

Freedom's Promise and Subsidiary

Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Freedom's Promise and Subsidiary

Opinion

We have audited the consolidated financial statements of Freedom's Promise and its subsidiary (the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or 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 GAAS 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 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 GAAS, 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 the Organization'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 the Organization'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.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Brentwood, Tennessee
April 11, 2023

Freedom's Promise and Subsidiary
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash	\$ 502,330	\$ 681,240
Cash restricted by donors for capital campaign	742,051	296,368
Accounts receivable	-	2,014
Pledges receivable, net	512,506	19,114
Prepaid expenses	8,956	5,851
Inventory	7,985	21,251
Property and equipment, net	126,092	1,398
Beneficial interest in assets held by Community Foundation of Northwest Georgia	<u>113,365</u>	<u>137,599</u>
Total assets	\$ 2,013,285	\$ 1,164,835
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,484	\$ 1,050
Accrued expenses	<u>10,343</u>	<u>441</u>
Total liabilities	11,827	1,491
Net assets		
Without donor restrictions	629,281	774,699
With donor restrictions	<u>1,372,177</u>	<u>388,645</u>
Total net assets	<u>2,001,458</u>	<u>1,163,344</u>
Total liabilities and net assets	\$ 2,013,285	\$ 1,164,835

Freedom's Promise and Subsidiary
Consolidated Statement of Activities
For the Year Ended December 31, 2022

	Without donor restrictions	With donor restrictions	Total
Support and Revenues			
Contributions of cash and other financial assets	\$ 250,804	\$ 1,196,966	\$ 1,447,770
Contributions of nonfinancial assets	60,000	-	60,000
Grants	-	9,860	9,860
Special events, net	393,266	-	393,266
Investment income (loss)	613	(18,042)	(17,429)
Merchandise sales	4,238	-	4,238
Other revenue	669	-	669
Net assets released from restrictions	<u>205,252</u>	<u>(205,252)</u>	<u>-</u>
Total support and revenues	914,842	983,532	1,898,374
Expenses			
Program services	770,405	-	770,405
Supporting services			
Management and general	112,836	-	112,836
Fundraising	<u>177,019</u>	<u>-</u>	<u>177,019</u>
Total expenses	1,060,260	-	1,060,260
Change in net assets	(145,418)	983,532	838,114
Net assets, beginning of year	<u>774,699</u>	<u>388,645</u>	<u>1,163,344</u>
Net assets, end of year	\$ 629,281	\$ 1,372,177	\$ 2,001,458

Freedom's Promise and Subsidiary
Consolidated Statement of Activities
For the Year Ended December 31, 2021

	Without donor restrictions	With donor restrictions	Total
Support and Revenues			
Contributions of cash and other financial assets	\$ 380,192	\$ 295,328	\$ 675,520
Contributions of nonfinancial assets	60,000	-	60,000
Grants	6,268	-	6,268
Special events, net	479,937	-	479,937
Investment income (loss)	-	22,008	22,008
Merchandise sales	3,950	-	3,950
Other revenue	944	-	944
Net assets released from restrictions	<u>53,930</u>	<u>(53,930)</u>	<u>-</u>
Total support and revenues	985,221	263,406	1,248,627
Expenses			
Program services	662,058	-	662,058
Supporting services			
Management and general	91,792	-	91,792
Fundraising	<u>105,556</u>	<u>-</u>	<u>105,556</u>
Total expenses	859,406	-	859,406
Change in net assets	125,815	263,406	389,221
Net assets, beginning of year	<u>648,884</u>	<u>125,239</u>	<u>774,123</u>
Net assets, end of year	\$ 774,699	\$ 388,645	\$ 1,163,344

Freedom's Promise and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program services	Management and general	Fundraising	Total
Salaries and benefits	\$ 262,105	\$ 50,856	\$ 78,240	\$ 391,201
Grants and assistance	365,162	-	-	365,162
Contract services	7,619	7,620	-	15,239
Depreciation	473	473	-	946
Insurance	1,446	1,446	-	2,892
Marketing	23,482	1,381	2,763	27,626
Meals and entertainment	12,587	455	455	13,497
Office	2,415	2,415	-	4,830
Professional fees	11,150	11,150	-	22,300
Rental	8,084	8,084	-	16,168
Special events	14,343	-	83,410	97,753
Technology	3,786	3,786	-	7,572
Training and professional development	3,262	3,263	-	6,525
Travel	33,695	11,231	11,231	56,157
Bank charges	6,995	6,996	-	13,991
Miscellaneous	13,801	3,680	920	18,401
	\$ 770,405	\$ 112,836	\$ 177,019	\$ 1,060,260

