

Encyclopaedia Iranica Foundation, Inc.

Financial Statements

December 31, 2018 and 2017

Independent Auditors' Report

The Board of Directors Encyclopaedia Iranica Foundation, Inc.

We have audited the accompanying financial statements of the Encyclopaedia Iranica Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses 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 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 Encyclopaedia Iranica Foundation, Inc. as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in note 2 to the financial statements, during the year ended December 31, 2018, Encyclopaedia Iranica Foundation, Inc. adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

November 7, 2019

Encyclopaedia Iranica Foundation, Inc.

Statements of Financial Position

	December 31,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 251,594	\$ 270,015
Contributions receivable	18,500	15,100
Accrued interest receivable	17,379	12,493
Investments	18,961,061	20,271,226
Prepaid expenses and other assets	2,873	3,613
Artwork, net of impairment reserve	<u>-</u>	<u>182,800</u>
	<u>\$ 19,251,407</u>	<u>\$ 20,755,247</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ <u>59,010</u>	\$ <u>26,901</u>
	<u>59,010</u>	<u>26,901</u>
Without Donor Restricted Net Assets		
Operating	213,957	444,627
Board designated	<u>18,978,440</u>	<u>20,283,719</u>
Total Net Assets	<u>19,192,397</u>	<u>20,728,346</u>
	<u>\$ 19,251,407</u>	<u>\$ 20,755,247</u>

See notes to financial statements

Encyclopaedia Iranica Foundation, Inc.

Statements of Activities

	Year Ended December 31,	
	2018	2017
SUPPORT AND REVENUE		
Contributions and gifts	\$ 65,953	\$ 59,707
Donated facilities	56,000	56,000
Book sales, net of costs of goods sold	-	19,157
Investment return, net	<u>(1,205,279)</u>	<u>2,356,153</u>
Total Support and Revenue	<u>(1,083,326)</u>	<u>2,491,017</u>
 EXPENSES		
Program Services		
Grants awarded	-	552,000
Publication and editorial expense	<u>100,184</u>	<u>139,815</u>
Total Program Services	100,184	691,815
 Supporting Services		
General and administrative	<u>169,639</u>	<u>134,973</u>
Total Expenses	<u>269,823</u>	<u>826,788</u>
Change in Net Assets Before Impairment of Artwork	(1,353,149)	1,664,229
Impairment of Artwork	<u>(182,800)</u>	<u>-</u>
Change in Net Assets	(1,535,949)	1,664,229
 NET ASSETS		
Beginning of year	<u>20,728,346</u>	<u>19,064,117</u>
 End of year	<u>\$ 19,192,397</u>	<u>\$ 20,728,346</u>

See notes to financial statements

Encyclopaedia Iranica Foundation, Inc.

Statements of Functional Expenses
Year Ended December 31 2018

	<u>Grants Awarded</u>	<u>Publication and Editorial Expenses</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Total</u>
Grants	\$ -	\$ -	\$ -	\$ -	\$ -
Salary	-	29,087	29,087	-	29,087
Consultants	-	-	-	35,078	35,078
Legal fees	-	-	-	84,812	84,812
Other professional fees	-	-	-	30,120	30,120
Occupancy	-	56,000	56,000	-	56,000
Publishing and editorial expenses	-	15,097	15,097	-	15,097
Impairment of artwork	-	-	-	182,800	182,800
Office expense	-	-	-	9,531	9,531
Insurance	-	-	-	6,485	6,485
Miscellaneous	-	-	-	3,613	3,613
	<u>-</u>	<u>100,184</u>	<u>100,184</u>	<u>352,439</u>	<u>452,623</u>
Less impairment of artwork included on the statement of activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(182,800)</u>	<u>(182,800)</u>
Total Expenses included in the Expense Section on the Statement of Activities	<u>\$ -</u>	<u>\$ 100,184</u>	<u>\$ 100,184</u>	<u>\$ 169,639</u>	<u>\$ 269,823</u>

Encyclopaedia Iranica Foundation, Inc.

Statements of Functional Expenses
Year Ended December 31, 2017

	<u>Grants Awarded</u>	<u>Publication and Editorial Expenses</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Total</u>
Grants	\$ 552,000	\$ -	\$ 552,000	\$ -	\$ 552,000
Salary	-	66,849	66,849	-	66,849
Consultants	-	-	-	85,778	85,778
Legal fees	-	-	-	200	200
Other professional fees	-	-	-	32,344	32,344
Occupancy	-	56,000	56,000	-	56,000
Publishing and editorial expenses	-	16,966	16,966	-	16,966
Office expense	-	-	-	442	442
Insurance	-	-	-	7,207	7,207
Miscellaneous	-	-	-	9,002	9,002
	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,002</u>	<u>9,002</u>
Total Expenses	<u>\$ 552,000</u>	<u>\$ 139,815</u>	<u>\$ 691,815</u>	<u>\$ 134,973</u>	<u>\$ 826,788</u>

Encyclopaedia Iranica Foundation, Inc.

