

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS
As of and for the Period Ended December 31, 2014

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
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Report of Independent Accountants

To the Board of Directors
Compact for America Educational Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Compact for America Educational Foundation, Inc. (the "Foundation"), a non-profit corporation, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the period from inception, April 21, 2014, to December 31, 2014, and the related notes to the financial statements.

Managements Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 of 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 Foundation'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 Foundation'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 qualified audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2014, and the changes in its net assets and its cash flows for the period from Inception, April 21, 2014, to December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

Ham, Langston & Brezina, L.L.P.

Houston, Texas
June 29, 2015

FINANCIAL STATEMENTS

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
BALANCE SHEET
December 31, 2014

ASSETS

Cash and cash equivalents	\$ 130,358
Contributions receivable	<u>51,407</u>
Total assets	<u><u>\$ 181,765</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 39,300
Due to related party - CFA-Action	<u>600</u>
Total liabilities	<u>39,900</u>
Commitments and contingencies:	
Unrestricted net assets	<u>141,865</u>
Total net assets	<u>141,865</u>
Total liabilities and net assets	<u><u>\$ 181,765</u></u>

See accompanying notes to financial statements

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
STATEMENT OF ACTIVITIES
For the Period From Inception, April 21, 2014, to December 31, 2014

Revenues and support:	
Contributions	\$ 256,362
Program expenses:	
Management compensation	44,900
Educational communication services	20,750
Printing and copying	9,068
Conferences, conventions and meetings	10,033
Travel	24,568
	<u>109,319</u>
Total program expenses	
General and administrative expenses:	
Information technology	2,692
Other	1,331
	<u>4,023</u>
Total general and administrative expenses	
Fundraising expenses	<u>1,155</u>
Total expenses	<u>114,497</u>
Changes in net assets	141,865
Unrestricted net assets at beginning of period	<u>-</u>
Unrestricted net assets at end of period	<u>\$ 141,865</u>

See accompanying notes to financial statements

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the Period From Inception, April 21, 2014, to December 31, 2014

Cash Flows From Operating Activities	
Change in net assets	\$ 141,865
Adjustments to reconcile net income to net cash provided by operating activities	
Contributions receivable	(51,407)
Accounts payable and accrued liabilities	39,300
	<u> </u>
Total adjustments	(12,107)
	<u> </u>
Net cash provided by operating activities	129,758
	<u> </u>
Cash Flows From Financing Activities	
Advance from related party - CFA-Action	600
	<u> </u>
Net cash provided by financing activities	600
	<u> </u>
Net increase in cash and cash equivalents	130,358
Cash and cash equivalents at beginning of period	<u> -</u>
Cash and cash equivalents at end of period	<u><u> \$ 130,358</u></u>

See accompanying notes to consolidated financial statements

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization & Nature of Activities

Compact for America Educational Foundation, Inc. (the "Foundation") is a Texas not-for-profit tax-exempt educational organization formed under section 501(c)(3) of the Internal Revenue Code and is recognized as such by the Internal Revenue Service pursuant to the IRS determination letter dated October 1, 2014.

The Foundation is formed primarily to educate elected officials, citizens and residents of the United States and the several states of the use of an interstate compact agreement and counterpart federal legislation to coordinate the use of Article V of the U.S. Constitution by state legislatures and the US Congress to originate, propose and ratify constitutional amendments. Accordingly, the Foundation serves as a pro-bono technical advisor providing procedural guidance to various state legislators, compact commissioners, compact commissions, members of Congress, state governors, and interested citizens on matters related to the development, education, evaluation, enactment and implementation of related interstate compact agreements. Additionally, the Foundation was retained to serve as the Compact Administrator for the Compact for a Balanced Budget by the Compact for a Balanced Budget Commission on January 13, 2015.

The Foundation does not participate in any political activities involving the election of federal, state or local candidates for public office. Pursuant to section 501(h) of the Internal Revenue Code, the Foundation has elected to make limited expenditures to influence legislation. Further, in its capacity as the Compact Administrator of the Compact for a Balanced Budget, the Foundation and its officers are serving at the direction of the Compact for a Balanced Budget Commission, a recognized interstate agency, and are therefore exempt from lobbying registration under most state laws

Separate and apart from the Foundation, Compact for America, Inc. ("CFA-Action"), a Texas not-for-profit tax-exempt social welfare organization formed under section 501(c)(4) of the Internal Revenue Code and recognized as such by the Internal Revenue Service, has been established to conduct additional lobbying activities to influence legislation related to the Foundation. While the Foundation and CFA-Action are not technically affiliated entities and have officers and members of the board of directors that differ from each other, both organizations believe in the same fundamental principles of liberty that motivate the activities of the Foundation, including the Compact for a Balanced Budget. The Foundation and CFA-Action take every effort to ensure their operations are not confused with each other. Accordingly, for purposes of these financial statements, the Foundation has chosen to identify CFA-Action as a Related Party. Further information regarding CFA-Action can be found in Footnote 4.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with Not-for-Profit Organizations accounting guidance, and using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Accounting principles and the methods of applying those principles which materially affect the determination of financial position is summarized below.

Financial Statement Presentation

Under the applicable Not-for-Profit Organizations accounting guidance, the Foundation is required to report information regarding financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as follows.

