

CORE KNOWLEDGE FOUNDATION

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

And Report of Independent Auditor

CORE KNOWLEDGE FOUNDATION

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-2
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FINANCIAL STATEMENTS

Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to the Financial Statements	8-16

Report of Independent Auditor

To the Board of Directors
Core Knowledge Foundation
Charlottesville, Virginia

We have audited the accompanying financial statements of Core Knowledge Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 Foundation'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 Foundation'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 Core Knowledge Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Financial Statement Presentation

As discussed in Note 1 to the financial statements, in 2018, the Foundation adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit-Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. These ASUs has been applied retrospectively to all periods presented in the financial statements. Our opinion is not modified with respect to this matter.

Additionally, the Foundation early adopted ASU 2016-02, *Leases (Topic 842)*, as discussed in Note 1. ASU 2016-02 was adopted effective January 1, 2018, with comparative periods continuing to be presented under *Topic 840*.

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
October 11, 2019

CORE KNOWLEDGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets:		
Unrestricted cash and cash equivalents	\$ 675,965	\$ 444,067
Restricted cash and cash equivalents	81,961	390,854
Accounts receivable, net of allowance for doubtful accounts	30,890	45,999
Inventory	798,393	332,748
Prepaid expenses and other current assets	<u>62,525</u>	<u>166,614</u>
Total Current Assets	1,649,734	1,380,282
Investments	3,544,707	4,643,678
Right-of-use asset, net	618,687	-
Property and equipment, net	642,584	549,340
Intangible assets, net	<u>15,209</u>	<u>15,366</u>
Total Assets	<u><u>\$ 6,470,921</u></u>	<u><u>\$ 6,588,666</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 310,218	\$ 133,267
Accrued expenses	6,938	2,230
Lease liability, current	46,378	-
Deferred revenue	<u>4,800</u>	<u>8,284</u>
Total Current Liabilities	368,334	143,781
Noncurrent Liabilities:		
Lease liability, noncurrent	<u>626,383</u>	<u>-</u>
Total Liabilities	<u>994,717</u>	<u>143,781</u>
Net Assets:		
Without donor restrictions	5,394,513	6,054,031
With donor restrictions	<u>81,691</u>	<u>390,854</u>
Total Net Assets	<u>5,476,204</u>	<u>6,444,885</u>
Total Liabilities and Net Assets	<u><u>\$ 6,470,921</u></u>	<u><u>\$ 6,588,666</u></u>

CORE KNOWLEDGE FOUNDATION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions and grants:						
Grants	\$ 5,000	\$ 550,000	\$ 555,000	\$ -	\$ 1,060,000	\$ 1,060,000
Contributions	8,433	25,000	33,433	36,625	-	36,625
Total Contributions and Grants	13,433	575,000	588,433	36,625	1,060,000	1,096,625
Revenue:						
Book and publication sales, net	1,061,611	-	1,061,611	776,733	-	776,733
Contract revenue	150,000	-	150,000	150,000	-	150,000
Consulting fees	13,969	-	13,969	5,000	-	5,000
Royalty income	34,477	-	34,477	107,341	-	107,341
Workshop fees	49,979	-	49,979	57,515	-	57,515
Interest and dividend income	132,513	-	132,513	123,806	-	123,806
Miscellaneous income	89	-	89	2,266	-	2,266
Realized and unrealized gain (loss) on investments, net	(348,003)	-	(348,003)	320,982	-	320,982
Total Revenue	1,094,635	-	1,094,635	1,543,643	-	1,543,643
Net assets released from restrictions	884,163	(884,163)	-	1,055,253	(1,055,253)	-
Total Support and Revenue	1,992,231	(309,163)	1,683,068	2,635,521	4,747	2,640,268
Expenses:						
Program services	1,888,215	-	1,888,215	1,691,625	-	1,691,625
Support services	763,534	-	763,534	674,570	-	674,570
Total Expenses	2,651,749	-	2,651,749	2,366,195	-	2,366,195
Change in net assets	(659,518)	(309,163)	(968,681)	269,326	4,747	274,073
Net assets, beginning of year	6,054,031	390,854	6,444,885	5,784,705	386,107	6,170,812
Net assets, end of year	\$ 5,394,513	\$ 81,691	\$ 5,476,204	\$ 6,054,031	\$ 390,854	\$ 6,444,885

