

Young America's Foundation

Financial Statements

Years Ended December 31, 2016 and 2015

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Independent Auditors' Report

Board of Directors
Young America's Foundation
Reston, Virginia

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 statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Prior Period Financial Statements

The financial statements of Young America's Foundation as of December 31, 2015, were audited by other auditors whose report dated July 6, 2016, expressed an unmodified opinion on those statements.

Other Matters - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 23 - 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.

Dixon Hughes Goodman LLP

**Tysons, Virginia
June 12, 2017**

Young America's Foundation
Statements of Financial Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,326,458	\$ 12,071,465
Investments and deferred compensation	30,850,754	22,280,119
Accounts receivable, net	963,730	320,132
Bequests receivable, current portion	935,010	2,270,588
Promises to give, current portion	3,410,453	474,032
	<u>38,486,405</u>	<u>37,416,336</u>
Total current assets		
Cash held for long term purposes	100,001	100,001
Certificate of deposit, restricted	56,002	56,002
Bequests receivable, less current portion, net of discount	4,738,708	4,792,601
Promises to give, less current portion, net of discount	2,286,662	548,200
Property, building and equipment, net	23,080,138	24,239,405
Collections	830,755	503,145
Other assets	1,495,867	1,288,757
	<u>32,588,133</u>	<u>31,528,111</u>
Total noncurrent assets		
Total assets	<u>\$ 71,074,538</u>	<u>\$ 68,944,447</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,017,833	\$ 863,936
Annuities payable, current portion	113,854	143,498
Deferred revenue	600	600
	<u>1,132,287</u>	<u>1,008,034</u>
Total current liabilities		
Annuities payable, less current portion	745,386	830,257
Deferred rent	1,232,803	1,423,330
Deferred compensation plans	503,663	216,652
	<u>3,614,139</u>	<u>3,478,273</u>
Total liabilities		
Net assets:		
Unrestricted	36,523,216	39,037,817
Temporarily restricted	13,022,917	9,099,972
Permanently restricted	17,914,266	17,328,385
	<u>67,460,399</u>	<u>65,466,174</u>
Total net assets		
Total liabilities and net assets	<u>\$ 71,074,538</u>	<u>\$ 68,944,447</u>

See accompanying notes.

Young America's Foundation
Statements of Activities
Years Ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and other changes:								
Contributions	\$ 12,034,889	\$ 5,519,171	\$ 507,485	\$ 18,061,545	\$ 12,149,598	\$ 721,839	\$ 2,059,264	\$ 14,930,701
Bequests	3,378,395	-	-	3,378,395	17,733,725	2,009,230	-	19,742,955
Conference income	187,889	-	-	187,889	192,873	-	-	192,873
Speaker income	241,760	-	-	241,760	267,145	-	-	267,145
List rental income	105,283	-	-	105,283	143,338	-	-	143,338
Publication sales	24,283	-	-	24,283	23,439	-	-	23,439
Change in value of split interest agreement	-	3,651	78,396	82,047	-	(112,720)	(73,501)	(186,221)
Rental income	22,982	-	-	22,982	45,686	-	-	45,686
Investment income (loss)	844,175	1,504,484	-	2,348,659	(775,457)	-	-	(775,457)
Other income	80,070	-	-	80,070	488	-	-	488
Loss on disposal of fixed assets	(31,164)	-	-	(31,164)	(48,496)	-	-	(48,496)
Loss on impairment	-	-	-	-	(320,000)	-	-	(320,000)
Loss on restricted promises to give	-	(3,939)	-	(3,939)	-	(376,407)	-	(376,407)
Net assets released from restrictions	3,100,422	(3,100,422)	-	-	4,243,829	(4,243,829)	-	-
Total support and revenue	19,988,984	3,922,945	585,881	24,497,810	33,656,168	(2,001,887)	1,985,763	33,640,044
Expenses:								
Program services:								
Public information	5,988,570	-	-	5,988,570	5,810,922	-	-	5,810,922
Special projects	12,502,256	-	-	12,502,256	11,902,844	-	-	11,902,844
Total program services	18,490,826	-	-	18,490,826	17,713,766	-	-	17,713,766
Supporting services:								
Fundraising	1,652,573	-	-	1,652,573	1,970,777	-	-	1,970,777
Management and general	2,360,186	-	-	2,360,186	1,797,602	-	-	1,797,602
Total supporting services	4,012,759	-	-	4,012,759	3,768,379	-	-	3,768,379
Total expenses	22,503,585	-	-	22,503,585	21,482,145	-	-	21,482,145
Change in net assets	(2,514,601)	3,922,945	585,881	1,994,225	12,174,023	(2,001,887)	1,985,763	12,157,899
Net assets, beginning of year	39,037,817	9,099,972	17,328,385	65,466,174	26,863,794	11,101,859	15,342,622	53,308,275
Net assets, end of year	\$ 36,523,216	\$ 13,022,917	\$ 17,914,266	\$ 67,460,399	\$ 39,037,817	\$ 9,099,972	\$ 17,328,385	\$ 65,466,174

