The Reason Foundation

Financial Statements

September 30, 2018

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TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Reason Foundation
Los Angeles, California

We have audited the accompanying financial statements of The Reason Foundation (the "Foundation"), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Reason Foundation as of September 30, 2018, 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.

Armanino LLP

Armanino LLP
Los Angeles, California

January 15, 2019

The Reason Foundation
Statement of Financial Position
September 30, 2018

ASSETS

Current assets	
Cash and cash equivalents	$ 1,767,510
Investments	5,654,946
Accounts receivable, net	179,311
Pledges receivable	156,866
Total current assets	7,758,633
Other assets	
Property and equipment, net	2,839,036
Deposits	175,843
Total other assets	3,014,879
Total assets	$ 10,773,512

LIABILITIES AND NET ASSETS

Current liabilities	
Accrued compensation expenses	$ 1,163,682
Accounts payable and other accrued expenses	476,831
Current portion of unearned subscriptions	138,133
Total current liabilities	1,778,646
Unearned subscriptions, net of current portion	139,554
Total liabilities	1,918,200
Commitments (Note 10)	
Net assets	
Unrestricted	
General	4,294,313
Investment in land and building	2,713,407
Total unrestricted	7,007,720
Temporarily restricted	1,798,313
Permanently restricted	49,279
Total net assets	8,855,312
Total liabilities and net assets	$ 10,773,512

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

The Reason Foundation
Statement of Activities
For the Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Public support				
Contributions	$ 9,558,257	$ 1,083,601	$ 5,000	$ 10,646,858
Reason Magazine	734,161	-	-	734,161
Conferences	215,749	-	-	215,749
Proceeds from fundraising events, net of direct benefit costs totaling $20,550	698,383	-	-	698,383
Miscellaneous	35,233	-	-	35,233
Net assets released from restriction	1,628,129	(1,628,129)	-	-
Total revenues and support	12,869,912	(544,528)	5,000	12,330,384
Functional expenses				
Program services				
Public Affairs	352,590	-	-	352,590
Stossel on Reason	1,140,382	-	-	1,140,382
Reason-TV	1,766,468	-	-	1,766,468
Magazine	4,161,662	-	-	4,161,662
Research	3,996,201	-	-	3,996,201
Total program services	11,417,303	-	-	11,417,303
Support services				
Management and general	397,342	-	-	397,342
Fundraising	1,223,256	-	-	1,223,256
Total support services	1,620,598	-	-	1,620,598
Total functional expenses	13,037,901	-	-	13,037,901
Change in net assets from operations	(167,989)	(544,528)	5,000	(707,517)
Investment activity				
Interest and dividends	117,547	-	-	117,547
Realized losses on sale of investments	(956)	-	-	(956)
Unrealized gains on investments	525,393	-	-	525,393
Total investment activity	641,984	-	-	641,984
Change in net assets	473,995	(544,528)	5,000	(65,533)
Net assets, beginning of year	6,533,725	2,342,841	44,279	8,920,845
Net assets, end of year	$ 7,007,720	$ 1,798,313	$ 49,279	$ 8,855,312

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

The Reason Foundation
Statement of Functional Expenses
For the Year Ended September 30, 2018

