

FreedomWorks Foundation, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2015 and 2014

FreedomWorks Foundation, Inc.

Financial Statements
December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
FreedomWorks Foundation, Inc.

We have audited the accompanying financial statements of FreedomWorks Foundation, Inc. ("the Foundation"), which comprise the statements of financial position as of December 31, 2015 and 2014, the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 15-16 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.

Handwritten signature in black ink that reads "Rogers & Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia
July 12, 2016

FreedomWorks Foundation, Inc.

Statements of Financial Position December 31, 2015 and 2014

	2015	2014
Assets		
Cash	\$ 708,883	\$ 1,237,864
Contributions receivable	-	51,613
Investments	-	898
Due from FreedomWorks, Inc.	560,956	-
Prepaid expenses and deposit	4,341	1,677
Investments, restricted use	517,430	431,021
Total assets	<u>\$ 1,791,610</u>	<u>\$ 1,723,073</u>
Liabilities and Net Assets		
Liabilities		
Due to FreedomWorks, Inc.	\$ -	\$ 795,366
Deferred revenue	12,000	-
Line of credit	1,500,000	-
Total liabilities	<u>1,512,000</u>	<u>795,366</u>
Net Assets (Deficit)		
Unrestricted	(237,820)	353,341
Temporarily restricted	517,430	574,366
Total net assets	<u>279,610</u>	<u>927,707</u>
Total liabilities and net assets	<u>\$ 1,791,610</u>	<u>\$ 1,723,073</u>

FreedomWorks Foundation, Inc.

Statement of Activities
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions	\$ 3,445,748	\$ -	\$ 3,445,748
Royalty income	743	-	743
Other revenue	56,017	-	56,017
Investment income	88,660	86,409	175,069
Released from restrictions	143,345	(143,345)	-
	<u>3,734,513</u>	<u>(56,936)</u>	<u>3,677,577</u>
Expenses			
Program services:			
Public education	568,507	-	568,507
Public affairs	597,840	-	597,840
Strategic planning	409,618	-	409,618
Meetings and events	6,912	-	6,912
Grassroots mobilization	326,482	-	326,482
Research	679,524	-	679,524
Public policy	53,330	-	53,330
	<u>2,642,213</u>	<u>-</u>	<u>2,642,213</u>
Total program services			
Supporting services:			
Fundraising	381,288	-	381,288
General and administrative	1,302,173	-	1,302,173
	<u>1,683,461</u>	<u>-</u>	<u>1,683,461</u>
Total supporting services			
Total expenses	<u>4,325,674</u>	<u>-</u>	<u>4,325,674</u>
Change in Net Assets	(591,161)	(56,936)	(648,097)
Net Assets, beginning of year	<u>353,341</u>	<u>574,366</u>	<u>927,707</u>
Net Assets (Deficit), end of year	<u>\$ (237,820)</u>	<u>\$ 517,430</u>	<u>\$ 279,610</u>

See accompanying notes.

FreedomWorks Foundation, Inc.

Statement of Activities
For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions	\$ 5,098,270	\$ 792,013	\$ 5,890,283
Other revenue	30,758	-	30,758
Investment (loss) income	(4,872)	42,224	37,352
Released from restrictions	1,098,967	(1,098,967)	-
Total revenue and support	6,223,123	(264,730)	5,958,393
Expenses			
Program services:			
Public education	1,799,610	-	1,799,610
Public affairs	1,131,202	-	1,131,202
Strategic planning	959,386	-	959,386
Meetings and events	191,823	-	191,823
Grassroots mobilization	327,210	-	327,210
Research	353,577	-	353,577
Public policy	204,101	-	204,101
Total program services	4,966,909	-	4,966,909
Supporting services:			
Fundraising	504,902	-	504,902
General and administrative	453,966	-	453,966
Total supporting services	958,868	-	958,868
Total expenses	5,925,777	-	5,925,777
Change in Net Assets	297,346	(264,730)	32,616
Net Assets, beginning of year	55,995	839,096	895,091
Net Assets, end of year	\$ 353,341	\$ 574,366	\$ 927,707

See accompanying notes.