See accompanying notes.

Young America's Foundation
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,994,225	\$ 12,157,899
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,395,895	1,338,021
Change in allowance for doubtful accounts for promises to give	3,939	69,500
Loss on disposal of property, buildings and equipment	115,000	48,496
Loss on impairment	-	320,000
Change in value of split interest agreement	(88,737)	203,857
Realized and unrealized (gain) loss on investment related to annuities	(54,717)	66,109
Realized and unrealized (gain) loss on investment	(1,489,377)	1,631,916
Change in present value discount on promises to give and bequests	161,063	(4,387)
Receipt of permanently restricted contributions	(474,485)	(2,078,234)
Change in:		
Accounts receivable, net	(643,598)	628,150
Bequests receivable, net	1,335,578	(976,682)
Promises to give, net	(4,785,992)	1,216,767
Other assets	(118,373)	56,506
Accounts payable and accrued expenses	153,897	(772,973)
Deferred revenue	-	(5,265)
Deferred rent	(190,527)	(141,388)
Deferred compensation plans	287,011	216,652
Net cash (used in) provided by operating activities	<u>(2,399,198)</u>	<u>13,974,944</u>
Cash flows from investing activities:		
Change in cash held for long term purposes	-	381,998
Sales of investments	4,911,205	7,532,853
Purchases of investments	(11,952,654)	(12,999,241)
Purchases of certificate of deposit, restricted	-	(224)
Proceeds from the sale of property, buildings and equipment	83,836	854,080
Purchases of property, buildings and equipment	(351,628)	(1,800,720)
Sale (purchase) of collections	(327,610)	750
Net cash used in investing activities	<u>(7,636,851)</u>	<u>(6,030,504)</u>
Cash flows from financing activities:		
Payment on note payable	-	(1,093,254)
Proceeds from annuities issued	8,872	-
Payments of annuities	(192,315)	(125,975)
Receipt of permanently restricted contributions	474,485	2,078,234
Net cash provided by financing activities	<u>291,042</u>	<u>859,005</u>
Net change in cash and cash equivalents	<u>(9,745,007)</u>	<u>8,803,445</u>
Cash and cash equivalents, beginning of year	<u>12,071,465</u>	<u>3,268,020</u>
Cash and cash equivalents, end of year	<u>\$ 2,326,458</u>	<u>\$ 12,071,465</u>
Supplemental disclosure of cash flow information:		
Cash paid for Interest	<u>\$ -</u>	<u>\$ 23,584</u>

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 student.

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 three classes of net assets as follows:

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

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 as net assets released from restrictions.

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

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 temporarily or permanently restricted net assets.

Certificate of deposit

The certificate of deposit totaled \$56,002 as of December 31, 2016 and 2015. The certificate bears interest at a rate of 0.2% and has a maturity of one year, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

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 amounts 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, 2016 and 2015.

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, 2016 and 2015, the allowance for uncollectible bequests was \$0 and \$75,000, respectively.

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 recorded 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 9).

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. 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.

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.

Young America's Foundation
Notes to Financial Statements

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 Foundation's expenses have been summarized on a functional basis in the Statements of Activities. 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, 2016 and 2015, advertising costs totaled \$309,479 and \$382,286, 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, 2016 and 2015. The Foundation is classified as a public charity.

Reclassification

Certain reclassifications have been made to the 2015 financial statements to confirm to the 2016 financial statement presentation.

Subsequent events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 12, 2017, the date the financial statements were available to be issued.

3. 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 9). The funds are restricted until the obligation under the annuities have been met.