Freedom's Promise and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program services	Management and general	Fundraising	Total
Salaries and benefits	\$ 227,976	\$ 44,234	\$ 68,052	\$ 340,262
Grants and assistance	356,306	-	-	356,306
Contract services	12,369	12,369	-	24,738
Depreciation	287	287	-	574
Insurance	1,384	1,384	-	2,768
Marketing	9,027	-	1,593	10,620
Meals and entertainment	3,995	1,313	489	5,797
Office	1,914	1,914	-	3,828
Professional fees	10,775	10,775	-	21,550
Rental	7,792	7,793	-	15,585
Special events	-	-	35,178	35,178
Technology	3,523	3,524	-	7,047
Training and professional development	576	576	-	1,152
Travel	11,687	244	244	12,175
Bank charges	5,733	7,008	-	12,741
Miscellaneous	8,714	371	-	9,085
	\$ 662,058	\$ 91,792	\$ 105,556	\$ 859,406

Freedom's Promise and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash, beginning of year	\$ 977,608	\$ 643,055
Cash flows from operating activities		
Change in net assets	838,114	389,221
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	946	574
Investment (income) loss related to beneficial interest	24,234	(22,008)
Contributions restricted for capital campaign	(1,162,726)	(304,050)
Change in:		
Accounts receivable	2,014	(2,014)
Prepaid expenses	(3,105)	10,324
Inventory	13,266	782
Accounts payable	434	291
Accrued expenses	9,902	(56,293)
Net cash provided (used) by operating activities	(276,921)	16,827
Cash flows from investing activities		
Purchase of property and equipment	(125,640)	-
Cash flows from financing activities		
Collections of contributions restricted for capital campaign	669,334	317,726
Net change in cash	266,773	334,553
Cash, end of year	\$ 1,244,381	\$ 977,608
Reconciliation of cash to Statements of Financial Position		
Cash	\$ 502,330	\$ 681,240
Cash restricted by donors for capital campaign	742,051	296,368
	\$ 1,244,381	\$ 977,608

Freedom's Promise and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 1. Organization and Nature of Activities

Freedom's Promise exists to prevent human trafficking through community development efforts. It 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 (LLC) that buys and sells fair trade products that are made in Cambodia by women in Freedom's Promise's prevention program. It is a wholly owned subsidiary of Freedom's Promise.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of Freedom's Promise and subsidiary (the Organization) have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

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

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. 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.

Principles of Consolidation

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

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's community development activities. Non-operating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash

The Organization's cash consists of cash on deposit with banks.

Accounts Receivable

Accounts receivable are expected to be collected within one year. As a result, management has determined that an allowance for uncollectible accounts is not necessary.

Freedom's Promise and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Pledges Receivable

Pledges receivable are expected to be collected over the next five years and have been discounted to present value.

Inventory

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

Property and Equipment

Property and equipment are stated at cost at the date of purchase or, for donated assets, at estimated fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The useful lives range from three to seven years. The Organization's policy is to capitalize renewals and betterments acquired for greater than \$1,000 and expense normal maintenance as incurred. The Organization's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Contributions of Nonfinancial Assets

Contributions of nonfinancial assets consist of wages for the president of the Organization. The Organization valued and reported these wages at their estimate fair value based on current salaries for similar roles. A number of volunteers have made significant contributions of their time in furtherance of the Organization's mission; however, no values for these services have been included in the financial statements.

Fair Value Measurement

The Organization has adopted the *Fair Value Measurements and Disclosures* topic of the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) for determining the fair value of financial assets and liabilities that are required to be carried as such amounts.

Fair value is required to be evaluated and adjusted according to the following valuation techniques:

- Level 1 – Fair value is determined using quoted market prices in active markets for identical assets and liabilities.
- Level 2 – Fair value is determined using quoted market prices in active markets for similar assets and liabilities.
- Level 3 – Fair value is determined using unobservable market prices in a market that is typically inactive.

Freedom's Promise and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Fair Value Measurement

Following is a description of the valuation methodologies used for financial assets and liabilities measured at fair value on a recurring basis:

Beneficial interest in assets held by Community Foundation of Northwest Georgia (CFNG) – The endowment funds held by CFNG represent the Organization's interest in pooled investments with other participants in the funds. CFNG prepares a valuation of the fund based on the fair value of the underlying investments and allocates income or loss to each participant based on market results. Due to the nature of the underlying investments and method of allocation of the fund, the beneficial interest in the endowment funds are classified within Level 3 of the valuation hierarchy.

Marketing

The Organization expenses marketing costs as incurred. Total marketing expense for 2022 and 2021 was \$27,626 and \$10,620, respectively.

Functional Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. Such allocations are determined by management on an equitable basis. All allocations in the statement of functional expenses are based on management's estimate of time and effort spent.

Income Taxes

The Organization is exempt from income tax under Internal Revenue Code Section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by Section 501(c)(3). The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. With few exceptions, the Organization is no longer subject to federal, state, or local tax examinations by authorities for years before December 31, 2019.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key qualitative and quantitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Organization adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported in accordance with the Organization's historical accounting treatment under ASC Topic 840, *Leases*. The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. The adoption of ASC 842 had no material effect on the financial statements.