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

CORE KNOWLEDGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services			Total Expenses
		Management and General	Fundraising	Total	
Advertising	\$ 12,086	\$ 14,521	\$ -	\$ 14,521	\$ 26,607
Bad debt	-	3,738	-	3,738	3,738
Bank and merchant fees	-	17,376	-	17,376	17,376
Consultants	69,348	-	-	-	69,348
Copying and printing	1,160	2,707	-	2,707	3,867
Depreciation and amortization	-	35,167	-	35,167	35,167
Donations	1,100	-	-	-	1,100
Dues and subscriptions	22,466	11,995	-	11,995	34,461
Employee benefits	55,868	37,819	589	38,408	94,276
Equipment rental and maintenance	5,137	7,179	-	7,179	12,316
Food and beverage	-	3,692	-	3,692	3,692
Insurance	-	33,404	-	33,404	33,404
Licenses and permits	2,400	3,299	-	3,299	5,699
Maintenance and repair	-	31,031	-	31,031	31,031
Miscellaneous	1,461	4,585	-	4,585	6,046
Payroll taxes	56,390	9,803	1,183	10,986	67,376
Permission fees	4,630	-	-	-	4,630
Postage and shipping	93,150	9,408	-	9,408	102,558
Professional development	2,314	1,051	-	1,051	3,365
Professional fees	52,404	143,640	-	143,640	196,044
Publications development	607,888	132,630	-	132,630	740,518
Real and personal property taxes	-	14,905	-	14,905	14,905
Rent	-	114,805	-	114,805	114,805
Royalty expense	754	-	-	-	754
Salaries	831,791	78,087	17,333	95,420	927,211
Supplies and materials	6,777	6,831	-	6,831	13,608
Telephone	13	8,065	-	8,065	8,078
Travel and transportation	61,078	9,218	-	9,218	70,296
Utilities	-	9,473	-	9,473	9,473
	<u>\$ 1,888,215</u>	<u>\$ 744,429</u>	<u>\$ 19,105</u>	<u>\$ 763,534</u>	<u>\$ 2,651,749</u>

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

CORE KNOWLEDGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services			Total Expenses
		Management and General	Fundraising	Total	
Advertising	\$ 5,797	\$ 33,640	\$ -	\$ 33,640	\$ 39,437
Bad debt recoveries	-	(2,493)	-	(2,493)	(2,493)
Bank and merchant fees	-	16,955	-	16,955	16,955
Consultants	42,243	-	-	-	42,243
Copying and printing	5,530	4,456	-	4,456	9,986
Depreciation and amortization	-	30,104	-	30,104	30,104
Donations	596	-	-	-	596
Dues and subscriptions	3,351	23,302	-	23,302	26,653
Employee benefits	45,212	13,712	488	14,200	59,412
Equipment rental and maintenance	-	947	-	947	947
Food and beverage	-	2,002	-	2,002	2,002
Insurance	-	24,756	-	24,756	24,756
Licenses and permits	280	7,734	-	7,734	8,014
Maintenance and repair	-	20,397	-	20,397	20,397
Miscellaneous	6,655	1,992	29	2,021	8,676
Payroll taxes	44,968	18,942	1,501	20,443	65,411
Postage and shipping	73,516	7,212	-	7,212	80,728
Professional development	4,364	1,030	-	1,030	5,394
Professional fees	56,963	119,155	-	119,155	176,118
Publications development	632,226	49	-	49	632,275
Real and personal property taxes	-	20,300	-	20,300	20,300
Rent	-	70,735	-	70,735	70,735
Royalty expense	1,667	-	-	-	1,667
Salaries	732,872	215,496	12,913	228,409	961,281
Supplies and materials	4,034	6,562	-	6,562	10,596
Telephone	52	13,333	-	13,333	13,385
Travel and transportation	31,299	1,718	-	1,718	33,017
Utilities	-	7,603	-	7,603	7,603
	<u>\$ 1,691,625</u>	<u>\$ 659,639</u>	<u>\$ 14,931</u>	<u>\$ 674,570</u>	<u>\$ 2,366,195</u>

