



# **THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

## **Financial Statements**

*For the Years Ended August 31, 2016 and 2015*



**and  
Report Thereon**



**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

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**For the Years Ended August 31, 2016 and 2015**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The NEA Foundation for the  
Improvement of Education

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The NEA Foundation for the Improvement of Education (the Foundation), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The NEA Foundation for the Improvement of Education as of August 31, 2016 and 2015, 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.

*Raffa, P.C.*

**Raffa, P.C.**

Washington, DC  
December 8, 2016

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

**STATEMENTS OF FINANCIAL POSITION**

**August 31, 2016 and 2015**

| <b>ASSETS</b>                                     | <b>2016</b>          | <b>2015</b>          |
|---|----------------------|----------------------|
| <b>CURRENT ASSETS</b>                             |                      |                      |
| Cash and cash equivalents                         | \$ 3,020,211         | \$ 1,654,017         |
| Contributions receivable, current portion         | 1,278,131            | 558,333              |
| Prepaid expenses                                  | 28,625               | 23,911               |
| Total current assets                              | 4,326,967            | 2,236,261            |
| <b>LONG-TERM ASSETS</b>                           |                      |                      |
| Contributions receivable, net of current portion  | 330,521              | 410,000              |
| Investments                                       | 43,269,960           | 43,121,520           |
| Property and Equipment                            |                      |                      |
| Furniture and fixtures                            | 41,691               | 49,458               |
| Equipment   | 45,390               | 53,601               |
|   | 87,081               | 103,059              |
| Less accumulated depreciation and amortization    | (65,494)             | (75,148)             |
| Net value of property and equipment               | 21,587               | 27,911               |
| <b>TOTAL ASSETS</b>                               | <b>\$ 47,949,035</b> | <b>\$ 45,795,692</b> |
| <b>LIABILITIES AND NET ASSETS</b>                 |                      |                      |
| <b>CURRENT LIABILITIES</b>                        |                      |                      |
| Accounts payable                                  | \$ 151,539           | \$ 181,502           |
| Grants payable, current portion                   | 1,236,887            | 1,196,457            |
| Scholarship funds held as fiscal agent            | 156,132              | 132,090              |
| Accrued payroll and payroll taxes                 | 79,139               | 61,578               |
| Accrued vacation payable                          | 17,829               | 25,168               |
| Capital lease obligations, current portion        | 4,130                | 4,229                |
| Total current liabilities                         | 1,645,656            | 1,601,024            |
| <b>LONG-TERM LIABILITIES</b>                      |                      |                      |
| Grants payable, net of current portion            | -                    | 288,283              |
| Capital lease obligations, net of current portion | 7,229                | 11,359               |
| Total liabilities                                 | 1,652,885            | 1,900,666            |
| <b>NET ASSETS</b>                                 |                      |                      |
| Unrestricted                                      | 42,986,149           | 42,557,294           |
| Temporarily restricted                            | 3,310,001            | 1,337,732            |
| Total net assets                                  | 46,296,150           | 43,895,026           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>           | <b>\$ 47,949,035</b> | <b>\$ 45,795,692</b> |

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

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

**STATEMENTS OF ACTIVITIES  
For the Years Ended August 31, 2016 and 2015**

|   | 2016          |                        |               | 2015          |                        |               |
|---|---------------|------------------------|---------------|---------------|------------------------|---------------|
|   | Unrestricted  | Temporarily Restricted | Total         | Unrestricted  | Temporarily Restricted | Total         |
| <b>SUPPORT AND REVENUE</b>                |               |                        |               |               |                        |               |
| Special events:                           |               |                        |               |               |                        |               |
| Gross revenue                             | \$ 271,787    | \$ 55,016              | \$ 326,803    | \$ 373,097    | \$ 622,008             | \$ 995,105    |
| Cost of direct benefits to attendees      | (117,820)     | -                      | (117,820)     | (106,360)     | -                      | (106,360)     |
| Net income from special events            | 153,967       | 55,016                 | 208,983       | 266,737       | 622,008                | 888,745       |
| Contributions:                            |               |                        |               |               |                        |               |
| From NEA - in-kind                        | 238,000       | -                      | 238,000       | 238,000       | -                      | 238,000       |
| From NEA members passed through NEA       | 1,878,029     | -                      | 1,878,029     | 1,886,424     | -                      | 1,886,424     |
| From all others                           | 106,134       | 4,017,430              | 4,123,564     | 232,970       | 2,341,478              | 2,574,448     |
| Interest and dividends                    | 277,821       | -                      | 277,821       | 262,582       | -                      | 262,582       |
| Net realized gain (loss) on investments   | 1,772,099     | -                      | 1,772,099     | (4,508)       | -                      | (4,508)       |
| Net unrealized gain (loss) on investments | 1,393,560     | -                      | 1,393,560     | (2,002,869)   | -                      | (2,002,869)   |
| Net assets released from restrictions:    |               |                        |               |               |                        |               |
| Satisfaction of restrictions              | 2,100,177     | (2,100,177)            | -             | 2,853,163     | (2,853,163)            | -             |
| Total support and revenue                 | 7,919,787     | 1,972,269              | 9,892,056     | 3,732,499     | 110,323                | 3,842,822     |
| <b>EXPENSES</b>                           |               |                        |               |               |                        |               |
| Program services                          | 6,073,356     | -                      | 6,073,356     | 7,508,403     | -                      | 7,508,403     |
| Supporting services                       |               |                        |               |               |                        |               |
| Management and general                    | 992,752       | -                      | 992,752       | 838,954       | -                      | 838,954       |
| Development                               | 424,824       | -                      | 424,824       | 392,893       | -                      | 392,893       |
| Total expenses                            | 7,490,932     | -                      | 7,490,932     | 8,740,250     | -                      | 8,740,250     |
| CHANGE IN NET ASSETS                      | 428,855       | 1,972,269              | 2,401,124     | (5,007,751)   | 110,323                | (4,897,428)   |
| NET ASSETS, BEGINNING OF YEAR             | 42,557,294    | 1,337,732              | 43,895,026    | 47,565,045    | 1,227,409              | 48,792,454    |
| NET ASSETS, END OF YEAR                   | \$ 42,986,149 | \$ 3,310,001           | \$ 46,296,150 | \$ 42,557,294 | \$ 1,337,732           | \$ 43,895,026 |

