

# **THE REASON FOUNDATION**

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020

**THE REASON FOUNDATION**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2020**

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AUDIT  
AND  
ASSURANCE

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
The Reason Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of The Reason Foundation, which comprise the statement of financial position as of September 30, 2020, 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, 2020, 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.

To the Board of Trustees  
The Reason Foundation  
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**Emphasis of Matter**

As discussed in Note 10 to the financial statements, the recent COVID-19 pandemic in the United States and throughout the world has resulted in reduced economic activity and market volatility. As the extent and duration of the future impact to the Foundation are uncertain, no adjustments were necessary to the financial statements, and our opinion is not modified with respect to this matter.

*Green Hasson & Janks LLP*

January 28, 2021  
Los Angeles, California

# THE REASON FOUNDATION

## STATEMENT OF FINANCIAL POSITION

September 30, 2020

<b>ASSETS</b>	Without Donor Restrictions	With Donor Restrictions	Total
Cash and Cash Equivalents	\$ 1,529,297	\$ -	\$ 1,529,297
Investments	8,660,923	1,943,528	10,604,451
Accounts Receivable (Net)	120,531	-	120,531
Pledges Receivable	-	20,000	20,000
Deposits and Other Assets	177,135	-	177,135
Property and Equipment (Net)	2,735,831	-	2,735,831
<b>TOTAL ASSETS</b>	<b>\$ 13,223,717</b>	<b>\$ 1,963,528</b>	<b>\$ 15,187,245</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES:</b>			
Accrued Compensation Expenses	\$ 842,472	\$ -	\$ 842,472
Accounts Payable and Other Accrued Expenses	242,151	-	242,151
Unearned Subscriptions	282,226	-	282,226
Deferred Compensation	743,315	-	743,315
<b>TOTAL LIABILITIES</b>	<b>2,110,164</b>	<b>-</b>	<b>2,110,164</b>
<b>NET ASSETS:</b>			
Without Donor Restrictions	11,113,553	-	11,113,553
With Donor Restrictions	-	1,963,528	1,963,528
<b>TOTAL NET ASSETS</b>	<b>11,113,553</b>	<b>1,963,528</b>	<b>13,077,081</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 13,223,717</b>	<b>\$ 1,963,528</b>	<b>\$ 15,187,245</b>

The Accompanying Notes are an Integral Part of These Financial Statements

# THE REASON FOUNDATION

## STATEMENT OF ACTIVITIES Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT:</b>			
Public Support			
Contributions	\$ 12,335,379	\$ 2,560,000	\$ 14,895,379
Reason Magazine	892,456	-	892,456
Conferences	30,380	-	30,380
Proceeds from Fundraising Events (Net of Direct Benefit Costs of \$42,000)	121,971	-	121,971
Investment Return (Net)	821,624	14,025	835,649
Other Income	742	-	742
Net Assets Released from Donor Restrictions	2,430,911	(2,430,911)	-
<b>TOTAL REVENUE AND SUPPORT</b>	16,633,463	143,114	16,776,577
<b>EXPENSES:</b>			
Program Services	11,375,080	-	11,375,080
Management and General	477,741	-	477,741
Fundraising	1,218,875	-	1,218,875
<b>TOTAL EXPENSES</b>	13,071,696	-	13,071,696
<b>CHANGE IN NET ASSETS</b>	3,561,767	143,114	3,704,881
Net Assets - Beginning of Year	7,551,786	1,820,414	9,372,200
<b>NET ASSETS - END OF YEAR</b>	\$ 11,113,553	\$ 1,963,528	\$ 13,077,081

