

**FREEDOM'S PROMISE AND SUBSIDIARY  
CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

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## 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 its subsidiary, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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).

### 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 audits. We conducted our audits 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freedom's Promise and its subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Blankenship CPA Group, PLLC". The signature is written in a cursive, flowing style.

Blankenship CPA Group, PLLC  
Brentwood, Tennessee  
March 23, 2019

**FREEDOM'S PROMISE AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash	\$ 233,730	\$ 124,937
Pledges receivable	10,300	317
Prepaid expenses	19,468	3,133
Inventory	8,544	8,270
Total current assets	272,042	136,657
 Furniture and equipment	 5,215	 5,215
Less: accumulated depreciation	(3,411)	(2,517)
Furniture and equipment, net	1,804	2,698
 Total assets	\$ 273,846	\$ 139,355
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accrued expenses	\$ 6,045	\$ 4,213
Accounts payable	2,164	-
Total liabilities	8,209	4,213
 Net assets:		
Without donor restrictions	222,515	131,453
With donor restrictions	43,122	3,689
Total net assets	265,637	135,142
 Total liabilities and net assets	\$ 273,846	\$ 139,355

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

**FREEDOM'S PROMISE AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Contributions	\$ 216,010	\$ 131,122	\$ 347,132
Grants	1,000	-	1,000
Special events, net of direct benefit to donors	334,651	-	334,651
Merchandise sales and other income	6,361	-	6,361
In-kind donations	45,000	-	45,000
Net assets released from restriction	91,689	(91,689)	-
Total revenue and support	<u>694,711</u>	<u>39,433</u>	<u>734,144</u>
Expenses			
Program services	451,017	-	451,017
Management and general	88,616	-	88,616
Fundraising	64,016	-	64,016
Total expenses	<u>603,649</u>	<u>-</u>	<u>603,649</u>
Increase in net assets	91,062	39,433	130,495
Net assets, beginning of year	<u>131,453</u>	<u>3,689</u>	<u>135,142</u>
Net assets, end of year	<u>\$ 222,515</u>	<u>\$ 43,122</u>	<u>\$ 265,637</u>

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

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue and support			
Contributions	\$ 205,086	\$ 77,086	\$ 282,172
Grants	20,000	-	20,000
Special events, net of direct benefit to donors	213,813	-	213,813
Merchandise sales and other income	12,675	-	12,675
In-kind donations	45,000	-	45,000
Net assets released from restriction	86,247	(86,247)	-
Total revenue and support	<u>582,821</u>	<u>(9,161)</u>	<u>573,660</u>
Expenses			
Program services	393,975	-	393,975
Management and general	107,731	-	107,731
Fundraising	64,281	-	64,281
Total expenses	<u>565,987</u>	<u>-</u>	<u>565,987</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><u>\$ 131,453</u></u>	<u><u>\$ 3,689</u></u>	<u><u>\$ 135,142</u></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, 2018**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fund- Raising</b>	<b>Total</b>
Salaries, benefits and payroll taxes	\$ 167,112	\$ 55,704	\$ 39,321	\$ 262,137
Grants and assistance	157,833	-	-	157,833
Travel	48,649	1,014	1,014	50,677
Technology	4,080	4,080	-	8,160
Professional fees	8,667	8,668	-	17,335
Office expenses	1,994	1,995	-	3,989
Taxes and licenses	205	205	-	410
Bank charges	4,369	4,370	-	8,739
Insurance	988	988	-	1,976
Depreciation	447	447	-	894
Board expense	398	399	-	797
Training and professional development	2,669	2,670	-	5,339
Marketing	13,774	-	2,431	16,205
Rental	7,075	7,076	-	14,151
Meals and entertainment	9,296	1,000	1,000	11,296
Special events	-	-	20,250	20,250
Tithe expense	13,071	-	-	13,071
Building supplies	3,760	-	-	3,760
Medicine and medical supplies	4,459	-	-	4,459
Miscellaneous	2,171	-	-	2,171
	<u>\$ 451,017</u>	<u>\$ 88,616</u>	<u>\$ 64,016</u>	<u>\$ 603,649</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**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fund- Raising</b>	<b>Total</b>
Salaries, benefits and payroll taxes	\$ 85,530	\$ 78,400	\$ 24,400	\$ 188,330
Grants and assistance	170,387	-	-	170,387
Travel	60,832	941	711	62,484
Technology	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	-	-	29,499	29,499
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>\$ 64,281</u>	<u>\$ 565,987</u>

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



**FREEDOM'S PROMISE AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ 130,495	\$ 7,673
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	894	913
Changes in assets and liabilities:		
Pledges receivable	(9,983)	(317)
Prepaid expenses	(16,335)	(648)
Inventory	(274)	(7,870)
Accrued expenses	1,832	3,463
Accounts payable	2,164	-
Net cash provided by operating activities	<u>108,793</u>	<u>3,214</u>
Net increase in cash	108,793	3,214
Cash, beginning of year	<u>124,937</u>	<u>121,723</u>
Cash, end of year	<u>\$ 233,730</u>	<u>\$ 124,937</u>

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

**FREEDOM'S PROMISE AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**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 that buys and sells fair trade products that are made in Cambodia by women in Freedom Promise's prevention program. It is controlled and managed by Freedom's Promise and has been consolidated in the financial statements.

