

CERGE-EI FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



LUTZ AND GARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
CERGE-EI Foundation

Opinion

We have audited the accompanying financial statements of CERGE-EI Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CERGE-EI Foundation as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CERGE-EI Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the 2021 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CERGE-EI Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CERGE-EI Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CERGE-EI Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Lotz + Carr, LLP

CERGE-EI FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents (Notes 1b and 8a)	\$ 1,861,803	\$ 2,651,228
Contributions receivable (Notes 1c and 4)		
Without donor restrictions	34,265	54,430
Without donor restrictions	119,760	-
Investments (Notes 1d, 1e, 5 and 6)		
Non-endowment	3,872,477	3,481,294
Endowment	5,986,960	7,011,991
Accounts receivable (Note 1g)	1,232	6,331
Prepaid expenses	7,648	1,516
Property and equipment, at cost, net of accumulated depreciation (Notes 1f and 7)	<u>3,515</u>	<u>4,334</u>
 Total Assets	 <u><u>\$11,887,660</u></u>	 <u><u>\$13,211,124</u></u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 26,451	\$ 120,005
Deferred tuition revenue (Note 1g)	54,400	159,750
Grants payable (Note 1g)	974,000	922,000
Total Liabilities	<u>1,054,851</u>	<u>1,201,755</u>
 Net Assets, as restated (Note 10)		
Without Donor Restrictions		
Undesignated	4,226,228	4,598,854
Board designated (Note 3a)	<u>188,480</u>	<u>188,480</u>
Total Without Donor Restrictions	4,414,708	4,787,334
With Donor Restrictions (Notes 3b and 6)	<u>6,418,101</u>	<u>7,222,035</u>
Total Net Assets	<u>10,832,809</u>	<u>12,009,369</u>
 Total Liabilities and Net Assets	 <u><u>\$11,887,660</u></u>	 <u><u>\$13,211,124</u></u>

See notes to financial statements.

CERGE-EI FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Changes in Net Assets Without Donor Restrictions		
Support and Revenue		
Contributions (Note 8b)	\$ 2,292,474	\$ 2,484,826
Tuition income	1,119,344	313,946
Net investment income (Note 5)	4,371	23,753
Other income	5,397	575
	<u>3,421,586</u>	<u>2,823,100</u>
Net assets released from restrictions		
Satisfaction of time and purpose restrictions	615,256	1,277,292
	<u>4,036,842</u>	<u>4,100,392</u>
Expenses (Note 9)		
Program Services	4,034,010	2,952,388
Supporting Services		
Management and general	157,863	124,189
Fundraising	217,595	57,243
Total Supporting Services	<u>375,458</u>	<u>181,432</u>
Total Expenses	<u>4,409,468</u>	<u>3,133,820</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>(372,626)</u>	<u>966,572</u>
Changes in Net Assets With Donor Restrictions		
Contributions (Note 8b)	499,353	30,000
Net investment income (loss) (Note 5)	(688,031)	945,143
Net assets released from restrictions	<u>(615,256)</u>	<u>(1,277,292)</u>
Decrease in Net Assets With Donor Restrictions	<u>(803,934)</u>	<u>(302,149)</u>
Increase (Decrease) in Net Assets	<u>(1,176,560)</u>	<u>664,423</u>
Net assets, beginning of year, as previously reported	12,931,369	12,326,946
Prior period adjustments (Note 10)	<u>(922,000)</u>	<u>(982,000)</u>
Net assets, beginning of year, as restated	<u>12,009,369</u>	<u>11,344,946</u>
Net Assets, End of Year	<u><u>\$10,832,809</u></u>	<u><u>\$12,009,369</u></u>

See notes to financial statements.

