

FREEDOM HOUSE, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2019
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, 2019, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Freedom House, Inc. adopted Accounting Standards Updated 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2019, 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 black ink that reads "Rubins & Company". The signature is written in a cursive, flowing style.

Bethesda, MD
November 7, 2019

FREEDOM HOUSE, INC.
BALANCE SHEET
June 30, 2019
(With Comparative Totals for 2018)

ASSETS	<u>2019</u>	<u>2018</u>
Cash and cash equivalents - headquarters	\$ 902,016	\$ 1,551,588
Cash - overseas	228,959	305,845
	1,130,975	1,857,433
Investments	2,043,663	3,229,879
Due from U.S. Government	1,510,564	1,851,849
Due from Non-USG funders	-	1,527
Promises to give, net	1,701,805	1,494,914
Advance to partners	183,176	-
Prepaid expenses and other assets	474,827	330,755
Property and equipment, net	136,508	16,695
Security deposits	470,441	470,441
	\$ 7,651,959	\$ 9,253,493
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,235,105	\$ 964,842
Grants payable	1,666,023	1,693,352
Payable to partners	-	719,708
Refundable advances - Non-USG funders	111,543	49,996
Deferred rent	1,079,077	1,115,115
	4,091,748	4,543,013
Net assets		
Without donor restrictions	(512,893)	624,838
With donor restrictions	4,073,104	4,085,642
	3,560,211	4,710,480
Total net assets	\$ 7,651,959	\$ 9,253,493
Total liabilities and net assets	\$ 7,651,959	\$ 9,253,493

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

FREEDOM HOUSE, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019			2018 <u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
Support and revenue				
Federal grants	45,147,366	\$ -	\$ 45,147,366	\$ 35,206,375
International public agencies	500,342	(362)	499,980	1,031,384
Corporations and foundations	574,526	969,234	1,543,760	2,655,746
Individual contributions	706,978	161,295	868,273	1,164,861
Other income	1,674	-	1,674	221
Net assets released from restrictions	<u>1,181,462</u>	<u>(1,181,462)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>48,112,348</u>	<u>(51,295)</u>	<u>48,061,053</u>	<u>40,058,587</u>
Expenses				
Program services	47,977,836	-	47,977,836	38,372,182
Supporting services				
Development	1,301,227	-	1,301,227	1,070,775
Unallocated management and general costs	<u>13,201</u>	<u>-</u>	<u>13,201</u>	<u>(62,878)</u>
Total expenses	<u>49,292,264</u>	<u>-</u>	<u>49,292,264</u>	<u>39,380,079</u>
Change in operating net assets	(1,179,916)	(51,295)	(1,231,211)	678,508
Investment income	<u>42,185</u>	<u>38,757</u>	<u>80,942</u>	<u>121,425</u>
Change in net assets	(1,137,731)	(12,538)	(1,150,269)	799,933
Net assets, beginning of year	<u>624,838</u>	<u>4,085,642</u>	<u>4,710,480</u>	<u>3,910,547</u>
Net assets, end of year	<u>\$ (512,893)</u>	<u>\$ 4,073,104</u>	<u>\$ 3,560,211</u>	<u>\$ 4,710,480</u>

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

FREEDOM HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019									
	Program Services				Supporting Services			Total		2018 Total
	International Programs	Advocacy	Research & Publications	Total Program	Development	Management & General	Supporting Services	Total Expenses		
Personnel and benefits	\$ 7,961,716	\$ 651,123	\$ 1,379,465	\$ 9,992,304	\$ 610,282	\$ 3,071,888	\$ 3,682,170	\$ 13,674,474	\$ 12,132,588	
Subgrants	5,941,044	-	-	5,941,044	-	-	-	5,941,044	4,298,213	
Consultants	3,060,984	354,861	383,446	3,799,291	170,808	363,156	533,964	4,333,255	4,292,849	
Emergency assistance	4,921,355	-	-	4,921,355	-	-	-	4,921,355	4,190,180	
Travel and per diem	1,906,911	13,992	225,996	2,146,899	26,829	57,211	84,040	2,230,939	2,152,145	
Rent	163,826	-	-	163,826	-	1,148,591	1,148,591	1,312,417	1,408,160	
Professional fees	119,631	-	-	119,631	10,281	636,545	646,826	766,457	1,046,181	
Other direct costs	574,536	37,525	108,786	720,847	44,160	144,515	188,675	909,522	781,927	
Furniture and equipment	94,899	46,681	-	141,580	2,769	75,404	78,173	219,753	204,875	
Conferences, workshops and seminars	363,025	30,227	26,956	420,208	131,186	11,633	142,819	563,027	529,329	
Communications	57,332	1,104	370	58,806	1,284	87,789	89,073	147,879	161,277	
Utilities	25,574	-	-	25,574	-	117,184	117,184	142,758	148,337	
Printing and publications	26,146	115	15,726	41,987	7,957	31,026	38,983	80,970	98,519	
Supplies	83,863	1,106	300	85,269	596	51,941	52,537	137,806	95,746	
Depreciation	-	4,000	1,333	5,333	6,666	3,147	9,813	15,146	3,953	
Postage and delivery	6,769	-	5,477	12,246	4,582	3,697	8,279	20,525	19,841	
Staff training	9,833	-	-	9,833	-	8,994	8,994	18,827	12,418	
Unallowable	159,672	-	-	159,672	-	2,051	2,051	161,723	(39,586)	
	25,477,116	1,140,734	2,147,855	28,765,705	1,017,400	5,814,772	6,832,172	35,597,877	31,536,952	
Partners expense	13,684,387	-	-	13,684,387	-	10,000	10,000	13,694,387	7,843,127	
	39,161,503	1,140,734	2,147,855	42,450,092	1,017,400	5,824,772	6,842,172	49,292,264	39,380,079	
Allocation of indirect costs	6,079,329	(1,125,785)	574,200	5,527,744	283,827	(5,811,571)	(5,527,744)	-	-	
Total expenses	\$ 45,240,832	\$ 14,949	\$ 2,722,055	\$ 47,977,836	\$ 1,301,227	\$ 13,201	\$ 1,314,428	\$ 49,292,264	\$ 39,380,079	

