

CORE KNOWLEDGE FOUNDATION
CHARLOTTESVILLE, VIRGINIA

FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2021



CORE KNOWLEDGE FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Core Knowledge Foundation
Charlottesville, Virginia

Opinion

We have audited the accompanying financial statements of CORE KNOWLEDGE FOUNDATION, which comprise the statement of financial position as of December 31, 2021 and 2020, 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 CORE KNOWLEDGE FOUNDATION as of December 31, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended, in conformity 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 ***Auditor's Responsibilities for the Audit of the Financial Statements*** section of our report. We are required to be independent of CORE KNOWLEDGE 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.

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 CORE KNOWLEDGE FOUNDATION'S ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Trustees
Core Knowledge Foundation

INDEPENDENT AUDITOR'S REPORT

Auditor's 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 auditor's 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 CORE KNOWLEDGE 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 CORE KNOWLEDGE 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.

Hanlyman Wiebel LLP

Charlottesville, Virginia
September 22, 2022

CORE KNOWLEDGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2021 AND 2020

ASSETS			LIABILITIES AND NET ASSETS		
	2021	2020		2021	2020
CURRENT ASSETS			CURRENT LIABILITIES		
Unrestricted cash and cash equivalents	\$ 2,814,373	\$ 1,562,995	Accounts payable	\$ 308,500	\$ 102,719
Restricted cash and cash equivalents	13,379	21,699	Accrued expenses	24,048	6,619
Accounts receivable, net of allowance for doubtful accounts ...	1,034,259	455,464	Lease liability - current	115,853	108,750
Inventory	1,076,098	816,645	Deferred revenue	66,758	55,177
Prepaid expenses and other current assets	69,172	54,685			
	<u>5,007,281</u>	<u>2,911,488</u>	Total current liabilities	515,159	273,265
Total current assets					
PROPERTY AND EQUIPMENT, NET	<u>537,584</u>	<u>567,966</u>	LONG-TERM LIABILITIES		
			Lease liability - noncurrent	340,185	456,038
OPERATING LEASE RIGHT-OF-USE ASSET, NET	<u>439,368</u>	<u>520,774</u>	Total liabilities	<u>855,344</u>	<u>729,303</u>
OTHER ASSETS			NET ASSETS		
Investments	4,762,093	2,720,400	Without donor restrictions	9,890,538	5,983,615
Intangible assets, net	12,935	13,989	With donor restrictions	13,379	21,699
			Total net assets	<u>9,903,917</u>	<u>6,005,314</u>
Total other assets	<u>4,775,028</u>	<u>2,734,389</u>			
TOTAL ASSETS	<u>\$ 10,759,261</u>	<u>\$ 6,734,617</u>	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,759,261</u>	<u>\$ 6,734,617</u>

(The accompanying notes are an integral part of these financial statements)

CORE KNOWLEDGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE						
Support:						
Contributions	\$ 17,732	\$	\$ 17,732	\$ 5,059	\$	\$ 5,059
Grants .....	....	10,000	10,000	....	....	....
Total support	17,732	10,000	27,732	5,059	....	5,059
Revenue:						
Operating income:						
Book and publication sales, net	4,208,809	....	4,208,809	2,638,796	....	2,638,796
Consulting fees .....	....	....	....	6,000	....	6,000
Royalty income	2,529,214	....	2,529,214	810,813	....	810,813
Workshop fees	67,485	....	67,485	65,196	....	65,196
Total operating income	6,805,508	....	6,805,508	3,520,805	....	3,520,805
Other operating income:						
Interest and dividend income	55,683	....	55,683	49,332	....	49,332
Miscellaneous income	106	....	106	....	....	....
Paycheck Protection Program .....	....	....	....	196,018	....	196,018
Realized and unrealized gain on investments	569,702	....	569,702	235,694	....	235,694
Total other operating income	625,491	....	625,491	481,044	....	481,044
Total revenue	7,430,999	....	7,430,999	4,001,849	....	4,001,849
Net assets released from restrictions	18,320	(18,320)	....	84,670	(84,670)	....
Total support and revenue	7,467,051	(8,320)	7,458,731	4,091,578	(84,670)	4,006,908
OPERATING EXPENSES						
Program services	1,702,852	....	1,702,852	1,627,542	....	1,627,542
Supporting services	1,857,276	....	1,857,276	1,277,968	....	1,277,968
Total operating expenses	3,560,128	....	3,560,128	2,905,510	....	2,905,510
CHANGE IN NET ASSETS FROM OPERATIONS	3,906,923	(8,320)	3,898,603	1,186,068	(84,670)	1,101,398
NET ASSETS AT BEGINNING OF PERIOD	5,983,615	21,699	6,005,314	4,797,547	106,369	4,903,916
NET ASSETS AT END OF PERIOD	<u>\$ 9,890,538</u>	<u>\$ 13,379</u>	<u>\$ 9,903,917</u>	<u>\$ 5,983,615</u>	<u>\$ 21,699</u>	<u>\$ 6,005,314</u>

