THE REASON FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

armanino

TABLE OF CONTENTS

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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, 2015, 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, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. GAAP.

Armanino LLP

Armanino[LLP]
Los Angeles, California

December 21, 2015

THE REASON FOUNDATION

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2015

ASSETS

Current Assets	
Cash and cash equivalents	$ 681,361
Investments	3,890,778
Accounts receivable, net	103,427
Current portion of pledges receivable	952,360
	5,627,926
Other Assets	
Pledges receivable, net of current portion	30,242
Property and equipment, net	2,933,019
Deposits	92,263
	3,055,524
	$ 8,683,450

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable and accrued expenses	$ 1,130,880
Current portion of unearned subscriptions	128,615
Mortgage payable	115,543
	1,375,038
Long-Term Liabilities	
Unearned subscriptions, net of current portion	186,832
Total Liabilities	1,561,870
Commitments (Note 11)	
Net Assets	
Unrestricted	
General	3,077,991
Investment in land and building	2,728,518
Total unrestricted	5,806,509
Temporarily restricted	1,270,792
Permanently restricted	44,279
Total Net Assets	7,121,580
	$ 8,683,450

See accompanying notes to financial statements.

THE REASON FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	$ 7,485,821	$ 1,699,991	$ -	$ 9,185,812
Reason Magazine	923,723	-	-	923,723
Proceeds from fundraising events, net of direct benefit costs of $10,550	177,866	-	-	177,866
Conferences	189,949	-	-	189,949
Realized gains on sales of investments	49,559	-	-	49,559
Unrealized losses on investments	(39,119)	(396)	(885)	(40,400)
Interest and dividends	53,858	360	804	55,022
Miscellaneous	674	-	-	674
Reclassification of endowment earnings	-	(81)	81	-
Net Assets Released from Restrictions	1,111,909	(1,111,909)	-	-
	9,954,240	587,965	-	10,542,205
Functional Expenses				
Program services				
Public Affairs	505,439	-	-	505,439
Reason-Rupe Poll	93,855	-	-	93,855
Reason-TV	1,641,937	-	-	1,641,937
Magazine	3,590,819	-	-	3,590,819
Research	2,837,983	-	-	2,837,983
	8,670,033	-	-	8,670,033
Management and general	305,819	-	-	305,819
Fundraising	893,546	-	-	893,546
	9,869,398	-	-	9,869,398
Changes in Net Assets	84,842	587,965	-	672,807
Net Assets, beginning of year	5,721,667	682,827	44,279	6,448,773
Net Assets, end of year	$ 5,806,509	$ 1,270,792	$ 44,279	$ 7,121,580

See accompanying notes to financial statements.

THE REASON FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Public Affairs	Reason-Rupe Poll	Reason-TV	Magazine	Research	Total Programs	Management and General	Fundraising	Total
Personnel Expenses									
Salaries	$ 354,077	$ 31,829	$ 975,062	$ 1,605,374	$ 1,643,944	$ 4,610,286	$ 163,839	$ 378,981	$ 5,153,106
Payroll taxes	23,215	1,983	68,105	114,088	106,771	314,162	8,691	23,118	345,971
Employee benefits	17,840	-	53,812	83,847	84,919	240,418	7,301	16,174	263,893
	395,132	33,812	1,096,979	1,803,309	1,835,634	5,164,866	179,831	418,273	5,762,970
Other Expenses									
Books and periodicals	644	-	1,194	3,497	6,137	11,472	401	5,789	17,662
Commissions	-	-	-	37,409	-	37,409	-	-	37,409
Conference attendance and sponsorships	15,220	-	-	50	71,193	86,463	-	9,278	95,741
Contract services	1,456	57,250	207,126	536,683	238,370	1,040,885	24,224	15,149	1,080,258
Depreciation and amortization	6,525	-	19,520	31,080	31,398	88,523	2,900	6,659	98,082
Dues and subscriptions	1,023	2,000	2,047	2,659	46,090	53,819	532	10,230	64,581
Foundation-hosted events and conferences	-	-	79,779	81,278	94,106	255,163	-	141,578	396,741
Insurance	6,062	-	18,704	29,216	29,721	83,703	3,675	6,607	93,985
Interest	402	-	1,222	1,920	1,903	5,447	182	412	6,041
Magazine printing and distribution	116	-	84	541,045	1,910	543,155	-	1,036	544,191
Miscellaneous	6,298	-	2,223	2,684	4,133	15,338	2,949	769	19,056
Occupancy	17,757	-	51,086	80,039	82,855	231,737	9,002	17,351	258,090
On-line services	9,529	133	22,011	57,609	50,604	139,886	2,564	16,492	158,942
Postage and shipping	12,277	-	5,940	56,838	19,415	94,470	510	39,598	134,578
Printed material	1,474	-	167	59,249	13,945	74,835	7	48,198	123,040
Professional fees	1,314	-	3,752	6,151	6,371	17,588	67,517	1,314	86,419
Promotion and advertising	1,099	-	-	185,760	1,454	188,313	-	12,139	200,452
Supplies	10,886	117	40,039	24,479	43,823	119,344	6,977	23,275	149,596
Telephone	3,316	330	8,835	10,989	18,339	41,809	2,728	6,337	50,874
Travel and entertainment	14,909	213	81,229	38,875	240,582	375,808	1,820	113,062	490,690
	$ 505,439	$ 93,855	$ 1,641,937	$ 3,590,819	$ 2,837,983	$ 8,670,033	$ 305,819	$ 893,546	$ 9,869,398

See accompanying notes to financial statements.

