

FreedomWorks Foundation, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2017 and 2016

FreedomWorks Foundation, Inc.

Financial Statements
December 31, 2017 and 2016

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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, 2017 and 2016, 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 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 the Foundation as of December 31, 2017 and 2016, 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
September 13, 2018

FreedomWorks Foundation, Inc.

Statements of Financial Position December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash	\$ 541,133	\$ 450,206
Contributions receivable	100,000	150,000
Due from FreedomWorks, Inc.	1,279,323	1,742,899
Prepaid expenses and deposit	11,780	31,211
Investments, restricted use	-	490,168
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,932,236</u>	<u>\$ 2,864,484</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 104,295	\$ 153,230
Line of credit	2,900,000	2,500,000
	<u> </u>	<u> </u>
Total liabilities	<u>3,004,295</u>	<u>2,653,230</u>
Net (Deficit) Assets		
Unrestricted	(1,072,059)	(278,914)
Temporarily restricted	-	490,168
	<u> </u>	<u> </u>
Total (deficit) net assets	<u>(1,072,059)</u>	<u>211,254</u>
Total liabilities and net assets	<u>\$ 1,932,236</u>	<u>\$ 2,864,484</u>

See accompanying notes.

FreedomWorks Foundation, Inc.

Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions	\$ 3,867,441	\$ -	\$ 3,867,441
Other revenue	104,772	-	104,772
Investment income	66,690	-	66,690
Released from restrictions	490,168	(490,168)	-
	4,529,071	(490,168)	4,038,903
Expenses			
Program services:			
Community building, research, and education	3,652,897	-	3,652,897
Regulatory action	454,471	-	454,471
Strategy	1,843	-	1,843
	4,109,211	-	4,109,211
Total program services			
Supporting services:			
Fundraising	630,094	-	630,094
General and administrative	582,911	-	582,911
	1,213,005	-	1,213,005
Total supporting services			
Total expenses	5,322,216	-	5,322,216
Change in Net Assets	(793,145)	(490,168)	(1,283,313)
Net (Deficit) Assets, beginning of year	(278,914)	490,168	211,254
Net (Deficit) Assets, end of year	\$ (1,072,059)	\$ -	\$ (1,072,059)

See accompanying notes.

FreedomWorks Foundation, Inc.

Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions	\$ 3,416,316	\$ -	\$ 3,416,316
Other revenue	63,307	-	63,307
Investment income (loss)	76,771	(27,262)	49,509
	<u>3,556,394</u>	<u>(27,262)</u>	<u>3,529,132</u>
Expenses			
Program services:			
Public education	1,011,619	-	1,011,619
Public affairs	531,936	-	531,936
Grassroots mobilization	676,386	-	676,386
Strategy	292,481	-	292,481
Public policy	80,925	-	80,925
	<u>2,593,347</u>	<u>-</u>	<u>2,593,347</u>
Total program services			
Supporting services:			
Fundraising	303,426	-	303,426
General and administrative	700,715	-	700,715
	<u>1,004,141</u>	<u>-</u>	<u>1,004,141</u>
Total supporting services			
Total expenses	<u>3,597,488</u>	<u>-</u>	<u>3,597,488</u>
Change in Net Assets	(41,094)	(27,262)	(68,356)
Net (Deficit) Assets, beginning of year	<u>(237,820)</u>	<u>517,430</u>	<u>279,610</u>
Net (Deficit) Assets, end of year	<u>\$ (278,914)</u>	<u>\$ 490,168</u>	<u>\$ 211,254</u>

See accompanying notes.

FreedomWorks Foundation, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ (1,283,313)	\$ (68,356)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized gain on investments	(66,690)	-
Unrealized loss on investments	-	27,262
Change in operating assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	50,000	(150,000)
Due from FreedomWorks, Inc.	463,576	(1,181,943)
Prepaid expenses and deposit	19,431	(26,870)
Increase (decrease) in:		
Accounts payable and accrued expenses	(48,935)	153,230
Deferred revenue	-	(12,000)
	(865,931)	(1,258,677)
Cash Flows from Investing Activity		
Proceeds from sale of investments	556,858	-
Net cash provided by investing activity	556,858	-
Cash Flows from Financing Activities		
Proceeds from draws on line of credit	500,000	1,000,000
Payments on line of credit	(100,000)	-
Net cash provided by financing activities	400,000	1,000,000
Net Increase (Decrease) in Cash	90,927	(258,677)
Cash, beginning of year	450,206	708,883
Cash, end of year	\$ 541,133	\$ 450,206
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	\$ 798	\$ 15,725

See accompanying notes.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

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.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

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, 2017 and 2016, contributions receivable totaled \$100,000 and \$150,000, respectively. No allowance for doubtful amounts or discounts were provided, as the amounts are deemed fully collectible and will be collected within one year.

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. 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 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.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

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.

The Foundation administers the following programs:

Community Building, Research, and Education: The Foundation works to constantly engage activists across the country in order to implement its programs. Additionally, education and research programs are conducted to support the community to further the free market and limited government activities.

Regulatory Action: Mobilize the community to implement our regulatory action program. Utilize cutting edge technology to engage the community to take part in the regulatory process. Additionally, provide training and support to the activist community to further the Foundation's regulatory engagement.

Strategy: Strategic management and discussion about Foundation development and creation of future programs. In order to ensure that the Foundation is being responsive to our community and key stakeholders, the Foundation will continually evaluate 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.

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.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncement

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in 2018.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 13, 2018, 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 Deposit 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.