CERGE-EI FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022 WITH COMPARATIVE TOTALS FOR 2021

	Program Services	Supporting Services			2022	2021
		Management and General	Fundraising	Total	Total Expenses	Total Expenses
Teaching fellows grants	\$1,077,650	\$ -	\$ -	\$ -	\$1,077,650	\$1,106,751
Research and other fellowships	734,962	-	-	-	734,962	720,420
Grants to CERGE-EI, including support for UPCES, MAE and Distance Learning programs	410,000	-	-	-	410,000	207,029
Ukraine Emergency Relief	33,683	-	-	-	33,683	-
Other grants	9,000	-	-	-	9,000	4,000
Salaries, payroll taxes and employee benefits	97,068	48,887	97,774	146,661	243,729	153,295
Instructor fees	166,619	-	-	-	166,619	156,575
UPCES program expenses	790,683	-	-	-	790,683	209,371
MAE program expenses	71,764	-	-	-	71,764	77,167
Distance Learning program expenses	120,425	-	-	-	120,425	76,440
Teaching Fellows administration and other expenses	173,977	-	-	-	173,977	130,220
Professional fees	40,998	30,238	43,079	73,317	114,315	53,196
Administrative consultant fees	87,205	57,617	10,901	68,518	155,723	133,397
Technology and internet	12,415	5,495	2,442	7,937	20,352	9,815
Rent	6,651	2,409	2,409	4,818	11,469	6,978
Office expenses	4,395	3,919	2,617	6,536	10,931	4,177
Conferences and meetings	66,324	-	-	-	66,324	43,621
Travel	3,145	3,145	15,122	18,267	21,412	10,431
Insurance	-	3,433	-	3,433	3,433	3,683
Special events	117,778	-	38,515	38,515	156,293	-
Bank charges	5,248	464	116	580	5,828	21,083
Miscellaneous	3,094	1,947	4,311	6,258	9,352	5,087
Total expenses before depreciation	4,033,084	157,554	217,286	374,840	4,407,924	3,132,736
Depreciation	926	309	309	618	1,544	1,084
Total Expenses, 2022	<u>\$4,034,010</u>	<u>\$ 157,863</u>	<u>\$ 217,595</u>	<u>\$375,458</u>	<u>\$4,409,468</u>	
Total Expenses, 2021	<u>\$2,952,388</u>	<u>\$ 124,189</u>	<u>\$ 57,243</u>	<u>\$181,432</u>		<u>\$3,133,820</u>

See notes to financial statements.

CERGE-EI FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total Expenses</u>
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Teaching fellows grants	\$1,106,751	\$ -	\$ -	\$ -	\$1,106,751
Research and other fellowships	720,420	-	-	-	720,420
Grants to CERGE-EI, including support for UPCES, MAE and Distance Learning programs	207,029	-	-	-	207,029
Other grants	4,000	-	-	-	4,000
Salaries, payroll taxes and employee benefits	91,977	30,659	30,659	61,318	153,295
Instructor fees	156,575	-	-	-	156,575
UPCES program expenses	209,371	-	-	-	209,371
MAE program expenses	77,167	-	-	-	77,167
Distance Learning program expenses	76,440	-	-	-	76,440
Teaching Fellows administration and other expenses	130,220	-	-	-	130,220
Professional fees	3,726	36,781	12,689	49,470	53,196
Administrative consultant fees	86,793	39,100	7,504	46,604	133,397
Technology and internet	5,987	2,650	1,178	3,828	9,815
Rent	4,187	2,093	698	2,791	6,978
Office expenses	2,415	1,161	601	1,762	4,177
Conferences and meetings	43,621	-	-	-	43,621
Travel	5,216	3,173	2,042	5,215	10,431
Insurance	-	3,683	-	3,683	3,683
Bank charges	16,755	3,281	1,047	4,328	21,083
Miscellaneous	3,088	1,391	608	1,999	5,087
Total expenses before depreciation	\$2,951,738	123,972	57,026	180,998	3,132,736
Depreciation	650	217	217	434	1,084
Total Expenses	<u>\$2,952,388</u>	<u>\$ 124,189</u>	<u>\$ 57,243</u>	<u>\$181,432</u>	<u>\$3,133,820</u>

See notes to financial statements.