	Program Services						Support Services		
	Public Affairs	Stossel on Reason	Reason-TV	Magazine	Research	Total Program Services	Management and General	Fundraising	Total
Personnel expenses									
Salaries	$ 232,557	$ 287,226	$ 911,742	$ 2,170,823	$ 1,984,163	$ 5,586,511	$ 217,289	$ 437,263	$ 6,241,063
Payroll taxes	25,568	18,877	66,375	123,180	132,781	366,781	15,749	43,543	426,073
Employee benefits	24,340	15,246	74,725	152,681	133,984	400,976	15,867	41,142	457,985
Total personnel expenses	282,465	321,349	1,052,842	2,446,684	2,250,928	6,354,268	248,905	521,948	7,125,121
Books and periodicals	3,952	77	3,662	3,488	6,729	17,908	1,754	1,746	21,408
Commissions	-	-	-	35,191	-	35,191	-	-	35,191
Conference attendance and sponsorships	3,000	-	122	962	71,397	75,481	-	14,536	90,017
Contract services	1,875	654,138	315,752	487,979	884,164	2,343,908	16,517	14,488	2,374,913
Depreciation and amortization	2,112	12,130	9,423	22,665	21,328	67,658	2,309	4,693	74,660
Dues and subscriptions	1,300	865	3,666	17,407	97,513	120,751	326	4,448	125,525
Foundation-hosted events and conferences	2,860	-	159,020	88,683	105,659	356,222	-	337,509	693,731
Insurance	2,753	-	15,235	41,754	35,591	95,333	3,968	7,666	106,967
Magazine printing and distribution	-	1,031	5,927	578,356	940	586,254	-	-	586,254
Miscellaneous	5,407	-	7,461	1,368	2,081	16,317	46,543	373	63,233
Occupancy	11,404	95,189	50,474	114,438	107,784	379,289	17,515	25,004	421,808
On-line services	3,443	249	8,092	52,474	24,003	88,261	5,725	2,875	96,861
Postage and shipping	18,224	294	3,884	28,124	20,098	70,624	2,134	42,179	114,937
Printed material	-	4,365	37	8,769	17,014	30,185	1,522	85,484	117,191
Professional fees	-	12,375	34	3,582	6,600	22,591	42,476	-	65,067
Promotion and advertising	4,534	-	2,857	135,221	12,039	154,651	1,325	48,938	204,914
Supplies	4,733	10,227	16,439	14,967	29,366	75,732	3,440	21,487	100,659
Telephone	1,526	1,127	6,580	15,224	19,726	44,183	2,210	4,664	51,057
Travel	3,002	26,966	104,961	64,326	283,241	482,496	673	85,218	568,387
	$ 352,590	$ 1,140,382	$ 1,766,468	$ 4,161,662	$ 3,996,201	$ 11,417,303	$ 397,342	$ 1,223,256	$ 13,037,901

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

The Reason Foundation
Statement of Cash Flows
For the Year Ended September 30, 2018

Cash flows from operating activities	
Change in net assets	$ (65,533)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	74,660
Realized losses on sales of investments	956
Unrealized gains on investments	(525,393)
Contributions of investments	(329,156)
Reinvested interest and dividends	(117,547)
Decrease in allowance for doubtful accounts	(2,748)
Changes in operating assets and liabilities	
Accounts receivable	(42,064)
Pledges receivable	230,149
Deposits	(36,015)
Accrued compensation expenses	(3,063)
Accounts payable and other accrued expenses	236,346
Unearned subscriptions	(166)
Net cash used in operating activities	(579,574)
Cash flows from investing activities	
Purchases of property and equipment	(31,432)
Purchases of investments	(240,468)
Proceeds from sales of investments	1,458,233
Net cash provided by investing activities	1,186,333
Net increase in cash and cash equivalents	606,759
Cash and cash equivalents, beginning of year	1,160,751
Cash and cash equivalents, end of year	$ 1,767,510

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

1. NATURE OF OPERATIONS

The Reason Foundation (the "Foundation") is a California tax-exempt nonprofit corporation formed for the purpose of educating Americans in the basic principles of the classical liberal/libertarian political philosophy. Toward this end, the Foundation provides research and publications which apply free-market principles to public policy issues. The Foundation's activities include the monthly publication of Reason magazine and the publication of various studies on public policy issues.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income tax status

The Foundation is a nonprofit public benefit corporation organized under the laws of California and, as such, is generally exempt from federal and state income taxes under Internal Revenue Code ("IRC") Section 501(c)(3) and corresponding state provisions. The Foundation incurs unrelated business income taxes ("UBIT") from its activities involving Reason Magazine advertising income and from rental of its mailing list. UBIT is calculated using federal and California corporate tax rates applied to any surplus from its unrelated business activities.

The Foundation's federal income tax and informational returns for tax years ended September 30, 2015, and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Foundation's only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ended September 30, 2014, and subsequent.

