

Encyclopaedia Iranica Foundation, Inc.

Financial Statements

December 31, 2016 and 2015

Independent Auditors' Report

The Board of Directors of the 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, 2016 and 2015, 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 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, 2016 and 2015 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.

PKF O'Connor Davies, LLP

September 30, 2017

Encyclopaedia Iranica Foundation, Inc.

Statements of Financial Position

	December 31	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 716,825	\$ 126,097
Accrued interest receivable	12,551	10,699
Investments	18,455,014	18,155,073
Prepaid expenses and other assets	20,261	34,632
Art work	<u>182,800</u>	<u>182,800</u>
	<u>\$ 19,387,451</u>	<u>\$ 18,509,301</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 73,334	\$ 29,358
Grants payable	<u>250,000</u>	<u>-</u>
	<u>323,334</u>	<u>29,358</u>
Unrestricted Net Assets		
Operating	596,552	314,171
Board designated	<u>18,467,565</u>	<u>18,165,772</u>
Total Net Assets	<u>19,064,117</u>	<u>18,479,943</u>
	<u>\$ 19,387,451</u>	<u>\$ 18,509,301</u>

See notes to financial statements

Encyclopaedia Iranica Foundation, Inc.

Statements of Activities

	Years Ended December 31	
	2016	2015
SUPPORT AND REVENUE		
Contributions and gifts	\$ 30,236	\$ 31,060
Donated facilities	56,000	56,000
Book sales, net of costs of goods sold	20,741	-
Auction income	132	-
Investment return, net	1,259,291	(212,863)
Total Support and Revenue	1,366,400	(125,803)
EXPENSES		
Grants	348,101	450,000
Salary	158,913	157,357
Professional fees	177,738	50,835
Occupancy	56,000	56,000
Publishing and editorial expenses	26,638	39,220
Bad debt expense	-	27,018
Office expense	3,397	1,829
Miscellaneous	11,439	10,267
Total Expenses	782,226	792,526
Change in Net Assets	584,174	(918,329)
NET ASSETS		
Beginning of year	18,479,943	19,398,272
End of year	\$19,064,117	\$18,479,943

See notes to financial statements

Encyclopaedia Iranica Foundation, Inc.

Statements of Cash Flows

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 584,174	\$ (918,329)
Adjustments to reconcile change in net assets to cash flows from operating activities		
Realized and unrealized (gains) losses on investments	(974,957)	460,399
Provision for bad debt	-	27,018
Change in operating assets and liabilities		
Accrued interest receivable	(1,852)	(1,119)
Prepaid expenses and other assets	14,371	(31,155)
Accounts payable and accrued expenses	43,976	(18,836)
Grants payable	250,000	-
Cash Flows from Operating Activities	(84,288)	(482,022)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,295,661)	(3,701,491)
Proceeds from sale of investments	2,970,677	4,235,084
Cash Flows from Investing Activities	675,016	533,593
Net Change in Cash and Cash Equivalents	590,728	51,571
CASH AND CASH EQUIVALENTS		
Beginning of year	126,097	74,526
End of year	\$ 716,825	\$ 126,097

See notes to financial statements

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

1. Organization

The Encyclopaedia Iranica Foundation, Inc., Inc. (the "Foundation") was organized to conduct and carry out research on all aspects of Iranian and related studies and to promote the cause of the Encyclopaedia Iranica (the "Project"), a Columbia University project, through the establishment of an endowment fund and the publishing, dissemination and distribution of the results of their work.

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

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") which require net assets and revenues to be classified based on the existence or absence of donor imposed restrictions. Unrestricted amounts are those currently available at the discretion of the board for use in the Foundation's operations. Temporarily restricted amounts are those which are stipulated by donors for specific purposes or time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted amounts contain donor imposed restrictions to be maintained permanently by the Foundation. The Foundation's net assets are neither permanently nor temporarily restricted by donor imposed restrictions and are classified as unrestricted.

Use of Estimates

The preparation of financial statements in conformity with 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.

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.

Accounts Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding balances. 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, 2016 and 2015, accounts receivable were fully reserved with an allowance for uncollectible receivables of \$23,018 and \$27,018.

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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

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.

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.

Contributions

All contributions are considered available for unrestricted 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.

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 2013.

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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

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 September 30, 2017.

3. 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.

4. 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:

	<u>2016</u>	<u>2015</u>
Equity mutual funds	\$11,122,614	\$ 9,715,183
Fixed income mutual funds	<u>7,277,582</u>	<u>6,285,976</u>
Total at Fair Value	18,400,196	16,001,159
Temporary cash investments	54,818	149,123
Certificates of deposit	<u>-</u>	<u>2,004,791</u>
Total	<u>\$18,455,014</u>	<u>\$18,155,073</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 year ended December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 351,274	\$ 313,740
Realized gain on sale of investments and capital gain distributions	151,915	1,042,736
Unrealized gain (loss) of investments	823,042	(1,503,135)
Investment fees	<u>(66,940)</u>	<u>(66,204)</u>
Net Investment Return	<u>\$ 1,259,291</u>	<u>\$ (212,863)</u>

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
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5. 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 Foundation's board has designated funds that are not to be disbursed until the amount of the board designated funds reach a total of \$15,000,000. 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>2016</u>	<u>2015</u>
Balance at January 1,	\$18,165,772	\$ 19,158,635
Interest and dividends	351,274	313,740
Realized and unrealized gains (losses)	974,957	(460,399)
Transfers	(957,498)	(780,000)
Management fees	<u>(66,940)</u>	<u>(66,204)</u>
Balance at December 31,	<u>\$18,467,565</u>	<u>\$ 18,165,772</u>

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

6. Donated Facilities

In 2016 and 2015, 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.

7. Related Party Transactions

The Foundation partially funds the Project which is administered by Columbia University. The Foundation contributed \$348,101 and \$450,000 in support of the Project in 2016 and 2015.

Encyclopaedia Iranica Foundation, Inc.

Notes to Financial Statements
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8. Functional Allocation of Expenses

The following presents expenses on a functional basis for the years ended December 31,

	<u>2016</u>	<u>2015</u>
Program Services		
Grants awarded	\$348,101	\$450,000
Publication and editorial expense	241,551	252,577
Bad debt expense	<u>-</u>	<u>27,018</u>
Total Program Services	589,652	729,595
Supporting Services		
General and administrative	<u>192,574</u>	<u>62,931</u>
Total Expenses	<u>\$782,226</u>	<u>\$792,526</u>

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