

**Rescue: Freedom International**

**Financial Statements  
December 31, 2017**

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# FREEMAN & BONNEMA, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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**To the Board of Directors  
Rescue: Freedom International  
Kirkland, Washington**

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of Rescue: Freedom International, a nonprofit corporation, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets 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 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 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 Rescue: Freedom International as of December 31, 2017, 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.

*Freeman & Bonnema, PLLC*

April 16, 2018

**Rescue: Freedom International**  
**Statement of Financial Position**  
**December 31, 2017**

**Current Assets**

Cash and cash equivalents	\$ 632,537
Investments	538,028
Pledges receivable	207,000
<b>Total Current Assets</b>	<u>1,377,565</u>

**Noncurrent Assets**

Deposits	2,755
Prepaid software	9,867
Endowment investments	211,032
<b>Total Noncurrent Assets</b>	<u>223,654</u>

<b>Total Assets</b>	<u>1,601,219</u>
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**Liabilities**

Accounts Payable	4,620
<b>Total Liabilities</b>	<u>4,620</u>

**Net Assets**

Unrestricted	1,299,718
Temporarily Restricted	94,363
Permanently Restricted	202,518
<b>Total Net Assets</b>	<u>1,596,599</u>

<b>Total Liabilities and Net Assets</b>	<u>1,601,219</u>
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**Rescue: Freedom International**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended December 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenue</b>				
Contributions	\$ 719,688	\$ 391,193	\$ -	\$ 1,110,881
Special events contributions	578,282	-	-	578,282
Release of restricted net assets	<u>589,339</u>	<u>(589,339)</u>	<u>-</u>	<u>-</u>
<b>Total Support and Revenue</b>	<u>1,887,309</u>	<u>(198,146)</u>	<u>-</u>	<u>1,689,163</u>
<b>Expenses</b>				
Program	1,396,116	-	-	1,396,116
Management and general	83,901	-	-	83,901
Fundraising	<u>263,624</u>	<u>-</u>	<u>-</u>	<u>263,624</u>
<b>Total Expenses</b>	<u>1,743,641</u>	<u>-</u>	<u>-</u>	<u>1,743,641</u>
Change in net assets from operations	143,668	(198,146)	-	(54,478)
Investment income, net	<u>25,593</u>	<u>10,685</u>	<u>-</u>	<u>36,278</u>
Change in net assets	169,261	(187,461)	-	(18,200)
Net assets - beginning of year	<u>1,130,457</u>	<u>281,824</u>	<u>202,518</u>	<u>1,614,799</u>
Net assets - end of year	<u><u>1,299,718</u></u>	<u><u>94,363</u></u>	<u><u>202,518</u></u>	<u><u>1,596,599</u></u>

See notes to the financial statements

**Rescue: Freedom International**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2017**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program grants	\$ 744,949	\$ -	\$ -	\$ 744,949
Personnel	402,734	56,749	150,720	610,203
Operations	142,027	7,181	21,542	170,750
Special events	-	-	73,641	73,641
Facilities and equipment	29,073	10,383	2,077	41,533
Professional services	4,390	8,780	4,390	17,560
Staff travel	59,644	-	8,461	68,105
Printing, postage and website	10,562	660	1,980	13,202
Site visits	369	-	369	738
Amortization	2,368	148	444	2,960
Total expenses	<u>1,396,116</u>	<u>83,901</u>	<u>263,624</u>	<u>1,743,641</u>

See notes to the financial statements

**Rescue: Freedom International**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**

**Cash Flows From Operating Activities:**

Change in net assets	\$ (18,200)
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Adjustments to reconcile change in net assets  
to net cash flows provided by operating activities

Realized and unrealized gain on investments	(36,481)
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Decrease in pledges receivable	11,654
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Decrease in prepaid expenses	2,960
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(Decrease) in accounts payable	<u>(4,490)</u>
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Net cash used in operating activities	<u>(44,557)</u>
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**Cash Flows From Investing Activities:**

Purchase of investments	<u>(10,935)</u>
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Net cash used in Investing Activities	<u>(10,935)</u>
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Change in cash and cash equivalents	(55,492)
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Cash and cash equivalents - beginning of year	<u>688,029</u>
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Cash and cash equivalents - end of year	<u><u>632,537</u></u>
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See notes to the financial statements



**Rescue: Freedom International**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2017**

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**1. NATURE OF ORGANIZATION**

Human trafficking has grown into the second largest criminal activity in the world, reaching an estimated \$150 billion dollars in annual activity. Rescue: Freedom International (the Organization) has developed rapidly to combat trafficking. The Organization operates through an international network of partners in order to rescue women and children from slavery, provide holistic aftercare services and prevent exploitation of the most vulnerable. These partners work together to restore lives broken by sexual slavery through programs such as night shelters, safe houses, medical clinics, vocational training, scholarship programs and much more. When a survivor enters one of the programs, it changes everything. They receive education, health care, counseling and job training. Most importantly, they receive the love, acceptance and support they need to write their own stories and pursue their dreams.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Organization prepares its financial statements on the accrual basis.

