

Truth Initiative Foundation and Affiliate

Consolidated Financial Report
June 30, 2017

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Independent Auditor's Report

To the Board of Directors
Truth Initiative Foundation
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Truth Initiative Foundation and Affiliate (Truth Initiative), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Truth Initiative Foundation and Affiliate as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 27, 2017, and September 20, 2016, on our consideration of Truth Initiative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Truth Initiative's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
September 27, 2017

Truth Initiative Foundation and Affiliate

Consolidated Balance Sheets
June 30, 2017 and 2016
(In Thousands)

	2017	2016
Assets		
Cash and cash equivalents	\$ 129,379	\$ 77,266
Investments	855,240	826,661
Accrued interest receivable	262	897
Grants receivable	767	699
Note receivable	-	19,850
Prepaid expenses	940	336
Trades to be settled	806	-
Property and equipment, net	7,052	6,135
1724 Mass. Ave. building, net	24,278	24,940
Other assets	318	599
	<u>\$ 1,019,042</u>	<u>\$ 957,383</u>
Liabilities and Net Assets		
Liabilities:		
Trades to be settled	\$ -	\$ 607
Accrued expenses	11,109	12,312
Liability on interest rate swap agreement	4,667	6,950
Deferred rent	5,310	4,883
Deferred revenue	29	
Refundable advance	213	-
Other liabilities	1,109	1,442
Loan payable	60,000	-
	<u>82,437</u>	<u>26,194</u>
Commitments and contingencies (Notes 6 and 9)		
Net assets – unrestricted	<u>936,605</u>	<u>931,189</u>
	<u>\$ 1,019,042</u>	<u>\$ 957,383</u>

See notes to consolidated financial statements.

Truth Initiative Foundation and Affiliate

**Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016
(In Thousands)**

	2017	2016
Revenue and support:		
Rental income	\$ 2,224	\$ 1,533
Sponsored projects and other income	3,728	3,312
Investment income (loss), net of fees	105,548	(5,920)
Settlement proceeds:		
Public education	226	141
Total revenue and support	111,726	(934)
Expenses:		
Program expenses:		
Counter marketing	69,282	74,005
Communications	4,609	5,147
Schroeder Research Institute Innovations	4,587	7,701
Evaluation science and research	3,850	-
Community and youth engagement	7,084	6,786
Grants	4,055	4,132
Other programs	2,656	3,065
	1,127	1,957
	97,250	102,793
Supporting services:		
General and administrative	8,848	8,119
Building expenses	212	4,977
Total expenses	106,310	115,889
Change in net assets	5,416	(116,823)
Net assets:		
Beginning	931,189	1,048,012
Ending	\$ 936,605	\$ 931,189

See notes to consolidated financial statements.

Truth Initiative Foundation and Affiliate

**Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(In Thousands)**

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 5,416	\$ (116,823)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized (gain) loss on investments	(95,153)	15,959
Other investment gain	(5,697)	(5,899)
Depreciation	1,623	1,333
Change in interest rate swap agreements	(2,283)	2,101
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	635	(729)
Other assets	281	78
Prepaid expenses	(604)	87
Grants receivable	(68)	274
Increase (decrease) in:		
Accrued expenses	(1,203)	(2,318)
Deferred revenue	29	-
Deferred rent, net	427	4,883
Trades to be settled	(1,413)	597
Refundable advance	213	-
Other liabilities	(333)	152
Net cash used in operating activities	(98,130)	(100,305)
Cash flows from investing activities:		
Proceeds from sale of building	19,850	18,792
Purchase of property and equipment	(1,878)	(6,659)
Proceeds from sale of investments	259,315	181,689
Purchases of investments	(187,044)	(140,762)
Net cash provided by investing activities	90,243	53,060
Cash flows from financing activities:		
Draws on line of credit	60,000	-
Payment on the extinguishment of bonds	-	(28,000)
Net cash provided by (used in) financing activities	60,000	(28,000)
Net increase (decrease) in cash and cash equivalents	52,113	(75,245)
Cash and cash equivalents:		
Beginning	77,266	152,511
Ending	\$ 129,379	\$ 77,266
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,574	\$ 902
Cash paid for income taxes	\$ 47	\$ 29

See notes to consolidated financial statements.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Truth Initiative Foundation and Affiliate consists of two entities: Truth Initiative Foundation (Truth Initiative) and M Street Holdings, LLC (the Company).

In November 1998, a coalition of 46 state attorneys general successfully settled their civil cases with the tobacco companies. As a result, the settling states and the participating tobacco manufacturers entered into two separate settlement agreements: the Master Settlement Agreement (MSA) and the Smokeless Tobacco Master Settlement Agreement (STMSA). The two settlement agreements provided for the establishment and initial funding of a Section 501(c)(3) organization to reduce tobacco usage in the United States. Pursuant to these agreements, an organization named Master Settlement Agreement Foundation (MSA Foundation) was created in March 1999 and was later renamed American Legacy Foundation.

As of August 27, 2015, American Legacy Foundation legally changed its name to Truth Initiative Foundation, to reflect its objective to align all organization programs more closely with the truth campaign and consistent with its mission to achieve a culture where all youth and young adults reject tobacco.

