

FREEDOM HOUSE, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2023
AND
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Freedom House, Inc.

Opinion

We have audited the accompanying financial statements of Freedom House, Inc. (a nonprofit organization), which comprise the balance sheet as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Freedom House, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Freedom House Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Freedom House, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Freedom House, Inc.'s ability to continue as a going concern for a reasonable period of time.

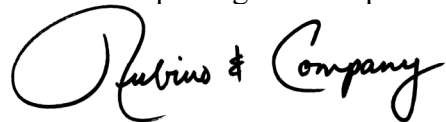
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on the Summarized Comparative Information

We have previously audited Freedom House, Inc.'s 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October November 14, 2023, on our consideration of Freedom House, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Freedom House, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Rubins & Company". The signature is written in black ink and is positioned above the typed name and address.

Bethesda, MD
November 14, 2023

FREEDOM HOUSE, INC.
BALANCE SHEET
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents - headquarters	\$ 13,250,473	\$ 15,064,229
Cash - overseas	579,350	392,870
	<u>13,829,823</u>	<u>15,457,099</u>
Investments	3,283,983	2,161,356
Due from U.S. Government and international funders	5,390,173	3,025,679
Promises to give, net	2,070,475	1,901,130
Advance to partners	4,898,835	3,010,018
Prepaid expenses and other assets	368,985	323,005
Property and equipment, net	629,777	406,398
Operating lease right-of-use assets, net	2,572,590	-
Security deposits	94,646	432,000
	<u>94,646</u>	<u>432,000</u>
Total assets	<u>\$ 33,139,287</u>	<u>\$ 26,716,685</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 3,933,765	\$ 2,077,134
Grants payable	3,063,716	2,745,601
Refundable advances - U.S. Government and international funders	6,635,187	6,557,884
Note payable	569,379	894,360
Operating lease liabilities	3,312,297	-
Other liabilities	95,945	128,841
Deferred rent	-	749,810
	<u>-</u>	<u>749,810</u>
Total liabilities	<u>17,610,289</u>	<u>13,153,630</u>
Net assets		
Without donor restrictions		
Undesignated	2,640,108	1,696,422
Board designated	700,000	300,000
With donor restrictions	<u>12,188,890</u>	<u>11,566,633</u>
Total net assets	<u>15,528,998</u>	<u>13,563,055</u>
Total liabilities and net assets	<u>\$ 33,139,287</u>	<u>\$ 26,716,685</u>

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

FREEDOM HOUSE, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2023
(With Comparative Totals for 2022)

	2023			2022 <u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
Support and revenue				
Federal grants	\$ 93,979,673	\$ -	\$ 93,979,673	\$ 79,606,961
International public agencies	702,158	-	702,158	1,055,339
Corporations and foundations	1,074,578	4,718,272	5,792,850	5,700,463
Individual contributions	1,559,013	1,882,511	3,441,524	7,336,263
Other income	50	-	50	6,229
Net assets released from restrictions	<u>5,978,526</u>	<u>(5,978,526)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>103,293,998</u>	<u>622,257</u>	<u>103,916,255</u>	<u>93,705,255</u>
Expenses				
Program services	99,833,850	-	99,833,850	83,874,747
Supporting services				
Development	2,473,533	-	2,473,533	1,528,035
Unallocated management and general costs	<u>17,764</u>	<u>-</u>	<u>17,764</u>	<u>127,898</u>
Total expenses	<u>102,325,147</u>	<u>-</u>	<u>102,325,147</u>	<u>85,530,680</u>
Change in operating net assets	968,851	622,257	1,591,108	8,174,575
Investment (loss) income	<u>374,835</u>	<u>-</u>	<u>374,835</u>	<u>(164,308)</u>
Change in net assets	1,343,686	622,257	1,965,943	8,010,267
Net assets, beginning of year	<u>1,996,422</u>	<u>11,566,633</u>	<u>13,563,055</u>	<u>5,552,788</u>
Net assets, end of year	<u>\$ 3,340,108</u>	<u>\$ 12,188,890</u>	<u>\$ 15,528,998</u>	<u>\$ 13,563,055</u>