CERGE-EI FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$(1,176,560)	\$ 664,423
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	1,544	1,084
Loss on disposal of asset	1,233	-
Net realized and unrealized (gain) loss on investments	1,135,273	(532,755)
(Increase) decrease in:		
Contributions receivable	(99,595)	(32,602)
Accounts receivable	5,099	(6,331)
Prepaid expenses	(6,132)	15
Increase (decrease) in:		
Accounts payable and accrued expenses	(93,554)	80,754
Deferred tuition revenue	(105,350)	158,780
Grants payable	52,000	(60,000)
Net Cash Provided (Used) By Operating Activities	(286,042)	273,368
 Cash Flows From Investing Activities		
Purchase of property and equipment	(1,958)	(5,418)
Purchase of investments	(501,425)	(497,685)
Proceeds from sale of investments	-	1,249,999
Net Cash Provided (Used) By Investing Activities	(503,383)	746,896
 Net increase (decrease) in cash and cash equivalents	(789,425)	1,020,264
Cash and cash equivalents, beginning of year	2,651,228	1,630,964
 Cash and Cash Equivalents, End of Year	\$ 1,861,803	\$2,651,228

See notes to financial statements.

CERGE-EI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

CERGE-EI Foundation (the "Foundation") was founded with the purpose of raising funds to support CERGE-EI, a joint workplace in the field of economics, associated with two highly respected institutions, Charles University in Prague, and the Academy of Sciences of the Czech Republic. It also supports similar institutions and individuals engaged in modern economics in transition societies.

b - Cash and Cash Equivalents

The Foundation considers highly liquid investments with original maturities of three months or less from the date purchased and money market mutual funds to be cash equivalents, except for those managed by the Foundation's investment managers as part of their long term investment strategy.

c - Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation, that is, in substance, unconditional. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Foundation uses the allowance method to determine the existence of any uncollectible grants and contributions receivable. The allowance, when necessary, is established based on prior years' experience and management's analysis of specific promises made.

d - Investments

The Foundation reflects investments at fair value in the statement of financial position. Investment income, including realized and unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income that is limited to specific uses by donor-imposed restrictions is reported as increases or decreases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

CERGE-EI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

e - Fair Value Measurements

Fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Fair value measurements are not adjusted for transaction costs. A fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Fund.
- Level 3 Unobservable inputs reflect the assumptions that the Foundation develops based on available information about what market participants would use in valuing the asset or liability.

f - Property and Equipment

Property and equipment acquired in excess of \$2,000 are recorded at cost. Property and equipment are being depreciated using the straight-line method over the estimated useful life of the asset.

g - Revenue Recognition

The Foundation's tuition income is accounted for as an exchange transaction. Tuition income for the Undergraduate Program in Central European Studies ("UPCES") and Master in Applied Economics ("MAE") programs are recognized over the academic semester to which it relates. Spring and Fall semesters begin and end within the calendar year. Tuition for the following Spring semester is due by December of the preceding year, and when received is recorded as deferred revenue. Receivables are recorded for any tuition not yet received by the end of the semester.

h - 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 ("US GAAP"), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and Board of Directors.

CERGE-EI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

h - Financial Statement Presentation (continued)

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

i - Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j - Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and employee benefits, administrative consultant fees, technology and internet, office expenses, and depreciation, which are allocated on the basis of estimates of time and effort.

k - Tax Status

CERGE-EI Foundation is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

l - Reclassifications

For comparability, certain 2021 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2022.

m - Subsequent Events

The Foundation has evaluated subsequent events through November 14, 2023, the date that the financial statements are considered available to be issued.

CERGE-EI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Information Regarding Liquidity and Availability

The Foundation operates with a balanced budget for each fiscal year based on the revenues expected to be available to fund anticipated expenses. Annual revenue is comprised primarily of contribution revenue and tuition revenue earned during the year. The Foundation considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to general and administrative and fundraising activities undertaken to support those activities.

The Foundation regularly monitors liquidity to meet its operating needs and other commitments and obligations. Management prepares regular cash flow projections to determine liquidity needs and to ensure the ability to meet cash requirements. As part of the Foundation's liquidity management, the Foundation invests its cash in excess of daily requirements in certificates of deposit, mutual funds, and money market funds.

