

FREEDOM HOUSE, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2016
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, 2016, 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, 2016, 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.

Prior Period Financial Statements and Comparative Information

The financial statements of Freedom House, Inc. as of June 30, 2015, and for the year then ended were audited by other auditors whose report dated February 8, 2016, expressed an unmodified opinion on those statements. The summarized comparative information provided herein, as of and for the year ended June 30, 2015, has been derived from the 2015 financial statements, and we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, 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 date and location information.

January 31, 2017
Bethesda, Maryland

FREEDOM HOUSE, INC.
BALANCE SHEET
June 30, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents - headquarters	\$ 1,196,157	\$ 2,535,117
Cash - overseas	<u>262,524</u>	<u>120,612</u>
	1,458,681	2,655,729
Investments	3,112,676	3,015,516
Cash advances to partners	120,114	912
Due from U.S. Government	2,792,152	3,699,849
Due from Non-USG funders	124,686	16,512
Promises to give	347,691	513,100
Prepaid expenses and other assets	490,997	263,828
Property and equipment, net	61,013	97,223
Security deposits	<u>482,128</u>	<u>508,705</u>
 Total assets	 <u>\$ 8,990,138</u>	 <u>\$ 10,771,374</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 957,472	\$ 1,521,345
Grants payable	1,520,621	1,728,117
Payable to partners	167,711	371,351
Refundable advances - Non-USG funders	742,560	1,012,283
Deferred rent	<u>1,115,843</u>	<u>959,061</u>
 Total liabilities	 4,504,207	 5,592,157
Net assets		
Unrestricted	1,664,931	2,151,829
Temporarily restricted	821,000	1,027,388
Permanently restricted	<u>2,000,000</u>	<u>2,000,000</u>
 Total net assets	 <u>4,485,931</u>	 <u>5,179,217</u>
 Total liabilities and net assets	 <u>\$ 8,990,138</u>	 <u>\$ 10,771,374</u>

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

FREEDOM HOUSE, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016			2015
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Support and revenue				
Federal grants	\$ 24,813,164	\$ -	\$ -	\$ 24,813,164
International public agencies	1,942,129	324,820	-	2,266,949
Corporations and foundations	550,339	562,923	-	1,113,262
Individual contributions	714,147	107,000	-	821,147
Investment (loss) income	(13,082)	9,549	-	(3,533)
Other income	5,008	-	-	5,008
Net assets released from restrictions	<u>1,210,680</u>	<u>(1,210,680)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>29,222,385</u>	<u>(206,388)</u>	<u>-</u>	<u>29,015,997</u>
Expenses				
Program services	28,768,462	-	-	28,768,462
Supporting services				
Fundraising	858,863	-	-	858,863
Unallocated indirect costs	<u>81,958</u>	<u>-</u>	<u>-</u>	<u>81,958</u>
Total expenses	<u>29,709,283</u>	<u>-</u>	<u>-</u>	<u>29,709,283</u>
Change in net assets	(486,898)	(206,388)	-	(693,286)
Net assets, beginning of year	<u>2,151,829</u>	<u>1,027,388</u>	<u>2,000,000</u>	<u>5,179,217</u>
Net assets, end of year	<u>\$ 1,664,931</u>	<u>\$ 821,000</u>	<u>\$ 2,000,000</u>	<u>\$ 5,179,217</u>

