

**ASSOCIATION FOR RESEARCH AND
ENLIGHTENMENT, INC. AND AFFILIATES**

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2018



ASSURANCE, TAX & ADVISORY SERVICES

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Association for Research and Enlightenment, Inc. and Affiliates
Virginia Beach, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Association for Research and Enlightenment, Inc., and Affiliates (the "Organization") which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Organization'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 Organization'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 Organization as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2019 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

PBMares, LLP

Norfolk, Virginia
May 1, 2019

CONSOLIDATED FINANCIAL STATEMENTS

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2018 with Comparative Totals for December 31, 2017**

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,581,243	\$ 1,580,253
Trade accounts receivable, net of allowance	780,655	265,933
Contributions and bequests receivable, net	387,892	28,641
Inventory, net of allowance	337,288	337,678
Prepaid expenses	210,415	246,508
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Total current assets	3,297,493	2,459,013
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Net Property and Equipment	6,921,633	7,181,349
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Investments		
Split interest agreements	1,690,624	2,228,130
Cash and securities	3,456,269	3,627,735
	<hr/>	<hr/>
Total investments	5,146,893	5,855,865
	<hr/>	<hr/>
Other Assets		
Donated assets		
Real estate	890,709	890,709
Other	148,375	101,426
Intangibles	80,405	80,405
	<hr/>	<hr/>
Total other assets	1,119,489	1,072,540
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Total assets	\$ 16,485,508	\$ 16,568,767
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**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
December 31, 2018 with Comparative Totals for December 31, 2017**

	2018	2017
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of note payable	\$ 126,492	\$ 120,752
Current portion of split interest agreements payable	196,205	180,000
Current portion of capital lease obligation	18,094	18,094
Line of credit	500,000	250,000
Accounts payable, trade	162,258	209,813
Accrued salaries, wages and employee benefits	147,858	127,126
Deferred income	1,143,131	343,589
Other current liabilities	76,062	71,616
Total current liabilities	2,370,100	1,320,990
Long-Term Liabilities, net of current portions		
Deferred income	679,674	672,741
Note payable	1,944,804	2,071,465
Capital lease obligation	26,421	39,888
Split interest agreements payable	1,019,788	1,288,767
Total long-term liabilities	3,670,687	4,072,861
Total liabilities	6,040,787	5,393,851
Net Assets		
Without donor restrictions	6,028,237	6,543,847
With donor restrictions	4,416,484	4,631,069
Total net assets	10,444,721	11,174,916
Total liabilities and net assets	\$ 16,485,508	\$ 16,568,767

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2018 with Comparative Totals for the Year Ended
December 31, 2017**

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenues, Gains and Other Support				
Sales	\$ 930,700	\$ -	\$ 930,700	\$ 993,694
Cost of sales	372,883	-	372,883	398,339
Gross profit from sales	557,817	-	557,817	595,355
Contributions				
Donors	1,406,160	403,259	1,809,419	2,012,822
Bequests	874,653	-	874,653	247,313
Noncash	35,999	44,100	80,099	809,851
Change in value of split-interest agreements	-	(6,933)	(6,933)	(2,230)
Dues				
Life membership	163,456	-	163,456	212,385
Other categories	708,205	-	708,205	697,875
Fees for services				
Conference fees	758,621	-	758,621	656,897
Health services fees	838,665	-	838,665	856,135
Tour fees	378,695	-	378,695	611,399
All other fees for services	218,753	-	218,753	221,293
Loss on sale of property and equipment	-	-	-	(22,066)
Gains on sale of other assets	32	-	32	19,901
Investment income				
Dividends and interest	79,361	92,715	172,076	65,867
Gains (losses) on investments				
Realized	152,606	77,196	229,802	125,540
Unrealized	(349,138)	(382,861)	(731,999)	467,910
Rental income	41,700	-	41,700	52,005
Other income	88,447	-	88,447	56,190
Postage and handling	8,955	-	8,955	10,304
Royalty income	31,378	-	31,378	27,608
Tuition	910,028	-	910,028	818,631
Net assets released from restriction	442,061	(442,061)	-	-
Total revenues, gains and other support	7,346,454	(214,585)	7,131,869	8,540,985
Program services				
Program services	6,883,476	-	6,883,476	7,111,504
Support services				
Support services	556,925	-	556,925	358,464
Fund raising				
Fund raising	421,663	-	421,663	508,200
Total expenses	7,862,064	-	7,862,064	7,978,168
Changes in net assets	(515,610)	(214,585)	(730,195)	562,817
Net Assets, beginning of year	6,543,847	4,631,069	11,174,916	10,612,099
Net Assets, end of year	\$ 6,028,237	\$ 4,416,484	\$ 10,444,721	\$ 11,174,916

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2018 with Comparative Totals for the Year Ended
December 31, 2017**

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ (730,195)	\$ 562,817
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized (gains) losses on investments	502,197	(593,450)
Dividends and interest reinvested	(172,076)	(65,867)
Depreciation and amortization	437,177	443,960
Contributions restricted for property and equipment and other long-term purposes	(131,805)	(292,198)
Non-cash contributions		
Fair market value when received	(81,169)	(783,962)
Cash proceeds from sales	34,251	775,626
Uncollectible accounts (recoveries)	(1,224)	-
Provision for pledge discount	-	(2,201)
Loss on sale of property and equipment	-	22,066
Gains on sale of other assets	(31)	(19,901)
Provision for inventory obsolescence	2,530	1,500
(Increase) decrease in operating assets		
Trade accounts receivable	(513,498)	43,548
Contributions and bequests receivable	(359,251)	59,557
Inventory	(2,140)	(15,952)
Prepaid expenses	36,093	(61,171)
Due from affiliate	-	2,859
Increase (decrease) in operating liabilities		
Accounts payable	(47,555)	(32,825)
Accrued salaries, wages and employee benefits	20,732	12,446
Deferred income	806,475	(63,895)
Split interest agreements payable	(252,774)	(227,973)
Other current liabilities	4,446	33,639
Net cash used in operating activities	(447,817)	(201,377)
Cash Flows From Investing Activities		
Net proceeds (purchases) of investments	378,819	(212,291)
Proceeds from sale of assets	32	1,106,541
Purchases of property and equipment	(177,461)	(370,812)
Net cash provided by investing activities	201,390	523,438

