

MATHCOUNTS Foundation

Financial Statements
and Independent Auditors' Report

July 31, 2016 and 2015

MATHCOUNTS Foundation

Financial Statements
July 31, 2016 and 2015

Contents

Independent Auditors' Report.....	1-2
<i>Financial Statements</i>	
Statements of Financial Position.....	3
Statements of Activities	4-5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7-15

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
MATHCOUNTS Foundation

We have audited the accompanying financial statements of MATHCOUNTS Foundation (“the Foundation”), which comprise the statement of financial position as of July 31, 2016, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 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 Foundation as of July 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Foundation as of July 31, 2015, were audited by other auditors whose report, dated October 8, 2015, expressed an unmodified opinion on those statements.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia
October 12, 2016

MATHCOUNTS Foundation

Statements of Financial Position July 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 510,121	\$ 286,819
Accounts receivable	12,337	282,010
Investments, future scholarship payable	83,000	78,500
Prepaid expenses and other current assets	<u>46,301</u>	<u>48,985</u>
Total current assets	651,759	696,314
Investments, future scholarship payable, long-term	232,699	235,315
Investments, other	1,763,873	1,762,983
Property and equipment, net	<u>75,026</u>	<u>113,585</u>
Total assets	<u><u>\$ 2,723,357</u></u>	<u><u>\$ 2,808,197</u></u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 80,356	\$ 66,138
Due to National Society of Professional Engineers	18,312	121,974
Future scholarships payable	83,000	78,500
Deferred revenue	25,284	25,734
State custodials	<u>54,807</u>	<u>35,539</u>
Total current liabilities	261,759	327,885
Future scholarships payable, long-term, net	<u>232,699</u>	<u>235,315</u>
Total liabilities	<u>494,458</u>	<u>563,200</u>
Net Assets		
Unrestricted	1,928,899	1,807,497
Temporarily restricted	<u>300,000</u>	<u>437,500</u>
Total net assets	<u>2,228,899</u>	<u>2,244,997</u>
Total liabilities and net assets	<u><u>\$ 2,723,357</u></u>	<u><u>\$ 2,808,197</u></u>

See accompanying notes.

MATHCOUNTS Foundation

Statement of Activities
For the Year Ended July 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions and grants	\$ 1,422,126	\$ 300,000	\$ 1,722,126
School registration fees	885,292	-	885,292
Coaching materials revenue	96,313	-	96,313
National competition revenue	46,934	-	46,934
Sale of trophies and promotional items	23,706	-	23,706
Investment income	3,974	-	3,974
Miscellaneous income	8,390	-	8,390
Released from restrictions	437,500	(437,500)	-
	<u>2,924,235</u>	<u>(137,500)</u>	<u>2,786,735</u>
Total revenue and support			
	<u>2,924,235</u>	<u>(137,500)</u>	<u>2,786,735</u>
Expenses			
Program services:			
The National Math Club	236,994	-	236,994
College and outreach programs	94,224	-	94,224
Math Video Challenge	132,612	-	132,612
Volunteer support	236,784	-	236,784
Curriculum development	143,813	-	143,813
National competition	808,617	-	808,617
Public relations and newsletter	232,953	-	232,953
Production of coaching materials	49,937	-	49,937
School registration and materials	520,727	-	520,727
	<u>2,456,661</u>	<u>-</u>	<u>2,456,661</u>
Total program services			
	<u>2,456,661</u>	<u>-</u>	<u>2,456,661</u>
Supporting services:			
General and administration	103,783	-	103,783
Fundraising	242,389	-	242,389
	<u>346,172</u>	<u>-</u>	<u>346,172</u>
Total supporting services			
	<u>346,172</u>	<u>-</u>	<u>346,172</u>
Total expenses			
	<u>2,802,833</u>	<u>-</u>	<u>2,802,833</u>
Change in Net Assets	121,402	(137,500)	(16,098)
Net Assets, beginning of year	<u>1,807,497</u>	<u>437,500</u>	<u>2,244,997</u>
Net Assets, end of year	<u><u>\$ 1,928,899</u></u>	<u><u>\$ 300,000</u></u>	<u><u>\$ 2,228,899</u></u>

See accompanying notes.

