

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The Ludwig Von Mises Institute for Austrian Economics, Inc. (a nonprofit organization) which comprise the statements of assets, liabilities and net assets - cash basis of as of December 31, 2013 and 2012, and the related statements of support, revenue, expenses and change in net assets - cash basis and cash flows - cash basis 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; 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 audit. We conducted our audit 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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of The Ludwig von Mises Institute for Austrian Economics, Inc. as of December 31, 2013 and 2012, and its support, revenue, expenses, and cash flows for the years then ended, on the basis of accounting described in Note 1.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 20 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Machen, McChesney & Chastain, LLP

June 26, 2014

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS

DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,129,298	\$ 2,187,763
Certificates of deposit, unreserved	74,482	73,963
Inventory	659,705	758,115
Total current assets	3,863,485	3,019,841
Property and equipment		
Buildings	6,004,123	5,944,323
Land	1,103,145	1,103,145
Furniture and fixtures	438,274	503,556
Equipment	470,143	454,526
Construction in progress	9,500	-
Website development in progress	41,320	-
	8,066,505	8,005,550
Less accumulated depreciation	(2,682,980)	(2,499,643)
Net property and equipment	5,383,525	5,505,907
Other assets		
Certificates of deposit, reserved for charitable gift annuities	149,776	149,301
Investments	9,708,580	12,169,629
Restricted endowment funds	1,066,557	1,221,676
Life annuities	-	611
Remainder interest in charitable annuity trust	160,582	142,491
Other investments	50,623	58,135
Deposits	1,270	1,270
Total other assets	11,137,388	13,743,113
TOTAL ASSETS	\$ 20,384,398	\$ 22,268,861

	<u>2013</u>	<u>2012</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Payroll taxes payable	\$ 42,237	\$ -
Other benefits payable	2,346	4,936
Credit card payable	59,031	-
Current portion of annuity agreements payable	<u>23,818</u>	<u>26,331</u>
Total current liabilities	<u>127,432</u>	<u>31,267</u>
Long-term liabilities		
Long-term debt	100,000	100,000
Annuity agreements payable, net of current portion	<u>147,282</u>	<u>187,922</u>
Total long-term liabilities	<u>247,282</u>	<u>287,922</u>
Total liabilities	<u>374,714</u>	<u>319,189</u>
Net assets		
Unrestricted	18,025,097	20,250,474
Temporarily restricted	835,212	549,823
Permanently restricted	<u>1,149,375</u>	<u>1,149,375</u>
Total net assets	<u>20,009,684</u>	<u>21,949,672</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 20,384,398</u></u>	<u><u>\$ 22,268,861</u></u>

See accompanying notes to financial statements.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGE
IN NET ASSETS - CASH BASIS

YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support				
Contributions	\$ 3,442,996	\$ 350,000	\$ -	\$ 3,792,996
Revenue				
Sales, publications, memorabilia, etc.	632,965	-	-	632,965
Mises Academy	104,128	-	-	104,128
Conference and seminar fees	136,551	-	-	136,551
Net assets released from restrictions	10,876	(10,876)	-	-
Total revenue	<u>884,520</u>	<u>(10,876)</u>	<u>-</u>	<u>873,644</u>
Total public support and revenue	<u>4,327,516</u>	<u>339,124</u>	<u>-</u>	<u>4,666,640</u>
Expenses				
General and administrative	563,657	-	-	563,657
Program	2,803,127	-	-	2,803,127
Fundraising	555,659	-	-	555,659
Total expenses	<u>3,922,443</u>	<u>-</u>	<u>-</u>	<u>3,922,443</u>
Excess of public support and revenue over expenses before other income (expense)	<u>405,073</u>	<u>339,124</u>	<u>-</u>	<u>744,197</u>
Other income (expense)				
Interest and dividend income	178,536	20,615	-	199,151
Rental income (net)	12,753	-	-	12,753
Change in value, split interest agreement	37,208	-	-	37,208
Unrealized loss on investments	(2,945,857)	(74,350)	-	(3,020,207)
Gain on disposal of investments	5,710	-	-	5,710
Gain on disposal of assets	51,954	-	-	51,954
Miscellaneous income	29,246	-	-	29,246
Total other income (expense)	<u>(2,630,450)</u>	<u>(53,735)</u>	<u>-</u>	<u>(2,684,185)</u>
Change in net assets-cash basis	<u>(2,225,377)</u>	<u>285,389</u>	<u>-</u>	<u>(1,939,988)</u>
Net assets, beginning of year	<u>20,250,474</u>	<u>549,823</u>	<u>1,149,375</u>	<u>21,949,672</u>
Net assets, end of year	<u>\$ 18,025,097</u>	<u>\$ 835,212</u>	<u>\$ 1,149,375</u>	<u>\$ 20,009,684</u>

