THE REASON FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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rbz LLP
CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS ADVISORS

INDEPENDENT AUDITORS' 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, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 ("U.S. GAAP"); 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.

Auditors' 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 U.S. ("U.S. GAAS"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Foundation'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 Foundation'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, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. GAAP.

RBZ, LLP

January 26, 2015

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THE REASON FOUNDATION

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2014

ASSETS

Current Assets	
Cash and cash equivalents	$ 961,548
Investments	3,658,817
Accounts receivable, net	100,201
Current portion of pledges receivable	314,799
	5,035,365
Other Assets	
Pledges receivable, net of current portion	29,230
Property and equipment, net	3,022,098
Deposits	85,734
	3,137,062
	$ 8,172,427

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable and accrued expenses	$ 1,095,730
Current portion of unearned subscriptions	282,080
Current portion of mortgage payable	137,177
	1,514,987
Long-Term Liabilities	
Unearned subscriptions, net of current portion	93,133
Mortgage payable, net of current portion	115,534
	208,667
Total Liabilities	1,723,654
Commitment (Note 11)	
Net Assets	
Unrestricted	
General	3,123,898
Investment in land and building	2,615,981
Total unrestricted	5,739,879
Temporarily restricted	664,615
Permanently restricted	44,279
Total Net Assets	6,448,773
	$ 8,172,427

See accompanying notes to financial statements.

THE REASON FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	$ 9,161,477	$ 571,100	$ -	$ 9,732,577
Reason Magazine	961,975	-	-	961,975
Proceeds from fundraising events, net of direct benefit costs of $9,900	275,213	-	-	275,213
Conference	137,800	-	-	137,800
Realized gains on sales of investments	7,954	-	1,816	9,770
Unrealized gains on investments	187,199	-	1,231	188,430
Interest and dividends	50,266	-	788	51,054
Miscellaneous	48,491	-	-	48,491
Reclassification of endowment earnings	-	3,835	(3,835)	-
Net Assets Released from Restrictions	207,186	(207,186)	-	-
	11,037,561	367,749	-	11,405,310
Functional Expenses				
Program services				
Public Affairs	372,575	-	-	372,575
Reason-Rupe Poll	597,086	-	-	597,086
Reason-TV	1,805,538	-	-	1,805,538
Magazine	3,255,395	-	-	3,255,395
Research	2,908,840	-	-	2,908,840
	8,939,434	-	-	8,939,434
Management and general	309,028	-	-	309,028
Fundraising	880,395	-	-	880,395
	10,128,857	-	-	10,128,857
Changes in Net Assets	908,704	367,749	-	1,276,453
Net Assets, beginning of year	4,831,175	296,866	44,279	5,172,320
Net Assets, end of year	$ 5,739,879	$ 664,615	$ 44,279	$ 6,448,773

See accompanying notes to financial statements.

THE REASON FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Public Affairs	Reason-Rupe Poll	Reason-TV	Magazine	Research	Total Program Services	Management and General	Fundraising	Total
Personnel Expenses									
Salaries	$ 238,362	$ 264,758	$ 1,042,753	$ 1,408,941	$ 1,566,706	$ 4,521,520	$ 200,660	$ 409,024	$ 5,131,204
Payroll taxes	17,295	10,608	71,085	95,997	100,546	295,531	11,112	25,536	332,179
Employee benefits	12,146	-	50,224	67,477	74,692	204,539	8,359	17,544	230,442
	267,803	275,366	1,164,062	1,572,415	1,741,944	5,021,590	220,131	452,104	5,693,825
Other Expenses									
Books and periodicals	1,167	588	2,816	3,457	3,823	11,851	638	1,268	13,757
Commissions	-	-	-	50,068	-	50,068	-	-	50,068
Contract services	1,969	238,432	230,069	374,158	462,599	1,307,227	1,667	21,103	1,329,997
Depreciation and amortization	3,984	4,307	22,316	28,867	33,329	92,803	3,906	7,618	104,327
Dues and subscriptions	15,782	711	4,399	5,404	69,905	96,201	489	20,960	117,650
Foundation events	-	17,782	54,448	90,533	55,021	217,784	-	121,984	339,768
Insurance	3,393	3,658	17,734	22,637	25,429	72,851	2,810	5,975	81,636
Interest	608	918	10,143	5,448	8,663	25,780	579	1,192	27,551
Magazine printing and distribution	-	-	331	546,758	2,373	549,462	-	104	549,566
Media tracking and placement services	5,008	-	-	-	-	5,008	-	-	5,008
Miscellaneous	644	974	10,763	5,782	7,519	25,682	612	1,267	27,561
Occupancy	11,274	13,461	64,179	81,905	95,083	265,902	10,218	10,213	286,333
On-line services	6,416	4,252	21,432	86,604	42,893	161,597	2,982	6,467	171,046
Postage and shipping	535	7,918	5,897	33,490	17,340	65,180	918	43,142	109,240
Printed material	343	7,698	418	22,728	23,235	54,422	-	44,337	98,759
Professional fees	-	-	-	-	-	-	53,650	3,296	56,946
Promotion and advertising	-	618	19,159	204,933	4,129	228,839	-	8,050	236,889
Supplies	17,831	3,977	53,919	26,929	33,862	136,518	8,189	29,120	173,827
Telephone	3,765	2,137	7,277	9,169	14,796	37,144	2,239	6,057	45,440
Travel and entertainment	32,053	14,289	116,176	84,110	266,897	513,525	-	96,138	609,663
	$ 372,575	$ 597,086	$ 1,805,538	$ 3,255,395	$ 2,908,840	$ 8,939,434	$ 309,028	$ 880,395	$ 10,128,857

See accompanying notes to financial statements.