4. Investments and Fair Value Measurements

The Foundation follows FASB Accounting Standards Codification 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.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

4. Investments and Fair Value Measurements (continued)

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

	2017	2016
Realized gain	\$ 66,690	\$ -
Unrealized loss	-	(27,262)
Interest and dividends	-	76,771
Total investment income	\$ 66,690	\$ 49,509

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.

The Foundation did not hold any investments at December 31, 2017.

The following table presents the Foundation's fair value hierarchy for those investments measured on a recurring basis at December 31, 2016.

	Level 1	Level 2	Level 3	Total
Privately-held stock, restricted use	\$ -	\$ -	\$ 490,168	\$ 490,168
Total investments	\$ -	\$ -	\$ 490,168	\$ 490,168

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

4. Investments and Fair Value Measurements (continued)

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, 2015	\$	517,430
Dividends		76,771
Proceeds from dividends		(76,771)
Unrealized loss		(27,262)
		<hr/>
Balance at December 31, 2016		490,168
Proceeds from sale of investments		(556,858)
Realized gain		66,690
		<hr/>
Balance at December 31, 2017	\$	<u><u>-</u></u>

5. 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, 2018. At December 31, 2017 and 2016, the amount due on this line of credit totals \$2,900,000 and \$2,500,000, respectively, and is included in the accompanying statements of financial position.

6. 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. During the year ended December 31, 2017, the Foundation sold these stocks and released the restrictions into unrestricted net assets.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

6. Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets consist of amounts restricted for stock transfers and totaled \$-0- and \$490,168, respectively, at December 31, 2017 and 2016.

7. 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, 2017 and 2016, FreedomWorks provided administrative support and personnel to the Foundation totaling \$1,941,793 and \$1,165,687, respectively. FreedomWorks also collected certain contributions on behalf of the Foundation. Contributions collected on behalf of the Foundation totaled \$109,536 and \$270,142 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the Foundation has a receivable from FreedomWorks totaling \$1,279,323 and \$1,742,899, respectively.

8. Allocation of Joint Costs

For the years ended December 31, 2017 and 2016, FreedomWorks conducted direct mail campaigns that included fundraising appeals. Within the 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 \$1,167,975 and \$9,800 at December 31, 2017 and 2016, respectively. The programmatic component of the Foundation's allocation was \$537,880 and \$-0- at December 31, 2017 and 2016, respectively and the fundraising component of the Foundation's allocation was \$630,094 and \$9,800, respectively.

9. 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, 2017 and 2016, as the Foundation had no unrelated business income.

FreedomWorks Foundation, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

9. Income Taxes (continued)

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, 2017

	Community Building, Research, and Education	Regulatory Action	Strategy	Total Program Services	Fundraising	General and Admini- strative	Total Supporting Services	Total
Salaries and benefits	\$ 1,141,344	\$ 219,655	\$ -	\$ 1,360,999	\$ 252,863	\$ 327,930	\$ 580,793	\$ 1,941,792
Advertising and promotion	114,356	241	-	114,597	1,304	428	1,732	116,329
Office expenses	686,522	29,178	27	715,727	119,298	42,538	161,836	877,563
Professional fees and contract services	952,393	106,451	-	1,058,844	147,349	112,220	259,569	1,318,413
Depreciation and amortization	127,986	23,764	-	151,750	24,416	23,463	47,879	199,629
Occupancy	258,496	47,840	-	306,336	49,262	48,356	97,618	403,954
Travel	214,387	13,777	1,816	229,980	19,535	17,703	37,238	267,218
Conferences and meetings	141,278	11,156	-	152,434	9,334	10,410	19,744	172,178
Contributions	3,000	-	-	3,000	-	-	-	3,000
Interest and other expenses	13,135	2,409	-	15,544	6,733	(137)	6,596	22,140
Total Expenses	\$ 3,652,897	\$ 454,471	\$ 1,843	\$ 4,109,211	\$ 630,094	\$ 582,911	\$ 1,213,005	\$ 5,322,216

FreedomWorks Foundation, Inc.

Schedule of Functional Expenses
For the Year Ended December 31, 2016

	Public Education	Public Affairs	Grassroots Mobilization	Strategy	Public Policy	Total Program Services	Fundraising	General and Admini- strative	Total Supporting Services	Total
Salaries and benefits	\$ 375,785	\$ 310,420	\$ 251,650	\$ 16,440	\$ 58,889	\$ 1,013,184	\$ 145,714	\$ 5,702	\$ 151,416	\$ 1,164,600
Advertising and promotion	7,394	30,290	85,423	108,357	83	231,547	224	11	235	231,782
Office expenses	59,383	26,095	50,358	5,133	4,882	145,851	27,741	6,119	33,860	179,711
Professional fees and contract services	396,059	54,286	104,424	76,372	13,489	644,630	100,609	1,659	102,268	746,898
Information technology	126,241	36,794	3,885	64,666	706	232,292	1,890	89	1,979	234,271
Depreciation and amortization	-	-	-	-	-	-	-	379,734	379,734	379,734
Occupancy	-	-	-	-	-	-	-	306,484	306,484	306,484
Travel	18,601	41,753	141,181	15,684	-	217,219	15,930	520	16,450	233,669
Conferences and meetings	7,306	16,827	28,219	4,944	32	57,328	1,408	4	1,412	58,740
Insurance	11,523	9,322	7,081	435	1,713	30,074	4,586	217	4,803	34,877
Miscellaneous	9,327	6,149	4,165	450	1,131	21,222	5,324	176	5,500	26,722
Total Expenses	\$ 1,011,619	\$ 531,936	\$ 676,386	\$ 292,481	\$ 80,925	\$ 2,593,347	\$ 303,426	\$ 700,715	\$ 1,004,141	\$ 3,597,488