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2018 with Comparative Totals for the Year Ended
December 31, 2017**

	2018	2017
Cash Flows From Financing Activities		
Repayments on note payable	\$ (120,921)	\$ (115,433)
Collection of contributions restricted for property and equipment and other long-term purposes	131,805	282,948
Principal payments on capital lease obligations	(13,467)	(13,281)
Net proceeds (repayment) of line of credit	<u>250,000</u>	<u>(250,000)</u>
Net cash provided by (used in) financing activities	<u>247,417</u>	<u>(95,766)</u>
Net increase cash and cash equivalents	990	226,295
Cash and Cash Equivalents, beginning of year	<u>1,580,253</u>	1,353,958
Cash and Cash Equivalents, end of year	<u><u>\$ 1,581,243</u></u>	<u>\$ 1,580,253</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 358,800	\$ 360,629

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018 with Comparative Totals for the Year Ended
December 31, 2017**

	Program Services	Support Services	Fund Raising	2018 Total	2017 Total
Advertising and prom	\$ 144,116	\$ 15	\$ 2,775	\$ 146,906	\$ 135,776
Bank fees	120,982	-	6,346	127,328	125,800
Board expenses	-	10,553	-	10,553	8,767
Books and tapes	65,660	-	844	66,504	47,061
Contracted services	1,036,761	33,173	13,152	1,083,086	1,035,252
Copyright expense	275	-	-	275	330
Cost of obsolescence	5,898	-	-	5,898	-
Curriculum development	3,900	-	-	3,900	2,600
Damaged goods expense	3,899	-	-	3,899	5,452
Depreciation and amortization	389,189	21,813	26,175	437,177	443,960
Dues and subscriptions	21,006	7,757	-	28,763	25,011
Employee training	22,939	1,351	805	25,095	17,553
Employee recreation and welfare	6,479	1,900	-	8,379	8,207
Equipment rental	72,363	-	-	72,363	85,597
External storage	17,260	551	-	17,811	28,986
General insurance	222,200	11,331	13,597	247,128	265,530
Graduation expense	1,504	-	-	1,504	1,349
Health insurance	197,327	33,690	9,625	240,642	274,867
Interest expense	358,263	1,602	-	359,865	374,450
Licenses and fees	47,248	61	244	47,553	76,010
Mail service	61,707	-	21,129	82,836	70,002
Materials	8,598	-	-	8,598	8,773
Miscellaneous expense	1,350	237	-	1,587	4,090
Office supplies	171,557	7,943	3,771	183,271	163,252
Organizational giving	1,335	-	-	1,335	1,762
Payroll services	24,471	8,507	-	32,978	52,177
Payroll taxes	198,394	22,844	13,473	234,711	228,201
Postage	201,593	-	25,642	227,235	207,719
Preservation expense	8,746	-	-	8,746	24,566
Printing	93,202	-	1,587	94,789	48,063
Professional services	48,341	12,130	-	60,471	67,386
Program expense	491,280	2	95,326	586,608	770,856
Repairs and maintenance	133,417	50,994	1,827	186,238	212,721
Salaries	2,503,233	290,697	172,372	2,966,302	2,889,859
Telephone expense	38,705	7,343	-	46,048	51,235
Travel and entertainment	84,487	1,592	13,134	99,213	97,491
Uncollectible accounts (recoveries)	(1,063)	-	(161)	(1,224)	102
Utilities and fuel	76,854	30,839	-	107,693	117,355
Total expense	\$ 6,883,476	\$ 556,925	\$ 421,663	\$ 7,862,064	\$ 7,978,168

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of Organization: The Association for Research and Enlightenment, Inc. (A.R.E.), Edgar Cayce Foundation (E.C.F.) and Atlantic University (A.U.) (collectively "the Organization") are nonstock, not-for-profit organizations headquartered in Virginia Beach, Virginia. Founded in 1931, A.R.E. offers conferences; educational activities, including publishing; and fellowship through programs and publications which focus on such topics as holistic health, dreams, reincarnation, ESP, the power of the mind, meditation, and personal spirituality. E.C.F. was established to preserve and disseminate the readings of Edgar Cayce. A.U. is an accredited, non-profit, multi-degree-granting, non-credit and graduate-level institution of higher education. Its purpose is to create a learning environment that will help individuals transform their lives as they learn to better understand themselves and their relationship to all life. The Organization receives the majority of its support from sales, contributions, fees for services, membership dues and tuition. A.R.E. is affiliated with E.C.F. and A.U., which require that all members of their respective Boards of Trustees be members of the Board of Trustees of A.R.E.

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of A.R.E., E.C.F. and A.U. All significant intercompany accounts and transactions have been eliminated. The financial statements of A.R.E., E.C.F. and A.U. have been consolidated pursuant to accounting standards which require organizations to present consolidated statements when an economic interest and control exists. Economic interest and control exists when one organization controls the related nonprofit entity through a majority voting interest in the board of the related entity, and has an economic interest in the related entity.

