

**FREEDOM'S PROMISE AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2017**

**FREEDOM'S PROMISE AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2017**

Table of Contents

	<u>Page Number</u>
Independent Auditors' Report	1-2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements	7-9

INDEPENDENT AUDITORS' REPORT

Board of Directors
Freedom's Promise and Subsidiary

Report on the Financial Statements

We have audited the accompanying financial statements of Freedom's Promise and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freedom's Promise and Subsidiary as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Blairman Ship CPA Group, PLLC
May 14, 2018

**FREEDOM'S PROMISE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017**

ASSETS

Current assets:	
Cash	\$ 124,937
Accounts receivable	317
Prepaid expenses	3,133
Inventory	<u>8,270</u>
Total current assets	<u>136,657</u>
Furniture and equipment	5,215
Less: accumulated depreciation	<u>(2,517)</u>
Furniture and equipment, net	<u>2,698</u>
Total assets	<u><u>\$ 139,355</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accrued expenses	<u>\$ 4,213</u>
Net assets:	
Unrestricted net assets	131,453
Temporarily restricted net assets	<u>3,689</u>
Total net assets	<u>135,142</u>
Total liabilities and net assets	<u><u>\$ 139,355</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**FREEDOM'S PROMISE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND
CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions	\$ 205,086	\$ 77,086	\$ 282,172
Grants	20,000	-	20,000
Fundraising	221,804	-	221,804
Merchandise sales and other income	12,675	-	12,675
In-kind donation	45,000	-	45,000
Net assets released from restriction	86,247	(86,247)	-
	<u>590,812</u>	<u>(9,161)</u>	<u>581,651</u>
FUNCTIONAL EXPENSES			
Program services	393,975	-	393,975
Management and general	107,731	-	107,731
Fundraising	72,272	-	72,272
	<u>573,978</u>	<u>-</u>	<u>573,978</u>
Increase (Decrease) in Net Assets	16,834	(9,161)	7,673
Net assets, beginning of year	<u>114,619</u>	<u>12,850</u>	<u>127,469</u>
Net assets, end of year	<u>\$ 131,453</u>	<u>\$ 3,689</u>	<u>\$ 135,142</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FREEDOM'S PROMISE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries, benefits, and payroll taxes	\$ 85,530	\$ 78,400	\$ 24,400	\$ 188,330
Grants and program support	170,387	-	-	170,387
Travel	60,832	941	711	62,484
Computer related expenses	3,226	3,227	-	6,453
Professional fees	5,500	5,500	-	11,000
Office expenses	1,665	2,822	355	4,842
Taxes and licenses	260	261	-	521
Bank charges	3,526	2,822	-	6,348
Insurance	953	941	-	1,894
Depreciation	456	457	-	913
Board expense	428	428	-	856
Training and professional development	13,490	941	-	14,431
Marketing	1,466	941	9,316	11,723
Rental	6,912	6,912	-	13,824
Meals and entertainment	9,203	941	-	10,144
Contractors	2,197	2,197	-	4,394
Special events	-	-	37,490	37,490
Tithe expense	19,980	-	-	19,980
Building supplies	4,191	-	-	4,191
Medicine and medical supplies	1,795	-	-	1,795
Miscellaneous	1,978	-	-	1,978
	<u>\$ 393,975</u>	<u>\$ 107,731</u>	<u>\$ 72,272</u>	<u>\$ 573,978</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FREEDOM'S PROMISE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

Cash flows from operating activities:	
Increase in net assets	\$ 7,673
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	913
Changes in assets and liabilities:	
Accounts receivable	(317)
Prepaid expenses	(648)
Inventory	(7,870)
Accrued expenses	<u>3,463</u>
Net cash provided by operating activities	<u>3,214</u>
Net increase in cash	3,214
Cash - beginning of year	<u>121,723</u>
Cash - end of year	<u><u>\$ 124,937</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**FREEDOM'S PROMISE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Freedom's Promise exists to prevent human trafficking through community development efforts. The Organization equips indigenous partners to lead and strengthen at-risk communities in the fight against trafficking.

