

YOUNG AMERICA'S FOUNDATION
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2012 AND 2011



Young America's Foundation

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Audited Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 21
Supplementary Information	
Independent Auditor's Report on Supplementary Information	22
Schedules of Functional Expenses	23 - 24



Independent Auditor's Report

Board of Directors
Young America's Foundation
Herndon, Virginia

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

☎ 301.231.6200
☎ 301.231.7630
www.aronsonllc.com
info@aronsonllc.com

We have audited the accompanying financial statements of **Young America's Foundation** (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2012 and 2011, and the related Statements of Activities and Changes in Net Assets and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Young America's Foundation** as of December 31, 2012 and 2011, 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.

Aronson LLC

Rockville, Maryland
June 17, 2013

Young America's Foundation

Statements of Financial Position

<i>December 31,</i>	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 4,387,575	\$ 2,241,784
Investments	1,787,227	1,762,137
Accounts receivable, net	149,645	31,500
Bequests receivable, net	150,000	717,500
Promises to give	516,614	2,884,689
Total current assets	6,991,061	7,637,610
Cash held for long term purposes	1,100,000	100,050
Restricted cash	382,000	382,000
Investments, net of current portion	15,318,586	12,647,509
Property, buildings and equipment, net	20,682,261	21,384,077
Bequests receivable, net	4,835,053	-
Promises to give, net	795,348	2,140,527
Collections	482,195	480,695
Other assets	356,886	353,419
Total assets	\$ 50,943,390	\$ 45,125,887
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,553,011	\$ 1,429,577
Annuities payable	116,664	163,834
Notes payable	299,016	265,845
Total current liabilities	1,968,691	1,859,256
Long-term liabilities		
Notes payable, net of current portion	1,322,065	1,947,452
Annuities payable, net of current portion	525,186	644,366
Total liabilities	3,815,942	4,451,074
Net assets		
Unrestricted	24,669,909	22,666,020
Temporarily restricted	8,288,820	3,882,114
Permanently restricted	14,168,719	14,126,679
Total net assets	47,127,448	40,674,813
Total liabilities and net assets	\$ 50,943,390	\$ 45,125,887

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Young America's Foundation

Statements of Activities and Changes in Net Assets

<i>For the Years Ended December 31,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Support and revenue								
Contributions	\$ 12,382,090	\$ 92,845	\$ 42,040	\$ 12,516,975	\$ 10,767,164	\$ 2,585,908	\$ 620,597	\$ 13,973,669
Bequests	3,267,955	4,835,053	-	8,103,008	1,165,825	-	-	1,165,825
Conference income	141,849	-	-	141,849	130,491	-	-	130,491
Speaker income	497,490	-	-	497,490	378,000	-	-	378,000
List rental income	179,328	-	-	179,328	198,183	-	-	198,183
Publication sales	17,329	-	-	17,329	17,506	-	-	17,506
Change in value of annuities	-	76,735	-	76,735	-	(65,669)	-	(65,669)
Rental income	34,238	-	-	34,238	60,267	-	-	60,267
Investment income	874,020	579,089	-	1,453,109	91,426	13,080	-	104,506
Other income	13,431	-	-	13,431	37,178	-	-	37,178
Net assets released from restrictions	1,177,016	(1,177,016)	-	-	3,837,480	(3,837,480)	-	-
Total support and revenue	18,584,746	4,406,706	42,040	23,033,492	16,683,520	(1,304,161)	620,597	15,999,956
Expenses								
Program services:								
Public information	6,160,199	-	-	6,160,199	5,639,719	-	-	5,639,719
Special projects	7,717,175	-	-	7,717,175	7,248,277	-	-	7,248,277
Total program services	13,877,374	-	-	13,877,374	12,887,996	-	-	12,887,996
Supporting services:								
Fundraising	1,646,878	-	-	1,646,878	1,540,736	-	-	1,540,736
Management and general	1,056,605	-	-	1,056,605	970,202	-	-	970,202
Total supporting services	2,703,483	-	-	2,703,483	2,510,938	-	-	2,510,938
Total expenses	16,580,857	-	-	16,580,857	15,398,934	-	-	15,398,934
Change in net assets	2,003,889	4,406,706	42,040	6,452,635	1,284,586	(1,304,161)	620,597	601,022
Net assets, beginning of year	22,666,020	3,882,114	14,126,679	40,674,813	21,381,434	5,186,275	13,506,082	40,073,791
Net assets, end of year	\$ 24,669,909	\$ 8,288,820	\$ 14,168,719	\$ 47,127,448	\$ 22,666,020	\$ 3,882,114	\$ 14,126,679	\$ 40,674,813