The Accompanying Notes are an Integral Part of These Financial Statements

**THE REASON FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended September 30, 2020

	Program Services					Support Services			Total
	Public Affairs	Stossel on Reason	Reason-TV	Magazine	Research	Total Program Services	Management and General	Fundraising	
Personnel Expenses									
Salaries	\$ 289,197	\$ 173,868	\$ 988,874	\$ 2,584,784	\$ 2,376,041	\$ 6,412,764	\$ 267,524	\$ 618,506	\$ 7,298,794
Employee Benefits	36,507	9,049	105,168	206,082	168,457	525,263	28,647	83,173	637,083
Payroll Taxes	27,900	11,318	68,479	153,561	159,103	420,361	16,841	58,552	495,754
<b>TOTAL PERSONNEL EXPENSES</b>	353,604	194,235	1,162,521	2,944,427	2,703,601	7,358,388	313,012	760,231	8,431,631
Contract Services	30,506	313,626	298,242	595,113	741,007	1,978,494	23,743	27,617	2,029,854
Magazine Printing and Distribution	788	7,300	5,728	421,627	3,304	438,747	-	-	438,747
Occupancy	12,343	35,008	46,827	120,282	116,643	331,103	17,799	29,326	378,228
Travel	1,876	8,180	20,212	15,018	132,230	177,516	2,893	86,282	266,691
Advertising and Promotion	16,508	-	1,004	166,457	7,515	191,484	51	39,107	230,642
Foundation-hosted Events and Conferences	471	-	63,041	1,156	20,567	85,235	-	105,272	190,507
On-line Services	1,758	3,454	8,823	117,298	11,281	142,614	2,820	5,846	151,280
Insurance	4,554	25,500	16,368	47,480	40,156	134,058	4,244	10,162	148,464
Printed Material	-	-	106	21,714	26,950	48,770	570	94,600	143,940
Supplies	7,981	6,374	28,956	21,757	36,741	101,809	10,972	11,212	123,993
Dues and Subscriptions	-	-	3,137	6,791	98,156	108,084	1,330	180	109,594
Postage and Shipping	1,763	53	2,041	52,187	14,554	70,598	953	35,221	106,772
Professional Fees	-	-	-	1,873	-	1,873	92,597	-	94,470
Conference Attendance and Sponsorships	10,600	-	(9,920)	649	50,020	51,349	-	1,974	53,323
Depreciation and Amortization	1,881	1,011	6,845	17,678	16,399	43,814	1,756	4,201	49,771
Commissions	-	-	-	39,838	-	39,838	-	-	39,838
Telephone	2,137	-	3,703	9,040	10,696	25,576	667	3,433	29,676
Books and Periodicals	1,496	29	6,386	8,351	7,956	24,218	1,561	2,718	28,497
Miscellaneous	850	31	2,911	7,553	10,167	21,512	2,773	1,493	25,778
<b>TOTAL FUNCTIONAL EXPENSES</b>	\$ 449,116	\$ 594,801	\$ 1,666,931	\$ 4,616,289	\$ 4,047,943	\$ 11,375,080	\$ 477,741	\$ 1,218,875	\$ 13,071,696

The Accompanying Notes are an Integral Part of These Financial Statements

**THE REASON FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
Year Ended September 30, 2020

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in Net Assets	\$ 3,704,881
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:	
Depreciation and Amortization	49,771
Net Realized and Unrealized Gains on Investments	(607,731)
(Increase) Decrease in:	
Accounts Receivable (Net)	(32,930)
Pledges Receivable	239,593
Deposits and Other Assets	(74,220)
Increase (Decrease) in:	
Accrued Compensation Expenses	13,216
Accounts Payable and Other Accrued Expenses	(42,253)
Unearned Subscriptions	(18,790)
Deferred Compensation	<u>152,261</u>
 <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	 <b>3,383,798</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of Property and Equipment	(11,000)
Reinvested Interest and Dividends	(227,918)
Proceeds on Sale of Investments	15,588
Purchases of Investments	<u>(3,678,445)</u>
 <b>NET CASH USED IN INVESTING ACTIVITIES</b>	 <b><u>(3,901,775)</u></b>
 <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	 <b>(517,977)</b>
Cash and Cash Equivalents - Beginning of Year	<u>2,047,274</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	 <b><u><u>\$ 1,529,297</u></u></b>

The Accompanying Notes are an Integral Part of These Financial Statements



# THE REASON FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 1 - ORGANIZATION

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.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### (b) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor-imposed restrictions.
- **Net Assets With Donor Restrictions.** Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

#### (c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at September 30, 2020 approximates its fair value.

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

**THE REASON FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2020

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(d) INVESTMENTS**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investments in Cryptocurrency are reported at the lower of fair market value and the 12-month rolling average price. Investment purchases and sales are accounted for on a trade-date basis. Interest income is recorded as earned on an accrual basis, and dividend income is recorded based upon the ex dividend date. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Unrealized gains and losses are included in the statement of activities and represent the difference between the cost and fair value of investments held at the end of the fiscal year.

**(e) ACCOUNTS RECEIVABLE**

Accounts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At September 30, 2020, management evaluated the collectability of accounts receivable and decided to maintain the existing allowance for doubtful accounts of \$41,100, which is included in accounts receivable.

**(f) PLEDGES RECEIVABLE**

Pledges receivable consists of unconditional promises to give monetary assets to the Foundation. Management anticipates it will collect 100% of the pledges receivable balance within one year and so no allowance for potentially uncollectible pledges has been established as of September 30, 2020.