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

FREEDOM HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2023
(With Comparative Totals for 2022)

	2023									
	Program Services				Total	Supporting Services		Total		2022
	International		Research &	Special		Management &	Supporting	Total	2022	
Programs	Advocacy	Publications	Initiatives	Program	Development	General	Services	Expenses	Total	
Personnel and benefits	\$ 14,354,272	\$ 595,227	\$ 1,913,517	\$ 805,704	\$ 17,668,720	\$ 1,346,838	\$ 6,613,445	\$ 7,960,283	\$ 25,629,003	\$ 17,844,664
Subgrants	13,488,368	-	-	293,518	13,781,886	-	-	-	13,781,886	10,012,077
Consultants	3,310,215	55,564	565,668	49,316	3,980,763	422,398	728,104	1,150,502	5,131,265	4,929,623
Emergency assistance	7,110,688	-	39,037	39,258	7,188,983	-	-	-	7,188,983	9,322,776
Travel and per diem	2,070,624	27,666	193,137	35,274	2,326,701	66,308	143,561	209,869	2,536,570	1,345,880
Rent and relocation	197,042	-	-	-	197,042	-	1,101,119	1,101,119	1,298,161	1,226,384
Professional fees	273,728	34,934	16,081	8,132	332,875	34,231	753,086	787,317	1,120,192	1,227,311
Other direct costs	818,963	-	6,379	859	826,201	24,652	4,884	29,536	855,737	776,870
Furniture and equipment	124,944	-	-	-	124,944	-	43,962	43,962	168,906	297,827
Conferences, workshops and seminars	437,056	259	19,652	345	457,312	3,463	96,675	100,138	557,450	220,536
Communications	69,489	-	10	12	69,511	-	1,247,653	1,247,653	1,317,164	157,834
Utilities and insurance	45,450	-	28	-	45,478	-	187,810	187,810	233,288	150,733
Printing and publications	28,588	605	13,951	625	43,769	2,356	26,675	29,031	72,800	53,682
Supplies	276,080	5,145	2,099	5,182	288,506	6,257	128,320	134,577	423,083	60,496
Depreciation	-	-	-	-	-	-	97,215	97,215	97,215	107,421
Postage and delivery	2,561	-	-	-	2,561	413	8,720	9,133	11,694	12,425
Staff training	34,306	997	450	-	35,753	922	41,246	42,168	77,921	12,217
Unallowable	176,954	(2,274)	-	-	174,680	30,012	17,763	47,775	222,455	249,592
	42,819,328	718,123	2,770,009	1,238,225	47,545,685	1,937,850	11,240,238	13,178,088	60,723,773	48,008,348
Partners expense	41,601,374	-	-	-	41,601,374	-	-	-	41,601,374	37,522,332
	84,420,702	718,123	2,770,009	1,238,225	89,147,059	1,937,850	11,240,238	13,178,088	102,325,147	85,530,680
Allocation of indirect costs	10,133,837	(572,477)	777,763	347,668	10,686,791	535,683	(11,222,474)	(10,686,791)	-	-
Total expenses	\$ 94,554,539	\$ 145,646	\$ 3,547,772	\$ 1,585,893	\$ 99,833,850	\$ 2,473,533	\$ 17,764	\$ 2,491,297	\$ 102,325,147	\$ 85,530,680

