

Rescue: Freedom International

Financial Statements

June 30, 2020

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Financial Statements
June 30, 2020**

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FREEMAN & BONNEMA, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 514, CIRCLE PINES, MN 55014

WWW.FREEMANBONNEMACPAS.COM



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 June 30, 2020 and the related statements of activities and changes in net assets, functional expenses and cash flows for the six-month period 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 audits 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 June 30, 2020 and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 10 to the financial statements, the outbreak of a coronavirus (COVID-19) pandemic has created economic uncertainties which could present challenges to future fund development. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Freeman & Bonnema, PLLC

August 21, 2020

Rescue: Freedom International
Statement of Financial Position
June 30, 2020

Assets

Current Assets

Cash and cash equivalents	\$ 1,267,221
Investments	261,312
Total Current Assets	1,528,533

Noncurrent Assets

Deposits	2,755
Prepaid software	2,467
Endowment investments	202,518
Total Noncurrent Assets	207,740

Total Assets	1,736,273
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Liabilities and Net Assets

Liabilities

Accounts Payable	1,100
Total Liabilities	1,100

Net Assets

Without Donor Restrictions

Undesignated	1,489,585
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With Donor Restrictions

Time and Purpose Restrictions	43,070
Perpetual in Nature	202,518
Total Net Assets With Donor Restrictions	245,588

Total Net Assets	1,735,173
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Total Liabilities and Net Assets	1,736,273
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See notes to the financial statements

Rescue: Freedom International
Statement of Activities and Changes in Net Assets
For the Six-Month Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 1,290,722	\$ 165,815	\$ 1,456,537
PPP contribution grant	152,285	-	152,285
Special events contributions	2,250	-	2,250
Other income	20,613	-	20,613
Release of restricted net assets	<u>156,630</u>	<u>(156,630)</u>	<u>-</u>
Total Support and Revenue	<u>1,622,500</u>	<u>9,185</u>	<u>1,631,685</u>
Expenses			
Program	1,357,502	-	1,357,502
Management and general	69,355	-	69,355
Fundraising	<u>135,430</u>	<u>-</u>	<u>135,430</u>
Total Expenses	<u>1,562,287</u>	<u>-</u>	<u>1,562,287</u>
Change in net assets from operations	60,213	9,185	69,398
Investment Income (Loss), net	<u>(70,644)</u>	<u>(13,845)</u>	<u>(84,489)</u>
Change in net assets	(10,431)	(4,660)	(15,091)
Net assets - beginning of year	<u>1,500,016</u>	<u>250,248</u>	<u>1,750,264</u>
Net assets - end of year	<u><u>1,489,585</u></u>	<u><u>245,588</u></u>	<u><u>1,735,173</u></u>

See notes to the financial statements

Rescue: Freedom International
Statement of Functional Expenses
For the Six-Month Period Ended June 30, 2020

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program grants	\$ 923,600	\$ -	\$ -	\$ 923,600
Personnel	286,199	52,543	100,106	438,848
Operations	113,909	7,119	21,358	142,386
Special events	-	-	5,799	5,799
Facilities and equipment	16,096	5,749	1,150	22,995
Professional services	7,740	3,870	3,870	15,480
Staff travel	8,774	-	2,925	11,699
Amortization	1,184	74	222	1,480
Total expenses	<u>1,357,502</u>	<u>69,355</u>	<u>135,430</u>	<u>1,562,287</u>

See notes to the financial statements

Rescue: Freedom International
Statement of Cash Flows
For the Six-Month Period Ended June 30, 2020

Cash Flows From Operating Activities:

Change in net assets	\$ (15,091)
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Adjustments to reconcile change in net assets
to net cash flows provided by operating activities

Realized and unrealized losses on investments	84,489
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Decrease in prepaid expenses	1,480
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(Decrease) in accounts payable	<u>(7,512)</u>
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Net cash used in operating activities	<u>63,366</u>
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Cash Flows From Investing Activities:

Purchase of investments	(450,123)
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Proceeds from the sale of investments	<u>1,140,518</u>
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Net cash used in Investing Activities	690,395
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Change in cash and cash equivalents	753,761
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Cash and cash equivalents - beginning of year	<u>513,460</u>
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Cash and cash equivalents - end of year	<u><u>1,267,221</u></u>
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See notes to the financial statements

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.

Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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.

2. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 investment income the statements of activities and changes in net assets.

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 \$12,333 at June 30, 2020.

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.

During the period ended June 30, 2020, the Organization received approximately 34% of total support and revenue from four donors. The amounts were used to underwrite operational expenses.

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.

2. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Uncertain Tax Positions

The preparation of financial statements in conformity with accounting principles generally 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.

