THE REASON FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

THE REASON FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Reason Foundation

Report on the Financial Statements
We have audited the accompanying financial statements of The Reason Foundation, which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Reason Foundation as of September 30, 2019, 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.

Green Hasson & Janks LLP

January 28, 2020
Los Angeles, California

THE REASON FOUNDATION

STATEMENT OF FINANCIAL POSITION
September 30, 2019

ASSETS	Without Donor Restrictions	With Donor Restrictions	Total
Cash and Cash Equivalents	$ 2,047,274	$ -	$ 2,047,274
Investments	4,545,124	1,560,821	6,105,945
Accounts Receivable (Net)	87,601	-	87,601
Pledges Receivable	-	259,593	259,593
Deposits and Other Assets	102,915	-	102,915
Property and Equipment (Net)	2,774,602	-	2,774,602
TOTAL ASSETS	$ 9,557,516	$ 1,820,414	$ 11,377,930
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accrued Compensation Expenses	$ 829,256	$ -	$ 829,256
Accounts Payable and Other Accrued Expenses	284,404	-	284,404
Unearned Subscriptions	301,016	-	301,016
Deferred Compensation	591,054	-	591,054
TOTAL LIABILITIES	2,005,730	-	2,005,730
NET ASSETS:			
Without Donor Restrictions	7,551,786	-	7,551,786
With Donor Restrictions	-	1,820,414	1,820,414
TOTAL NET ASSETS	7,551,786	1,820,414	9,372,200
TOTAL LIABILITIES AND NET ASSETS	$ 9,557,516	$ 1,820,414	$ 11,377,930

The Accompanying Notes are an Integral Part of These Financial Statements

THE REASON FOUNDATION

STATEMENT OF ACTIVITIES
Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT:			
Public Support			
Contributions	$ 8,764,701	$ 3,364,895	$ 12,129,596
Reason Magazine	893,590	-	893,590
Conferences	208,397	-	208,397
Proceeds from Fundraising Events (Net of			-
Direct Benefit Costs of $32,850)	500,084	-	500,084
Investment Return (Net)	335,882	-	335,882
Other Income	1,681	-	1,681
Net Assets Released from Restrictions	3,392,073	(3,392,073)	-
TOTAL REVENUE AND SUPPORT	14,096,408	(27,178)	14,069,230
EXPENSES:			
Program Services	11,666,181	-	11,666,181
Management and General	508,922	-	508,922
Fundraising	1,377,239	-	1,377,239
TOTAL EXPENSES	13,552,342	-	13,552,342
CHANGE IN NET ASSETS	544,066	(27,178)	516,888
Net Assets - Beginning of Year	7,007,720	1,847,592	8,855,312
NET ASSETS - END OF YEAR	$ 7,551,786	$ 1,820,414	$ 9,372,200

