

FREEDOM HOUSE, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2018
AND
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Freedom House, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Freedom House, Inc. (a nonprofit organization), which comprise the balance sheet as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freedom House, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on the Summarized Comparative Information

We have previously audited Freedom House, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 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 October 19, 2018, on our consideration of Freedom House, Inc.'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 Freedom House, Inc.'s internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Rubins & Company". The signature is written in a cursive, flowing style.

Bethesda, MD
October 19, 2018

FREEDOM HOUSE, INC.
BALANCE SHEET
June 30, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents - headquarters	\$ 1,551,588	\$ 1,278,584
Cash - overseas	<u>305,845</u>	<u>74,212</u>
	1,857,433	1,352,796
Investments	3,229,879	3,137,731
Due from U.S. Government	1,851,849	2,635,111
Due from Non-USG funders	1,527	33,005
Promises to give, net	1,494,914	340,000
Prepaid expenses and other assets	330,755	569,418
Property and equipment, net	16,695	25,387
Security deposits	<u>470,441</u>	<u>482,128</u>
Total assets	<u>\$ 9,253,493</u>	<u>\$ 8,575,576</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 964,842	\$ 1,286,391
Grants payable	1,693,352	1,546,241
Payable to partners	719,708	609,168
Refundable advances - Non-USG funders	49,996	85,879
Deferred rent	<u>1,115,115</u>	<u>1,137,350</u>
Total liabilities	4,543,013	4,665,029
Net assets		
Unrestricted	624,838	971,193
Temporarily restricted	2,085,642	939,354
Permanently restricted	<u>2,000,000</u>	<u>2,000,000</u>
Total net assets	<u>4,710,480</u>	<u>3,910,547</u>
Total liabilities and net assets	<u>\$ 9,253,493</u>	<u>\$ 8,575,576</u>

The accompanying notes are an integral part of these financial statements.

FREEDOM HOUSE, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018				2017
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Support and revenue					
Federal grants	\$ 35,206,375	\$ -	\$ -	\$ 35,206,375	\$ 29,502,776
International public agencies	787,858	243,526	-	1,031,384	1,494,980
Corporations and foundations	1,238,213	1,417,533	-	2,655,746	1,277,240
Individual contributions	702,163	462,698	-	1,164,861	476,105
Investment income	99,612	21,813	-	121,425	128,005
Other income	221	-	-	221	37,874
Net assets released from restrictions	<u>999,282</u>	<u>(999,282)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>39,033,724</u>	<u>1,146,288</u>	<u>-</u>	<u>40,180,012</u>	<u>32,916,980</u>
Expenses					
Program services	38,372,182	-	-	38,372,182	32,647,511
Supporting services					
Fundraising	1,070,775	-	-	1,070,775	735,013
Unallocated indirect costs	<u>(62,878)</u>	<u>-</u>	<u>-</u>	<u>(62,878)</u>	<u>109,840</u>
Total expenses	<u>39,380,079</u>	<u>-</u>	<u>-</u>	<u>39,380,079</u>	<u>33,492,364</u>
Change in net assets	(346,355)	1,146,288	-	799,933	(575,384)
Net assets, beginning of year	<u>971,193</u>	<u>939,354</u>	<u>2,000,000</u>	<u>3,910,547</u>	<u>4,485,931</u>
Net assets, end of year	<u>\$ 624,838</u>	<u>\$ 2,085,642</u>	<u>\$ 2,000,000</u>	<u>\$ 4,710,480</u>	<u>\$ 3,910,547</u>

The accompanying notes are an integral part of these financial statements.