See accompanying notes to financial statements.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGE
IN NET ASSETS - CASH BASIS

YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support				
Contributions	<u>\$ 2,985,659</u>	<u>\$ 152,730</u>	<u>\$ -</u>	<u>\$ 3,138,389</u>
Revenue				
Sales, publications, memorabilia, etc.	888,753	-	-	888,753
Mises Academy	246,053	-	-	246,053
Conference and seminar fees	193,413	-	-	193,413
Net assets released from restrictions	<u>13,119</u>	<u>(13,119)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>1,341,338</u>	<u>(13,119)</u>	<u>-</u>	<u>1,328,219</u>
Total public support and revenue	<u>4,326,997</u>	<u>139,611</u>	<u>-</u>	<u>4,466,608</u>
Expenses				
General and administrative	535,917	-	-	535,917
Program	2,979,946	-	-	2,979,946
Fundraising	<u>454,530</u>	<u>-</u>	<u>-</u>	<u>454,530</u>
Total expenses	<u>3,970,393</u>	<u>-</u>	<u>-</u>	<u>3,970,393</u>
Excess of public support and revenue over expenses before other income (expense)	<u>356,604</u>	<u>139,611</u>	<u>-</u>	<u>496,215</u>
Other income (expense)				
Interest and dividend income	128,174	13,221	-	141,395
Rental income (net)	9,742	-	-	9,742
Change in value, split interest agreement	(60,613)	-	-	(60,613)
Unrealized gain on investments	208,823	63,264	-	272,087
Gain on disposal of investments	40,908	-	-	40,908
Miscellaneous income	<u>37,881</u>	<u>-</u>	<u>-</u>	<u>37,881</u>
Total other income (expense)	<u>364,915</u>	<u>76,485</u>	<u>-</u>	<u>441,400</u>
Change in net assets-cash basis	721,519	216,096	-	937,615
Net assets, beginning of year	<u>19,528,955</u>	<u>333,727</u>	<u>1,149,375</u>	<u>21,012,057</u>
Net assets, end of year	<u>\$ 20,250,474</u>	<u>\$ 549,823</u>	<u>\$ 1,149,375</u>	<u>\$ 21,949,672</u>

See accompanying notes to financial statements.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

STATEMENTS OF CASH FLOWS - CASH BASIS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flow from operating activities:		
Change in net assets	\$ (1,939,988)	\$ 937,615
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	255,097	268,422
Donated assets	(49,596)	(179,996)
(Gain) loss on disposal of investments	(5,710)	(40,908)
(Gain) loss on disposal of assets	(51,954)	-
Unrealized (gain) loss on investments	3,020,207	(272,087)
(Increase) decrease in employee advances	-	356
(Increase) decrease in inventory	98,410	156,221
Increase (decrease) in payroll taxes payable	42,237	-
Increase (decrease) in credit card payable	59,031	-
Increase (decrease) in other benefits payable	(2,590)	3,634
Total adjustments	<u>3,365,132</u>	<u>(64,358)</u>
Net cash provided (used) by operating activities	<u>1,425,144</u>	<u>873,257</u>
Cash flow from investing activities:		
Purchase of property, plant, and equipment	(132,715)	(41,246)
Proceeds from sale of investments	65,533	1,471,919
Proceeds from sale of assets	51,954	-
Purchase of investments	(425,839)	(1,753,910)
Proceeds from investments in annuities	611	2,498
Net cash provided (used) by investing activities	<u>(440,456)</u>	<u>(320,739)</u>
Cash flow from financing activities:		
Principal adjustments (payments) on annuity agreements payable	<u>(43,153)</u>	<u>36,577</u>
Net increase (decrease) in cash and cash equivalents	941,535	589,095
Cash and cash equivalents, beginning of year	<u>2,187,763</u>	<u>1,598,668</u>
Cash and cash equivalents, end of year	<u>\$ 3,129,298</u>	<u>\$ 2,187,763</u>
Noncash investing and financing activities:		
Donated investment securities	\$ 49,596	\$ 179,996

See accompanying notes to financial statements.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. Summary of Significant Accounting Policies

Nature of business - The 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 freewill contributions from the public, book sales, and registration fees from conferences and seminars.