(The accompanying notes are an integral part of these financial statements)

CORE KNOWLEDGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	SUPPORTING SERVICES			TOTAL	TOTAL EXPENSES
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUND- RAISING		
Advertising	\$	\$ 373	\$	\$ 373	\$ 373
Bad debt .....	....	65,857	....	65,857	65,857
Bank and merchant fees .....	....	74,434	....	74,434	74,434
Consultants	35,700	1,200	....	1,200	36,900
Copying and printing	9,273	65	....	65	9,338
Depreciation and amortization .....	....	42,742	....	42,742	42,742
Dues and subscriptions	399	22,457	....	22,457	22,856
Employee benefits	40,981	530	160	690	41,671
Equipment rental and maintenance .....	....	1,698	....	1,698	1,698
Insurance .....	....	56,428	....	56,428	56,428
Lease expense.....	....	102,186	....	102,186	102,186
Licenses and permits .....	....	921	....	921	921
Maintenance and repair	205	13,810	....	13,810	14,015
Miscellaneous	11,356	5,082	....	5,082	16,438
Payroll taxes	1,051	88,529	782	89,311	90,362
Permission fees	22,298	600	....	600	22,898
Postage and shipping	190,831	10,358	....	10,358	201,189
Professional development	2,250	....	....	....	2,250
Professional fees	490	141,331	....	141,331	141,821
Publications and development	1,368,457	774	....	774	1,369,231
Real and personal property taxes .....	....	16,105	....	16,105	16,105
Salaries	2,157	1,150,416	10,294	1,160,710	1,162,867
Supplies and materials	14,034	8,951	....	8,951	22,985
Telephone .....	....	8,515	....	8,515	8,515
Travel and transportation	3,370	19,573	....	19,573	22,943
Utilities .....	....	13,105	....	13,105	13,105
Total expenses	<u>\$ 1,702,852</u>	<u>\$ 1,846,040</u>	<u>\$ 11,236</u>	<u>\$ 1,857,276</u>	<u>\$ 3,560,128</u>

(The accompanying notes are an integral part of this financial statement)

CORE KNOWLEDGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2020

	PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL EXPENSES
		MANAGEMENT AND GENERAL	FUND- RAISING	TOTAL	
Advertising	\$	\$ 9,881	\$	\$ 9,881	\$ 9,881
Bad debt .....	....	39,668	....	39,668	39,668
Bank and merchant fees .....	....	49,460	....	49,460	49,460
Consultants	15,900	....	....	....	15,900
Copying and printing .....	....	751	....	751	751
Depreciation and amortization .....	....	44,807	....	44,807	44,807
Donations .....	....	75	....	75	75
Dues and subscriptions	2,462	23,721	....	23,721	26,183
Employee benefits	33,531	2,349	118	2,467	35,998
Equipment rental and maintenance	474	1,549	....	1,549	2,023
Insurance .....	....	32,436	....	32,436	32,436
Lease expense	41,980	60,206	....	60,206	102,186
Licenses and permits .....	....	2,410	....	2,410	2,410
Maintenance and repair	2,955	12,399	....	12,399	15,354
Miscellaneous	9,514	1,797	....	1,797	11,311
Payroll taxes	16,612	66,242	634	66,876	83,488
Permission fees	354	....	....	....	354
Postage and shipping	130,529	5,202	....	5,202	135,731
Professional development	55	142	....	142	197
Professional fees	34,029	112,384	....	112,384	146,413
Publications and development	984,408	520	....	520	984,928
Real and personal property taxes .....	....	16,068	....	16,068	16,068
Salaries	319,807	748,766	8,337	757,103	1,076,910
Supplies and materials	11,821	4,592	....	4,592	16,413
Telephone	2,404	6,860	....	6,860	9,264
Travel and transportation	18,049	14,390	....	14,390	32,439
Utilities	2,658	12,204	....	12,204	14,862
Total expenses	<u>\$ 1,627,542</u>	<u>\$ 1,268,879</u>	<u>\$ 9,089</u>	<u>\$ 1,277,968</u>	<u>\$ 2,905,510</u>