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

CORE KNOWLEDGE FOUNDATION
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash from operating activities:		
Change in net assets	\$ (968,681)	\$ 274,073
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	35,167	30,104
Net realized and unrealized loss (gain) on investments	348,003	(320,982)
Provision for uncollectible accounts	3,738	(2,493)
Changes in assets and liabilities:		
Accounts receivable	11,371	(21,481)
Inventory	(465,645)	(59,743)
Prepaid expenses and other current assets	104,089	(103,938)
Right of use asset	40,511	-
Accounts payable	176,951	46,817
Accrued expenses	4,708	(1,999)
Lease liability	13,563	-
Deferred revenue	(3,484)	741
Net cash used in operating activities	<u>(699,709)</u>	<u>(158,901)</u>
Cash from investing activities:		
Acquisition of investments	(429,046)	(300,077)
Proceeds from sale of investments	1,180,014	1,361
Acquisition of property and equipment	(128,254)	(26,172)
Acquisition of intangible assets	-	(850)
Net cash provided by (used in) investing activities	<u>622,714</u>	<u>(325,738)</u>
Net decrease in cash and cash equivalents	(76,995)	(484,639)
Cash and cash equivalents, beginning of year	834,921	1,319,560
Cash and cash equivalents, end of year	<u>\$ 757,926</u>	<u>\$ 834,921</u>
Cash and cash equivalents reflected on the statements of financial position:		
Unrestricted	\$ 675,965	\$ 444,067
Restricted	81,961	390,854
	<u>\$ 757,926</u>	<u>\$ 834,921</u>
Supplemental disclosure of cash flow information:		
Noncash financing activities:		
Acquisition of right-of-use asset	\$ 659,198	\$ -
Lease liability recognized	(659,198)	-
	<u>\$ -</u>	<u>\$ -</u>

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

CORE KNOWLEDGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1—Nature of operations and summary of significant accounting policies

Nature of Organization – Core Knowledge Foundation (the “Foundation”) was incorporated as a Virginia non-stock corporation in 1986 for the purpose of improving the quality of elementary education through *The Core Knowledge Sequence*. The Foundation’s three major activities and sources of revenue all further this purpose, and include, periodic workshops, and the writing and publishing of various educational books and materials.

Basis of Financial Statement Presentation – The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Foundation presents its financial statements according to the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958, *Not-for-Profit Entities*. Under this topic, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed stipulations. Revenues, expenses, gains, and losses that are not limited by donor-imposed restrictions are reported in this classification.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed stipulations that expire by the passage of time or that can be fulfilled by action of the Foundation pursuant to those stipulations.

In addition, the Foundation is required to present a statement of functional expenses and a statement of cash flows.

Recognition of Support and Revenue – Contributions and grants are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the fiscal year in which the contribution or grant is recognized. All other donor-restricted contributions and grants are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions. Revenue from services is recorded as the service is rendered. The Board of Directors has designated a portion of net assets without donor restrictions as an endowment fund. Investment income earned on these assets is reinvested in this fund. The endowment fund can be used to finance unrestricted operations as necessary. The Foundation is unable to reasonably estimate royalty revenues earned; therefore, royalty revenues are recognized when received.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents – For purposes of the statements of cash flows, the Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash and cash equivalents are limited for use in the development of the Core Knowledge History and Geography program.

CORE KNOWLEDGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1—Nature of operations and summary of significant accounting policies (continued)

Accounts Receivable – The Foundation’s accounts receivable are due from public and private preschools and elementary schools, as well as individuals who homeschool, throughout the United States that purchase the Foundation’s various educational books and materials. The allowance for doubtful accounts is based upon historical losses experienced by the Foundation. Management closely monitors outstanding receivables and adjusts the allowance account as needed. The allowance for doubtful accounts on December 31, 2018 and 2017 was \$6,456 and \$2,718, respectively. The Foundation considers accounts receivable past due after 30 days. The Foundation does not charge interest on delinquent receivables.

Inventory – Inventory is comprised primarily of Core Knowledge publications and is stated at the lower of cost or net realizable value and is charged to cost of sales using the weighted average cost method.

Shipping and Handling Costs – Freight billed to customers is considered sales revenue and the related freight costs as cost of sales.

Property and Equipment – Property and equipment are reported at cost. Depreciation and amortization are computed using the straight-line method over an asset’s estimated life, which range from three to ten years. Building and improvements are depreciated over 39 years. Expenditures for maintenance and repairs are expensed as incurred. The Foundation capitalizes property and equipment purchases greater than \$500.