The Accompanying Notes are an Integral Part of These Financial Statements

THE REASON FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2019

	Program Services						Support Services		
	Public Affairs	Stossel on Reason	Reason-TV	Magazine	Research	Total Program Services	Management and General	Fundraising	Total
Personnel Expenses									
Salaries	$ 277,481	$ 308,120	$ 912,895	$ 2,399,133	$ 2,041,871	$ 5,939,500	$ 252,892	$ 530,934	$ 6,723,326
Payroll Taxes	25,923	18,688	63,980	141,654	129,935	380,180	15,943	50,559	446,682
Employee Benefits	27,212	16,912	81,598	156,926	123,645	406,293	19,552	51,571	477,416
TOTAL PERSONNEL EXPENSES	330,616	343,720	1,058,473	2,697,713	2,295,451	6,725,973	288,387	633,064	7,647,424
Contract Services	3,432	544,421	285,455	451,739	869,488	2,154,535	23,317	16,758	2,194,610
Foundation-hosted Events and Conferences	1,322	-	171,942	94,669	94,009	361,942	-	358,325	720,267
Magazine Printing and Distribution	-	9,111	10,568	617,032	-	636,711	-	-	636,711
Travel	5,355	40,937	52,871	54,166	241,209	394,538	365	96,336	491,239
Occupancy	13,375	55,740	53,262	125,320	106,079	353,776	21,929	26,930	402,635
Advertising and Promotion	16,723	-	4,971	145,719	26,130	193,543	858	50,563	244,964
Conference Attendance and Sponsorships	10,327	-	291	60	138,680	149,358	-	9,233	158,591
Printed Material	498	82	590	17,929	22,584	41,683	1,358	110,037	153,078
On-line Services	9,991	2,662	9,068	82,238	25,778	129,737	3,152	4,697	137,586
Insurance	4,713	-	17,071	47,547	35,529	104,860	4,313	9,157	118,330
Dues and Subscriptions	1,230	-	805	7,176	93,575	102,786	-	1,259	104,045
Supplies	1,929	3,606	24,669	13,319	34,114	77,637	5,180	14,351	97,168
Bad Debt Expense	-	-	-	-	-	-	84,634	-	84,634
Postage and Shipping	2,326	367	1,881	21,044	15,675	41,293	356	34,226	75,875
Depreciation and Amortization	2,565	12,130	9,537	24,061	19,817	68,110	2,454	5,164	75,728
Professional Fees	87	482	248	866	713	2,396	56,542	196	59,134
Commissions	-	-	-	47,492	-	47,492	-	-	47,492
Telephone	2,512	3,879	5,225	13,439	13,865	38,920	1,065	3,908	43,893
Miscellaneous	4,653	181	2,686	4,581	5,462	17,563	13,227	1,103	31,893
Books and Periodicals	1,030	28	4,738	13,085	4,447	23,328	1,785	1,932	27,045
TOTAL FUNCTIONAL EXPENSES	$ 412,684	$ 1,017,346	$ 1,714,351	$ 4,479,195	$ 4,042,605	$ 11,666,181	$ 508,922	$ 1,377,239	$ 13,552,342

The Accompanying Notes are an Integral Part of These Financial Statements

THE REASON FOUNDATION

STATEMENT OF CASH FLOWS
Year Ended September 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	$ 516,888
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided By Operating Activities:	
Depreciation and Amortization	75,728
Bad Debt Expense	84,634
Net Realized and Unrealized Gains on Investments	(201,915)
(Increase) Decrease in:	
Accounts Receivable (Net)	7,076
Pledges Receivable	(102,727)
Deposits and Other Assets	72,928
Increase (Decrease) in:	
Accrued Compensation Expense	121,802
Accounts Payable and Other Accrued Expenses	(192,427)
Unearned Subscriptions	23,329
Deferred Compensation	134,826
NET CASH PROVIDED BY OPERATING ACTIVITIES	540,142
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of Property and Equipment	(11,294)
Reinvested Interest and Dividends	(133,967)
Proceeds on Sale of Investments	1,543,901
Purchases of Investments	(1,659,018)
NET CASH USED IN INVESTING ACTIVITIES	(260,378)
NET INCREASE IN CASH AND CASH EQUIVALENTS	279,764
Cash and Cash Equivalents - Beginning of Year	1,767,510
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,047,274

The Accompanying Notes are an Integral Part of These Financial Statements

THE REASON FOUNDATION

NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 1 - ORGANIZATION

The Reason Foundation (the Foundation) is a California tax-exempt nonprofit corporation formed for the purpose of educating Americans in the basic principles of the classical liberal/libertarian political philosophy. Toward this end, the Foundation provides research and publications which apply free-market principles to public policy issues. The Foundation's activities include the monthly publication of Reason magazine and the publication of various studies on public policy issues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions**. Net assets available for use in general operations and not subject to donor-imposed restrictions.

- **Net Assets With Donor Restrictions**. Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at September 30, 2019 approximates its fair value.

The Foundation maintains its cash and cash equivalents in bank deposit and other investment accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

(d) INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investments in Cryptocurrency are reported at the lower of fair market value and the 12-month rolling average price. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulations or by law.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) ACCOUNTS RECEIVABLE

Accounts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At September 30, 2019, management evaluated the collectability of accounts receivable and established an allowance for doubtful accounts of $41,100, which is included in accounts receivable.

(f) PLEDGES RECEIVABLE

Pledges receivable consists of unconditional promises to give monetary assets to the Foundation. Management anticipates it will collect 100% of the pledges receivable balance within one year and so no allowance for potentially uncollectible pledges has been established as of September 30, 2019.

(g) FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments include cash and cash equivalents, accounts receivable, pledges receivable, deposits and other assets, accrued compensation expenses, accounts payable and other accrued expenses, and unearned subscriptions. Due to the short-term nature of these balances, the carrying amounts approximate their fair value.