Basis of accounting - The Institute's policy is to prepare its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Modifications to the cash basis of accounting include recording depreciation on property and equipment, recording inventories and recording marketable equity securities as assets.

The Institute's net assets are segregated into three classifications:

Unrestricted net assets, as defined by The Financial Accounting Standards Board (FASB), are composed of all resources not subject to donor or Board imposed restrictions. Included are expendable resources used to support the Institute's primary function of promoting the ideas of Ludwig von Mises and his work. Donor-restricted contributions that are received and expended in the same year are classified as unrestricted. All expenses are recorded as a reduction to unrestricted net assets.

Temporarily restricted net assets carry restrictions that expire upon the passage of a prescribed period or upon the occurrence of a stated event as specified by the donor. This category consists of gifts held by the Institute pending their use in accordance with donor stipulations, including the remainder interest in the charitable annuity trust discussed in Note 7, certificates of deposit reserved for charitable gift annuities discussed in Note 10, investments reserved for scholarships, faculty funding, special projects and earnings on permanently restricted net assets.

Permanently restricted net assets are those that may never be spent by the Institute, which consists of the permanent endowment funds discussed in Note 4.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. Summary of Significant Accounting Policies - continued

Use of estimates - The preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - The Institute considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments - The fair value of the Institute's investments are determined based on quoted market prices, or in the absence thereof, other third-party and internally developed estimates of fair value using pricing methodologies appropriate in the circumstances.

Investments in equity securities, mutual funds, business trust funds, debt securities and gold are reported at fair value. The Institute has also invested in and received contributions of rare coins and gold pieces which are also reported at fair value. Fair market value for these investments is based on quoted market prices or dealer quotes, where available.

The fair market value of investments is reported on the Statement of Assets, Liabilities and Net Assets, with all net realized and unrealized gains and losses reflected on the Statement of Support, Revenue, Expenses and Change in Net Assets.

Inventory - Inventory is stated at the lower of cost or market using the first-in, first-out method for pricing inventory items. Inventory consists of publications, media and memorabilia.

Property and equipment - Property and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of property and equipment purchased in excess of \$1,000 is capitalized. Depreciation is computed over the estimated useful lives of the assets (ranging from 5 to 40 years) on a straight-line basis. Depreciation expense was \$255,097 and \$268,422 for the years ended December 31, 2013 and 2012, respectively.

Collections - Contributions of collection items are not capitalized nor recognized as support. Proceeds from sales or insurance recoveries are reflected on the Statement of Support, Revenue, Expenses and Change in Net Assets based on the absence or existence and nature of donor-imposed restrictions.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. Summary of Significant Accounting Policies - continued

Income taxes - The Institute has qualified as a nonprofit corporation under Section 501(c) (3) of the Internal Revenue Code, and, therefore, the financial statements do not reflect a provision for income taxes.

The Institute files income tax returns in the U.S. federal jurisdiction as well as certain state and local jurisdictions. Income tax returns of the Institute are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns were filed. Income tax returns that remain open and subject to examinations by tax authorities are those with years ending December 31, 2010, 2011, and 2012.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Institute may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2013 and 2012.

Advertising - The Institute expenses the cost of advertising the first time the advertising activity takes place.

Date of management's subsequent event review - Management has evaluated subsequent events through June 26, 2014, the date which the financial statements were available to be issued.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

2. Investments

Investments at December 31, 2013 and 2012, consist of the following:

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Investments				
Debt and equity securities				
Equities	\$ 106,579	\$ 154,226	\$ 148,745	\$ 173,335
Mutual funds	5,885,771	7,526,935	7,187,884	7,114,764
Business trust funds	20,119	13,879	14,486	13,879
Certificates of deposit	739,685	739,685	739,685	739,685
Total debt and equity securities	6,752,154	8,434,725	8,090,800	8,041,663
Gold and silver bars	2,520,570	2,080,413	3,474,269	2,080,413
Collectible coins	435,856	242,166	604,560	242,166
Total investments	\$ 9,708,580	\$ 10,757,304	\$ 12,169,629	\$ 10,364,242

Investment income, unrealized gains and losses, and changes in valuation of split-interest agreements are reported on the Statements of Support, Revenue, Expenses and Change in Net Assets net of estimated investment expenses totaling \$1,814 and \$7,457 for the years ended December 31, 2013 and 2012, respectively.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

