

Freedom House, Inc.

Financial Report
June 30, 2015

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Freedom House, Inc.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Freedom House, Inc. (the Organization), which comprise the balance sheet as of June 30, 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2015, 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 Summarized Comparative Information

We have previously audited the Organization's 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated January 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 8, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
February 8, 2016

Freedom House, Inc.

Balance Sheet

June 30, 2015

(With Comparative Totals for 2014)

	2015	2014
Assets		
Cash and Cash Equivalents – Headquarters	\$ 2,535,117	\$ 2,623,604
Cash – Overseas	120,612	464,603
	<u>2,655,729</u>	<u>3,088,207</u>
Investments	3,015,516	2,987,572
Cash Advances to Partners	912	135,677
Due From U.S. Government	3,699,849	1,792,896
Due From – Non-USG Funders	16,512	29,218
Promises to Give	513,100	267,410
Prepaid Expenses and Other Assets	263,828	420,639
Furniture and Equipment, Net	97,223	128,789
Security Deposits	508,705	550,000
	<u>\$ 10,771,374</u>	<u>\$ 9,400,408</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,521,345	\$ 1,279,186
Grants payable	1,728,117	1,535,221
Payable to partners	371,351	803,293
Refundable advances – Non-USG funders	1,012,283	344,221
Deferred rent	959,061	474,906
	<u>5,592,157</u>	<u>4,436,827</u>
Commitments and Contingencies (Notes 6 and 10)		
Net Assets		
Unrestricted	2,151,829	1,819,680
Temporarily restricted	1,027,388	1,143,901
Permanently restricted	2,000,000	2,000,000
	<u>5,179,217</u>	<u>4,963,581</u>
	<u>\$ 10,771,374</u>	<u>\$ 9,400,408</u>

See Notes to Financial Statements.

Freedom House, Inc.

Statement of Activities
 Year Ended June 30, 2015
 (With Comparative Totals for 2014)

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenue				
Federal grants	\$ 26,832,625	\$ -	\$ -	\$ 26,832,625
International public agencies	959,365	475,647	-	1,435,012
Corporations and foundations	391,233	853,026	-	1,244,259
Individual contributions	1,126,191	215,133	-	1,341,324
Investment income	45,933	12,451	-	58,384
Other income	64,482	-	-	64,482
Net assets released from restrictions	1,672,770	(1,672,770)	-	-
Total support and revenue	31,092,599	(116,513)	-	30,976,086
Expenses (Note 11)				
Program services	30,132,603	-	-	30,132,603
Supporting services:				
Fundraising	484,354	-	-	484,354
Unallocated indirect costs	143,493	-	-	143,493
Total expenses	30,760,450	-	-	30,760,450
Change in net assets	332,149	(116,513)	-	215,636
Net Assets				
Beginning	1,819,680	1,143,901	2,000,000	4,963,581
Ending	\$ 2,151,829	\$ 1,027,388	\$ 2,000,000	\$ 5,179,217

See Notes to Financial Statements.

Freedom House, Inc.

Statement of Functional Expenses

Year Ended June 30, 2015

(With Comparative Totals for 2014)

