

**LUDWIG VON MISES INSTITUTE  
FOR AUSTRIAN ECONOMICS, INC.**

Financial Statements

December 31, 2017 and 2016

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Ludwig von Mises Institute for Austrian Economics, Inc.  
Auburn, Alabama

We have audited the accompanying financial statements of Ludwig von Mises Institute for Austrian Economics, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Ludwig von Mises Institute for Austrian Economics, Inc. as of December 31, 2017 and 2016, 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.

*Barfield, Murphy, Shank & Smith, LLC*

Birmingham, Alabama  
August 27, 2018

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Statements of Financial Position

December 31, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,522,639	\$ 2,939,270
Bequests receivable	120,000	200,000
Inventory, net	138,018	131,250
Prepaid expenses	1,996	50,748
	<u>2,782,653</u>	<u>3,321,268</u>
Property and equipment		
Land, buildings and improvements	7,330,481	7,217,417
Computer and office equipment	483,163	508,942
Furniture and fixtures	422,287	453,723
Software	362,162	354,663
Construction in progress	-	15,625
	<u>8,598,093</u>	<u>8,550,370</u>
Less accumulated depreciation	<u>(3,812,315)</u>	<u>(3,548,154)</u>
Property and equipment, net	<u>4,785,778</u>	<u>5,002,216</u>
Deposits and other assets	3,083	683
Investments	13,423,646	11,524,530
Investments held in gift annuities	149,776	149,776
Beneficial interest in charitable remainder trusts	<u>383,676</u>	<u>363,805</u>
	<u><u>\$ 21,528,612</u></u>	<u><u>\$ 20,362,278</u></u>

See notes to financial statements.

	<u>2017</u>	<u>2016</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 169,213	\$ 103,939
Current portion of liabilities associated with gift annuities	16,329	16,999
	<u>185,542</u>	<u>120,938</u>
 Note payable	 100,000	 100,000
 Liabilities associated with gift annuities, less current portion	 61,587	 64,950
 Net assets		
Unrestricted	18,972,592	17,906,181
Temporarily restricted	1,059,516	1,020,834
Permanently restricted	1,149,375	1,149,375
	<u>21,181,483</u>	<u>20,076,390</u>
	<u><u>\$ 21,528,612</u></u>	<u><u>\$ 20,362,278</u></u>

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Statement of Activities  
Year ended December 31, 2017

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues and other support</b>				
Contributions	\$ 3,483,979	\$ 91,000	\$ -	\$ 3,574,979
Sales and publications	267,380	-	-	267,380
Conference and seminar fees	165,201	-	-	165,201
Other program service fees	2,401	-	-	2,401
Total revenue and other support before release of restrictions	3,918,961	91,000	-	4,009,961
Net assets released from temporary restrictions	95,333	(95,333)	-	-
Total revenue and other support	4,014,294	(4,333)	-	4,009,961
<b>Disbursements and expenses</b>				
Program services	3,290,809	-	-	3,290,809
General and administrative	442,982	-	-	442,982
Fundraising	497,641	-	-	497,641
Total expenses	4,231,432	-	-	4,231,432
<b>Change in net assets before other income (expense)</b>	(217,138)	(4,333)	-	(221,471)
<b>Other income (expense)</b>				
Interest and dividends	86,263	10,722	-	96,985
Change in value in beneficial interest in charitable remainder trusts	-	19,871	-	19,871
Change in value of liabilities associated with gift annuities	(12,616)	-	-	(12,616)
Unrealized gain on investments	1,050,652	12,422	-	1,063,074
Realized gain on investments	107,294	-	-	107,294
Rental income, net of expenses	18,484	-	-	18,484
Gain on disposal of property and equipment	1,095	-	-	1,095
Other support and income	32,377	-	-	32,377
Total other income (expense)	1,283,549	43,015	-	1,326,564
Change in net assets	1,066,411	38,682	-	1,105,093
Net assets - beginning of year	17,906,181	1,020,834	1,149,375	20,076,390
Net assets - end of year	\$ 18,972,592	\$ 1,059,516	\$ 1,149,375	\$ 21,181,483