3. Fair Value Measurements

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2013, are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments				
Debt and Equity Securities				
Equities	\$ 106,579	\$ 106,579	\$ -	\$ -
Mutual Funds	5,885,771	5,885,771	-	-
Business Trust Funds	20,119	20,119	-	-
Certificates of Deposit	<u>739,685</u>	<u>739,685</u>	-	-
Total debt and equity securities	6,752,154	6,752,154	-	-
Gold and Silver Bars	2,520,570	2,520,570	-	-
Collectible Coins	<u>435,856</u>	<u>435,856</u>	-	-
Total investments	<u>\$ 9,708,580</u>	<u>\$ 9,708,580</u>	<u>\$ -</u>	<u>\$ -</u>
Restricted Endowment Funds				
Cash and Pooled Investments	\$ 287,209	\$ 287,209	\$ -	\$ -
Bonds	50,813	50,813	-	-
Mutual Funds	<u>728,535</u>	<u>728,535</u>	-	-
	<u>\$ 1,066,557</u>	<u>\$ 1,066,557</u>	<u>\$ -</u>	<u>\$ -</u>

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

3. Fair Value Measurements - continued

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2012, are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments				
Debt and Equity Securities				
Equities	\$ 148,745	\$ 148,745	\$ -	\$ -
Mutual Funds	7,187,884	7,187,884	-	-
Business Trust Funds	14,486	14,486	-	-
Certificates of Deposit	<u>739,685</u>	<u>739,685</u>	<u>-</u>	<u>-</u>
Total debt and equity securities	8,090,800	8,090,800	-	-
Gold and Silver Bars	3,474,269	3,474,269	-	-
Collectible Coins	<u>604,560</u>	<u>604,560</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 12,169,629</u>	<u>\$ 12,169,629</u>	<u>\$ -</u>	<u>\$ -</u>
Restricted Endowment Funds				
Cash and Pooled Investments	\$ 290,022	\$ 290,022	\$ -	\$ -
Bonds	46,938	46,938	-	-
Mutual Funds	<u>884,716</u>	<u>884,716</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,221,676</u>	<u>\$ 1,221,676</u>	<u>\$ -</u>	<u>\$ -</u>

THE LUDWIG VON MISES INSTITUTE
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

4. Donor-Restricted Endowments

The Institute applies FASB guidance related to the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The guidance also requires disclosures about an organization's donor-restricted and board-designated endowment funds. The Institute endowment pool consists of two individual donor-restricted funds and currently contains no board-designated funds.

Interpretation of relevant law - The Institute has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit 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 permanent donor-restricted endowment, (b) the original value of subsequent gifts to the permanent donor-restricted endowment, and (c) accumulations to the permanent donor-restricted endowment 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 fund that is not classified in permanently restricted net assets is 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 UPMIFA. In accordance with UPMIFA, 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 various funds, (2) the purposes of 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 Institute's investment policies.

Return objectives and risk parameters - The Institute has adopted investment and spending policies, approved by the Institute's Investment Committee, for endowment assets that attempt to provide a stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. 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.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

4. Donor-Restricted Endowments - continued

Return objectives and risk parameters (continued) - Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Endowment net asset composition as of December 31, 2013, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ (82,818)	\$ -	\$ 1,149,375	\$ 1,066,557

Endowment net asset composition as of December 31, 2012, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 72,301	\$ 1,149,375	\$ 1,221,676

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

4. Donor-Restricted Endowments - continued

Maughmer Endowment Fund - During 1998, the Institute received a donation to establish a permanent endowment fund. The fund was created in part for the purpose of supporting the Freedom Philosophy Center at Washington State University. The Institute provides support to the Center by contributing 20% of the annual earnings from the fund. The remaining earnings from the fund are used to support students from the Western United States. The fund consists of cash and debt and equity securities.