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

- Unrestricted Net Assets - Unrestricted net assets are not subject to donor-imposed stipulations and are available to support all activities of the Foundation. Unrestricted net assets may be designated for specific purposes by the Board of Directors.
- Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the investment return on these assets.

The Foundation had no temporarily or permanently restricted net assets at December 31, 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, the useful lives of property and equipment.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers any highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to a significant concentration of credit risk consist primarily of cash and cash equivalents. At times, the Foundation maintains deposits in federally insured financial institutions in excess of federally insured limits. Management monitors the credit ratings and concentration of risk with these financial institutions on a continuing basis to safeguard cash deposits.

Accounts Receivable

The Foundation routinely assesses the recoverability of all material receivables to determine their collectability. The Foundation accrues a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated. At December 31, 2014 the Foundation recognized no reserve for uncollectible accounts.

Fair Value Measurements

ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 under ASC 820 are described below:

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company 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 that 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

The asset's or liability's 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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At December 31, 2014, the Foundation had no assets or liabilities recorded at fair value on a recurring basis or nonrecurring basis.

Income Taxes

The Foundation is recognized by the Internal Revenue Service to be tax-exempt under Internal Revenue Service Code Section 501(c)(3) and similar state provisions. With the exception of income taxes that could result from unrelated business income, the Foundation is exempt from federal income tax. The Foundation had no federal income taxes on unrelated business income for 2014.

Uncertain tax positions are recognized in the financial statements only if, based on their technical merits, they are more-likely-than-not of being sustained upon examination by taxing authorities. The Foundation did not recognize any liability for uncertain tax positions, 'or interest or penalty related to uncertain tax positions, during 2014.

The Foundation files information returns in the U.S. federal jurisdiction. The Foundation's information returns filed in 2015 and, thereafter, are subject to examination by taxing authorities in accordance with the normal statutes of limitations in the applicable jurisdiction.

Revenue Recognition

Contributions are recognized as revenue when the commitment is received from the donor and are classified as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

The Foundation has evaluated all new accounting pronouncements and has adopted all pronouncements expected to have a material impact on the financial statements. However, certain pronouncement are in the comment period, and expected to be adopted by the Financial Accounting Standard's Board, which could have a significant impact on all not-for-profit entities.

3. Major Donors

During the year ended December 31, 2014, certain donors accounted for more than 10% of contributions as follows:

	<u>Percentage of Contributions</u>
Donor Number 1	39%
Donor Number 2	20%

4. Related Party Transactions

At the close of the 2014 fiscal year, the Foundation shared with CFA-Action a single common director, such director also being a member of executive management for both entities. The Foundation incurred management compensation expense in the amount of \$24,000 under a service contract to the entity that furnished the executive manager for the Foundation. This same entity also provided the same executive manager to CFA-Action under a separate and distinct service contract with CFA-Action. At all times, the common director between the Foundation and CFA-Action represented only a minority position on both entities' boards. The position in the Foundation's Office of the President held by the common executive manager was limited by the Foundation's bylaws to making executive decisions "jointly" with all other members of the Foundation's Office of the President, none of whom served as executive managers for CFA-Action.

Additionally, a different member of the Foundation's executive management also served as a director on the board of CFA-Action. The Foundation incurred management compensation expense in the amount of \$20,900 under the service contract to the entity that furnished the executive manager for the Foundation. This director for CFA-Action served solely as a volunteer for CFA-Action at all times and did not engage in any executive management of CFA-Action.

The Foundation's operations were at all times subject to a corporate and contractual structure that ensured that no significant transaction could take place affecting the Foundation without the Foundation's board approval, which prohibited the foregoing shared personnel between the Foundation and CFA-Action from exerting unilateral control over any significant transaction affecting the Foundation. Its structure also ensured that the Foundation could not make grants or payments to CFA-Action in any amount that could imperil the Foundation's tax status, even if the grants or payments were characterized as allocated to lobbying.

COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

4. Related Party Transactions, continued

In addition, the service contracts binding the Foundation and its executive management provide that no appointee, principal or personnel of Consultant shall act on behalf of the Foundation or otherwise risk subjecting the Foundation to liability with respect to any transaction, or series of directly related transactions, entailing expenses or liability in the aggregate to the Foundation in excess of \$10,000 without: (a) the prior written or electronic disclosure to other Executives within the Office of the President and the Board of Directors of the nature and timing of the proposed action to be taken; and (b) the prior approval of such action by the Foundation's Board of Directors, with any interested Board member abstaining from the vote.

The service contracts also provide that in no event shall any direct or indirect grant or payment by the Foundation to CFA-Action exceed the maximum grant permitted for direct lobbying and grassroots lobbying purposes under the Internal Revenue Code for a 501(c)(3) entity in the relevant time frame.

The Foundation currently operates rent free from facilities and using office equipment owned by the members of the Foundation's executive management. The accompanying financial statements do not include expense or contributions related to this arrangement.

5. Subsequent Events

In January 2015, the Foundation received a major unrestricted cash contribution of \$500,000.

The Foundation has performed an evaluation of subsequent events through June 29, 2015, which is the date the financial statements were available to be issued.