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

FREEDOM HOUSE, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Changes in net assets	\$ 1,965,943	\$ 8,010,267
Reconciling adjustments:		
Depreciation and amortization	127,227	126,713
Amortization on right-of-use assets	837,903	-
Loss of disposal of fixed assets	-	37,539
Stock donations	(206,771)	(194,631)
Net realized and unrealized (gains) losses on investments	(224,705)	167,548
Deferred rent	(749,810)	(22,994)
Changes in operating assets and liabilities		
Advances to partners	(1,888,817)	(55,964)
Due from U.S. Government and international funders	(2,364,494)	(245,236)
Promises to give, net	(169,345)	(175,076)
Prepaid expenses and other assets	(45,980)	(23,775)
Security deposits	337,354	-
Accounts payable and accrued expenses	1,856,631	(585,605)
Grants payable	318,115	1,504,161
Refundable advances	77,303	738,211
Operating lease liabilities	(98,196)	-
Other liabilities	(32,896)	-
Net cash (used) provided by operating activities	<u>(260,538)</u>	<u>9,281,158</u>
Cash flows from investing activities		
Purchases of property and equipment	(350,606)	(160,173)
Purchases of investments	(900,000)	(300,000)
Proceeds from sales of investments	<u>208,849</u>	<u>233,045</u>
Net cash used by investing activities	<u>(1,041,757)</u>	<u>(227,128)</u>
Cash flows from financing activities		
Repayments on Paycheck Protection Program note	<u>(324,981)</u>	<u>(241,755)</u>
Net (decrease) increase in cash and cash equivalents	(1,627,276)	8,812,275
Cash and cash equivalents, beginning of year	<u>15,457,099</u>	<u>6,644,824</u>
Cash and cash equivalents, end of year	<u>\$ 13,829,823</u>	<u>\$ 15,457,099</u>
Interest paid	<u>\$ 7,454</u>	<u>\$ 5,848</u>

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

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

1. Organization

Freedom House, Inc. (the Organization) is a nonprofit, non-stock corporation incorporated in the state of New York. The Organization is a non-partisan organization that promotes democracy and human rights throughout the world. Established in 1941 by Eleanor Roosevelt and Wendell Willkie, the Organization was founded to strengthen democratic institutions at home and abroad. The Organization has its headquarters in Washington, D.C. and research operations in New York City. In addition, it maintains 14 field offices throughout the world depending on the needs of the programs it administers; such offices may be located in the regions of Eastern Europe, Eurasia, Africa, the Middle East, Asia, and Latin America.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires or the conditions underlying the restriction are met, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all investments purchased with a maturity of three months or less to be cash equivalents. All cash and investments, regardless of maturity, held by the investment advisor are considered investments.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Financial Risk

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk.

At various times during the year, the Organization may invest in equity securities of publicly traded companies, exchange traded funds, and money market funds. 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

During the year, investments included equity securities of publicly traded companies, exchange traded funds, and money market funds which are reflected at fair market value. To adjust the carrying value of investments, the change in fair market value is included as a component of investment income in the statement of activities.

Promises to Give

Promises to give are carried at the original amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and evaluating collectability based on communications with the donor as well as historical experience. Promises to give are written off when deemed uncollectible. There was no provision for doubtful accounts at June 30, 2023.

Furniture and Equipment

Furniture and equipment purchases are capitalized at cost and depreciated on a straight-line basis over their estimated lives. The Organization capitalizes all furniture and equipment purchased with a cost of \$5,000 or more.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets by reviewing such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Grants Payable

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 a grant.

Partner Advances/Payables

The Organization is the lead partner in a Consortium for several grants and works with other partners to perform programmatic activities. The funds provided to these partners are either on an expense reimbursement or advance basis. Cash payments made to partners in excess of expenses incurred are shown as an advance to partners on the balance sheet. Expenses incurred by the partners in excess of cash received are shown as payable to partners on the balance sheet.

New Accounting Pronouncement - Adopted

On July 1, 2022, the Organization adopted the requirements of Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The objective of this ASU, along with several related ASUs issued subsequently, is to increase the transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (ASC 840) is the recognition of a right-of-use (ROU) asset and a corresponding lease liability on the consolidated balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases previously classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

2. Summary of Significant Accounting Policies (continued)

As part of the transition to the new standard, the Organization was required to measure and recognize leases that existed at July 1, 2022, using a modified retrospective approach. For leases existing at the effective date, the Organization elected a package of three transition practical expedients and therefore did not reassess whether an arrangement contains a lease, did not reassess lease classifications, and did not reassess what qualified as an initial direct cost. Additionally, the Organization elected, as a practical expedient, not to use hindsight for purposes of determining lease terms.