**Accounting Presentation**

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

- a) Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.
- b) Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or passage of time.
- c) Permanently Restricted Net Assets – Support received in the form of endowment or sustaining funds which can never be spent.

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

**Fiscal Sponsorship**

In October 2015 the Organization became the fiscal sponsor for Human Trafficking Institute, Inc. (HTI), a Delaware nonprofit corporation. The initial term of the sponsorship agreement was one year. The sponsorship agreement was renewed for another one-year term. Contributions received for HTI are included in the statements of activities and changes in net assets as temporarily restricted contributions. During the fiscal year ended December 31, 2017, the sponsorship agreement ended.



**Rescue: Freedom International**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2017**

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**2. SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**Fiscal Sponsorship - (Continued)**

Revenues and expenses related to the HTI program are included in the statements of activities and changes in net assets of the Organization. HTI contribution revenue totaled \$278,855 for the year ended December 31, 2017. HTI expenses totaled \$338,155 for the year ended December 31, 2017.

**Revenue Recognition**

Contributions are recognized in the period received, including unconditional pledges when promised, at their net realizable value.

**Operating Activities**

The statements of activities and changes in net assets include a measure of change in net assets from operating activities. Changes in net assets that are excluded from operating results consist of the investment income.

**Cash and Cash Equivalents**

For the purposes of reporting cash flows, the Organization considers all cash, monies in banks and highly liquid investments with an initial maturity of three months or less to be cash equivalents except for those cash equivalents associated with investment accounts and subject to the Organization's investment policy.

**Investments**

Investments consist primarily of marketable securities carried at fair value based on quoted market prices. Realized and unrealized gains and losses on investments are included in the statements of activities and changes in net assets.

**Pledges Receivable**

Pledges receivable, unconditional promises to give, that are expected to be collected within one year, are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Management determined the present value discount was immaterial as of December 31, 2017.

Management reviews the collectability of pledges receivable on a regular basis and determines the appropriate amount of an allowance for doubtful accounts. The Organization charges off receivables to the allowance when Management determines that a receivable is not collectible. Management determined that an allowance was unnecessary as of December 31, 2017.

**Rescue: Freedom International**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2017**

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**2. SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**Prepaid Software Subscription and Property and Equipment**

The Organization generally capitalizes assets with a cost of greater than \$5,000 and an estimated useful life of one or more years. The Organization signed a software application subscription during the year ended December 31, 2016. The software is amortized over the five-year term of the subscription on a straight-line basis. Accumulated amortization of the \$14,800 subscription was \$4,933 at December 31, 2017. There was no capitalized property and equipment as of December 31, 2017.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and investment balances. The Organization has established guidelines relative to diversification of investments that seek to maintain safety and liquidity. The Organization had cash and investment balances in excess of federally insured limits from time to time during the year

For the year ended December 31, 2017, approximately 25% of contribution revenue was received from a single foundation to invest in specific programs and to underwrite operational expenses.

**Special Events**

The Organization holds special events during the year. For the year ended December 31, 2017, revenue related to three special events totaled \$577,400 and expenses totaled \$73,641. Special event revenue is reported as contribution revenue, and the related special event expenses are included in fundraising expense on the statements of activities and changes in net assets.

**Tax Laws**

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Any adverse change in tax laws, or any adverse change in the Organization's tax status as a tax-exempt organization, would affect contributors who are currently entitled to deduct their contributions to the Organization from gross income. Any such change, in turn, could adversely affect the level of contributions to the Organization and the ability of the Organization to meet its obligations.

**Uncertain Tax Positions**

The preparation of financial statements in conformity with accounting principles accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and have measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax return files. Any interest or penalties assessed to the Organization would be recorded in operating expenses. No interest or penalties from federal or state authorities were recorded in the accompanying financial statements.