THE REASON FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Cash Flows from Operating Activities	
Changes in net assets	$ 672,807
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	98,082
Realized gains on sales of investments	(49,559)
Unrealized losses on investments	40,400
Decrease in allowance for doubtful accounts	(512)
(Increase) decrease in operating assets	
Accounts receivable	(2,714)
Pledges receivable	(638,573)
Deposits	(6,529)
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	35,150
Unearned subscriptions	(59,766)
Net Cash Provided by Operating Activities	88,786
Cash Flows from Investing Activities	
Purchases of property and equipment	(9,003)
Purchases of investments	(755,178)
Proceeds from sales of investments	532,376
Net Cash Used in Investing Activities	(231,805)
Cash Flows from Financing Activities	
Principal payments on mortgage payable	(137,168)
Net Cash Used in Financing Activities	(137,168)
Net Decrease in Cash and Cash Equivalents	(280,187)
Cash and Cash Equivalents, beginning of year	961,548
Cash and Cash Equivalents, end of year	$ 681,361

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid during the Year for Interest	$ 7,189

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, 2012, 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, 2011, 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. 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, 2015.

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 $200,452 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, 2015, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 21, 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.

Reclassifications

Certain September 30, 2014, balances have been reclassified in order to conform to the September 30, 2015, presentation, resulting in no change to the September 30, 2014, overall net assets or changes in net assets for the year then ended.

THE REASON FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

NOTE 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 assets at fair value as of September 30, 2015:

	Level 1	Level 2	Level 3	Total
Stock funds	$ 2,154,510	$ -	$ -	$ 2,154,510
REIT index funds	811,930	-	-	811,930
Bond funds	552,522	-	-	552,522
U.S. Treasury Funds	236,003	-	-	236,003
Gold exchange-traded fund	135,813	-	-	135,813
	$ 3,890,778	$ -	$ -	$ 3,890,778

Activity in the investments during the year was as follows:

Balance, beginning of year	$ 3,658,817
Purchases of investments	755,178
Proceeds from sales of investments	(532,376)
Realized gains on sales of investments	49,559
Unrealized losses on investments	(40,400)
Balance, end of year	$ 3,890,778

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

Accounts receivable	$ 113,313
Allowance for doubtful accounts	(9,886)
	$ 103,427

THE REASON FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable consists of the following:

Due in less than one year	$ 952,360
Due in one to five years	32,320
	984,680
Discount to net present value	(2,078)
	$ 982,602

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	1,198,918
	4,116,219
Accumulated depreciation and amortization	(1,183,200)
	$ 2,933,019

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, 2015) plus .5%, renewable annually. There was no outstanding balance as of September 30, 2015.

THE REASON FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

NOTE 8 - MORTGAGE PAYABLE

The Foundation has a mortgage note payable with $115,543 remaining to be paid by September 2016, secured by the Foundation's land and building, payable in monthly installments of $12,030, including interest at 3.73% per annum. The mortgage loan agreement contains several loan covenants; as of September 30, 2015, the Foundation is in compliance with those covenants.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	Released from Restrictions	Balance, September 30, 2015
Time Restricted	$ (602,600)	$ 982,602
Savas Privatization Award Fund	(10,000)	90,000
Reason Media Awards Dinner	(168,500)	71,250
Mattern Internship Fund	(22,034)	57,224
Walton Purpose Restricted	(200,000)	50,000
Unappropriated Earnings on Permanent Endowment	-	19,716
Reason Magazine	(10,000)	-
Miscellaneous	(98,775)	-
	$ (1,111,909)	$ 1,270,792

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	$ -	$ 19,716	$ 44,279	$ 63,995
	$ -	$ 19,716	$ 44,279	$ 63,995

Changes in Endowment Net Assets During the Year Ended

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, September 30, 2014	$ -	$ 19,833	$ 44,279	$ 64,112
Investment income	-	360	804	1,164
Realized and unrealized gains	-	(396)	(885)	(1,281)
Reclassification of investment return	-	(81)	81	-
Balance, September 30, 2015	$ -	$ 19,716	$ 44,279	$ 63,995

NOTE 11 - COMMITMENTS

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,	
2016	$ 188,012
2017	192,718
2018	197,524
2019	202,454
2020	207,529
Thereafter	559,777
	$ 1,548,014

NOTE 11 - COMMITMENTS (Continued)

Rent expense totaled $200,853 for the year.

During the year ended September 30, 2015 the Foundation took out a lease on a vehicle which will incur payments through August, 2018.

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

Year Ending September 30,		
2016	$	4,564
2017		4,564
2018		4,184
	$	13,312

Lease payments made during the year totaled $380.

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.