FreedomWorks Foundation, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ (648,097)	\$ 32,616
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized gain on investments	(86,397)	(37,536)
Donated stock	-	(87,997)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	51,613	25,039
Prepaid expenses and deposit	(2,664)	(427)
Due from FreedomWorks, Inc.	(560,956)	-
Increase (decrease) in:		
Due to FreedomWorks, Inc.	(795,366)	395,938
Deferred revenue	12,000	-
	(2,029,867)	327,633
Cash Flows from Investing Activities		
Purchases of investments	(87,826)	-
Proceeds from sale of investments	88,712	82,411
	886	82,411
Cash Flows from Financing Activity		
Proceeds from draws on line of credit	1,500,000	-
	1,500,000	-
Net (Decrease) Increase in Cash	(528,981)	410,044
Cash, beginning of year	1,237,864	827,820
Cash, end of year	\$ 708,883	\$ 1,237,864

See accompanying notes.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

1. Nature of Operations

The FreedomWorks Foundation, Inc. (“the Foundation”) is a not-for-profit organization incorporated under the laws of the District of Columbia dedicated to free markets, limited government, and citizens’ involvement in the policy process. It functions as a public policy and educational organization that supports consumers’ freedom of choice in a market economy.

FreedomWorks, Inc. (“FreedomWorks”) controls the Foundation through a majority voting interest in its Board of Directors and an economic interest. The accompanying financial statements present only the accounts of the Foundation, in accordance with accounting principles generally accepted in the United States of America, which permit a subsidiary organization to issue stand-alone financial statements.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Foundation’s financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Foundation’s operations and general programs.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Foundation or the passage of time.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to estimates include valuation of privately-held investments. Actual results could differ from those estimates.

Investments

Investments are stated at fair value. The investment in privately-held stock is considered temporarily restricted, due to the donor’s stipulations on the Foundation’s ability to sell this investment. Realized and unrealized gains and losses are reported as a component of investment income in the accompanying statements of activities.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

Donated investments are recorded at fair value based on quoted market prices at the time of receipt. Unless restricted, it is the Foundation's policy to sell all donated investments upon receipt.

Revenue Recognition

Contributions are recognized at the earlier of the date received or promised, and are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation reports contributions as temporarily restricted support if received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same year are reported as unrestricted contributions.

Revenue from all other sources is recognized when earned.

Donated Services

A number of volunteers have donated significant time to develop and assist with the Foundation's programs and activities. These donated services are not reflected in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Functional Allocation of Expenses

The costs of the Foundation's programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

The Foundation administers the following programs:

Public Affairs and Public Policy: Promotes interest in the Foundation's public policy research and education through media advisories, TV and radio interviews, op-ed columns, blogging, social networking, paid advertising, and networking platforms for the community.

Public Education: Use of various media, including mail, email, online and embedded programming and other means to advocate, promote, and educate the community about limited government.

Strategic Planning and Research: Strategic planning, research and development of education programs aimed at promoting consumer-focused economic policies in both domestic and international economic markets, including regulatory policy, fiscal policy, health care policy, tax policy, energy, environmental policies, and other mission-related issues.

Grassroots Mobilization: Advocacy, training and equipping interested citizens on reform of federal and state policies in areas such as tax policy, fiscal policy, health care policy, energy and environmental policies, education, and other mission-related issues.

Meetings and Events: Responsible for all event planning for the Foundation both nationally and regionally to educate and activate volunteers.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through July 12, 2016, the date the financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist of cash and investments. The Foundation maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, may exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Foundation has not experienced any credit losses on its cash and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

4. Contributions Receivable

Contributions receivable represent unconditional amounts committed to the Foundation and are recognized as contribution revenue in the period received. All amounts are expected to be collected within one year and are recorded at their net realizable value. At December 31, 2015 and 2014, contributions receivable totaled \$0- and \$51,613, respectively. No allowance for doubtful amounts or discount were provided, as the amounts are deemed fully collectible and will be collected within one year.