Basis of Presentation: The Organization is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Support that is restricted by the donor is, however, reported as an increase in net assets without donor restrictions if the restriction expires or is otherwise satisfied in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires or is otherwise satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions. Details related to net assets with donor restrictions are included in Note 4 and Note 14.

The consolidated financial statements include certain prior-year summarized comparative information as totals only. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Cash and Cash Equivalents: Cash and cash equivalents in the consolidated statements of financial position and cash flows are defined as demand deposits, overnight investments at banks, and all highly liquid debt instruments purchased with an original maturity of three months or less. However, money market accounts that are part of managed investment accounts are reported as investments.

Trade Accounts Receivable: The Organization routinely extends its members and customers trade credit, most of which is not collateralized or otherwise secured. At December 31, 2018 management has reviewed all accounts receivable for collectability and written off all accounts deemed uncollectible. There was an allowance for uncollectible accounts receivable of \$3,347 as of December 31, 2018.

A trade account receivable is deemed past due if payments are not received by the due date stated on the billing statement, which may vary for each customer. Past due accounts are not charged a finance charge on the past due balance. Past due receivables may only be charged off upon approval by management.

Contributions and Bequests Receivable: Contributions are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional contributions receivable are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and at net realizable value thereafter. Bequests are recognized when a legally enforceable document is received or will have been validated after a donor's passing.

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' collection experience and management's analysis of specific promises made. There was an allowance for uncollectible contributions and bequests receivable of \$2,650 as of December 31, 2018.

Inventory: Inventory, principally publications held for sale, is stated at the lower of specific cost or net realizable value, using the average cost method. The Organization has established an allowance for obsolete inventory of \$8,530 as of December 31, 2018.

Property and Equipment: Property and equipment are reported at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation and amortization is computed by the straight-line method, based on the following useful lives:

Automobiles	2-5 years
Building and improvements	3-50 years
Computer equipment and software	3-10 years
General equipment	3-15 years
Land improvements	5-21 years

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Impairment of Long-lived Assets: In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 360-10-05, Accounting for the Impairment or Disposal of Long-Lived Assets, management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Investments: The Organization reports investments in equity securities and debt securities at their fair values in the consolidated statement of financial position in accordance with FASB ASC Topic 958, Accounting for Certain Investments Held by Not-for-Profit Organizations and FASB ASC Topic 820, Fair Value Measurements and Disclosures. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statement of activities. Investment related expenses netted against investment revenues in 2018 were \$33,159.

This guidance requires expanded disclosures surrounding the Organization's investments and has been included in Note 6.

Donated Assets: Noncash contributions are recorded at fair value on the date of donation and analyzed for potential impairment thereafter. Included in donated real estate is \$874,000 of retained life estate gifts that cannot be sold until the death of certain specified beneficiaries in accordance with the agreements and is therefore included in net assets with donor restrictions. Included among other assets are interests in other real estate, collections, and trust interests.

Edgar Cayce Readings: The Organization owns the transcribed collection of Edgar Cayce's readings. The value of these readings is not reported in these consolidated financial statements since it is not susceptible to objective measurement or valuation.

Split-Interest Agreements: Split-interest agreements are contributions to be shared by the Organization and other beneficiaries. The contributions of this type received by the Organization are unconditional, irrevocable split-interest agreements and consist of two basic types: charitable gift annuities received and administered by the Organization and gifts to a pooled (life) income fund administered by a third-party trustee.

Charitable gift annuities are contributions of assets directly to the Organization in exchange for distributions of a fixed amount for a specified period of time to the donor or other beneficiary. The contributed assets are considered general unrestricted assets of the Organization, and the related annuity liability is recorded as an unrestricted general obligation.

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Donations made to the Organization's pooled life income fund are received by a third-party trustee and used to purchase investment units in the fund. The fair value of any donation to this fund is compared to the fair value of the investment pool at the date of the donation to determine the number of units acquired. During the term of these life income gifts, the donors, or beneficiaries specified by the donor, if any, receive the actual income earned on the donor's units in the pooled fund. Upon the death of the donor, the donor's units revert to the Organization. Until that time, the assets in the pooled income fund are included in net assets with donor restrictions.

When the assets are received, they are recognized at fair value. Contribution revenue is recorded at the present value of the assets expected to be received upon the death of the donor using life expectancies specified in publications of the Internal Revenue Service. The difference between the fair value of the assets received and the contribution recognized represents the amount of discount associated with the gift, and is presented in the accompanying consolidated statement of financial position as deferred income. During the term of the agreement, amortization of this discount as well as re-valuations based on changes in life expectancy and other actuarial assumptions are recognized as a change in the value of split-interest agreements in the consolidated statement of activities.

All assets recognized from either charitable gift annuities or pooled life income fund donations are recorded at their fair value at the date of donation. Thereafter, investments are adjusted to their fair market value in accordance with U.S. generally accepted accounting principles.

Donations structured as gift annuities and pooled life income agreements are discounted at various rates and are also calculated using life expectancies specified in publications of the Internal Revenue Service.

Deferred Income: In addition to the deferred income from pooled life income agreements explained above, deferred income results from tuition, payments for future tours and events, and similar payments received in advance. This income is recognized in subsequent years as services are rendered.

Advertising: Advertising costs are expensed to operations when incurred.

Contributed Services: A substantial number of unpaid volunteers have made significant contributions of their time to the Organization. The value of this contributed time is not reported in these consolidated financial statements since it is not susceptible to objective measurement or valuation nor meets the criteria for recognition in accordance with generally accepted accounting principles.