**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"), 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, where by 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.

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

**FREEDOM'S PROMISE AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash

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

Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization maintains its cash in various bank accounts that, at times, may exceed federally insured limits. The Organization's cash accounts have been placed with high credit quality financial institutions. The Organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

Pledges receivable

Pledges receivable are expected to be collected within one year and are recorded at net realizable value.

As of December 31, 2018, two donors make up approximately 95% of total pledges receivable.

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.

Inventory

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

Furniture and equipment

Furniture 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 3 to 7 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.

**FREEDOM'S PROMISE AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Advertising

The Company expenses advertising costs as incurred.

Contributions

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.

In-kind donations

The Organization received donated professional services, materials and other advertising services for each of the years ended December 31, 2018 and 2017. Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution and reported as contributions in-kind, special event revenue and supporting services expenses on the accompanying statements of activities and functional expenses.

Several volunteers have made significant contributions of their time in furtherance of the Organization's mission. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under US GAAP.

Functional expenses

The costs of providing program and other activities 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 IRC Section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. 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.

**FREEDOM'S PROMISE AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Adoption of ASU 2016-14

On August 18, 2016, FASB issued ASU 2016-14, Not for Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has presented these statements in accordance with the new standard.

**NOTE 3 - AVAILABILITY AND LIQUIDITY**

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year end:	
Cash	\$ 233,730
Pledges receivable	<u>10,300</u>
Total financial assets	<u>244,030</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>(43,122)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 200,908</u>

As part of its liquidity plan, in addition to year-round donations, the Organization plans three major fundraisers strategically placed throughout the year—two in the first half of the year and one in the last quarter. 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 30 days. The Organization also has a credit transaction limit of \$30,400 on its credit card that can be used as needed to meet cash flow demands.

**NOTE 4 - LEASE COMMITMENTS**

Total rent expense incurred under operating leases totaled \$14,151 and \$13,824 for the years ended December 31, 2018 and 2017, respectively.

For years subsequent to December 31, 2018, minimum annual future rental commitments are as follows:

Year Ending <u>December 31,</u>	
2019	\$ 13,496
2020	<u>11,480</u>
	<u>\$ 24,976</u>

**NOTE 5 - ADVERTISING COSTS**

Total advertising expense for the years ended December 31, 2018 and 2017 was \$16,205 and \$11,723, respectively.

**FREEDOM'S PROMISE AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 6 - NET ASSETS**

Net assets with donor restrictions were as follows for the year ended December 31, 2018:

Specific purpose:	
Dalton trip	\$ 21,772
Kingsway	8,950
Cambodia Medical Team	12,250
Bridge of Hope	<u>150</u>
	<u>\$ 43,122</u>

Net assets with donor restrictions were as follows for the year ended December 31, 2017:

Specific purpose:	
Freedom's Healing	\$ 1,089
Pastor Sihok	<u>2,600</u>
	<u>\$ 3,689</u>

**NOTE 7 – SPECIAL EVENT REVENUE**

Revenue from special events was as follows for the years ended December 31:

	<b>2018</b>	<b>2017</b>
Gross special event revenue	\$ 347,972	\$ 221,804
Less direct benefit to donors	<u>(13,321)</u>	<u>(7,991)</u>
Special event revenue, net	<u>\$ 334,651</u>	<u>\$ 213,813</u>

**NOTE 8 - 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 believes 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. Freedom's Promise enlisted the service of a tax attorney during 2018 to assist with this matter and request reinstatement. A response has not yet been received from the IRS.

**FREEDOM'S PROMISE AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS**

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 statement of financial position 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.

In August 2018, the FASB issued ASU 2018-18, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-18 will result in treatment of most federal grants as donor-restricted conditional contributions rather than exchange transactions and applies to all entities that make or receive contributions. The new standard also clarifies the criteria for evaluation whether contributions are unconditional or conditional. The Organization will adopt the provision of ASU 2018-18 in fiscal year 2019.

**NOTE 10 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 23, 2019, the date the consolidated financial statements were available to be issued.