SCARLET HOPE, INC

Consolidated Financial Report

June 30, 2023

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Drake Small & Associates
Certified Public Accountants

Independent Accountant's Review Report

To the Board of Trustees
Scarlet Hope, Inc
2305 Sycamore Ave
Louisville, KY 40206

We have reviewed the accompanying consolidated financial statements of Scarlet Hope, Inc, which comprise the consolidated statement of financial position as of June 30, 2023, the consolidated statement of activities and consolidated statement of cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our report.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Drake Small & Associates

Drake, Small and Associates
Louisville, Kentucky
October 18, 2023

Consolidated Statement of Financial Position

June 30, 2023

Assets

	Scarlet Hope	Freedom Signal	Scarlet Hope Inc
Current Assets			
Cash	198,971	17,850	216,821
Investments	12,988		12,988
Other current assets	17,824		17,824
Total current assets	229,783	17,850	247,633
Fixed Assets			
Software		75,000	75,000
Trucks and autos	13,332		13,332
Machinery and equipment	54,847		54,847
Commercial kitchen	113,965		113,965
Building	660,956		660,956
	843,100	75,000	918,100
Less accumulated depreciation	(299,665)		(299,665)
Total fixed assets	543,435	75,000	618,435
	773,218	92,850	866,068

Liabilities and Net Assets

	Scarlet Hope	Freedom Signal	Scarlet Hope Inc
Liabilities			
Accounts payable	1,629		1,629
Credit cards payable	7,241		7,241
Notes payable, bank	17,107		17,107
Accrued expenses	1,007		1,007
Total current liabilities	26,984		26,984
Long-term liabilities			
Note payable, bank	159,270		159,270
Net assets			
Without donor restrictions	458,158	92,850	551,008
With donor restrictions	128,806		128,806
Total net assets	586,964	92,850	679,814
	773,218	92,850	866,068

Consolidated Statement of Activities
Year Ended June 30, 2023

	Scarlet Hope	Freedom Signal	Scarlet Hope Inc
Changes in net assets without donor restrictions			
Revenues			
Fundraising income	73,073		73,073
Contributions and grants	1,211,321	93,000	1,304,321
Network income	20,541	1,650	22,191
Other income	52,457		52,457
Investment income	1,011		1,011
Interest income	240		240
Total revenues	1,358,643	94,650	1,453,293
Net assets released from restrictions			
Satisfaction of program restrictions	38,008		38,008
Total revenues and other support without donor restrictions	1,396,651	94,650	1,491,301
Expenses			
Program services	584,506		584,506
Fundraising costs	77,026		77,026
General and administrative	723,962	1,800	725,762
Total expenses	1,385,494	1,800	1,387,294
Decrease in net assets without donor restrictions	11,157	92,850	104,007
Changes in net assets with donor restrictions			
Contributions and grants	30,199		30,199
Program services	(38,008)		(38,008)
Increase (decrease) in net assets with donor restrictions	(7,809)		(7,809)
Increase (decrease) in total net assets	3,348	92,850	96,198
Net assets at beginning of year	583,616		583,616
Net assets at end of year	586,964	92,850	679,814

See Accompanying Notes and Independent Accountant's Review Report

Consolidated Statement of Cash Flows
Year Ended June 30, 2023

	Scarlet Hope	Freedom Signal	Scarlet Hope Inc
Cash Flows from Operating Activities			
Increase (decrease) in total net assets	3,348	92,850	96,198
Adjustments to reconcile increase in total net assets to cash provided by operating activities:			
Depreciation and amortization	29,058		29,058
Changes in assets and liabilities:			
Decrease (increase)			
Inventory			
Contributions receivable			
Other current assets	6,644		6,644
Increase (decrease)			
Accounts and credit cards payable	9,285		9,285
Accrued expenses and taxes	(2,594)		(2,594)
Net cash from operating activities	45,741	92,850	138,591
Cash Flows from Investing Activities			
Investment income and unrealized gains	(1,011)		(1,011)
Loss on disposal/abandonment of fixed assets	(13,737)		(13,737)
Purchase of property and equipment	(61,627)	(75,000)	(136,627)
Net cash used in investing activities	(76,375)	(75,000)	(151,375)
Cash Flows from Financing Activities			
Proceeds from notes payable	17,107		17,107
Payments on notes payable	(14,246)		(14,246)
Net cash from financing activities	2,861		2,861
Net increase (decrease) in cash	(27,773)	17,850	(9,923)
Cash at beginning of year	226,744		226,744
Cash at end of year	198,971	17,850	216,821

Note 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

Scarlet Hope, Inc (the Organization) exists to share the hope and love of Jesus Christ with women in the adult entertainment industry. The Organization provides meals, resources, case management, counseling, job training, discipleship and other personal care and services to women involved in the adult entertainment industry. The Organization goes to vulnerable areas to take food and resources to women at risk of being exploited. Women are provided with job training and career and personal counseling services to help them obtain permanent housing, employment and financial assistance, and to help with substance abuse problems. The Organization is supported primarily through donor contributions and grants.

Income Promises To Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There were no contributions receivable at June 30, 2023.

Property, Equipment, and Depreciation

Property and equipment are stated at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over each asset's estimated useful life.