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Young America's Foundation

Statements of Cash Flows

<i>For the Years Ended December 31,</i>	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 6,452,635	\$ 601,022
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	889,248	872,574
Loss on disposal of property, buildings and equipment	-	740
Bad debt expense	16,198	47,373
Contributed investments	(1,097,150)	(516,598)
Contributions recognized from charitable gift annuities	(2,173)	-
Actuarial change in annuities payable	(12,804)	99,908
Realized and unrealized (gain) loss on investments related to annuities	(31,958)	3,863
Realized and unrealized (gain) loss on investments	(836,532)	510,306
Change in present value discount on promises to give	(68,444)	(65,572)
Receipt of permanently restricted contributions	(3,210,511)	(2,381,114)
(Increase) decrease in:		
Accounts receivable, net	(134,343)	(35,873)
Bequests receivable, net	(4,267,553)	(497,472)
Promises to give, net	3,781,698	3,209,376
Collections	(1,500)	(1,265)
Other assets	(3,467)	(30,197)
Increase (decrease) in:		
Accounts payable and accrued expenses	123,434	228,841
Net cash provided by operating activities	1,596,778	2,045,912
Cash flows from investing activities		
Change in cash held for long term purposes	(999,950)	(50)
Sales of investments	4,955,344	4,605,953
Purchases of investments	(5,685,871)	(6,533,669)
Purchases of property, buildings and equipment	(187,432)	(239,812)
Net cash used in investing activities	(1,917,909)	(2,167,578)
Cash flows from financing activities		
Payments on notes payable	(592,216)	(1,506,565)
Proceeds from annuities issued	10,000	11,077
Payments of annuities	(161,373)	(164,638)
Receipt of permanently restricted contributions	3,210,511	2,381,114
Net cash provided by financing activities	2,466,922	720,988
Net change in cash and cash equivalents	2,145,791	599,322
Cash and cash equivalents, beginning of year	2,241,784	1,642,462
Cash and cash equivalents, end of year	\$ 4,387,575	\$ 2,241,784
Supplemental disclosures		
Interest paid	\$ 125,601	\$ 186,666

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Young America's Foundation

Notes to Financial Statements

1. Organization and significant accounting policies

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 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, 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 National Conservative Student Conference (college 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.

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.

Basis of presentation: Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Young America's Foundation

Notes to Financial Statements

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When a donor restriction expires, that is, when the time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

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

Cash and cash equivalents: For financial statement purposes, the Foundation considers all 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 temporarily or permanently restricted net assets.

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

Fair value measurement: The Foundation values certain assets at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Young America's Foundation

Notes to Financial Statements

Accounts receivable: Accounts receivable are amounts due from colleges and universities for speaker reimbursements. 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. As of December 31, 2012 and 2011, the allowance for doubtful accounts was \$4,000.

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.

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 any allowance for uncollectible promises to give is necessary.

Property, buildings 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 recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

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 distributions 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 in the Statements of Financial Position.

Young America's Foundation

Notes to Financial Statements

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 and Changes in Net Assets for the changes in the value (See Note 8).

Revenue recognition:

Contributions – Contributions, which include unconditional promises to give, are reported at fair 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. Temporarily restricted contributions received in the current year whose restrictions are met during the current year are classified as unrestricted support.

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.

Functional allocation of expenses: The Foundation's expenses have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the areas benefited.

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, 2012 and 2011, advertising costs totaled \$96,112 and \$39,630, respectively.

Young America's Foundation

Notes to Financial Statements

Use of accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax status: The Internal Revenue Service has recognized Young America's Foundation as a Section 501(c)(3) not-for-profit corporation exempt from federal income taxes as provided in the Internal Revenue Code. The Foundation is classified as a public charity.

Uncertainty in income taxes: The Foundation evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2012 and 2011, there are no accruals for uncertain tax positions. If applicable, the Foundation records interest and penalties as a component of income tax expense. Tax years from 2009 through the current year remain open for examination by tax authorities.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through June 17, 2013, which was the date the financial statements were available to be issued.

2. 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 8). The funds are restricted until the obligations under the annuities have been met.