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

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended August 31, 2016**

**SUPPORTING SERVICES**

|   | <b>Total<br/>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Development</b> | <b>Total<br/>Supporting<br/>Services</b> | <b>Total</b>        |
|---|---------------------------------------|---------------------------------------|--------------------|--|---------------------|
| Grants and awards   | \$ 2,888,386                          | \$ -                                  | \$ -               | \$ -                                     | \$ 2,888,386        |
| Salaries  | 938,928                               | 346,883                               | 213,068            | 559,951                                  | 1,498,879           |
| Consultants   | 792,570                               | 134,190                               | 8,175              | 142,365                                  | 934,935             |
| Travel  | 336,164                               | 55,281                                | 7,315              | 62,596                                   | 398,760             |
| Employee benefits   | 186,013                               | 76,221                                | 44,616             | 120,837                                  | 306,850             |
| Production management   | 258,900                               | -                                     | -                  | -  | 258,900             |
| In-kind rent  | 145,180                               | 57,120                                | 35,700             | 92,820                                   | 238,000             |
| Pension   | 115,456                               | 45,425                                | 28,391             | 73,816                                   | 189,272             |
| Other miscellaneous expenses,<br>recoveries, and indirect cost<br>allocations | 47,344                                | 32,098                                | 48,311             | 80,409                                   | 127,753             |
| Payroll taxes   | 60,871                                | 23,715                                | 14,822             | 38,537                                   | 99,408              |
| Investment management fees  | -                                     | 97,310                                | -                  | 97,310                                   | 97,310              |
| Conferences and workshops   | 85,690                                | 1,667                                 | 9,239              | 10,906                                   | 96,596              |
| Investment advisor fees   | -                                     | 75,000                                | -                  | 75,000                                   | 75,000              |
| Rent  | 47,579                                | -                                     | -                  | -  | 47,579              |
| In-kind professional services   | 56,322                                | -                                     | -                  | -  | 56,322              |
| Office expenses   | 28,223                                | 24,917                                | 3,123              | 28,040                                   | 56,263              |
| Equipment rental and maintenance  | 29,775                                | 29                                    | 4,179              | 4,208                                    | 33,983              |
| Giveaways and non-cash awards   | 13,037                                | 13,017                                | 2,249              | 15,266                                   | 28,303              |
| Audit   | 16,269                                | 6,401                                 | 4,001              | 10,402                                   | 26,671              |
| In-kind travel  | 20,000                                | -                                     | -                  | -  | 20,000              |
| Depreciation and amortization   | 6,649                                 | 2,616                                 | 1,635              | 4,251                                    | 10,900              |
| Interest  | -                                     | 862                                   | -                  | 862                                      | 862                 |
| Legal   | -                                     | -                                     | -                  | -  | -                   |
| <b>Total Expenses</b>   | <b>\$ 6,073,356</b>                   | <b>\$ 992,752</b>                     | <b>\$ 424,824</b>  | <b>\$ 1,417,576</b>                      | <b>\$ 7,490,932</b> |

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

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended August 31, 2015

|   | <b>SUPPORTING SERVICES</b>            |                                       |                    |  | <b>Total</b>        |
|---|---------------------------------------|---------------------------------------|--------------------|--|---------------------|
|   | <b>Total<br/>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Development</b> | <b>Total<br/>Supporting<br/>Services</b> |                     |
| Grants and awards   | \$ 4,052,305                          | \$ -                                  | \$ -               | \$ -                                     | \$ 4,052,305        |
| Salaries  | 946,537                               | 354,444                               | 212,521            | 566,965                                  | 1,513,502           |
| Consultants   | 790,396                               | 76,310                                | 2,030              | 78,340                                   | 868,736             |
| Travel  | 453,553                               | 41,701                                | 12,767             | 54,468                                   | 508,021             |
| Employee benefits   | 203,314                               | 71,204                                | 44,226             | 115,430                                  | 318,744             |
| Production management   | 213,158                               | -                                     | -                  | -  | 213,158             |
| In-kind rent  | 152,320                               | 52,360                                | 33,320             | 85,680                                   | 238,000             |
| Pension   | 138,469                               | 47,599                                | 30,290             | 77,889                                   | 216,358             |
| Other miscellaneous expenses,<br>recoveries, and indirect cost<br>allocations | 244,009                               | (87,813)                              | 19,435             | (68,378)                                 | 175,631             |
| Payroll taxes   | 65,973                                | 22,678                                | 14,432             | 37,110                                   | 103,083             |
| Investment management fees  | -                                     | 99,379                                | -                  | 99,379                                   | 99,379              |
| Conferences and workshops   | 1,811                                 | 8,180                                 | 7,330              | 15,510                                   | 17,321              |
| Investment advisor fees   | -                                     | 75,000                                | -                  | 75,000                                   | 75,000              |
| Rent  | 29,435                                | -                                     | -                  | -  | 29,435              |
| In-kind professional services   | 120,124                               | -                                     | -                  | -  | 120,124             |
| Office expenses   | 27,664                                | 26,397                                | 5,008              | 31,405                                   | 59,069              |
| Equipment rental and maintenance  | 30,925                                | -                                     | 3,943              | 3,943                                    | 34,868              |
| Giveaways and non-cash awards   | 7,197                                 | 11,016                                | 2,950              | 13,966                                   | 21,163              |
| Audit   | 16,397                                | 5,636                                 | 3,587              | 9,223                                    | 25,620              |
| In-kind travel  | 10,000                                | -                                     | -                  | -  | 10,000              |
| Depreciation and amortization   | 4,816                                 | 3,681                                 | 1,054              | 4,735                                    | 9,551               |
| Interest  | -                                     | 1,003                                 | -                  | 1,003                                    | 1,003               |
| Legal   | -                                     | 30,179                                | -                  | 30,179                                   | 30,179              |
| <b>Total Expenses</b>   | <b>\$ 7,508,403</b>                   | <b>\$ 838,954</b>                     | <b>\$ 392,893</b>  | <b>\$ 1,231,847</b>                      | <b>\$ 8,740,250</b> |

