

FREEDOM HOUSE, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2017
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, 2017, 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, 2017, 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.

Report on the Summarized Comparative Information

We have previously audited Freedom House, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 31, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 February 15, 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.

A handwritten signature in cursive script that reads "Rubins & Company". The signature is written in black ink and is positioned above the typed name and date.

Bethesda, MD
February 15, 2018

FREEDOM HOUSE, INC.
BALANCE SHEET
June 30, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents - headquarters	\$ 1,278,584	\$ 1,196,157
Cash - overseas	<u>74,212</u>	<u>262,524</u>
	1,352,796	1,458,681
Investments	3,137,731	3,112,676
Cash advances to partners	-	120,114
Due from U.S. Government	2,635,111	2,792,152
Due from Non-USG funders	33,005	124,686
Promises to give	340,000	347,691
Prepaid expenses and other assets	569,418	490,997
Property and equipment, net	25,387	61,013
Security deposits	<u>482,128</u>	<u>482,128</u>
 Total assets	 <u>\$ 8,575,576</u>	 <u>\$ 8,990,138</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,286,391	\$ 957,472
Grants payable	1,546,241	1,520,621
Payable to partners	609,168	167,711
Refundable advances - Non-USG funders	85,879	742,560
Deferred rent	<u>1,137,350</u>	<u>1,115,843</u>
 Total liabilities	 4,665,029	 4,504,207
Net assets		
Unrestricted	971,193	1,664,931
Temporarily restricted	939,354	821,000
Permanently restricted	<u>2,000,000</u>	<u>2,000,000</u>
 Total net assets	 <u>3,910,547</u>	 <u>4,485,931</u>
 Total liabilities and net assets	 <u>\$ 8,575,576</u>	 <u>\$ 8,990,138</u>

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

FREEDOM HOUSE, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017
(With Comparative Totals for 2016)

	2017				2016
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>	<u>Total</u>
Support and revenue					
Federal grants	\$ 29,502,776	\$ -	\$ -	\$ 29,502,776	\$ 24,813,164
International public agencies	1,474,616	20,364	-	1,494,980	2,266,949
Corporations and foundations	531,161	746,079	-	1,277,240	1,113,262
Individual contributions	457,905	18,200	-	476,105	821,147
Investment (loss) income	113,144	14,861	-	128,005	(3,533)
Other income	37,874	-	-	37,874	5,008
Net assets released from restrictions	<u>681,150</u>	<u>(681,150)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>32,798,626</u>	<u>118,354</u>	<u>-</u>	<u>32,916,980</u>	<u>29,015,997</u>
Expenses					
Program services	32,647,511	-	-	32,647,511	28,768,462
Supporting services					
Fundraising	735,013	-	-	735,013	858,863
Unallocated indirect costs	<u>109,840</u>	<u>-</u>	<u>-</u>	<u>109,840</u>	<u>81,958</u>
Total expenses	<u>33,492,364</u>	<u>-</u>	<u>-</u>	<u>33,492,364</u>	<u>29,709,283</u>
Change in net assets	(693,738)	118,354	-	(575,384)	(693,286)
Net assets, beginning of year	<u>1,664,931</u>	<u>821,000</u>	<u>2,000,000</u>	<u>4,485,931</u>	<u>5,179,217</u>
Net assets, end 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>

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

FREEDOM HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017
(With Comparative Totals for 2016)