(The accompanying notes are an integral part of this financial statement)

CORE KNOWLEDGE FOUNDATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,898,603	\$ 1,101,398
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	42,742	44,807
Realized and unrealized (gain) loss	(569,702)	(235,694)
Bad debt.....	65,857	39,668
Right-of-use asset amortization	81,406	77,173
(Increase) decrease in operating assets:		
Accounts receivable	(644,652)	(312,268)
Inventory	(259,453)	77,991
Prepaid expenses and other current assets	(14,487)	25,718
Increase (decrease) in operating liabilities:		
Accounts payable	205,781	(89,311)
Accrued expenses	17,429	4,766
Deferred revenue	11,581	3,653
Lease liability	(108,750)	(101,977)
Net cash provided by operating activities	<u>2,726,355</u>	<u>635,924</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(11,305)	(8,439)
Purchase of securities	(1,471,992)	(215)
Proceeds from sale of securities	<u>....</u>	<u>180,862</u>
Net cash provided by (used in) investing activities	<u>(1,483,297)</u>	<u>172,208</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,243,058	808,132
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>1,584,694</u>	<u>776,562</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 2,827,752</u>	<u>\$ 1,584,694</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Amounts reported within the statement of financial position that sum to the total above:		
Unrestricted cash and cash equivalents	\$ 2,814,373	\$ 1,562,995
Restricted cash and cash equivalents	<u>13,379</u>	<u>21,699</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 2,827,752</u>	<u>\$ 1,584,694</u>

(The accompanying notes are an integral part of these financial statements)

CORE KNOWLEDGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

On January 1, 2020, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and its related amendments using the full retrospective transition method, which did not require the restatement of prior periods or net assets at the date of transition. The impact of the adoption of the standard did not have an effect on the Foundation's financial statements. The new revenue recognition guidance requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the FASB. Under this guidance, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed stipulations that expire with the passage of time or can be fulfilled by action of the Foundation. The Foundation's net assets with donor restrictions represent assets for expenditures for specific programs

The Foundation reports amounts for total assets, liabilities, and net assets in a statement of financial position, changes in net assets in a statement of activities, and changes in cash and cash equivalents in a statement of cash flows.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations limiting the use of the donated assets. When a stipulated purpose restriction is satisfied or a time restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as assets released from restrictions.

CORE KNOWLEDGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Restricted cash and cash equivalents are limited for the use in the development of the *Core Knowledge History and Geography* programs. The Foundation maintains its cash in accounts that exceed federally-insured limits and are subject to risk of loss. No losses have been incurred as a result of these deposit accounts.

Accounts Receivable

Receivables represent amounts due from public and private preschools and elementary schools, as well as individuals who homeschool, throughout the United States that purchase educational materials from the Foundation. The allowance for doubtful accounts is based on historical losses experienced by the Foundation. Management monitors receivables and adjusts the allowance as necessary. The allowance for doubtful accounts on December 31, 2021 and 2020 was \$115,183 and \$47,758, respectively. The Foundation considers accounts receivable past due after 30 days. Accounts receivable outstanding over 60 days, as of December 31, 2021 and 2020 were \$504,864 and \$90,266, respectively. The Foundation does not charge interest on delinquent receivables.

Investments and Related Income

Investments are presented at fair market value in accordance with current accounting standards. Investments received as gifts are initially recorded at their market value at the date of receipt. Interest, dividends, and realized and unrealized gains and losses are recorded as increases or decreases in net assets without donor restrictions except where donor restrictions on earnings from contributions exist that require the income to be recorded according to the restrictions. Income on restricted funds is allocated to the underlying funds and restricted to that purpose.

Inventory

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

Shipping and Handling Costs

Freight billed to customers is considered sales revenue and the related freight costs are considered cost of sales and netted against book and publications sales.

Property and Equipment

Costs of improvements to operating facilities, purchases of machinery and equipment, and purchases of office furniture and equipment are capitalized and depreciated over the related assets' useful lives. The Foundation has set a capitalization threshold of \$500 for all items with a useful life greater than one year. Depreciation is being computed using the straight-line method over lives ranging from 3 to 39 years.

CORE KNOWLEDGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Intangible Assets

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

Revenue Recognition

Revenue is measured based on consideration specified in contracts with customers, and excludes any discounts or allowances. The Foundation recognizes revenue when it satisfies performance obligations by providing goods and services to customers over time or at a point in time, based on the contract terms. Payment is generally due when the goods and services are delivered, or in advance of a program. Accordingly, there are no significant financing components.

