

Rescue: Freedom International

**Financial Statements
June 30, 2021**

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

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of Rescue: Freedom International, (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rescue: Freedom International, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw attention to Note 10 of the financial statements which describes the uncertainty resulting from the declaration by the World Health Organization of a pandemic due to the outbreak of the COVID-19 coronavirus. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rescue: Freedom International's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Rescue: Freedom International's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rescue: Freedom International's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Freeman; Bonnema, PLLC

September 27, 2021

**Rescue: Freedom International
Statement of Financial Position
June 30, 2021**

Assets

Current Assets

Cash and cash equivalents	\$ 2,827,984
Investments	1,120,858
Total Current Assets	<u>3,948,842</u>

Noncurrent Assets

Deposits	2,755
Prepaid software	128,562
Endowment investments	202,518
Total Noncurrent Assets	<u>333,835</u>

Total Assets	<u>4,282,677</u>
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Liabilities and Net Assets

Liabilities

Accounts Payable	266
Total Liabilities	<u>266</u>

Net Assets

Without Donor Restrictions

Undesignated	3,755,925
Designated	65,944
Total Net Assets Without Donor Restrictions	<u>3,821,869</u>

With Donor Restrictions

Time and purpose restrictions	258,024
Perpetual in nature	202,518
Total Net Assets With Donor Restrictions	<u>460,542</u>

Total Net Assets	<u>4,282,411</u>
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Total Liabilities and Net Assets	<u>4,282,677</u>
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See notes to the financial statements

Rescue: Freedom International
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 5,841,301	\$ 948,402	\$ 6,789,703
PPP grant revenue	148,622	-	148,622
Other income	35,007	-	35,007
Release of restricted net assets	<u>763,837</u>	<u>(763,837)</u>	<u>-</u>
Total Support and Revenue	<u>6,788,767</u>	<u>184,565</u>	<u>6,973,332</u>
Expenses			
Program	4,057,779	-	4,057,779
Management and general	178,878	-	178,878
Fundraising	<u>390,834</u>	<u>-</u>	<u>390,834</u>
Total Expenses	<u>4,627,491</u>	<u>-</u>	<u>4,627,491</u>
Change in net assets from operations	2,161,276	184,565	2,345,841
Investment Income (Loss), net	<u>171,008</u>	<u>30,389</u>	<u>201,397</u>
Change in net assets	2,332,284	214,954	2,547,238
Net assets - beginning of year	<u>1,489,585</u>	<u>245,588</u>	<u>1,735,173</u>
Net assets - end of year	<u><u>3,821,869</u></u>	<u><u>460,542</u></u>	<u><u>4,282,411</u></u>

See notes to the financial statements

**Rescue: Freedom International
Statement of Functional Expenses
For the Year Ended June 30, 2021**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program grants	\$ 2,857,581	\$ -	\$ -	\$ 2,857,581
Personnel	854,821	143,323	281,528	1,279,672
Operations	279,334	17,458	52,375	349,167
Special events	-	-	39,015	39,015
Facilities and equipment	34,506	12,324	2,465	49,295
Professional services	10,806	5,403	5,403	21,612
Staff travel	18,757	-	6,252	25,009
Amortization	1,974	370	3,796	6,140
Total expenses	<u>4,057,779</u>	<u>178,878</u>	<u>390,834</u>	<u>4,627,491</u>

See notes to the financial statements

Rescue: Freedom International
Statement of Cash Flows
For the Year Ended June 30, 2021

Cash Flows From Operating Activities:

Change in net assets	\$ 2,547,238
Adjustments to reconcile change in net assets to net cash flows provided by operating activities	
Donations of stocks received	(1,518,379)
Amortization of prepaid software subscriptions	6,140
Realized and unrealized losses on investments	(200,642)
PPP contribution grant	(148,622)
(Increase) in prepaid expenses	(132,235)
Decrease in accounts payable	<u>(834)</u>
Net cash provided by operating activities	<u>552,666</u>
Cash Flows From Investing Activities:	
Purchase of investments	(647,826)
Proceeds from the sale of investments	<u>1,507,301</u>
Net cash provided by investing activities	<u>859,475</u>
Cash Flows From Financing Activities:	
Proceeds received from Paycheck Protection Program Loan	<u>148,622</u>
Net cash provided by financing activities	<u>148,622</u>
Change in cash and cash equivalents	1,560,763
Cash and cash equivalents - beginning of year	<u>1,267,221</u>
Cash and cash equivalents - end of year	<u><u>2,827,984</u></u>

See notes to the financial statements

**Rescue: Freedom International
Notes to Financial Statements
June 30, 2021**

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. SUMMARY OF 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 investment income.