	2017								
	Program Services			Total	Supporting Services		Total		2016
	<u>Action</u>	<u>Advocacy</u>	<u>Analysis</u>		<u>Program</u>	<u>Fundraising</u>	<u>Indirect Costs</u>	<u>Supporting Services</u>	
Personnel and benefits	\$ 7,300,424	\$ 134,191	\$ 997,829	\$ 8,432,443	\$ 190,834	\$ 3,038,934	\$ 3,229,768	\$ 11,662,211	\$ 10,957,038
Subgrants	4,808,520	-	-	4,808,520	-	-	-	4,808,520	4,195,419
Consultants	3,330,006	9,245	402,888	3,742,139	240,107	256,410	496,516	4,238,655	3,182,663
Emergency assistance	2,892,491	-	-	2,892,491	-	-	-	2,892,491	2,411,886
Travel and per diem	1,458,067	17,532	88,623	1,564,222	4,837	193,315	198,152	1,762,374	1,694,740
Rent	149,790	7,376	-	157,166	15,294	1,450,142	1,465,436	1,622,601	1,538,271
Professional fees	199,209	1,797	100	201,106	2,711	446,450	449,161	650,267	768,392
Other direct costs	(78,036)	39,257	57,282	18,504	14,885	401,791	416,676	435,180	200,042
Furniture and equipment	74,898	940	6,803	82,641	1,981	126,187	128,169	210,810	129,108
Conferences, workshops and seminars	228,080	3,992	11,332	243,404	84,328	-	84,328	327,732	400,201
Communications	68,957	820	1,588	71,365	77	77,948	78,025	149,389	152,778
Utilities	19,998	304	-	20,302	-	139,717	139,717	160,020	126,017
Printing and publications	8,951	1,422	28,367	38,740	16,717	28,250	44,967	83,707	85,183
Supplies	35,799	521	134	36,455	392	48,276	48,668	85,123	84,179
Depreciation	26,071	-	-	26,071	-	9,554	9,554	35,626	36,210
Postage and delivery	5,010	119	283	5,412	8,000	7,945	15,944	21,356	14,150
Staff training	2,951	-	-	2,951	-	21,188	21,188	24,139	14,341
	<u>20,531,186</u>	<u>217,516</u>	<u>1,595,229</u>	<u>22,343,931</u>	<u>580,162</u>	<u>6,246,107</u>	<u>6,826,269</u>	<u>29,170,200</u>	<u>25,990,618</u>
Partners expense	<u>4,322,164</u>	<u>-</u>	<u>-</u>	<u>4,322,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,322,164</u>	<u>3,718,665</u>
	<u>24,853,350</u>	<u>217,516</u>	<u>1,595,229</u>	<u>26,666,095</u>	<u>580,162</u>	<u>6,246,107</u>	<u>6,826,269</u>	<u>33,492,364</u>	<u>29,709,283</u>
Allocation of indirect costs	<u>5,497,396</u>	<u>58,057</u>	<u>425,963</u>	<u>5,981,416</u>	<u>154,851</u>	<u>(6,136,267)</u>	<u>(5,981,416)</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 30,350,746</u>	<u>\$ 275,573</u>	<u>\$ 2,021,192</u>	<u>\$ 32,647,511</u>	<u>\$ 735,013</u>	<u>\$ 109,840</u>	<u>\$ 844,853</u>	<u>\$ 33,492,364</u>	<u>\$ 29,709,283</u>

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

FREEDOM HOUSE, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Changes in net assets	\$ (575,384)	\$ (693,286)
Reconciling adjustments:		
Depreciation and amortization	35,626	36,210
Stock donations	(48,907)	(48,150)
Net realized and unrealized losses (gains) on investments	(88,635)	48,775
Deferred rent	21,507	156,782
Changes in operating assets and liabilities		
Cash advances to partners	120,114	(119,202)
Due from U.S. Government	157,041	907,697
Due from Non-USG funders	91,681	(108,174)
Promises to give	7,691	165,409
Prepaid expenses and other assets	(78,421)	(227,169)
Security deposits	-	26,577
Accounts payable and accrued expenses	328,919	(563,873)
Grants payable	25,620	(207,496)
Payable to partners	441,457	(203,640)
Refundable advances - Non-USG funders	<u>(656,681)</u>	<u>(269,723)</u>
Net cash used by operating activities	<u>(218,372)</u>	<u>(1,099,263)</u>
Cash flows from investing activities		
Purchases of investments	(36,738)	(109,165)
Proceeds from sales of investments	<u>149,225</u>	<u>11,380</u>
Net cash provided (used) by investing activities	<u>112,487</u>	<u>(97,785)</u>
Net decrease in cash and cash equivalents	(105,885)	(1,197,048)
Cash and cash equivalents, beginning of year	<u>1,458,681</u>	<u>2,655,729</u>
Cash and cash equivalents, end of year	<u>\$ 1,352,796</u>	<u>\$ 1,458,681</u>