Contributed Services

During the year ended June 30, 2023, the value of contributed professional services meeting the requirements for recognition in the financial statements was not material and was not recorded. Many individuals volunteer their time and perform a variety of tasks that assist the Organization at various facilities. The Organization received more than 10,000 volunteer hours during the current year.

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Concentration of Credit Risk

Instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. At times, cash in banks is in excess of the FDIC insurance limit. Credit risk with respect to cash is minimized by using high-credit quality financial institutions.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Investments

Under Statement of Financial Accounting Standards (FAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Contributions

Under FAS Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, contributions received are recorded as either “subject to donor restrictions” or “not subject to donor restrictions” depending on the absence or existence and nature of any donor restrictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Financial Statement Presentation

Under FAS Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Note 2 – Change in Fiscal Year End

The Organization changed its fiscal year end from December 31 to June 30 during 2022 which necessitated a prior six-month short year ending June 30, 2022. The new year end of June 30 more closely matches the operating and fundraising cycle of the Organization. These financial statements as of June 30, 2023 are the first full year reporting under the new fiscal year end.

Note 3 – Merger of Related Affiliates

During the year ended June 30, 2023, three not-for-profit affiliates that had previously maintained separate operations in other states under the 501(c)3 exemption of Scarlet Hope Inc were merged into Scarlet Hope Inc in order gain increased administrative efficiencies. The other organizations dissolved their separate registered entities and contributed their cash assets into Scarlet Hope Inc. This money, totaling $199,721, was recorded as contributions for the year ended June 30, 2023.

Scarlet Hope, Reno	55,009
Scarlet Hope, Las Vegas	25,120
Scarlet Hope, Cincinnati	119,592
	199,721

Note 4 – Establishment of Subsidiary

On April 17, 2023, Scarlet Hope Inc formed a separate single member not-for-profit organization called Freedom Signal LLC with Scarlet Hope Inc as the only member. The assets, liabilities, revenues, and expenses of Freedom Signal are reported separately in these financial statements under the consolidated basis of accounting.

Freedom Signal is an online app that specializes in reaching victims of online sex trafficking and exploitation. This technology makes it possible for the Scarlet Hope ministry to take Gospel hope to women in the sex industry online and not just in person. It also provides a tool for other churches and organizations to do the same.

Note 5 – Restrictions on Net Assets

Net assets with donor restrictions at June 30, 2023 consisted of grants and donations received during the year to fund specific projects and services of the Organization, less the amounts expended during the year to fund those projects and services. Balances of net assets with donor restrictions at June 30, 2023 were as follows:

	Net Assets Beginning	Contributions and Grants	Program Services	Net Assets Ending
ARGI Financial Group		2,250		2,250
Carson-Myre Foundation	23,356			23,356
Etscorn Foundation	5,000			5,000
Gheens Foundation	20,142	25,000	(21,200)	23,942
Kentucky Christian Foundation	10,000			10,000
Kentucky Colonels		2,949	(2,536)	413
Kentucky Women's Missionary	720			720
National Christian Foundation	5,000			5,000
Northeast Christian Church	2,108			2,108
Southeast Counseling	47,775		(4,650)	43,125
Ten Talents	15,514		(9,622)	5,892
Woosley Foundation	7,000			7,000
Total, June 30, 2023	136,615	30,199	(38,008)	128,806

Note 6 – Investments

The Organization held investments consisting of cash held for investment, equities, and government and corporate bond mutual funds. All investments are held at fair value and are summarized as follows at June 30, 2023:

Cash	979
Equities	12,009
Fixed income mutual funds	
Total investments	12,988

Note 6 – Investments (continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2023:

Interest and dividends	311
Taxes and fees	(69)
Unrealized gains (losses)	769
Total investment income	1,011

Note 7 – Fixed Assets

Depreciation and amortization expense taken on building, furniture and equipment, and leasehold improvements for the years ended June 30, 2023 was $29,058.

Note 8 – Notes Payable, Bank

The Organization has a $100,000 line of credit with a bank with a balance of $17,107 outstanding at June 30, 2023. The line is secured by a mortgage on the Organization's building and improvements and carries a variable interest rate at prime which was 8.25% at June 30, 2023.

The Organization has a promissory note with a bank expiring August 15, 2034 with an outstanding balance of $159,270 at June 30, 2023. The note is secured by a mortgage on the Organization's building and improvements and carries an interest rate of 5.25% with monthly payments of $1,960.96 for the first 5 years. The note converts to a variable prime rate (currently 8.25%) for the remaining 10 years.

Note 9 – Leasing Arrangement as Lessee

The Organization leases a building for $2,000 a month under a cancelable operating lease which expires in December, 2025. Lease expense for the year ended June 30, 2023 was $37,965.

Aggregate future minimum rental payments required under the operating lease for future years ending June 30 are as follows:

2024	24,000
2025	24,000
2026	12,000
	60,000

Note 10 – Subsequent Events

Management has evaluated events and accounts of the Organization from June 30, 2023 through October 18, 2023, the date the financial statements were available to be issued, to determine if there are any subsequent events that provide additional information about conditions that existed at the financial position date.