

Freedom Reads, Inc.

Financial Statements

December 31, 2022

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Financial Statements  
December 31, 2022**

**Table of Contents**

	<b><u>Page #</u></b>
Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13

## Independent Auditor's Report

To the Board of Directors of  
Freedom Reads, Inc.

### Opinion

We have audited the accompanying financial statements of the Freedom Reads, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2022, 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 Freedom Reads, Inc. as of December 31, 2022, 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 Freedom Reads, Inc. 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.

### 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 State 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 Freedom Reads, Inc.'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 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 Freedom Reads, Inc.'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 Freedom Reads, Inc.'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.

*Anstiss & Co., P.C.*  
Anstiss & Co., P.C.  
Chelmsford, MA  
September 5, 2023

**Freedom Reads, Inc.**  
**Statement of Financial Position**  
**December 31, 2022**

**Assets**

Current assets

Cash and cash equivalents	\$ 4,415,057
Investments	15,867
Prepaid expenses	7,216
Total current assets	<u>4,438,140</u>

Non-current assets

Property and equipment - net	225,247
Operating lease right-of-use asset	133,605
Total assets	<u><u>\$ 4,796,992</u></u>

**Liabilities and Net Assets**

Current liabilities

Accounts payable and accrued expenses	\$ 406,520
Operating lease right-of-use liability - current	28,416
Total current liabilities	<u>434,936</u>

Non-current assets

Operating lease right-of-use liability - long-term	106,272
Total liabilities	<u>541,208</u>

Net assets

Without donor restrictions	4,235,784
With donor restrictions	20,000
Total net assets	<u>4,255,784</u>
Total liabilities and net assets	<u><u>\$ 4,796,992</u></u>

**Freedom Reads, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2022**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue</b>			
Foundation and corporate contributions	\$ 5,883,693	\$ 20,000	\$ 5,903,693
Individual contributions	271,561	-	271,561
Investment return	156	-	156
Other income	100	-	100
Net assets released from restriction	-	-	-
Total revenue	<u>6,155,510</u>	<u>20,000</u>	<u>6,175,510</u>
<b>Expenses</b>			
Program	\$ 1,422,711	\$ -	\$ 1,422,711
Management and general	395,352	-	395,352
Fundraising	101,663	-	101,663
Total expenses	<u>1,919,726</u>	<u>-</u>	<u>1,919,726</u>
<b>Change in Net Assets</b>	4,235,784	20,000	4,255,784
<b>Net Assets - Beginning of Year</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net assets - End of Year</b>	<u><u>\$ 4,235,784</u></u>	<u><u>\$ 20,000</u></u>	<u><u>\$ 4,255,784</u></u>

**Freedom Reads, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2022**

	<b>Program</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 151,031	\$ 59,226	\$ 34,031	\$ 244,288
Payroll taxes	12,670	4,969	2,855	20,494
Benefits	20,775	8,147	4,681	33,603
Library books	384,066	-	665	384,731
Library materials	376,717	-	-	376,717
Library labor	336,282	-	-	336,282
Professional fees	31,658	192,131	41,100	264,889
Travel and meetings	66,390	9,489	9,035	84,914
Information technology	443	71,764	199	72,406
Production costs	28,580	-	10	28,590
Occupancy	2,575	23,502	-	26,077
Office supplies	7,765	10,233	229	18,227
Other expenses	1,842	15,783	24	17,649
Advertising and marketing	1,917	108	8,834	10,859
Total expenses	<u>\$ 1,422,711</u>	<u>\$ 395,352</u>	<u>\$ 101,663</u>	<u>\$ 1,919,726</u>

**Freedom Reads, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2022**

**Cash Flows from Operating Activities**

Change in net assets	\$ 4,255,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Donated securities	(15,711)
Realized and unrealized (gain) loss on investments - net	(144)
Non-cash portion of rent expense for operating lease	24,378
Changes in assets and liabilities:	
Increase in prepaid insurance	(7,216)
Increase in accounts payable and accrued expenses	406,520
Repayment of operating lease right-of-use liability	(23,295)
Net cash provided by operating activities	<u>4,640,316</u>

Cash flows from investing activities:

Purchase of investments	(12)
Purchases of property and equipment	(225,247)
Net cash used in investing activities	<u>(225,259)</u>

**Net Increase in Cash and Cash Equivalents** 4,415,057

**Cash and Cash Equivalents at Beginning of Year** -

**Cash and Cash Equivalents at End of Year** \$ 4,415,057

**Non-cash investing activity**

Donation of securities	<u><u>\$ 15,711</u></u>
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**Freedom Reads, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Organization**

Freedom Reads, Inc. (the “Organization”), established on October 5, 2021 in the State of Connecticut pursuant to the Connecticut Revised Nonstock Corporation Act, is a first-of-its-kind organization bringing libraries to people in prison so that they can transform hopelessness into possibility. The goal is to bring beautifully handcrafted 500-book libraries into prison, and by doing so, bring hope and possibility to people there.