Statements of Activities

	Year Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,535,949)	\$ 1,664,229
Adjustments to reconcile change in net assets to cash flows from operating activities		
Realized and unrealized (loss) gains on investments	1,589,849	(2,021,172)
Impairment loss on art work	182,800	-
Change in operating assets and liabilities		
Contributions receivable	(3,400)	(15,100)
Accrued interest receivable	(4,886)	58
Prepaid expenses and other assets	740	16,648
Accounts payable and accrued expenses	32,109	(46,433)
Grants payable	-	(250,000)
Cash Flows from Operating Activities	261,263	(651,770)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,721,889)	(2,892,250)
Proceeds from sale of investments	5,442,205	3,097,210
Cash Flows from Investing Activities	(279,684)	204,960
Net Change in Cash and Cash Equivalents	(18,421)	(446,810)
CASH AND CASH EQUIVALENTS		
Beginning of year	270,015	716,825
End of year	\$ 251,594	\$ 270,015

See notes to financial statements

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

1. Organization

The Encyclopaedia Iranica Foundation, Inc., Inc. (the “Foundation”) was organized in June 1990 to (i) conduct and carry out research on all aspects of Iranian and related studies, (ii) to publish, disseminate and distribute the results of such research, (iii) to promote the cause of the *Encyclopaedia Iranica* and assure its continuation as a scholarly and vibrant data bank dealing with all aspects of Iranian culture and history in its widest temporal and spatial context, (iv) to ensure that the *Encyclopaedia Iranica* keeps abreast of the latest research in all areas of Iranian Studies, and if necessary to update previously published entries (in print or electronically), (v) to help ensure the financial health of the *Encyclopaedia Iranica*, and (vi) to receive, hold and directly or indirectly administer funds, securities, gifts and bequests for the purposes listed above, without limitations.

Since the Foundation’s inception through 2018, the administration of the continued work on the *Encyclopaedia Iranica* was conducted through a sponsored project with the Center of Iranian Studies at Columbia University (“CIS”). Due to disagreements between the Foundation and CIS as to the ownership of the *Encyclopaedia Iranica*, the Foundation has discontinued funding of the project with CIS. (See Note 3 for additional information)

The Foundation is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

2. Summary of Significant Accounting Policies

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Net Assets Without donor Restrictions – net assets available for use in general operations and not subject to donor 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) 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. Accordingly actual results could differ from those estimates.

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (*continued*)

Change in Accounting Principle

On January 1, 2018, the Foundation adopted new U.S. GAAP guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Foundation to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Foundation to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. There were no changes to prior year net assets as a result of implementing this standard.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid instruments with a maturity of three months or less at the time of purchase; with the exception of cash held with the Foundation's investment custodian, which is recorded within investments.

Contributions Receivable and Accounts Receivable

An allowance for uncollectible receivables is estimated based on a combination of write-off history, aging analysis and any specific know troubled accounts. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in accounts receivable. As of December 31, 2018 and 2017, no allowance for contributions receivable has been deemed necessary.

Fair Value of Financial Instruments

The Foundation follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into 3 levels based on the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments and Investment Income

Investments are stated at fair value except for cash and cash equivalents. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (*continued*)

Art Work

Artwork, which consists of over 100 paintings donated by Iranian artists over the last few years, is carried at the fair value at the time of donation. These items are not held as part of a collection and if disposed of, the proceeds can be used for general operations.

In 2018, Management has recorded an impairment reserve of \$182,800 due to its inability to gain access to the Art Work. See Note 3 for further detail.

Contributions

All contributions are considered available for without donor restrictions use, unless specifically restricted by the donor or subject to other legal restrictions. Marketable securities contributed are recorded at the fair value at the date of contribution. Conditional promises to give are not recognized until the conditions are substantially met.

Donated Services and Facilities

Donated services are reported as contributions at their fair value if such services create or enhance nonfinancial assets, or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills. Donated services and facilities are reflected in the financial statements at the estimated fair value at the time of donation.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program and supporting services of Organization. Therefore, expenses require allocation on a reasonable and consistent basis. The more significant expense allocations include salaries and related personnel costs and occupancy. Personnel costs have been allocated based on estimates of time and effort. Other expenses, such as occupancy are allocated based on the personnel cost allocation percentages.

Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of income tax positions when they are more likely than not to be sustained. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax. The Foundation is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to 2015.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is November 7, 2019.