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

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended August 31, 2016 and 2015

|   | <b>2016</b>  | <b>2015</b>    |
|---|--------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |              |                |
| Change in net assets  | \$ 2,401,124 | \$ (4,897,428) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |              |                |
| Depreciation and amortization   | 10,900       | 9,551          |
| Net realized and unrealized losses (gains) on investments                               | (3,165,659)  | 2,007,377      |
| (Increase) decrease in:   |              |                |
| Contributions receivable  | (640,319)    | (741,607)      |
| Prepaid expenses  | (4,714)      | 9,726          |
| Increase (decrease) in:   |              |                |
| Accounts payable  | (29,963)     | 7,410          |
| Grants payable  | (247,853)    | (1,080,872)    |
| Scholarships held as fiscal agent   | 24,042       | 49,992         |
| Accrued payroll and payroll taxes   | 17,561       | 332            |
| Accrued vacation payable  | (7,339)      | (35)           |
| Net cash used in operating activities   | (1,642,220)  | (4,635,554)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |              |                |
| Proceeds from sale of investments   | 10,099,457   | 2,996,965      |
| Purchases of investments  | (7,082,238)  | (262,571)      |
| Purchases of property and equipment   | (4,576)      | (9,613)        |
| Net cash provided by investing activities   | 3,012,643    | 2,724,781      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |              |                |
| Repayments on capital lease obligations   | (4,229)      | (4,350)        |
| Net cash used in financing activities   | (4,229)      | (4,350)        |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                             | 1,366,194    | (1,915,123)    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                   | 1,654,017    | 3,569,140      |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | \$ 3,020,211 | \$ 1,654,017   |
| Supplemental disclosure of cash flows information:                                      |              |                |
| Cash paid for interest  | \$ 862       | \$ 1,003       |
| Noncash Financing and Investing Activities  |              |                |
| Equipment acquired under capital lease  | \$ -         | \$ 4,500       |
| Capital lease obligation  | -            | (4,500)        |
| Total Noncash Financing and Investing Activities  | \$ -         | \$ -           |

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

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

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NOTE 1      **NATURE OF ACTIVITIES**

The NEA Foundation for the Improvement of Education (the Foundation) is a nonprofit, 501(c)(3) public charity, created in 1969, supported by contributions from educator's dues, corporate sponsors, foundations, and others who support public education initiatives. The Foundation supports student success by helping public school educator's work with key partners to build strong systems of shared responsibility.

The description of the major programs of the Foundation follows:

***Union-District Collaborations/State Affiliate Capacity Building*** – The Foundation partners with education unions, districts and communities to create powerful, sustainable improvements in teaching and learning. Through the unique strength of our partnership with educators, the Foundation champions an approach to school reform that considers the collective voice of teachers in its design and implementation. The Foundation has three efforts that comprise this work:

***The NEA Foundation Closing the Achievement Gaps Initiative*** – is an effort to accelerate the achievement rate for under-achieving low income and minority students via targeted philanthropy. The Foundation's research-based strategy shows that developing and strengthening partnerships among local unions, school districts and community organizations creates a powerful force for improving student performance and a vehicle for systemic reform.

Grants are awarded to district-based teams composed of the school district, the teacher's union and at least one community organization. Together, these partners focus on their community's most pressing achievement gaps and develop a strategy to address them. The joint planning ensures that the implementation effort is owned by all parties – increasing its effectiveness and chances for success.

The Foundation provided grant funds to two different school districts during the year.

***The NEA Foundation Institute for Innovation in Teaching & Learning (the Institute)*** – is a structured learning experience that supports local unions and school district leaders' collaborative efforts to improve education by focusing on a single issue and providing a dedicated coach, connecting leaders to a larger community of practice, and sharing online curriculum on issues of labor-management, and how to lead change and reform. The Institute is comprised of labor-management teams from across the country. Each has identified issues most critical to their students and has made a commitment to work together toward a common goal: to improve the quality of education for their students.

The Foundation provided technical assistance and coaching support to seven different school districts during the year.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

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NOTE 1 NATURE OF ACTIVITIES (continued)

***The NEA Foundation State Affiliate Capacity Building*** – this initiative is a pilot program designed to test whether state affiliate influence and relevance to both its members and the broader educational community increases by expanding services and building skills in support of the professional needs of educators and their students.

Four NEA state affiliates comprise the cohort. These states have sought to expand their mission and role in a variety of ways. They have engaged in extensive assessment of educator needs, designed and implemented new strategic plans, re-imagined the roles and responsibilities of headquarters and field staff, designed online professional development tools and found other new ways to support and engage educators across their states.