	2015									2014 Total
	Program Services				Supporting Services				Total	
	Action	Advocacy	Analysis	Total	Indirect Costs	Fundraising	Total	Total		
Personnel	\$ 7,102,451	\$ 91,051	\$ 1,113,847	\$ 8,307,349	\$ 2,436,016	\$ 248,660	\$ 2,684,676	\$ 10,992,025	\$ 11,575,408	
Subgrants	4,674,159	-	-	4,674,159	-	-	-	4,674,159	3,642,167	
Consultants	2,637,701	69,860	381,286	3,088,847	42,514	41,400	83,914	3,172,761	2,878,676	
Travel	1,495,432	25,344	183,017	1,703,793	59,415	11,017	70,432	1,774,225	2,794,299	
Emergency Assistance	2,354,373	-	-	2,354,373	-	-	-	2,354,373	2,251,384	
Rent	188,911	3,200	-	192,111	1,313,825	-	1,313,825	1,505,936	1,352,505	
Other Direct Costs	33,195	(110,733)	36,798	(40,740)	306,960	77,477	384,437	343,697	1,251,048	
Professional Fees	89,231	1,275	-	90,506	692,709	4,890	697,599	788,105	810,586	
Conferences, Workshops, and Seminars	198,981	2,871	16,962	218,814	8,108	1,483	9,591	228,405	367,595	
Communications	98,202	1,796	932	100,930	72,816	377	73,193	174,123	239,319	
Furniture and Equipment	209,594	-	1,915	211,509	62,130	15	62,145	273,654	156,768	
Printing and Publications	23,937	120	44,448	68,505	29,856	5,026	34,882	103,387	106,364	
Supplies	51,397	1,605	94	53,096	41,477	1,121	42,598	95,694	105,933	
Depreciation	-	-	-	-	69,612	-	69,612	69,612	104,274	
Utilities	35,270	40	-	35,310	72,116	-	72,116	107,426	67,745	
Postage and Delivery	9,143	367	5,023	14,533	5,112	885	5,997	20,530	29,422	
Staff Training	6,137	-	2,065	8,202	3,027	-	3,027	11,229	14,655	
	19,208,114	86,796	1,786,387	21,081,297	5,215,693	392,351	5,608,044	26,689,341	27,748,148	
Partner Expenses	4,071,109	-	-	4,071,109	-	-	-	4,071,109	5,808,667	
Subtotal	23,279,223	86,796	1,786,387	25,152,406	5,215,693	392,351	5,608,044	30,760,450	33,556,815	
Allocation of Indirect Costs	4,517,435	43,673	419,089	4,980,197	(5,072,200)	92,003	(4,980,197)	-	-	
Total	\$ 27,796,658	\$ 130,469	\$ 2,205,476	\$ 30,132,603	\$ 143,493	\$ 484,354	\$ 627,847	\$ 30,760,450	\$ 33,556,815	

See Notes to Financial Statements.

Freedom House, Inc.

Statement of Cash Flows
Year Ended June 30, 2015
(With Comparative Totals for 2014)

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ 215,636	\$ (759,599)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	69,612	104,274
Deferred rent	484,155	194,497
Realized and unrealized gain on investments, net	(12,633)	(100,256)
Changes in assets and liabilities:		
(Increase) decrease in:		
Cash advances to partners	134,765	(108,242)
Due from U.S. Government	(1,906,953)	176,635
Due from non-USG funders	12,706	(29,218)
Promises to give	(245,690)	223,090
Prepaid expenses and other assets	156,811	(175,781)
Security deposits	41,295	(440,448)
Increase (decrease) in:		
Accounts payable and accrued expenses	242,159	379,380
Grants payable	192,896	(129,109)
Payable to partners	(431,942)	99,532
Refundable advances – non-USG funders	668,062	(358,010)
Net cash used in operating activities	(379,121)	(923,255)
Cash Flows From Investing Activities		
Purchases of investments	(172,593)	(95,622)
Proceeds from the sales of investments	157,282	347,011
Purchases of furniture and equipment	(38,046)	(13,135)
Net cash (used in) provided by investing activities	(53,357)	238,254
Net decrease in cash and cash equivalents	(432,478)	(685,001)
Cash and Cash Equivalents		
Beginning	3,088,207	3,773,208
Ending	\$ 2,655,729	\$ 3,088,207

See Notes to Financial Statements.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: 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:

Rule of Law Initiative/Global Human Rights Training & Support (RIGHTS): Created to support activities in the field of rule of law and human rights around the world, the RIGHTS Consortium includes the Organization (as the grant recipient), in partnership with the American Bar Association Rule of Law Initiative (ABA ROLI) and the National Democratic Institute for International Affairs (NDI). Additional associate partners are included in the RIGHTS Consortium on a project-by-project basis. The program may be expanded through additional funding awards, called associate awards, by USAID missions and regional bureaus. Program activities include assessments, rapid response assistance, technical leadership and training, regional and inter-regional networking, and multi-year field-based programs.