FREEDOM HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018									
	Program Services			Total Program	Supporting Services			Total Supporting Services	Total Expenses	2017 Total
	Action	Advocacy	Analysis		Fundraising	Indirect Costs				
Personnel and benefits	\$ 7,160,074	\$ 124,839	\$ 1,301,026	\$ 8,585,939	\$ 400,253	\$ 3,146,396	\$ 3,546,649	\$ 12,132,588	\$ 11,662,211	
Subgrants	4,298,213	-	-	4,298,213	-	-	-	4,298,213	4,808,520	
Consultants	3,234,212	28,651	776,987	4,039,850	234,386	18,613	252,999	4,292,849	4,238,655	
Emergency assistance	4,190,180	-	-	4,190,180	-	-	-	4,190,180	2,892,491	
Travel and per diem	1,749,078	27,868	171,462	1,948,408	17,808	185,929	203,737	2,152,145	1,762,374	
Rent	168,164	4,164	-	172,328	-	1,235,832	1,235,832	1,408,160	1,622,601	
Professional fees	44,515	2,012	327	46,854	34,687	964,640	999,327	1,046,181	650,267	
Other direct costs	484,577	640	12,747	497,964	13,983	269,980	283,963	781,927	435,180	
Furniture and equipment	85,244	-	460	85,704	3,835	115,336	119,171	204,875	210,810	
Conferences, workshops and seminars	340,070	7,554	18,498	366,122	140,585	22,622	163,207	529,329	327,732	
Communications	72,926	1,058	1,593	75,577	867	84,833	85,700	161,277	149,389	
Utilities	33,194	1,728	-	34,922	-	113,415	113,415	148,337	160,020	
Printing and publications	51,042	354	22,749	74,145	230	24,144	24,374	98,519	83,707	
Supplies	47,576	1,033	218	48,827	975	45,944	46,919	95,746	85,123	
Depreciation	-	-	-	-	-	3,953	3,953	3,953	35,626	
Postage and delivery	5,270	73	959	6,302	10,653	2,886	13,539	19,841	21,356	
Staff training	3,786	-	-	3,786	-	8,632	8,632	12,418	24,139	
Unallowable	22,331	-	-	22,331	961	(62,878)	(61,917)	(39,586)	-	
	21,990,452	199,974	2,307,026	24,497,452	859,223	6,180,277	7,039,500	31,536,952	29,170,200	
Partners expense	7,591,466	-	251,661	7,843,127	-	-	-	7,843,127	4,322,164	
	29,581,918	199,974	2,558,687	32,340,579	859,223	6,180,277	7,039,500	39,380,079	33,492,364	
Allocation of indirect costs	5,414,345	49,237	568,021	6,031,603	211,552	(6,243,155)	(6,031,603)	-	-	
Total expenses	\$ 34,996,263	\$ 249,211	\$ 3,126,708	\$ 38,372,182	\$ 1,070,775	\$ (62,878)	\$ 1,007,897	\$ 39,380,079	\$ 33,492,364	

The accompanying notes are an integral part of these financial statements.

FREEDOM HOUSE, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Changes in net assets	\$ 799,933	\$ (575,384)
Reconciling adjustments:		
Depreciation and amortization	25,387	35,626
Stock donations	(58,088)	(48,907)
Net realized and unrealized gains on investments	(50,373)	(88,635)
Deferred rent	(22,235)	21,507
Changes in operating assets and liabilities		
Cash advances to partners	-	120,114
Due from U.S. Government	783,262	157,041
Due from Non-USG funders	31,478	91,681
Promises to give, net	(1,154,914)	7,691
Prepaid expenses and other assets	238,663	(78,421)
Security deposits	11,687	-
Accounts payable and accrued expenses	(321,549)	328,919
Grants payable	147,111	25,620
Payable to partners	110,540	441,457
Refundable advances - Non-USG funders	(35,883)	(656,681)
Net cash provided (used) by operating activities	<u>505,019</u>	<u>(218,372)</u>
Cash flows from investing activities		
Additions to fixed assets	(16,695)	-
Purchases of investments	(41,965)	(36,738)
Proceeds from sales of investments	58,278	149,225
Net cash (used) provided by investing activities	<u>(382)</u>	<u>112,487</u>
Net increase (decrease) in cash and cash equivalents	504,637	(105,885)
Cash and cash equivalents, beginning of year	<u>1,352,796</u>	<u>1,458,681</u>
Cash and cash equivalents, end of year	<u>\$ 1,857,433</u>	<u>\$ 1,352,796</u>

The accompanying notes are an integral part of these financial statements.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

1. Organization

Freedom House, Inc. (the Organization) is a nonprofit, non-stock corporation incorporated in the state of New York. The Organization is a non-partisan organization that promotes democracy and human rights throughout the world. Established in 1941 by Eleanor Roosevelt and Wendell Willkie, the Organization was founded to strengthen democratic institutions at home and abroad. The Organization has its headquarters office in Washington, D.C. and research operations in New York City. In addition, it maintains approximately a dozen field offices throughout the world depending on the needs of the programs it administers; such offices may be located in the regions of Eastern Europe, Eurasia, Africa, the Middle East, Asia, and Latin America.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all investments purchased with a maturity of three months or less to be cash equivalents. All cash and investments, regardless of maturity, held by the investment advisor are considered investments.

Financial Risk

The Organization maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash.

The Organization invests in certificates of deposit, money market funds, equity securities of publicly traded companies, mutual funds, exchange traded funds, and corporate bonds. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the financial statements.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

2. Summary of Significant Accounting Policies (continued)

Investments

Investments consist of certificates of deposit, money market funds, equity securities of publicly traded companies, mutual funds, exchange traded funds, and corporate bonds which are reflected at fair market value. To adjust the carrying value of investments, the change in fair market value is included as a component of investment income in the statement of activities.