5. Investments and Fair Value Measurements

The Foundation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The Foundation's Level 3 asset consists of its investment in privately-held stock and is reported at the fair value of the investment based on the adjusted net book value per share as estimated by the privately-held stock company's management and Board of Directors. Management reviews and evaluates the values provided by investee's management and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Unobservable inputs used in these models are significant to the fair value of the investments.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

5. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for those investments measured on a recurring basis:

	As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Privately-held stock, restricted use	\$ -	\$ -	\$ 517,430	\$ 517,430
Total investments	\$ -	\$ -	\$ 517,430	\$ 517,430
	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Privately-held stock, restricted use	\$ -	\$ -	\$ 431,021	\$ 431,021
Equities	898	-	-	898
Total investments	\$ 898	\$ -	\$ 431,021	\$ 431,919

Level 3 Gains and Losses

The following table presents the Foundation's activity for its investment measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance at December 31, 2013	\$ 388,797
Unrealized gain	42,224
Balance at December 31, 2014	431,021
Dividends	88,724
Proceeds from dividends	(88,712)
Realized and unrealized gain	86,397
Balance at December 31, 2015	\$ 517,430

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

5. Investments and Fair Value Measurements (continued)

Investment income consists of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Realized and unrealized gain	\$ 86,397	\$ 37,536
Dividends	88,712	-
Investment fees	<u>(40)</u>	<u>(184)</u>
Total investment income	<u>\$ 175,069</u>	<u>\$ 37,352</u>

6. Line of Credit

In March 2015, the Foundation entered into a \$3,000,000 revolving line of credit to fund temporary shortfalls in working capital. The line is unsecured and the terms include an interest rate equal to the Applicable Federal Rate for March 2015 which equates to 0.40% per annum. Accrued interest is payable on the 30th day of each month beginning in April 2015, with all unpaid interest and principal due on December 31, 2016. At December 31, 2015 and 2014, the amount due on this line of credit totals \$1,500,000 and \$0-, respectively, and is included in the accompanying statements of financial position.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or once specific actions are undertaken by the Foundation. These net assets are then released and reclassified to unrestricted support when they are expended.

Prior to 2007, the Foundation received a donation of privately-held common stock. The donation contains restrictions on the transfer of the stock, including discretionary donor repurchase rights. When the donor elects to repurchase a portion of the stock, or other transferability restrictions are met, the fair market value of the shares transferred is released into unrestricted net assets.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

7. Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
FreedomWorks Connector International	\$ -	\$ 143,345
Restricted for stock transfers	<u>517,430</u>	<u>431,021</u>
Total temporarily restricted net assets	<u>\$ 517,430</u>	<u>\$ 574,366</u>

8. Transactions with Related Parties

The Foundation shares office space, employees, contractors, and related expenses with FreedomWorks. Such costs are allocated to FreedomWorks and the Foundation under the terms of a cost-sharing agreement that includes charges representing the Foundation's usage of FreedomWorks' fixed assets, which are shown as depreciation and amortization in the accompanying supplementary schedules of functional expenses. The Foundation reimburses FreedomWorks for these personnel, contracted services, and operating and administrative costs. For the years ended December 31, 2015 and 2014, FreedomWorks provided administrative support and personnel to the Foundation totaling \$2,876,837 and \$2,883,455, respectively. FreedomWorks also collected certain contributions on behalf of the Foundation. Contributions collected on behalf of the Foundation totaled \$363,275 and \$438,823 for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015, the Foundation has a receivable from FreedomWorks totaling \$560,956. The total amount payable to FreedomWorks at December 31, 2014 was \$795,366.

9. Allocation of Joint Costs

For the years ended December 31, 2015 and 2014, FreedomWorks conducted direct mail campaigns that included fundraising appeals. Within a few of these appeals, donors were given the option to contribute to either FreedomWorks or the Foundation. As a result, costs for these appeals have been allocated to both entities. Direct mail costs allocated to the Foundation totaled \$10,107 and \$60,906 at December 31, 2015 and 2014, respectively. The programmatic component of the Foundation's allocation was \$-0- and \$43,753, respectively, and the fundraising component of the Foundation's allocation was \$10,107 and \$17,153, respectively, at December 31, 2015 and 2014.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

10. Income Taxes

The Foundation is a tax-exempt organization as described in Internal Revenue Code (IRC) Section 501(c)(3), and it is not a private foundation because it is described in IRC Section 170(b)(1)(A)(vi). Contributions to the Foundation are deductible under IRC Section 170(c)(2). The Foundation is subject to tax on income from unrelated business activities. No provisions for income tax were required for the years ended December 31, 2015 and 2014, as the Foundation had no unrelated business income.

Management has evaluated the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that qualify for either recognition or disclosure in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

FreedomWorks Foundation, Inc.