See notes to financial statements.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Statement of Activities  
Year ended December 31, 2016

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues and other support</b>				
Contributions	\$ 3,046,951	\$ 91,000	\$ -	\$ 3,137,951
Sales and publications	353,631	-	-	353,631
Conference and seminar fees	129,828	-	-	129,828
Other program service fees	14,104	-	-	14,104
Total revenue and other support				
before release of restrictions	3,544,514	91,000	-	3,635,514
Net assets released from temporary restrictions	88,333	(88,333)	-	-
Total revenue and other support	3,632,847	2,667	-	3,635,514
<b>Disbursements and expenses</b>				
Program services	2,904,641	-	-	2,904,641
General and administrative	421,211	-	-	421,211
Fundraising	446,225	-	-	446,225
Total expenses	3,772,077	-	-	3,772,077
<b>Change in net assets before other income (expense)</b>	(139,230)	2,667	-	(136,563)
<b>Other income (expense)</b>				
Interest and dividends	74,572	4,398	-	78,970
Change in value in beneficial interest in charitable remainder trusts	-	15,558	-	15,558
Change in value of liabilities associated with gift annuities	17,053	-	-	17,053
Unrealized loss on investments	838,096	-	-	838,096
Realized gain on investments	108,588	-	-	108,588
Rental income, net of expenses	15,523	-	-	15,523
Gain on disposal of property and equipment	-	-	-	-
Other support and income	32,660	-	-	32,660
Total other income (expense)	1,086,492	19,956	-	1,106,448
Change in net assets	947,262	22,623	-	969,885
Net assets - beginning of year	16,958,919	998,211	1,149,375	19,106,505
Net assets - end of year	\$ 17,906,181	\$ 1,020,834	\$ 1,149,375	\$ 20,076,390

See notes to financial statements.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Statements of Cash Flows  
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Activities</b>		
Change in net assets	\$ 1,105,093	\$ 969,885
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	357,040	354,308
Gain on disposal of property and equipment	(1,095)	-
Interest and dividends	(96,985)	(78,970)
Net realized and unrealized gains on investments	(1,170,368)	(946,684)
Change in value in beneficial interests	(19,871)	(15,558)
Changes in operating assets and liabilities		
Bequest receivable	80,000	(179,519)
Inventory	(6,768)	29,681
Prepaid expenses	48,752	(36,177)
Deposits and other assets	(2,400)	580
Accounts payable and accrued expenses	65,274	31,694
Liabilities associated with gift annuities	(4,033)	(43,570)
Net cash provided by operating activities	<u>354,639</u>	<u>85,670</u>
<b>Investing Activities</b>		
Proceeds from sale of investments	7,574	1,236,388
Purchases of investments	(639,337)	(1,861,728)
Purchases of property and equipment	(139,507)	(28,996)
Net cash used in investing activities	<u>(771,270)</u>	<u>(654,336)</u>
Net decrease in cash and cash equivalents	(416,631)	(568,666)
Cash and cash equivalents - beginning of year	<u>2,939,270</u>	<u>3,507,936</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,522,639</u></u>	<u><u>\$ 2,939,270</u></u>

See notes to financial statements.



# **LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Nature of Activities**

Ludwig von Mises Institute for Austrian Economics, Inc. (the Institute) is organized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Its primary function is to promote the ideas of Ludwig von Mises and his work through the collection of contributions, the awarding of fellowships, and the publishing and distribution of his works. The Institute's primary sources of revenue are contributions from the public, book sales, and registration fees from conferences and seminars.

### **Basis of Accounting**

The financial statements of the Institute have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, management evaluated subsequent events through August 27, 2018, the date the financial statements were available to be issued.

