

MATHCOUNTS Foundation

Financial Statements
and Independent Auditors' Report

July 31, 2017 and 2016

MATHCOUNTS Foundation

Financial Statements
July 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
MATHCOUNTS Foundation

We have audited the accompanying financial statements of MATHCOUNTS Foundation (“the Foundation”), which comprise the statements of financial position as of July 31, 2017 and 2016, the related statements of activities 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 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 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 Foundation as of July 31, 2017 and 2016, 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.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The "R" is large and stylized, with a loop at the top. The plus sign is a simple horizontal line. The word "Company" is written in a cursive-like script, and "PLLC" is in a more formal, blocky font.

Vienna, Virginia
November 30, 2017

MATHCOUNTS Foundation

Statements of Financial Position July 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 679,663	\$ 510,121
Accounts receivable	35,481	12,337
Grant receivable	128,850	-
Investments, future scholarship payable	80,750	83,000
Prepaid expenses and other current assets	78,466	46,301
	<hr/>	<hr/>
Total current assets	1,003,210	651,759
Investments, future scholarship payable, long-term	236,373	232,699
Investments, other	1,986,296	1,763,873
Property and equipment, net	126,149	75,026
	<hr/>	<hr/>
Total assets	<u>\$ 3,352,028</u>	<u>\$ 2,723,357</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 82,285	\$ 80,356
Due to National Society of Professional Engineers	3,586	18,312
Future scholarships payable	80,750	83,000
Deferred revenue	71,670	25,284
State custodials	58,866	54,807
	<hr/>	<hr/>
Total current liabilities	297,157	261,759
Future scholarships payable, long-term, net	236,373	232,699
	<hr/>	<hr/>
Total liabilities	<u>533,530</u>	<u>494,458</u>
Net Assets		
Unrestricted	2,218,498	1,928,899
Temporarily restricted	600,000	300,000
	<hr/>	<hr/>
Total net assets	<u>2,818,498</u>	<u>2,228,899</u>
Total liabilities and net assets	<u>\$ 3,352,028</u>	<u>\$ 2,723,357</u>

See accompanying notes.

MATHCOUNTS Foundation

Statement of Activities
For the Year Ended July 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions and grants	\$ 1,473,908	\$ 600,000	\$ 2,073,908
School registration fees	878,640	-	878,640
Coaching materials revenue	107,842	-	107,842
National competition revenue	55,181	-	55,181
Sale of trophies and promotional items	34,383	-	34,383
Investment income	226,472	-	226,472
Miscellaneous income	4,599	-	4,599
Released from restrictions	300,000	(300,000)	-
Total revenue and support	3,081,025	300,000	3,381,025
Expenses			
Program services:			
The National Math Club	244,697	-	244,697
College and outreach programs	194,817	-	194,817
Math Video Challenge	114,031	-	114,031
Volunteer support	245,627	-	245,627
Curriculum development	133,173	-	133,173
National competition	816,358	-	816,358
Public relations and newsletter	203,634	-	203,634
Production of coaching materials	51,749	-	51,749
School registration and materials	473,359	-	473,359
Total program services	2,477,445	-	2,477,445
Supporting services:			
General and administration	167,643	-	167,643
Fundraising	146,338	-	146,338
Total supporting services	313,981	-	313,981
Total expenses	2,791,426	-	2,791,426
Change in Net Assets	289,599	300,000	589,599
Net Assets, beginning of year	1,928,899	300,000	2,228,899
Net Assets, end of year	\$ 2,218,498	\$ 600,000	\$ 2,818,498

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>\$ 1,928,899</u>	<u>\$ 300,000</u>	<u>\$ 2,228,899</u>

See accompanying notes.

MATHCOUNTS Foundation

Statements of Cash Flows For the Years Ended July 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 589,599	\$ (16,098)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(169,533)	(11,583)
Depreciation and amortization	81,666	70,001
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(23,144)	269,673
Grant receivable	(128,850)	-
Prepaid expenses and other current assets	(32,165)	2,684
Increase (decrease) in:		
Accounts payable and accrued expenses	1,929	14,218
Due to National Society of Professional Engineers	(14,726)	(103,662)
Future scholarships payable	1,424	1,884
Deferred revenue	46,386	(450)
State custodials	4,059	19,268
	356,645	245,935
Cash Flows from Investing Activities		
Purchases of property and equipment	(132,789)	(31,442)
Purchases of investments	(54,314)	(1,125,887)
Proceeds from sales of investments	-	1,134,696
	(187,103)	(22,633)
Net Increase in Cash and Cash Equivalents	169,542	223,302
Cash and Cash Equivalents, beginning of year	510,121	286,819
Cash and Cash Equivalents, end of year	\$ 679,663	\$ 510,121

See accompanying notes.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2017 and 2016

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.

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.