Protecting Human Rights and Freedom of Expression in Mexico: This program aims to equip vulnerable populations, such as journalists and human right defenders, with preventative and self-protection strategies. The program supports efforts by both local activists and the Mexican government to prevent attacks and enhance the emergency assistance available to at-risk journalists and activists in Mexico. The Organization works 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 human rights defenders. The Organization also provides technical assistance to strengthen protection mechanisms created by the Mexican government and civil society to prevent and combat violence against journalists.

Support for Human Rights in Cuba: This program assists the Cuban civil society and human rights defenders to develop grassroots movements with nationwide reach, as well as conduct research and advocate on behalf of Cuban actors. The program includes a series of 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 different regional and international forums.

Galvanizing Civic Participation in Belarus: The Organization is implementing a two-year project aimed at bolstering social capital, rendering Belarusian society more cooperative, inclusive and more civically engaged. Together with its partner organizations, the Organization engages youth, senior citizens, civil society organizations, human rights defenders and lawyers in all seven regions of Belarus in activities that bolster domestic and international advocacy and deploy innovative outreach techniques to galvanize participation of the broader population in civic life.

Notes to Financial Statements

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

Shining a Light on Corruption in Ukraine: The Organization empowers journalists, bloggers, and civil society activists to uncover and report on corruption, from the local to national level, through a multi-year project in Ukraine. Project participants and others reveal how corruption affects daily life across the country on Nikorupciji.org, an anti-corruption news portal and resource developed by the Organization and Ukrainian partners. In addition to training journalists and developing a nationwide anti-corruption network, we stimulate efforts to uncover corruption by supporting innovative approaches and giving non-professional journalists the tools and resources they need to adequately report on corruption.

Strengthening Human Rights in Kazakhstan and Kyrgyzstan: The Organization continues to engage the government of Kyrgyzstan on human rights issues and acts as an effective conduit between civil society and the government. The Organization's participation in and organization of various civil society coalitions has expanded its reach into the South of Kyrgyzstan where ethnic Uzbeks continue to face discrimination following June 2010 ethnic clashes. Through the Voice of Freedom internet platform and other institutions such as the National Preventative Mechanism against Torture and cooperation with the Ombudsman's office, the Organization empowers civil society to raise the profile of human rights issues through advocacy, monitoring, and organizational development.

The Organization continues to maintain operating space for civil society in the face of Kazakhstan's deteriorating human rights situation. Through small grants, the Organization empowers its local partners to continue their monitoring activities, conduct human rights trainings in underserved areas, and engage with the government on legislative reforms. The Organization has mobilized its local partners to coordinate their efforts in order to increase efficacy in promoting human rights in Kazakhstan and bringing international attention to the situation.

Justice as a Right in Southern Africa: In October 2010, the Organization began implementation of a seven year program aimed at increasing judicial independence, enhancing the rule of law and encouraging innovative civil society approaches to human rights promotion in the Southern Africa region. Through this regional program 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. In year four of the project, the Organization published an extensive focus group study into public opinion on political leadership, respect for the rule of law, and human rights in South Africa. The results of this study informed the Organization's current elections project which works with both citizens and elected leaders to bridge the gap between the electorate and elected. Project activities are aimed at enhancing citizen participation, particularly among the 18 to 29 age bracket, during and after South Africa's 2014 and 2016 election process.

Support for Human Rights in Ethiopia: The Organization is providing critical support to civil society actors and human rights defenders amidst government repression that has decimated these groups. These activities include both strengthening the capacity of human rights organizations and bolstering coordination among different human rights actors so that they can engage the government effectively and be able to mentor new generation 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 is focused on providing support that will enable human rights monitors and activists to continue their activities in the face of harsh government repression. The Organization has already doubled the size of our partner the African Centre for Justice and Peace Studies' a leading human rights monitoring network which is able to collect and disseminate important information coming out of the country. The Organization also mentors emerging leaders within Sudanese civil society in areas such as strategic planning, political communication, citizen participation in citizen mobilization, advocacy, and negotiations.

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

Support for Policy Research in Cambodia: Since 2010, the Organization has implemented programs in Cambodia designed to increase the quantity of indigenous policy research. The Organization has partnered with independent media organizations, women's rights groups, academic institutions, and democracy activists to implement robust research projects. Key research projects include reports on the voting experience of ethnic minorities in national elections, the psychosocial impact of forced land evictions on women, and a survey of Cambodian attitudes towards freedom of expression and political discourse online.