**(g) FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments include cash and cash equivalents, accounts receivable, pledges receivable, deposits and other assets, accrued compensation expenses, accounts payable and other accrued expenses, and unearned subscriptions. Due to the short-term nature of these balances, the carrying amounts approximate their fair value.

**THE REASON FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2020

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(h) PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets 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.

**(i) LONG-LIVED ASSETS**

The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated value. No impairment losses were recognized during the year ended September 30, 2020.

**(j) UNEARNED SUBSCRIPTIONS**

Magazine subscription revenue is generally received in advance, initially reported as unearned subscriptions, and subsequently recognized as revenue on a pro-rata basis over the respective subscription periods, which may extend beyond one year.

**(k) CONTRIBUTIONS**

Contributions, including endowment gifts and pledges, as well as unconditional promises to give, are recognized as revenue in the period promised. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not included as revenue until the conditions on which they depend have been met.

**(l) ADVERTISING AND PROMOTION**

Costs of advertising and promotion are expensed as incurred. Total advertising and promotion expense was \$230,642 for the year ended September 30, 2020.

**THE REASON FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2020

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(m) FUNCTIONAL EXPENSES**

The costs of providing the Foundation's programs and other activities have been presented in the statement of activities. During the year, such costs are allocated among program and support services by a method that best measures the relative degree of benefit. 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.

**(n) INCOME TAXES**

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.

In accordance with the Financial Accounting Standards Board's (FASB's) Accounting Standards Codification Topic No. 740, Uncertainty in Income Taxes, the Foundation recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. During the year ended September 30, 2020, the Foundation performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

**(o) USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented. Actual results could differ from those estimates.

**THE REASON FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2020

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(p) NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of U.S. GAAP and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of combined financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASU's between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on principal versus agent considerations, licensing implementation guidance, scope exceptions, and various other narrow aspects, as identified and addressed in such updates. For the Foundation, the ASU and subsequent amendments will be effective for the year ending September 30, 2021.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require Foundations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and provides additional information about the amounts recorded in the financial statements. For the Foundation, the ASU will be effective for the year ending September 30, 2023.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. The Foundation implemented this ASU during the year ended September 30, 2020.

# THE REASON FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2020, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 28, 2021, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

### NOTE 3 - INVESTMENTS

The Foundation has implemented the fair value accounting standard for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at September 30, 2020 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements Using			
	Year Ended September 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stock Funds	\$ 5,624,311	\$ 5,624,311	\$ -	\$ -
REIT Index Funds	87,065	87,065	-	-
Bond Funds	2,234,008	2,234,008	-	-
U.S. Treasury Funds	2,322,180	2,322,180	-	-
Gold Exchange-Traded Fund	294,728	294,728	-	-
Cryptocurrency	42,159	42,159	-	-
<b>TOTAL INVESTMENTS</b>	<b>\$ 10,604,451</b>	<b>\$ 10,604,451</b>	<b>\$ -</b>	<b>\$ -</b>

The fair values of the investments within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

# THE REASON FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 3 - INVESTMENTS (continued)

The Foundation recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments generally relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels during the year ended September 30, 2020.

### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2020 consist of the following:

Land	\$ 1,908,473
Buildings and Improvements	1,018,670
Furniture and Equipment	1,290,765
Leasehold Improvements	<u>16,850</u>
<b>TOTAL</b>	4,234,758
Less: Accumulated Depreciation	<u>(1,498,927)</u>
<b>PROPERTY AND EQUIPMENT (NET)</b>	<u><u>\$ 2,735,831</u></u>

Depreciation and amortization expense for the year ended September 30, 2020 was \$49,771.

### NOTE 5 - LINE OF CREDIT

The Foundation has 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, 2020) plus 0.5% renewable annually. The line of credit has no stated maturity, and there was no outstanding balance on the line of credit at September 30, 2020.

# THE REASON FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30, 2020:

Internships	\$	145,441
Journalism		125,000
Marketing		30,000
Pension Program		700,000
Permanent Endowment		51,279
Savas Privatization Award		46,533
School Funding Portability		125,000
Time Restricted		726,250
Unappropriated Earnings on Perpetual Endowment		<u>14,025</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>		<u><u>\$ 1,963,528</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended September 30, 2020:

Appropriated Earnings on Perpetual Endowment	\$	4,291
Internships		17,881
Journalism		125,000
Marketing		30,000
Pension Program		1,425,000
Reason in Guatemala Sponsorships		212,414
Savas Privatization Award		110,451
School Funding Portability		275,000
Stossel on Reason		187,500
Time Restricted		<u>43,374</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>		<u><u>\$ 2,430,911</u></u>



**THE REASON FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2020

**NOTE 7 - RETIREMENT PLANS**

**(a) 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 403(b) Plan.

**(b) 457(f) PLAN**

The Foundation has established a nonqualified IRC Section 457(f) employee retirement plan (the 457(f) Plan) on behalf of an officer. The participant's right to receive deferred compensation is vested based over a 14-year period, and will be paid out over a five year period, commencing in April 2027. The 457(f) Plan provides for an earlier payout of the vested portion in the event of a death, disability or termination of employment.