The adoption of ASC 842 resulted in the recognition of an operating ROU asset of \$3,363,399 and an operating lease liability of \$4,113,209 as of July 1, 2022.

Leases

At lease inception, the Organization determines whether an arrangement is, or contains, a lease. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the financial statements. ROU assets represent the Organization's right to use leased assets over the term of the lease. Lease liabilities represent the Organization's contractual obligation to make lease payments over the lease term.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments owed over the life of the lease. The Organization uses the rate implicit in the lease if it is determinable. When the implicit rate is not determinable, the Organization uses its incremental borrowing rate at the commencement date of the lease to determine the present value of all future lease payments. Operating ROU assets are calculated as the present value of the remaining lease payments, plus unamortized initial direct costs, plus any prepayments, less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent that they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause significant economic penalty to the Organization if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Grants

The Organization receives grants from federal agencies and international public agencies for various purposes. Revenue under cost reimbursable grants is recorded on the basis of recoverable direct and indirect costs. Grant costs include all direct material and labor costs and allocable indirect costs. Provisions for estimated losses on uncompleted grants are made in the period in which such losses are determined. Changes in grant performance, conditions, and estimated profitability, including final grant settlements (Note 12), may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Amounts billed and due from the Organization's customers are classified as receivables on the balance sheet. Receivables related to grants are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant. Receivables are expected to be collected within one year. No allowance for uncollectible receivables has been established, as all amounts are deemed fully collectible. 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.

The Organization accounts for a grant when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the grant has commercial substance and collectability of consideration is probable.

The Organization generally recognizes revenue over time as the Organization satisfies the Organization's performance obligations because of continuous transfer of control to the customer.

Support and Revenue

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

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Expense Allocation

Program and supporting services have been presented on a functional basis in the statement of activities. Certain overhead costs have been allocated among programs and support services based on the functions they directly benefit or upon management's estimates of the proportion of expenses applicable to each function.

Measure of Operations

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

Income Taxes

The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation.

Management has evaluated the Organization's tax positions and has concluded that the Organization has taken no uncertain tax positions that require disclosure. The Organization files tax returns in the U.S. Federal and District of Columbia jurisdictions.

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.

Subsequent Events

Management has evaluated subsequent events through November 14, 2023, the date which the financial statements were available to be issued.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

3. Liquidity and Availability

The following reflects Freedom House's financial assets at June 30, 2023, reduced by amounts not available for general use within one year of the statement of financial position date because of donor purpose, or time-imposed restrictions:

Cash and cash equivalents - headquarters	\$ 13,250,473
Cash - overseas	579,350
Investments	3,283,983
Due from U.S. Government and international funders	5,390,173
Promises to give, net	<u>2,070,475</u>
Total financial assets available at June 30, 2023	24,574,454
Less those unavailable for general expenditures due to:	
Purpose restricted net assets	(9,725,616)
Net assets without restrictions under board designation	(700,000)
Pledge receivables due in more than one year	<u>(600,000)</u>
Financial asset available at the year-end for current use	<u><u>\$ 13,548,838</u></u>

As of June 30, 2023, Freedom House held approximately \$14 million cash in operating funds available to support payroll and operational spending. Currently, nearly 92% of all organizational costs are incurred for the implementation of international programs awarded under U.S. Government grants. To fund these programs, the U.S. Government provides letter-of-credit accounts to be drawn upon when necessary to cover program costs, including the applicable portion of general costs (indirect costs). Typically, several draws on the applicable U.S. Government accounts are executed each month to fund the \$8.5 million of average monthly program spending, including partner expenses (pass-through funds).

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

4. Investments

Investments are presented in the financial statements at fair market value. Investments at June 30, 2023, are held in brokerage accounts and are comprised of money market funds and exchange traded funds.