Promises to Give

Promises to give are carried at the original amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Promises to give are written off when deemed uncollectible. There was no provision for doubtful accounts at June 30, 2018. Promises to give to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. The discount on promises to give at June 30, 2018 was \$65,319.

Furniture and Equipment

Furniture and equipment purchases are capitalized at cost and depreciated on a straight-line basis over their estimated lives. The Organization capitalizes all furniture and equipment purchased with a cost of \$5,000 or more.

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets by reviewing such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

2. Summary of Significant Accounting Policies (continued)

Grants Payables

Grants payables are accrued at the time the subgrant is awarded. A subgrant is generally a grant to an organization abroad that uses the funds to further the Organization's objectives under a grant.

Partner Advances/Payables

The Organization is the lead partner in a Consortium for several grants and works with other partners to perform programmatic activities. The funds provided to these partners are either on an expense reimbursement or advance basis. Cash payments made to partners in excess of expenses incurred are shown as an advance to partners on the balance sheet. Expenses incurred by the partners in excess of cash received are shown as payable to partners on the balance sheet.

Grants

The Organization receives grants from federal agencies and private grantors for various purposes. Receivables related to grants and contract awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant or contract. The Organization defers grant payments received under approved awards from grantors to the extent they exceed expenses incurred for the purposes specified under the grant conditions. These deferred grants are recorded as refundable advances.

Support and Revenue

Support from international public agencies, as well as contributions received and promises to give, are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Expense Allocation

Program and supporting services have been presented on a functional basis in the statement of activities. Certain overhead costs have been allocated among programs and support services based on the functions they directly benefit or upon management's estimates of the proportion of expenses applicable to each function.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation.

Management has evaluated the Organization's tax positions and has concluded that the Organization has taken no uncertain tax positions that require disclosure. The Organization files tax returns in the U.S. federal and District of Columbia jurisdictions. Generally, the Organization is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2015.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through October 19, 2018, the date which the financial statements were available to be issued.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

3. Investments

Investments are presented in the financial statements at fair market value. Investments at June 30, 2018, are held in brokerage accounts and are comprised of the following:

Certificates of deposit	\$ 2,129,343
Equities	608,335
Mutual funds	181,976
Corporate bonds	238,528
Cash and accrued interest	61,660
Money market funds	6,532
Exchange traded funds	<u>3,505</u>
	<u>\$ 3,229,879</u>

Investment income for the year ended June 30, 2018, consisted of the following:

Interest and dividends	\$ 71,052
Realized and unrealized gain on investments	<u>50,373</u>
Investment return, net	<u>\$ 121,425</u>

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

- Level 1 Quoted market prices in active markets for identical assets or liabilities
- Level 2 Observable market-based inputs or unobservable inputs corroborated by market data
- Level 3 Unobservable inputs not corroborated by market data

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to fair value measurement. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

4. Fair Value Measurements (continued)

The following table represents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 2,129,343	\$ -	\$ 2,129,343
Equities	608,335	-	-	608,335
Exchange traded funds	3,505	-	-	3,505
Mutual funds	181,976	-	-	181,976
Corporate bonds	-	238,528	-	238,528
Money market funds	6,532	-	-	6,532
	<u>\$ 800,348</u>	<u>\$ 2,367,871</u>	<u>\$ -</u>	<u>3,168,219</u>
Cash and accrued interest				61,660
				<u>\$ 3,229,879</u>

Equities, money market funds, ETFs, and mutual funds included in Level 1 assets are actively traded, and fair market values for identical assets are readily obtainable.

Certificates of deposit and corporate bonds are included in Level 2 assets as identical assets are not actively traded. The fair market values are based on quoted prices for similar assets in active markets or quoted prices for identical assets in markets that are not active.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported as of the end of the reporting period. For the year ended June 30, 2018, there were no significant transfers in or out of levels 1, 2 or 3.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

5. Promises to Give

Unconditional promises to give expected to be collected more than one year from the date of the promise are discounted to present value using a risk-free rate of return, which is currently the ten-year Treasury Rate, at the time the unconditional promise is received. The discount rate for 2018 was 2.85%.