Investments consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Domestic equity mutual funds	\$ 3,142,964	\$ 2,621,205
Equities	4,397,314	3,141,544
Fixed income mutual funds	7,104,212	6,101,211
Government securities	681,496	740,494
International equity mutual funds	1,519,285	1,588,676
International real estate mutual funds	260,542	216,516
Total investments	<u>\$ 17,105,813</u>	<u>\$ 14,409,646</u>

Young America's Foundation

Notes to Financial Statements

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

	2012	2011
Investment income:		
Interest and dividends	\$ 658,068	\$ 662,452
Realized and unrealized gains (losses)	868,490	(514,169)
Gross investment income	1,526,558	148,283
Less: Investment income included in change in value of annuities	(73,449)	(43,777)
Total investment income	\$ 1,453,109	\$ 104,506

3. Fair value

The fair value of investments is as follows:

	Fair Value Measurements at Reporting Data Using				
	December 31, 2012	Total	Level 1	Level 2	Level 3
Beneficial interest in remainder trusts	\$ 257,700	\$ -	\$ -	\$ -	\$ 257,700
Investments:					
Domestic equity mutual funds	\$ 3,142,964	\$ 3,142,964	\$ -	\$ -	\$ -
Equities	4,397,314	4,397,314	-	-	-
Fixed income mutual funds	7,104,212	7,104,212	-	-	-
Government securities	681,496	-	681,496	-	-
International equity mutual funds	1,519,285	1,519,285	-	-	-
International real estate mutual funds	260,542	260,542	-	-	-
Total investments	\$ 17,105,813	\$ 16,424,317	\$ 681,496	\$ -	\$ -

Young America's Foundation

Notes to Financial Statements

December 31, 2011	Total	Level 1	Level 2	Level 3
Beneficial interest in remainder trusts	\$ 231,761	\$ -	\$ -	\$ 231,761
Investments:				
Domestic equity mutual funds	\$ 2,621,205	\$ 2,621,205	\$ -	\$ -
Equities	3,141,544	3,141,544	-	-
Fixed income mutual funds	6,101,211	6,101,211	-	-
Government securities	740,494	-	740,494	-
International equity mutual funds	1,588,676	1,588,676	-	-
International real estate mutual funds	216,516	216,516	-	-
Total investments	\$ 14,409,646	\$ 13,669,152	\$ 740,494	\$ -

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, 2012 and 2011.

Level 3 beneficial interests 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 Foundation measured the fair value of certain assets and liabilities using significant unobservable inputs for the years ended December 31, 2012 and 2011, as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Beneficial interest in remainder trusts	2012	2011
Beginning balance	\$ 231,761	\$ 256,614
Unrealized gain (loss) on trusts	25,939	(24,853)
Ending balance	\$ 257,700	\$ 231,761

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 and Changes in Net Assets.

Young America's Foundation

Notes to Financial Statements

4. Promises to give

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

	2012	2011
Promises to give expected in:		
One year	\$ 516,615	\$ 2,884,689
Two to five years	817,765	2,231,388
Six or more years	30,000	30,000
Total promises to give	1,364,380	5,146,077
Less: discount	(52,418)	(120,861)
Total promises to give, net	1,311,962	5,025,216
Less: current portion	(516,614)	(2,884,689)
Long-term promises to give	\$ 795,348	\$ 2,140,527

Unconditional promises to give are discounted to their present value using rates between 2.72% and 5.85%.

As of December 31, 2012, three donors had pledge balances outstanding which represented 70% of total promises to give. As of December 31, 2011, one donor had a pledge balance outstanding which represented 58% of total promises to give.

5. Bequests receivable

As of December 31 bequests receivable are comprised of the following:

	2012	2011
Promises to give expected in:		
One year	\$ 150,000	\$ 717,500
Two to five years	5,000,000	-
Total promises to give	5,150,000	717,500
Less: discount	(164,947)	-
Total promises to give, net	4,985,053	717,500
Less: current portion	(150,000)	(717,500)
Long-term promises to give	\$ 4,835,053	\$ -

Bequests receivable are discounted to their present value using a rate of 2.72%.

As of December 31, 2012, one donor had a bequest receivable balance outstanding which represented 97% of total bequest receivables. As of December 31, 2011, one donor had a bequest receivable balance outstanding which represented 98% of total bequest receivables.

Young America's Foundation

Notes to Financial Statements

6. Property, buildings and equipment

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

	2012	2011
Land	\$ 6,303,035	\$ 6,211,268
Building and improvements	17,835,103	17,797,396
Furniture and equipment	2,627,388	2,601,977
Total property, building and equipment	26,765,526	26,610,641
Less: Accumulated depreciation	(6,083,265)	(5,226,564)
Property, buildings and equipment, net	\$ 20,682,261	\$ 21,384,077

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.