### **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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Basis of Financial Statement Presentation**

The Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted Net Assets* are those currently available at the direction of the Board of Directors (the Board) for use in the Institute's operations, invested in property and equipment, or designated by the Board or management to function as endowments.

*Temporarily Restricted Net Assets* are those which are stipulated by donors for specific operating purposes and those that are time restricted.

*Permanently Restricted Net Assets* are those contributed with donor restrictions requiring they be held in perpetuity.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the Statements of Activities as net assets released from restriction.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Cash and Cash Equivalents**

The Institute considers all instruments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents consist of money market securities stated at amortized cost which approximates fair value. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. These amounts represent actual account balances held by financial institutions at the end of the period, and unlike the balance reported in the financial statements, the account balances do not reflect timing delays inherent in reconciling items such as outstanding checks and deposits in transit. The Institute has never experienced any losses related to these balances.

**Inventory**

Inventory consists of publications, media, and memorabilia and is stated at the lower of cost, as determined by the first-in, first-out (FIFO) method, or market. The Institute estimates potential obsolescence in inventory held at year end based on knowledge of products, the industry, and current market conditions. The reserve for inventory obsolescence totaled \$149,324 and \$321,837 at December 31, 2017 and 2016, respectively.

**Investments**

Investments with readily determinable fair values are recorded at fair market value. Investments without readily determinable fair values are recorded at cost, or if impaired, at estimated realizable value. The Institute's investments as of December 31, 2017 and 2016 consisted primarily of marketable debt and equity securities, certificates of deposits, and precious metals held at banks or bonded warehouses. Expenses relating to investments, including custodial fees and investment advisory fees, totaled \$7,872 and \$7,699 during the years ended December 31, 2017 and 2016, respectively, and have been included within disbursements and expenses in the accompanying statements of activities.

Investments which are permanently restricted consist of perpetual endowment accounts held and managed in accordance with donor stipulations.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Investments - Continued**

The Board and management of the Institute have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the endowment funds and (b) the value of subsequent contributions to the endowment funds and accumulations to the permanent endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Institute and the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Institute, and (7) the investment policies of the Institute.

The Financial Advisory Committee is charged with the fiduciary responsibility of preserving and augmenting the value of the endowments, included in investments, thereby sustaining the ability to generate financial support to further the mission of the Institute. The Institute 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. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that cover the payouts, administrative expenses, plus the rate of inflation while assuming a moderate level of investment risk.

Investments have been classified as non-current assets on the balance sheet as it is the intention of management to hold the investments for a period greater than one year as of December 31, 2017.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Property and Equipment**

Property and equipment are carried at cost or, if donated, the approximate fair value at the date of donation, less accumulated depreciation and include expenditures which substantially increase the useful lives of existing property and equipment. Maintenance, repairs, and minor renovations are charged to income as incurred. When property and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on the disposition is credited or charged to income. The Institute provides for depreciation of property and equipment using the straight-line method designed to amortize costs over the following estimated useful lives: buildings and improvements, 5 to 40 years; computer and office equipment, 5 to 15 years; furniture and fixtures, 5 to 7 years; and software, 3 years.

**Beneficial Interest in Charitable Remainder Trust and Gift Annuities**

The Institute is a full or partial beneficiary of charitable remainder trusts and gift annuities. These charitable gift annuities are recorded at the Institute's fair value of the underlying investments, less the present value of future cash outflows to lifetime annuitants or specified time period beneficiaries. Charitable remainder trusts are recorded at the fair value of the underlying investments since the beneficiary is no longer receiving distributions.

**Income Taxes**

The Institute is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3), except to the extent that it has taxable income from businesses that are not related to its tax-exempt purpose. Unrelated business income, if there was any, would be taxed at the applicable corporate income tax rate. The Institute did not have any unrelated business income during the years ended December 31, 2017 and 2016, and accordingly, no provision for income taxes has been made in the financial statements.