Unconditional promises to give consist of the following at June 30, 2018:

Less than one year	\$	790,233
1-5 years		<u>770,000</u>
Gross		1,560,233
Less: Unamortized discount		<u>(65,319)</u>
Net	\$	<u><u>1,494,914</u></u>

6. Furniture and Equipment

Furniture and equipment and accumulated depreciation as of June 30, 2018, and depreciation expense for the years then ended, are as follows:

	Estimated		Accumulated			
	<u>Lives</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>	<u>Depreciation</u>	
Furniture and fixtures	5-10 years	\$ 28,663	\$ 28,663	\$ -	\$ 2,389	
Leasehold improvements	5-10 years	9,383	9,383	-	22,998	
Software	7 years	<u>16,695</u>	<u>-</u>	<u>16,695</u>	<u>-</u>	
		<u>\$ 54,741</u>	<u>\$ 38,046</u>	<u>\$16,695</u>	<u>\$ 25,387</u>	

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

7. Temporarily Restricted Net Assets

Temporarily restricted net assets activity for the year ended June 30, 2018, is as follows:

	Balance			Balance
	June 30, 2017	Additions	Released	June 30, 2018
Purpose restricted				
Achelis and Bodman Foundation	\$ -	\$ 47,500	\$ (20)	\$ 47,480
ASU Foundation	8,500	-	-	8,500
The Democracy Project	-	206,350	(206,350)	-
German Foreign Ministry	-	18,526	(17,884)	642
Freedom of Press	14,524	12,885	(27,409)	-
Freedom on Net	26,609	80,000	(18,427)	88,182
Free Press Unlimited	5	47,583	(24,060)	23,528
Google Net Freedom	176,168	50,000	(129,337)	96,831
Public Private Partnership (PPP)	-	50,000	(20,567)	29,433
Latin America Senior Fellows	74,260	175,000	(39,286)	209,974
Jyllands-Posten Foundation	97,181	19,970	(50,756)	66,395
China Media Bulletin	36,452	-	(27,805)	8,647
Government of the Netherlands	-	225,000	(21,737)	203,263
New York Community Trust	-	238,000	(49,852)	188,148
Iran Restricted	3,853	-	(3,751)	102
Restricted Private Grants	906	-	(34)	872
Press Freedom Survey	21,761	(21,739)	(22)	-
Russia Restricted	43,851	-	-	43,851
Smith Richardson Foundation	200,929	-	(200,357)	572
Whitehead Foundation	22,865	-	(18,718)	4,147
YAHOO	16,852	-	(918)	15,934
Other	4,215	-	-	4,215
Time restricted				
Mark Palmer Forum	67,366	-	(41,992)	25,374
Time restricted pledges (discounted)	-	974,681	-	974,681
Willkie Memorial				
Endowment earnings	123,057	21,813	(100,000)	44,870
	<u>\$ 939,354</u>	<u>\$ 2,145,569</u>	<u>\$ (999,282)</u>	<u>\$ 2,085,641</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

8. Permanently Restricted Net Assets

Management has interpreted the D.C. enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the permanently restricted net assets. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate the earnings of the restricted net assets:

- The duration and preservation of the funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

Investment and spending policies: Endowment funds are invested to provide financial stability and contribute to the long-term growth of the Organization. Investments of the endowment fund should consist of a mixture of money market funds, certificates of deposit, mutual funds, investment-grade commercial paper and government securities. Maximum interest rates should be sought, with the maturity of the investments governed by expected cash needs. The Organization adopted a policy that permits appropriation of earnings from endowment investments to support operations; the annual appropriation is limited to 5% of the average endowment balance.

The Organization's endowment net assets at June 30, 2018, consist of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Willkie memorial trust - donor restricted	\$ 44,870	\$ 2,000,000	\$ 2,044,870

Endowment fund activity for the year ended June 30, 2018, consists of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - June 30, 2017	\$ 123,057	\$ 2,000,000	\$ 2,123,057
Releases	(100,000)	-	(100,000)
Interest and dividends	21,485	-	21,485
Realized and unrealized gain, net	328	-	328
Endowment net assets - June 30, 2018	<u>\$ 44,870</u>	<u>\$ 2,000,000</u>	<u>\$ 2,044,870</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

8. Permanently Restricted Net Assets (continued)

Endowment funds are invested in the following manner as of June 30, 2018:

Certificate of deposit	\$ 2,029,343
Cash and accrued interest	2,207
Mutual funds	<u>13,320</u>
	<u>\$ 2,044,870</u>

Unspent earnings on permanently restricted net assets, net of expenses incurred, totaled \$44,870 at June 30, 2018, and are included in temporarily restricted net assets.

9. Operating Leases

The Organization occupies office space in New York City and Washington, D.C. under non-cancelable operating leases. The Organization signed a lease under a non-cancelable operating lease for office space in Washington D.C. that commenced on December 1, 2014, for a period of 11.5 years. The lease agreement's future minimum rental payments on a straight-line basis produced a deferred rent liability amount of \$1,115,115 at June 30, 2018.