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

FREEDOM HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016								
	Program Services			Total Program	Supporting Services		Total Supporting Services	Total Expenses	2015 Total
	Action	Advocacy	Analysis		Fundraising	Indirect Costs			
Personnel and benefits	\$ 6,676,062	\$ 162,611	\$ 1,147,811	\$ 7,986,484	\$ 271,175	\$ 2,699,379	\$ 2,970,554	\$ 10,957,038	\$ 10,992,025
Subgrants	4,195,419	-	-	4,195,419	-	-	-	4,195,419	4,674,159
Consultants	2,373,824	33,194	360,847	2,767,865	177,013	237,785	414,798	3,182,663	3,172,761
Emergency assistance	2,411,886	-	-	2,411,886	-	-	-	2,411,886	2,354,373
Travel and per diem	1,316,895	38,841	169,057	1,524,793	19,732	150,215	169,947	1,694,740	1,774,225
Rent	166,795	2,275	-	169,070	-	1,369,201	1,369,201	1,538,271	1,505,936
Professional fees	87,802	2,184	-	89,986	-	678,406	678,406	768,392	788,105
Other direct costs	(112,209)	(2,310)	3,370	(111,149)	37,568	273,623	311,191	200,042	343,697
Furniture and equipment	67,140	1,387	1,904	70,431	1,845	56,832	58,677	129,108	273,654
Conferences, workshops and seminars	222,039	3,918	9,456	235,413	144,047	20,741	164,788	400,201	228,405
Communications	67,162	1,143	3,450	71,755	572	80,451	81,023	152,778	174,123
Utilities	26,557	247	-	26,804	-	99,213	99,213	126,017	107,426
Printing and publications	15,157	537	31,080	46,774	14,678	23,731	38,409	85,183	103,387
Supplies	40,242	680	574	41,496	2,918	39,765	42,683	84,179	95,694
Depreciation	-	-	-	-	-	36,210	36,210	36,210	69,612
Postage and delivery	6,314	187	281	6,782	939	6,429	7,368	14,150	20,530
Staff training	9,466	-	-	9,466	-	4,875	4,875	14,341	11,229
	<u>17,570,551</u>	<u>244,894</u>	<u>1,727,830</u>	<u>19,543,275</u>	<u>670,487</u>	<u>5,776,856</u>	<u>6,447,343</u>	<u>25,990,618</u>	<u>26,689,341</u>
Partners expense	<u>3,718,665</u>	<u>-</u>	<u>-</u>	<u>3,718,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,718,665</u>	<u>4,071,109</u>
	<u>21,289,216</u>	<u>244,894</u>	<u>1,727,830</u>	<u>23,261,940</u>	<u>670,487</u>	<u>5,776,856</u>	<u>6,447,343</u>	<u>29,709,283</u>	<u>30,760,450</u>
Allocation of indirect costs	<u>4,953,029</u>	<u>68,052</u>	<u>485,441</u>	<u>5,506,522</u>	<u>188,376</u>	<u>(5,694,898)</u>	<u>(5,506,522)</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 26,242,245</u>	<u>\$ 312,946</u>	<u>\$ 2,213,271</u>	<u>\$ 28,768,462</u>	<u>\$ 858,863</u>	<u>\$ 81,958</u>	<u>\$ 940,821</u>	<u>\$ 29,709,283</u>	<u>\$ 30,760,450</u>

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

FREEDOM HOUSE, INC.
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Changes in net assets	\$ (693,286)	\$ 215,636
Reconciling adjustments:		
Depreciation	36,210	69,612
Stock donations	(48,150)	-
Net realized and unrealized losses (gains) on investments	48,775	(12,633)
Deferred rent	156,782	484,155
Changes in operating assets and liabilities		
Cash advances to partners	(119,202)	134,765
Due from U.S. Government	907,697	(1,906,953)
Due from Non-USG funders	(108,174)	12,706
Promises to give	165,409	(245,690)
Prepaid expenses and other assets	(227,169)	156,811
Security deposits	26,577	41,295
Accounts payable and accrued expenses	(563,873)	242,159
Grants payable	(207,496)	192,896
Payable to partners	(203,640)	(431,942)
Refundable advances - Non-USG funders	<u>(269,723)</u>	<u>668,062</u>
Net cash used by operating activities	<u>(1,099,263)</u>	<u>(379,121)</u>
Cash flows from investing activities		
Purchases of investments	(109,165)	(172,593)
Proceeds from sales of investments	11,380	157,282
Acquisition of property and equipment	<u>-</u>	<u>(38,046)</u>
Net cash used by investing activities	<u>(97,785)</u>	<u>(53,357)</u>
Net decrease in cash and cash equivalents	(1,197,048)	(432,478)
Cash and cash equivalents, beginning of year	<u>2,655,729</u>	<u>3,088,207</u>
Cash and cash equivalents, end of year	<u>\$ 1,458,681</u>	<u>\$ 2,655,729</u>

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

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

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. During the fiscal year, the Organization maintained offices in Washington, D.C., New York City, Abidjan, Almaty, Amman, Bishkek, Brussels, Johannesburg, Kampala, Mexico City, Nairobi and Vilnius.