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 Principle 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.

Enhancing the Protection of Human Rights Defenders (HRDs) and Journalists in Pakistan: In Pakistan, the Organization is working with local partners to establish a series of Human Rights Defenders Networks across the country to develop strong links between law enforcement, media and human rights activists. The Organization's local partners are also conducting physical and digital security trainings for HRDs and journalists, supplying local organizations with much-needed safety equipment, and developing a website to display statistics on attacks against journalists. The Organization has also conducted a series of trainings on security for HRDs and journalists, and facilitated the participation of Pakistani activists in Pakistan's United Nations Universal Periodic Review.

Legal Reform in Myanmar: The Organization leads the Rights for All consortium in Myanmar, which supports legal reform initiatives around the Education Law, right to information, the Peaceful Assembly and Peaceful Procession Law, and constitutional reform through in-kind support, technical training, and small grants. As a result of the consortium members' engagement with government last year, a draft Association Registration Law was modified in response to civil society concerns to include a fully voluntary NGO registration system without penalties for unregistered groups.

Global Emergency Assistance Program: The Emergency Assistance Program (EAP) at The Organization includes four sub-programs, the Global Human Rights Defenders Fund (HRDF), the Lifeline: Embattled CSO Assistance Fund (Lifeline), Dignity for All: the LGBTI Assistance Program, and the Religious Freedom Fund (funded by both DRL and Canadian support), which together provide small amounts of emergency funding to human rights defenders (HRDs) and civil society organizations (CSOs) in emergency situations around the world. Emergency assistance supports the payment of: medical and legal fees, trial monitoring, prison visits, security, relocation, humanitarian assistance and dependent support. Cases are received through a vast referral network, including local, regional and international partners. Lifeline and Dignity are consortia led by the Organization and supported by the Lifeline Donor Steer Committee and the Global Equality Fund, respectively. Lifeline, Dignity and RFF provide urgent advocacy, security and/or opportunity sub-grants that support local CSOs short-term, and Dignity also provides preemptive security trainings.

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

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.

Internet Freedom: The Global Internet Freedom Initiative includes the following activities:

- *Freedom on the Net Report:* The fourth edition of the Organization's report Freedom on the Net: A Global Assessment of Internet and Digital Media was released in October 2013. It is the world's most comprehensive standard for measuring and tracking internet freedom. Freedom on the Net provides a systematic look at tactics that governments have adopted that go beyond technical filtering, raising concern over trends such as the use of surveillance, physical attacks on bloggers, and the manipulation of online conversations by undercover agents. The report covers 60 strategic countries, including China, Egypt, and Russia, with the aim of expanding the survey worldwide as more support becomes available. Like its other standard-setting publications, Freedom on the Net will provide a valuable tool that international democracy advocates can use to challenge government control and advance freedom of expression online.
- *Digital Security for Activists:* The Organization provides digital emergency response services to human rights defenders and civil society activists who come under digital attack in countries with restrictive environments. In addition, materials to educate activists on digital security are under development.
- *Advocacy for Internet Freedom:* The global and regional meetings of the United Nations Internet Governance Forum provide critical venues to influence policy and promote debate on online freedom. The Organization brings free expression advocates and internet experts to these meetings to amplify independent local voices in deliberations on internet governance. These local voices seek to strengthen digital freedoms and counter attempts by repressive governments to erode the rights of internet users.
- *Building Global Network of Internet Freedom Analysts and Advocates:* Through their work on the Freedom on the Net report, the Organization is building capacity and network of over 70 internet freedom analysts from around the globe—most of whom are activists, academics, bloggers, and lawyers from countries under study. By using the Freedom on the Net methodology and findings, they are able to systematically track positive and negative trends in their countries and more effectively hold their governments accountable through local advocacy initiatives.