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

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

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, the Middle East, Africa, 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, 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, 2017

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, and corporate bonds and 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, 2017. Promises to give to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. There was no discount on promises to give at June 30, 2017.

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, 2017

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, 2017

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. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation.

Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Organization did not have any net unrelated business income for the year ended June 30, 2017.

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 2014.

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, 2016, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through February 15, 2018, the date which the financial statements were available to be issued.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

3. Investments

Investments are presented in the financial statements at fair market value. Investments at June 30, 2017, are held in brokerage accounts and are comprised of the following:

Certificates of deposit	\$ 2,101,408
Equities	544,560
Mutual funds	189,227
Corporate bonds	240,869
Cash and accrued interest	52,782
Money market funds	<u>8,885</u>
	<u>\$ 3,137,731</u>

Investment income for the year ended June 30, 2017, consisted of the following:

Interest and dividends	\$ 39,370
Realized and unrealized gain on investments	<u>88,635</u>
Investment return, net	<u>\$ 128,005</u>

4. Furniture and Equipment

Furniture and equipment and accumulated depreciation as of June 30, 2017, and depreciation expense for the years then ended, are as follows:

	Estimated <u>Lives</u>	<u>Cost</u>	Accumulated <u>Depreciation</u>	<u>Net</u>	<u>Depreciation</u>
Furniture and fixtures	5 - 10 years	\$ 532,932	\$ 530,543	\$ 2,389	\$ 9,554
Leasehold improvements	5 - 10 years	385,383	362,385	22,998	26,072
Software	7 years	<u>247,222</u>	<u>247,222</u>	-	-
		<u>\$1,165,537</u>	<u>\$ 1,140,150</u>	<u>\$25,387</u>	<u>\$ 35,626</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

5. Temporarily Restricted Net Assets

Temporarily restricted net assets activity for the year ended June 30, 2017, is as follows:

	Balance			Balance
	<u>June 30, 2016</u>	<u>Additions</u>	<u>Released</u>	<u>June 30, 2017</u>
Purpose restricted				
ASU Foundation	\$ -	\$ 8,500	\$ -	\$ 8,500
Bradley Foundation	84,820	-	(84,249)	571
Community of Democracy	5,000	-	(5,000)	-
Freedom of Press	-	14,524	-	14,524
Freedom on Net	29,219	25,000	(27,610)	26,609
Free Press Unlimited	15,658	-	(15,653)	5
Google Net Freedom	152,715	80,000	(56,547)	176,168
Latin America Senior Fellows	74,260	-	-	74,260
Jyllands-Posten Foundation	-	130,000	(32,819)	97,181
China Media Bulletin	52,958	13,200	(29,706)	36,452
Government of the Netherlands	-	20,364	(20,364)	-
Foundation to Promote Open Society	39,156	-	(38,599)	557
Brussels Private Funds	-		1,595	1,595
Results for Development	-	13,500	(13,494)	6
Freedom in the World	-	500	(500)	-
Restricted Innovation Fund	1,362	-	(1,276)	86
Iran Restricted	9,369	-	(5,516)	3,853
MENA	1,400	-	-	1,400
Restricted Private Grants	906	-	-	906
Press Freedom Survey	-	72,239	(50,478)	21,761
Russia Restricted	43,851	-	-	43,851
Smith Richardson Foundation	62,375	391,816	(253,262)	200,929
Whitehead Foundation	23,914	-	(1,049)	22,865
YAHOO	2,000	10,000	4,852	16,852
Time restricted				
Mark Palmer Forum	113,841	5,000	(51,475)	67,366
Willkie Memorial				
Endowment earnings	<u>108,196</u>	<u>14,861</u>	<u>-</u>	<u>123,057</u>
	<u>\$ 821,000</u>	<u>\$ 799,504</u>	<u>\$ (681,150)</u>	<u>\$ 939,354</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

6. 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 to appropriate 5% annually of the average endowment balance to support operations.