Truth Initiative is governed by a Board of Directors, which is comprised of state governors, legislators, attorneys general and experts in the medical, education and public health fields.

Truth Initiative's bylaws set forth its functions as follows:

Carrying out a nationwide sustained advertising and education program to: (a) counter the use by youth of tobacco products; and (b) educate consumers about the cause and prevention of diseases associated with the use of tobacco products.

Developing and disseminating model advertising and education programs to counter the use by youth of substances that are unlawful for the use or purchase by youth, with an emphasis on reducing youth smoking; monitoring and testing the effectiveness of such model programs and, based on the information received from such monitoring and testing, continuing to develop and disseminate revised versions of such model programs, as appropriate.

Developing and disseminating model classroom education programs and curriculum ideas about smoking and substance abuse in the K–12 school system, including specific target programs for special at-risk populations; monitoring and testing the effectiveness of such model programs and ideas and, based on the information received from such model programs or ideas, continuing to develop and disseminate revised versions of such model programs, as appropriate.

Developing and disseminating criteria for the effectiveness cessation program; monitoring and testing the effectiveness of such criteria; and continuing to develop and disseminate revised versions of such criteria, as appropriate.

Commissioning studies, funding research and publishing reports and factors that influence youth smoking and substance abuse, and developing strategies to address the conclusions of such studies and research.

Developing other innovative youth smoking and substance abuse prevention programs.

Providing targeted training and information for parents.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Maintaining a library of Truth Initiative-funded studies, reports and other publications related to the cause and prevention of youth smoking and substance abuse that will be open to the public.

Tracking and monitoring youth smoking and substance abuse, with a focus on the reason for any increases in or failures to decrease youth smoking and substance abuse, and what actions can be taken to reduce youth smoking and substance abuse.

Receiving, controlling and managing contributions and funds provided by other entities for further purposes described in Truth Initiative's certificate of incorporation.

Truth Initiative is organized around its three primary program goals: (i) youth/young adult public education (primarily through the truth[®] anti-tobacco counter-marketing campaign), (ii) research policy and practice including the activity of Truth Initiative's evaluation science research function and its Schroeder Institute for Tobacco Research and Policy Studies and (iii) community and youth engagement activities including our youth activism program. Truth Initiative also has an operations function for administration, fiscal, legal, technology and personnel activities.

As discussed in Note 6, on October 27, 2015, Truth Initiative moved to its new headquarters at 900 G Street, Washington, D.C.

A summary of Truth Initiative's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Truth Initiative and the Company. All material intercompany transactions have been eliminated.

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, Truth Initiative is required to report information regarding its financial position and activities according to three classes of net assets determined based on the existence of donor restrictions or the absence thereof: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Truth Initiative had no temporarily or permanently restricted net assets at June 30, 2017 and 2016.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, Truth Initiative considers all short-term, highly liquid debt instruments to be cash equivalents, including money market funds and certificates of deposit purchased with an original maturity of three months or less.

Financial risk: Truth Initiative maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Truth Initiative has not experienced any losses in such accounts. Truth Initiative believes it is not exposed to any significant financial risk on cash.

Truth Initiative invests in various equities and alternative investments. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Securities transactions, interest and dividends: Securities transactions are recorded on a trade-date basis and are carried at their fair value. Realized gains and losses on securities transactions are determined on a specific identification basis and are included in investment (loss) income, net of fees, in the accompanying consolidated statements of activities. The change in the fair value of investments is included in investment (loss) income, net of fees, in the accompanying consolidated statements of activities. Interest income is recognized under the accrual basis. Dividend income is recognized on the ex-dividend date.

Valuation of investments and cash equivalents: Investments are presented in the consolidated financial statements at fair value in accordance with accounting principles generally accepted in the United States of America (GAAP). Mutual funds, U.S. stocks and global stocks consist of investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation; other securities traded on the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short sales positions and call options written, for which the last quoted asked price is used.

Truth Initiative considers repurchase agreements, money market funds, the State Street Institutional Reserves Fund and deposits held at a futures broker to be cash equivalents based on the short maturity and liquidity of the assets. Accordingly, Truth Initiative's management utilizes the \$1 per unit price provided by the custodian of the assets as a basis for the fair value assessment.

Investments in comingled/common trust funds, hedge funds, hedge fund of funds, private equity funds and private equity fund of funds are valued at fair value based on the applicable percentage ownership of the underlying fund/partnerships' net assets as of the measurement date, as provided by the fund managers. The underlying investment funds/partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds/partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective funds and investment partnerships and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of Truth Initiative's investments in funds and investment partnerships generally represents the amount Truth Initiative would expect to receive if it were to liquidate its investment in the other investment partnerships, excluding any redemption charges that may apply.

The fund managers of underlying funds and investment partnership funds in which Truth Initiative invests may utilize derivative instruments with off-balance-sheet risk. Truth Initiative's exposure to risk is limited to the amount of its investment.