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

FREEDOM HOUSE, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Changes in net assets	\$ (1,150,269)	\$ 799,933
Reconciling adjustments:		
Depreciation and amortization	15,146	25,387
Stock donations	(23,465)	(58,088)
Net realized and unrealized gains on investments	(14,303)	(50,373)
Deferred rent	(36,038)	(22,235)
Changes in operating assets and liabilities		
Cash advances to partners	(183,176)	-
Due from U.S. Government	341,285	783,262
Due from Non-USG funders	1,527	31,478
Promises to give, net	(206,891)	(1,154,914)
Prepaid expenses and other assets	(144,072)	238,663
Security deposits	-	11,687
Accounts payable and accrued expenses	270,263	(321,549)
Grants payable	(27,329)	147,111
Payable to partners	(719,708)	110,540
Refundable advances - Non-USG funders	<u>61,547</u>	<u>(35,883)</u>
Net cash (used) provided by operating activities	<u>(1,815,483)</u>	<u>505,019</u>
Cash flows from investing activities		
Additions to fixed assets	(134,959)	(16,695)
Purchases of investments	(50,789)	(41,965)
Proceeds from sales of investments	<u>1,274,773</u>	<u>58,278</u>
Net cash provided (used) by investing activities	<u>1,089,025</u>	<u>(382)</u>
Net (decrease) increase in cash and cash equivalents	(726,458)	504,637
Cash and cash equivalents, beginning of year	<u>1,857,433</u>	<u>1,352,796</u>
Cash and cash equivalents, end of year	<u>\$ 1,130,975</u>	<u>\$ 1,857,433</u>

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

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions include net assets with time and purpose restrictions, as well as net assets with donor restrictions in perpetuity.

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.

At various times during the year, 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, 2019

2. Summary of Significant Accounting Policies (continued)

Investments

During the year, 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 evaluating collectability based on communications with the donor as well as historical experience. Promises to give are written off when deemed uncollectible. There was no provision for doubtful accounts at June 30, 2019. 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, 2019, was \$30,800.

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.

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.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

2. Summary of Significant Accounting Policies (continued)

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, international public 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

Revenue from federal agencies and certain international public agencies is recognized as an increase in net assets without donor restrictions on the basis of direct costs incurred plus allocable indirect costs.

Support from other international public agencies, as well as contributions received and promises to give, are recorded as revenue with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted supports are reported as an increase in net assets with donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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, 2019

2. Summary of Significant Accounting Policies (continued)

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing services. Non-operating activities are limited to resources that generate return from other activities considered to be of a more unusual or nonrecurring nature.

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 2016.

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.