For each of the Foundation's contracts, the timing of revenue recognition, customer billings, and cash collections may result in a net contract asset or liability at the end of each reporting period. Contract assets consist of unbilled receivables, and contract liabilities consist of advance payments from customers. The Foundation did not have any contract assets at December 31, 2021 or 2020. The Foundation had \$66,758, \$55,177, and \$51,524 of contract liabilities at December 31, 2021, 2020, and 2019, respectively. These contract liabilities are included in deferred revenue on the statement of financial position.

Grant Income

Grants are accounted for as contributions or revenue from contracts with customers based on the absence or presence of an element of an exchange transaction. The Foundation's grants for the years ended December 31, 2021 and 2020 do not include elements of an exchange, thus follow contribution accounting rules. Grants are recorded as unconditional promises to give and are recognized as revenue when received, unless the grant agreement includes a right of return of the grant funds and requires specific action by the Foundation. In this case, grants are considered conditional contributions, and revenue is recognized when all conditions have been satisfied.

Sales Taxes

The Foundation receives state and local sales taxes on certain sales. These are recorded as liabilities when received and are not included as revenue in the statement of activities.

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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

CORE KNOWLEDGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Fair Values of Financial Instruments

The Foundation follows current accounting standards relating to fair value measurements and disclosures, which define fair value, establish guidelines for measuring fair value, establish a framework for measuring fair value, and expand disclosures regarding fair value measurement. (See **NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS**.)

Income Taxes

Core Knowledge Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is subject to tax on any unrelated business income it receives.

Uncertain Tax Positions

The Foundation has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with guidance established by the FASB and has determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Foundation.

Subsequent Events

Management has evaluated subsequent events through September 22, 2022, which is the date the financial statements were available to be issued.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated based on level of effort or use of facilities, as deemed most appropriate by management.

NOTE 3 - ADVERTISING COSTS

The Foundation expenses costs of advertising as incurred. Advertising expenses amounted to \$373 and \$9,881 for the years ended December 31, 2021 and 2020, respectively.

NOTE 4 - LIQUIDITY AND AVAILABILITY

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

	2021	2020
Cash and cash equivalents	\$2,827,752	\$1,584,694
Accounts receivable, net	1,034,259	455,464
Investments	<u>4,762,093</u>	<u>2,720,400</u>
Total financial assets	8,624,104	4,760,558
Less: Net assets with donor restrictions	<u>(13,379)</u>	<u>(21,699)</u>
Financial assets available to meet general expenditures within one year	<u>\$8,610,725</u>	<u>\$4,738,859</u>

CORE KNOWLEDGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation considers general expenditures to be all program services, management and general, and fund-raising costs presented in the statement of functional expenses incurred in the ordinary course of the advancement of the Foundation's mission.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at December 31 consisted of the following:

	2021	2020
Building and improvements.....	\$ 637,408	\$ 629,258
Computer hardware	472,799	469,643
Equipment.....	186,063	186,063
Furniture and fixtures	80,706	80,706
Land	186,662	186,662
Leasehold improvements	99,258	99,258
Website and software.....	<u>224,787</u>	<u>224,787</u>
	1,887,683	1,876,377
Less: Accumulated depreciation.....	<u>(1,350,099)</u>	<u>(1,308,411)</u>
Property and equipment, net.....	<u>\$ 537,584</u>	<u>\$ 567,966</u>

Depreciation expense for the year ended December 31, 2021 and 2020 amounted to \$41,688 and \$43,753, respectively.

NOTE 6 - INTANGIBLE ASSETS

Intangible assets at December 31 consisted of the following:

	2021	2020
Copyrights.....	\$ 15,810	\$ 15,810
Less: Accumulated depreciation.....	<u>(2,875)</u>	<u>(1,821)</u>
Intangible assets, net.....	<u>\$ 12,935</u>	<u>\$ 13,989</u>

Amortization expense for the year ended December 31, 2021 and 2020 amounted to \$1,054. Amortization of copyrights will be \$1,054 per year for 2022 and subsequent years.