A summary of the Organization's largest programs follows:

Publications: Freedom House produces four annual publications and a series of special reports and research projects. These include *Freedom in the World*, the most recent edition of which was released in January 2016; *Freedom of the Press*, the most recent edition of which was released in April 2016; *Nations in Transit*, the most recent edition of which was released in April 2016; and *Freedom on the Net*, which released its most recent edition in November 2016. Freedom House publications cover a range of questions related to political rights, civil liberties, and good governance, and include quantitative and qualitative research. All research is available online at www.freedomhouse.org, and each new edition is accompanied by a series of public events and briefings that cover our findings across a range of audiences in the policy, activist, and academic communities.

Rule of Law Initiative/Global Human Rights Training & Support (RIGHTS): This is a leader with associates award from the United States Agency for International Development (USAID). Through it, the Organization, in partnership with other non-governmental organizations working in the democracy, human rights, and rule of law sector, provides technical support, training, and assessments in countries worldwide. The award concluded on March 31, 2016.

Emergency Assistance Program (EAP): The Organization's EAP is comprised of four funds: the Global Human Rights Defenders Fund; the Lifeline: Embattled CSO Assistance Fund; Dignity for All: the LGBTI Assistance Program; and the Religious Freedom Fund. With these funds, the Organization provides small, rapid response grants to human rights defenders (HRDs) and civil society organizations (CSOs) threatened because of their human rights work, and to survivors of severe religious persecution. Funding is used for items such as medical and legal fees, trial monitoring, prison visits, security, relocation, humanitarian assistance, dependent support, advocacy activities, and security trainings. Cases are received through a vast referral network, including local, regional, and international partners.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

1. Organization (continued)

Internet Freedom Programs: The Organization implemented a project that supported internet freedom activists in eight countries around the world, enabling them to engage in and publish research related to internet freedom issues and challenges in their home communities and participate in regional and international conferences at which they shared their research and exchanged approaches to internet freedom issues with other activists.

Justice as a Right in Southern Africa: This project strengthens judicial independence, enhances the rule of law, and encourages innovative civil society approaches to human rights promotion in the Southern Africa region. Through the project the Organization has supported the ongoing skills development of judges, lawyers, and civil society activists with a view to making human rights the centerpiece of legal processes and reform efforts in the region. The Organization has also funded several strategic and public interest litigation cases, some of which have yielded ground-breaking judgments.

Support for Human Rights in Ethiopia: The Organization provides critical support to civil society actors and HRDs amidst government repression that has decimated these groups. Activities have included strengthening the capacity of human rights organizations and bolstering coordination among various human rights actors so they can engage the government effectively and mentor a new generation of human rights activists. The program also seeks to broaden civic space by implementing activities that are designed to progressively evolve from softer topics such as human rights and development-related themes to more pointed and critical issues such as freedom of expression and assembly and democratic governance.

Support to Embattled Activists in Sudan: In Sudan, the Organization provided support to enable human rights monitors and activists to continue their activities in the face of harsh government repression. The Organization doubled the size of the African Centre for Justice and Peace Studies, a leading human rights monitoring network that collects and disseminates important information coming out of the country. The Organization also mentored emerging leaders within Sudanese civil society in areas such as strategic planning, political communication, citizen participation in citizen mobilization, advocacy, and negotiations.

Advancing Human Rights and Promoting Electoral Justice in the Democratic Republic of Congo Activity: The Organization is focused on protecting and promoting universally recognized human rights by bolstering the capacity of civil society actors and HRDs to monitor, report, and document human rights abuses; providing legal assistance to those seeking legal remedies and raising citizen awareness of their rights and how to seek legal remedies; and advocating with authorities for reform through evidence-based policy recommendations.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

1. Organization (continued)

Demonstrating Impact: Human Rights in Public Interest in Kenya: This program seeks to protect and promote the remaining civic space in Kenya by supporting civil society to encourage citizens and the Government of Kenya (GoK) to engage with and participate in the activities of human rights and democracy organizations. The program uses assessment tools, such as public opinion surveys, to determine citizen support for civil society's activities, as well as the Organization's *Countries at the Crossroads* assessment methodology to chart policy recommendations necessary to systematically engage with the GoK on critical initiatives such as the World Bank Poverty Reduction Strategy Papers (PRSP) and the country compacts under the Millennium Challenge Corporation (MCC). Additionally, the Organization provides financial support and mentorship for public outreach activities that raise citizen awareness of the link between accountable governance and attainment of socio-development goals.