Young America's Foundation
Notes to Financial Statements

Investments consisted of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Money market mutual funds	\$ 79,196	\$ 82,168
Domestic equity mutual funds	16,786,668	9,274,809
Equities	6,265,028	3,791,665
Fixed income mutual funds	7,229,575	6,656,897
Government securities	486,088	326,076
Exchange traded funds	4,199	233,685
International equity mutual funds	-	1,914,819
Total investments	<u>\$ 30,850,754</u>	<u>\$ 22,280,119</u>

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

	<u>2016</u>	<u>2015</u>
Investment income:		
Interest and dividends	\$ 732,190	\$ 916,049
Realized and unrealized gains (losses)	<u>1,543,890</u>	<u>(1,698,025)</u>
Gross investment income (loss)	2,276,080	(781,976)
Less: investment (income) loss included in change in value of annuities	<u>(72,579)</u>	<u>6,519</u>
Total investment income (loss)	<u>\$ 2,348,659</u>	<u>\$ (775,457)</u>

4. 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.

Young America's Foundation
Notes to Financial Statements

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, 2016 and 2015.

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, 2016 and 2015:

	Fair Value as of December 31, 2016			Total
	Level 1	Level 2	Level 3	
Beneficial interest in remainder trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 289,658</u>	<u>\$ 289,658</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 896,258</u>	<u>\$ 896,258</u>
Charitable gift annuity liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (859,240)</u>	<u>\$ (859,240)</u>
Investments:				
Money market mutual funds	\$ 79,196	\$ -	\$ -	\$ 79,196
Domestic equity mutual funds	16,786,668	-	-	16,786,668
Equities	6,265,028	-	-	6,265,028
Fixed income mutual funds	7,229,575	-	-	7,229,575
Government securities	-	486,088	-	486,088
Exchange traded funds	<u>4,199</u>	<u>-</u>	<u>-</u>	<u>4,199</u>
Total investments	<u>\$ 30,364,666</u>	<u>\$ 486,088</u>	<u>\$ -</u>	<u>\$ 30,850,754</u>

Young America's Foundation
Notes to Financial Statements

	Fair Value as of December 31, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in remainder trusts	\$ -	\$ -	\$ 279,317	\$ 279,317
Beneficial interest in perpetual trust	\$ -	\$ -	\$ 817,862	\$ 817,862
Charitable gift annuity liability	\$ -	\$ -	\$ (973,755)	\$ (973,755)
Investments:				
Money market mutual funds	\$ 82,168	\$ -	\$ -	\$ 82,168
Domestic equity mutual funds	9,274,809	-	-	9,274,809
Equities	3,791,665	-	-	3,791,665
Fixed income mutual funds	6,656,897	-	-	6,656,897
Government securities	-	326,076	-	326,076
Exchange traded funds	233,685	-	-	233,685
International equity mutual funds	1,914,819	-	-	1,914,819
Total investments	<u>\$ 21,954,043</u>	<u>\$ 326,076</u>	<u>\$ -</u>	<u>\$ 22,280,119</u>

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, 2016 and 2015.

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	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 279,317	\$ 303,472
Unrealized gain (loss) on trusts	<u>10,341</u>	<u>(24,155)</u>
Ending balance	<u>\$ 289,658</u>	<u>\$ 279,317</u>

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	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 817,862	\$ 891,363
Change in value	<u>78,396</u>	<u>(73,501)</u>
Ending balance	<u>\$ 896,258</u>	<u>\$ 817,862</u>

Young America's Foundation
Notes to Financial Statements

The unrealized (loss) gain on trusts is the change in value of the split-interest agreement and is recorded in revenue on the Statement 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, 2016 and 2015. 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	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 973,755	\$ 993,529
Additions	8,872	-
Payments	(192,315)	(125,975)
Actuarial change in value	<u>68,928</u>	<u>106,201</u>
Ending balance	<u>\$ 859,240</u>	<u>\$ 973,755</u>

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, 2016 and 2015.