(h) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets as follows:

Building and improvements	7-39 Years
Furniture and equipment	3 Years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

(i) LONG-LIVED ASSETS

The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated value. No impairment losses were recognized during the year ended September 30, 2019.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) UNEARNED SUBSCRIPTIONS

Magazine subscription revenue is generally received in advance, initially reported as unearned subscriptions, and subsequently recognized as revenue on a pro-rata basis over the respective subscription periods, which may extend beyond one year.

(k) CONTRIBUTIONS

Unconditional contributions are recognized as revenues when received. The Foundation reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as support until such time as the conditions are substantially met.

(l) ADVERTISING AND PROMOTION

Costs of advertising and promotion are expensed as incurred. Total advertising and promotion expense was $244,964 for the year ended September 30, 2019.

(m) FUNCTIONAL EXPENSES

The costs of providing the Foundation's programs and other activities have been presented in the statement of activities. During the year, such costs are allocated among program and support services by a method that best measures the relative degree of benefit. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated accordingly.

(n) INCOME TAXES

The Foundation is a nonprofit public benefit corporation organized under the laws of California and, as such, is generally exempt from federal and state income taxes under Internal Revenue Code ("IRC") Section 501(c)(3) and corresponding state provisions. The Foundation incurs unrelated business income taxes ("UBIT") from its activities involving Reason Magazine advertising income and from rental of its mailing list. UBIT is calculated using federal and California corporate tax rates applied to any surplus from its unrelated business activities.

The Foundation's federal income tax and informational returns for tax years ended September 30, 2016, and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Foundation's only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ended September 30, 2015, and subsequent.

(o) 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 reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) NEW ACCCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. The Foundation implemented this ASU during the year ended September 30, 2019.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of U.S. GAAP and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of combined financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASU's between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on principal versus agent considerations, licensing implementation guidance, scope exceptions, and various other narrow aspects, as identified and addressed in such updates. For the Foundation, the ASU and subsequent amendments will be effective for the year ending September 30, 2020.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require Foundations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For the Foundation, the ASU will be effective for the year ending September 30, 2022.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. For the Foundation, the ASU will be effective for the year ending September 30, 2020.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2019, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 28, 2020, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - INVESTMENTS

The Foundation has implemented the fair value accounting standard for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at September 30, 2019 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements Using		
	Year Ended September 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stock Funds	$ 3,769,888	$ 3,769,888	$ -	$ -
REIT Index Funds	116,646	116,646	-	-
Bond Funds	1,818,039	1,818,039	-	-
U.S. Treasury Funds	197,430	197,430	-	-
Gold Exchange-Traded Fund	174,976	174,976	-	-
Cryptocurrency	28,966	28,966	-	-
TOTAL INVESTMENTS	$ 6,105,945	$ 6,105,945	$ -	$ -

The fair values of the investments within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

NOTE 3 - INVESTMENTS (continued)

The Foundation recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments generally relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels during the year ended September 30, 2019.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2019 consist of the following:

Land	$ 1,908,473
Buildings and Improvements	1,018,670
Furniture and Equipment	1,279,765
Leasehold Improvements	16,850
TOTAL	4,223,758
Less: Accumulated Depreciation	(1,449,156)
PROPERTY AND EQUIPMENT (NET)	$ 2,774,602

Depreciation and amortization expense for the year ended September 30, 2019 was $75,728.

NOTE 5 - LINE OF CREDIT

The Foundation has a $200,000 line of credit with a bank, secured by all personal property of the Foundation, with interest at the bank's index rate (5.25% as of September 30, 2019) plus 0.5% renewable annually. There was no outstanding balance on the line of credit at September 30, 2019.

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30, 2019:

Internship Fund	$ 10,248
Magazine	73,074
Pension Program	725,000
Permanent Endowment	51,280
Reason in Guatemala Sponsorships	202,444
Savas Privatization Award	156,984
School Funding Portability	400,000
Stossel on Reason	187,500
Time Restricted	9,593
Unappropriated Earnings on Perpetual Endowment	4,291
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	$ 1,820,414

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended September 30, 2019:

50th Anniversary	$ 447,500
Appropriated Earnings on Perpetual Endowment	7,807
Drug Policy	100,000
Magazine	15,808
Pension Program	1,725,000
Retirement Security Foundation	168,750
Savas Privatization Award	10,000
School Funding Portability	150,000
Stossel on Reason	562,500
Transportation Research	47,436
Time Restricted	157,272
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	$ 3,392,073

NOTE 7 - RETIREMENT PLANS

(a) 403(b) PLAN

The Foundation offers an IRC Section 403(b) individual defined contribution plan (the 403(b) Plan) for all eligible employees. Participants may make salary deferrals to their individual accounts up to the maximum allowable deferral amounts for defined contribution plans. The Foundation does not make contributions to the 403(b) Plan.

