

NATIONAL ASSOCIATION OF SCHOLARS, INC.

FINANCIAL STATEMENTS

**Years Ended December 31, 2018 and 2017
AND**

INDEPENDENT AUDITORS' REPORT

NATIONAL ASSOCIATION OF SCHOLARS, INC.

Years Ended December 31, 2018 and 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activity	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-13

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
National Association of Scholars, Inc.
New York, NY 10018

We have audited the accompanying financial statements of the National Association of Scholars, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activity 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

The Board of Trustees of
National Association of Scholars, Inc.
Page 2 of 2

Opinion

In our opinion, the financial statements referred to herein present fairly, in all material respects, the financial position of the National Association of Scholars, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rosenbloom & Butler CPAs, P.C.

Rockville, Maryland 20850
June 28, 2019

NATIONAL ASSOCIATION OF SCHOLARS, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

<u>ASSETS</u>		
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 410,102	\$ 344,526
Investments at fair market value	891,918	1,031,119
Prepaid expenses	17,785	6,818
	<u>1,319,805</u>	<u>1,382,463</u>
PROPERTY AND EQUIPMENT		
Less: accumulated depreciation	157,846	157,846
	<u>157,846</u>	<u>157,846</u>
	-	-
OTHER ASSETS		
Employee advances	829	900
Deposits	12,000	12,000
	<u>12,829</u>	<u>12,900</u>
	<u>\$ 1,332,634</u>	<u>\$ 1,395,363</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 32,822	\$ 8,733
Deferred revenue	25,060	-
Total current liabilities	<u>57,882</u>	<u>8,733</u>
 COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Without donor restrictions	1,136,937	1,291,915
With donor restrictions	137,815	94,715
Total net assets	<u>1,274,752</u>	<u>1,386,630</u>
	<u>\$ 1,332,634</u>	<u>\$ 1,395,363</u>

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

NATIONAL ASSOCIATION OF SCHOLARS, INC.

STATEMENTS OF ACTIVITY

Years Ended December 31, 2018 and 2017

	Without Donor Restrictions	With Donor Restrictions	2018	2017
REVENUES, GAINS AND OTHER SUPPORT				
Program grants	\$ 624,142	\$ 79,000	\$ 703,142	\$ 649,690
Contributions and bequests	608,655	-	608,655	413,505
Membership dues	120,390	-	120,390	133,895
Interest and dividends	47,461	-	47,461	44,478
Miscellaneous income	13,021	-	13,021	13,064
Realized and unrealized gains (losses) on investments, net	(114,664)	-	(114,664)	39,731
Net assets released from restrictions:				
Satisfaction of program restriction	35,900	(35,900)	-	-
Total increase in net assets	1,334,905	43,100	1,378,005	1,294,363
EXPENSES				
Program expenses				
Education programs	1,205,303	-	1,205,303	973,294
Supporting service expenses				
Management and general	158,309	-	158,309	175,545
Expenses before fund-raising	1,363,612	-	1,363,612	1,148,839
Fund-raising expenses	126,271	-	126,271	68,871
Total decrease in net assets	1,489,883	-	1,489,883	1,217,710
Change in net assets	(154,978)	43,100	(111,878)	76,653
Net assets, beginning of year	1,291,915	94,715	1,386,630	1,309,977
Net assets, end of year	<u>\$ 1,136,937</u>	<u>\$ 137,815</u>	<u>\$ 1,274,752</u>	<u>\$ 1,386,630</u>

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

NATIONAL ASSOCIATION OF SCHOLARS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2018 and 2017

	2018			2017		
	Program Expenses	Administrative Expenses	Total	Program Expenses	Administrative Expenses	Total
Program and Supporting Services Expenses						
Salaries	\$ 547,236	\$ 98,166	\$ 645,402	\$ 475,459	\$ 97,383	\$ 572,842
Consulting	63,752	7,083	70,835	48,450	6,637	55,087
Payroll taxes	39,588	7,102	46,690	34,198	7,004	41,202
Employee benefits	70,625	12,669	83,294	70,775	14,496	85,271
Pension plan contributions	20,796	3,731	24,527	20,470	4,193	24,663
Conference	70,476	-	70,476	-	-	-
Grants and awards	17,900	-	17,900	11,850	-	11,850
Rent	96,171	7,798	103,969	84,037	17,212	101,249
Office expense and supplies	35,150	6,305	41,455	16,145	16,912	33,057
Postage and freight	24,229	4,346	28,575	17,270	3,537	20,807
Publications	117,108	-	117,108	117,672	-	117,672
Professional fees	11,916	2,138	14,054	17,907	3,668	21,575
Insurance	12,144	1,349	13,493	10,774	2,207	12,981
Telephone	4,850	539	5,389	2,716	556	3,272
Travel	21,951	1,371	23,322	37,077	-	37,077
Website fees	51,411	5,712	57,123	8,494	1,740	10,234
	<u>\$ 1,205,303</u>	<u>\$ 158,309</u>	<u>\$ 1,363,612</u>	<u>\$ 973,294</u>	<u>\$ 175,545</u>	<u>\$ 1,148,839</u>