***Fiscal Sponsorship*** – The NEA Foundation may serve as a fiscal sponsor for a project that, in the Foundation’s sole determination, aligns well with its mission and advances its charitable purpose. While the organization for which the Foundation is serving as fiscal sponsor is responsible for implementation of the sponsored project, the NEA Foundation provides oversight to ensure that the exempt purpose of the grant is being achieved, and maintains legal and fiduciary responsibility for the sponsored project and the grant funds awarded. Significant fiscal sponsorship requests (\$100,000+) are approved by the Board, and all fiscal sponsorship arrangements are formalized through a written agreement that outlines the specific roles of and responsibilities of the Foundation as the fiscal sponsor and the sponsored organization as the project administrator.

***Grants to Educators/DonorsChoose.org*** – The Foundation supports new ideas and practices to strengthen teaching and learning. Its goal is to fund and share successful strategies to educate and prepare students for bright and rewarding futures. These grants are divided into two categories of grants, described below:

***Student Achievement*** – \$2,000 or \$5,000 grants for pre k-16 educators to improve the academic achievement of students in U.S. public schools and public higher education institutions in any subject area(s). The proposed work should engage students in critical thinking and problem solving that deepen their knowledge of standards-based subject matter.

***Learning & Leadership*** – \$2,000 or \$5,000 grants to support pre k-16 public school teachers, public education support professionals, and/or faculty and staff in public institutions of higher education for one of the following two purposes:

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

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NOTE 1 NATURE OF ACTIVITIES (continued)

- Grants to individuals fund participation in high-quality professional development experiences, such as summer institutes, conferences, or action research.
- Grants to groups fund collegial study, including study groups, action research, lesson plan development, or mentoring experiences for faculty or staff.

The Foundation provided grants to 121 and 127 individual educators during the years ended August 31, 2016 and 2015, respectively, supporting nearly 323,000 students over the two years.

***DonorsChoose.org*** – Teachers have great ideas to help their students learn more, but often lack the resources they need to bring these ideas to life. Through the Foundation’s partnership with DonorsChoose.org, during both the years ended August 31, 2016 and 2015, the Foundation matched public donations to support approximately 4,100 NEA member requests for classroom materials, reaching approximately 228,000 public school students.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Foundation’s financial statements have been prepared using the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when incurred in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents

For purposes of these financial statements, the Foundation considers cash on hand, deposits in banks, and highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments and Fair Value Measurements

Investments are recorded at fair value. The Foundation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. In accordance with ASC 820, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

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NOTE 2      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Investments and Fair Value Measurements (continued)

that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Financial assets and liabilities whose values are based on quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access (examples include active exchange-traded equity securities, listed derivatives and most U.S. government and agency securities).
- Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or use model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in non-active markets (examples may include corporate and municipal bonds); pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and pricing models whose inputs are derived principally from or corroborated by observable market data. Level 2 assets also include investment funds that do not have a readily determinable fair value, but are redeemable in the near term, and a net asset value (NAV) per share, or its equivalent, is provided by the fund manager at the measurement date.
- Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Level 3 assets may not permit redemptions at NAV, or its equivalent, at the measurement date. Management uses inputs that reflect assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments and split-interest agreements).

See Note 5, Investments, for a summary of the inputs used as of August 31, 2016 and 2015, in determining the fair value of the Foundation's investments. Interest income is recorded as earned and dividends are recorded on the ex-dividend date. Realized and unrealized gains (losses) on investments are reported as unrestricted gains (losses).

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THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

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NOTE 2      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Investments and Fair Value Measurements (continued)

The Foundation follows the fair value measurement provisions of FASB Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, in valuing the Foundation's investments. The guidance permits the fair value of investments within its scope to be estimated using NAV or its equivalent as a practical expedient. NAV or its equivalent is the value per share or value of ownership interest in partner's capital, as provided by the fund, whose financial statements are prepared in a manner consistent with the measurement principles of an investment company or that has the attributes of an investment company.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of related assets. Useful lives range from three to seven years. Purchase of equipment or furniture is capitalized if it is in excess of \$1,000 and has an estimated useful life greater than one year. Expenditures for repairs and maintenance are charged to expense as incurred.

Grants

The Foundation provides awards and grants to educators, school districts, and other recipients. Grants are expensed in the year in which an unconditional commitment to the grantee is made. Conditional grants are not expensed until the conditions in the grant award are substantially met. Grants that have not been paid as of year-end are included in grants payable in the accompanying statements of financial position. Multi-year grants are recorded in the financial statements at their net present value using an appropriate discount rate as of the date the gift is made if the discount is material.

Classification of Net Assets

The net assets of the Foundation are classified as follows:

- Unrestricted net assets represent funds that are available for support for the Foundation's operations. Also included in unrestricted net assets are funds that have been designated by the Board to serve as an endowment.
- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.

Continued

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

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NOTE 2      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue Recognition

The Foundation recognizes contribution revenue in accordance with FASB ASC 958, *Not-for-Profit Entities*. Contributions received are recorded at their net realizable value when an unconditional promise to give is made. The Foundation reports contributions as unrestricted support and available for general operations unless specifically restricted by the donor for a specific purpose or time period. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Conditional promises to give are not included as contributions until the conditions are substantially met.

Contributions from NEA members passed through NEA are recognized based on a formula established in NEA's by-laws.

Contributed Goods and Services

In accordance with FASB ASC Topic 958, *Not-for-Profit Entities*, only the value of contributed services that are considered specialized and can be estimated are reflected in these financial statements. Contributed goods and services are reported in the accompanying statements of activities at the estimated fair value of the goods and services received.

As detailed in Note 10, Related Party Transactions, the Foundation has received in-kind contributions from NEA totaling \$238,000 for both years ended August 31, 2016 and 2015. These contributions are for donated office space provided by the NEA.

The Foundation also received in-kind contributions from partner organizations in the amount of \$76,322 and \$130,124 during the years ended August 31, 2016 and 2015, respectively.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

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**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Use of Estimates (continued)

liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from the estimates.