The Institute is not currently under examination by any taxing jurisdiction. For the years ended December 31, 2017 and 2016, there were no interest or penalties associated with tax positions recorded in the accompanying financial statements.

**Fair Value**

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price the Institute would expect to receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Fair Value - Continued**

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs which are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 2 - FAIR VALUE**

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the years ended December 31, 2017 or 2016.

- *Money Market Funds*: Valued at amortized cost which approximates fair value.
- *Marketable Equity Securities*: Valued at the closing price reported on the active markets on which the individual securities are traded.
- *Fixed Income Securities*: Valued at the fixed closing price on which the individual securities are traded.
- *Mutual Funds*: Valued based on quoted market prices.
- *Certificates of Deposit*: Valued at amortized cost which approximates fair value.
- *Precious Metals (held at banks or bonded warehouses)*: Valued at the closing price reported on the active markets on which the individual items are traded.
- *Limited Partnerships*: Valued based on the net asset value of the investment (or its equivalent) without further adjustment (unless management determines that the net asset value is deemed to be not reflective of fair value) since the limited partnerships are investment companies that have calculated net asset value per share in accordance with the specialized accounting guidance for investment companies. The fair value of the Institute's investments in limited partnerships generally represents the amount the Institute would expect to receive if it were to liquidate its investment in the partnerships excluding any redemption charges that may apply.
- *Beneficial Interest in Charitable Remainder Trusts (CRT)*: CRTs are valued at the pro rata share of the market value of the underlying assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 2 - FAIR VALUE - Continued**

The following table sets forth, by level within the fair value hierarchy, the Institute's investment assets at fair value as of December 31, 2017:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market funds	\$ 1,349,766	\$ 1,349,766	\$ -	\$ -
Marketable equity securities	13,507	13,507	-	-
Fixed income securities	180	180	-	-
Mutual funds	8,648,464	8,648,464	-	-
Certificates of deposit	1,672,643	1,672,643	-	-
Precious metals, held at banks or bonded warehouses	3,222,428	3,222,428	-	-
Limited partnerships	16,200	-	16,200	-
Total investments	13,573,422	13,557,222	16,200	-
Beneficial interest in charitable remainder trusts	383,676	-	-	383,676
Total beneficial interests	383,676	-	-	383,676
	\$ 15,306,864	\$ 14,906,988	\$ 16,200	\$ 383,676

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 2 - FAIR VALUE - Continued**

The following table sets forth, by level within the fair value hierarchy, the Institute's investment assets at fair value as of December 31, 2016:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market funds	\$ 1,683,607	\$ 1,683,607	\$ -	\$ -
Marketable equity securities	243,389	243,389	-	-
Fixed income securities	180	180	-	-
Mutual funds	6,940,924	6,940,924	-	-
Certificates of deposit	1,672,643	1,672,643	-	-
Precious metals, held at banks or bonded warehouses	2,800,970	2,800,970	-	-
Limited partnerships	16,200	-	16,200	-
Total investments	11,674,306	11,658,106	16,200	-
Beneficial interest in charitable remainder trusts	363,805	-	-	363,805
Total beneficial interests	363,805	-	-	363,805
	\$ 13,721,718	\$ 13,341,713	\$ 16,200	\$ 363,805



**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 2 - FAIR VALUE - Continued**

The following table sets forth a summary of changes in the fair value of the Institute's level three investment assets for the years ended December 31:

	<b>Beneficial Interest in Charitable Remainder Trusts</b>
Balance - December 31, 2015	\$ 348,247
Change in value	<u>15,558</u>
Balance - December 31, 2016	363,805
Change in value	<u>19,871</u>
Balance - December 31, 2017	<u><u>\$ 383,676</u></u>

Investment income consisted of the following for the year ended December 31, 2017:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Interest and dividends	\$ 86,263	\$ 10,722	\$ -	\$ 96,985
Realized and unrealized gains, net	<u>1,157,946</u>	<u>12,422</u>	<u>-</u>	<u>1,170,368</u>
	<u><u>\$ 1,244,209</u></u>	<u><u>\$ 23,144</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,267,353</u></u>