Rights and Rule of Law in Uganda: The Organization seeks to advance and protect socio-economic development through support to national-level structures that uphold respect for human rights and rule of law. The Organization uses a combination of technical assistance and financial support to achieve results in three primary areas: supporting judicial independence; fostering human rights advocacy at the national and district-levels; and advancing the flow of information by fostering an enabling legal environment and enhancing journalists' skills.

Think Tank Development in Burma: The Organization is developing the capacity of indigenous think tanks to produce and disseminate high-quality policy research on issues that affect marginalized populations, including ethnic and religious minorities, women, and youth. The Organization equips partners with skills to build coalitions and effectively use technology in research and advocacy.

Religious Freedom in Burma: The Organization and its partners have addressed government policies and practices that undermine religious freedom and contribute to cycles of violence. Primary activities include (a) Civil society organizations documenting and disseminating information about religious conflict and discrimination; and (b) an interfaith civil society coalition advocating for changes to policies and practices that discriminate against religious minorities.

HRD Protection in Burma: The Organization and its partners established a proactive HRD protection system that mitigates security risks for HRDs and, when threats arise, enables them to respond more efficiently. Activities included support of a monthly HRD forum, the development of regional HRD forums, physical and digital security training, documentation of HRD intimidation and harassment, and international advocacy.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

1. Organization (continued)

Online Freedom of Expression in Cambodia: In response to the Cambodian government's steps to monitor and restrict free speech online, the Organization and local stakeholders organized a public legislation drafting initiative, which resulted in the *Statement of Principles for Cambodian Internet Freedom*. The Statement of Principles will serve as a benchmark as the government of Cambodia drafts new laws related to Internet freedom.

Kazakhstan: The Organization works to develop a new generation of Kazakhstani civic leaders through its tailored civic education program, *Imagining Kazakhstan*.

Kyrgyzstan: The Organization uses advocacy to foster political motivation for the government to take action to address key human rights issues; works with government stakeholders and civil society to strengthen human rights institutions, legislation, and policies; engages and empowers youth activists from around the country; and bolsters the human rights community through targeted organizational development and rapid response support.

Moldova: The Organization strengthens quality investigative journalism and respect for freedom of expression in Moldova. In partnership with local organizations, it brings together journalists and civil society activists to foster greater demand for transparency and accountability on the part of the government. The Organization has provided a sustained effort to train, support, and publicize aspiring citizen journalists, culminating in a first-of-its-kind Russian language handbook of investigative journalism.

Ukraine: Working with a broad array of civil society, human rights, and civic media organizations, the Organization presses for accountability for human rights abuses and corruption, provides vital coverage of human rights and governance in regions across the country, and trains citizen and professional journalists to shed light on local-level corruption.

Protecting Human Rights and Freedom of Expression in Mexico: This program equipped vulnerable populations, such as journalists and HRDs, with preventative and self-protection strategies. It supported efforts by local activists and the Mexican government to prevent attacks and enhance emergency assistance for at-risk journalists and activists. The Organization worked with in-country partners at the forefront of freedom of expression issues in Mexico to encourage cooperation among journalists, civil society, and government agencies and create protection networks for journalists and HRDs. The Organization also provided technical assistance to strengthen protection mechanisms created by the Mexican government and civil society to prevent and combat violence against journalists.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

1. Organization (continued)

Support for Human Rights in Cuba: This program assists Cuban civil society and HRDs to develop grassroots movements with nationwide reach, as well as conduct research and advocate on behalf of Cuban actors. The program includes trainings for civil society and human rights activists that strengthens organizational development and capacity to forge links with different sectors of society. In seeking to expand its social base, the program also empowers the socio-political initiatives of independent youth networks countering widespread apathy and hopelessness regarding their future. The Organization simultaneously conducts extensive research on the state of human rights in Cuba and advocates on behalf of Cuban civil society and human rights activists in regional and international forums.

Human Rights Defenders in Venezuela: The Organization works to protect human rights, increase voter confidence, and enhance political participation in Venezuela. The Organization values fair and transparent elections in which every citizen has a voice, and assists in grassroots initiatives to increase voter participation among marginalized and disenfranchised groups. The Organization also supports efforts to monitor and evaluate democratic institutions with the goals of increasing government accountability and providing citizens with greater access to information about political decision-making. As Venezuela's human rights record continues to worsen, the Organization has helped raise awareness within the international community about human rights violations. The Organization has also responded to human rights issues in Venezuela by facilitating productive dialogue between Venezuelan human rights defenders and international actors in order to provide vulnerable and concerned Venezuelans with access to important sources of support and expertise.