Changes in Maughmer endowment net assets for the year ended December 31, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Maughmer endowment net assets, beginning of year	\$ -	\$ 72,301	\$ 1,099,375	\$ 1,171,676
Investment return:				
Investment income	-	20,140	-	20,140
Unrealized loss	(82,818)	(92,441)	-	(175,259)
Total investment return	(82,818)	(72,301)	-	(155,119)
Appropriation of endowment assets for expenditure	-	-	-	-
Maughmer endowment net assets, end of year	<u>\$ (82,818)</u>	<u>\$ -</u>	<u>\$ 1,099,375</u>	<u>\$ 1,016,557</u>

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

4. Donor-Restricted Endowments - continued

Changes in the Maughmer endowment net assets for the year ended December 31, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Maughmer endowment net assets, beginning of year	\$ -	\$ 15,131	\$ 1,099,375	\$ 1,114,506
Investment return:				
Investment income	-	11,347	-	11,347
Unrealized gain	-	50,665	-	50,665
Total investment return	-	62,012	-	62,012
Appropriation of endowment assets for expenditure	-	(4,842)	-	(4,842)
Maughmer endowment net assets, end of year	<u>\$ -</u>	<u>\$ 72,301</u>	<u>\$ 1,099,375</u>	<u>\$ 1,171,676</u>

French Endowment Fund - During 2006, the Institute received a donation to establish a permanent endowment fund. The fund was created to provide for an annual award to the top scorer on the Mises University exam. The fund is invested in cash and a convertible bond at December 31, 2013 and 2012. The permanently restricted amount is \$50,000 for both years. Any earnings in a given year are spent entirely in that year on the annual award for the Mises University student and therefore all earnings are considered unrestricted assets.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

5. Concentration of Credit Risk

The Institute maintains some of its cash balances at financial institutions located in Auburn, Alabama. Accounts at the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. At December 31, 2013, the Institute's cash balances at one of these financial institutions exceeded federally insured amounts by \$1,447,482 and by \$3,296 at one other financial institution. At December 31, 2012, the Institute's cash balances at one of these financial institutions exceeded federally insured amounts by \$2,408. Prior to December 31, 2012, noninterest bearing deposit accounts were fully insured.

The Institute's investment accounts are protected through the Securities Investor Protection Corporation (SIPC) coverage as well as additional coverage provided by the brokerage firm.

6. Life Annuities

The Institute has periodically received donations and used the money to purchase life annuities which provide for periodic payments to the Institute during the donors' lives. Upon the donors' deaths, the Institute will receive lump sum payments of the balances in the annuities. Information on the annuities owned at December 31, 2013 and 2012, is summarized as follows:

Year of Donation	Donation Amount	Amount of Life Annuity Purchased	Payment Frequency	Payment Amount	Value 12/31/13	Value 12/31/12
1996	\$ 49,031	\$ 23,129	annual	\$ 1,961	\$ -	\$ 517
1996	10,000	6,551	semi-annual	335	-	94
					\$ -	\$ 611

7. Remainder Interest in Charitable Annuity Trust

The Institute is the beneficiary in a charitable remainder annuity trust. The beneficial interest has been recorded based on the present value of the future trust distribution that the Institute expects to receive upon the death of the donor. The present value at December 31, 2013 and 2012, was \$160,582 and \$142,491, respectively. Due to the implied time restriction of the future contribution, the amount has been classified as temporarily restricted.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

8. Other Investments

Other investments consist of limited partnership interests in three oil and gas partnerships which the Institute received from a donor in late 2011. The estimated fair market value of the interests at December 31, 2013 and 2012, was \$50,623 and \$58,135, respectively.

9. Long-Term Debt

During 1998, the Institute received a \$100,000 loan from a charitable trust. The loan bears interest at 8%. Under the terms of the Trust agreement, the loan 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.

10. Annuity Agreements Payable

The Institute has entered into annuity agreements with various donors. Under the terms of the agreements, the Institute received donations, and in return, agreed to make periodic payments to the donors for the remainder of their lives. The Institute recognized contribution revenue at the date of donation for the difference between the fair value of the assets received and the annuity liability.

Annuity liabilities were recorded for the required life annuity payments at the present value of expected future cash payments discounted using current interest rates and actuarial assumptions. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced as payments are made to the donor. The present value of future payment liabilities of charitable gift annuities was \$171,100 and \$214,253 at December 31, 2013 and 2012, respectively.

The Institute is licensed by the State of Alabama to enter into annuity agreements with donors. Alabama Statutes require entities with such a license to maintain a segregated account for its charitable gift annuities. The assets of the account should not be liable for any debts of the Institute other than those incurred pursuant to the issuance of the charitable gift annuities. The general assets of the Institute should be liable for annuity agreements to the extent that the segregated account is inadequate. The Institute has complied with these requirements.