Investment income consisted of the following for the year ended December 31, 2016:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Interest and dividends	\$ 74,572	\$ 4,398	\$ -	\$ 78,970
Realized and unrealized losses, net	<u>946,684</u>	<u>-</u>	<u>-</u>	<u>946,684</u>
	<u><u>\$ 1,021,256</u></u>	<u><u>\$ 4,398</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,025,654</u></u>

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 3 - ENDOWMENT**

The Institute's endowment consists of donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The fair value of assets associated with individual donor-restricted endowment funds may fall below the level necessary to maintain the purchasing power of the original gift plus additions and deficits related to these underwater funds are reported in unrestricted net assets.

Changes in endowment net assets consisted of the following during the years ended December 31, 2017 and 2016:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets -				
December 31, 2015	\$ (151,981)	\$ -	\$ 1,149,375	\$ 997,394
Investment income	3,503	-	-	3,503
Realized and unrealized losses, net	61,726	-	-	61,726
Total investment return	65,229	-	-	65,229
Endowment net assets -				
December 31, 2016	(86,752)	-	1,149,375	1,062,623
Investment income	-	4,270	-	4,270
Realized and unrealized gains, net	86,752	12,422	-	99,174
Total investment return	86,752	16,692	-	103,444
Endowment net assets -				
December 31, 2017	\$ -	\$ 16,692	\$ 1,149,375	\$ 1,166,067

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 3 - ENDOWMENT - Continued**

A description of amounts classified as permanently restricted and unrestricted net assets (endowment only) consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	\$ 1,149,375	\$ 1,149,375
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a purpose restriction under SPMIFA:		
Scholarship funds	16,692	-
Unrestricted net assets		
The portion of endowment funds that are underwater because the fair value of the related assets is less than the amount required to be retained permanently	-	(86,752)
	<u>\$ 1,166,067</u>	<u>\$ 1,062,623</u>

Endowment assets are invested to result in an inflation-protected rate of return that has sufficient liquidity to make an annual distribution while growing the funds if possible. Actual returns in any given year will vary. To satisfy its long-term, rate-of-return objectives, the Institute 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). The Institute targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

**NOTE 4 - NOTE PAYABLE**

The Institute has a \$100,000 note payable to a charitable trust, bearing interest at 8.00%, annually. Interest is waived annually per signed agreement dated November 1, 1998. Under the terms of the agreement, the note will be forgiven upon the death of the creators of the Trust. The Trust has the right to demand repayment of the note with a six-month notice.

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 5 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily and permanently restricted net assets were available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Temporarily restricted		
Scholarships	\$ 33,692	\$ 27,000
Special projects	492,371	480,253
Other	533,453	513,581
	<u>\$ 1,059,516</u>	<u>\$ 1,020,834</u>
Permanently restricted		
Endowments	<u>\$ 1,149,375</u>	<u>\$ 1,149,375</u>

**NOTE 6 - RETIREMENT PLAN**

The Institute makes contributions for its employees to a defined contribution retirement plan. The Institute makes matching contributions to employee accounts at the rate of 100% for the first 1% of salary contributed and 50% of the next 5% of salary contributed, resulting in a match up to 3.5% on 6% of contributed salary. Full-time employees and part-time employees working over 20 hours per week are eligible for participation in the plan on the first day of employment and are fully vested after six months of participation. Employer contributions to the plan totaled \$42,598 and \$37,422 during the years ended December 31, 2017 and 2016, respectively.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

The Institute leases office equipment under a noncancelable operating lease agreement expiring in January 2019. The Institute also leases bookstore warehouse space under an operating lease agreement expiring in March 2019. Rent expense incurred under these operating lease agreements totaled \$23,361 and \$3,960 during the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, the future amounts due under the noncancelable operating lease agreement for the next two years are as follows:

2018	\$ 30,720
2019	7,020
	<u>\$ 37,740</u>

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 8 - FUNCTIONAL EXPENSES**

The cost of providing various programs and other activities has been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses of the Institute, by function, for the year ended December 31, 2017 are as follows:

	<b>Program Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Academic outreach	\$ 41,950	\$ -	\$ -	\$ 41,950
Academy	43,293	-	-	43,293
Accounting and legal fees	-	47,721	-	47,721
Bank and investment fees	5,510	1,181	1,181	7,872
Bookstore	102,118	-	-	102,118
Computer networking	17,110	3,666	3,666	24,442
Conferences and conventions	764,794	-	-	764,794
Consulting	37,628	8,063	8,063	53,754
Cost of goods sold	66,143	-	-	66,143
Depreciation	249,928	53,556	53,556	357,040
Development	-	-	115,144	115,144
Employee benefits	144,988	28,729	26,487	200,204
Employee training	2,577	552	552	3,681
Equipment rental	8,173	1,752	1,752	11,677
Grants	66,859	-	-	66,859
Insurance	43,002	9,215	9,215	61,432
Interest	-	8,000	-	8,000
Library	33,517	-	-	33,517
Miscellaneous	25,886	5,547	5,547	36,980
Occupancy	27,992	5,998	5,998	39,988
Payroll taxes	86,968	17,233	15,888	120,089
Publications	123,773	-	-	123,773
Publicity	25,670	-	-	25,670
Repairs and maintenance	29,141	6,244	6,244	41,629
Salaries	1,217,152	241,178	222,354	1,680,684
Shipping and postage	865	185	185	1,235
Supplies	8,642	1,852	1,852	12,346
Telephone	8,975	1,923	1,923	12,821
Travel	5,963	387	-	6,350
Website	102,192	-	18,034	120,226
	<u>\$ 3,290,809</u>	<u>\$ 442,982</u>	<u>\$ 497,641</u>	<u>\$ 4,231,432</u>

**LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.**

Notes to Financial Statements

December 31, 2017 and 2016

(Continued)

**NOTE 8 - FUNCTIONAL EXPENSES - Continued**

The expenses of the Institute, by function, for the year ended December 31, 2016 are as follows:

	<b>Program Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Academic outreach	\$ 28,709	\$ -	\$ -	\$ 28,709
Academy	32,290	-	-	32,290
Accounting and legal fees	-	44,691	-	44,691
Bank and investment fees	1,145	246	246	1,637
Bookstore	126,448	-	-	126,448
Computer networking	16,246	3,481	3,481	23,208
Conferences and conventions	486,199	-	-	486,199
Consulting	4,123	883	883	5,889
Cost of goods sold	76,151	-	-	76,151
Depreciation	248,016	53,146	53,146	354,308
Development	-	-	87,405	87,405
Employee benefits	139,169	27,576	25,424	192,169
Employee training	3,473	744	744	4,961
Equipment rental	5,396	1,156	1,156	7,708
Grants	95,079	-	-	95,079
Insurance	43,601	9,343	9,343	62,287
Interest	-	8,000	-	8,000
Library	22,790	-	-	22,790
Miscellaneous	31,586	6,768	6,768	45,122
Occupancy	27,052	5,797	5,797	38,646
Payroll taxes	82,199	16,288	15,016	113,503
Publications	104,966	-	-	104,966
Publicity	33,574	-	-	33,574
Repairs and maintenance	29,035	6,222	6,222	41,479
Salaries	1,177,339	233,290	215,082	1,625,711
Shipping and postage	1,616	346	346	2,308
Supplies	5,849	1,254	1,254	8,357
Telephone	7,613	1,631	1,631	10,875
Travel	5,386	349	-	5,735
Website	69,591	-	12,281	81,872
	<u>\$ 2,904,641</u>	<u>\$ 421,211</u>	<u>\$ 446,225</u>	<u>\$ 3,772,077</u>