Functional Expense Allocations: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Directly identifiable expenses are allocated to program services, support services and fund raising. Expenses related to more than one function are charged to program services, support services, and fund raising based on estimates made by management. Allocations are based on departmental staffing levels and other methodologies. Support services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Income Taxes: A.R.E. and its affiliates, E.C.F. and A.U., are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income, if any, resulting from unrelated business taxable income.

FASB ASC Topic 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization's management has evaluated the impact of the standard to its consolidated financial statements. The Organization's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date the returns are filed. The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

Accounting Standards Update: During 2018, the Organization adopted ASU No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method.

In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective, for private companies, for annual reporting periods beginning after December 15, 2018. The core principle of the ASU is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process, including identifying performance obligations in the contract; estimating the amount of variable consideration to include in the transaction price; and allocating the transaction price to each performance obligation. The Organization is currently evaluating the impact the adoption of this guidance may have on its consolidated financial statements.

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction would be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Organization has not yet decided on a transition method. The ASU is effective for years beginning after December 31, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the lease guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying 2017 comparative totals. The reclassifications had no impact on the previously reported change in net assets.

Note 2. Liquidity and Availability

Financial assets and liquidity resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets:

Cash and cash equivalents	\$ 1,581,243
Trade accounts receivable	780,655
Contributions and bequests receivable	385,778
Total financial assets available within one year	<u>2,747,676</u>

Liquidity resources:

Bank line of credit	<u>-</u>
Total financial assets and liquidity resources available within one year	<u><u>\$ 2,747,676</u></u>

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Liquidity and Availability (Continued)

The Organization's cash flows have seasonal variations during the year attributable mainly to tuition billing, timing of conferences and tours, and a concentration of contributions received at year end. A significant portion of the Organization's operations and programs are funded by fees, membership dues and tuition that are charged and collected on an annual basis. Any significant reduction in these revenues could necessitate the Organization to have a corresponding reduction in programs and services offered. To manage liquidity, the Organization maintains a line of credit to draw upon as needed during the year to manage cash flows. As of December 31, 2018, the amount outstanding on the line of credit was \$500,000.

In addition, the Organization had an additional \$3,021,633 of investments functioning as a board-designated endowment, which is available for general expenditure with approval by the Board of Trustees.

Note 3. Contributions and Bequests Receivable

As noted in Note 6, FASB ASC 820, *Fair Value Measurements*, established 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. Long-term contributions and bequests receivables are initially recorded by the Organization at fair value using level 3 inputs and at net realizable thereafter. The present value technique is the primary input for this valuation and other inputs include an analysis of the donor's payment history, relationship with the donor, the donor's creditworthiness and other factors. In addition, a provision for uncollectible receivables is recorded as appropriate.

The table below presents information about the Organization's changes in contributions and bequests receivable for the year ended December 31, 2018:

Beginning balance	\$ 30,641
New promises received	814,908
Collections	<u>(455,007)</u>
Ending balance	<u><u>\$ 390,542</u></u>

The Organization's estimated future contributions receivable and bequest collections for the years subsequent to December 31, 2018 are as follows:

Due in less than one year	\$ 390,542
Due in one to five years	<u>-</u>
Gross unconditional contribution and bequest receivable	390,542
Less allowance for uncollectible receivables	(2,650)
Less discounts to net present value	<u>-</u>
Net unconditional contribution and bequest receivable	<u><u>\$ 387,892</u></u>

Bequests totaling \$385,778 included in the above contributions and bequests receivable at December 31, 2018 were collected in January 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Net Assets with Donor Restrictions

Net assets included in the net assets with donor restrictions classification have been received from donors that have restricted the use of the funds for a specific purpose and/or future period. The restrictions expire when obligations are incurred to fulfill the specified purpose or when time restrictions are satisfied.

Net assets with donor restrictions at December 31, 2018 are restricted for the following purposes or periods.

Subject to expenditure for specified purpose:

Outreach	\$ 84,615
Renovations	145,397
Scholarships	9,516
Search for God study group	8,451
Tarsia Center	332,200
Atlantic University programs	103,216
Edgar Cayce Foundation programs	197,047
	<u>880,442</u>

Subject to the passage of time:

Retained life estate gifts	874,000
Pooled income	939,129
	<u>1,813,129</u>

Endowments:

Unappropriated endowment investment earnings	29,911
Original donor restricted gift amounts to be maintained in perpetuity	1,693,002
	<u>1,722,913</u>

Total endowments 1,722,913

Total net assets with donor restrictions \$ 4,416,484

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Note 5. Property and Equipment

Property and equipment at December 31, 2018 is summarized below. Depreciation and amortization expense for 2018 was \$437,177. As of December 31, 2018, \$1,864,000 of the Organization's land and improvements was board designated for the endowment and included in net assets without donor restrictions. See Note 14 for more information on the endowment:

Automobiles	\$ 9,900
Building and improvements	7,606,841
Computer equipment and software	1,011,139
General equipment	1,680,764
Land and improvements	<u>787,259</u>
	11,095,903
Less accumulated depreciation	<u>4,174,270</u>
Net property and equipment	<u><u>\$ 6,921,633</u></u>

Note 6. Investments

Investments are presented in the consolidated financial statements at their fair value and are summarized below at December 31, 2018:

	<u>Cost</u>	<u>Market</u>
Split interest agreements:		
Corporate bond funds	\$ 987,816	\$ 982,896
Stocks and mutual funds	511,724	582,443
Money market funds	65,963	65,963
Commodities index funds	<u>73,637</u>	<u>59,322</u>
Total split interest agreements	<u>1,639,140</u>	<u>1,690,624</u>
Cash and securities:		
Corporate bond funds	1,318,369	1,308,044
Stocks and mutual funds	<u>2,050,121</u>	<u>2,148,225</u>
Total cash and securities	<u>3,368,490</u>	<u>3,456,269</u>
Total investments	<u><u>\$ 5,007,630</u></u>	<u><u>\$ 5,146,893</u></u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Investments (Continued)

Fair value is determined using different valuation inputs. Pursuant to FASB ASC Topic 820, the levels of valuation hierarchy are as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Unobservable inputs where fair value is based on estimates using the best information available.