Schedule of Functional Expenses
For the Year Ended December 31, 2015

	Public Education	Public Affairs	Strategic Planning	Meetings and Events	Grassroots Mobilization	Research	Public Policy	Total Program Services	Fundraising	General and Admini- strative	Total Supporting Services	Total
Salaries and benefits	\$ 246,805	\$ 199,952	\$ 276,812	\$ 6,755	\$ 145,690	\$ 206,815	\$ 50,165	\$ 1,132,994	\$ 254,116	\$ 287,503	\$ 541,619	\$ 1,674,613
Advertising and promotion	94,053	1,317	22	-	48,877	27,230	-	171,499	-	194	194	171,693
Office expenses	4,863	710	4,652	-	12,959	4,172	128	27,484	11,480	47,334	58,814	86,298
Professional fees	33,834	204,533	62,069	-	17,584	379,239	-	697,259	30,754	108,065	138,819	836,078
Information technology	183,316	172,185	150	-	8	12,515	2,850	371,024	2,150	23,907	26,057	397,081
Depreciation and amortization	-	-	-	-	-	-	-	-	-	468,017	468,017	468,017
Occupancy	1,288	-	57	-	1,878	-	-	3,223	-	319,010	319,010	322,233
Travel	4,272	17,270	34,370	157	75,274	9,191	86	140,620	30,251	315	30,566	171,186
Conferences and meetings	76	1,786	8,353	-	24,059	19,655	101	54,030	924	2,592	3,516	57,546
Insurance	-	-	-	-	-	-	-	-	-	48,784	48,784	48,784
Grants	-	-	8,000	-	-	-	-	8,000	-	-	-	8,000
Miscellaneous	-	87	15,133	-	153	6,607	-	21,980	51,613	(3,548)	48,065	70,045
Publication costs	-	-	-	-	-	14,100	-	14,100	-	-	-	14,100
Total Expenses	\$ 568,507	\$ 597,840	\$ 409,618	\$ 6,912	\$ 326,482	\$ 679,524	\$ 53,330	\$ 2,642,213	\$ 381,288	\$ 1,302,173	\$ 1,683,461	\$ 4,325,674

FreedomWorks Foundation, Inc.

Schedule of Functional Expenses
For the Year Ended December 31, 2014

	Public Education	Public Affairs	Strategic Planning	Meetings and Events	Grassroots Mobilization	Research	Public Policy	Total Program Services	Fundraising	General and Admini- strative	Total Supporting Services	Total
Salaries and benefits	\$ 259,263	\$ 225,118	\$ 339,473	\$ 48,089	\$ 140,364	\$ 235,268	\$ 135,639	\$ 1,383,214	\$ 278,414	\$ 224,252	\$ 502,666	\$ 1,885,880
Advertising and promotion	1,287,994	2,173	1,794	-	33,636	3,000	-	1,328,597	596	4,056	4,652	1,333,249
Professional fees	6,156	268,656	384,752	1,205	14,229	3,738	473	679,209	17,553	106,384	123,937	803,146
Information technology	77,945	521,834	4,645	659	2,070	5,364	5,420	617,937	7,587	3,100	10,687	628,624
Depreciation and amortization	67,267	58,420	88,081	12,490	36,424	61,087	35,209	358,978	72,261	58,788	131,049	490,027
Occupancy	38,418	31,689	47,776	6,774	20,878	33,134	19,098	197,767	39,196	31,887	71,083	268,850
Travel	480	9,089	53,986	20,324	41,373	992	1,717	127,961	40,945	718	41,663	169,624
Office expenses	55,309	7,411	13,753	4,896	20,851	5,016	2,816	110,052	36,883	14,950	51,833	161,885
Conferences and meetings	464	1,328	10,064	96,213	11,055	244	424	119,792	2,884	865	3,749	123,541
Insurance	5,728	4,975	7,501	1,064	3,102	5,202	2,998	30,570	6,154	5,006	11,160	41,730
Miscellaneous	586	509	7,561	109	3,228	532	307	12,832	2,429	3,960	6,389	19,221
Total Expenses	\$ 1,799,610	\$ 1,131,202	\$ 959,386	\$ 191,823	\$ 327,210	\$ 353,577	\$ 204,101	\$ 4,966,909	\$ 504,902	\$ 453,966	\$ 958,868	\$ 5,925,777