CORE KNOWLEDGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - INVESTMENTS

As of December 31, 2021, investments consisted of the following:

	MARKET VALUE	COST
Exchange traded funds - stock focus	<u>\$4,762,093</u>	<u>\$3,712,534</u>

As of December 31, 2020, investments consisted of the following:

	MARKET VALUE	COST
Exchange traded funds - stock focus	<u>\$2,720,400</u>	<u>\$2,240,542</u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions have donor-imposed restrictions that expire with the passage of time or once the Foundation undertakes specific actions. At December 31, net assets with donor restrictions are available with the following restrictions for expenditures for the specified purpose:

	2021	2020
Core Knowledge History and Geography programs	<u>\$ 13,379</u>	<u>\$ 21,699</u>

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

	2021	2020
Core Knowledge History and Geography programs	<u>\$ 18,320</u>	<u>\$ 84,670</u>

NOTE 9 - BOOK AND PUBLICATION SALES

Book and publication sales for the year ended December 31 consisted of the following:

	2021	2020
Book and publication sales	\$4,982,400	\$3,082,054
Shipping and handling revenue	454,374	305,222
Cost of sales	(1,159,216)	(707,157)
Sales discounts and returns	<u>(68,749)</u>	<u>(41,323)</u>
Book and publication sales, net	<u>\$4,208,809</u>	<u>\$2,638,796</u>

CORE KNOWLEDGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - REVENUE FROM CONTRACTS WITH CUSTOMERS

For each of the classes of contracts that fall under the scope of FASB ASU 2014-09, *Revenue from Contracts with Customers*, the Foundation has determined that either a single performance obligation exists or the multiple performance obligations that exist are satisfied at the same point in time. Therefore, for each contract, the Foundation recognizes the entire transaction price as revenue once the performance obligation(s) have been completed. In determining the transaction price for each class of contract, the Foundation considered the need to adjust for items of variable consideration such as returns or discounts. Based on the absence of such items or infrequency of occurrence, the Foundation has determined that the effect of variable consideration on transaction prices would be immaterial and have not adjusted any transaction prices accordingly.

Book and Publication Sales: The Foundation's revenues include sales of books and publications for the education programs the Foundation has developed. Contracts are based on customer initiated orders with contractual terms following industry norms. Payment is due when the sale occurs, and prices are fixed based on the item purchased. Revenue is recognized when the inventory is transferred to the customer, as the performance obligation has been completed and is recorded net of allowances for returns.

Contract Revenue, Consulting, and Workshop Fees: The Foundation's revenues include income from various services performed under individual contracts, consulting arrangements and specified programs. These services are at the request of customers and are covered under written contracts. Payment may be required in advance or when the service or program is conducted. The contracts generally contain one performance obligation and are short term in nature. The contracts for services and programs are based on a stipulated price. Revenue is recognized when performance obligations have been completed.

Royalty Income: The Foundation's revenues include income from royalties from the license of education programs and materials to another party. The terms of the royalty arrangement is pursuant to a written contract that provides for the determination of the amount and timing of the payments. Payment is earned at the time of the sale of the licensed material. Revenue is recognized when the Foundation receives notification of the sales from the licensee.

NOTE 11 - ROYALTY INCOME

The Foundation has granted licenses to certain publishers to publish and sell specified educational materials developed by the Foundation. The Foundation receives royalties based upon net retail sales of licensed materials, less a reasonable reserve for returnable copies. The Foundation received royalties of \$2,529,214 and \$810,813 during 2021 and 2020, respectively.

NOTE 12 - PAYCHECK PROTECTION PROGRAM

The Foundation received \$196,018 in 2020 from the Paycheck Protection Program (PPP) established under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) of 2020. The proceeds of this loan would be fully forgiven if at least 60% was used for payroll and the balance for utilities within the first 24 weeks of receipt of the proceeds. The PPP loan was fully forgiven in 2020. The funds were accounted for as a conditional grant and are shown in the Paycheck Protection Program line item on the statement of activities.

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NOTES TO FINANCIAL STATEMENTS

NOTE 13 - LEASE OBLIGATIONS

The Foundation leases warehouse facilities under a long-term lease extending to August 2025 that is considered an operating lease and a right-of-use asset. The lease obligation related to this agreement has been reported on the statement of financial position. The lease provided for an improvement credit of \$100,000 applied against the first eleven months of rent payments. The lease provides for renewal options under certain conditions for two additional five-year terms.