Intangible Assets – The Foundation amortizes intangible assets with finite lives on a straight-line basis over their estimated useful lives.

Investments – The Foundation follows the provisions of generally accepted accounting principles where investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains or losses are reported in the statements of activities. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received.

Income Taxes – The Foundation is an organization described in Section 501(c)(3) of the Internal Revenue Code (“IRC”) and, accordingly, is exempt from federal and state income taxes under IRC §501(a). The Foundation has also been classified as an organization which is not a private foundation under IRC §509(a)(2). Therefore, no provision or liability for federal or state income taxes has been included in these financial statements. Management believes that the Foundation continues to satisfy the requirements of a tax-exempt organization and, therefore, has no uncertain income tax positions at December 31, 2018 and 2017.

Advertising – Advertising costs are expensed as incurred. These costs include advertising in educational magazines and publications and totaled \$26,607 and \$39,437 for the years ended December 31, 2018 and 2017, respectively.

Functional Expenses – Program expenses include those costs that can be specifically identified with programs, as well as portions of certain indirect costs that, in management’s estimation are attributable to programs. Management and general and fundraising expenses include those expense that are not directly identifiable with any other specific program but provide for the overall support and direction of the Foundation. Accordingly, certain costs have been allocated among program, management and general, and fundraising expenses based on an equitable basis. Personnel services and other expenses are allocated based on time and effort. The financial statements report expenses by function in the statements of functional expenses.

CORE KNOWLEDGE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1—Nature of operations and summary of significant accounting policies (continued)

Fair Value – The Foundation determines the fair market value of its financial instruments based on the fair value hierarchy established in accounting standards which require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Accounting standards define fair value as the exchange price that would be received for an asset or liability in the most advantageous markets for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting standards describe three levels of inputs that may be used to measure fair value:

Level 1 – Inputs are based on unadjusted quoted market prices within active markets. All of the Foundation’s investments in mutual funds and common stocks are valued based on quoted market prices.

Level 2 – Inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets.

Level 3 – Inputs are primarily valued using management’s assumptions about the assumptions market participants would utilize in pricing the asset or liabilities.

The Foundation also carries their cash and cash equivalents, accounts receivable, other receivables, accounts payable, and accrued expenses at fair value, which approximate cost.

New Accounting Pronouncements Adopted – In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of the net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires that a lease liability and related right-of-use-asset representing the lessee’s right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and changes in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation adopted Topic 842 effective January 1, 2018. The most significant effects of Topic 842 are the recognition of \$756,238 of a right of use asset and corresponding lease liability. The Foundation applied Topic 842 to all leases as of January 1, 2018, with comparative periods continuing to be reported under Topic 840. See Note 11 for further details.

Effective January 2018, the Company implemented FASB ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires the statement of cash flows to present the change of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. The standards will be effective for non-public entities for annual reporting periods beginning after December 31, 2018. Early adoption is permitted. The Foundation has elected to early adopt this standard.

CORE KNOWLEDGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1—Nature of operations and summary of significant accounting policies (continued)

Significant New Accounting Standards Not Yet Adopted – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method.

In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018, for all non-SEC filers, including not-for-profit entities. The Foundation has not yet selected a transition method and is currently evaluating the effect the standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides a more detailed framework for determining whether a grant or similar contract should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides additional guidance to help determine whether a contribution is conditional, and better distinguish between a donor-imposed condition and a donor-imposed restriction. The ASU is effective for fiscal years beginning after December 15, 2018. The ASU requires the provisions to be applied on a modified prospective basis and early adoption is permitted. The Foundation is currently evaluating the effect the ASU will have on the financial statements.

Note 2—Liquidity and availability of financial assets

The Foundation’s financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 757,926	\$ 834,921
Accounts receivable, net	30,890	45,999
Investments	<u>3,544,707</u>	<u>4,643,678</u>
Total financial assets	4,333,523	5,524,598
Less amounts not available to be used for general expenditures within one year:		
Net assets with donor restrictions	<u>81,691</u>	<u>390,854</u>
Financial assets available to meet general expenditures within one year	<u>\$ 4,251,832</u>	<u>\$ 5,133,744</u>

As part of the Foundation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation considers general expenditures to be all program services, management and general, and fundraising costs presented in the Statement of Functional Expenses incurred in the ordinary course of the advancement of the Foundation’s mission

