

FREE TO CHOOSE NETWORK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016

FREE TO CHOOSE NETWORK, INC.
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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, 2016, 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, 2016 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 12, 2016
Erie, Pennsylvania

FREE TO CHOOSE NETWORK, INC.
Statement of Financial Position
June 30, 2016

Assets

Current Assets	
Cash and cash equivalents	\$ 1,815,262
Accounts receivable	3,084
Inventory	<u>92,080</u>
Total Current Assets	<u>1,910,426</u>
Property and equipment:	
Office furniture and equipment	79,222
Less: Accumulated depreciation	<u>(55,537)</u>
Total property and equipment	<u>23,685</u>
Other Assets:	
Goodwill, net of amortization	61,577
Investment in Capital Partners, LLC	<u>200,000</u>
Total Other Assets	<u>261,577</u>
Total Assets	<u><u>\$ 2,195,688</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 151,104
Payroll related liabilities	<u>5,075</u>
Total Current Liabilities	<u>156,179</u>
Net Assets	
Unrestricted-Fixed Assets and Goodwill	85,262
Unrestricted	<u>364,486</u>
Total Unrestricted	<u>449,748</u>
Temporarily restricted	<u>1,589,761</u>
Total Net Assets	<u>2,039,509</u>
Total Liabilities and Net Assets	<u><u>\$ 2,195,688</u></u>

See accompanying notes to the financial statements.

FREE TO CHOOSE NETWORK, INC.

Statement of Activities

For The Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues			
Donations and contributions	\$ 1,915,243	\$ 2,909,382	\$ 4,824,625
Charges for services	188,337	-	188,337
Interest income	3,290	-	3,290
Miscellaneous	38,994	-	38,994
Net assets released from restriction	3,078,566	(3,078,566)	-
	5,224,430	(169,184)	5,055,246
Expenses			
Program Services			
Free to Choose Media	4,117,186	-	4,117,186
	4,117,186	-	4,117,186
Support Services			
General and administrative	390,219	-	390,219
Fundraising	317,752	-	317,752
	707,971	-	707,971
	4,825,157	-	4,825,157
Change in Net Assets	399,273	(169,184)	230,089
Net assets, beginning of year	50,475	1,758,945	1,809,420
Net assets, end of year	\$ 449,748	\$ 1,589,761	\$ 2,039,509

See accompanying notes to the financial statements.

FREE TO CHOOSE NETWORK, Inc.
Statement of Cash Flows
For The Year Ended June 30, 2016

Cash Flows From Operating Activities	
Cash received from contributions, sales and other income	\$ 5,049,391
Interest received	3,290
Cash paid to suppliers and employees	<u>(4,692,150)</u>
Net cash provided (used) by operating activities	<u>360,531</u>
Cash Flows From Investing Activities	
Purchase of equipment	(6,150)
Purchase of investment in Capital Partners, LLC	<u>(200,000)</u>
Net cash provided (used) by investing activities	<u>(206,150)</u>
Net change in cash and cash equivalents	<u>154,381</u>
Cash and cash equivalents at beginning of the year	<u>1,660,881</u>
Cash and cash equivalents at end of the year	<u>\$ 1,815,262</u>
Reconciliation of change in net assets to net cash	
provided (used) by operations	
Change in net assets	<u>\$ 230,089</u>
Adjustments to reconcile change in net assets to net cash	
provided (used) by operating activities	
Depreciation and amortization	24,335
Decrease (increase) in:	
Accounts receivable	(2,565)
Inventory	(3,775)
Increase (decrease) in:	
Accounts payable	115,467
Payroll related liabilities	<u>(3,020)</u>
Total adjustments	<u>130,442</u>
Net cash provided (used) by operating activities	<u>\$ 360,531</u>

See accompanying notes to the financial statements.

FREE TO CHOOSE NETWORK, INC.
Notes to Financial Statements
June 30, 2016

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, 2016 was \$13,139.

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, 2016 was \$11,196 and the accumulated amortization at June 30, 2016 was \$106,361.

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.

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 the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

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, 2016, \$1,618,690 was uninsured.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Free to Choose Media Projects	<u>\$1,589,761</u>
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Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

Free to Choose Media Projects	<u>\$3,078,566</u>
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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, 2016 was \$266,000. There was no outstanding balance owed to or from Chitester Creative Associates, Inc. at June 30, 2016.

NOTE 5 – INVESTMENT IN CAPITAF PARTNERS, LLC

On June 27, 2016, Free To Choose Network, Inc. invested in a for-profit entity Capitaf Partners, LLC. Free To Choose Network, Inc. owns 21.053% of the company. The Equity Method is used to account for the value of the Organization's investment.

In addition to the Organization, the President of the Organization, the Son of the President, and a Board member, have invested in Capitaf Partners, LLC.

The unaudited financial information of Capitaf Partners, LLC, as of June 30, 2016 is as follows:

Total Assets	<u>\$ 1,084,920</u>
Total Equity	<u>\$ 1,084,920</u>
Total Expenses	<u>\$80</u>
Net Profit (loss)	<u>(\$80)</u>

NOTE 6 – LEASE OBLIGATIONS

The Organization has extended several lease agreements for office space, which are classified as operating leases, through June 2019. Total rental payments during the year ended June 30, 2016 was \$77,346.

As of June 30, 2016, future minimum lease payments under the operating leases are as follows:

<u>Years ended June 30</u>	
2017	\$74,631
2018	70,476
2019	70,476

NOTE 7 – RETIREMENT PLAN

The Organization established a SIMPLE IRA plan in September 2015, which is offered to all employees. The Organization matches up to a 3% maximum of each participant's deferral under the plan. The employer retirement plan expense for the year ended June 30, 2016 was \$16,442.