Income Tax Status

The Foundation is exempt from the payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is required for the years ended August 31, 2016 and 2015, as the Foundation had no net unrelated business income.

The Foundation follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Foundation performed an evaluation of uncertain tax positions for the years ended August 31, 2016 and 2015, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of August 31, 2016, the statute of limitations for fiscal years ended August 31, 2013, through August 31, 2015, remains open with the U.S. federal jurisdiction in which the Foundation files tax returns. It is the Foundation's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of August 31, 2016 and 2015, the Foundation had no accruals for interest and/or penalties.

**NOTE 3      CONCENTRATION OF RISKS**

The Foundation had cash balances with Federal Deposit Insurance Corporation (FDIC) insured financial institutions totaling \$2,423,791 and \$1,557,607 at August 31, 2016 and 2015, respectively. The Foundation's aggregate cash balances with each bank are insured up to a maximum of \$250,000 by the FDIC. At August 31, 2016 and 2015, the Foundation had \$1,627,313 and \$672,685, respectively, in cash balances at financial institutions that were not insured by the FDIC. The Foundation received the initial installment of a new grant of \$1,429,616 during August 2016, which led to the increase in cash that was not insured by the FDIC. Additionally, the Foundation had cash equivalent investments totaling \$631,372 and \$247,777 at August 31, 2016 and 2015, that were held in investment accounts, which are not insured or guaranteed by the FDIC or any other government agency. The Foundation monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

Continued

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

NOTE 3 CONCENTRATION OF RISKS (continued)

The Foundation receives a significant amount of its support from members of NEA. For the years ended August 31, 2016 and 2015, total revenue recognized from members of NEA was \$1,878,029 and \$1,886,424, respectively. This support amounts to approximately 19% and 49% of the Foundation's total support and revenue for the years ended August 31, 2016 and 2015, respectively. Total in-kind revenue recognized from the NEA was \$238,000 for the years ended August 31, 2016 and 2015 (Note 10). For the years ended August 31, 2016 and 2015, this support amounts to approximately 2% and 6%, respectively, of the Foundation's total support and revenue.

During the year ended August 31, 2016, the Foundation did not receive any multi-year conditional grants. During the year ended August 31, 2015, the Foundation received a \$500,000 multi-year conditional grant from a donor. The Foundation recorded revenue totaling \$1,251,075 and \$1,741,150 for 2016 and 2015, respectively, and expenses totaling \$1,381,616 and \$2,141,694 for 2016 and 2015 from these grants. This represents 14% and 45% of total support and revenue and 18% and 25% of total expenses for the years ended August 31, 2016 and 2015, respectively. The expenses included in the August 31, 2016 and 2015 financial statements are shown in the Union-District Collaborations/State Affiliate Capacity Building and the Fiscal Sponsorship categories in Note 8, Program Services Expenses. Additional grant related revenue and expenses will be included in future years, as described in Note 13, Conditional Grants.

NOTE 4 CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give from individuals, corporations and foundations and are due to be paid as follows:

|                               | <u>2016</u>         | <u>2015</u>       |
|-------------------------------|---------------------|-------------------|
| Payable in less than one year | \$ 1,278,131        | \$ 558,333        |
| Payable in one to five years  | <u>330,521</u>      | <u>410,000</u>    |
| Total                         | <u>\$ 1,608,652</u> | <u>\$ 968,333</u> |

The Foundation did not calculate a discount on contributions receivable due in more than one year due to the immateriality of the amount for the years ended August 31, 2016 and 2015. As of August 31, 2016 and 2015, there was no allowance for doubtful accounts as all receivables were deemed fully collectible.

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

NOTE 5 INVESTMENTS

Investments as of August 31, 2016 and 2015 are summarized as follows:

|                              | <u>2016</u>          | <u>2015</u>          |
|------------------------------|----------------------|----------------------|
| Collective Investment Trusts | \$ 27,616,367        | \$ 28,895,196        |
| Mutual Funds                 | <u>15,653,593</u>    | <u>14,226,324</u>    |
| Total Investments            | <u>\$ 43,269,960</u> | <u>\$ 43,121,520</u> |

As of August 31, 2016, the privately held collective investment trusts includes \$2,100,000 of cash that had been transferred to the custodian of one of the trusts on August 30, 2016 but had not been invested as of August 31, 2016. These funds were invested as of September 1, 2016.

Net investment income was comprised of the following for the years ended August 31, 2016 and 2015:

|   | <u>2016</u>         | <u>2015</u>           |
|---|---------------------|-----------------------|
| Interest and dividend income                                  | \$ 277,821          | \$ 262,582            |
| Net realized and unrealized gains/<br>(losses) on investments | 3,165,659           | (2,007,377)           |
| Investment fees:  |                     |                       |
| Third-party investment<br>advisory fees                       | (75,000)            | (75,000)              |
| Third-party investment custodian<br>and management fees       | <u>(97,310)</u>     | <u>(99,379)</u>       |
| Investment income/(loss), net                                 | <u>\$ 3,271,170</u> | <u>\$ (1,919,174)</u> |

Included in interest and dividend income above and in interest and dividend income in the accompanying statements of activities for the year ended August 31, 2016 is \$714 of interest income earned on the Foundation's cash and cash equivalent accounts. No interest income was earned on the cash and cash equivalent accounts for the year ended August 31, 2015.