THE REASON FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Cash Flows from Operating Activities	
Changes in net assets	$ 1,276,453
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	104,327
Realized gains on sales of investments	(9,770)
Unrealized gains on investments	(188,430)
Contributions of common stock	(731,945)
Increase in allowance for doubtful accounts	1,471
(Increase) decrease in operating assets	
Accounts receivable	(4,034)
Pledges receivable	(42,027)
Deposits	(44,322)
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	237,024
Unearned subscriptions	2,114
Net Cash Provided by Operating Activities	600,861
Cash Flows from Investing Activities	
Purchases of property and equipment	(77,441)
Purchases of investments	(1,301,698)
Proceeds from sales of investments	1,450,442
Net Cash Provided by Investing Activities	71,303
Cash Flows from Financing Activities	
Principal payments on mortgage payable	(616,806)
Net Cash Used in Financing Activities	(616,806)
Net Increase in Cash and Cash Equivalents	55,358
Cash and Cash Equivalents, beginning of year	906,190
Cash and Cash Equivalents, end of year	$ 961,548

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid during the Year for Interest	$ 27,551

See accompanying notes to financial statements.

THE REASON FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITY

Write off fully amortized leasehold improvements no longer in service	$ 21,725

See accompanying notes to financial statements.

NOTE 1 - NATURE OF OPERATIONS

The Reason Foundation (the "Foundation") is a California tax exempt nonprofit corporation 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.

NOTE 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, 2011, 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, 2010, 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, General - 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 and debt secured by the land and building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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.

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 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 aggregately. 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. The Foundation 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, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 purchased 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

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.

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.

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.

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 accrued when committed to the Foundation by the donor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $236,889 are expensed as incurred.

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, 2014, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 26, 2015, 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, except as described in Note 7.

NOTE 3 - INVESTMENTS

The investment committee of the Board of Trustees, ratified by the full Board of Trustees, has established the following investment policy: Invested assets are to be allocated 50% to fixed income securities and 50% to equities and gold funds.

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 assets at fair value as of September 30, 2014:

	Level 1	Level 2	Level 3	Total
Common stocks	$ 1,973,870	$ -	$ -	$ 1,973,870
Corporate bonds	1,488,552	-	-	1,488,552
Gold exchange-traded fund	196,395	-	-	196,395
	$ 3,658,817	$ -	$ -	$ 3,658,817

Activity in the investments during the year was as follows:

Balance, beginning of year	$ 2,877,416
Purchases of investments	1,301,698
Proceeds from sales of investments	(1,450,442)
Contributions of common stock	731,945
Realized gains on sales of investments	9,770
Unrealized gains on investments	188,430
Balance, end of year	$ 3,658,817

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

Accounts receivable	$ 110,599
Allowance for doubtful accounts	(10,398)
	$ 100,201

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable consists of the following:

Due in less than one year	$ 314,799
Due in one to five years	32,320
	347,119
Discount to net present value	(3,090)
	$ 344,029

The Foundation has discounted its multi-year pledges receivable at an annual discount rate of 3%.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	$ 1,908,473
Building and improvements	1,008,828
Furniture and equipment	1,189,915
	4,107,216
Accumulated depreciation and amortization	(1,085,118)
	$ 3,022,098

NOTE 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 (3.25% as of September 30, 2014) plus 3.9% through July 27, 2014. In November 2014, the line of credit was renewed with interest at the bank's prime rate (3.25% as of September 30, 2014) plus .5%, renewable annually. There was no outstanding balance as of September 30, 2014.

NOTE 8 - MORTGAGE PAYABLE

The Foundation has a mortgage note payable, secured by the Foundation's land and building, payable in monthly installments of $12,030, including interest at 3.73% per annum, through 2016. The mortgage loan agreement contains several loan covenants; as of September 30, 2014, the Foundation is in compliance with those covenants.

Future maturities of mortgage payable are scheduled as follows:

Year Ending September 30,	
2015	$ 137,177
2016	115,534
	$ 252,711

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets and releases during the year are as follows:

	Released from Restrictions	Balance, September 30, 2014
Time Restricted	$ (7,088)	$ 335,236
Reason Media Awards Dinner	(133,696)	168,500
Savas Privatization Award Fund	-	100,000
Mattern Internship Fund	(27,336)	59,258
Unappropriated Earnings on Permanent Endowment	(2,214)	1,621
Reason Magazine	(28,076)	-
Miscellaneous	(8,776)	-
	$ (207,186)	$ 664,615

Additional time restricted pledges receivable totaling $8,793 are included with various purpose restricted items above.

NOTE 10 - 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. 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 Foundation 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.

NOTE 10 - ENDOWMENT (Continued)

Endowment Net Asset Composition by Type of Fund

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,621	$ 44,279	$ 45,900
	$ -	$ 1,621	$ 44,279	$ 45,900

Changes in Endowment Net Assets During the Year Ended

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, September 30, 2013	$ -	$ -	$ 44,279	$ 44,279
Investment income	-	-	788	788
Realized and unrealized gains	-	-	3,047	3,047
Reclassification of investment return	-	3,835	(3,835)	-
Amount appropriated for expenditure for operations and program expenses	-	(2,214)	-	(2,214)
Balance, September 30, 2014	$ -	$ 1,621	$ 44,279	$ 45,900

NOTE 11 - COMMITMENT

The Foundation leases office space in Washington, DC, through April 2023.

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

Year Ending September 30,	
2015	$ 183,420
2016	188,012
2017	192,718
2018	197,524
2019	202,454
Thereafter	767,306
	$ 1,731,434

Rent expense totaled $212,631 for the year.

NOTE 12 - RETIREMENT PLAN

The Foundation offers an IRC Section 403(b) individual defined contribution plan (the "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.