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.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

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.

At July 31, 2017 and 2016, there is no allowance for doubtful accounts as management believes that all accounts are fully collectible.

Grant Receivable

The Foundation's grant receivable is due in less than one year and is recorded at net realizable value. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of receivables. There is no provision for doubtful accounts at July 31, 2017 and 2016, as management deems all receivables to be 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.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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.

Donated Facilities and Goods

The Foundation receives donated facilities for the use of office space from NSPE (see Note 6). The fair value of the use of donated facilities totaled \$59,640 and \$-0- for the years ended July 31, 2017 and 2016, respectively, and is included in contributions and grants in the accompanying statements of activities.

The Foundation also 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 \$46,500 and \$43,400 for the years ended July 31, 2017 and 2016, respectively.

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.

Recently Issued Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in the Foundation's fiscal year 2019.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 30, 2017, 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.

4. Investments and Fair Value Measurements

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 71,324	\$ 10,241
Realized and unrealized gain	169,533	11,583
Less: investment fees	<u>(14,385)</u>	<u>(17,850)</u>
Total investment income	<u>\$ 226,472</u>	<u>\$ 3,974</u>

The Foundation follows FASB Accounting Standards Codification 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.

MATHCOUNTS Foundation

Notes to Financial Statements
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4. Investments and Fair Value Measurements (continued)

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.

The following table presents the Foundation's fair value hierarchy for those investments measured on a recurring basis at July 31, 2017:

	Level 1	Level 2	Level 3	Total
Exchange-traded funds:				
Large cap blend	\$ 286,444	\$ -	\$ -	\$ 286,444
Mid cap blend	34,651	-	-	34,651
Small cap blend	23,729	-	-	23,729
Foreign large blend	131,999	-	-	131,999
Mutual funds:				
Short term bonds	73,825	-	-	73,825
Intermediate term bonds	598,509	-	-	598,509
Emerging market bond	37,964	-	-	37,964
World allocation	113,263	-	-	113,263
Large cap value	216,460	-	-	216,460
Large cap growth	210,038	-	-	210,038
Mid cap value	40,757	-	-	40,757
Small cap value	46,023	-	-	46,023
Small cap growth	47,957	-	-	47,957
Foreign large blend	153,361	-	-	153,361
Foreign large growth	168,035	-	-	168,035
Emerging markets	117,156	-	-	117,156
Short-term investments	3,248	-	-	3,248
Total investments	<u>\$ 2,303,419</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,303,419</u>

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2017 and 2016

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	\$ 2,079,572	\$ -	\$ -	\$ 2,079,572

5. Property and Equipment

Property and equipment consists of the following at July 31:

	2017	2016
Computers and software	\$ 433,726	\$ 300,936
Less: accumulated depreciation and amortization	(307,577)	(225,910)
Property and equipment, net	\$ 126,149	\$ 75,026

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2017 and 2016

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, 2017 and 2016, the Foundation owed NSPE \$3,586 and \$18,312, respectively, for unreimbursed expenses. Through March of 2016, the Foundation's staff salaries and benefits were reimbursed to NSPE at cost. The Foundation reimbursed NSPE \$137,378 and \$930,919 for payroll, rent, and service costs during the years ended July 31, 2017 and 2016, respectively.

NSPE made contributions to the Foundation amounting to \$50,000 and \$100,000 for the years ended July 31, 2017 and 2016, respectively.

7. State Custodians

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.

Balance, July 31, 2015	\$	35,539
Cash receipts		63,626
Paid to states		(44,358)
		<hr/>
Balance, July 31, 2016		54,807
Cash receipts		50,004
Paid to states		(45,945)
		<hr/>
Balance, July 31, 2017	\$	<u>58,866</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.

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2017 and 2016

8. Future Scholarships Payable (continued)

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.

The following is a schedule of future payments for scholarships awarded as of July 31, 2017:

2018	\$	43,000
2019		47,250
2020		49,750
2021		44,750
2022		38,125
Thereafter		<u>137,250</u>
Total		360,125
Less: present-value discount (5%)		<u>(43,002)</u>
Net present value of scholarships payable	\$	<u><u>317,123</u></u>

A discount rate used on long-term scholarships was 5% at July 31, 2017, 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>2017</u>	<u>2016</u>
Raytheon	\$ 500,000	\$ -
Northrop Grumman Foundation	-	200,000
Phillips 66	-	100,000
C.N.A	<u>100,000</u>	<u>-</u>
Total temporarily restricted net assets	<u><u>\$ 600,000</u></u>	<u><u>\$ 300,000</u></u>

MATHCOUNTS Foundation

Notes to Financial Statements
July 31, 2017 and 2016

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 years ended July 31, 2017 and 2016, \$907,920 and \$394,118, respectively, was incurred under this agreement.

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, 2017 and 2016, 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.