Depreciation expense totaled \$889,248 and \$872,574 for the years ended December 31, 2012 and 2011, respectively.

7. 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 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.

8. 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 Foundation invests the assets in a financial institution separately from its other investments and considers these investments to be temporarily restricted 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 of December 31, 2012 and 2011, totaled \$706,731, and \$831,138, respectively. Total assets separately maintained as cash and investments relating to charitable gift annuities totaled \$1,433,166 and \$1,520,608, as of December 31, 2012 and 2011, 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.

Young America's Foundation

Notes to Financial Statements

Income earned on annuity investments and distributions paid are credited and charged, respectively, against temporarily restricted revenue. For the years ended December 31, 2012 and 2011, contributions related to gift annuities were \$2,173 and \$10,171, respectively. The annuity liability is adjusted annually based upon actuarially computed present values.

The change in the value of annuities consists of the following at December 31:

	2012	2011
Investment income	\$ 41,491	\$ 47,640
Realized and unrealized (losses) gains	31,958	(3,863)
Investment fees	(9,518)	(9,538)
Actuarial adjustment	12,804	(99,908)
Change in value of annuities	\$ 76,735	\$ (65,669)

9. Notes payable

Outstanding notes payable are as follows at December 31:

	2012	2011
<p>Refinanced note payable with a financial institution on April 27, 2010, for \$3,800,000. The original loan balance, swap liability and closing costs were refinanced into a first lien deed of trust; currently collateralized by a security interest in a four-story commercial real estate property owned by the Foundation in Santa Barbara, California (the Property) and assignment of rents and leases on the property, known as the Reagan Ranch Center. The carrying value of the Property as of December 31, 2012, is \$13,146,564. The loan bears interest at a rate of 5.85% fixed for the first five years adjusting at five and ten years to the 30 day LIBOR five year equivalent fixed rate with a spread of 250 basis points and a floor rate of 5.85%. Principal and interest are payable monthly based upon a 15 year amortization with a maturity of April 2025. Additionally, the loan contains covenants of a minimum debt service coverage ratio of 1.00 to 1.00 and must maintain deposits with the institution at all times of \$382,000. As of December 31, 2012 and 2011, the Foundation has satisfied the covenants.</p>	\$ 1,618,630	\$ 2,206,416

Young America's Foundation

Notes to Financial Statements

The Foundation purchased a copier during 2008 with a note payable for five years at 13.67% interest.

	2,451	6,881
Total notes payable	1,621,081	2,213,297
Less: current portion	(299,016)	(265,845)

Non-current portion

\$ 1,322,065 \$ 1,947,452

Future maturities of the notes payable at December 31, 2012, are as follows:

2013	\$	299,017
2014		314,387
2015		333,280
2016		353,308
2017		321,089
Thereafter		-
Total		\$ 1,621,081

10. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2012	2011
Program assistance:		
Wood lecture series	\$ 52,528	\$ 52,528
Un-appropriated endowment earnings	1,001,355	422,266
Time restricted for periods after December 31:		
Beneficial interests in charitable trusts	257,700	231,761
Bequests receivable	4,985,053	717,500
Gift annuities	791,316	712,408
Promises to give	1,200,868	1,745,651
Temporarily restricted net assets	\$ 8,288,820	\$ 3,882,114

Young America's Foundation

Notes to Financial Statements

11. Permanently restricted net assets

Permanently restricted net assets consist of donations made with the restriction that the principal be maintained into perpetuity. Permanently restricted net assets consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
High school conference	\$ 1,000,000	\$ 1,000,000
Internships	275,000	275,000
Promises to give – Reagan Ranch	27,829	2,999,117
Promises to give – student education	83,265	280,448
Reagan Ranch endowment	11,537,889	8,526,854
Student education	416,736	217,260
Scholarships	328,000	328,000
Yale lecture series	500,000	500,000
Permanently restricted net assets	\$ 14,168,719	\$ 14,126,679

12. 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:

	<u>2012</u>	<u>2011</u>
Time restricted	\$ 1,177,016	\$ 3,837,480
Net assets released from restrictions	\$ 1,177,016	\$ 3,837,480