The Organization's endowment net assets at June 30, 2017, consist of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Willkie memorial trust - donor restricted	\$ 123,057	\$ 2,000,000	\$ 2,123,057

Endowment fund activity for the year ended June 30, 2017, consists of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - June 30, 2016	\$ 108,196	\$ 2,000,000	\$ 2,108,196
Interest and dividends	11,811	-	11,811
Realized and unrealized loss, net	3,050	-	3,050
Endowment net assets - June 30, 2017	<u>\$ 123,057</u>	<u>\$ 2,000,000</u>	<u>\$ 2,123,057</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

6. Permanently Restricted Net Assets (continued)

Endowment funds are invested in the following manner as of June 30, 2017:

Certificate of deposit	\$ 2,101,407
Cash and accrued interest	8,722
Mutual funds	<u>12,928</u>
	<u>\$ 2,123,057</u>

Unspent earnings on permanently restricted net assets, net of expenses incurred, totaled \$123,057 at June 30, 2017, and are included in temporarily restricted net assets.

7. 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 New York City and Washington, D.C. lease agreements' future minimum rental payments on a straight-line basis produced a deferred rent liability amount of \$1,132,850 at June 30, 2017.

Total future minimum lease payments applicable to the new operating lease and the New York City lease at June 30, 2017, are approximately as follows:

Year ending June 30, 2018	\$ 1,070,000
2019	980,000
2020	1,010,000
2021	1,040,000
2022	1,070,000
2023 and thereafter	<u>4,450,000</u>
Total	<u>\$ 9,620,000</u>

Rent expense applicable to these operating leases for the year ended June 30, 2017, was \$1,495,422.

The Organization subleases a portion of its New York office space. The Organization received cash payments of \$45,280 related to this sublease during the year ended June 30, 2017. The sublease was terminated in March 2017.

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, 2017

8. 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, 2017, was \$471,567.

9. Major Grantor

During the year ended June 30, 2017, 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>29,502,776</u>	<u>90%</u>

10. 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, 2017

10. 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	\$ -	\$ 2,101,408	\$ -	\$ 2,101,408
Equities	544,560	-	-	544,560
Mutual funds	189,227	-	-	189,227
Corporate bonds	-	240,869	-	240,869
Money market funds	8,885	-	-	8,885
	\$ 742,672	\$ 2,342,277	\$ -	3,084,949
Cash and accrued interest				52,782
				\$ 3,137,731

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.

11. 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, 2017

12. Functional Expenses

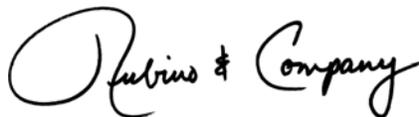
The presentation of expenses on the statement of activities (and functional expenses) is primarily based on the Organization's indirect cost rate agreement with the U.S. Government. This presentation does not fully satisfy the functional expense requirements of accounting principles generally accepted 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.S. GAAP	Functional Expenses Totals (U.S. GAAP Basis)
Program services			
Action	\$ 30,350,746	\$ (4,589,622)	\$ 25,761,124
Advocacy	275,573	(41,371)	234,202
Analysis	<u>2,021,192</u>	<u>(301,888)</u>	<u>1,719,304</u>
	<u>32,647,511</u>	<u>(4,932,881)</u>	<u>27,714,630</u>
Support Services			
Unallocated indirect costs	109,840	(109,840)	-
Management and general	-	5,173,843	5,173,843
Fundraising	<u>735,013</u>	<u>(131,122)</u>	<u>603,891</u>
	<u>844,853</u>	<u>4,932,881</u>	<u>5,777,734</u>
	<u>\$ 33,492,364</u>	<u>\$ -</u>	<u>\$ 33,492,364</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, 2017, and have issued our report thereon dated February 15, 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 and Schedule of Income and Expenditures for the Flagship Publications, are 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.