The Foundation's financial assets as of December 31, 2022 and 2021 available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2022</u>	<u>2021</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 1,861,803	\$ 2,651,228
Investments	9,859,437	10,493,285
Contributions receivable	154,025	54,430
Accounts receivable	<u>1,232</u>	<u>6,331</u>
Total Financial Assets	11,876,497	13,205,274
Less: Amounts not Available to be Used within One Year:		
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(431,141)	(210,044)
Plus: Net assets with donor restrictions expected to be met in less than one year	111,455	143,784
Board designated reserves	(188,480)	(188,480)
Less: Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(5,986,960)	(7,011,991)
Plus: Amounts expected to be appropriated for use within one year	<u>337,000</u>	<u>343,300</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 5,718,371</u>	<u>\$ 6,281,843</u>

CERGE-EI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 3 - Net Assets

a - Net Assets Without Donor Restrictions – Board Designated Funds

Board Designated funds at December 31, 2022 and 2021 totaled \$188,480, consisting of a \$150,000 staff replacement reserve and a \$38,040 video facility fund.

b - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specific purposes or periods:		
Regional Research Competition	\$ 87,515	\$ 87,515
Institute for Democracy & Economic Analysis	97,751	93,335
Other	2,988	2,988
Armenian Economics Association	31,106	26,206
Stapleton Scholarship Awards	181,460	-
Ukraine Emergency Relief Fund	<u>30,321</u>	<u>-</u>
	<u>431,141</u>	<u>210,044</u>
Endowments subject to spending policy and appropriation:		
Investment income above original gift amount:		
Citigroup Professorship	825,135	1,223,223
Citigroup Scholarship	550,090	815,482
Mellon Associate Professorship	550,090	815,482
Vannerson Scholarship	165,027	244,645
Svejnar-Terrell (teaching prize)	15,678	23,241
Jan Kmenta Library Fund	<u>18,610</u>	<u>27,588</u>
	<u>2,124,630</u>	<u>3,149,661</u>
Investment in perpetuity:		
Citigroup Professorship	1,500,000	1,500,000
Citigroup Scholarship	1,000,000	1,000,000
Mellon Associate Professorship	1,000,000	1,000,000
Vannerson Scholarship	300,000	300,000
Svejnar-Terrell (teaching prize)	28,500	28,500
Jan Kmenta Library Fund	<u>33,830</u>	<u>33,830</u>
	<u>3,862,330</u>	<u>3,862,330</u>
Total Endowments	<u>5,986,960</u>	<u>7,011,991</u>
Total Net Assets With Donor Restrictions	<u>\$6,418,101</u>	<u>\$7,222,035</u>

CERGE-EI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 4 - Contributions Receivable

Contributions receivable at December 31 are due as follows:

	<u>2022</u>	<u>2021</u>
Due in less than one year	\$ 95,899	\$54,430
Due in one to five years	<u>61,666</u>	<u>-</u>
	157,565	54,430
Less: Discount to present value	<u>(3,540)</u>	<u>-</u>
	<u>\$ 154,025</u>	<u>\$54,430</u>

As of December 31, 2022, all contributions receivable were due from an individual and a foundation. As of December 31, 2021, all contributions receivable were due from a foundation.

Contributions receivable for periods due after one year are discounted to net present value using a discount rate of 3%. Uncollectible receivables are expected to be insignificant.

Note 5 - Investments

Investments, which are all classified as Level 1 within the fair value hierarchy, consist of the following:

	<u>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and money market funds	\$ 3,403,296	\$3,403,296	\$2,687,256	\$ 2,687,256
Certificates of deposit	100,000	99,667	400,000	402,111
Mutual funds:				
Domestic equities	2,723,482	2,543,613	2,815,237	3,344,764
International equities	2,593,969	2,580,864	2,865,489	3,348,735
Domestic fixed income	<u>1,359,275</u>	<u>1,231,997</u>	<u>691,212</u>	<u>710,419</u>
	<u>\$10,180,022</u>	<u>\$9,859,437</u>	<u>\$9,459,194</u>	<u>\$10,493,285</u>

CERGE-EI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 5 - Investments (continued)

The components of the Foundation's net investment income (loss) for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 451,613	\$436,141
Net realized and unrealized gain (loss)	<u>(1,135,273)</u>	<u>532,755</u>
	<u>\$ (683,660)</u>	<u>\$968,896</u>
Allocated to:		
Without donor restrictions	\$ 4,371	\$ 23,753
With donor restrictions - endowments	<u>(688,031)</u>	<u>945,143</u>
	<u>\$ (683,660)</u>	<u>\$968,896</u>

Note 6 - Endowment Funds

The Foundation's endowment consists of multiple individual donor-restricted endowment funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted the relevant Pennsylvania and New Jersey law as requiring the preservation of the historical dollar value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2022, and 2021, there were no such donor stipulations. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions for investment in perpetuity (a) the original value of initial and subsequent gifts donated to the donor-restricted endowment and (b) any accumulations to the donor-restricted endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund, consisting of accumulated investment earnings, that is not classified as perpetual in nature is classified as net assets with donor restrictions subject to spending policy and appropriation until those amounts are appropriated for expenditure by the Foundation.

