December 31:

	2018	2017
Program Services	$ **3,472,794**	$ 3,913,169
Fundraising	**1,058,346**	1,308,721
Total	$ **4,479,140**	$ 5,221,890

19. Future Minimum Lease Payments

The Foundation entered into a lease agreement in December 2013 for headquarters office space in Reston, Virginia. The lease contained a tenant allowance and rent abatement. The lease commenced in 2014 and has a term of 90.5 months.

Minimum future rental payments under the operating lease as of December 31, 2018 in the aggregate are as follows:

2019	$ 777,266
2020	800,584
2021	684,793
	$ 2,262,643

Rent expense for the years ended December 31, 2018 and 2017 totaled $615,114 and $597,872, respectively.

The Foundation entered into operating leases for a copier and a postage machine. The leases expire in June 2021. Additionally, the Foundation entered into an operating lease for a copier at the Reagan Ranch. The lease expires February 2023.

Future minimum lease payments under the operating leases as of December 31, 2018 are as follows:

2019	$ 27,764
2020	27,764
2021	19,193
2022	10,622
2023	885
	$ 86,288

20. Pension Plan

The Foundation offers a tax-sheltered 403(b) annuity plan to its employees. All full-time employees are eligible for participation on the first of the month following the date of employment. No contributions were made by the Foundation to the plan in either 2018 or 2017.

21. Deferred Compensation Plans

The Foundation has established a nonqualified deferred compensation plan (457(b) Plan) for members of management. Assets held in the 457(b) plan were $326,974 and $274,576 as of December 31, 2018 and 2017, respectively. A deferred compensation liability in the same respective amounts, representing employee contributions, is included in the accompanying Statements of Financial Position. The assets held for the plan are distributed upon termination of employment and until that time, remain subject to the claims of the Foundation's general creditors.

The Foundation also entered into a deferred compensation plan under section 457(f) of the Internal Revenue Code with its president. Assets held in the plan were $679,265 and $711,355 as of December 31, 2018 and 2017, respectively. A deferred compensation liability in the same respective amount, representing employer contributions, is included in the accompanying Statements of Financial Position. Employer contributions to the plan totaled $0 and $285,647 for the years ended December 31, 2018 and 2017, respectively.

22. Related Party Transactions

Three board members were engaged as conference speakers during the year and received honoraria for their services. Amounts purchased or incurred with this related party totaled approximately $38,000 and $70,000 for the years ended December 31, 2018 and 2017, respectively. There were no amounts owed to related parties as of December 31, 2018 and 2017. Board members are prohibited from participating in decisions for which they have an interest. Board members contributed approximately $25,000 and $26,000 for the years ended December 31, 2018 and 2017, respectively, to the Foundation.

23. Hotel Commitments

The Foundation typically signs contracts with hotels for future events a year or longer in advance of the event. It is also not unusual for a cancellation clause to be included in these hotel contracts. At December 31, 2018, the Foundation has five hotel contracts that include cancellation clauses. These cancellation clauses require the payment of a cancellation fee if the Foundation cancels the event up to $309,411.

24. Risk and Uncertainties

The Foundation invests in various investment securities that are exposed to different risks such as interest rate, credit and market volatility risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the Foundation's account balances and amount reported in the Statements of Financial Position.

25. Subsequent Events

Subsequent to year end, the Foundation sold property in Herndon, Virginia for $336,875.