New Accounting Pronouncement

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment income. Freedom House has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

2. Summary of Significant Accounting Policies (continued)

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, 2018, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 7, 2019, the date which the financial statements were available to be issued.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

3. Liquidity and Availability

The following reflects Freedom House's financial assets at June 30, 2019, reduced by amounts not available for general use within one year of the statement of financial position date because of donor purpose, or time-imposed restrictions:

Cash and cash equivalents - headquarters	\$ 902,016
Cash - overseas	228,959
Investments	2,043,663
Due from U.S. Government	1,510,564
Promises to give, net	<u>1,701,805</u>
Total financial assets available at June 30, 2019	6,387,007
Less those unavailable for general expenditures, due to:	
Purpose restricted net assets	(1,010,146)
Net asset restricted in perpetuity	(2,000,000)
Pledge receivable due in more than one year	<u>(569,200)</u>
Financial asset available at the year-end for current use	<u>\$ 2,807,661</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

3. Liquidity and Availability (continued)

As of June 30, 2019, Freedom House held approximately \$1.1 million in operating funds available to support payroll and operational spending. Currently, nearly 90% of all organizational costs are incurred for the implementation of international programs awarded under U.S. Government grants. To fund these programs, the U.S. Government provides letter-of-credit accounts to be drawn upon when necessary to cover program costs, including the applicable portion of general costs (indirect costs). Typically, several draws on the applicable U.S. Government accounts are executed each month to fund the \$3 to \$3.5 million of average monthly program spending, inclusive of pass-through funds.

As more fully described in the Note 9, endowment funds of \$2 million are invested to generate income available to provide general support to the Organization. The Organization adopted a policy that permits appropriation of earnings from endowment investments, limited annually to 5% of the 5-year average endowment balance, inclusive of earnings. In practice, annual earnings to date have not exceeded the 5% threshold; thus, 100% of the earnings from the preceding fiscal year were transferred from the investment account to the operating account during the current fiscal year.

4. Investments

Investments are presented in the financial statements at fair market value. Investments at June 30, 2019, are held in brokerage accounts and are comprised of the following:

Certificates of deposit	\$ 1,984,372
Mutual funds	13,160
Cash and accrued interest	2,897
Money market funds	<u>43,234</u>
	<u>\$ 2,043,663</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

5. 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.

The following table represents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2019:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 1,984,372	\$ -	\$ 1,984,372
Mutual funds	13,160	-	-	13,160
Money market funds	43,234	-	-	43,234
	\$ 56,394	\$ 1,984,372	\$ -	2,040,766
Cash and accrued interest				2,897
				\$ 2,043,663

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

Certificates of deposit 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.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

5. Fair Value Measurements (continued)

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, 2019, there were no significant transfers in or out of levels 1, 2 or 3.

6. 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 2019 was 2.00%.

Unconditional promises to give consist of the following at June 30, 2019:

Less than one year	\$	1,132,605
One to five years		<u>600,000</u>
		1,732,605
Less: Unamortized discount		<u>(30,800)</u>
Promises to give, net	\$	<u>1,701,805</u>

7. Furniture and Equipment

Furniture and equipment and accumulated depreciation as of June 30, 2019, 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	3 years	\$ 34,437	\$ 29,144	\$ 5,293	\$ 481
Leasehold improvements	3 years	9,383	9,383	-	-
Software and programming	3 years	<u>145,880</u>	<u>14,665</u>	<u>131,215</u>	<u>14,665</u>
		<u>\$ 189,700</u>	<u>\$ 53,192</u>	<u>\$ 136,508</u>	<u>\$ 15,146</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

8. Net Assets with Time or Donor Restrictions

Net assets with time or donor restrictions activity for the year ended June 30, 2019, is as follows:

	Balance			Balance
	<u>June 30, 2018</u>	<u>Additions</u>	<u>Released</u>	<u>June 30, 2019</u>
Purpose restricted				
Achelis and Bodman Foundation	\$ 47,480	\$ -	\$ (47,480)	\$ -
Ahli Bank Jordan	-	12,616	-	12,616
ASU Foundation	8,500	-	(8,500)	-
German Foreign Ministry	642	(642)	-	-
Freedom on Net	88,182	25,000	(13,265)	99,917
Free Press Unlimited	23,528	-	(23,528)	-
Google Net Freedom	96,831	80,000	(153,939)	22,892
Hewlett Foundation	-	75,000	(75,000)	-
Hearts Digital Platform	-	100,000	(11,192)	88,808
Hurford Media and Democracy	-	50,000	-	50,000
Public Private Partnership (PPP)	29,433	-	-	29,433
Latin America Senior Fellows	209,974	-	(83,927)	126,047
Lily Foundation	-	200,000	-	200,000
Pan American Energy	-	25,000	(24,994)	6
Restricted Africa Grant	-	3,400	(3,400)	-
Jyllands-Posten Foundation	66,395	-	(66,381)	14
China Media Bulletin	8,647	3,200	(11,069)	778
Government of the Netherlands	203,263	-	(203,218)	45
New York Community Trust	188,148	-	(100,677)	87,471
Iran Restricted	102	(102)	-	-
Restricted Private Grants	872	5,170	-	6,042
Russia Restricted	43,851	-	(7,454)	36,397
Smith Richardson Foundation	573	171,221	-	171,794
U.S. Index	-	50,000	-	50,000
Whitehead Foundation	4,147	-	(18)	4,129
YAHOO	15,934	10,000	(2,176)	23,758
Other	4,215	(4,215)	-	-
	<u>1,040,717</u>	<u>805,648</u>	<u>(836,218)</u>	<u>1,010,147</u>
Time restricted				
Mark Palmer Forum	25,374	5,000	(30,374)	-
Time restricted pledges (discounted)	974,681	319,519	(270,000)	1,024,200
Willkie Memorial				
Endowment earnings	44,870	38,757	(44,870)	38,757
	<u>1,044,925</u>	<u>363,276</u>	<u>(345,244)</u>	<u>1,062,957</u>
Restricted in perpetuity	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
	<u>\$ 4,085,642</u>	<u>\$ 1,168,924</u>	<u>\$(1,181,462)</u>	<u>\$ 4,073,104</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