(b) 457(f) PLAN

The Foundation has established a nonqualified IRC Section 457(f) employee retirement plan (the 457(f) Plan) on behalf of an officer. The participant's right to receive deferred compensation is vested based over a 14-year period, and will be paid out over a five year period, commencing in April 2027. The Plan provides for an earlier payout of the vested portion in the event of a death, disability or termination of employment.

During the year ended September 30, 2019, the Foundation deposited $47,500 into the 457(f) Plan and accrued $75,000 of contributions at September 30, 2019. Investments of the 457(f) Plan generated a net return of $12,326 during the year. The Foundation has recorded a deferred compensation liability of $591,054 at September 30, 2019, which represents the fair value of future payouts of the 457(f) Plan. The Board of Trustees may make discretionary contributions to the 457(f) Plan in the future.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Foundation leases office spaces in Washington, D.C. and New York through April 2023 and May 2020, respectively.

Minimum future rental payments associated with these leases at September 30, 2019 are as follows:

Years Ending September 30		
2020	$	274,721
2021		212,718
2022		218,042
2023		129,023
TOTAL	$	834,504

Rent expense under these operating leases for the year ended September 30, 2019 was $251,544 and is included in occupancy expense.

(b) LITIGATION

In the ordinary course of conducting its business, the Foundation may become involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Foundation, which, from time to time, may have an impact on changes in net assets or its financial position. The Foundation does not believe that these proceedings individually, or in the aggregate, would have a material effect on the accompanying financial statements.

NOTE 9 - ENDOWMENT

The Foundation’s endowment consists of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts to either provide a perpetual endowment, which is to provide a permanent source of income to the Foundation, or a term endowment, which is to provide income for a specified period to the Foundation.

The Foundation’s management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

NOTE 9 - ENDOWMENT (continued)

The primary long-term financial objective for the Foundation's endowments is to preserve the real (inflation-adjusted) purchasing power of the endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. The Foundation's Board of Directors has approved a spending policy that will distribute a specific payout rate (5%) of the endowment base (calculated as the three-year average market value of endowment funds) to support the Foundation's programs. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term.

	With Donor Restrictions
Endowment Net Asset Composition At September 30, 2019	
Donor-Restricted:	
Original Donor-Restricted Perpetual Gifts	$ 51,280
Accumulated Investment Return (Net)	4,291
ENDOWMENT NET ASSETS - SEPTEMBER 30, 2019	$ 55,571

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). At September 30, 2019, the Foundation had no underwater endowments.

For the year ended September 30, 2019, the Foundation's endowment net assets changed as follows:

	With Donor Restrictions
Endowment Net Assets - Beginning of Year	$ 61,378
Contributions	2,000
Investment Return (Net)	4,291
Appropriations for Expenditure	(12,098)
ENDOWMENT NET ASSETS - END OF YEAR	$ 55,571

Investment return (net) related to the Foundation's donor-restricted endowment is recorded as revenue with donor restrictions unless otherwise directed by the donor's gift instrument.

NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Foundation at September 30, 2019 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the consolidated statement of financial position are summarized in the following table:

Financial Assets at September 30, 2019	
Cash and Cash Equivalents	$ 2,047,274
Investments	6,105,945
Accounts Receivable	87,601
Pledges Receivable	259,593
TOTAL FINANCIAL ASSETS AT SEPTEMBER 30, 2019	8,500,413
Less Amounts Not Available to Be Used within One Year, Due to:	
Donor-Imposed Restrictions:	
Funds Held with Purpose Restrictions	(1,560,821)
Pledges Restricted by Purpose or Time	(259,593)
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	$ 6,679,999

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. 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 has various sources of liquidity at its disposal, including cash and cash equivalents and liquid investments. Additionally, the Foundation has a $200,000 line of credit facility at September 30, 2019 which can be utilized to fund operations.