Notes to Financial Statements

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

Democracy Fund: This global program works to improve adherence to human rights standards by strengthening the capacity of non-governmental civic groups worldwide to conduct effective advocacy, legal services, monitoring and reporting by independent media, civic organizations and human rights defenders that promote human rights, democracy and rule of law. The Organization and its partners, American Bar Association and Global Rights, and sub-recipient Internews, have been active in responding to threats and challenges in some of the most difficult countries in Southeast Asia, the Middle East and North Africa, Central Asia, the Caucasus and Russia, and Central and East Africa.

A summary of the Organization's significant accounting policies follows:

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. 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, 2015. 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, 2015.

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.

Notes to Financial Statements

Note 1. Nature of Activities and 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: Grants payable 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 the 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, 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, 2015.

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 2012.

Freedom House, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and 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, 2014, from which the summarized information was derived.

Reclassifications: Certain items in the June 30, 2014, summarized comparative information have been reclassified to conform to June 30, 2015, financial statement presentation. The reclassification had no effect on the previously reported change in net assets or net assets.

Subsequent events: The Organization evaluated subsequent events through February 8, 2016, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments are presented in the financial statements at fair market value. Investments at June 30, 2015, are held in brokerage accounts and are comprised of the following:

Certificates of deposit	\$	821,677
Equities		574,350
Mutual funds		209,151
Corporate bonds		144,526
Cash and accrued interest		1,263,032
Money market funds		2,780
	\$	<u>3,015,516</u>

Investment income for the year ended June 30, 2015, consists of the following:

Interest and dividends	\$	45,751
Realized and unrealized gain on investments, net		12,633
	\$	<u>58,384</u>

Note 3. Furniture and Equipment

Furniture and equipment and accumulated depreciation at June 30, 2015, and depreciation expense for the year ended June 30, 2015, are as follows:

	Estimated Lives	Cost	Accumulated Depreciation	Net	Depreciation
Furniture and fixtures	5 – 10 years	\$ 532,932	\$ 511,435	\$ 21,497	\$ 15,896
Leasehold improvements	5 – 10 years	385,383	310,242	75,141	45,991
Software	7 years	247,222	246,637	585	7,725
		<u>\$ 1,165,537</u>	<u>\$ 1,068,314</u>	<u>\$ 97,223</u>	<u>\$ 69,612</u>

Freedom House, Inc.

Notes to Financial Statements

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets activity for the year ended June 30, 2015, is as follows:

	Balance June 30, 2014	Additions	Released	Balance June 30, 2015
Purpose restricted				
Smith Richardson Foundation	\$ 186,005	\$ 400,000	\$ (238,304)	\$ 347,701
Mark Palmer Forum	-	200,000	(3,916)	196,084
Threat to Democratic Government	-	178,242	(17,182)	161,060
Google Net Freedom	119,836	-	(22,417)	97,419
Russia Restricted	49,638	-	-	49,638
Foundation to Promote Open Society	-	50,000	(5,406)	44,594
Gov't of the Netherlands	52,126	512,792	(544,573)	20,345
YAHOO	14,853	-	(1,883)	12,970
Iran Restricted	9,507	-	-	9,507
China Media Bulletin	33,111	32,900	(62,902)	3,109
MENA	1,400	-	-	1,400
Ukraine Restricted	770	-	-	770
Restricted Private Grants	326	330	-	656
EIDHR	221,026	37,986	(259,012)	-
MacArthur Foundation	219,668	(1,142)	(218,526)	-
Norway Minister of Foreign Affairs	62,867	(62,867)	-	-
Life Line	57,911	-	(57,911)	-
Democracy Web	12,901	(12,901)	-	-
Swedish AID	12,091	(12,265)	174	-
Albert Shanker Institute	3,261	(3,261)	-	-
Bodman Foundation	-	47,500	(47,500)	-
Freedom in the World	-	30,000	(30,000)	-
Jyllands-Posten Foundation	-	60,000	(60,000)	-
NY Publication	-	2,653	(2,653)	-
Press Freedom Survey	-	49,807	(49,807)	-
Sasakawa Peace Foundation	-	9,300	(9,300)	-
Free Press Unlimited	408	1,579	(18,499)	(16,512)
Freedom of the Press	-	23,153	(23,153)	-
Time restricted				
Wilkie Memorial				
Endowment Earnings	86,196	12,451	-	98,647
	<u>\$ 1,143,901</u>	<u>\$ 1,556,257</u>	<u>\$ (1,672,770)</u>	<u>\$ 1,027,388</u>

Freedom House, Inc.