Future minimum lease payments under the lease, including the present value of minimum lease payments and maintenance costs, subsequent to December 31, 2021, are as follows:

YEAR ENDING DECEMBER 31,	2021	2020
2021	\$	\$129,529
2022	132,120	132,120
2023	134,762	134,762
2024	137,458	137,458
2025	<u>87,010</u>	<u>87,010</u>
Total minimum lease payments.....	491,350	620,879
Less: imputed interest.....	<u>(35,312)</u>	<u>(56,091)</u>
Total	<u>\$456,038</u>	<u>\$564,788</u>
Reported as Lease Liability:		
Current.....	\$115,853	\$108,750
Noncurrent.....	<u>340,185</u>	<u>456,038</u>
Total.....	<u>\$456,038</u>	<u>\$564,788</u>

At January 1, 2018, the Foundation implemented FASB Accounting Standards Codification (ASC) 842 and recognized an asset and a liability of \$602,492 for the above lease. The value was equal to the present value of the remaining lease payments, discounted using the implicit rate of 0.34%. The contract term is for 85 months and has an annual increase of 2%, and there are no variables included in the lease arrangement. During 2021, the lease expense related to this lease was \$102,186 and actual cash payments applied to the lease liability totaled \$129,529. During 2020, the lease expense related to this lease was \$102,186 and actual cash payments applied to the lease liability totaled \$126,990.

NOTE 14 - BOARD-DESIGNATED ENDOWMENT FUND

The Foundation's Board-designated endowment consists of a Truist Investment Services (formerly SunTrust Investment Services) fund. The funds are included in net assets without donor restriction as the funds are available for operations as needed. As required by U. S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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NOTES TO FINANCIAL STATEMENTS

Changes in Board-designated endowment net assets without donor restrictions for the years ended December 31 are as follows:

	2021	2020
Endowment net assets, beginning of year	<u>\$2,769,943</u>	<u>\$2,600,055</u>
Investment return:		
Investment income	52,946	47,107
Withdrawals .....	....	(120,000)
Net realized and unrealized appreciation	<u>575,756</u>	<u>242,781</u>
Total investment return	<u>628,702</u>	<u>169,888</u>
Endowment net assets, end of year	<u>\$3,398,645</u>	<u>\$2,769,943</u>

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

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

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

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The Foundation follows FASB ASC 820, *Fair Value Measurement*, which defines fair value, establishes guidelines for measuring fair value, and establishes a framework for measuring fair value. This standard provides clarification that fair value of certain assets and liabilities is an 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. Fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation.

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NOTES TO FINANCIAL STATEMENTS

FASB ASC 820 prioritizes, within the measure of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy of fair value measurements based on the nature of the inputs used in the valuation of an asset or liability as of the measurement date. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management or fund manager judgment. The three-level hierarchy is defined as follows:

- Level 1 Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 Valuation is based on observable inputs for quoted prices for similar instruments. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3 Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market. Such instruments are valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

The fair values of the Foundation’s assets and liabilities are categorized in accordance with FASB ASC 820 at December 31, 2021 as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Exchange-traded funds:				
Stock-focused	<u>\$4,762,093</u>	\$	\$	<u>\$4,762,093</u>
Total investments	<u>4,762,093</u>	.....	.....	<u>4,762,093</u>
Total financial assets at fair value	<u>\$4,762,093</u>	\$	\$	<u>\$4,762,093</u>

The fair values of the Foundation’s assets and liabilities are categorized in accordance with FASB ASC 820 at December 31, 2020 as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Exchange-traded funds:				
Stock-focused	<u>\$2,720,400</u>	\$	\$	<u>\$2,720,400</u>
Total investments	<u>2,720,400</u>	.....	.....	<u>2,720,400</u>
Total financial assets at fair value	<u>\$2,720,400</u>	\$	\$	<u>\$2,720,400</u>

NOTE 16 - RETIREMENT PLANS

The Foundation sponsors a Simplified Employee Pension (SEP) Plan. This Plan was amended in 2006 to increase the eligibility requirement for length of service to two years. The Board of Trustees determines the SEP contribution each year. No contribution was made in 2021 or 2020.

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The Foundation also maintains a plan described in Section 403(b) of the Internal Revenue Code under which employees may contribute funds within specified limits. The Foundation does not match employees' discretionary contributions.

NOTE 17 - CONCENTRATIONS

At December 31, 2021, three customers accounted for 32% of accounts receivable.

NOTE 18 - CONTINGENCY

Paycheck Protection Program

The PPP loan and forgiveness of that loan are subject to audit by the Small Business Administration (SBA) for six years after the date the loan is forgiven or repaid in full. The possible disallowance by the SBA of any item charged to the program cannot be determined until such time when an audit occurs. Therefore, no provision for any potential disallowances that may result from such audit has been made in the accompanying financial statements. Management is of the opinion that disallowances, if any, will not be material to the accompanying financial statements.