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of August 31, 2016:

|                               | <u>August 31,<br/>2016</u> | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------|----------------------------|---|---|--|
| Collective Investment Trusts: |                            |   |   |  |
| U.S. equities                 | \$ 11,340,532              | \$ -  | \$ 11,340,532   | \$ -   |
| Fixed income                  | 14,175,835                 | -   | 14,175,835  | -  |

Continued

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2016 and 2015**

**NOTE 5 INVESTMENTS (continued)**

| <i>(Continued)</i>            | August 31,<br>2016   | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------|----------------------|---|---|--|
| Collective Investment Trusts: |                      |   |   |  |
| Cash and cash equivalents (a) | \$ 2,100,000         | \$ -  | \$ 2,100,000  | \$ -   |
| Mutual funds:                 |                      |   |   |  |
| International equities        | 13,607,584           | 13,607,584  | -   | -  |
| Global real estate            | <u>2,046,009</u>     | <u>2,046,009</u>  | <u>-</u>  | <u>-</u>   |
| Total Investments             | <u>\$ 43,269,960</u> | <u>\$ 15,653,593</u>  | <u>\$ 27,616,367</u>                                      | <u>\$ -</u>  |

(a) As discussed earlier, as of August 31, 2016, the Foundation had transferred \$2,100,000 to the custodian of one of the mutual funds that is categorized as a collective investment trust on August 30, 2016 but the funds were not invested as of August 31, 2016. We have classified the amounts under Level 2 as the amounts were intended to be invested in this fund as of August 31, 2016.

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of August 31, 2015:

|                               | August 31,<br>2015   | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------|----------------------|---|---|--|
| Collective Investment Trusts: |                      |   |   |  |
| U.S. equities                 | \$ 13,774,204        | \$ -  | \$ 13,774,204   | \$ -   |
| Fixed income                  | 15,120,992           | -   | 15,120,992  | -  |
| Mutual Fund:                  |                      |   |   |  |
| International equities        | 12,436,030           | 12,436,030  | -   | -  |
| Global real estate            | <u>1,790,294</u>     | <u>1,790,294</u>  | <u>-</u>  | <u>-</u>   |
| Total Investments             | <u>\$ 43,121,520</u> | <u>\$ 14,226,324</u>  | <u>\$ 28,895,196</u>                                      | <u>\$ -</u>  |

The Foundation used the following methods and significant assumptions to estimate fair value for assets recorded at fair value as of August 31, 2016 and 2015:

*Collective investment trusts* – valued based on NAV per share, as provided by the trust. These investments can be redeemed at the measurement date or in the near term and therefore are permitted to be classified as measured at fair value based on Level 2 measurements under FASB ASU 2009-12.

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2016 and 2015**

**NOTE 5 INVESTMENTS (continued)**

*Mutual funds* – valued at the NAV of shares held at year-end. The funds have a readily available quoted market price from an active market where there is significant transparency in the executed/ quoted market price.

The Foundation uses NAV or its equivalent to determine the fair value of certain investments under FASB ASU 2009-12. The table below details the Foundation’s ability to redeem investment funds valued at NAV or its equivalent, if currently eligible, and unfunded commitments as of August 31, 2016:

|                               | <u>Number<br/>of<br/>Funds</u> | <u>Fair Value</u>    | <u>Unfunded<br/>Commitments</u> | <u>Redemption<br/>Frequency,<br/>If Currently<br/>Eligible</u> | <u>Redemption<br/>Notice<br/>Period</u> |
|-------------------------------|--------------------------------|----------------------|---------------------------------|--|---|
| Collective Investment Trusts: |                                |                      |                                 |  |   |
| U.S. equities (a)             | 3                              | \$ 11,340,532        | \$ -                            | Daily  | 4 days                                  |
| Fixed income (b)              | 2                              | 14,175,835           | -                               | Daily  | 4 days                                  |
| Cash and cash equivalents     | 1                              | <u>2,100,000</u>     | <u>-</u>                        | Monthly  | 30 days                                 |
| Total                         |                                | <u>\$ 27,616,367</u> | <u>\$ -</u>                     |  |   |

The table below details the Foundation’s ability to redeem investment funds valued at NAV or its equivalent, if currently eligible, and unfunded commitments as of August 31, 2015:

|                               | <u>Number<br/>of<br/>Funds</u> | <u>Fair Value</u>    | <u>Unfunded<br/>Commitments</u> | <u>Redemption<br/>Frequency,<br/>If Currently<br/>Eligible</u> | <u>Redemption<br/>Notice<br/>Period</u> |
|-------------------------------|--------------------------------|----------------------|---------------------------------|--|---|
| Collective Investment Trusts: |                                |                      |                                 |  |   |
| U.S. equities (a)             | 3                              | \$ 13,774,204        | \$ -                            | Daily  | 4 days                                  |
| Fixed income (b)              | 2                              | <u>15,120,992</u>    | <u>-</u>                        | Daily  | 4 days                                  |
| Total                         |                                | <u>\$ 28,895,196</u> | <u>\$ -</u>                     |  |   |

(a) Twenty percent (20%) of the investments in this class will invest the majority of the portfolio in securities of equities in small business in the U.S or Canada. The remaining eighty percent (80%) of the investments in this class are invested in an S&P 500 index fund.

(b) This class consists of two investments. One of the investments consists of a portfolio of inflation-indexed securities from various countries with diversification obtained through country selection, term structure, and duration. The second investment consists of a portfolio using all major fixed income sectors with a bias towards non-Treasuries.