Total future minimum lease payments applicable to the operating lease at June 30, 2018, are approximately as follows:

Year ending June 30, 2019	\$ 1,100,000
2020	1,040,000
2021	1,040,000
2022	1,070,000
2023	1,090,000
2024 and thereafter	<u>3,360,000</u>
Total	<u>\$ 8,700,000</u>

Rent expense applicable to these operating leases for the year ended June 30, 2018, was \$1,198,285.

The Organization leases office space in foreign countries. These leases do not extend for more than one year and the rent expense is not significant to the financial statements.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

10. Pension Plan

The Organization has a qualified defined contribution plan, which covers all full-time employees. Pension benefits are vested over a two-year period. The Organization makes a matching contribution up to 10% of all participants' salaries. Pension expense for the year ended June 30, 2018, was \$491,867.

11. Major Grantor

During the year ended June 30, 2018, the Organization was substantially funded by grants from the U.S. Government. Reduction of funding from the U.S. Government would have a significant impact on the operations of the Organization. U.S. Government grants as a percentage of total revenue are summarized as follows:

	<u>Revenue</u>	<u>% of Total Revenue</u>
U.S. Government Grants	<u>\$ 35,206,355</u>	<u>88%</u>

12. Contingencies

The Organization participates in a number of federally funded grant programs, which are subject to financial and compliance audits by federal agencies or their representatives. Management does not anticipate any significant adjustments as a result of such audits.

In the normal course of operations, Freedom House is periodically involved in litigation, both in the United States and abroad. Management is of the opinion that any liability or loss resulting from such litigation will not have a material adverse effect on the financial position, net assets, or cash flows of Freedom House.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2018

13. Functional Expenses

The presentation of expenses on the statement of activities (and functional expenses) is primarily based on the Organization's indirect cost rate agreement with the U.S. Government. This presentation does not fully satisfy the functional expense requirements of accounting principles generally accepted in the United States of America (U.S. GAAP). The table below has been added to the financial statements in order to satisfy the requirements of U.S. GAAP:

<u>Functions</u>	As Presented on the Statement of Activities	Adjustments to arrive at <u>U.S. GAAP</u>	Functional Expenses Totals <u>(U.S. GAAP Basis)</u>
Program services			
Action	\$ 34,996,263	\$ (4,709,830)	\$ 30,286,433
Advocacy	249,211	(36,953)	212,258
Analysis	<u>3,126,708</u>	<u>(440,007)</u>	<u>2,686,701</u>
	<u>38,372,182</u>	<u>(5,186,790)</u>	<u>33,185,392</u>
Support Services			
Unallocated indirect costs	(62,878)	62,878	-
Management and general	-	5,296,081	5,296,081
Fundraising	<u>1,070,775</u>	<u>(172,169)</u>	<u>898,606</u>
	<u>1,007,897</u>	<u>5,186,790</u>	<u>6,194,687</u>
	<u>\$ 39,380,079</u>	<u>\$ -</u>	<u>\$ 39,380,079</u>

INDEPENDENT AUDITORS' REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
Freedom House, Inc.

We have audited the financial statements of Freedom House, Inc. as of and for the year ended June 30, 2018, and have issued our report thereon dated October 19, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1-2. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary Schedule of Expenditures of International Public Agencies is presented for purposes of additional analysis and are 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 taken as a whole.



October 19, 2018
Bethesda, Maryland

FREEDOM HOUSE, INC.
SCHEDULE OF EXPENDITURES OF INTERNATIONAL PUBLIC AGENCIES
Year Ended June 30, 2018

Funding Source	Contract Number	Program Title	International Agencies Expenditures	Amount Provided to Subrecipients
Canadian International Development Agency				
CIDA	PSOP 16-046	Rapid Response Fund	\$ 534,658	\$ 83,980
		Total Canadian Intl Development Agency	<u>534,658</u>	<u>83,980</u>
The Netherlands Ministry of Foreign Affairs (NMFA)				
NMFA	SAMMMF2531710051 0280	Increasing Women's Economic Empowerment in Jordan	40,611	-
		Total Netherlands Ministry of Foreign Affairs	<u>40,611</u>	<u>-</u>
Norwegian Ministry of Foreign Affairs				
Norway	UKR-14/0018	Incubating Independent Media, Civil Society, and Accountability in Ukraine	217,768	8,127
		Total Norwegian Ministry of Foreign Affairs	<u>217,768</u>	<u>8,127</u>
Total Expenditures of International Public Agencies			<u>\$ 793,037</u>	<u>\$ 92,107</u>