MATHCOUNTS Foundation

Statement of Activities
For the Year Ended July 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions and grants	\$ 965,202	\$ 437,500	\$ 1,402,702
School registration fees	873,216	-	873,216
Investment income	8,288	-	8,288
Sale of trophies and promotional items	23,796	-	23,796
Coaching materials revenue	114,243	-	114,243
National competition revenue	43,255	-	43,255
Miscellaneous revenue	2,086	-	2,086
Released from restrictions	920,000	(920,000)	-
	<u>2,950,086</u>	<u>(482,500)</u>	<u>2,467,586</u>
Total revenue and support			
	<u>2,950,086</u>	<u>(482,500)</u>	<u>2,467,586</u>
Expenses			
Program services:			
The National Math Club	239,836	-	239,836
College and outreach programs	45,740	-	45,740
Math Video Challenge	126,026	-	126,026
Volunteer support	156,586	-	156,586
Curriculum development	146,609	-	146,609
National competition	836,304	-	836,304
Public relations and newsletter	250,043	-	250,043
Production of coaching materials	51,431	-	51,431
School registration and materials	477,479	-	477,479
	<u>2,330,054</u>	<u>-</u>	<u>2,330,054</u>
Total program services			
	<u>2,330,054</u>	<u>-</u>	<u>2,330,054</u>
Supporting services:			
General and administration	164,413	-	164,413
Fundraising	233,917	-	233,917
	<u>398,330</u>	<u>-</u>	<u>398,330</u>
Total supporting services			
	<u>398,330</u>	<u>-</u>	<u>398,330</u>
Total expenses			
	<u>2,728,384</u>	<u>-</u>	<u>2,728,384</u>
Change in Net Assets	221,702	(482,500)	(260,798)
Net Assets, beginning of year	<u>1,585,795</u>	<u>920,000</u>	<u>2,505,795</u>
Net Assets, end of year	<u>\$ 1,807,497</u>	<u>\$ 437,500</u>	<u>\$ 2,244,997</u>

See accompanying notes.

MATHCOUNTS Foundation

Statements of Cash Flows For the Years Ended July 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (16,098)	\$ (260,798)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(11,583)	(35,094)
Depreciation and amortization	70,001	41,860
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	269,673	314,803
Prepaid expenses and other current assets	2,684	(3,952)
Increase (decrease) in:		
Accounts payable and accrued expenses	14,218	17,326
Due to National Society of Professional Engineers	(103,662)	(76,718)
Future scholarships payable	1,884	4,248
Deferred revenue	(450)	(3,069)
State custodials	19,268	(2,992)
Net cash provided by operating activities	245,935	(4,386)
Cash Flows from Investing Activities		
Purchases of property and equipment	(31,442)	(80,333)
Purchases of investments	(1,125,887)	(1,310,097)
Proceeds from sales of investments	1,134,696	1,587,534
Net cash (used in) provided by investing activities	(22,633)	197,104
Net Increase in Cash and Cash Equivalents	223,302	192,718
Cash and Cash Equivalents, beginning of year	286,819	94,101
Cash and Cash Equivalents, end of year	\$ 510,121	\$ 286,819

See accompanying notes.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

1. Nature of Operations

The MATHCOUNTS Foundation (“the Foundation”) originally operated as a joint program between the National Society of Professional Engineers (NSPE), CNA Foundation (CNA), and the National Council of Teachers of Mathematics (NCTM) from its inception in 1983 until its incorporation.