Freedom's Promise and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Recently Issued Accounting Pronouncements

In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU was retroactively adopted by the Organization on January 1, 2021.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

Note 3. Availability and Liquidity

The following represents the Organization's financial assets at December 31:

	2022	2021
Financial assets		
Cash	\$ 1,244,381	\$ 977,608
Accounts receivable	-	2,014
Pledges receivable	512,506	19,114
Beneficial interest in assets held by		
Community Foundation of Northwest Georgia	113,365	137,599
Total financial assets	1,870,252	1,136,335
Less: amounts not available to be used within one year		
Net assets with donor restrictions	(1,372,177)	(388,645)
Financial assets available to meet general expenditures within the next 12 months	\$ 498,075	\$ 747,690

As part of its liquidity plan, in addition to year-round donations, the Organization plans four major fundraisers strategically placed throughout the year. At the beginning of each quarter, funds are allotted to their foreign operations to cover the expenses for that quarter. After the foreign allotment is taken out, there is enough remaining to cover the general office expenses and payroll for their domestic staff and operations for at least 60 to 90 days. The Organization also has a credit transaction limit of \$55,200 on its credit card that can be used as needed to meet cash flow demands.

Freedom's Promise and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 4. Pledges Receivable

A summary of pledges receivable is as follows:

	2022	2021
Due within one year	\$ 244,532	\$ 19,144
Due in two to five years	<u>280,033</u>	<u>-</u>
	524,565	19,144
Discount to present value	<u>(12,059)</u>	<u>-</u>
	\$ 512,506	\$ 19,144

The discount rate used to determine present value is 4.50%.

Note 5. Endowment Fund

The Organization has a beneficial interest in an endowment fund held by CFNG. The balance of the funds consists of a combination of funds classified as donor restricted. Earnings on these funds are used to support the mission of the Organization. The Organization has granted variance power to CFNG, and CFNG has the ultimate authority and control over the funds. The funds are charged a 0.5% administrative fee annually. Upon request of the Organization, income from the funds representing up to a 4% annual return may be distributed to the Organization.

Since CFNG has control over the fund and the earnings, the Organization has not established an investment policy for the fund nor have they established policies for expenditures from the fund. The Organization is not aware of any deficiencies in the fair value of assets in the fund as compared to the required amounts by the donors. The Organization recognizes contribution income when the Community Foundation makes a distribution to the Organization. The Organization recognizes investment earnings and fees in the statements of activities, as they are reported to the Organization by CFNG.

The changes in endowment assets are comprised of the following at December 31:

	2022	2021
Balance, beginning of the year	\$ 137,599	\$ 115,591
Interest and dividends	-	4,563
Investment gain (loss)	(17,339)	18,054
Grants paid	(6,192)	-
Fees	<u>(703)</u>	<u>(609)</u>
Balance, end of year	\$ 113,365	\$ 137,599

Freedom's Promise and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 6. Property and Equipment

Property and equipment consists of the following at December 31:

	2022	2021
Furniture and equipment	\$ 17,124	\$ 7,629
Leasehold improvements	6,145	-
Construction in progress	110,000	-
Less: accumulated depreciation	<u>(7,177)</u>	<u>(6,231)</u>
Fixed assets, net	\$ 126,092	\$ 1,398

Depreciation expense was \$946 and \$574 for 2022 and 2021, respectively.

Construction in progress relates to the building of a school on property leased by the Organization in Cambodia (note 10).

Note 7. Net Assets

Net assets with donor restrictions were as follows for the year ended December 31:

	2022	2021
Specific purpose		
Capital campaign	\$ 1,251,267	\$ 242,200
Compassion in Action	-	5,000
Freedom's Healing	-	1,279
Professional/spiritual development	-	2,567
Beneficial interest in assets held by		
Community Foundation of Northwest Georgia	<u>113,365</u>	<u>137,599</u>
	1,364,632	388,645
Time restriction	<u>7,545</u>	<u>-</u>
	\$ 1,372,177	\$ 388,645

Note 8. Special Events

Revenues from special events were as follows:

	2022	2021
Gross special event revenues	\$ 450,228	\$ 502,939
Less: direct benefits to donors	<u>(56,962)</u>	<u>(23,002)</u>
Special events, net	\$ 393,266	\$ 479,937

Freedom's Promise and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 9. Concentrations

The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2022 and 2021, the Organization's cash accounts exceeded coverage by approximately \$935,000 and \$671,000, respectively. The Organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

Two donors represent 31% of the total support and revenues for 2022. One donor represents 15% of the total support and revenues for 2021.

Two donors represent 48% of the pledges receivable at December 31, 2022. Three donors represented 92% of the pledges receivable at December 31, 2021.

Note 10. Commitments

In a previous year, the Organization helped to purchase property in Cambodia, through donations to partners in that country, for the establishment of an international headquarters. Cambodian law requires property to be owned by a Cambodian citizen. Subsequent to year-end, a formal agreement was reached, allowing the Organization to lease that property back for \$10 per year. In December 2022, the Organization entered into a \$1.2 million contract for the construction of a school on the leased Cambodian property, for which construction began subsequent to year end.

Note 11. Subsequent Events

Management has evaluated subsequent events through April 11, 2023, the date on which the financial statements were available for issuance.