Financial instruments with off-balance-sheet risk: In connection with its trading activities, Truth Initiative enters into transactions involving a variety of securities and derivative financial instruments. These derivative financial instruments may have market and/or credit risk in excess of the amounts recorded in the consolidated balance sheets.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Theoretically, Truth Initiative's exposure is equal to the notional value of contracts purchased and unlimited on such contracts sold short.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease Truth Initiative's overall exposure to market risk. Truth Initiative attempts to control its exposure to market risk through various analytical monitoring techniques.

Concentrations of credit risk: Truth Initiative is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, Truth Initiative may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty or issuer of the instrument. It is Truth Initiative's policy to review, as necessary, the credit standing of each counterparty.

In the normal course of its business, Truth Initiative enters into contracts and agreements with certain service providers, such as clearing and custody agents, trustees and administrators that contain a variety of representations and warranties and which provide general indemnifications and guarantees against specified potential losses in connection with their activities as an agent of, or providing services to, Truth Initiative. Truth Initiative's maximum exposure under these agreements is unknown, as this may involve future claims that could be made against Truth Initiative and have not yet occurred. Truth Initiative expects the risk of any future obligation under these arrangements to be remote and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

Property and equipment: Truth Initiative capitalizes all property and equipment and buildings purchased with a cost of \$5 or more at cost and depreciates them using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39½ years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the related lease terms. Truth Initiative expenses preliminary project stage costs as incurred. Capitalized application stage software costs are amortized over three years using the straight-line method. Post-implementation and operation stage costs are expensed as incurred.

Valuation of long-lived assets: Truth Initiative reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Interest rate swap agreement and hedging activities: The interest rate swap agreement is carried at fair value. The fair value of the interest rate swap agreement is the estimated amount that the financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

Allocation of expenses: Expenses are either directly charged to program services as incurred or proportionately allocated to functional categories, based on various allocation methods.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income taxes: Truth Initiative is generally exempt from federal income tax under Internal Revenue Code (IRC) Section 501(c)(3). In addition, Truth Initiative has been classified as an organization that is not a private foundation. Income which is not related to its exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Company is a single-member, limited liability company (LLC) and, as such, is a disregarded entity for federal income tax purposes, pursuant to Section 7701 of the IRC. Truth Initiative had unrelated business income related to debt financed rental income during the years ended June 30, 2017 and 2016.

Truth Initiative follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, Truth Initiative may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest, penalties on income taxes and accounting in interim periods.

Management evaluated Truth Initiative's tax positions and concluded that Truth Initiative had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of the guidance for accounting for uncertainty in income taxes. Generally, Truth Initiative is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2014.

Adopted accounting pronouncement: In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for Truth Initiative for fiscal years beginning after December 15, 2018. Truth Initiative elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

Upcoming accounting pronouncements: In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on the consolidated financial statements.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Truth Initiative is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. Truth Initiative is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: Truth Initiative evaluated subsequent events through September 27, 2017, which is the date the consolidated financial statements were issued.

Note 2. Investments

Investments at June 30, 2017 and 2016, consist of the following:

	2017	2016
Mutual funds	\$ 109,054	\$ 130,274
U.S. stocks	108,419	106,906
Global stocks	22,500	32,303
Trust	15,959	-
Other investments measured at net asset value:		
Commingled/common trust funds	203,533	154,717
Hedge funds	94,361	71,978
Hedge fund of funds	-	12,807
Private equity funds	157,951	170,171
Private equity fund of funds	121,676	126,006
Other	21,787	21,499
	<u>\$ 855,240</u>	<u>\$ 826,661</u>

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 2. Investments (Continued)

Investment income (loss) for the years ended June 30, 2017 and 2016, consists of the following:

	2017	2016
Interest, dividends and accretion income	\$ 9,927	\$ 9,489
Realized gain on investments	45,730	12,313
Unrealized gain (loss) on investments	49,423	(28,272)
Other investment gain	5,697	5,899
Investment fees	(5,229)	(5,349)
Total investment income (loss)	<u>\$ 105,548</u>	<u>\$ (5,920)</u>

Alternative investments are less liquid than Truth Initiative's other investments. The following tables set forth additional disclosures of Truth Initiative's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2017 and 2016.

	As of June 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/common trust funds (a):				
Emerging markets	\$ 56,583	\$ -	Daily, monthly	3-90 days
Global developed market	45,510	-	Monthly	10 days
U.S. small cap	35,567	-	Monthly	10 days
Global emerging market	24,810	-	Monthly	7 days
Commodities	14,309	-	Daily	Daily
U.S. large cap	21,179	-	Daily	3 days
Other	5,575	-	Monthly	60 days
	<u>203,533</u>	<u>-</u>		
Hedge funds:				
Semi-liquid credit (d)	10,091	-	Semi-annually	90 days
Multi-strategy (c)	50,016	-	Monthly, semi-annually	3-60 days
Long/short (b)	34,254	-	Quarterly, annually	45-60 days
	<u>94,361</u>	<u>-</u>		
Private equity funds:				
Real estate (i)	41,055	9,797	Longer than one year	Not applicable
Private energy (i)	47,335	1,003	Longer than one year	Not applicable
Private debt (h)	33,842	11,213	Longer than one year	Not applicable
Venture/buy-out (g)	35,719	9,907	Longer than one year	Not applicable
	<u>157,951</u>	<u>31,920</u>		
Private equity fund of funds:				
Venture/buyout (g)	89,388	19,703	Longer than one year	Not applicable
Private debt (h)	6,536	750	Longer than one year	Not applicable
Real estate (i)	15,288	5,192	Longer than one year	Not applicable
Private energy (i)	10,464	1,600	Longer than one year	Not applicable
	<u>121,676</u>	<u>27,245</u>		
Other (f)	21,787	-	Longer than one year	Not applicable
	<u>\$ 599,308</u>	<u>\$ 59,165</u>		