During the year ended September 30, 2020, the Foundation deposited \$75,000 into the 457(f) Plan and accrued \$100,000 of contributions at September 30, 2020. Investments of the 457(f) Plan generated a net return of \$52,261 during the year. The Foundation has recorded a deferred compensation liability of \$743,315 at September 30, 2020, which represents the fair value of future payouts of the 457(f) Plan. The Board of Trustees may make discretionary contributions to the 457(f) Plan in the future.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

**(a) OPERATING LEASES**

The Foundation leases office spaces in Washington, D.C. and New York through April 2023 and May 2020, respectively. The Foundation did not renew its lease for the New York office space, which expired in May 2020.

Minimum future rental payments associated with these leases at September 30, 2020 are as follows:

**Years Ending September 30**

2021	\$	212,718
2022		218,042
2023		<u>129,023</u>
<b>TOTAL</b>	<b>\$</b>	<b><u>559,783</u></b>

Rent expense under these operating leases for the year ended September 30, 2020 was \$244,088 and is included in occupancy expense.

# THE REASON FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)

#### (b) LITIGATION

In the ordinary course of conducting its business, the Foundation may become involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Foundation, which, from time to time, may have an impact on changes in net assets or its financial position. The Foundation does not believe that these proceedings individually, or in the aggregate, would have a material effect on the accompanying financial statements.

### NOTE 9 - ENDOWMENT

The Foundation's endowment consists of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts to either provide a perpetual endowment, which is to provide a permanent source of income to the Foundation, or a term endowment, which is to provide income for a specified period to the Foundation.

The Foundation's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for the Foundation's endowments is to preserve the real (inflation-adjusted) purchasing power of the endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. The Foundation's Board of Directors has approved a spending policy that will distribute a specific payout rate (5%) of the endowment base (calculated as the three-year average market value of endowment funds) to support the Foundation's programs. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term.

	<u>With Donor Restrictions</u>
<b>Endowment Net Asset Composition At September 30, 2020</b>	
Donor-Restricted:	
Original Donor-Restricted Perpetual Gifts	\$ 51,280
Accumulated Investment Return (Net)	<u>14,025</u>
<b><i>ENDOWMENT NET ASSETS - SEPTEMBER 30, 2020</i></b>	<b><u>\$ 65,305</u></b>

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**NOTE 9 - ENDOWMENT** (continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). At September 30, 2020, the Foundation had no underwater endowments.

For the year ended September 30, 2020, the Foundation's endowment net assets changed as follows:

	With Donor Restrictions
Endowment Net Assets - Beginning of Year	\$ 55,571
Investment Return (Net)	14,025
Appropriations for Expenditure	(4,291)
<b><i>ENDOWMENT NET ASSETS - END OF YEAR</i></b>	<b><i>\$ 65,305</i></b>

Investment return (net) related to the Foundation's donor-restricted endowment is recorded as revenue with donor restrictions unless otherwise directed by the donor's gift instrument.

**NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES**

The total financial assets held by the Foundation at September 30, 2020 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at September 30, 2020	
Cash and Cash Equivalents	\$ 1,529,297
Investments	10,604,451
Accounts Receivable (Net)	120,531
Pledges Receivable	20,000
<b><i>TOTAL FINANCIAL ASSETS AT SEPTEMBER 30, 2020</i></b>	<b><i>12,274,279</i></b>
Less Amounts Not Available to Be Used within One Year, Due to:	
Donor-Imposed Restrictions:	
Funds Held with Purpose Restrictions	(1,943,528)
Pledges Receivable Restricted by Purpose or Time	(20,000)
<b><i>FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR</i></b>	<b><i>\$ 10,310,751</i></b>

# THE REASON FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020

### **NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES** (continued)

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and liquid investments. Additionally, the Foundation has a \$200,000 line of credit facility at September 30, 2020 which can be utilized to fund operations.

During the year, an outbreak of a novel strain of coronavirus (COVID-19) surfaced in the United States and throughout the world, causing business disruption and significant market fluctuations, which may negatively impact the Foundation's operations and investment portfolio. The scope and duration of this impact cannot be reasonably estimated at this time. The Foundation is closely monitoring its operations and investment portfolio.