

FREE TO CHOOSE NETWORK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2015

FREE TO CHOOSE NETWORK, INC.
Table of Contents
June 30, 2015

	<u>Page</u>
Independent Auditors' Report	3-4
Statements of Financial Position	5
Statements of Activities	6
Statements of Cash Flows	7
Notes to Financial Statements	8-10



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' Report

To the Board of Directors of
Free To Choose Network, Inc.

We have audited the accompanying financial statements of Free To Choose Network, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities 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.

Independent Auditors' Report
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Free To Choose Network, Inc. as of June 30, 2015 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.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

October 11, 2015
Erie, Pennsylvania

FREE TO CHOOSE NETWORK, INC.

Statement of Financial Position

June 30, 2015

Assets

Current Assets

Cash and cash equivalents	\$ 1,660,881
Accounts receivable	519
Inventory	<u>88,305</u>

Total Current Assets 1,749,705

Property and equipment:

Office furniture and equipment	73,072
Less: Accumulated depreciation	<u>(42,398)</u>

Total property and equipment 30,674

Other assets:

Goodwill, net of amortization	<u>72,773</u>
-------------------------------	---------------

Total Assets \$ 1,853,152

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 35,637
Payroll related liabilities	<u>8,095</u>

Total Current Liabilities 43,732

Net Assets

Unrestricted-Fixed Assets and Goodwill	103,447
Unrestricted	<u>(52,972)</u>

Total Unrestricted 50,475

Temporarily restricted 1,758,945

Total Net Assets 1,809,420

Total Liabilities and Net Assets \$ 1,853,152

See accompanying notes to the financial statements.

FREE TO CHOOSE NETWORK, INC.

Statements of Activities

For The Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues			
Donations and contributions	\$ 1,433,250	\$ 2,264,409	\$ 3,697,659
Charges for services	61,413	-	61,413
Interest income	4,586	-	4,586
Miscellaneous	12,458	-	12,458
Net assets released from restriction	2,700,396	(2,700,396)	-
	4,212,103	(435,987)	3,776,116
Expenses			
Program Services			
Free to Choose Media	4,008,665	-	4,008,665
	4,008,665	-	4,008,665
Support Services			
General and administrative	311,023	-	311,023
Fundraising	267,626	-	267,626
	578,649	-	578,649
	4,587,314	-	4,587,314
Change in Net Assets	(375,211)	(435,987)	(811,198)
Net assets, beginning of year	425,686	2,194,932	2,620,618
Net assets, end of year	\$ 50,475	\$ 1,758,945	\$ 1,809,420

See accompanying notes to the financial statements.

FREE TO CHOOSE NETWORK, Inc.

Statements of Cash Flows

June 30, 2015

Cash Flows From Operating Activities	
Cash received from contributions, sales and other income	\$ 3,772,700
Interest received	4,586
Cash paid to suppliers and employees	<u>(4,616,564)</u>
Net cash provided (used) by operating activities	<u>(839,278)</u>
Cash Flows From Investing Activities	
Purchase of equipment	<u>(10,750)</u>
Net cash provided (used) by investing activities	<u>(10,750)</u>
Cash and cash equivalents at July 1, 2014	<u>2,510,909</u>
Cash and cash equivalents at June 30, 2015	<u><u>\$ 1,660,881</u></u>
Reconciliation of change in net assets to net cash provided (used) by operations	
Change in net assets	<u>\$ (811,198)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation and amortization	23,146
Loss on disposal of equipment	413
Decrease (increase) in:	
Accounts receivable	1,170
Inventory	6,327
Increase (decrease) in:	
Accounts payable	(60,211)
Payroll related liabilities	1,075
Total adjustments	<u>(28,080)</u>
Net cash provided (used) by operating activities	<u><u>\$ (839,278)</u></u>

See accompanying notes to the financial statements.

FREE TO CHOOSE NETWORK, INC.
Notes to Financial Statements
June 30, 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Organization

Free to Choose Network, Inc. (the Organization) engages in the production and distribution of educational television programming and DVD's.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America (GAAP) and are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Sequencing on the Statement of Financial Position

Assets are sequenced according to the nearness of conversion to cash, and liabilities are sequenced according to the nearness of their maturity and resulting use of cash.

Public Support and Revenue

Public support is generally available for unrestricted use in the year collected unless specifically restricted by the donor.

Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the contribution. 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 statement of activities as net assets released from restrictions.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to seven years. Depreciation expense for the year ended June 30, 2015 was \$11,951.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill from the liquidation of Idea Channel, Inc. in December 31, 2006 is being amortized over fifteen years. The amortization expense for the year ended June 30, 2015 was \$11,195 and the accumulated amortization at June 30, 2015 was \$95,165.

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold.

The Organization's Form 990, Return of Organization Exempt from Income Tax, for fiscal years ending prior to June 30, 2012 are no longer subject to examination by the IRS.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable and Bad Debts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Receivables are expensed as bad debt when management deems them to be uncollectable, using the direct charge off method.

Inventory

Inventory is valued at the lower of cost or market, cost being determined by the first-in, first-out method and consists of media items that are sold or given to customers.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a program basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefitted.

Evaluation of Subsequent Events

The Organization has evaluated subsequent events through the date of the independent auditor's report, which is the date which the financial statements were available to be issued.

NOTE 2 – CASH

The Organization maintains its cash balances in one bank located in Erie, PA. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. During the year, the Organization may have cash balances in this financial institution in excess of this limit. As of June 30, 2015, \$1,422,063 was uninsured.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Free to Choose Media	<u>\$1,758,945</u>
----------------------	--------------------

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

Free to Choose Media	<u>\$2,700,396</u>
----------------------	--------------------

NOTE 4 – RELATED PARTY TRANSACTION

The Organization has hired Chitester Creative Associates, Inc. to supervise the production of various projects undertaken by the Organization. Chitester Creative Associates, Inc. is a Pennsylvania S Corporation which is wholly-owned by Robert Chitester and his children. Robert J. Chitester is also the president of the Organization. The total amount paid to Chitester Creative Associates, Inc. by the Organization during the year ended June 30, 2015 was \$206,000. There was no outstanding balance owed to or from Chitester Creative Associates, Inc. at June 30, 2015.