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements
(In Thousands)

Note 2. Investments (Continued)

	As of June 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/common trust funds (a):				
Emerging markets	\$ 25,555	\$ -	Daily, monthly	3-90 days
Global developed market	39,541	-	Monthly	10 days
U.S. small cap	28,951	-	Monthly	10 days
Global emerging market	19,412	-	Monthly	7 days
Commodities	14,758	-	Daily	Daily
U.S. large cap	21,194	-	Daily	3 days
Other	5,306	-	Monthly	60 days
	<u>154,717</u>	<u>-</u>		
Hedge funds:				
Semi-liquid credit (d)	9,562	-	Semi-annually	90 days
Multi-strategy (c)	31,578	-	Monthly, semi-annually	3-60 days
Long/short (b)	30,838	-	Quarterly, annually	45-60 days
	<u>71,978</u>	<u>-</u>		
Hedge fund of funds:				
Long/short (e)	12,807	-	Quarterly	75 days
	<u>12,807</u>	<u>-</u>		
Private equity funds:				
Real estate (i)	43,562	6,362	Longer than one year	Not applicable
Private energy (i)	44,359	5,400	Longer than one year	Not applicable
Private debt (h)	41,501	1,125	Longer than one year	Not applicable
Venture/buy-out (g)	40,749	23,329	Longer than one year	Not applicable
	<u>170,171</u>	<u>36,216</u>		
Private equity fund of funds:				
Venture/buyout (g)	90,334	11,790	Longer than one year	Not applicable
Private debt (h)	8,897	15,506	Longer than one year	Not applicable
Real estate (i)	17,706	18,552	Longer than one year	Not applicable
Private energy (i)	9,069	3,197	Longer than one year	Not applicable
	<u>126,006</u>	<u>49,045</u>		
Other (f)	21,499	-	Longer than one year	Not applicable
	<u>\$ 557,178</u>	<u>\$ 85,261</u>		

Investment strategies of trusts, hedge fund and other funds are as follows:

- (a) **Common trust funds/comingled funds:** This category invests in common trust funds and comingled funds, which pursue a variety of investment strategies. The fair value of investments in this category has been estimated using an equivalent to a NAV per share and is available to be redeemed at that value.
- (b) **Hedge fund – long/short:** The funds within this category invest in both long and short in various domestic and international common stocks. Approximately 48% and 51% of the value of the category at June 30, 2017 and 2016, respectively, can be redeemed on an annual basis with 45 days' notice. The remaining 52% and 49% of the value of this category can be redeemed on a quarterly basis with 60 days' notice at June 30, 2017 and 2016, respectively. The fair value of investment in this category has been estimated using the NAV per share of the investment.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 2. Investments (Continued)

- (c) **Hedge fund – multi-strategy:** The funds within this category pursue multiple strategies to diversify risk and reduce volatility. Approximately 56% and 60% of the value of category at June 30, 2017 and 2016, respectively, can be redeemed on a monthly basis with three days' notice. The remaining 44% and 40% of the value of this category can be redeemed on a semiannual basis with 60 days' notice at June 30, 2017 and 2016, respectively. The fair value of investment in this category has been estimated using the NAV per share of the investment.
- (d) **Hedge fund – semi-liquid credit:** This category includes an investment in a hedge fund that seeks to generate superior risk-adjusted returns by investing in a broad array of securities within the leveraged finance marketplace. This investment represents one class of shares, which is available to be redeemed annually on the anniversary date of the initial investment. The fair value of investment in this category has been estimated using the NAV per share of the investment.
- (e) **Hedge fund of funds – long/short:** This category includes an investment in a fund of funds that investments in hedge funds that pursue both long and short strategies in various domestic and international common stocks. Management of the fund of funds has the ability to shift from value to growth strategies, from small to large capitalization stocks and from a net short position to a net long position. The fair value of investment in this category has been estimated using the NAV per share of the investment.
- (f) **Other:** This category includes an emerging income fund that seeks long-term capital appreciation by investing in and holding a diversified portfolio of revenue-producing intellectual property assets and royalty interests. The fund allows redemption to the extent that there is surplus cash available and is subject to fund management's discretion.

The following categories include various private equity funds and private equity fund of funds. These investments can never be redeemed with the funds. Instead, the nature of the investments in these categories is that distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2017 and 2016, it is probable that the investments in these categories will be liquidated at an amount different from the net asset value of the Truth Initiative's ownership interest in partners' capital. Therefore, the fair value of the investments in this category has been estimated using recent observable transaction information received from potential buyers of the investments. It is estimated that the underlying assets of the funds within these categories would be liquidated over five to ten years.

