

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

Financial Statements

December 31, 2016 and 2015

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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, 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 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, 2016 and 2015, 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
September 5, 2017

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Statements of Financial Position

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,939,270	\$ 3,507,936
Bequests receivable	200,000	20,481
Inventory, net	131,250	160,931
Prepaid expenses	50,748	14,571
	<u>3,321,268</u>	<u>3,703,919</u>
Property and equipment		
Land, buildings and improvements	7,217,417	7,207,367
Computer and office equipment	508,942	502,629
Furniture and fixtures	453,723	454,216
Software	354,663	354,663
Construction in progress	15,625	2,500
	<u>8,550,370</u>	<u>8,521,375</u>
Less accumulated depreciation	<u>(3,548,154)</u>	<u>(3,193,847)</u>
Property and equipment, net	5,002,216	5,327,528
Other assets		
Deposits and other assets	683	1,263
Investments	11,524,530	9,873,536
Investments held in gift annuities	149,776	149,776
Beneficial interest in charitable remainder trusts	363,805	348,247
	<u>12,038,794</u>	<u>10,372,822</u>
	<u>\$ 20,362,278</u>	<u>\$ 19,404,269</u>

See notes to financial statements.

	<u>2016</u>	<u>2015</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 103,939	\$ 72,245
Current portion of liabilities associated with gift annuities	16,999	29,777
	<u>120,938</u>	<u>102,022</u>
Note payable	100,000	100,000
Liabilities associated with gift annuities, less current portion	64,950	95,742
Net assets		
Unrestricted	17,906,181	16,958,919
Temporarily restricted	1,020,834	998,211
Permanently restricted	1,149,375	1,149,375
	<u>20,076,390</u>	<u>19,106,505</u>
	<u>\$ 20,362,278</u>	<u>\$ 19,404,269</u>

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Statement of Activities
Year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
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
Disbursements and expenses				
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
Change in net assets before other income (expense)	(139,230)	2,667	-	(136,563)
Other income				
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 gain 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.

Statement of Activities
Year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Contributions	\$ 3,153,439	\$ 78,987	\$ -	\$ 3,232,426
Sales and publications	324,808	-	-	324,808
Conference and seminar fees	105,357	-	-	105,357
Other program service fees	34,178	-	-	34,178
Total revenue and other support before release of restrictions	3,617,782	78,987	-	3,696,769
Net assets released from temporary restrictions	125,749	(125,749)	-	-
Total revenue and other support	3,743,531	(46,762)	-	3,696,769
Disbursements and expenses				
Program services	2,784,218	-	-	2,784,218
General and administrative	443,419	-	-	443,419
Fundraising	456,365	-	-	456,365
Total expenses	3,684,002	-	-	3,684,002
Change in net assets before other income (expense)	59,529	(46,762)	-	12,767
Other income (expense)				
Interest and dividends	80,042	2,534	-	82,576
Change in value in beneficial interest in charitable remainder trusts	-	(23,594)	-	(23,594)
Change in value of liabilities associated with gift annuities	22,508	-	-	22,508
Unrealized loss on investments	(1,122,449)	-	-	(1,122,449)
Realized gain on investments	110,977	-	-	110,977
Rental income, net of expenses	21,097	-	-	21,097
Gain on disposal of property and equipment	250	-	-	250
Other support and income	30,094	-	-	30,094
Total other income (expense)	(857,481)	(21,060)	-	(878,541)
Change in net assets	(797,952)	(67,822)	-	(865,774)
Net assets - beginning of year	17,756,871	1,066,033	1,149,375	19,972,279
Net assets - end of year	\$ 16,958,919	\$ 998,211	\$ 1,149,375	\$ 19,106,505

See notes to financial statements.

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ 969,885	\$ (865,774)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	354,308	350,912
Gain on disposal of property and equipment	-	(250)
Investment income	(78,970)	(82,576)
Net realized and unrealized (gains) losses on investments	(946,684)	1,011,472
Change in value in beneficial interests	(15,558)	23,594
Changes in operating assets and liabilities		
Bequest receivable	(179,519)	342,677
Inventory	29,681	26,771
Prepaid expenses	(36,177)	(14,571)
Deposits and other assets	580	1,232
Accounts payable and accrued expenses	31,694	(61,078)
Liabilities associated with gift annuities	(43,570)	(33,213)
Net cash provided by operating activities	85,670	699,196
Investing Activities		
Proceeds from sale of investments	1,236,388	413,034
Purchases of investments	(1,861,728)	(1,011,350)
Purchases of property and equipment	(28,996)	(85,555)
Proceeds from disposal of property and equipment	-	250
Net cash used in investing activities	(654,336)	(683,621)
Net (decrease) increase in cash and cash equivalents	(568,666)	15,575
Cash and cash equivalents - beginning of year	3,507,936	3,492,361
Cash and cash equivalents - end of year	\$ 2,939,270	\$ 3,507,936

See notes to financial statements.

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

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 September 5, 2017, 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, 2016 and 2015

(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 \$321,837 and \$380,843 at December 31, 2016 and 2015, 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, 2016 and 2015 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 \$7,699 and \$9,401 during the years ended December 31, 2016 and 2015, 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.

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.

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments - Continued

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, 2016.

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.

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2016 and 2015, 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, 2016 and 2015, 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.

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, 2016 and 2015

(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, 2016 or 2015.