Financial statement presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

- *Unrestricted net assets* - Include contributions, magazine revenue, events, and other forms of revenue that are not restricted by the donor or grantor as well as expenditures related to the general operations of the Foundation.
- *Unrestricted net assets, investment in land and building* - Represents the investment in land and building, net of accumulated depreciation.
- *Temporarily restricted net assets* - Include contributions that are temporarily restricted by the donor or grantor. When the restriction expires, the net assets of this classification are reclassified to unrestricted net assets. Restricted contributions where restrictions are met in the same reporting period are classified as unrestricted.
- *Permanently restricted net assets* - Include contributions that have been restricted by the donor in perpetuity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Cash and cash equivalents

The Foundation considers all highly-liquid financial instruments purchased with an original maturity of three months or less that are readily converted to known amounts of cash to be cash equivalents.

Investments

Investment earnings, gains, and losses are reported as unrestricted revenue in the statement of activities unless they have been restricted by a donor or by law. Unrealized gains and losses are recognized in aggregate. Realized gains and losses are recognized immediately and are computed using the specific identification method.

Accounts receivable

Accounts receivable are unsecured and the Foundation is at-risk to the extent such amounts become uncollectible. Management has established an allowance for doubtful accounts based on management's estimate of future collections.

Pledges receivable

The pledges receivable balance consists of unconditional promises to give monetary assets to the Foundation. Management anticipates it will collect 100% of the pledges receivable balance; thus no allowance for potentially uncollectible pledges has been established as of September 30, 2018.

Property and equipment

Purchases of property and equipment are recorded at cost. Donated items are recorded at fair value when received. Depreciation and amortization on both purchases and donated items are recorded using the straight-line method over the shorter of the estimated useful life of the related asset or the term of the lease for leasehold improvements as follows:

Building and improvements	7 - 39 years
Furniture and equipment	3 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Impairment of long-lived assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by the Foundation during the year.

Unearned subscriptions

Magazine subscription revenue is generally received in advance, initially reported as unearned subscriptions, and taken into earnings on a pro-rata basis over the respective subscription periods, some of which are more than 1 year.

Endowment

Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's endowment consists of accumulated contributions restricted by the donors to create a permanent endowment. Earnings from the investments associated with the endowment are appropriated for expenditure annually by management and applied to current operations.

Contribution revenue

Contributions consist primarily of donations from foundations, businesses, and the general public. Contributions are recorded and reported when committed to the Foundation by the donor.

Functional expenses

The Foundation allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated accordingly.

Advertising

Promotion and advertising costs totaling $204,914 are expensed as incurred for the year ended September 30, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of risk

Occasionally the Foundation's cash balances exceed FDIC-insured limits. The Foundation has not experienced and does not anticipate any losses related to these balances.

Subsequent events

The Foundation has evaluated events subsequent to September 30, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 15, 2019, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.

Reclassifications

During the year ended September 30, 2018, the Foundation reclassified cryptocurrency to investments. The Foundation previously recorded cryptocurrency as cash equivalents.

3. INVESTMENTS

The Foundation reports its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of September 30, 2018:

	Level 1	Level 2	Level 3	Fair Value
Stock funds	$ 3,566,365	$ -	$ -	$ 3,566,365
REIT index funds	87,124	-	-	87,124
Bond funds	1,652,317	-	-	1,652,317
U.S. Treasury funds	156,275	-	-	156,275
Gold exchange-traded fund	142,078	-	-	142,078
Cryptocurrency	50,787	-	-	50,787
	$ 5,654,946	$ -	$ -	$ 5,654,946

3. INVESTMENTS (continued)

Activity in the investments during the year was as follows:

Balance, beginning of year	$ 5,901,571
Purchases of investments	240,468
Contributions of investments	329,156
Reinvested interest and dividends	117,547
Proceeds from sales of investments	(1,458,233)
Realized losses on sales of investments	(956)
Unrealized gains on investments	525,393
Balance, end of year	$ 5,654,946

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

Accounts receivable	$ 184,750
Allowance for doubtful accounts	(5,439)
	$ 179,311

5. PLEDGES RECEIVABLE

Contributions receivable are all due within the next 12 months.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	$ 1,908,473
Building and improvements	1,018,670
Furniture and equipment	1,268,471
Leasehold improvements	16,850
	4,212,464
Accumulated depreciation and amortization	(1,373,428)
	$ 2,839,036