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

3. Relationship with Columbia University

Prior to 2018, the Foundation had provided annual grants to CIS in support of the administration of the *Encyclopaedia Iranica*. In early 2018, during negotiations relating to the annual funding, CIS proposed changes to the nature of the relationship, including asking for a permanent endowment of \$5.5 million and changing ownership of the *Encyclopaedia Iranica* intellectual property to CIS. The Foundation was not in favor of these changes and both parties continued to negotiate for the remainder of 2018 without reaching any agreement. As a result, the Foundation did not make any grants to CIS in the year ending December 31, 2018.

In April 2019, the Foundation notified Columbia University that it was terminating its relationship with Columbia and the CIS and requested immediate access to its records, documents and assets, which included the works of Art previously donated to the Foundation and valued at \$182,500 at the time of donation. CIS has denied the Foundation access.

In August 2019, Columbia University sued the Foundation, requesting a declaratory judgment action regarding copyright and trade mark claims, and filed a tortious interference claim against the Foundation. In September 2019, the Foundation sued Columbia University and others for trademark infringement, trademark counterfeiting, trademark dilution and other claims under the laws of the State of New York and common law. The two suits have been consolidated by the Court into a single proceeding that will be held later in 2019.

The Foundation believes that Columbia's suit is without merit and will defend itself vigorously. The Foundation is currently pursuing partnerships with other centers of learning to continue the work of the *Encyclopaedia Iranica*.

4. Concentration of Credit Risk

The Foundation's financial instruments that are potentially exposed to concentration of credit risk consist of cash and cash equivalents, receivables and investments. At times, cash balances may be in excess of the Federally insured limits. The Foundation believes no significant concentration of credit risk exists with respect to its receivables and pledges. Concentration of credit risk with respect to investments is reduced by diversification, professional management and limited exposure to any single investment.

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

5. Investments

The following are major categories of investments measured at fair value, other than temporary cash investments and certificates of deposit which are carried at cost plus accrued interest, at December 31:

	2018	2017
Equity mutual funds	\$ 10,673,793	\$ 12,298,825
Fixed income mutual funds	8,130,749	7,760,801
Total at Fair Value	18,804,542	20,059,626
Temporary cash investments	156,519	211,600
Total	<u>\$ 18,961,061</u>	<u>\$ 20,271,226</u>

All of the Foundation's investments in equity and fixed income mutual funds are valued using Level 1 inputs under the fair value hierarchy.

Investment return for the years ended December 31 is as follows:

	2018	2017
Dividends and interest	\$ 460,277	\$ 408,036
Realized gain on sale of investments and capital gain distributions	374,871	440,290
Unrealized (loss) gain of investments	(1,964,720)	1,580,882
Investment fees	(75,707)	(73,055)
Net Investment Return	<u>\$ (1,205,279)</u>	<u>\$ 2,356,153</u>

6. Liquidity and Availability

Financial assets available for general expenditure, that is, without restrictions limiting their use, within one year of December 31, 2018 are as follows:

Financial assets:	
Cash and cash equivalents	\$ 251,594
Receivables	18,500
Investments	18,961,061
Total financial assets	19,231,155
Less those unavailable for general expenditure within one year, due to:	
Board designations:	
Board designated for operating reserve	18,961,061
Financial asset available to meet general expenditures over the next twelve months	<u>\$ 270,094</u>

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

6. Liquidity and Availability (*continued*)

The Foundation's working capital and cash flow are driven by contributions publishing revenue. The Board has established an endowment fund to support operations and when needed, with Board approval, transfers are made to support cash flow needs. The Foundation manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due.

7. Board Designated Endowment Fund

The board designated endowment fund (the "Fund") was established to provide long-term support for the operations of the Foundation. The investment objectives of the Fund are to provide a stable source of current income and to earn long-term returns in excess of inflation and expenditures so as to enhance the purchasing power of the Fund. The investment of the Fund's assets is guided by the following principles: (1) investments consistent with a long-term investment horizon and sound investment principles, (2) investments maintained in mutual funds and certificates of deposits and (3) investments that yield both capital appreciation and current income. The Foundation targets a diversified asset allocation of mutual funds to achieve its long-term objectives within prudent risk constraints.

The following is a reconciliation of the board designated net assets for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Balance at January 1,	\$20,283,719	\$ 18,467,565
Interest and dividends	460,277	408,036
Realized and unrealized gains	(1,589,849)	2,021,172
Transfers	(100,000)	(539,999)
Investment fees	<u>(75,707)</u>	<u>(73,055)</u>
Balance at December 31,	<u>\$18,978,440</u>	<u>\$ 20,283,719</u>

Board designated assets are comprised of investments and accrued interest receivable.

8. Donated Facilities

In 2018 and 2017, in-kind support consists of office space rental expense of \$56,000, annually, which was provided by Columbia University to the Foundation to conduct program related activities.

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