9. Net Assets with Donor Restrictions in Perpetuity

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 net assets with donor restrictions in perpetuity. 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, 2019, consist of the following:

	<u>Time Restricted</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Willkie memorial trust - donor restricted	\$ 38,757	\$ 2,000,000	\$ 2,038,757

Endowment fund activity for the year ended June 30, 2019, consists of the following:

	<u>Time Restricted</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets - June 30, 2018	\$ 44,870	\$ 2,000,000	\$ 2,044,870
Releases	(44,870)	-	(44,870)
Interest and dividends	35,416	-	35,416
Realized and unrealized gain, net	3,341	-	3,341
Endowment net assets - June 30, 2019	<u>\$ 38,757</u>	<u>\$ 2,000,000</u>	<u>\$ 2,038,757</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2019

9. Net Assets with Donor Restrictions in Perpetuity (continued)

Endowment funds are invested in the following manner as of June 30, 2019:

Certificate of deposit	\$ 1,984,372
Cash and accrued interest	41,225
Mutual funds	<u>13,160</u>
	<u>\$ 2,038,757</u>

Unspent earnings on net assets with donor time restrictions, net of expenses incurred, totaled \$38,757 at June 30, 2019.

10. 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 \$1,079,077 at June 30, 2019.

Total future minimum lease payments applicable to the operating lease at June 30, 2019, are approximately as follows:

Year ending June 30, 2020	\$ 1,040,000
2021	1,040,000
2022	1,070,000
2023	1,090,000
2024	1,117,000
2025 and thereafter	<u>2,243,000</u>
Total	<u>\$ 7,600,000</u>

Rent expense applicable to these operating leases for the year ended June 30, 2019, was \$1,133,442.

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, 2019

11. 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, subject to annual federal deferral limits. Pension expense for the year ended June 30, 2019, was \$606,218.

12. Major Grantor

During the year ended June 30, 2019, 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	\$ 45,147,366	<u>94%</u>

13. 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 known liability or loss resulting from 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, 2019

14. 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			
International Programs	\$ 45,240,832	\$ (5,419,403)	\$ 39,821,429
Advocacy	14,949	1,179,755	1,194,704
Research & Publications	<u>2,722,055</u>	<u>(459,860)</u>	<u>2,262,195</u>
	<u>47,977,836</u>	<u>(4,699,508)</u>	<u>43,278,328</u>
Support Services			
Unallocated management and general costs	13,201	(13,201)	-
Management and general Development	<u>1,301,227</u>	<u>(233,242)</u>	<u>1,067,985</u>
	<u>1,314,428</u>	<u>4,699,508</u>	<u>6,013,936</u>
	<u>\$ 49,292,264</u>	<u>\$ -</u>	<u>\$ 49,292,264</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, 2019, and have issued our report thereon dated November 7, 2019, 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.



November 7, 2019
Bethesda, Maryland

FREEDOM HOUSE, INC.
SCHEDULE OF EXPENDITURES OF INTERNATIONAL PUBLIC AGENCIES
Year Ended June 30, 2019

Funding Source	Contract Number	Program Title	International Agencies Expenditures	Amount Provided to Subrecipients
Canada Department of Foreign Affairs, Trade, and Development				
CID	CFLI-2019-BUSCT-0006	Defending Freedom of Expression and Digital Space Around Elections in Moldova	\$ 4,037	\$ -
		Total Canadian Intl Development Agency	<u>4,037</u>	<u>-</u>
The Netherlands Ministry of Foreign Affairs (NMFA)				
NMFA	WAS-MRF-2018-04	Equality for Prosperity	341,026	27,718
NMFA	SAMMMF25317100510 280	Increasing Women's Economic Empowerment in Jordan	<u>156,805</u>	<u>-</u>
		Total Netherlands Ministry of Foreign Affairs	<u>497,831</u>	<u>27,718</u>
Total Expenditures of International Public Agencies			<u>\$ 501,868</u>	<u>\$ 27,718</u>