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

NATIONAL ASSOCIATION OF SCHOLARS, INC.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (111,878)	\$ 76,653
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated securities	(50,440)	(75,372)
Realized and unrealized (gains) losses, net	114,664	(47,941)
(Increase) decrease in assets:		
Prepaid expenses	(10,967)	(334)
Other assets	71	9,273
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	24,089	(1,507)
Deferred revenue	25,060	-
Net cash provided (used) by operating activities	<u>(9,401)</u>	<u>(39,228)</u>
Cash flows from investing activities:		
Proceeds from sale of marketable securities	404,362	735,423
Purchases of marketable securities	<u>(329,385)</u>	<u>(945,940)</u>
Net cash provided (used) by investing activities	<u>74,977</u>	<u>(210,517)</u>
Net increase (decrease) in cash and cash equivalents	65,576	(249,745)
Cash and cash equivalents, beginning of year	<u>344,526</u>	<u>594,271</u>
Cash and cash equivalents, end of year	<u>\$ 410,102</u>	<u>\$ 344,526</u>
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest expense	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash items:		
Donated securities	<u>\$ 50,440</u>	<u>\$ 75,372</u>

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

NATIONAL ASSOCIATION OF SCHOLARS, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

NOTE 1. ASSOCIATION AND NATURE OF ACTIVITIES

The National Association of Scholars, Inc. (Association) was formed under the Non-Profit Public Benefit Corporation Law for public and charitable purposes in 1987. It operates as an educational corporation in New York City, New York. The Association is an independent membership association of academics and others working to foster intellectual freedom and to sustain the tradition of reasoned scholarship and civil debate in America's colleges and universities.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESBasis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, money market funds, and certificates of deposit with a maturity of three months or less.

Use of Estimates

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

Property and Equipment

Property and equipment with useful lives in excess of one year are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years. Leasehold improvements are being amortized over the lease term.

Fair Value Accounting

The Association follows ASC 820, which requires valuation of financial assets and liabilities according to fair market value, as well as disclosure of the valuation technique(s) used to determine the fair market value.

NATIONAL ASSOCIATION OF SCHOLARS, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Fair Value Accounting (Continued)

The valuation techniques are summarized into a hierarchy of observable inputs:

- Level 1 - Unadjusted quoted prices in active markets
- Level 2 - Inputs other than quoted market prices in active markets for identical or similar assets or liabilities (i.e. quoted prices for similar or identical assets or liabilities in inactive markets; observable inputs other than quoted prices that are used in the valuation of assets or liabilities; inputs derived principally from or corroborated by observable market data).
- Level 3 - Unobservable inputs (i.e. management's own assumptions about the assumptions that market participants would use in pricing the asset or liability).

The asset's 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.

Grants and Contributions

The Association records contributions and unconditional promises to give as being with donor restrictions and without donor restrictions, depending on the existence and/or nature of any donor restrictions, including inherent time restrictions. When a time restriction ends, temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Donated securities are held in a brokerage account, recorded at their fair market value on the date of donation, and realized gains or losses, if any, are recognized upon the sale. The Association values the securities as Level 1 investments under ASC 820.

Marketable Securities

Marketable securities are stated at their market value. Investment income is recorded as revenue in the unrestricted net asset class unless specifically restricted by the donor. Fees for the management of investments are netted against the gains (losses) on investments.

Allocation and Expense

The costs of providing the various programs and support activities of the Association are allocated based upon the functions they directly benefit or upon management's estimates of the proportion of these costs applicable to each function.

NATIONAL ASSOCIATION OF SCHOLARS, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Income Taxes

The Association is an organization exempt from taxation under the Internal Revenue Code Section 501(c)(3). Contributions are tax deductible by donors. Unrelated business income is subject to tax, however the Association does not engage in any non-exempt activities. It has been classified as an association; and it is not a private foundation as described in section 509(a) of the IRS Code.

New Accounting Standards

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (the "Update") to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Association has adopted and reported under this ASU for the years ended December 31, 2018 and 2017 with reclassifications as needed for 2017.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the classifications used in the 2018 financial statements.

Subsequent Events

Events that occurred subsequent to December 31, 2018, have been evaluated by the Association's management through June 28, 2019, the date these statements were available for issuance. The Association has moved its offices to a new location in May 1, 2019 and signed a five year lease for the space. Nothing else came to management's attention that would require additional disclosure.