The investment strategies of the funds within these categories are summarized as follows:

- (g) **Private equity and private equity fund of funds – venture/buyout:** This category includes several private equity funds pursuing venture and/or buyout strategies to generate investment returns.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 2. Investments (Continued)

- (h) **Private equity and private equity fund of funds – private debt:** This category includes several private equity funds focusing on private debt. The investment strategies of these funds focus on debt securities of companies undergoing financial distress, operating difficulties and significant restructuring and on acquiring eligible assets, which include certain commercial mortgage-backed securities and non-agency residential mortgage-backed securities, under the Public-Private Investment Partnership, which seeks to unlock frozen credit markets and expand lending activity.
- (i) **Private equity and private equity fund of funds – private energy and real estate:** These categories invest in various private equity funds focused on generating gains through investments in real assets, specifically real assets within the private energy sector and real estate ventures.

Note 3. Note Receivable

During the year ended June 30, 2015, Truth Initiative sold its building at 2030 M Street for a sale price of \$39,850. A resulting gain of \$14,270 was recorded in the statement of activities during the year ended June 30, 2015. The sale was financed in part by a note receivable in the amount of \$19,850. Interest accrued on the outstanding balance of the note beginning on January 1, 2016, at an annual rate of 7% and was \$697 as of June 30, 2016. The amount is included within accrued interest receivable on the accompanying consolidated balance sheet. During the year ended June 30, 2017, Truth Initiative received the full note principal payment of \$19,850 and accrued interest of \$1,181.

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2017, and depreciation expense for the year ended June 30, 2017, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	\$ 2,086	\$ 1,011	\$ 1,075	\$ 195
Computers and software	3 years	589	497	92	61
Office equipment	5 years	1,464	891	573	180
Leasehold improvements	11.25 years	4,360	689	3,671	380
Intangible assets	3 years	2,346	1,614	732	114
Assets in progress	3 years	907	-	907	-
Vehicles	5 years	410	408	2	31
		<u>12,162</u>	<u>5,110</u>	<u>7,052</u>	<u>961</u>
1724 Mass. Ave.:					
Land		7,280	-	7,280	-
Building and improvements	39½ years	22,558	5,560	16,998	662
		<u>29,838</u>	<u>5,560</u>	<u>24,278</u>	<u>662</u>
		<u>\$ 42,000</u>	<u>\$ 10,670</u>	<u>\$ 31,330</u>	<u>\$ 1,623</u>

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 4. Property and Equipment (Continued)

Property and equipment and accumulated depreciation at June 30, 2016, and depreciation expense for the year ended June 30, 2016, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	\$ 2,132	\$ 816	\$ 1,316	\$ 161
Computers and software	3 years	554	436	118	55
Office equipment	5 years	1,464	711	753	139
Leasehold improvements	11.25 years	4,225	309	3,916	309
Intangible assets	3 years	1,500	1,500	-	-
Vehicles	5 years	511	479	32	29
		<u>10,386</u>	<u>4,251</u>	<u>6,135</u>	<u>693</u>
1724 Mass. Ave.:					
Land		7,280	-	7,280	-
Building and improvements	39½ years	22,558	4,898	17,660	640
		<u>29,838</u>	<u>4,898</u>	<u>24,940</u>	<u>640</u>
		<u>\$ 40,224</u>	<u>\$ 9,149</u>	<u>\$ 31,075</u>	<u>\$ 1,333</u>

Note 5. Interest Rate Swap Agreements

Relating to a previous bond transaction, which was paid in full on July 31, 2015, Truth Initiative entered into an interest rate swap agreement, whereby, Truth Initiative has agreed to pay a fixed rate of 3.925% in exchange for receiving a floating rate (USD-SIFMA Municipal Swap Index). The notional amount was \$22,720 and \$23,405 at June 30, 2017 and 2016, respectively. Truth Initiative has recognized a liability in the amount of \$4,667 and \$6,950 in the consolidated balance sheets at June 30, 2017 and 2016, respectively, and the related unrealized gain (loss) of \$2,282 and (\$2,101) in building expenses in the statements of activities for the years ended June 30, 2017 and 2016, respectively.

Note 6. Leases

During the year ended June 30, 2015, Truth Initiative signed a new lease for 33,216 square feet of office space (new headquarters), which commenced on September 1, 2015, at a base rate of \$52.75 per square foot. The lease term is 135 months and includes a 15 month rent abatement, annual rent escalations and an improvement allowance. These benefits and escalations are recognized on a straight-line basis over the life of the lease. The unrecognized portions are reflected as deferred rent on the accompanying consolidated balance sheet. Truth Initiative's share of real estate taxes and operating costs are determined annually.

Rent expense amounted to \$1,889 and \$1,240 for the years ended June 30, 2017 and 2016, respectively.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 6. Leases (Continued)

Truth Initiative has leased their former headquarters (1724 Mass. Ave.) with an option for the lessee to purchase the building. The lease commenced on October 1, 2015, and had a 36 month term, with an annual base rent of \$1,520. The lease provided for annual rent escalations and a deposit was required from the lessee on July 31, 2016, to activate the option to purchase. In accordance with the terms of the agreement, the lessee deposited the first deposit of \$11,067 into independent escrow on July 29, 2016, as the first installment payment in a series of three annual installment payments that will activate the option to purchase the building. During the year ended June 30, 2017, the lessee deposited the second annual installment payment of \$11,067 into independent escrow. The third and final payment of \$11,067 is due by July 31, 2018, at which point if all other conditions are satisfied, closing can occur.