Continued

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

NOTE 6 GRANTS PAYABLE

As of August 31, 2016 and 2015, grants payable were related to the following programs:

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Union-District Collaboration/State<br>Affiliate Capacity Building | \$ 165,037          | \$ 583,265          |
| Archives  | 704,950             | 704,950             |
| Strategic plan  | 258,000             | -                   |
| Grants to Educators   | 31,000              | 31,500              |
| Fiscal Sponsorship  | 27,900              | 99,825              |
| Other Grants  | <u>50,000</u>       | <u>65,200</u>       |
| Total Grants Payable  | <u>\$ 1,236,887</u> | <u>\$ 1,484,740</u> |

As of August 31, 2016 and 2015, grants payable were scheduled to be paid as follows:

|                               | <u>2016</u>         | <u>2015</u>         |
|-------------------------------|---------------------|---------------------|
| Payable in less than one year | \$ 1,236,887        | \$ 1,196,457        |
| Payable in one to five years  | <u>-</u>            | <u>288,283</u>      |
| Total Grants Payable          | <u>\$ 1,236,887</u> | <u>\$ 1,484,740</u> |

NOTE 7 CAPITAL LEASES

The Foundation leases two copiers and a postage meter under five-year capital leases expiring in May 2018, January 2019 and May 2020. The equipment has been capitalized and included in property and equipment in the accompanying statements of financial position. The equipment is amortized over its productive lives. Amortization of \$4,529 and \$4,548 is included in depreciation and amortization expense for the years ended August 31, 2016 and 2015, respectively, related to these capital leases.

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2016 and 2015**

**NOTE 7 CAPITAL LEASES (continued)**

Future minimum lease payments under the capital leases are as follows:

| For the<br>Years Ending<br>August 31,   |    |                     |
|---|----|---------------------|
| <u>2017</u>                             | \$ | 4,734               |
| 2018                                    |    | 4,571               |
| 2019                                    |    | 2,330               |
| 2020                                    |    | <u>810</u>          |
| Total minimum lease payments            |    | 12,445              |
| Less amount representing interest       |    | <u>(1,086)</u>      |
| Present value of minimum lease payments |    | 11,359              |
| Less current portion                    |    | <u>(4,130)</u>      |
| Long-term portion                       | \$ | <u><u>7,229</u></u> |

**NOTE 8 PROGRAM SERVICES EXPENSES**

Program services expense for the years ended August 31, 2016 and 2015 were as follows:

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Union-District Collaborations/State Affiliate |                     |                     |
| Capacity Building                             | \$ 1,809,416        | \$ 2,570,775        |
| Fiscal Sponsorship                            | 705,064             | 1,270,269           |
| Grants to Educators/DonorsChoose.org          | 624,500             | 692,965             |
| Awards for Teaching Excellence & Gala         | 500,490             | 508,429             |
| Strategic Plan Projects                       | 504,131             | -                   |
| New Program Development                       | 168,728             | 176,707             |
| Innovation                                    | 125,216             | 441,804             |
| Communities for Just Schools Fund             | 50,000              | 100,000             |
| Program Administration                        | <u>1,585,811</u>    | <u>1,747,454</u>    |
| Total   | <u>\$ 6,073,356</u> | <u>\$ 7,508,403</u> |

**NOTE 9 EMPLOYEE PENSION PLAN**

The Foundation sponsors a defined contribution pension plan under Section 403(b), of the Internal Revenue Code (the IRC), available to all employees. For employees hired on September 1, 2009 or later, the Foundation contributes 10% of an employee's gross salary after a six month introductory period. For

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

**NOTE 9 EMPLOYEE PENSION PLAN (continued)**

employees who were employed at August 31, 2009, the Foundation contributes 18.5% of an employee's gross salary. Contributions to the pension plan were \$189,272 and \$216,358 for the years ended August 31, 2016 and 2015, respectively.

The Foundation also sponsors a tax-deferred annuity plan under Section 403(b) of the IRC, available to all employees. Participants may voluntarily contribute and defer a portion of their wages, up to the maximum as defined in the IRC. The Foundation does not contribute to the tax-deferred annuity plan.

**NOTE 10 RELATED PARTY TRANSACTIONS**

Since its inception, the Foundation has received contributions from NEA members and the NEA to partially fund program and supporting services. During the years ended August 31, 2016 and 2015, the Foundation received revenue from NEA members and the NEA and made a contribution to the NEA as follows:

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Contributions from NEA members                          | \$ 1,878,029        | \$ 1,886,424        |
| Donated office space                                    | 238,000             | 238,000             |
| Contribution from NEA for<br>state affiliate initiative | <u>-</u>            | <u>170,000</u>      |
| Total   | <u>\$ 2,116,029</u> | <u>\$ 2,294,424</u> |

During the years ended August 31, 2016 and 2015, the Foundation paid the NEA \$347,125 and \$1,658,587, respectively, in fiscal sponsorship grant payments. As of August 31, 2016 and 2015, the Foundation owed the NEA \$4,900 and \$99,825, respectively, in fiscal sponsorship grant payments and the amount is included in grants payable in the accompanying statements of financial position.

Additionally, the NEA regularly bills the Foundation for administrative services such as telephone, medical and dental insurance premiums and other services. Payments to the NEA for these services were \$303,302 and \$290,925 for the years ended August 31, 2016 and 2015, respectively. As of August 31, 2016 and 2015 the Foundation owed the NEA \$13,132 and \$14,126, respectively, for these services.

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015**

**NOTE 11 FUNDS FUNCTIONING AS AN ENDOWMENT (FFE)**

The Foundation's endowment consists of a Board designated endowment fund. As required by GAAP, net assets associated with donor-restricted funds are classified and reported based on the existence or absence of donor-imposed restrictions. As a result, the Foundation's endowment Fund is included in unrestricted net assets as the restrictions were imposed by the Board of Directors and not an outside donor.