**Rescue: Freedom International**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2017**

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**2. SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been allocated based on the benefits derived by program, and management and general, and fundraising activities.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

**Subsequent Events**

The Organization has evaluated subsequent events through April 16, 2018, the date on which the financial statements were available to be issued.

**3. PLEDGES RECEIVABLE**

Pledges receivable were as follows as of December 31, 2017:

Receivable in less than one year	<u>\$207,000</u>
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**4. INVESTMENTS AND FAIR VALUE**

**Fair Value**

To increase consistency and comparability in fair value measurements, the Organization uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority unobservable inputs (Level 3)

**Valuation Techniques**

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued based on unobservable inputs. A financial instrument's level within the fair value hierarchy is based upon the lowest priority level of any input that is significant to the fair value measurement.

The Organization's investments consist of money market and mutual funds valued based on the following valuation methods. Valuation techniques are consistently applied.

Money Market Funds – Money market funds are valued at quoted cost plus accrued interest, which approximates fair value.

Mutual Funds – Mutual funds are valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held at year end.

**Rescue: Freedom International**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2017**

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**4. INVESTMENTS AND FAIR VALUE – (Continued)**

**Fair Values Measured on a Recurring Basis**

Investments held by the Organization were all classified as Level 1 and consisted of the following as of December 31:

	<u>2017</u>
Money market funds	\$160,876
Equity mutual funds	349,001
Bond mutual funds	<u>239,183</u>
Total Investments at Fair Value	<u>749,060</u>

Investment return consisted of the following for the year ended December 31, 2017

Dividends and interest	\$ 4,225
Realized and unrealized gain	36,481
Less investment fees	( 4,428 )
Investment Return-net of fees	<u>36,278</u>

**5. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes as of December 31:

Staffing for capacity building	\$ 44,101
Survivor safehouse	37,827
Time restricted	6,000
Medical fund	3,435
Social fundraising grant	<u>3,000</u>
Total Temporarily Restricted Net Assets	<u>94,363</u>

Releases from restrictions totaled \$589,339 for program expenditures during the year ended December 31, 2017.

**6. PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT**

The Organization's endowment was created in December 2014 and consists of funds restricted by the donor to provide scholarships. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The original value of the gift as been recorded as permanently restricted net assets. Accumulated, unspent earnings associated with the endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

**Rescue: Freedom International**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2017**

**6. PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT- (Continued)**

**Interpretation of Relevant Law**

The Board of Directors of the Organization has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having reviewed its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this determination, the Organization classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PMIFA.

In accordance with PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization, and
- The investment policies of the Organization.

Endowment net assets and changes to the endowment net assets were as follows for the year ended December 31:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2016	\$ (11,586)	\$ -	\$ 202,518	\$ 190,932
Endowment investment return				
Interest and dividends		1,198		1,198
Realized and unrealized gain		9,487		9,487
Total endowment investment return	-	10,685	-	10,685
Contributions to endowment			-	-
Deficit in accumulated endowment earnings	10,685	(10,685)	-	-
Endowment Net Assets, December 31, 2017	<u>(901)</u>	<u>-</u>	<u>202,518</u>	<u>201,617</u>



**Rescue: Freedom International**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2017**

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**6. PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT – (Continued)**

**Funds With Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires the Organization to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. Deficiencies totaled \$901 as of December 31, 2017.

**Return Objectives and Risk Parameters**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results in excess of inflation and as needed for withdrawals and distributions to facilitate organizational objectives and to provide a return that, over the long term, provides sufficient asset to meet the Organization's spending policy.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) through a diversified investment portfolio.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

Up to 5% of the permanently restricted endowment funds may be paid out each year. In establishing this policy, the organization considered the long-term expected return on its endowment.

**7. COMMITMENTS**

**Facilities Lease**

In January 2015 the Organization entered into a lease agreement for office space commencing in February 2015 and expiring in February 2018. The lease was extended on August 2, 2017 to begin March 1, 2018 and ending May 31, 2020. Monthly rent under the extension is \$3,381 for the first 15 months and \$3,507 for the last 12 months. Rent expense totaled was \$38,605 for the year ended December 31, 2017.

Future minimum lease payments for the office lease are as follows:

For the year ending December 31, 2018	\$ 40,260
For the year ending December 31, 2019	41,328
For the year ending December 31, 2020	17,535



**Rescue: Freedom International**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2017**

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**8. RELATED PARTY TRANSACTIONS**

Gifts from board members totaled approximately \$207,534 for the year ended December 31, 2017. Gifts received from a donor advised fund totaled \$255,000 for the year ended December 31, 2017.