Promoting Fundamental Freedoms in Ecuador: The Organization works with local partners to defend fundamental freedoms in Ecuador. Its project leverages the expertise of academic institutions, journalists, and journalist associations to strengthen the reporting and advocacy of CSOs and enhance their ability to influence policy. Through a coordinated effort, the Organization and its partners seek to educate citizens about challenges to freedom of expression and association and promote a broad-based defense of these rights by countering existing and prospective restrictions.

Strengthening the Human Rights Defenders Protection Mechanism in Honduras: The project strengthens the Government of Honduras' ability to implement its newly established Protection Mechanism to effectively protect HRDs at risk and fortify freedom of association and expression. The project also enhances the ability of civil society to hold the government accountable for providing effective measures to mitigate risk and prevent attacks. The Organization plays a catalytic role in creating bridges between the government and civil society.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

1. Organization (continued)

Supporting Human Rights Organizations in Yemen: The Organization provided support to a local non-governmental organization (NGO) to compile approximately 1,400 reports of human rights violations during Yemen's civil war. As part of the same project, this NGO also provided pro bono legal assistance to more than 240 victims of human rights abuses in Sana'a. The Organization also provided support to the same NGO to lead five strategic litigation cases in an effort to improve Yemen's deficient laws against torture, and to draft a report on judicial independence in Sana'a and Hudeydah.

Advancing Gender Equality and Citizen Engagement in Iran: The Organization supported 20+ contributors in compiling investigative reports on political prisoners and judicial independence. The Organization also trained and supported young activists to conduct local-level public awareness and advocacy campaigns on a variety of gender equality issues.

Empowering Women and Civil Society in Jordan: The Organization implemented a project to empower women's-oriented CSOs in three rural governorates. The Organization formed a 130-member civil society coalition, and provided members with training on advocacy, campaigning, and gender equality. The Organization enabled coalition members to lead awareness-raising events, hold policy roundtables, and advocate with decision makers, collectively resulting in more than 30 concrete policy changes.

Documenting Torture in Bahrain: The Organization trained and supported seven HRDs to interview ten torture victims and draft reports in line with internationally recognized standards. The reports were compiled into a joint submission to the United Nations Universal Periodic Review in collaboration with two other local human rights organizations in Bahrain.

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.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

2. Summary of Significant Accounting Policies (continued)

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. The Organization 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.

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, 2016. 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, 2016.

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.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

2. Summary of Significant Accounting Policies (continued)

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.

Grant Payables

Grant 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.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

2. Summary of Significant Accounting Policies (continued)

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, management and general, and fundraising.

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, 2016.

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 2013.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

2. Summary of Significant Accounting Policies (continued)

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, 2015, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through January 31, 2017, the date which the financial statements were available to be issued.

3. Investments

Investments are presented in the financial statements at fair market value. Investments at June 30, 2016, are held in brokerage accounts and are comprised of the following:

Certificates of deposit	\$ 1,542,551
Equities	537,628
Mutual funds	167,192
Corporate bonds	221,214
Exchange traded funds	3,233
Cash and accrued interest	63,580
Money market funds	<u>577,278</u>
	<u>\$ 3,112,676</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

3. Investments (continued)

Investment income for the year ended June 30, 2016, consisted of the following:

Interest and dividends	\$	45,242
Realized and unrealized loss on investments		(48,775)
Investment return, net	\$	(3,533)

4. Furniture and Equipment

Furniture and equipment and accumulated depreciation as of June 30, 2016, and depreciation expense for the year 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	\$ 520,989	\$ 11,943	\$ 9,554
Leasehold improvements	5 - 10 years	385,383	336,313	49,070	26,071
Software	7 years	247,222	247,222	-	585
		\$ 1,165,537	\$ 1,104,524	\$ 61,013	\$ 36,210