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

11. Rental Income

The Institute owns an apartment complex containing eighteen apartments located behind their office building. Leases running from September through May will be offered to the general public on six of the apartments. Nine of the apartments are used for game day rentals during the Fall. Three of the apartments are available to the Institute to use as needed year round. Fifteen of the apartments will be used June through August to house the Institute's summer fellows. The net rental income for the year ended December 31, 2013 and 2012, totaled \$12,753 and \$9,742, respectively.

12. Lease Commitments

The Institute leases office equipment under a noncancelable operating lease with an unrelated party which calls for quarterly payments totaling \$1,605. The lease expired in June 2014 and was renewed for an additional 60 months with quarterly payments totaling \$942. Lease expense for the year ended December 31, 2013 and 2012, totaled \$7,029 and \$8,808, respectively. Future minimum lease payments at December 31, 2013, are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Amount</u>
2014	\$ 5,094
2015	3,768
2016	3,768
2017	3,768
2018	3,768
	<u>\$ 20,166</u>

THE LUDWIG VON MISES INSTITUTE
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

13. Net Assets

Detail of the Institute's net asset categories at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unrestricted		
Undesignated	\$ 12,355,312	\$ 14,303,759
Designated for specific purposes	286,261	440,808
Invested in property, plant and equipment	<u>5,383,524</u>	<u>5,505,907</u>
Total Unrestricted	<u>18,025,097</u>	<u>20,250,474</u>
Temporarily restricted		
Remainder interest in charitable remainder trust	160,583	142,491
Certificates of deposit, reserved for charitable gift annuities	149,776	149,301
Kurzweg scholarship fund	27,000	33,000
William Peterson chair	400,000	50,000
Special projects	97,853	102,730
Income earned on permanently restricted endowments	<u>-</u>	<u>72,301</u>
Total temporarily restricted	<u>835,212</u>	<u>549,823</u>
Permanently restricted		
Maughmer endowment	1,099,375	1,099,375
French endowment	<u>50,000</u>	<u>50,000</u>
Total permanently restricted	<u>1,149,375</u>	<u>1,149,375</u>
Total net assets	<u>\$ 20,009,684</u>	<u>\$ 21,949,672</u>

SUPPLEMENTARY INFORMATION

THE LUDWIG VON MISES INSTITUTE
FOR AUSTRIAN ECONOMICS, INC.

SCHEDULE OF FUNCTIONAL EXPENSES - CASH BASIS

YEAR ENDED DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	Adminis- trative	Program	Fund- raising	Total 2013	Total 2012
Academic outreach	\$ -	\$ 14,210	\$ -	\$ 14,210	\$ 686
Accounting and legal fees	13,592	33,981	9,061	56,634	46,360
Bank and investment fees	2,391	7,968	2,922	13,281	30,581
Computer networking	19,807	66,024	24,209	110,040	195,922
Conferences and conventions	-	389,362	-	389,362	484,645
Consulting	13,457	44,858	16,448	74,763	254,461
Cost of goods sold	-	244,392	-	244,392	366,299
Depreciation	26,785	228,312	-	255,097	268,422
Employee benefits	31,752	85,593	20,708	138,053	141,169
Employee training	365	985	238	1,588	1,322
Equipment rental - maintenance	1,958	6,527	2,393	10,878	9,625
Grants	-	90,578	-	90,578	112,284
Insurance	14,624	39,422	9,538	63,584	56,489
Library	-	15,173	-	15,173	6,543
Miscellaneous	3,730	12,434	4,559	20,723	1,104
Mises Academy	6,524	29,718	-	36,242	104,820
Occupancy	8,465	22,819	5,521	36,805	33,536
Payroll taxes	24,610	66,338	16,050	106,998	92,093
Program support - fundraising	-	-	170,614	170,614	83,431
Publications	-	250,760	-	250,760	247,610
Publicity	-	41,355	-	41,355	33,443
Repairs and maintenance	12,822	42,738	15,671	71,231	72,148
Salaries	343,185	925,106	223,816	1,492,107	1,250,890
Shipping and handling	2,657	11,659	443	14,759	8,259
Supplies	8,998	39,489	1,500	49,987	53,037
Telephone	2,084	8,335	1,158	11,577	14,717
Travel	643	965	-	1,608	497
Website	25,208	84,026	30,810	140,044	-
Totals	<u>\$ 563,657</u>	<u>\$2,803,127</u>	<u>\$ 555,659</u>	<u>\$3,922,443</u>	<u>\$3,970,393</u>

See independent auditors' report.