**Rescue: Freedom International
Notes to Financial Statements
June 30, 2021**

2. SUMMARY OF 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.

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 expenditures with a cost of greater than \$5,000 and an estimated useful life of one or more years. The Organization entered into two thirty-six-month software agreements in June 2021. The total cost of the two agreements was \$132,235. The software is amortized over the three-year term of the subscription on a straight-line basis. Amortization of the costs at June 30, 2021 was \$6,140.

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, 2021, the Organization received approximately 45% of total support and revenue from four donors.

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 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.

**Rescue: Freedom International
Notes to Financial Statements
June 30, 2021**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 an 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
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 September 27, 2021, the date on which the financial statements were available to be issued.

3. AVAILABILITY AND LIQUIDITY

Financial Assets at Year End:

Cash and Cash Equivalents	\$ 2,827,984
Investments	<u>1,323,376</u>
Total Financial Assets	4,151,360
Less Amounts Not Available to be Used Within One Year	
Net Assets Designated by the Board	65,944
Net Assets With Donor Restrictions	460,542
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>3,624,874</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.

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June 30, 2021

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.

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	\$262,442
Balanced mutual funds	730,952
Stock mutual funds	126,403
Bond mutual funds	<u>203,579</u>
Total Investments at Fair Value	<u>1,323,376</u>

Investment return consisted of the following for the year ended June 30, 2021

Dividends and interest	\$41,712
Realized and unrealized gains (losses)	<u>158,930</u>
Investment Income	<u>200,642</u>

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Notes to Financial Statements
June 30, 2021**

5. TIME AND PURPOSE RESTRICTED NET ASSETS

Net assets with donor restrictions that have a time and purpose restriction at June 30, 2021 are as follows:

Corporacion Anne Frank	\$54,922
Medical fund	3,435
AUSCAM Freedom Project	7,200
Home of New Beginnings-Thailand	21,944
Caravan of Hope	37,000
Yes Belize	100,649
Other	720
Accumulated Investment Income	
Available for Distribution	<u>32,154</u>

Total Net Assets Restricted by Donor 258,024

Releases from restrictions totaled \$763,837 for program expenditures during the year ended June 30, 2021.

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 educational 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.

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.

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Notes to Financial Statements
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6. NET ASSETS PERPETUAL IN NATURE-(Continued)

In accordance with PMIFA, the Organization considers the following factors in making a determination as 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 June 30, 2021

	Accumulated Investment Income Available for Distribution	Portion of Endowment Underwater	Original Donor Restricted Gift Amounts	Total
Balance-June 30, 2020	\$ 1,765	\$ -	\$ 202,518	\$ 204,283
Investment Income	30,389	-	-	30,389
Balance-June 30, 2021	32,154	-	202,518	234,672

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 contributions that are perpetual in nature and continued appropriation for certain programs that was deemed prudent by the Board of Directors. Deficiencies totaled \$ -0- at June 30, 2021.

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.

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Notes to Financial Statements
June 30, 2021**

6. NET ASSETS PERPETUAL IN NATURE-(Continued)

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. NET ASSETS DESIGNATED BY THE BOARD

During the fiscal year ended June 30, 2021, the Organization designated funds toward the Rain Collective which seeks to provide repatriation services, research, prevention, protection and restoration programs in the Middle East and North Africa. At June 30, 2021, the amount still designated was \$65,944.

8. 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, 2020 and ending May 31, 2021. The monthly rent for this extension period is \$3,750. Another extension was entered into for the period of June 1, 2021 to May 31, 2022. Monthly rent under the extension is \$3,863 for the extension period ending May 31, 2022.

Rent expense totaled was \$45,113 for the year ended June 30, 2021.

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

For the year ending June 30, 2022	\$ 42,493
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9. RELATED PARTY TRANSACTIONS

Gifts from board members totaled \$763,711 for the year ended June 30, 2021. Gifts received from a donor advised fund totaled \$489,332 for the year ended June 30, 2021.

Rescue: Freedom International
Notes to Financial Statements
June 30, 2021

10. PAYCHECK PROTECTION PROGRAM LOAN

The Organization obtained a loan under the Paycheck Protection Program (PPP). The loan is dated January 27, 2021 and is in the original amount of \$148,622.

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 year ended June 30, 2021, 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, 2021, the Organization had spent the PPP funds for amounts allowed under the PPP guidance. Therefore, the Organization has recorded the funds as PPP grant revenue in the statement of activities and changes in net assets.

11. 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. The ongoing pandemic and the economic problems that it has created could result in a future decrease in revenues. Management continues to adjust its programs and its fund development. Management represents that the pandemic has created program opportunities that the Organization is currently exploring. Even with these opportunities, the potential impact of this uncertainty is not known at this time.