- *Cash and Cash Equivalents, including Money Market Funds and Certificates of Deposit:* Valued at amortized cost which approximates fair value.
- *Marketable Debt and Equity Securities:* Valued at the closing price reported on the active markets on which the individual securities are traded.
- *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, 2016 and 2015

(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:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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
	<u>\$ 13,721,718</u>	<u>\$ 13,341,713</u>	<u>\$ 16,200</u>	<u>\$ 363,805</u>

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(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, 2015:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 1,994,178	\$ 1,994,178	\$ -	\$ -
Marketable equity securities	85,216	85,216	-	-
Fixed income securities	7,813	7,813	-	-
Mutual funds	5,662,959	5,662,959	-	-
Certificates of deposit	1,672,643	1,672,643	-	-
Precious metals, held at banks or bonded warehouses	2,567,571	2,567,571	-	-
Limited partnerships	27,110	-	27,110	-
Total investments	10,023,312	9,996,202	27,110	-
Beneficial interest in charitable remainder trusts	348,247	-	-	348,247
Total beneficial interests	348,247	-	-	348,247
	<u>\$ 12,365,737</u>	<u>\$ 11,990,380</u>	<u>\$ 27,110</u>	<u>\$ 348,247</u>

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(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:

	<u>Beneficial Interest in Charitable Remainder Trusts</u>
Balance - December 31, 2014	\$ 371,841
Change in value	(23,594)
Balance - December 31, 2015	<u>348,247</u>
Change in value	15,558
Balance - December 31, 2016	<u><u>\$ 363,805</u></u>

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

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

Investment income (loss) consisted of the following for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 80,042	\$ 2,534	\$ -	\$ 82,576
Realized and unrealized losses, net	(1,011,472)	-	-	(1,011,472)
	<u>\$ (931,430)</u>	<u>\$ 2,534</u>	<u>\$ -</u>	<u>\$ (928,896)</u>

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets -				
December 31, 2014	\$ (100,330)	\$ -	\$ 1,149,375	\$ 1,049,045
Investment income	5,394	-	-	5,394
Realized and unrealized losses, net	(57,045)	-	-	(57,045)
Total investment return	<u>(51,651)</u>	<u>-</u>	<u>-</u>	<u>(51,651)</u>
Endowment net assets -				
December 31, 2015	(151,981)	-	1,149,375	997,394
Investment income	3,503	-	-	3,503
Realized and unrealized gains, net	61,726	-	-	61,726
Total investment return	<u>65,229</u>	<u>-</u>	<u>-</u>	<u>65,229</u>
Endowment net assets -				
December 31, 2016	<u>\$ (86,752)</u>	<u>\$ -</u>	<u>\$ 1,149,375</u>	<u>\$ 1,062,623</u>

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(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>2016</u>	<u>2015</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
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)	(151,981)
	<u>\$ 1,062,623</u>	<u>\$ 997,394</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. 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, 2016 and 2015

(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>2016</u>	<u>2015</u>
Temporarily restricted		
Scholarships	\$ 27,000	\$ 27,000
Special projects	480,253	473,188
Other	513,581	498,023
	<u>\$ 1,020,834</u>	<u>\$ 998,211</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 \$37,422 and \$34,598 during the years ended December 31, 2016 and 2015, respectively.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Institute leases office equipment under a noncancelable operating lease agreement expiring in January 2019. Rent expense incurred under the operating lease agreement totaled \$3,960 and \$3,768 during the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, the future amounts due under the noncancelable operating lease agreement for the next three years are as follows:

2017	\$ 3,960
2018	3,960
2019	<u>330</u>
	<u>\$ 8,250</u>

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(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, 2016 are as follows:

	Program Services	General and Administrative	Fundraising	Total
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
	\$ 2,904,641	\$ 421,211	\$ 446,225	\$ 3,772,077

LUDWIG VON MISES INSTITUTE FOR AUSTRIAN ECONOMICS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

(Continued)

NOTE 8 - FUNCTIONAL EXPENSES - Continued

The expenses of the Institute, by function, for the year ended December 31, 2015 are as follows:

	Program Services	General and Administrative	Fundraising	Total
Academic outreach	\$ 9,966	\$ -	\$ -	\$ 9,966
Academy	2,956	-	-	2,956
Accounting and legal fees	-	55,686	-	55,686
Bank and investment fees	1,033	221	221	1,475
Bookstore	115,572	-	-	115,572
Computer networking	17,852	3,826	3,826	25,504
Conferences and conventions	346,687	-	-	346,687
Consulting	15,660	3,356	3,356	22,372
Cost of goods sold	83,650	-	-	83,650
Depreciation	245,638	52,637	52,637	350,912
Development	-	-	81,644	81,644
Employee benefits	138,176	27,379	25,242	190,797
Employee training	1,935	414	414	2,763
Equipment rental	8,082	1,732	1,732	11,546
Grants	98,626	-	-	98,626
Insurance	44,861	9,613	9,613	64,087
Interest	-	8,000	-	8,000
Library	13,090	-	-	13,090
Miscellaneous	23,510	5,038	5,038	33,586
Occupancy	28,750	6,161	6,161	41,072
Payroll taxes	89,961	17,826	16,435	124,222
Publications	111,135	-	-	111,135
Publicity	12,771	-	-	12,771
Repairs and maintenance	35,394	7,585	7,585	50,564
Salaries	1,198,084	237,400	218,871	1,654,355
Shipping and postage	5,588	1,198	1,198	7,984
Supplies	11,483	2,460	2,460	16,403
Telephone	9,582	2,053	2,053	13,688
Travel	12,861	834	-	13,695
Website	101,315	-	17,879	119,194
	\$ 2,784,218	\$ 443,419	\$ 456,365	\$ 3,684,002