As of December 31, 2018, assets measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Total
Corporate bond funds	\$ 2,290,940	\$ -	\$ 2,290,940
Stocks and mutual funds	2,730,668	-	2,730,668
Commodities index funds	59,322	-	59,322
Money market funds	65,963	-	65,963
Total	<u>\$ 5,146,893</u>	<u>\$ -</u>	<u>\$ 5,146,893</u>

Note 7. Intangibles

Intangible assets for the Organization at December 31, 2018 are summarized below. Management reviews intangible assets for potential impairment annually. No impairments were identified by management for 2018.

Description	Term	Expiration	Cost	Impairment to Date	Net Book Value
Domain name	indefinite	N/A	\$ 80,405	\$ -	\$ 80,405
			<u>\$ 80,405</u>	<u>\$ -</u>	<u>\$ 80,405</u>

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Note 8. Operating Leases

The Organization leases office equipment under several operating leases expiring at various dates through October 2020. Equipment rental expense attributable to these operating leases in 2018 was \$72,363.

Minimum future annual rent commitments under these agreements for the next three years are:

Year	Amount
2019	\$ 69,693
2020	52,270
	<u>\$ 121,963</u>

Note 9. Capital Lease

The Organization acquired a phone system under a capital lease expiring in September 2021. The equipment had an original cost of \$74,315, which has been recorded in property and equipment. The amortization of the cost of this equipment is included in depreciation and amortization expense.

Total future lease payments under the lease are as follows:

Year	Amount
2019	\$ 18,094
2020	18,094
2021	13,127
Less amount representing interest	<u>(4,800)</u>
Present value of minimum lease payments	<u>\$ 44,515</u>

Note 10. Employee Benefit Plan

The Organization offers a defined contribution benefit plan available to all qualifying employees. Employees are not required to complete any number of hours of service to receive credit for eligibility to the plan. Discretionary employer based contributions are permitted in accordance with the plan document. The Organization did not contribute to the plan in the year ended December 31, 2018.

Note 11. Concentration of Credit Risk

At December 31, 2018, and at various times during the year, the Organization had on deposit with a single financial institution more than \$250,000, which is the limit currently insured by the Federal Deposit Insurance Corporation.

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Note 12. Line of Credit

The Organization has a \$500,000 line of credit with Branch Banking and Trust Company (BB&T or the Bank). The line is secured by specified real property and improvements of the Organization and bears interest at the Bank's prime rate (5.25% at December 31, 2018). At December 31, 2018 there was an outstanding balance of \$500,000. The line of credit matures on November 5, 2019.

Note 13. Note Payable

In May 2016, the Organization took out a loan of \$2,375,831, consolidating previous loans from the renovations, at a fixed rate. The loan is payable in 60 consecutive monthly installments of \$18,365 based on a 15 year amortization of principal and bears a fixed interest at 4.59%. The loan matures May 5, 2021. The loan is collateralized by real property, improvements and equipment owned by the Organization. The loan contains certain financial covenants.

Note payable and related current maturities consist of the following as of December 31, 2018:

Note payable	\$ 2,071,296
Less current maturities	<u>126,492</u>
	<u><u>\$ 1,944,804</u></u>

Future aggregate maturities required on principal are as follows:

Year	Amount
2019	\$ 126,492
2020	132,252
2021	<u>1,812,552</u>
	<u><u>\$ 2,071,296</u></u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Endowment

FASB ASC 958-205-55 which, among other things, provides guidance on 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) and additional disclosures about an organization's endowment funds. The Commonwealth of Virginia adopted UPMIFA on July 1, 2008. The following disclosures are made as required by FASB ASC 958-205-55.

The Organization's endowment consists of various individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of the Organization has interpreted the UPMIFA as requiring the preservation of the historic 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 Organization classifies as perpetual net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 is included in accumulated investment gains and classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (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 Organization
- (7) The investment policies of the Organization

As of December 31, 2018, the Board of Trustees had designated \$3,021,633 of net assets without donor restrictions as a general endowment fund to specifically support general operations, expenses, outreach, and staffing, essentially those infrastructure costs that are not directly supported by sales, fundraising, fees and general contributions. Since that amount resulted from an internal designation and is not donor-restricted, it is classified as net assets without donor restrictions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Endowment (Continued)

The Organization has a spending policy of appropriating for distribution each year 5% of its endowment fund's market value as of June 30 of the previous year. In establishing this policy, the Organization considered the long-term expected investment return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its general endowment fund to grow at an average of 9% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the fund if possible. Accordingly, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount. 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.

As of December 31, 2018 the endowment net asset composition by type of fund was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,021,633	\$ -	\$ 3,021,633
Donor-restricted endowment funds			
Original donor restricted gift amounts to be maintained in perpetuity	-	1,693,002	1,693,002
Unappropriated earnings	-	29,911	29,911
	<u>\$ 3,021,633</u>	<u>\$ 1,722,913</u>	<u>\$ 4,744,546</u>

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,274,155	\$ 1,759,377	\$ 5,033,532
Investment income	201,048	101,798	302,846
Contributions	25,000	131,805	156,805
Unrealized net appreciation (depreciation)	(309,081)	(207,176)	(516,257)
Amounts appropriated for expenditure	(169,489)	(62,891)	(232,380)
Endowment net assets, end of year	<u>\$ 3,021,633</u>	<u>\$ 1,722,913</u>	<u>\$ 4,744,546</u>

Note 15. Related Party Transactions

The Organization is affiliated with other independently controlled nonprofit organizations that promote its missions in various locations throughout the United States. These organizations, referred to as “Regions,” are similarly exempt from income taxes as a group under Section 501(c)(3) of the Internal Revenue Code. The financial information for these Regions are not included in these consolidated financial statements, thus the activity has not been eliminated.