Young America's Foundation

Notes to Financial Statements

13. Endowment funds

The Foundation's endowment consists of permanently restricted contributions established for a variety of purposes (See Note 11). 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 the 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 permanently restricted net assets (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 that is classified in temporarily restricted net assets 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:

1. The duration and preservation of the fund
2. The purposes of the organization and donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Young America's Foundation

Notes to Financial Statements

Changes in endowment net assets for the years ended December 31:

December 31, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 422,266	\$ 10,847,114	\$ 11,269,380
Investment return:				
Investment income	-	546,639	-	546,639
Net appreciation (realized and unrealized)	-	588,690	-	588,690
Total investment return	-	1,135,329	-	1,135,329
Cash contributions received	-	-	3,210,510	3,210,510
Appropriations of endowment assets for expenditure	-	(556,240)	-	(556,240)
Endowment net assets, end of year	\$ -	\$ 1,001,355	\$ 14,057,624	\$ 15,058,979
December 31, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 760,852	\$ 8,466,000	\$ 9,226,852
Investment return:				
Investment income	-	526,870	-	526,870
Net reduction (realized and unrealized)	-	(513,790)	-	(513,790)
Total investment return	-	13,080	-	13,080
Cash contributions received	-	-	2,381,114	2,381,114
Appropriations of endowment assets for expenditure	-	(351,666)	-	(351,666)
Endowment net assets, end of year	\$ -	\$ 422,266	\$ 10,847,114	\$ 11,269,380

Young America's Foundation

Notes to Financial Statements

Description of amounts classified as permanently restricted and temporarily restricted net assets (endowment only)

	2012	2011
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 14,057,624	\$ 10,847,114
Temporarily restricted net assets		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA	\$ 1,001,355	\$ 422,266

The endowment excludes promises to give which are included in permanently restricted net assets 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 retain as a fund of perpetual duration. As of December 31, 2012 and 2011, there were no such deficiencies.

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 returns 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.

Young America's Foundation

Notes to Financial Statements

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 considered the long-term expected return on its endowment. 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.

14. Concentration of revenue For the year ended December 31, 2012, one donor pledged 21% of total support and revenue. There was no such concentration in 2011.

15. Allocation of joint costs During 2012 and 2011, the Foundation incurred joint costs of \$5,029,517 and \$4,480,794, respectively, for informational materials primarily related to direct mail, house file mailings 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:

	<u>2012</u>	<u>2011</u>
Program services	\$ 4,309,957	\$ 3,906,456
Fundraising	719,560	574,338
Total	\$ 5,029,517	\$ 4,480,794

16. 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 2012 or 2011.

17. 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, 2012 and 2011, totaled approximately \$6,000 and \$12,000, respectively. Amounts purchased or incurred with these related parties totaled approximately \$98,000 and \$85,000, for the years ended December 31, 2012 and 2011, respectively. During the years ended December 31, 2012 and 2011, Board members contributed approximately \$66,000 and \$76,000, respectively, to the Foundation.



Independent Auditor's Report on Supplementary Information

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

☎ 301.231.6200
☎ 301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Board of Directors
Young America's Foundation
Herndon, Virginia

We have audited the financial statements of **Young America's Foundation** as of and for the years ended December 31, 2012 and 2011, and our report thereon dated June 17, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses on pages 23 and 24 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rockville, Maryland
June 17, 2013