The Foundation sponsors the three signature MATHCOUNTS programs through the support of many organizations and individuals. The Foundation is a 501(c)(3) nonprofit organization that strives to engage middle school students of all ability and interest levels in fun, challenging math programs, in order to expand their academic and professional opportunities.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Foundation’s financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Foundation’s operations.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Foundation or by the passage of time.

Cash Equivalents

For the purpose of the statements of cash flows, the Foundation considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Accounts Receivable

Accounts receivable are recorded at net realizable value and represent amounts due from registration fees from the MATHCOUNTS Competition Series. The Foundation provides an allowance for bad debts using the allowance method, which is based on management’s judgment considering historical information. Accounts are individually analyzed for collectability, and will be reserved based on individual evaluation and specific circumstances. When all collection efforts have been exhausted, the accounts are written-off against the related allowance.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable (continued)

At July 31, 2016 and 2015, there is no allowance for doubtful accounts as management believes that all accounts are fully collectible.

Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses are reported as a component of investment income in the accompanying statements of activities.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for repairs and maintenance are expensed as incurred.

Revenue Recognition

Grants and contributions are recorded as revenue when received or promised. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received or promised with grantor or donor stipulations that limit the use of the donated assets to one of the Foundation's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

Conference and forum revenue is recognized at the time of the event.

Revenue from all other sources is recognized when earned.

In-Kind Contributions

The Foundation receives donated goods in the form of financial calculators, banners, and shirts. These items are valued using comparable market rates, and are included in the accompanying statements of activities in the amount of \$43,400 and \$54,445 for the years ended July 31, 2016 and 2015, respectively.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications have no effect on the change in net assets previously reported.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 12, 2016, the date the financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Foundation maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Foundation has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

4. Investments and Fair Value Measurements

Investment income consists of the following for the years ended July 31:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 10,241	\$ 631
Realized and unrealized gain	11,583	35,094
Less: investment fees	<u>(17,850)</u>	<u>(27,437)</u>
Total investment income	<u>\$ 3,974</u>	<u>\$ 8,288</u>

The Foundation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs.

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

4. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for those investments measured on a recurring basis at July 31, 2016:

	Level 1	Level 2	Level 3	Total
Exchange-traded funds:				
Large cap blend	\$ 246,900	\$ -	\$ -	\$ 246,900
Mid cap blend	30,701	-	-	30,701
Small cap blend	20,017	-	-	20,017
Foreign large blend	111,083	-	-	111,083
Mutual funds:				
Short term bonds	70,573	-	-	70,573
Intermediate term bonds	586,537	-	-	586,537
Emerging market bond	36,232	-	-	36,232
World allocation	102,230	-	-	102,230
Large cap value	190,183	-	-	190,183
Large cap growth	176,365	-	-	176,365
Mid cap value	35,636	-	-	35,636
Small cap value	39,299	-	-	39,299
Small cap growth	41,122	-	-	41,122
Foreign large blend	132,891	-	-	132,891
Foreign large growth	142,459	-	-	142,459
Emerging markets	99,714	-	-	99,714
Short-term investments	17,630	-	-	17,630
Total investments	<u>\$ 2,079,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,079,572</u>

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

4. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for those investments measured on a recurring basis at July 31, 2015:

	Level 1	Level 2	Level 3	Total
Exchange-traded funds:				
Corporate bond	\$ 305,868	\$ -	\$ -	\$ 305,868
Equity growth	452,167	-	-	452,167
Equity value	204,894	-	-	204,894
Real estate	98,892	-	-	98,892
Large blend	102,306	-	-	102,306
Foreign small/mid blend	209,905	-	-	209,905
Foreign large blend	305,323	-	-	305,323
Convertibles	193,353	-	-	193,353
High-yield bond	101,232	-	-	101,232
Short-term investments	102,858	-	-	102,858
Total investments	<u>\$ 2,076,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,076,798</u>

5. Property and Equipment

Property and equipment consists of the following at July 31:

	2016	2015
Computers and software	\$ 300,936	\$ 269,495
Less: accumulated depreciation and amortization	<u>(225,910)</u>	<u>(155,910)</u>
Property and equipment, net	<u>\$ 75,026</u>	<u>\$ 113,585</u>

6. Related Party Transactions

NSPE and other contributors jointly sponsor the MATHCOUNTS program. However, none of the sponsors have a controlling financial interest in the Foundation.