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

5. Temporarily Restricted Net Assets

Temporarily restricted net assets activity for the year ended June 30, 2016, is as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Released</u>	<u>Balance</u> <u>June 30, 2016</u>
Purpose restricted				
Bradley Foundation	\$ -	\$ 100,000	\$ (15,180)	\$ 84,820
Community of Democracy	-	5,000	-	5,000
Freedom on Net	-	50,000	(20,781)	29,219
Free Press Unlimited	(16,512)	36,424	(4,254)	15,658
Google Net Freedom	97,419	145,000	(89,704)	152,715
Latin America Senior Fellows	-	75,000	(740)	74,260
Jyllands-Posten Foundation	-	60,000	(60,000)	-
NY Publication	-	40,000	(40,000)	-
China Media Bulletin	3,109	58,250	(8,401)	52,958
Government of the Netherlands	20,345	324,819	(345,164)	-
Foundation to Promote Open Society	44,594	-	(5,438)	39,156
Results for Development	-	9,000	(9,000)	-
Restricted Innovation Fund	-	1,500	(138)	1,362
Iran Restricted	9,507	-	(138)	9,369
MENA	1,400	-	-	1,400
Restricted Private Grants	656	250	-	906
Press Freedom Survey	-	54,500	(54,500)	-
Russia Restricted	49,638	-	(5,787)	43,851
Ukraine Restricted	770	-	(770)	-
Smith Richardson Foundation	347,701	-	(308,784)	38,917
Threat to Democratic Government	161,060	-	(137,602)	23,458
Whitehead Foundation	-	25,000	(1,086)	23,914
YAHOO	12,970	10,000	(20,970)	2,000
Time restricted				
Mark Palmer Forum	196,084	-	(82,243)	113,841
Willkie Memorial				
Endowment earnings	<u>98,647</u>	<u>9,549</u>	<u>-</u>	<u>108,196</u>
	<u>\$ 1,027,388</u>	<u>\$ 1,004,292</u>	<u>\$ (1,210,680)</u>	<u>\$ 821,000</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

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, 2016, consist of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Willkie memorial trust - donor restricted	\$ 108,196	\$ 2,000,000	\$ 2,108,196

Endowment fund activity for the year ended June 30, 2016, consists of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - June 30, 2015	\$ 98,647	\$ 2,000,000	\$ 2,098,647
Interest and dividend	12,245	-	12,245
Realized and unrealized loss, net	(2,696)	-	(2,696)
Endowment net assets - June 30, 2016	<u>\$ 108,196</u>	<u>\$ 2,000,000</u>	<u>\$ 2,108,196</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

6. Permanently Restricted Net Assets (continued)

Endowment funds are invested in the following manner as of June 30, 2016:

Certificate of deposit	\$ 1,542,551
Cash and accrued interest	554,670
Mutual funds	<u>10,975</u>
	<u>\$ 2,108,196</u>

Unspent earnings on permanently restricted net assets, net of expenses incurred, totaled \$108,196 at June 30, 2016, 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 terminated its Washington, D.C. office space lease as of November 30, 2014, and signed a new 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 new Washington, D.C. lease agreements' future minimum rental payments on a straight-line basis produced a deferred rent liability amount of \$1,111,342 at June 30, 2016.

Total future minimum lease payments applicable to the new operating lease and the New York City lease at June 30, 2016, are approximately as follows:

Year ending June 30,		\$	
	2017		1,370,000
	2018		1,070,000
	2019		980,000
	2020		1,010,000
	2021		1,040,000
	2022 and thereafter		<u>5,520,000</u>
	Total		<u>\$ 10,990,000</u>

Rent expense applicable to these operating leases for the year ended June 30, 2016, was \$1,430,701.

The Organization subleases a portion of its New York office space. The Organization received cash payments of \$61,500 related to this sublease during the year ended June 30, 2016.

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, 2016

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, 2016, was \$505,561.

9. Major Grantor

During the year ended June 30, 2016, 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>\$ 24,813,164</u>	<u>86%</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, 2016

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, 2016:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 1,542,551	\$ -	\$ 1,542,551
Equities	537,628	-	-	537,628
Mutual funds	167,192	-	-	167,192
Corporate bonds	-	221,214	-	221,214
ETF's	3,233	-	-	3,233
Money market funds	-	577,278	-	577,278
	<u>\$ 708,053</u>	<u>\$ 2,341,043</u>	<u>\$ -</u>	3,049,096
Cash and accrued interest				<u>63,580</u>
				<u>\$3,112,676</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.