7. LINE OF CREDIT

The Foundation maintained a $200,000 line of credit with a bank, secured by all personal property of the Foundation, with interest at the bank's index rate (5.25% as of September 30, 2018) plus 0.5%, renewable annually. There was no outstanding balance as of September 30, 2018.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	Released from Restrictions	Balance
Time restricted	$ (379,151)	$ 156,866
Stossel on Reason	(750,000)	750,000
Pension Integrity	(150,000)	-
Privatization Award Fund	-	66,533
Reason Media Award Dinner	(139,000)	-
Internship Fund	(15,217)	10,248
Drug Policy	(100,000)	100,000
50th Anniversary	-	447,500
Equable Institute	(56,250)	168,750
Transportation Research	-	47,436
Magazine	(27,923)	38,882
Unappropriated earnings on permanent endowment	(10,588)	12,099
	$ (1,628,129)	$ 1,798,314

9. ENDOWMENT

Interpretation of relevant law

The Board of Trustees of the Foundation has interpreted the California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the initial gifts of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment and (2) the original value of subsequent gifts to the permanent endowment. Investment returns are available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated by the Board of Trustees for expenditure.

9. ENDOWMENT (continued)

Interpretation of relevant law (continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Foundation

(7) The investment policies of the Foundation

Return objectives and risk parameters

The Foundation has elected to incorporate endowment assets within the broader investment strategy as approved by the Investment Committee of the Board of Trustees. That strategy provides that investment and endowment assets are to be allocated 50% to fixed income securities and 50% to equities and gold funds. Actual returns in any given year may vary.

Spending policy and how investment objectives relate to spending policy

The Foundation has a policy of appropriating for distribution each year up to 5% of the fair value of the invested assets, except in years in which the Foundation experiences a net investment loss from earnings, gains, and losses. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Endowment composition

Endowment net asset composition by type of fund as of September 30, 2018, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 12,099	$ 49,279	$ 61,378

9. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the year ended September 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	$ -	$ 10,588	$ 44,279	$ 54,867
Contributions	-	6,065	5,000	11,065
Investment income	-	338	765	1,103
Realized and unrealized gains	-	1,525	3,406	4,931
Amounts expended during the year	-	(10,588)	-	(10,588)
Reclassification of investment return	-	4,171	(4,171)	-
	-	1,511	5,000	6,511
Balance, end of year	$ -	$ 12,099	$ 49,279	$ 61,378

10. COMMITMENTS

Office lease space

The Foundation leases office spaces in Washington, D.C. and New York through April 2023 and May 2020, respectively.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending September 30,	
2019	$ 301,282
2020	274,721
2021	212,716
2022	218,038
2023	129,023
	$ 1,135,780

Lease expense totals $280,872 for the year.

Vehicle lease

The Foundation leases a vehicle through August 2021.

10. COMMITMENTS (continued)

Vehicle lease (continued)

The scheduled minimum lease payments under the lease terms are as follows:

Year ending September 30,	
2019	$ 5,919
2020	5,919
2021	5,425
	$ 17,263

Lease expense totaled $6,562 for the year.

11. RETIREMENT PLAN

403(b) plan

The Foundation offers an IRC Section 403(b) individual defined contribution plan (the "403(b) Plan") for all eligible employees. Participants may make salary deferrals to their individual accounts up to the maximum allowable deferral amounts for defined contribution plans. The Foundation does not make contributions to the Plan.

457(f) plan

The Foundation established a nonqualified IRC Section 457(f) employee retirement plan (the "457(f) Plan") on behalf of an officer. During the current fiscal year, the Foundation deposited $75,000 into the 457(f) Plan. Investments of the 457(f) Plan generated income totaling $21,130 during the year. The amount included in the accrued compensation expenses on the accompanying statement of financial position totaled $50,000 at September 30, 2018. The Board of Trustees may make discretionary contributions to the 457(f) Plan in the future.