Notes to Financial Statements

Note 5. 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, 2015, consist of the following:

	Temporarily Restricted	Permanently Restricted	Total
Wilkie Memorial Trust – donor restricted	\$ 98,647	\$ 2,000,000	\$ 2,098,647

Endowment fund activity for the year ended June 30, 2015, consists of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – June 30, 2014	\$ 86,196	\$ 2,000,000	\$ 2,086,196
Interest and dividends	10,373	-	10,373
Realized and unrealized gain, net	2,078	-	2,078
Transfer to unrestricted net assets	-	-	-
Endowment net assets – June 30, 2015	\$ 98,647	\$ 2,000,000	\$ 2,098,647

Endowment funds are invested in the following manner as of June 30, 2015:

Certificates of deposit	\$ 846,579
Cash and accrued interest	1,239,523
Mutual funds	12,545
	<u>\$ 2,098,647</u>

Unspent earnings on permanently restricted net assets, net of expenses incurred, totaled \$98,647 at June 30, 2015, and are included in temporarily restricted net assets.

Freedom House, Inc.

Notes to Financial Statements

Note 6. Operating Leases

The Organization occupies office space in New York City and Washington, D.C. under non-cancelable operating leases. During the year, the Organization terminated its Washington, D.C. office space lease as of November 30, 2014. The Organization 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 \$959,061 at June 30, 2015.

Total future minimum lease payments applicable to the new operating lease and the New York City lease at June 30, 2015, are as follows:

Year Ending June 30,

2016	\$ 1,238,377
2017	1,373,650
2018	1,070,776
2019	975,041
2020	1,011,256
2021 – 2026	6,562,586
	<u>\$ 12,231,686</u>

Rent expense applicable to these operating leases for the year ended June 30, 2015, was \$1,505,936.

The Organization subleases a portion of its New York office space. The Organization received cash payments of \$58,800 related to this sublease during the year ended June 30, 2015.

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.

Note 7. 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, 2015, was \$478,651.

Note 8. Major Grantor

During the year ended June 30, 2015, 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>\$ 26,832,625</u>	<u>86.6%</u>

Note 9. 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

Note 9. 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, 2015:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 821,677	\$ -	\$ 821,677
Equities				
Technology	119,986	-	-	119,986
Consumer goods	109,361	-	-	109,361
Financial Services	100,186	-	-	100,186
Energy	79,342	-	-	79,342
Healthcare	75,500	-	-	75,500
Industrials	43,476	-	-	43,476
Basic materials	16,578	-	-	16,578
Consumer defensive	9,166	-	-	9,166
Consumer cyclical	6,439	-	-	6,439
Communications	5,733	-	-	5,733
Telecom	3,634	-	-	3,634
Real estate	3,031	-	-	3,031
Utilities	1,918	-	-	1,918
	574,350	-	-	574,350
Mutual funds				
Financial services	68,605	-	-	68,605
World bond	66,078	-	-	66,078
Convertibles	41,663	-	-	41,663
Technology	20,260	-	-	20,260
Foreign large blend	12,545	-	-	12,545
	209,151	-	-	209,151
Corporate bonds				
Technology	-	32,609	-	32,609
Financial services	-	39,631	-	39,631
Industrials	-	20,900	-	20,900
Healthcare	-	4,949	-	4,949
Telecom	-	4,315	-	4,315
Consumer cyclical	-	2,073	-	2,073
Energy	-	14,494	-	14,494
Real estate	-	5,292	-	5,292
Consumer goods	-	15,435	-	15,435
Communication services	-	4,828	-	4,828
	-	144,526	-	144,526
Money market funds	2,780	-	-	2,780
Total assets at fair value	\$ 786,281	\$ 966,203	\$ -	1,752,484
Cash and accrued interest				1,263,032
Total investments				\$ 3,015,516

Freedom House, Inc.