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, 2016

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:

	As Presented as Activities <u>on the Statement</u>	Adjustments to arrive at <u>U.S. GAAP</u>	Functional Expenses Totals <u>(U.S. GAAP Basis)</u>
Program services			
Action	\$ 26,242,245	\$ (4,015,769)	\$ 22,226,476
Advocacy	312,946	(45,223)	267,723
Analysis	<u>2,213,271</u>	<u>(324,299)</u>	<u>1,888,972</u>
	<u>28,768,462</u>	<u>(4,385,291)</u>	<u>24,383,171</u>
Support Services			
Unallocated indirect costs	81,958	(81,958)	-
Management and general	-	4,617,554	4,617,554
Fundraising	<u>858,863</u>	<u>(150,305)</u>	<u>708,558</u>
	<u>940,821</u>	<u>4,385,291</u>	<u>5,326,112</u>
	<u>\$ 29,709,283</u>	<u>\$ -</u>	<u>\$ 29,709,283</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, 2016, and have issued our report thereon dated January 31, 2017, 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.



January 31, 2017
Bethesda, Maryland

FREEDOM HOUSE, INC.
SCHEDULE OF EXPENDITURES OF INTERNATIONAL PUBLIC AGENCIES
Year Ended June 30, 2016

Funding Source	Contract Number	Program Title	International Agencies Expenditures	Amount Provided to Subrecipients
Canadian International Development Agency				
CIDA	RFF 2013-018	Rapid Response Fund	\$ 334,335	\$ -
CIDA	GPSF 15-047	Defending Human Rights in Ukraine	250,822	80,702
CIDA	GPSF 15-049	Moldova Ukraine	174,488	22,419
Total Canadian Intl Development Agency			<u>759,645</u>	<u>103,121</u>
The European Union				
EIDHR	EIDHR/2014/346-619	Belarus: From HRD To VIP	210,488	52,577
EIDHR	EIDHR/2015/369-631	Strengthening the Prevention Capacity of the Federal Mechanism to Protect Human Rights Defenders and Journalists	39,954	-
Total European Union			<u>250,442</u>	<u>52,577</u>
Free Press Unlimited, Netherlands				
FPU	H-NL-01-2015-01	Press Freedom Report	(349)	-
FPU	9-WW-SP-16-999-02	Press Freedom Report	4,603	-
Total Free Press Unlimited			<u>4,254</u>	<u>-</u>
Open Society Foundations				
OSI	OR2014-15601	Foundation To Promote Open Society	5,438	-
Total Open Society Foundations			<u>5,438</u>	<u>-</u>
The Netherlands Ministry of Foreign Affairs				
Netherla	23514/DMH0114811	Global Internet Freedom Analysis and Capacity-Building Project	345,164	-
Total Netherlands Ministry of Foreign Affairs			<u>345,164</u>	<u>-</u>
Norwegian Ministry of Foreign Affairs				
Norway	BLR-13/0002	Civil participation - Belarus	4,925	(59)
Norway	UKR-13/0002	Shining Light on Corruption in Ukraine	85,525	55,037
Norway	UKR-14/0008	Ukraine Election Media Watch	578	-
Norway	MDA-14/0005	Shining a Light on Corruption in Moldova	345,105	135,580
Norway	UKR-14/0018	Incubating independent media, civil society, and accountability in Ukraine	451,505	198,747
Total Norwegian Ministry of Foreign Affairs			<u>887,638</u>	<u>389,305</u>
Swedish International Development Agency, SIDA				
SIDA	3/2014 UF2014/15179	Supporting Information Freedom in Turkey	(58)	-
SIDA	UM2016/03447	Visualize Turkey	12,932	-
Total SIDA			<u>12,874</u>	<u>-</u>
The Swiss Federal Department of Foreign Affairs				
SWS	81038777	New Strategies for Rights Advocacy in Guatemala	48,041	-
Total Swiss			<u>48,041</u>	<u>-</u>
Total expenditures of international public agencies			<u>\$ 2,313,496</u>	<u>\$ 545,003</u>

FREEDOM HOUSE, INC.
SCHEDULE OF INCOME AND EXPENDITURES
FOR THE FLAGSHIP PUBLICATIONS
Year Ended June 30, 2016

	Freedom in the World Survey	Freedom of the Press Survey
Income		
Foundations	\$ -	\$ 147,926
Individuals	40,000	-
Board Members	-	3,000
Total	40,000	150,926
Expenditures	(608,665)	(568,240)
Net loss	\$ (568,665)	\$ (417,314)