February 15, 2018
Bethesda, Maryland

FREEDOM HOUSE, INC.
SCHEDULE OF EXPENDITURES OF INTERNATIONAL PUBLIC AGENCIES
Year Ended June 30, 2017

Funding Source	Contract Number	Program Title	International Agencies Expenditures	Amount Provided to Subrecipients
Canadian International Development Agency				
CIDA	PSOP 16-046	Rapid Response Fund	\$ 301,276	\$ -
		Total Canadian Intl Development Agency	<u>301,276</u>	<u>-</u>
The European Union				
EIDHR	EIDHR/2014/346-619	Belarus: From HRD To VIP	122,133	39,134
		Strengthening the Prevention Capacity of the		
EIDHR	EIDHR/2015/369-631	Federal Mechanism to Protect Human Rights		
		Defenders and Journalists	<u>227,372</u>	<u>-</u>
		Total European Union	<u>349,505</u>	<u>39,134</u>
Free Press Unlimited, Netherlands				
FPU	9-WW-SP-16-999-02	Press Freedom Report	<u>15,653</u>	<u>-</u>
		Total Free Press Unlimited	<u>15,653</u>	<u>-</u>
Open Society Foundations				
OSI	OR2014-15601	Foundation To Promote Open Society	<u>38,599</u>	<u>-</u>
		Total Open Society Foundations	<u>38,599</u>	<u>-</u>
The Netherlands Ministry of Foreign Affairs (NMFA)				
NMFA	23514/DMH0114811	Global Internet Freedom Analysis and Capacity- Building Project	<u>20,364</u>	<u>-</u>
		Total Netherlands Ministry of Foreign Affairs	<u>20,364</u>	<u>-</u>
Norwegian Ministry of Foreign Affairs				
Norway	MDA-14/0005	Shining a Light on Corruption in Moldova	82,221	(1,022)
		Incubating Independent Media, Civil Society, and		
Norway	UKR-14/0018	Accountability in Ukraine	<u>728,889</u>	<u>339,891</u>
		Total Norwegian Ministry of Foreign Affairs	<u>811,110</u>	<u>338,869</u>
Swedish International Development Agency (SIDA)				
SIDA	UM2016/03447	Visualize Turkey	<u>5,099</u>	<u>-</u>
		Total SIDA	<u>5,099</u>	<u>-</u>
The Swiss Federal Department of Foreign Affairs (SWS)				
SWS	81038777	New Strategies for Rights Advocacy in Guatemala	<u>231</u>	<u>-</u>
		Total Swiss	<u>231</u>	<u>-</u>
Total Expenditures of International Public Agencies			<u>\$ 1,541,837</u>	<u>\$ 378,003</u>

FREEDOM HOUSE, INC.
SCHEDULE OF INCOME AND EXPENDITURES
FOR THE FLAGSHIP PUBLICATIONS
Year Ended June 30, 2017

	Freedom in the World Survey	Freedom of the Press Survey	Freedom of the Net Survey
Income			
Foundations	\$ 400,000	\$ 130,000	\$ 25,000
Corporations	500	22,239	80,000
Governments	-	-	595,713
Total	400,500	152,239	700,713
Expenditures	(734,448)	(439,101)	(651,736)
Net (loss) surplus	<u>\$ (333,948)</u>	<u>\$ (286,862)</u>	<u>\$ 48,977</u>