Note 16. Subsequent Events

The Organization has evaluated all events subsequent to December 31, 2018 through May 1, 2019, which is the date these consolidated financial statements were available to be issued. Management has determined that there are no subsequent events that are required to be disclosed pursuant to the FASB ASC.

CONSOLIDATING SUPPLEMENTAL INFORMATION

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
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**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2018 with Comparative Totals for December 31, 2017**

	A.R.E.	E.C.F.	A.U.	Eliminations	Consolidated	
					2018	2017
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 1,312,977	\$ 167,897	\$ 100,369	\$ -	\$ 1,581,243	\$ 1,580,253
Trade accounts receivable, net of allowance	739,161	-	41,494	-	780,655	265,933
Contributions and bequests receivable, net	387,892	-	-	-	387,892	28,641
Inventory, net of allowance	337,288	-	-	-	337,288	337,678
Prepaid expenses	203,946	469	6,000	-	210,415	246,508
Due from affiliates	226,930	-	-	(226,930)	-	-
Total current assets	3,208,194	168,366	147,863	(226,930)	3,297,493	2,459,013
Net Property and Equipment	6,898,191	23,442	-	-	6,921,633	7,181,349
Investments						
Split interest agreements	1,690,624	-	-	-	1,690,624	2,228,130
Cash and securities	3,093,351	-	362,918	-	3,456,269	3,627,735
Total investments	4,783,975	-	362,918	-	5,146,893	5,855,865
Other Assets						
Donated assets						
Real estate	890,709	-	-	-	890,709	890,709
Other	104,275	44,100	-	-	148,375	101,426
Intangibles	80,405	-	-	-	80,405	80,405
Total other assets	1,075,389	44,100	-	-	1,119,489	1,072,540
Total assets	\$ 15,965,749	\$ 235,908	\$ 510,781	\$ (226,930)	\$ 16,485,508	\$ 16,568,767
LIABILITIES AND NET ASSETS						
Current Liabilities						
Current portion of note payable	\$ 126,492	\$ -	\$ -	\$ -	\$ 126,492	\$ 120,752
Current portion of split interest agreements payable	196,205	-	-	-	196,205	180,000
Current portion of capital lease obligation	18,094	-	-	-	18,094	18,094
Line of credit	500,000	-	-	-	500,000	250,000
Accounts payable, trade	162,258	-	-	-	162,258	209,813
Accrued salaries, wages and employee benefits	138,456	-	9,402	-	147,858	127,126
Deferred income	1,072,871	-	70,260	-	1,143,131	343,589
Due to affiliate	-	6,379	220,551	(226,930)	-	-
Other current liabilities	76,062	-	-	-	76,062	71,616
Total current liabilities	2,290,438	6,379	300,213	(226,930)	2,370,100	1,320,990
Long-Term Liabilities, net of current portions						
Deferred income	679,674	-	-	-	679,674	672,741
Note payable	1,944,804	-	-	-	1,944,804	2,071,465
Capital lease obligation	26,421	-	-	-	26,421	39,888
Split interest agreements payable	1,019,788	-	-	-	1,019,788	1,288,767
Total long-term liabilities	3,670,687	-	-	-	3,670,687	4,072,861
Total liabilities	5,961,125	6,379	300,213	(226,930)	6,040,787	5,393,851
Net Assets						
Without donor restrictions	6,000,346	31,279	(3,388)	-	6,028,237	6,543,847
With donor restrictions	4,004,278	198,250	213,956	-	4,416,484	4,631,069
Total net assets	10,004,624	229,529	210,568	-	10,444,721	11,174,916
Total liabilities and net assets	\$ 15,965,749	\$ 235,908	\$ 510,781	\$ (226,930)	\$ 16,485,508	\$ 16,568,767

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
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**CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended December 31, 2018 with Comparative Totals for the Year Ended
December 31, 2017**