<u>Assets and liabilities</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range of Significant Input Values</u>	<u>Fair Value at December 31, 2016</u>
Beneficial interest in remainder trusts	Income approach	Discount rate	7% - 7.5%	\$ 289,658
	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 interest based the trust	N/A	\$ 896,258
Charitable gift annuity liability	Income approach	Discount rate	1% - 6.2%	\$ (859,240)
	Present value of future cash flows	Life expectancy	Annuity 2000 Tables	

Young America's Foundation
Notes to Financial Statements

<u>Assets and liabilities</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range of Significant Input Values</u>	<u>Fair Value at December 31, 2015</u>
Beneficial interest in remainder trusts	Income approach	Discount rate	7% - 7.5%	\$ 279,317
	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	\$ 817,862
Charitable gift annuity liability	Income approach	Discount rate	1% - 6.2%	\$ (973,755)
	Present value of future cash flows	Life expectancy	Annuity 2000 Tables	

5. Promises to Give

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

	<u>2016</u>	<u>2015</u>
Promises to give expected in:		
Less than one year	\$ 3,410,453	\$ 474,032
Two to five years	2,445,132	599,500
Over five years	-	-
	<u>5,855,585</u>	1,073,532
Less: discount	<u>(158,470)</u>	<u>(51,300)</u>
Total promises to give, net	<u>\$ 5,697,115</u>	<u>\$ 1,022,232</u>

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

As of December 31, 2016, one donor had a pledge balance outstanding which represent 85% of total promises to give. As of December 31, 2015, one donor had a pledge balance outstanding which represented 36% of total promises to give.

6. Bequests Receivable

As of December bequests receivable are comprised of the following:

	<u>2016</u>	<u>2015</u>
Bequests expected in:		
Less than one year	\$ 935,010	\$ 2,270,588
One to five years	<u>5,000,000</u>	<u>5,000,000</u>
	5,935,010	7,270,588
Less: discount and allowances	<u>(261,292)</u>	<u>(207,399)</u>
Total bequests receivable, net	<u>\$ 5,673,718</u>	<u>\$ 7,063,189</u>

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

As of December 31, 2016, two donors had bequest receivable balance outstanding which represent 100% of total bequest receivables. As of December 31, 2015, two donors had a bequest receivable balance outstanding which represent 96% of total bequest receivables.

7. Property, Buildings and Equipment

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

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 7,993,066	\$ 7,993,066
Buildings and improvements	21,070,211	20,048,063
Construction in progress	-	1,745,654
Furniture and equipment	4,147,468	3,274,478
Vehicles	<u>98,582</u>	<u>11,438</u>
	33,309,327	33,072,699
Less: accumulated depreciation	<u>(10,229,189)</u>	<u>(8,833,294)</u>
Property, buildings and equipment, net	<u>\$ 23,080,138</u>	<u>\$ 24,239,405</u>

Among other properties, the Foundation owns and maintains a 688 acre ranch in California, previously owned by president and Mrs. Ronald Reagan. The Foundation considers this ranch to be a historic treasure. Property, buildings and equipment include the cost of the Reagan Ranch.

Depreciation expense totaled \$1,395,895 and \$1,388,021 for the years ended December 31, 2016 and 2015, respectively.

8. 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.

9. 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 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 December 31, 2016 and 2015, totaled \$907,788, and \$347,644, respectively. Total assets separately maintained as cash and investments relating to charitable gift annuities totaled \$1,478,141 and \$1,572,877, as of December 31, 2016 and 2015, 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 temporarily restricted revenue. For the years ended December 31, 2016 and 2015, contributions related to gift annuities were \$25,000 and \$0, respectively. Gift annuity liabilities terminated as a result of annuitant deaths during 2016 totaled \$98,564. The annuity liability is adjusted annually based upon actuarially computed present values.

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

	<u>2016</u>	<u>2015</u>
Investment income	\$ 29,123	\$ 66,897
Realized and unrealized gains (losses)	54,717	(66,109)
Investment fees	(11,261)	(7,307)
Actuarial adjustment	<u>(68,928)</u>	<u>(106,201)</u>
Change in value of annuities	<u>\$ 3,651</u>	<u>\$ (112,720)</u>

10. 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 May 19, 2021. The letter of credit is secured by the certificate of deposit.