5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

The three levels of the fair value hierarchy are described below:

- Level 1 Quoted market prices in active markets for identical assets or liabilities
- Level 2 Observable market-based inputs or unobservable inputs corroborated by market data
- Level 3 Unobservable inputs not corroborated by market data.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to fair value measurement. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following table represents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2023:

	Level 1	Level 2	Level 3	Total
Exchange traded funds	\$ 2,396,866	\$ -	\$ -	\$ 2,396,866
Money market funds	887,114	-	-	887,114
	3,283,980	\$ -	\$ -	\$ 3,283,980
Cash	3			
	\$ 3,283,983			

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

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported as of the end of the reporting period. For the year ended June 30, 2023, there were no significant transfers in or out of levels 1, 2 or 3.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

6. Promises to Give

Unconditional promises to give expected to be collected more than one year from the date of the promise are discounted to present value using a risk-free rate of return, which is currently the ten-year Treasury Rate, at the time the unconditional promise is received.

Unconditional promises to give consist of the following at June 30, 2023:

Less than one year	\$ 1,470,475
One to five years	<u>600,000</u>
Promises to give, net	<u><u>\$ 2,070,475</u></u>

7. Furniture and Equipment

Furniture and equipment and accumulated depreciation as of June 30, 2023, and depreciation expense for the year then ended, are as follows:

	Estimated		Accumulated		Current Year
	<u>Lives</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>	<u>Depreciation</u>
Furniture and fixtures	3 years	\$ 96,693	\$ 90,450	\$ 6,243	\$ 20,752
Leasehold improvements	3 years	9,383	9,383	-	-
Software and programming	3 years	<u>1,026,728</u>	<u>403,194</u>	<u>623,534</u>	<u>106,475</u>
		<u>\$ 1,132,804</u>	<u>\$ 503,027</u>	<u>\$ 629,777</u>	<u>\$ 127,227</u>

8. Net Assets with Time or Donor Restrictions

Net assets with time or donor restrictions activity for the year ended June 30, 2023, is as follows:

	Balance		Balance
	<u>June 30, 2022</u>	<u>Additions</u>	<u>Released</u>
Purpose restricted			<u>June 30, 2023</u>
Research & Other Activities	\$ 2,123,314	\$ 4,410,619	\$ (4,141,197)
Political Prisoners' Initiative	5,208,766	764,443	(640,329)
Wilkie Memorial Trust	<u>2,000,000</u>	<u>-</u>	<u>-</u>
	<u>9,332,080</u>	<u>5,175,062</u>	<u>(4,781,526)</u>
Time restricted			
Time restricted pledges	<u>2,234,553</u>	<u>1,425,721</u>	<u>(1,197,000)</u>
	<u>\$ 11,566,633</u>	<u>\$ 6,600,783</u>	<u>\$ (5,978,526)</u>
			<u>\$ 12,188,890</u>

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

9. Operating Leases

The Organization occupies office space in Washington, D.C. under a non-cancelable operating lease. The lease commenced on December 1, 2014, for a period of 11.5 years. Additionally, the Organization entered into a leasing arrangement, for copiers, in December 2022 for a period of 5 years.

The following information was utilized in the calculation of the operating lease liabilities and operating lease right-of-use assets:

	<u>2023</u>
Remaining lease terms - operating leases	<u>47 - 60 months</u>
Weighted average discount rate	<u>1.76%</u>

The future minimum lease payments for those leases subject to Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842) at June 30, 2023, are approximately as follows:

	<u>Lease Payments</u>
Year ending June 30, 2024	\$ 1,126,188
2025	1,163,698
2026	1,098,575
2027	9,846
2028	<u>4,103</u>
	3,402,410
Less: effects of discounting	<u>(90,113)</u>
Operating lease liabilities	<u>\$ 3,312,297</u>

Rent expense applicable to the operating leases for the year ended June 30, 2023, was \$1,076,484.

10. Pension Plan

The Organization has a qualified defined contribution plan, which covers all full-time employees. Pension benefits are vested over a two-year period. The Organization makes a matching contribution up to 10% of all participants' salaries, subject to annual federal deferral limits. Pension expense for the year ended June 30, 2023, was \$1,244,583.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

11. Major Grantor

During the year ended June 30, 2023, 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>\$ 93,979,673</u>	<u>90%</u>

12. 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. The Organization evaluates any contingent liabilities arising from such litigation and, if appropriate, has established loss provisions when such losses are probable and can be reasonably estimated. The Organization believes its loss provisions are adequate and is not currently a party to any litigation that it believes could have a material effect on the Freedom House's financial position, net assets, or cash flows.