Endowment Composition and Activity

As of August 31, 2016 and 2015, all of the Foundation's endowment assets were unrestricted as the endowment fund was created by the Board of Directors. Changes in the funds functioning as an endowment (FFE) for the years ended August 31, 2016 and 2015 were as follows:

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
| FFE net assets (including cash equivalents), September 1      | <u>\$ 43,369,298</u> | <u>\$ 48,831,589</u> |
| Investment return:  |                      |                      |
| Investment income   | 277,821              | 262,582              |
| Net (depreciation) appreciation (realized & unrealized)       | <u>3,175,270</u>     | <u>(2,008,206)</u>   |
| Total Investment Return                                       | <u>3,453,091</u>     | <u>(1,745,624)</u>   |
| Investment addition   | 28,900               | -                    |
| Investment fees   | (172,310)            | (174,379)            |
| Appropriation of assets for payment of prior year obligations | (218,581)            | (243,334)            |
| Appropriation of assets for NEA Archives                      | -                    | (416,667)            |
| Appropriation of assets for current year operations           | <u>(2,559,066)</u>   | <u>(2,228,287)</u>   |
| FFE Net Assets (including cash equivalents), August 31        | <u>\$ 43,901,332</u> | <u>\$ 43,369,298</u> |

Return Objectives and Risk Parameters

The Foundation has adopted investment goals and spending policies for the funds functioning as an endowment. The Foundation's investment goal, as approved by the Board of Directors, is to invest its assets in a manner predicated to achieve a real return of 4%, adjusted for contributions and withdrawals. The portfolio is to be thoroughly diversified with respect to asset class, geography, economic factors, sector and other market factors. The portfolio will be constructed in such a manner as to minimize the amount of risk in the portfolio for any given level of desired return.

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**NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015**

**NOTE 11 FUNDS FUNCTIONING AS AN ENDOWMENT (FFE) (continued)**

Strategies Employed for Achieving Objectives

Based on the financial condition analysis conducted by the Foundation’s investment consultant and the ongoing goals of the Foundation, an asset allocation policy has been established. The recommended long-term asset allocation policy is identified by strategic target weights to each of the major asset classes. In addition, minimum and maximum allocations are provided to serve as guidelines for the range of the asset classes.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Board of Directors has adopted a spending policy for the Foundation. The distribution rate is based upon a total return approach, which utilizes both income and capital appreciation to be withdrawn for spending. The allowable spending rate for both 2016 and 2015 was the lesser of \$3 million or 6.5% of the Foundation’s three-year rolling average value of the Foundation’s investment account.

The allowable spending rate is determined by multiplying the spending rate times the three year rolling average value of the Foundation’s investment account. The three year rolling average value is annually computed as an average of the prior three years’ actual investment value at December 31. This is consistent with the Foundation’s objective to achieve a real return of 4%, adjusted for contributions and withdrawals.

**NOTE 12 RESTRICTIONS OF NET ASSETS**

Temporarily Restricted

As of August 31, 2016 and 2015, temporarily restricted net assets were available for the following programs:

|  | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Grants to Educators                            | \$ 105,285  | \$ 90,000   |
| STEM grants                                    | -           | 2,425       |
| State Affiliate Capacity                       | 243,599     | 358,962     |
| Global Learning Fellows                        | -           | 10          |
| The 51 Fund                                    | -           | 6,168       |
| Books Across America                           | 1,183       | 248         |
| Closing the Achievement Gaps                   | -           | 192         |
| Fiscal Sponsorship                             | 15,381      | 157,719     |
| Tai Jewel Graves Scholarship Fund              | 6,041       | -           |
| Walmart Foundation- Breakfast in the Classroom | 2,442,668   | -           |
| New Program Development                        | 15,000      | -           |

Continued

THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended August 31, 2016 and 2015

NOTE 12 RESTRICTIONS OF NET ASSETS (continued)

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Louisiana Flood Relief                      | \$ 15,828           | \$ -                |
| 2016 Salute to Excellence in Education Gala | -                   | 312,008             |
| 2017 Salute to Excellence in Education Gala | 335,016             | 280,000             |
| 2018 Salute to Excellence in Education Gala | <u>130,000</u>      | <u>130,000</u>      |
| Total                                       | <u>\$ 3,310,001</u> | <u>\$ 1,337,732</u> |

NOTE 13 CONDITIONAL GRANTS

During the years ended August 31, 2016 and 2015, the Foundation received pledges from other organizations which are conditional upon the Foundation meeting certain milestones. As of August 31, 2016, the Foundation had no conditional pledges with an outstanding balance. As of August 31, 2015, the Foundation had two conditional pledges with an aggregate outstanding balance of \$501,275. The pledges are not included in contributions receivable in the accompanying statements of financial position as of August 31, 2015, as the milestones established in the grant agreements have not been met. Of the \$501,275 of conditional revenue as of August 31, 2015, the entire amount was recognized during the year ended August 31, 2016 upon satisfaction of the conditions in the grants.

During the years ended August 31, 2016 and 2015, the Foundation made grants to other organizations which are conditional upon the other organizations meeting certain milestones. As of August 31, 2016, the Foundation had one conditional grant to another organization with an aggregate outstanding balance of \$10,381. As of August 31, 2015, the Foundation had three conditional grants to other organizations with an outstanding balance of \$653,994. The grants are not included in grants payable in the accompanying statements of financial position as of August 31, 2016 and 2015, as the milestones established in the grant agreements have not been met. Of the \$653,994 of conditional grants as of August 31, 2015, \$643,613 of grant expense was recognized during the year ended August 31, 2016 upon satisfaction of the conditions in the grant.

NOTE 14 SUBSEQUENT EVENTS

The Foundation has evaluated events subsequent to year end and through December 8, 2016, the date the financial statements were available to be issued, and determined that other than the following disclosure, there were no additional events noted that require adjustments to or disclosure in these financial statements.

**THE NEA FOUNDATION FOR THE IMPROVEMENT OF EDUCATION**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2016 and 2015**

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**NOTE 14      SUBSEQUENT EVENTS (continued)**

The grant in which the Foundation received the initial payment of \$1,429,616 during August 2016 (Note 3) has a \$1,000,000 payment that will be made to a partner organization after the execution of a Memorandum of Understanding between the project's three partner organizations, which management expects to occur prior to December 31, 2016.