Functional Allocation of Expenses

The cost of providing programs and other activities have been summarized on a functional basis in the statement of functional expenses. Supporting services include management and general expenses that are not directly identifiable with any specific function or program but provide for the overall support and direction of the Organization. Certain costs have been allocated among programs and supporting services benefited. Such allocations are determined by management on and equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel	Full Time Equivalents
Operations	Time and Effort
Facilities and Equipment	Square Footage
Professional Services	Time and Effort
Staff Travel	Time and Effort
Printing, Postage and Website	Time and Effort
Site Visits	Time and Effort
Amortization	Time and Effort

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 August 21, 2020, the date on which the financial statements were available to be issued.

Rescue: Freedom International
Notes to Financial Statements
June 30, 2020

3. AVAILABILITY AND LIQUIDITY

Financial Assets at Year End:

Cash and Cash Equivalents	\$ 1,267,221
Investments	261,312
Total Financial Assets	<u>1,528,533</u>
Less Amounts Not Available to be Used Within One Year	
Net Assets With Donor Restrictions	43,070
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>1,485,463</u></u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses. Distress or a liquidity need could result from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. As part of its liquidity plan, excess cash is available in the form of bank checking and savings accounts and investments. The amounts held in investment accounts are liquid but are subject to changes in market value.

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.

Stocks – Stocks are valued at quoted market prices in active markets.

Mutual Funds and Exchange Traded 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
June 30, 2020

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 June 30:

Stocks	\$77,993
Balance mutual funds	183,903
Bond mutual funds	<u>201,934</u>
Total Investments at Fair Value	<u>463,830</u>

Investment return consisted of the following for the six-month period ended June 30, 2020

Dividends and interest	\$ 1,209
Realized and unrealized (loss)	(82,683)
Investment fees	<u>(3,015)</u>
Investment Income (Loss)-net of fees	<u>(84,489)</u>

5. TIME AND PURPOSE RESTRICTED NET ASSETS

Net assets with donor restrictions that have a time and purpose restriction at June 30, 2020 are as follows:

Survivor safehouse	\$31,049
Time restricted	6,000
Medical fund	3,435
Other	821
Accumulated Investment Income	
Available for Distribution	<u>1,765</u>

Total Temporarily Restricted Net Assets 43,070

Releases from restrictions totaled \$156,630 for program expenditures during the six-month period ended June 30, 2020.

6. NET ASSETS PERPETUAL IN NATURE

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 has been recorded as net assets with donor restrictions that are perpetual in nature. Accumulated, unspent earnings associated with the endowment funds are classified as time and purpose restricted net assets until those amounts are appropriated for expenditure by the Organization.

6. NET ASSETS PERPETUAL IN NATURE-(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 six-month period ended June 30, 2020

	Accumulated Investment Income Available for Distribution	Portion of Endowment Underwater	Original Donor Restricted Gift Amounts	Total
Balance-December 31, 2019	\$ 15,610	\$ -	\$ 202,518	\$ 218,128
Investment Loss	(13,845)	-		(13,845)
Balance-June 30, 2020	1,765	-	202,518	204,283

6. NET ASSETS PERPETUAL IN NATURE-(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 \$ -0- at June 30, 2020.

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 endowment funds may be paid out each year. In establishing this policy, the organization considered the long-term expected return on its endowment.

7. LEASES

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. The lease was extended again on October 14, 2019 to begin June 1, 2010 and ending May 31, 2021. Monthly rent under the extension is \$3,750 for the twelve-month period ending May 31, 2021.

Rent expense totaled was \$21,528 for the six-month period ended June 30, 2020.

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

For the year ending June 30, 2021	\$ 41,250
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8. RELATED PARTY TRANSACTIONS

Gifts from board members totaled \$269,000 for the six-month period ended June 30, 2020. Gifts received from a donor advised fund totaled \$477,520 period ended June 30, 2020.

9. PAYCHECK PROTECTION PROGRAM LOAN

The Organization obtained a loan under the Paycheck Protection Program (PPP). The loan is dated April 7, 2020 and is in the original amount of \$152,285.

If the loan were not to be forgiven under the PPP guidelines, the loan would mature in twenty-four months from the date of the loan and would bear an interest rate of 1%. The loan was unsecured.

During the six-month period ended June 30, 2020, the Organization has represented that it has met the PPP eligibility criteria for loan forgiveness and that the PPP loan represents grant revenue. The Organization bases this on the accounting guidance as detailed in FASB ASC 958-605 *Revenue Recognition* which states that the loan is to be treated as a conditional contribution to the Organization. The conditions for the loan to be reclassified as grant revenue are that the proceeds of the PPP loan need to be spent on payroll, utility payments, lease payments and mortgage payments. At June 30, 2020, the Organization had spent the PPP funds for amounts allowed under the PPP guidance. Therefore, the Organization has recorded the funds as PPP Contribution Grant revenue in the statement of activities and changes in net assets.

10. UNCERTAINTY

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) as a pandemic. As a result of the COVID-19 pandemic, economic uncertainties have arisen which could have negative impact on future fund development. This could result in a decrease in revenues. However, as a result of these challenges, management is working to adjust its programs and its fund development. Management represents that the pandemic has created program opportunities that the Organization is currently exploring. The potential impact of this uncertainty is not known at this time.