	A.R.E.	E.C.F.	A.U.	Eliminations	Consolidated	
					2018	2017
Revenues, Gains and Other Support						
Sales	\$ 930,700	\$ -	\$ -	\$ -	\$ 930,700	\$ 993,694
Cost of sales	373,905	-	-	(1,022)	372,883	398,339
Gross profit from sales	556,795	-	-	1,022	557,817	595,355
Contributions						
Contributions, without donor restrictions	1,381,120	8,024	17,016	-	1,406,160	1,457,202
Contributions, with donor restrictions	291,905	20,575	90,779	-	403,259	555,620
Bequests, without donor restrictions	874,653	-	-	-	874,653	247,313
Noncash, contributions without donor restrictions	35,999	-	-	-	35,999	706,293
Noncash, contributions with donor restrictions	-	44,100	-	-	44,100	103,558
Change in value of split-interest agreements						
With donor restrictions	(6,933)	-	-	-	(6,933)	(2,230)
Dues						
Life membership	163,456	-	-	-	163,456	212,385
Other categories	708,205	-	-	-	708,205	697,875
Fees for services						
Conference fees	758,621	-	-	-	758,621	656,897
Health services fees	838,665	-	-	-	838,665	856,135
Tour fees	378,695	-	-	-	378,695	611,399
All other fees for services	218,753	-	-	-	218,753	221,293
Loss on sale of property and equipment	-	-	-	-	-	(22,066)
Gains on sale of other assets	32	-	-	-	32	19,901
Investment income (loss)						
Dividends and interest, without donor restrictions	68,889	-	10,472	-	79,361	39,387
Dividends and interest, with donor restrictions	88,445	-	4,270	-	92,715	26,480
Gains on investments						
Realized, without donor restrictions	136,322	-	16,284	-	152,606	69,389
Realized, with donor restrictions	75,310	-	1,886	-	77,196	56,151
Unrealized, without donor restrictions	(306,690)	-	(42,448)	-	(349,138)	207,184
Unrealized, with donor restrictions	(374,574)	-	(8,287)	-	(382,861)	260,726
Rental income	41,700	-	-	-	41,700	52,005
Other income	73,394	1,362	13,691	-	88,447	56,190
Postage and handling	8,955	-	-	-	8,955	10,304
Royalty income	31,378	1,022	-	(1,022)	31,378	27,608
Tuition	563,730	-	346,298	-	910,028	818,631
Total revenues, gains and other support	6,606,825	75,083	449,961	-	7,131,869	8,540,985
Program services	6,456,846	50,499	376,131	-	6,883,476	7,111,504
Support services	540,697	-	16,228	-	556,925	358,464
Fund raising	413,549	-	8,114	-	421,663	508,200
Total expenses	7,411,092	50,499	400,473	-	7,862,064	7,978,168
Changes in Net Assets	(804,267)	24,584	49,488	-	(730,195)	562,817
Net Assets, beginning of year	10,808,891	204,945	161,080	-	11,174,916	10,612,099
Net Assets, end of year	\$ 10,004,624	\$ 229,529	\$ 210,568	\$ -	\$ 10,444,721	\$ 11,174,916
Change in Net Assets Accounted for as Follows:						
Without donor restrictions	\$ (539,757)	\$ 20,175	\$ 3,972	\$ -	\$ (515,610)	\$ 133,706
With donor restrictions	(264,510)	4,409	45,516	-	(214,585)	429,111
Change in net assets	\$ (804,267)	\$ 24,584	\$ 49,488	\$ -	\$ (730,195)	\$ 562,817

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2018 with Comparative Totals for the Year Ended
December 31, 2017**

	A.R.E.	E.C.F.	A.U.	Eliminations	Consolidated	
					2017	2016
Cash Flows From Operating Activities						
Change in net assets	\$ (804,267)	\$ 24,584	\$ 49,488	\$ -	\$ (730,195)	\$ 562,817
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities						
Realized and unrealized (gains) losses						
on investments	469,632	-	32,565	-	502,197	(593,450)
Dividends and interest reinvested	(157,334)	-	(14,742)	-	(172,076)	(65,867)
Depreciation and amortization	436,255	922	-	-	437,177	443,960
Contributions restricted for property and equipment and other long-term purposes	(121,805)	-	(10,000)	-	(131,805)	(292,198)
Non-cash contributions						
Fair market value when received	(37,069)	(44,100)	-	-	(81,169)	(783,962)
Cash proceeds from sales	34,251	-	-	-	34,251	775,626
Uncollectible accounts (recoveries)	(1,149)	-	(75)	-	(1,224)	-
Provision for pledge discount	-	-	-	-	-	(2,201)
Loss on sale of property and equipment	-	-	-	-	-	22,066
Gains on sale of other assets	(31)	-	-	-	(31)	(19,901)
Provision for inventory obsolescence	2,530	-	-	-	2,530	1,500
(Increase) decrease in operating assets						
Trade accounts receivable	(512,627)	-	(871)	-	(513,498)	43,548
Contributions and bequests receivable	(366,751)	7,500	-	-	(359,251)	59,557
Inventory	(2,140)	-	-	-	(2,140)	(15,952)
Prepaid expenses	41,818	275	(6,000)	-	36,093	(61,171)
Due from affiliate	32,657	-	-	(32,657)	-	2,859
Increase (decrease) in operating liabilities						
Accounts payable	(47,555)	-	-	-	(47,555)	(32,825)
Accrued salaries, wages and employee benefits	18,746	-	1,986	-	20,732	12,446
Deferred income	799,455	-	7,020	-	806,475	(63,895)
Due to affiliate	-	6,379	(39,036)	32,657	-	-
Split interest agreements payable	(252,774)	-	-	-	(252,774)	(227,973)
Other current liabilities	4,446	-	-	-	4,446	33,639
Net cash provided by (used in) operating activities	(463,712)	(4,440)	20,335	-	(447,817)	(201,377)
Cash Flows From Investing Activities						
Net proceeds (purchases) of investments	404,369	-	(25,550)	-	378,819	(212,291)
Proceeds from sale of assets	32	-	-	-	32	1,106,541
Purchases of property and equipment	(153,097)	(24,364)	-	-	(177,461)	(370,812)
Net cash provided by (used in) investing activities	251,304	(24,364)	(25,550)	-	201,390	523,438

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2018 with Comparative Totals for the Year Ended
December 31, 2017**

	A.R.E.	E.C.F.	A.U.	Eliminations	Consolidated	
					2018	2017
Cash Flows From Financing Activities						
Repayments on note payable	\$ (120,921)	\$ -	\$ -	\$ -	\$ (120,921)	\$ (115,433)
Collection of contributions restricted for property and equipment and other long-term purposes	121,805	-	10,000	-	131,805	282,948
Principal payments on capital lease obligations	(13,467)	-	-	-	(13,467)	(13,281)
Net proceeds (repayment) of line of credit	250,000	-	-	-	250,000	(250,000)
Net cash provided by (used in) financing activities	237,417	-	10,000	-	247,417	(95,766)
Net increase (decrease) in cash and cash equivalents	25,009	(28,804)	4,785	-	990	226,295
Cash and Cash Equivalents, beginning of year	1,287,968	196,701	95,584	-	1,580,253	1,353,958
Cash and Cash Equivalents, end of year	\$ 1,312,977	\$ 167,897	\$ 100,369	\$ -	\$ 1,581,243	\$ 1,580,253
Supplemental Disclosure of Cash Flow Information						
Interest paid	\$ 358,800	\$ -	\$ -	\$ -	\$ 358,800	\$ 360,629