Young America's Foundation
Notes to Financial Statements

11. Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Program assistance:		
Wood lecture series	\$ -	\$ 52,528
Un-appropriated endowment earnings	759,655	83,585
Time restricted for period after December 31:		
Beneficial interests in charitable trusts	289,658	279,317
Bequests receivable	5,673,718	7,063,189
Gift annuities	602,771	599,121
Promises to give	<u>5,697,115</u>	<u>1,022,232</u>
Temporarily restricted net assets	<u>\$ 13,022,917</u>	<u>\$ 9,099,972</u>

12. 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>2016</u>	<u>2015</u>
High school conference	\$ 1,900,000	\$ 1,500,000
Internships	275,000	275,000
Promises to give – Reagan Ranch	33,000	-
Reagan Ranch endowment	11,685,884	11,683,762
Student education	671,124	598,761
Scholarships	1,953,000	1,953,000
Yale lecture series	500,000	500,000
Beneficial interest in perpetual trust	<u>896,258</u>	<u>817,862</u>
Permanently restricted net assets	<u>\$ 17,914,266</u>	<u>\$ 17,328,385</u>

13. 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>2016</u>	<u>2015</u>
Appropriated endowment earnings net of		
Endowment investment return	\$ 828,414	\$ 1,573,285
Time restricted	<u>2,272,008</u>	<u>2,670,544</u>
Temporarily restriction net assets releases	<u>\$ 3,100,422</u>	<u>\$ 4,243,829</u>

14. Endowment Funds

The Foundation's endowment consists of permanently 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 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 accumulated 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 appreciated of investments;
- vi. Other resources of the organization;
- vii. The investment policies of the organization.

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

	Changes in Net Assets as of December 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 83,585	\$ 16,510,523	\$ 16,594,108
Investment return:				
Investment income	-	296,943	-	296,943
Net depreciation (realized and unrealized)	-	1,207,541	-	1,207,541
Total investment return	-	1,504,484	-	1,504,484
Cash contributions received	-	-	474,485	474,485
Appropriations of endowment assets for expenditure	-	(828,414)	-	(828,414)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 759,655</u>	<u>\$ 16,985,008</u>	<u>\$ 17,744,663</u>

Young America's Foundation
Notes to Financial Statements

	Changes in Net Assets as of December 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 1,656,869	\$ 14,432,289	\$ 16,089,158
Investment return:				
Investment income	-	844,322	-	844,322
Net depreciation (realized and unrealized)	-	(1,617,673)	-	(1,617,673)
Total investment return	-	(773,351)	-	(773,351)
Cash contributions received	-	-	2,078,234	2,078,234
Appropriations of endowment assets for expenditure	-	(799,933)	-	(799,933)
Endowment net assets, end of year	\$ -	\$ 83,585	\$ 16,510,523	\$ 16,594,108

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

Permanently restricted net assets	2016	2015
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 16,985,008	\$ 16,510,523
 Temporarily restricted net assets	2016	2015
The portion of perpetual endowment funds subject to a time and purpose restriction under UPMIFA	\$ 759,655	\$ 83,585

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 return as a fund of perpetual duration. As of December 31, 2016 and 2015, there was no aggregated deficiency from endowment funds.

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 at 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.

15. Concentration of Revenue

For the year ending December 31, 2016, one donor contributed 20% of total support and revenue. For the year ending December 31, 2015, one donor contributed 45% of total support and revenue.

16. Allocation of Joint Costs

During 2016 and 2015, the Foundation incurred joint costs of \$5,163,696 and \$5,679,610, 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:

	<u>2016</u>	<u>2015</u>
Program Services	\$ 4,058,928	\$ 4,323,882
Fundraising	<u>1,104,768</u>	<u>1,355,728</u>
Total	<u>\$ 5,163,696</u>	<u>\$ 5,679,610</u>

17. 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, 2016. In the aggregate are as follows:

2017	\$ 732,648
2018	754,627
2019	777,266
2020	800,584
2021	<u>684,793</u>
	<u>\$ 3,749,918</u>

Rent expense for the years ended December 31, 2016 and 2015, totaled \$630,126 and \$592,800, respectively.

18. 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 2016 or 2015.

19. 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 \$157,291 and \$71,487 as of December 31, 2016 and 2015, respectively. A deferred compensation liability in the same respective amounts, representing employee contributions, is included in the accompanying Statement 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 \$346,372 and \$145,165 as of December 31, 2016 and 2015, respectively. A deferred compensation liability in the same respective amount, representing employer contributions, is included in the accompanying Statement of Financial Position. Employer contributions to the plan totaled \$148,667 and \$148,667 for the years ended December 31, 2016 and 2015, respectively.