Young America's Foundation

Schedule of Functional Expenses

<i>For the Year Ended December 31, 2012</i>	Program Services			Supporting Services			Total
	Public Information	Special Projects	Total	Fundraising	Management and General	Total	
Advertising	\$ 29,755	\$ 66,357	\$ 96,112	\$ -	\$ -	\$ -	\$ 96,112
Bad debt	-	16,198	16,198	-	-	-	16,198
Bank charges	18,666	464	19,130	3,038	35,071	38,109	57,239
Conferences, banquets and meetings	17,957	995,093	1,013,050	-	20,251	20,251	1,033,301
Consulting and outsourcing	893,765	399,033	1,292,798	113,821	64,788	178,609	1,471,407
Depreciation	177,752	471,371	649,123	151,190	88,935	240,125	889,248
Equipment and maintenance	43,051	294,619	337,670	-	7,266	7,266	344,936
Honorarium	1,000	1,129,200	1,130,200	-	3,000	3,000	1,133,200
Insurance	2,266	149,991	152,257	-	17,726	17,726	169,983
Interest	67	131,116	131,183	-	672	672	131,855
List rental	299,396	-	299,396	51,310	-	51,310	350,706
Maintenance and preservation - Reagan Ranch	-	98,171	98,171	-	-	-	98,171
Other taxes and fees	-	-	-	-	6,941	6,941	6,941
Payroll taxes	46,598	122,051	168,649	40,091	22,923	63,014	231,663
Penalties	8	384	392	-	43	43	435
Personal property tax	457	5,273	5,730	-	11,291	11,291	17,021
Postage and shipping	1,816,299	73,525	1,889,824	328,208	101	328,309	2,218,133
Printing	1,531,290	129,371	1,660,661	208,179	54	208,233	1,868,894
Professional fees	205,604	140,055	345,659	8,277	178,817	187,094	532,753
Publications	52,254	176,723	228,977	-	4,411	4,411	233,388
Real estate tax	5,843	1,319	7,162	-	11,188	11,188	18,350
Rent and occupancy	18,672	208,801	227,473	-	59,571	59,571	287,044
Salaries and benefits	852,342	2,207,027	3,059,369	724,178	458,301	1,182,479	4,241,848
Scholarships	-	198,525	198,525	-	-	-	198,525
Supplies and miscellaneous	86,254	100,533	186,787	15,006	56,897	71,903	258,690
Telecommunications	6,828	45,190	52,018	3,580	2,103	5,683	57,701
Travel	54,075	556,785	610,860	-	6,255	6,255	617,115
Total expenses	\$ 6,160,199	\$ 7,717,175	\$ 13,877,374	\$ 1,646,878	\$ 1,056,605	\$ 2,703,483	\$ 16,580,857

See Independent Auditor's Report on Supplementary Information.

Young America's Foundation

Schedule of Functional Expenses

<i>For the Year Ended December 31, 2011</i>	Program Services			Supporting Services			Total
	Public Information	Special Projects	Total	Fundraising	Management and General	Total	
Advertising	\$ 3,000	\$ 33,498	\$ 36,498	\$ 3,132	\$ -	\$ 3,132	\$ 39,630
Bad debt	-	47,373	47,373	-	-	-	47,373
Bank charges	21,287	405	21,692	3,155	49,291	52,446	74,138
Conferences, banquets and meetings	4,929	905,459	910,388	-	8,035	8,035	918,423
Consulting and outsourcing	1,559,971	386,372	1,946,343	179,031	59,152	238,183	2,184,526
Depreciation	174,515	462,464	636,979	157,063	78,532	235,595	872,574
Equipment and maintenance	67,191	240,654	307,845	-	4,213	4,213	312,058
Honorarium	-	727,210	727,210	-	-	-	727,210
Insurance	9,837	117,573	127,410	-	19,044	19,044	146,454
Interest	589	182,718	183,307	-	3,359	3,359	186,666
List rental	199,571	-	199,571	31,364	-	31,364	230,935
Maintenance and preservation - Reagan Ranch	-	109,236	109,236	-	-	-	109,236
Other taxes and fees	-	9,002	9,002	-	5,808	5,808	14,810
Payroll taxes	43,297	116,526	159,823	39,468	20,586	60,054	219,877
Penalties	86	781	867	-	1,217	1,217	2,084
Personal property tax	2,659	54	2,713	-	1,454	1,454	4,167
Postage and shipping	1,265,799	74,742	1,340,541	212,695	1,212	213,907	1,554,448
Printing	1,012,605	166,827	1,179,432	131,987	3,306	135,293	1,314,725
Professional fees	209,892	124,404	334,296	7,252	159,257	166,509	500,805
Publications	40,830	201,506	242,336	704	6,952	7,656	249,992
Real estate tax	3,285	1,222	4,507	-	13,599	13,599	18,106
Rent and occupancy	20,125	215,227	235,352	-	58,783	58,783	294,135
Salaries and benefits	839,793	2,202,061	3,041,854	753,061	389,596	1,142,657	4,184,511
Scholarships	-	192,625	192,625	-	-	-	192,625
Supplies and miscellaneous	112,218	101,866	214,084	17,003	78,078	95,081	309,165
Telecommunications	7,858	43,428	51,286	4,821	2,508	7,329	58,615
Travel	40,382	585,044	625,426	-	6,220	6,220	631,646
Total expenses	\$ 5,639,719	\$ 7,248,277	\$ 12,887,996	\$ 1,540,736	\$ 970,202	\$ 2,510,938	\$ 15,398,934

See Independent Auditor's Report on Supplementary Information.