CORE KNOWLEDGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 3—Investments

Investment activity for the years ended December 31, 2018 and 2017 is shown in the table below:

	<u>2018</u>	<u>2017</u>
Investments, beginning of year	\$ 4,643,678	\$ 4,023,982
Acquisition of marketable equity securities	429,046	300,075
Sales of marketable equity securities	(1,180,014)	(1,361)
Realized and unrealized gains	<u>(348,003)</u>	<u>320,982</u>
Investments, end of year	<u>\$ 3,544,707</u>	<u>\$ 4,643,678</u>

Investments in marketable equity securities as of December 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>			<u>2017</u>		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation</u>
Mutual funds	<u>\$ 3,345,217</u>	<u>\$ 3,544,707</u>	<u>\$ 199,490</u>	<u>\$ 3,693,220</u>	<u>\$ 4,643,678</u>	<u>\$ 950,458</u>

Note 4—Property and equipment

Property and equipment at December 31, 2018 and 2017 consisted of:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 629,258	\$ 608,273
Computer hardware	456,658	448,647
Equipment	186,063	186,063
Furniture and fixtures	80,705	80,705
Land	186,662	186,662
Leasehold improvements	99,258	-
Website and software	<u>224,787</u>	<u>224,787</u>
	1,863,391	1,735,137
Less accumulated depreciation	<u>(1,220,807)</u>	<u>(1,185,797)</u>
Property and equipment, net	<u>\$ 642,584</u>	<u>\$ 549,340</u>

Depreciation expense for the years ended December 31, 2018 and 2017 amounted to \$35,010 and \$29,947, respectively.

Note 5—Intangible assets

Intangible assets at year-end consisted of:

	<u>2018</u>	<u>2017</u>
Copyrights	\$ 15,810	\$ 15,810
Less accumulated amortization	<u>(601)</u>	<u>(444)</u>
Intangible assets, net	<u>\$ 15,209</u>	<u>\$ 15,366</u>

Amortization expense amounted to \$157 for the years ended December 31, 2018 and 2017. Amortization expense for the next five years is \$157.

CORE KNOWLEDGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 6—Line of credit

The Foundation had a line of credit with Bank of America with a maximum availability of \$500,000 and a variable interest rate equal to the daily LIBOR rate plus 2%. The line of credit expired September 30, 2018 and was not renewed. The Foundation did not carry an outstanding balance as of December 31, 2017.

Note 7— Net assets with donor restrictions

Net assets with donor restrictions have donor-imposed restrictions which expire upon the passage of time or once the Foundation undertakes specific actions. At December 31, 2018 and 2017, net assets with donor restrictions are available with the following purpose restrictions:

	<u>2018</u>	<u>2017</u>
Core Knowledge History and Geography programs	\$ 81,691	\$ 390,854

Net assets were released from donor restrictions by incurring expenses satisfying the specified purpose by donor as follows:

	<u>2018</u>	<u>2017</u>
Core Knowledge History and Geography programs	\$ 884,163	\$ 1,055,253

Note 8—Book and publication sales

Book and publication sales for the years ended December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Book and publication sales	\$ 1,368,539	\$ 1,207,110
Shipping and handling revenue	132,189	71,062
Cost of sales	(414,147)	(290,267)
Sales discounts and returns	<u>(24,970)</u>	<u>(211,172)</u>
	<u>\$ 1,061,611</u>	<u>\$ 776,733</u>

Note 9—Royalty income

The Foundation has granted licenses to certain publishers to publish and sell specified educational materials developed by the Foundation. The Foundation receives royalties based upon net retail sales of licensed materials less a reasonable reserve for returnable copies. The Foundation received royalties of \$34,477 and \$107,341 during 2018 and 2017, respectively.

Note 10—Retirement plans

The Foundation sponsors a Simplified Employee Pension (“SEP”) plan. This plan was amended in 2006 to increase the eligibility requirement for length of service to two years. The Board of Directors determines the SEP contribution each year. Contributions for 2018 and 2017 were \$33,845 and \$-0-, respectively.

The Foundation also maintains a plan described in IRC §403(b) under which employees may contribute funds within specified limits. The Foundation does not match employees’ discretionary contributions.