NOTE 3. CASH AND CASH EQUIVALENTS

The Association maintains cash and cash equivalents at one financial institution (bank) insured by the Federal Deposit Insurance Corporation (FDIC). FDIC coverage is limited to \$250,000. At December 31, 2018 and 2017, bank deposits exceeded insured limits by \$ - and \$94,526, respectively. The Association also maintains cash and cash equivalents at two brokerage firms. Cash balances at December 31, 2018 and 2017 include money market funds of \$184,838 and \$115,223, respectively, which are not bank deposits and are not insured by FDIC.

NATIONAL ASSOCIATION OF SCHOLARS, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

NOTE 4. INVESTMENTS

At December 31, 2018 and 2017, all investments held by the Association were Level 1 securities recorded at fair market value of \$891,918 and \$1,031,119, respectively.

Valuation methodologies have not changed in 2018 or 2017 and are as follows: common stocks, corporate bonds and U.S. government securities are valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds are valued at the net asset value (NAV) of shares held by the Association at year end.

These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment returns and their classification are shown in the statements of activity. Earnings are without donor restrictions for 2018. Earnings with donor restrictions for 2017 are noted below. Investment returns are reported net of fees of \$12,558 and \$8,210 for the years ended December 31, 2018 and 2017 respectively.

	Investment Income	Net Realized and Unrealized Gains (Losses)	Total Investment Return
	<u> </u>	<u> </u>	<u> </u>
<u>December 31, 2017</u>			
Investments in Securities:			
Without donor restrictions	\$ 42,989	\$ 48,787	\$ 91,776
With donor restrictions	1,489	(846)	643
	<u>\$ 44,478</u>	<u>\$ 47,941</u>	<u>\$ 92,419</u>

NATIONAL ASSOCIATION OF SCHOLARS, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of office furniture and equipment recorded at cost of \$157,846 as of December 31, 2018 and 2017. Depreciation expense was \$ - for 2018 and 2017.

NOTE 6. RETIREMENT PLANS

The Association has a deferred contribution retirement plan that covers employees who meet specific age and minimum service requirements. Under the plan provisions, eligible employees may elect to defer up to 2% of compensation not to exceed IRS limits. The Association will contribute up to 7% of employee compensation. Retirement plan employer contributions were \$24,527 and \$24,663 for the years ended December 31, 2018 and 2017, respectively. Employee deferrals to the plan were \$57,709 and \$57,247 for the years ended December 31, 2018 and 2017, respectively.

The Association also has a tax-deferred annuity plan. Contributions to the plan are voluntary by the employee.

NOTE 7. COMMITMENTS AND CONTINGENCIES

The Association leased an office space under a two year lease which expired April, 2019. The lease provided that the Association pay a base monthly rental of \$7,365 per month. In May 2019 the Association moved and leased an office space under a five year lease expiring April 2024. The new lease provides that the Association pay a base monthly rental of \$11,687. The minimum future annual lease payments are as follows:

For the years ending December 31	<u>Amount</u>
2019	\$ 121,323
2020	143,055
2021	147,347
2022	151,767
2023 and after	<u>156,320</u>
	<u>\$ 719,812</u>

NATIONAL ASSOCIATION OF SCHOLARS, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

NOTE 7. COMMITMENTS AND CONTINGENCIES (Continued)

The Association is also responsible for its proportionate share of certain rental operating expenses and property taxes.

Rent expense for the years ended December 31, 2018 and 2017 was \$103,969 and \$101,249, respectively.

The Association has three prior years' tax returns that remain open to tax examination by federal and state taxing jurisdictions. They are for the return years ended December 31, 2017, 2016, 2015.

NOTE 8. CONCENTRATIONS

In 2018 and 2017, the Association received 27% and 31%, respectively, of its grants and contributions from three or fewer donors.

NOTE 9. QUALITATIVE LIQUIDITY AND AVAILABILITY OF RESOURCES

The Association's financial assets available within one year of the balance sheet date for general expenditures are as follows:

	2018	2017
Cash and cash equivalents	\$ 410,102	\$ 344,526
Investments	891,918	1,031,119
Prepaid expenses	17,785	6,818
	<u>\$1,319,805</u>	<u>\$1,382,463</u>

NATIONAL ASSOCIATION OF SCHOLARS, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with donor restrictions as of December 31, 2018 and 2017 consisted of the following:

<u>Program</u>	<u>2018</u>	<u>2017</u>
The Barron Scholars Fund	\$ 51,715	\$ 54,215
Making Citizens	10,000	10,000
A Purchasing Influence: Foreign Investors in American Higher Education	-	25,500
Prison Education	5,000	5,000
The Lost Western Civilization	9,000	-
Shifting Sands	62,100	-
	<u>\$ 137,815</u>	<u>\$ 94,715</u>

NOTE 11. EXPENSES BY BOTH NATURE AND FUNCTION

The financial statements report certain categories of expenses that are attributable to one or more program or supporting function of the Association. These expenses include depreciation, occupancy, management salaries and benefits, information technology, and others. These costs are allocated based on estimates of time and effort expended.