Future minimum lease payments to be paid under the operating lease and future minimum lease receipts are as follows:

	<u>Lease Payments</u>	<u>Lease Receipts</u>
Years ending June 30:		
2018	\$ 1,833	\$ 2,483
2019	1,879	580
2020	1,926	-
2021	1,974	-
2022	2,024	-
Thereafter	9,561	-
	<u>\$ 19,197</u>	<u>\$ 3,063</u>

Note 7. Retirement Plans

Truth Initiative maintains an employee 401(k) savings plan. Employees who are at least 21 years of age are eligible for enrollment and participation in the first month following the completion of 180 days of employment. Truth Initiative contributes 15% of the base compensation for each employee. Participants may elect to defer their compensation subject to statutory limitations of the Internal Revenue Service. Expenses related to the retirement plan amounted to \$1,771 and \$1,740 for the years ended June 30, 2017 and 2016, respectively.

Truth Initiative has established a deferred compensation plan to provide certain eligible employees the ability to defer a portion of their compensation to provide supplemental retirement benefits under IRC §457. The plan is funded entirely from the compensation of the participants and vested with the employees immediately. At June 30, 2017 and 2016, participants in the 457(b) plan had deferred balances, including income earned, totaling \$1,109 and \$859, respectively.

Truth Initiative has established a deferred compensation plan to provide certain eligible employees the ability to defer a portion of their compensation to provide supplemental retirement benefits under IRC §457. The plan is funded entirely from the compensation of the participants and the participants will become fully vested by January 1, 2017, with forfeiture if employment ends either voluntarily or involuntarily before this date. At June 30, 2017 and 2016, participants in the 457(f) plan had deferred balances, including income earned, totaling \$0 and \$583, respectively.

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 8. Fair Value Measurements

The Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Truth Initiative utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and listed derivatives. As required by the guidance provided by the Codification, Truth Initiative does not adjust the quoted price for these investments, even in situations where Truth Initiative holds a large position and a sale could reasonably impact the quoted price.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments which are generally included in this category include equity and debt positions in private companies and general and limited partnership interests in corporate private equity and real estate funds, debt funds, certain funds of hedge funds and distressed debt.

Truth Initiative Foundation and Affiliate

**Notes to Consolidated Financial Statements
(In Thousands)**

Note 8. Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30, 2017:

	Total	Level 1	Level 2
Assets			
Cash equivalents:			
Repurchase agreements	\$ 52,901	\$ -	\$ 52,901
Deposits held at futures broker	81	81	-
State Street Institutional Reserves Fund	226	-	226
Money market funds	52,998	-	52,998
Total cash equivalents	<u>106,206</u>	<u>81</u>	<u>106,125</u>
Investments:			
Mutual funds:			
Global small/mid value	40,815	40,815	-
Fixed income	31,588	31,588	-
Emerging markets	19,481	19,481	-
Real estate	17,170	17,170	-
	<u>109,054</u>	<u>109,054</u>	<u>-</u>
U.S. stocks:			
Large cap	72,235	72,235	-
Small cap	17,263	17,263	-
Mid cap	18,921	18,921	-
	<u>108,419</u>	<u>108,419</u>	<u>-</u>
Global stocks – developed markets	22,500	22,500	-
Fixed income trust	15,959	-	15,959
Other investments measured at net asset value (a)	599,308	-	-
Total investments	<u>855,240</u>	<u>239,973</u>	<u>15,959</u>
Total investment assets and cash equivalents held at fair value	<u>\$ 961,446</u>	<u>\$ 240,054</u>	<u>\$ 122,084</u>
Liabilities			
Deferred compensation obligation	\$ 1,109	\$ -	\$ 1,109
Liability on interest rate swap agreement	4,667	-	4,667
Total liabilities	<u>\$ 5,776</u>	<u>\$ -</u>	<u>\$ 5,776</u>

Truth Initiative Foundation and Affiliate

**Notes to Consolidated Financial Statements
(In Thousands)**

Note 8. Fair Value Measurements (Continued)

The table below presents the balance of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30, 2016:

	Total	Level 1	Level 2
Assets			
Cash equivalents:			
Repurchase agreements	\$ 30,856	\$ -	\$ 30,856
Deposits held at futures broker	17,140	17,140	-
State Street Institutional Reserves Fund	2	-	2
Money market funds	432	-	432
Total cash equivalents	<u>48,430</u>	<u>17,140</u>	<u>31,290</u>
Investments:			
Mutual funds:			
Global small/mid value	41,763	41,763	-
Fixed income	28,608	28,608	-
Emerging markets	40,434	40,434	-
Real estate	19,469	19,469	-
	<u>130,274</u>	<u>130,274</u>	<u>-</u>
U.S. stocks:			
Large cap	73,341	73,341	-
Small cap	17,588	17,588	-
Mid cap	15,977	15,977	-
	<u>106,906</u>	<u>106,906</u>	<u>-</u>
Global stocks – developed markets	32,303	32,303	-
Other investments measured at net asset value (a)	557,178	-	-
Total investments	<u>826,661</u>	<u>269,483</u>	<u>-</u>
Total investment assets and cash equivalents held at fair value	<u>\$ 875,091</u>	<u>\$ 286,623</u>	<u>\$ 31,290</u>
Liabilities			
Deferred compensation obligation	\$ 1,442	\$ -	\$ 1,442
Liability on interest rate swap agreement	6,950	-	6,950
Total liabilities	<u>\$ 8,392</u>	<u>\$ -</u>	<u>\$ 8,392</u>

Truth Initiative Foundation and Affiliate

Notes to Consolidated Financial Statements (In Thousands)

Note 8. Fair Value Measurements (Continued)

- (a) In accordance with Codification Topic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

Truth Initiative assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with Truth Initiative's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers among Levels 1, 2 and 3 during the year.

Note 9. Commitments and Contingencies

Contingency: Truth Initiative participates in federally-assisted grant programs that are subject to financial and compliance audits by the federal agencies or their representative. As such, there exists a contingent liability for potential questioned costs that may result from such an audits. Management does not anticipate any significant adjustments as a result of such audits.

From time to time, Truth Initiative may be subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of the management of Truth Initiative, there are no material pending legal proceedings to which Truth Initiative is a party.

Line of credit: Truth Initiative maintains a \$60,000 line of credit with a financial institution, which matures on September 30, 2019. Any amounts drawn on the line will bear interest at a fixed rate of 1.80%. Interest is payable monthly with the full remaining principle due at maturity. Interest incurred on the note was \$822 as of June 30, 2017. At June 30, 2017, there were outstanding draws of \$60,000. There were no amounts outstanding on the line of credit at June 30, 2016. At June 30, 2017 and 2016, all covenants for the line were met. Total interest expense on the line of credit and other debt amounted to \$1,574 and \$902 for the years ended June 30, 2017 and 2016, respectively.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
Truth Initiative Foundation
Washington, D.C.

We have audited the consolidated financial statements of Truth Initiative Foundation and Affiliate (Truth Initiative) as of and for the years ended June 30, 2017 and 2016, and have issued our report thereon, which contained an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Washington, D.C.
September 27, 2017

Truth Initiative Foundation and Affiliate

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2017
(In Thousands)**

	Counter Marketing	Communications	Schroeder	Innovations	Evaluation	Community	Grants	Other Programs	General and Administrative	Building Fund		Total
			Research Institute		Science and Research	and Youth Engagement				1724 Mass. Ave.	2030 M Street	
Salaries and fringe	\$ 2,889	\$ 2,366	\$ 3,195	\$ 1,547	\$ 2,120	\$ 1,780	\$ 297	\$ 577	\$ 6,115	\$ -	\$ -	\$ 20,886
Contract services	64,360	1,207	420	1,075	4,267	263	377	32	89	-	-	72,090
Grants	-	-	-	-	79	612	1,904	-	-	-	-	2,595
Travel and lodging	262	91	62	33	56	389	2	18	150	-	-	1,063
Sponsorship and contributions	14	170	-	-	-	21	-	33	-	-	-	238
Consulting	19	12	26	280	2	15	-	306	215	-	-	875
Meetings expense	47	75	18	6	16	221	-	9	33	-	-	425
Miscellaneous expense	39	44	13	9	13	7	6	23	424	-	-	578
Insurance	70	-	-	-	-	-	-	-	313	-	-	383
Computer expense	248	2	102	228	55	22	5	-	177	-	-	839
Telephone	15	21	19	37	13	15	2	2	145	-	-	269
Depreciation	30	-	-	114	-	-	-	-	817	-	-	961
Auditing, accounting and payroll processing	-	-	-	-	-	-	-	-	328	-	-	328
Legal fees	-	-	4	1	5	-	-	-	49	-	-	59
Occupancy	-	-	-	-	-	-	-	-	1,985	-	-	1,985
Meals and entertainment	65	17	25	6	11	106	-	6	38	-	-	274
Supplies	4	1	10	-	1	6	-	-	100	-	-	122
Professional development	25	6	21	3	8	6	1	5	31	-	-	106
Printing and publications	-	36	13	8	4	22	-	-	10	-	-	93
Survey incentives	1	-	16	2	-	-	-	-	-	-	-	19
Surveys	-	3	8	-	1	-	-	-	4	-	-	16
Postage and shipping	10	6	-	-	-	29	1	-	15	-	-	61
Equipment rental, repairs and maintenance	-	-	-	-	-	8	-	-	51	-	-	59
Utilities	-	-	-	-	-	-	-	-	41	-	-	41
Temporary services	21	31	-	-	7	6	-	-	63	-	-	128
Study recruitment	-	1	-	-	-	-	-	-	-	-	-	1
Recruitment ads	8	10	8	6	2	2	-	-	3	-	-	39
Honorarium	1	-	-	-	-	5	-	-	-	-	-	6
Fellowships and scholarships	2	-	-	-	-	16	-	-	-	-	-	18
UBIT payments	-	-	-	-	-	-	-	-	47	-	-	47
Outreach materials	550	17	-	5	-	130	-	-	-	-	-	702
Interest	-	-	-	-	-	-	-	-	822	-	-	822
Real estate tax	-	-	-	-	-	-	-	-	(30)	-	-	(30)
Building expense	-	-	-	-	-	-	-	-	-	174	38	212
Total expenses	68,680	4,116	3,960	3,360	6,660	3,681	2,595	1,011	12,035	174	38	106,310
Overhead allocation	602	493	627	490	424	374	61	116	(3,187)	-	-	-
\$	69,282	\$ 4,609	\$ 4,587	\$ 3,850	\$ 7,084	\$ 4,055	\$ 2,656	\$ 1,127	\$ 8,848	\$ 174	\$ 38	\$ 106,310