Amounts due to NSPE arise from expenses paid by NSPE on behalf of the Foundation, for which NSPE has not received reimbursement. As of July 31, 2016 and 2015, the Foundation owed NSPE \$18,312 and \$121,974, respectively, for unreimbursed expenses.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

6. Related Party Transactions (continued)

Through March of 2016, the Foundation's staff salaries and benefits were reimbursed to NSPE at cost. The Foundation reimbursed NSPE \$930,919 and \$1,042,348 for payroll, rent, and service costs during the years ended July 31, 2016 and 2015, respectively.

NSPE made contributions to the Foundation of \$100,000 for both years ended July 31, 2016 and 2015.

7. State Custodials

The Foundation receives contributions for use in support of state competitions. The donors require that these contributions be used to reimburse the state societies for costs they have incurred in support of state competitions.

	<u>State Custodials</u>
Balance, July 31, 2014	\$ 38,531
Cash receipts	42,372
Paid to states	<u>(45,364)</u>
Balance, July 31, 2015	35,539
Cash receipts	63,626
Paid to states	<u>(44,358)</u>
Balance, July 31, 2016	<u><u>\$ 54,807</u></u>

8. Future Scholarships Payable

In 1988, the Foundation's Board of Directors voted to award college scholarships to the top three finalists in the national competition each year. The first such scholarship was awarded at the May 1989 national competition. In recent years, the Board of Directors has expanded the list of scholarships awarded to include the national champion, runner-up, and semi-finalists of the countdown round; the top scoring team; the two highest scoring individuals in the written competition; the winning team of the Math Video Challenge; and an alumni scholarship winner.

Except for the alumni scholarship, which is a one-time payment, the scholarships are payable ratably over the first four years of the students' college education. Since the national competition winners are middle school students, the first installment of the scholarship is normally payable four years after the scholarship is awarded.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

8. Future Scholarships Payable (continued)

The following is a schedule of future payments for scholarships awarded as of July 31, 2016:

2017	\$	83,000
2018		46,750
2019		46,500
2020		49,000
2021		45,000
Thereafter		<u>89,250</u>
Total		359,500
Less: present-value discount (5%)		<u>(43,801)</u>
Net present value of scholarships payable	\$	<u><u>315,699</u></u>

A discount rate used on long-term scholarships was 5% at July 31, 2016, which is based on various factors including the projected rate of return and market inflation.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following grants restricted for use in future periods at July 31:

	<u>2016</u>	<u>2015</u>
Northrop Grumman Foundation	\$ 200,000	\$ 300,000
Phillips 66	100,000	100,000
Bentley Systems	<u>-</u>	<u>37,500</u>
Total temporarily restricted net assets	<u><u>\$ 300,000</u></u>	<u><u>\$ 437,500</u></u>

10. Service Organization

During 2016, the Foundation contracted with Insperity PEO Services, L.P. (“Insperity”) as their professional employer organization. As such, Insperity is the employer of record for tax, benefits, and insurance purposes for the Foundation’s employees. This co-employment relationship allows the Foundation to maintain direct control of the day-to-day activities of employees, while Insperity assumes the administrative functions of human resources and absorbs many employer-related liabilities. For the year ended June 30, 2016, \$394,118 was incurred under this agreement.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2016 and 2015

11. Income Taxes

The Foundation is exempt from payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. For the years ended July 31, 2016 and 2015, there was no unrelated business income and, accordingly, no federal or state income taxes have been recorded. Management has evaluated the Foundation's tax positions and concluded that the Foundation's financial statements do not include any uncertain tax positions.