20. Related Party Transactions

The Foundation's Vice President is a principal in a firm which provides consulting services to the Foundation. Amounts purchased or incurred with this related party totaled approximately \$75,000 and \$18,000, for the years ended December 31, 2016 and 2015, respectively. There were no amounts owed to related parties as of December 31, 2016 and 2015. Board members are prohibited from participating in decisions for which they have an interest. Board members contributed approximately \$35,000 and \$20,000 for the years December 31, 2016 and December 31, 2015, respectively, to the Foundation.

21. 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.

Supplementary Information

Young America's Foundation
Schedules of Functional Expenses
Year Ended December 31, 2016

	Program Services			Supporting Services			Total
	Public Information	Special Projects	Total	Fundraising	Management and General	Total	
Advertising and marketing	\$ 91,465	\$ 530,497	\$ 621,962	\$ 6,870	\$ 9,330	\$ 16,200	\$ 638,162
Animal care	-	31,200	31,200	-	-	-	31,200
Bank fees and charges	41,950	-	41,950	12,117	47,935	60,052	102,002
Books, subscriptions and reference	24,720	186,316	211,036	460	10,113	10,573	221,609
Conferences, banquets & meetings	-	230,074	230,074	-	6,796	6,796	236,870
Depreciation expense	268,079	722,902	990,981	229,253	175,661	404,914	1,395,895
Equipment rental & maintenance	99,973	340,441	440,414	-	9,442	9,442	449,856
Equipment < \$1000	-	6,129	6,129	-	3,618	3,618	9,747
Honoraria	7,500	1,469,368	1,476,868	-	-	-	1,476,868
Housing	5,217	828,019	833,236	-	40,095	40,095	873,331
Insurance	25,519	2,429	27,948	-	125,009	125,009	152,957
Landscaping & maintenance	-	197,385	197,385	-	3,981	3,981	201,366
List rental expense	314,183	12,403	326,586	44,395	-	44,395	370,981
Meals	36,377	738,636	775,013	-	12,051	12,051	787,064
Other expenses	12,064	62,263	74,327	41,609	15,465	57,074	131,401
Outsourcing & consulting	320,918	549,136	870,054	66,377	206,223	272,600	1,142,654
Payroll benefit fees	-	-	-	-	8,662	8,662	8,662
Payroll taxes	27,609	180,290	207,899	13,582	33,037	46,619	254,518
Penalties and fines	384	2,474	2,858	-	100	100	2,958
Postage and shipping	1,665,559	422,449	2,088,008	439,626	11,283	450,909	2,538,917
Preservation expenses	-	14,227	14,227	-	-	-	14,227
Printing & copying	2,245,768	195,319	2,441,087	477,411	-	477,411	2,918,498
Professional development	912	1,259	2,171	-	5,940	5,940	8,111
Professional fees	127,911	432,407	560,318	10,859	199,234	210,093	770,411
Real estate tax	2,876	25,534	28,410	-	44,079	44,079	72,489
Rent and occupancy	9,600	179,653	189,253	-	685,578	685,578	874,831
Office repairs & maintenance	-	-	-	-	4,632	4,632	4,632
Salaries and benefits	516,177	3,582,452	4,098,629	275,955	592,098	868,053	4,966,682
Scholarships	-	159,540	159,540	-	-	-	159,540

See independent auditors' report.

**Young America's Foundation
Schedules of Functional Expenses
Year Ended December 31, 2016**

(Continued)

	Program Services			Supporting Services			Total
	Public Information	Special Projects	Total	Fundraising	Management and General	Total	
Supplies	86,764	329,523	416,287	34,059	84,743	118,802	535,089
Taxes, other	2,120	7,189	9,309	-	2,110	2,110	11,419
License and registration fees	12,201	-	12,201	-	-	-	12,201
IT web services	-	-	-	-	6,527	6,527	6,527
Telephone & telecommunications	2,759	68,925	71,684	-	10,587	10,587	82,271
Travel	39,965	993,817	1,033,782	-	5,857	5,857	1,039,639
	<u>\$ 5,988,570</u>	<u>\$ 12,502,256</u>	<u>\$ 18,490,826</u>	<u>\$ 1,652,573</u>	<u>\$ 2,360,186</u>	<u>\$ 4,012,759</u>	<u>\$ 22,503,585</u>