Freedom's Promise Fair Trade, LLC is a not-for-profit limited liability company that buys and sells fair trade products that are made in Cambodia by women in the Organization's prevention program. The Company is controlled and managed by the Organization and has been consolidated in the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Freedom's Promise and Freedom's Promise Fair Trade, LLC (the "Organization"). All material intercompany transactions have been eliminated.

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventory

Inventory is valued at the lower of cost or net realizable value and consists of finished goods.

Furniture and Equipment and Depreciation

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are generally 3 to 7 years. The Organization capitalizes all furniture and equipment purchases over \$1,000. Gain or loss on items retired and otherwise disposed of is credited or charged to revenues and cost and related accumulated depreciation are removed from the asset and accumulated depreciation accounts. Expenditures for major renewals and improvements of furniture and equipment are capitalized and those for maintenance and repairs are charged to expense when incurred.

Advertising

The Company expenses advertising costs as incurred.

FREEDOM'S PROMISE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Contributions that are restricted for specific programs are reflected as unrestricted revenue if the restriction is fulfilled during the same fiscal year as it is received. Under these provisions, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets - net assets that are subject to donor imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income from these assets. There were no permanently restricted net assets at December 31, 2017.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a charitable organization. Accordingly, no provision for income tax has been made.

NOTE 3 - LEASE COMMITMENTS

The Organization leases office space under an operating lease agreement. Rent expense totaled \$13,824 for the year ended December 31, 2017. Future minimum payments by year and in the aggregate under non-cancelable leases consist of the following:

Year Ending <u>December 31,</u> 2018	<u>\$ 10,920</u>
--	------------------

NOTE 4 - ADVERTISING COSTS

Total advertising expense for the year ended December 31, 2017 was \$11,723.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017, temporarily restricted net assets of \$3,689 are restricted by donors for specific missions.

**FREEDOM'S PROMISE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

NOTE 6 - IRS DETERMINATION

In August of 2017, Freedom's Promise Fair Trade, LLC received notice of a revocation of tax-exempt status. Freedom's Promise Fair Trade, LLC, was organized in 2014, as a single-member not-for-profit LLC. As such, being a single-member not-for-profit LLC and according to IRS regulations, the LLC is exempt as a 501(c)(3) through its single member's exemption.

The Organization has historically treated Freedom's Promise Fair Trade, LLC as a disregarded entity under its parent organization, Freedom's Promise, and believe it is appropriate moving forward to continue reporting operations for Freedom's Promise Fair Trade, LLC on the parent organization's federal form 990.

When the LLC was initially formed, an error may have been made in applying for a separate FEIN, since as a disregarded entity the LLC falls under the parent's FEIN. In December of 2017, Freedom's Promise Fair Trade, LLC sent a letter to the IRS to confirm if the appropriate measure would be to revoke the FEIN for the LLC or if there is a more advisable course of action to resolve the issue. As of May 14, 2018 a response has not yet been received from the IRS.

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 14, 2018, the date the consolidated financial statements were available to be issued.

NOTE 8 - RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued new accounting guidance that amends the requirements for financial statements and notes of a not-for-profit entity. The new guidance is effective for periods beginning after December 15, 2017, on a retrospective basis, with early adoption permitted. This new accounting guidance will result in changes to financial statement presentation and additional disclosures and the Organization is still evaluating its impact.

In February 2016, the FASB issued new accounting guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new accounting guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019. The Organization is currently evaluating the effect of this pronouncement on its policies, procedures, and financial statements.

In May 2014, the FASB issued new accounting guidance to clarify the principles for recognizing revenue from contracts with customers. The new accounting guidance, which does not apply to financial instruments, is effective retrospectively for nonpublic entities for annual reporting periods beginning after December 15, 2018. The Organization is in the process of evaluating the impact of the provisions of this new accounting guidance but does not expect it to have a material impact on its financial position or results of operations.