The Organization is the only organization in the country with a mission to provide libraries to prisons thereby supporting the efforts of people in prison to imagine new possibilities for their lives. Through three core initiatives — Freedom Library, Ambassadors, and Stories — the Organization reminds us of the dignity of all people whether serving time, or not, and that our freedom begins with a book.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The Organization reports information regarding its financial positions and activities in two classes of net assets based upon the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations are classified as net assets without donor restrictions.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time are classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Also included in this category, are net assets subject to donor restrictions to be maintained in perpetuity as permanent assets of the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specified purposes.

***Use of Estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount 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.

***Cash and Cash Equivalents***

Cash represents operating cash held in bank accounts in high quality financial institutions in the United States. The Organization defines cash equivalents as short-term, highly liquid investments with an original maturity of three months or less.

**Freedom Reads, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Fair Value of Financial Instruments***

The Organization has adopted ASC 820-10, “*Fair Value Measurements and Disclosures*.” ASC 820-10 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. The standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

In these instances, where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

ASC 825-10, “*Financial Instruments*”, permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis.

***Investments***

The Organization follows the provisions of ASC 958-320, “*Investments – Debt and Equity Securities*”, whereby investments in marketable securities with readily determinable fair values are reported at their fair market values in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the accompanying statement of activities.

Investment decisions are made by the Executive Director, which has oversight responsibility for the Organization’s investments. The Organization’s portfolio is made up of donated stocks and is managed by the Executive Director. The investment guidelines established are to sell the stocks after receipt and transfer funds to the operating account.

**Freedom Reads, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Property and Equipment***

The Organization capitalizes major purchases of property and equipment of \$2,000 or more which are not in the nature of replacements or repairs. Minor equipment purchases, replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are charged to expense as incurred. Capitalized property and equipment are recorded at cost if purchased or constructed, or at fair market value at the date of the gift, if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the assets capitalized as follows:

<u>Category</u>	<u>Years</u>
Leasehold improvements	10-40
Computers and office equipment	3-5

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison to the future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

***Revenue Recognition***

The Organization follows Accounting Standards Update (ASU) No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*”, and ASU No. 2018-08, “*Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*”.

In accordance with ASC 958-605, contributions are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Gifts of assets other than cash are recorded at their estimated fair value on the date of gift. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Funds received on conditional contributions prior to meeting conditions are reported as refundable advances in the statement of financial position.

In-kind contributions are recorded at their estimated fair value as of the date of the contribution. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions.

***Functional Allocation of Expenses***

Expenses are allocated among program and supporting services directly or based on time records and utilization estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for overall support and direction of the Organization.

**Freedom Reads, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Leases***

The Organization follows ASU 2016-02, “*Leases*”, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases. The Organization has exercised the option under ASU 2016-02, to adopt a policy of expensing payments on operating leases with lease terms of twelve months or less. Under this standard, leases will be classified as either finance or operating, with classification affecting the recognition of expenses in the statement of activities.

***Advertising and Marketing***

The Organization expenses advertising and marketing costs as they are incurred.

***Income Taxes and Uncertain Tax Positions***

The Organization, under Chapter 602 of the Connecticut Revised Nonstock Corporation Act as a tax-exempt entity, has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3), and is, therefore, generally exempt from federal and state income taxes. Accordingly, no provision for income taxes has been provided for in the accompanying financial statements.

ASC 740-10, “*Income Taxes*”, requires the Organization to evaluate and disclose tax positions that could have an effect on the Organization's financial statements. The Organization reports its activities to the Internal Revenue Service and to the State of Connecticut on an annual basis. This informational return is generally subject to audit and review by the governmental agencies for a period of three years after filing. Substantially all of the Organization's income, expenditures and activities relate to its exempt purpose, therefore, management has determined that the Organization is not subject to material unrelated business income taxes and will continue to qualify as tax-exempt.