Truth Initiative Foundation and Affiliate

Consolidated Statement of Functional Expenses Year Ended June 30, 2016 (In Thousands)

	Counter Marketing	Communications	Schroeder Research Institute	Evaluation Science and Research	Community and Youth Engagement	Grants	Other Programs	General and Administrative	Building Fund		Total
									1724 Mass. Ave.	2030 M Street	
Salaries and fringe	\$ 2,945	\$ 1,714	\$ 4,319	\$ 1,888	\$ 1,497	\$ 283	\$ 1,105	\$ 6,153	\$ -	\$ -	\$ 19,904
Contract services	69,671	2,657	2,043	4,213	573	400	17	190	-	-	79,764
Grants	-	-	-	92	588	2,324	-	-	-	-	3,004
Travel and lodging	382	68	63	64	406	1	70	108	-	-	1,162
Sponsorship and contributions	11	108	-	9	8	-	115	-	-	-	251
Consulting	20	29	43	-	62	-	241	176	-	-	571
Meetings expense	30	98	26	25	420	-	45	192	-	-	836
Miscellaneous expense	14	11	4	7	10	-	10	354	-	-	410
Dues and subscriptions	42	6	11	17	3	4	58	24	-	-	165
Insurance	70	-	41	-	-	-	-	282	-	-	393
Computer expense	29	-	125	20	5	-	4	367	-	-	550
Telephone	18	8	53	14	17	2	7	141	-	-	260
Depreciation	30	-	-	-	-	-	-	664	-	-	694
Auditing, accounting and payroll processing	-	-	-	-	-	-	-	227	-	-	227
Legal fees	-	-	5	2	-	-	-	50	-	-	57
Occupancy	-	-	-	-	-	-	-	1,247	-	-	1,247
Meals and entertainment	85	22	16	12	83	-	13	48	-	-	279
Supplies	4	8	7	1	6	-	3	142	-	-	171
Professional development	7	6	31	3	9	-	7	39	-	-	102
Printing and publications	5	67	12	9	37	-	4	8	-	-	142
Survey incentives	1	-	70	32	4	-	-	-	-	-	107
Surveys	-	-	-	20	1	-	-	2	-	-	23
Postage and shipping	20	5	6	1	25	1	8	15	-	-	81
Equipment rental, repairs and maintenance	-	-	-	-	-	-	-	35	-	-	35
Utilities	-	-	-	-	-	-	-	7	-	-	7
Temporary services	54	4	-	-	35	-	29	65	-	-	187
Study recruitment	-	-	32	-	-	-	-	-	-	-	32
Recruitment ads	17	10	20	3	4	-	-	3	-	-	57
Honorarium	-	-	-	26	4	-	-	-	-	-	30
Fellowships and scholarships	-	-	-	-	15	-	-	-	-	-	15
UBIT payments	-	-	-	-	-	-	-	29	-	-	29
Outreach materials	18	17	-	-	52	-	32	1	-	-	120
Interest	-	-	-	-	-	-	-	-	-	-	-
Real estate tax	-	-	-	-	-	-	-	-	-	-	-
Building expense	-	-	-	-	-	-	-	-	4,990	(13)	4,977
Total expenses	73,473	4,838	6,927	6,458	3,864	3,015	1,768	10,569	4,990	(13)	115,889
Overhead allocation	532	309	774	328	268	50	189	(2,450)	-	-	-
	\$ 74,005	\$ 5,147	\$ 7,701	\$ 6,786	\$ 4,132	\$ 3,065	\$ 1,957	\$ 8,119	\$ 4,990	\$ (13)	\$ 115,889

Truth Initiative Foundation and Affiliate

1724 Mass. Ave. – Schedule of Building Expenses

Years ended June 30, 2017 and 2016

(In Thousands)

	2017	2016
Operating expenses:		
Real estate taxes	\$ 283	\$ 270
Utilities	170	160
Repairs and maintenance	318	288
Administrative	219	149
Insurance	22	42
Management fees	30	30
Total operating expenses	1,042	939
Interest expense	752	902
Unrealized (gain) loss on interest rate swap	(2,283)	2,101
Depreciation	662	640
Legal fees	1	-
Bond fees	-	3
Bond issuance costs amortization	-	405
Total building expenses	\$ 174	\$ 4,990