Notes to Financial Statements

Note 9. Fair Value Measurements (Continued)

Equities, 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 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.

Note 10. 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.

Note 11. 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 on the Statement	Adjustments to Arrive at U.S. GAAP	Functional Expense Totals (U.S. GAAP Basis)
Program services			
Action	\$ 27,796,658	\$ (3,544,381)	\$ 24,252,277
Advocacy	130,469	(31,199)	99,270
Analysis	2,205,476	(266,489)	1,938,987
	<u>30,132,603</u>	<u>(3,842,069)</u>	<u>26,290,534</u>
Supporting services			
Unallocated indirect costs	143,493	(143,493)	-
Management and general	-	4,043,498	4,043,498
Fundraising	484,354	(57,936)	426,418
	<u>627,847</u>	<u>3,842,069</u>	<u>4,469,916</u>
	<u>\$ 30,760,450</u>	<u>\$ -</u>	<u>\$ 30,760,450</u>



RSM US LLP

**Independent Auditor's Report
on the Supplementary Information**

To the Board of Directors
Freedom House, Inc.
Washington, D.C.

We have audited the financial statements of Freedom House, Inc. (the Organization) as of and for the year ended June 30, 2015, and have issued our report thereon which contains an unmodified opinion on those financial statements. See pages 1-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information is presented for purposes of additional analysis and is 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 as a whole.

RSM US LLP

Washington, D.C.
February 8, 2016

Freedom House, Inc.

**Schedule of Expenditures of International Public Agencies
Year Ended June 30, 2015**

Funding Source	Contract Number	Program Title	International Public Agency Expenditures	Amount Provided to Subrecipients
Canadian International Development Agency (CIDA)				
CIDA	RFF 2013-018	Rapid Response Fund	\$ 171,855	\$ -
The European Union (EIDHR)				
EIDHR	EIDHR/2011/279-844	Building Democratic Resolutions for the Crisis in Swaziland	80,656	-
EIDHR	EIDHR/2011/249-033	Continuing Support for Human Rights Defenders in Ethiopia	178,355	-
EIDHR	EIDHR/2013/343-280	HRD Emergency Fund Case E017	5,429	-
EIDHR	EIDHR/2014/344-464	HRD Emergency Fund Case E018	3,497	-
EIDHR	EIDHR/2014/346-619	Belarus: From HRD to VIP	37,579	21,133
Total EIDHR			305,516	21,133
Free Press Unlimited, Netherlands (FPU)				
FPU	H-NL-01-2015-01	Press Freedom Report	16,512	-
FPU	H-NL-01-2014-01	Press Freedom Report	1,987	-
Total FPU			18,499	-
Open Society Foundations				
OSI	OR2014-15601	Foundation to Promote Open Society	5,406	-
Netherlands Ministry of Foreign Affairs				
Netherlands Ministry of Foreign Affairs	23514/DMH0114811	Global Internet Freedom Analysis and Capacity-Building Project	544,573	-
Norwegian Ministry of Foreign Affairs				
Norway	BLR-12/0002	Incubating independent media, civil society, and accountability in Ukraine	163,951	61,433
Norway	MDA-14/0005	Shining a Light on Corruption in Moldova	116,676	56,000
Norway	BLR-13/0002	Civil participation – Belarus	316,821	62,066
Norway	UKR-13/0002	Shining a Light on Corruption in Ukraine	129,058	-
Norway	UKR- 14/0008	Ukraine Elections	689	-
Total Norwegian Ministry of Foreign Affairs			727,195	179,499
Swedish International Development Agency (SIDA)				
SIDA	3/2014 UF2014/15179	Supporting Information Freedom in Turkey	26,486	-
Total expenditures of international public agencies			\$ 1,799,530	\$ 200,632

Freedom House, Inc.

**Schedule of Income and Expenditures for the Flagship Publications
Year Ended June 30, 2015**

	Freedom in the World Survey	Freedom of the Press Survey
Income		
Foundations	\$ 401,000	\$ 134,289
Individuals	1,603	250
Board Members	30,000	-
Total	432,603	134,539
Expenditures	(582,550)	(412,030)
Net loss	\$ (149,947)	\$ (277,491)