***Accounting Updates***

In June 2016, FASB issued ASU 2016-13, “*Financial Instruments – Credit Losses, Measurements of Credit Losses on Financial Statements*”, amending Financial Accounting Standards Board Accounting Standards Codification (ASC) by updating topic 326. The new ASU requires organizations to present financial assets at the net amount expected to be collected based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of reported amounts. For non-profit organizations, this ASU takes effect for fiscal years beginning after December 15, 2022.

The Organization is currently evaluating the effect that this accounting pronouncement will have on the financial statements. There were no other accounting standards recently issued that had or are expected to have a material impact on the Organization's financial statements and associated disclosures.

**Freedom Reads, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 3 - Concentration of Credit Risk**

The Organization maintains its cash in a bank deposit account, which at times, may exceed federally insured limits. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant financial risk on cash.

Sixty-six percent of contribution revenue was received from two private foundations during the year ended December 31, 2022.

**Note 4 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without board-designations or donor restrictions limiting their use, within one year of the statement of financial position date were as follows as of December 31, 2022:

Cash and cash equivalents	\$ 4,415,057
Investments	<u>15,867</u>
Total current financial assets available for expenditure	4,430,924
Less: net assets with donor restrictions	<u>(20,000)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 4,410,924</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

**Note 5 – Fair Value of Financial Instruments**

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures (see Note 2). The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2022.

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
Investments				
Equities				
Stocks	\$ 7,615	\$ 7,615	\$ -	\$ -
Mutual funds	<u>5,029</u>	<u>5,029</u>	<u>-</u>	<u>-</u>
Total equities	12,644	12,644	-	-
Cash and cash equivalents	<u>3,223</u>	<u>3,223</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 15,867</u>	<u>\$ 15,867</u>	<u>\$ -</u>	<u>\$ -</u>

**Freedom Reads, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 6 – Property and Equipment**

Property and equipment was comprised of the following as of December 31, 2022:

Leasehold improvement construction in progress	\$ 220,000
Computers and office equipment	5,247
Total property and equipment	<u>225,247</u>
Less: Accumulated depreciation	<u>-</u>
Property and equipment, net	<u>\$ 225,247</u>

There was no depreciation expense for the year ended December 31, 2022.

**Note 7 – Net Assets With Donor Restrictions**

Net assets with donor restrictions consisted of the following as of December 31, 2022:

Temporary purpose restrictions:	
Louisiana State Penitentiary Library	\$ 15,000
Books	5,000
Total net assets with donor restrictions	<u>\$ 20,000</u>

**Note 8 - Conditional Promise to Give**

As of December 31, 2022, the Organization had one conditional promise to give in the amount of \$200,000. The promise to give is conditional upon the Organization installing a total of 200 Freedom Libraries (by end of 2023) and be on-track to reach a total of 375 libraries by end of 2024, hiring three additional staff to support program expansion, expanding apprenticeship program based in fabrication shops to 10 participants, and completing a strategic planning process and begin evaluation of the Organization's impact.

**Note 9 - Operating Leases**

The Organization leases its operating facility and storage space under the terms of operating lease agreements, expiring in various years through February 2027. For the year ended December 31, 2022, rent expense under these agreements totaled \$23,470.

Future minimum lease commitments under the Organization's operating leases as of December 31, 2022 are as follows:

2023	\$ 34,200
2024	35,175
2025	36,188
2026	37,204
2027	<u>6,229</u>
Total future minimum lease commitments	\$ 148,996
Unamortized discount (4.75%)	<u>(14,308)</u>
Operating lease right-of-use liability	<u>\$ 134,688</u>

**Freedom Reads, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 10 – Subsequent Events**

ASC 855-10, “*Subsequent Events*”, defines further disclosure requirements for events that occur after the statement of financial position date but before financial statements are issued. In accordance with ASC 855-10, the Organization’s management has evaluated events subsequent from December 31, 2022 through September 5, 2023, which is the date the financial statements were available to be issued.

On January 23, 2023, the Organization agreed to an amendment to its facility lease which extended the lease term through January 2028 with a 3% annual rent increase effective February 1, 2023. The amendment also included an option to renew the lease an additional five years with the same 3% annual rent increase.

On April 24, 2023, the Organization agreed to an additional amendment to its facility lease to lease additional space as well as extend the lease term through May 2033.

There have been no other material events noted during this period that would either impact the results reflected in this report or the Organization’s results going forward.