**ASSOCIATION FOR RESEARCH AND ENLIGHTENMENT, INC.
AND AFFILIATES**

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018 with Comparative Totals for the Year Ended December 31, 2017

	A.R.E.				E.C.F.	A.U.				Consolidated		
	Program	Support	Fund	A.R.E.		Program	Support	Fund	A.U.	Eliminations	2018	2017
	Services	Services	Raising	Total		Services	Services	Raising	Total			
Advertising and prom	\$ 108,691	\$ 15	\$ 2,775	\$ 111,481	\$ 220	\$ 35,205	\$ -	\$ -	\$ 35,205	\$ -	\$ 146,906	\$ 135,776
Bank fees	119,739	-	6,346	126,085	-	1,243	-	-	1,243	-	127,328	125,800
Board expenses	-	10,553	-	10,553	-	-	-	-	-	-	10,553	8,767
Books and tapes	65,660	-	844	66,504	-	-	-	-	-	-	66,504	47,061
Contracted services	914,604	33,173	13,152	960,929	-	122,157	-	-	122,157	-	1,083,086	1,035,252
Copyright expense	-	-	-	-	275	-	-	-	-	-	275	330
Cost of obsolescence	5,898	-	-	5,898	-	-	-	-	-	-	5,898	-
Curriculum development	-	-	-	-	-	3,900	-	-	3,900	-	3,900	2,600
Damaged goods expense	3,899	-	-	3,899	-	-	-	-	-	-	3,899	5,452
Depreciation and amortization	388,267	21,813	26,175	436,255	922	-	-	-	-	-	437,177	443,960
Dues and subscriptions	21,006	7,757	-	28,763	-	-	-	-	-	-	28,763	25,011
Employee training	8,469	1,351	805	10,625	-	14,470	-	-	14,470	-	25,095	17,553
Employee recreation and welfare	6,479	1,900	-	8,379	-	-	-	-	-	-	8,379	8,207
Equipment rental	71,762	-	-	71,762	-	601	-	-	601	-	72,363	85,597
External storage	15,690	551	-	16,241	1,604	(34)	-	-	(34)	-	17,811	28,986
General insurance	222,200	11,331	13,597	247,128	-	-	-	-	-	-	247,128	265,530
Graduation expense	1,287	-	-	1,287	-	217	-	-	217	-	1,504	1,349
Health insurance	197,327	33,690	9,625	240,642	-	-	-	-	-	-	240,642	274,867
Interest expense	358,263	1,602	-	359,865	-	-	-	-	-	-	359,865	374,450
Licenses and fees	39,464	61	244	39,769	-	7,784	-	-	7,784	-	47,553	76,010
Mail service	61,707	-	21,129	82,836	-	-	-	-	-	-	82,836	70,002
Materials	8,598	-	-	8,598	-	-	-	-	-	-	8,598	8,773
Miscellaneous expense	1,264	237	-	1,501	-	86	-	-	86	-	1,587	4,090
Office supplies	170,709	7,943	3,771	182,423	164	684	-	-	684	-	183,271	163,252
Organizational giving	1,335	-	-	1,335	-	-	-	-	-	-	1,335	1,762
Payroll services	19,849	8,507	-	28,356	-	4,622	-	-	4,622	-	32,978	52,177
Payroll taxes	182,224	21,642	12,872	216,738	2,971	13,199	1,202	601	15,002	-	234,711	228,201
Postage	200,755	-	25,642	226,397	-	838	-	-	838	-	227,235	207,719
Preservation expense	-	-	-	-	8,746	-	-	-	-	-	8,746	24,566
Printing	93,019	-	1,587	94,606	-	183	-	-	183	-	94,789	48,063
Professional services	48,322	12,130	-	60,452	-	19	-	-	19	-	60,471	67,386
Program expense	483,746	2	95,326	579,074	13	7,521	-	-	7,521	-	586,608	770,856
Repairs and maintenance	133,417	50,994	1,827	186,238	-	-	-	-	-	-	186,238	212,721
Salaries	2,306,747	275,671	164,859	2,747,277	34,817	161,669	15,026	7,513	184,208	-	2,966,302	2,889,859
Telephone expense	38,705	7,343	-	46,048	-	-	-	-	-	-	46,048	51,235
Travel and entertainment	81,878	1,592	13,134	96,604	767	1,842	-	-	1,842	-	99,213	97,491
Uncollectible accounts (recoveries)	(988)	-	(161)	(1,149)	-	(75)	-	-	(75)	-	(1,224)	102
Utilities and fuel	76,854	30,839	-	107,693	-	-	-	-	-	-	107,693	117,355
Total expenses	\$ 6,456,846	\$ 540,697	\$ 413,549	\$ 7,411,092	\$ 50,499	\$ 376,131	\$ 16,228	\$ 8,114	\$ 400,473	\$ -	\$ 7,862,064	\$ 7,978,168



INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Association for Research and Enlightenment, Inc. and Affiliates
Virginia Beach, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Association for Research and Enlightenment, Inc. and Affiliates (the “Organization”) which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 1, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Norfolk, Virginia
May 1, 2019