CORE KNOWLEDGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 11—Operating leases

Effective January 1, 2018, the Foundation adopted ASU 2016-02, *Leases (Topic 842)*, which requires the Foundation to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. Accordingly, at the inception of a contract, the Foundation determined if the arrangement is, or contains, a lease. Right-of-use (“ROU”) assets represent the Foundation’s right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Rent expense is recognized on a straight-line basis over the lease term.

The Foundation leases office facilities and parking spaces under long-term leases. The leases include one or more options to renew, with renewal terms that can extend the lease term from five to ten years more. The exercise of the lease renewal options is at the Foundation’s sole discretion. The renewal options were not considered when assessing the value of the ROU asset because the Foundation is not reasonably certain that it will exercise its option to renew the leases. Below are the Foundation’s costs recognized in the statements of activities for the year ended December 31, 2018, as well as additional qualitative information relating to its lease.

Operating lease cost	\$ 54,073
Operating cash flows from operating lease	54,073
Right-to-use assets obtained in exchange for new operating lease liabilities	659,198
Weighted-average remaining lease term (years) - operating lease	6.67
Weighted-average discount rate - operating lease	4.08%

As the leases do not provide an implicit rate, the Foundation uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments.

Rental expense under long-term lease obligations amounts to \$114,805 and \$70,735 for 2018 and 2017, respectively. Future minimum lease payments under operating leases at December 31, 2018 are:

2019	\$ 73,273
2020	118,215
2021	120,580
2022	122,991
2023	125,451
Thereafter	214,543
	<u>775,053</u>
Less amounts representing imputed interest	<u>(102,292)</u>
	<u>\$ 672,761</u>
Lease liability, current	\$ 46,378
Lease liability, noncurrent	626,383
	<u>\$ 672,761</u>

CORE KNOWLEDGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 12—Concentrations

The Foundation places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. From time to time, the Foundation may have amounts on deposit in excess of the insured limits. As of December 31, 2018, the Foundation had \$429,985, which exceeded these insured amounts.

Approximately 22% of the Foundation’s contract revenue was derived from one customer for the year ended December 31, 2018 and 37% of the Foundation’s contract revenue was derived from two customers for the year ended December 31, 2017. There were no accounts receivables related to these customers for 2018 and 2017.

Note 13—Board-designated endowment fund

The Foundation’s board-designated endowment consists of a SunTrust Investment Services fund. As required by generally accepted accounting principles in the United States of America, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in unrestricted, board-designated endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 2,503,747	\$ 2,157,937
Investment return:		
Investment income, net of expense	49,590	44,387
Withdrawals	(250,000)	-
Net unrealized appreciation	(237,053)	301,423
Total investment return	(437,463)	345,810
Endowment net assets, end of year	<u>\$ 2,066,284</u>	<u>\$ 2,503,747</u>

Return Objectives and Risk Parameters – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets as recommended by the Board of Directors. Endowment assets include board-designated funds. Because of its long-term investment perspective, the Foundation believes that its overall risk posture is above average relative to many other tax-exempt entities which may be more risk averse and more oriented toward fixed income investments, and that, consequently, a higher than average equity exposure is appropriate for the invested assets. Actual returns in any given year may vary from expected amounts. The Foundation is willing to withstand short-term volatility associated with investment in mutual funds and/or indices to achieve a higher expected long-term rate of return.

Strategies Employed for Achieving Objectives – Diversification across equity investments can best be achieved through investments in mutual funds and/or indices. Similarly, diversification among asset classes will be limited until significant capital appreciation is achieved. The Board of Directors will routinely evaluate the various investment options available by considering the historical rates of return and the level of risk associated with each. It has been determined that, over the long term, the allocation among various asset classes might be the most important determinant of investment performance and that an allocation among them is appropriate.

CORE KNOWLEDGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 13—Board-designated endowment fund (continued)

Establishment of Endowment and Withdrawal Policy – The Board of Directors designated the initial amount of corpus of the endowment. Subsequent contributions and capital appreciation (or losses) also become corpus. The initial designation of the amount of corpus, subsequent contributions, and any withdrawals must be approved by the Board of Directors. Withdrawals are not contemplated until such time, in the judgment of the Board of Directors, the endowment has grown sufficiently that it can reasonably accommodate withdrawals or that organizational priorities have changed.

Note 14—Subsequent events

In connection with the preparation of these financial statements, the Foundation has evaluated subsequent events through October 11, 2019, which is the date the financial statements were available to be issued.