13. Paycheck Protection Program

On April 21, 2020, the Organization received funding of \$1,886,800 through the Paycheck Protection Program (PPP), as established by the CARES Act, which allows qualifying businesses to obtain federal funding for amounts not to exceed two and a half times average monthly payroll expenses.

Under the provisions of the CARES Act, the PPP proceeds must be used for eligible expenses, which include payroll, benefits, rent and utilities. The eligible expenses may be forgiven if such expenses are incurred during the 24-week period after receipt of the PPP funding and if the Organization maintains its pre-pandemic staffing levels. Under the provisions of the CARES Act, payments are deferred for six months and there is no collateral or guarantee requirements.

At the conclusion of the 24-week period, the Organization received forgiveness for a portion of the loans and the remaining balance of \$1,136,115 converted to a note payable, with monthly principal and interest payments of \$27,082. The loan will mature in April 2025 and accrues interest at 1.00% per annum. As of June 30, 2023, \$569,379 was outstanding on the note.

FREEDOM HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2023

14. Functional Expenses

The presentation of expenses on the statement of activities and statement of functional expenses is consistent with how the Organization manages its expenses and is primarily based on the Organization's indirect cost rate agreement with the U.S. Government. This presentation does not fully satisfy the functional expense requirements of accounting principles generally accepted in the United States of America (U.S. GAAP). The table below has been added to the financial statements in order to satisfy the requirements of U.S. GAAP:

<u>Functions</u>	<u>As Presented on the Statement of Activities</u>	<u>Adjustments to arrive at U.S. GAAP</u>	<u>Functional Expenses Totals (U.S. GAAP Basis)</u>
Program services			
International Programs	\$ 94,554,539	\$ (9,530,920)	\$ 85,023,619
Advocacy	145,646	597,478	743,124
Research & Publications	3,547,772	(697,390)	2,850,382
Special Initiatives	<u>1,585,893</u>	<u>(313,827)</u>	<u>1,272,066</u>
	<u>99,833,850</u>	<u>(9,944,660)</u>	<u>89,889,190</u>
Support Services			
Unallocated management and general costs	17,764	(17,764)	-
Management and general Development	-	10,441,536	10,441,536
	<u>2,473,533</u>	<u>(479,112)</u>	<u>1,994,421</u>
	<u>2,491,297</u>	<u>9,944,660</u>	<u>12,435,957</u>

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INDEPENDENT AUDITORS' REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
Freedom House, Inc.

We have audited the financial statements of Freedom House, Inc. as of and for the year ended June 30, 2023, and have issued our report thereon dated November 14, 2023, which expressed an unmodified opinion on those financial statements, as appears on pages 1-3. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary Schedule of Expenditures of International Public Agencies is presented for purposes of additional analysis and 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 taken as a whole.

November 14, 2023
Bethesda, Maryland

FREEDOM HOUSE, INC.
SCHEDULE OF EXPENDITURES OF INTERNATIONAL PUBLIC AGENCIES
Year Ended June 30, 2023

Funding Source	Contract Number	Program Title	International Agencies Expenditures	Amount Provided to Subrecipients
The Netherlands Ministry of Foreign Affairs (NMFA)				
NMFA	4000006113	Protecting Belief: A Rapid Response Fund for Religious Freedom	\$ 177,909	\$ 15,000
NMFA	4000003297 / WAS-MRF-2020-01	Protecting Belief: Psycho-social Support to Victims of Religious Persecution	221,441	77,571
NMFA	4000006359	Freedom on the Net	58,925	-
NMFA	4000004343	Freedom on the Net	251,532	-
Total Netherlands Ministry of Foreign Affairs			<u>709,807</u>	<u>92,571</u>
Total Expenditures of International Public Agencies			<u>\$ 709,807</u>	<u>\$ 92,571</u>