CERGE-EI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 6 - Endowment Funds (continued)

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the fund;
- (ii) the purposes of the Foundation and the donor-restricted endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the Foundation; and
- (vii) the investment policies of the Foundation

The Foundation's endowment funds composition, by type of fund and net asset classification, are summarized as follows at December 31:

	<u>With Donor Restrictions</u>		
	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Donor-restricted endowment funds, 2022	<u>\$2,124,630</u>	<u>\$3,862,330</u>	<u>\$5,986,960</u>
Donor-restricted endowment funds, 2021	<u>\$3,149,661</u>	<u>\$3,862,330</u>	<u>\$7,011,991</u>

Changes in the Foundation's endowment funds with donor restrictions for the years ended December 31, 2022 and 2021 are summarized as follows:

	<u>2022</u>		
	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Endowment funds, beginning of year	\$3,149,661	\$3,862,330	\$7,011,991
Net investment loss	(688,031)	-	(688,031)
Appropriation for expenditure	<u>(337,000)</u>	<u>-</u>	<u>(337,000)</u>
Endowment Funds, End of Year	<u>\$2,124,630</u>	<u>\$3,862,330</u>	<u>\$5,986,960</u>

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Note 6 - Endowment Funds (continued)

	2021		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	\$2,517,368	\$3,862,330	\$6,379,698
Net investment income	945,143	-	945,143
Appropriation for expenditure	(312,850)	-	(312,850)
Endowment Funds, End of Year	<u>\$3,149,661</u>	<u>\$3,862,330</u>	<u>\$7,011,991</u>

Return Objectives and Risk Parameters

The Foundation has adopted an investment policy for endowment assets that attempts to provide predictable returns and maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the Foundation's goal is to earn a stable and predictable amount of current income from the endowment, while reinvesting additional interest in years when the Foundation's investments do well.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Pursuant to Board instructions, the Foundation reviews investment allocation annually or more often as conditions warrant.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Directors has implemented a spending policy whereby 5% of the average endowment fair market value for the previous three years is appropriated for distribution annually. Transfers will not be made if doing so would bring the account value below the original endowment investment amount unless allowed under the terms of the gift. Also, the Board may reduce or increase this annual transfer if such a change is deemed in the best interest of the Foundation. During the year ended December 31, 2022, \$337,000 was appropriated for expenditure. During the year ended December 31, 2021, \$312,850 was appropriated for expenditure.

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Note 7 - Property and Equipment

Property and equipment consist of the following as of December 31:

	<u>Life</u>	<u>2022</u>	<u>2021</u>
Computers	5 years	\$5,732	\$5,418
Less: Accumulated depreciation		<u>(2,217)</u>	<u>(1,084)</u>
		<u>\$3,515</u>	<u>\$4,334</u>

Note 8 - Concentrations

a - Concentration of Credit Risk

The Foundation maintains its cash and cash equivalents on deposits at various financial institutions. Balances that, at times, may exceed federally insured limits. The Foundation has not experienced, nor does it anticipate, any losses with respect to such accounts.

b - Contributions

For the years ended December 31, 2022 and 2021, approximately 81% and 91%, respectively, of the Foundation's total contribution revenue was received from one donor.

Note 9 - Related Party Transactions

Four members of the Board received payments for services provided to the Foundation's programs. Payments to board members totaled \$156,833 (2022) and \$153,279 (2021).

Note 10 - Prior Period Adjustments

Net assets without donor restrictions as of January 1, 2021 have been restated to reflect \$982,000 of grant expenses payable as of December 31, 2020, which were not previously recorded. The financial statements as of and for the year ended December 31, 2021 were also restated to reflect \$922,000 of grant expenses to CERGE-EI and grants payable, which were not previously recorded within net assets without donor restrictions.