

SCARLET HOPE, INC

Financial Report

December 31, 2017



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Independent Accountant's Review Report

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

We have reviewed the accompanying financial statements of Scarlet Hope, Inc, which comprise the statement of financial position as of December 31, 2017, the statement of activities and 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 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Drake, Small and Associates

A handwritten signature in cursive script that reads 'Drake Small & Associates'.

Louisville, Kentucky
October 29, 2018

Statement of Financial Position

December 31, 2017

Assets

Current Assets

Cash	482,206
Investments	40,089
Inventory	8,233
Other current assets	<u>220</u>

Total current assets **530,748**

Fixed Assets

Trucks and autos	58,466
Office furniture and fixtures	13,330
Machinery and equipment	159,796
Leasehold Improvements	113,214
Building	<u>615,000</u>

959,806

Less accumulated depreciation (220,432)

Total fixed assets **739,374**

1,270,122

Liabilities and Net Assets

Liabilities

Accounts payable	15,788
Credit cards payable	9,599
Accrued payroll taxes	5,426
Note payable, bank	164,780
Accrued expenses	<u>1,434</u>

Total liabilities **197,027**

Net assets

Without donor restrictions	1,038,413
With donor restrictions	<u>34,682</u>

Total net assets **1,073,095**

1,270,122

Statement of ActivitiesYear Ended December 31, 2017

Changes in net assets without donor restrictions

Revenues	
Program service revenue	251,937
Contributions and fundraising events	610,227
Other income	8,129
Investment income	3,387
Interest income	<u>1,112</u>
Total revenues	874,792
Net assets released from restrictions	
Satisfaction of program restrictions	<u>32,115</u>
Total revenues and other support without donor restrictions	<u>906,907</u>
Expenses	
Program service expenses	601,992
Fundraising costs	41,465
General and administrative	<u>273,421</u>
Total expenses	916,878
Decrease in net assets without donor restrictions	<u>(9,971)</u>
Changes in net assets with donor restrictions	
Contributions	32,777
Grants	<u>1,904</u>
Increase in net assets with donor restrictions	<u>34,682</u>
Increase in total net assets	24,711
Net assets at beginning of year	<u>1,048,384</u>
Net assets at end of year	<u>1,073,095</u>

Statement of Cash Flows
Year Ended December 31, 2017

Cash Flows from Operating Activities

Increase in total net assets	24,711
Adjustments to reconcile increase in total net assets to cash provided by operating activities:	
Depreciation and amortization	43,315
Changes in assets and liabilities:	
Decrease (increase)	
Other current assets	(220)
Increase (decrease)	
Accounts and credit cards payable	6,913
Accrued expenses and taxes	<u>702</u>
Net cash provided by operating activities	<u>75,421</u>

Cash Flows from Investing Activities

Investment income and unrealized gains	(4,284)
Purchase of property and equipment	<u>(63,566)</u>
Net cash used in investing activities	<u>(67,850)</u>

Cash Flows from Financing Activities

Payments on line of credit	(10,364)
Payments on notes payable	<u>(1,285)</u>
Net cash used in financing activities	<u>(11,649)</u>

Net increase (decrease) in cash (4,078)

Cash at beginning of year 486,284

Cash at end of year **482,206**

Notes to Financial Statements

December 31, 2017

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. In addition, The Organization operates a full-service bakery and 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 as well as program service revenues from the bakery.

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 or allowance at December 31, 2017.

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 expirations 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 years ended December 31, 2017, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the residents' facilities. The Organization receives more than 2,500 volunteer hours per year.

Notes to Financial Statements

December 31, 2017

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

Inventory

Inventory consists of raw materials and supplies purchased for the operation of a bakery used in job training and is valued at lower of cost or market.

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.

Notes to Financial Statements

December 31, 2017

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

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 – Restrictions on Net Assets

Net assets with donor restrictions at December 31, 2017 consisted of a grant from Grainger to provide technology to support the job training program, a donation from Southeast Christian Church to pay a Discipleship Director to provide ongoing care for the Outreach program and a grant from Louisville Regional Baptist Association to help fund general Outreach. Balances of net assets with donor restrictions at December 31, 2017 were as follows:

	Grainger Technology Grant	Southeast Christian Hope Discipleship	Louisville Regional Baptist Association	Total
Net assets, beginning of year				
Contributions and grants	5,000	60,797	1,000	66,797
Program services	<u>(4,095)</u>	<u>(28,020)</u>	<u> </u>	<u>(32,115)</u>
Net assets, end of year	<u>905</u>	<u>32,777</u>	<u>1,000</u>	<u>34,682</u>

Note 3 – Investments

The Organization held \$40,089 in 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 December 31, 2017:

	Fair Value
Cash	879
Equities	17,595
Fixed income mutual funds	<u>21,615</u>
Total investments	<u>40,089</u>

Notes to Financial Statements

December 31, 2017

Note 3 – Investments (continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017:

Interest and dividends	1,104
Taxes and fees	(180)
Unrealized gains	<u>3,360</u>
Total investment income	<u>4,284</u>

Note 4 – Fixed Assets

Depreciation and amortization expense taken on building, furniture and equipment, and leasehold improvements for the year ended December 31, 2017 was \$43,315.

Note 5 – Note Payable, Bank

The Organization has a \$200,000 line of credit with a bank. The balance outstanding was \$164,780 as of December 31, 2017. The line is secured by a mortgage on the Organization's building and improvements and carries a fixed interest rate of 3%.

Note 6 – Leasing Arrangement as Lessee

The Organization leases a building under a cancelable operating lease which expires in December, 2022. Lease expense for the year ended December 31, 2017 was \$19,200. Aggregate future minimum rental payments required under the operating lease for future years ending December 31 are as follows:

2018	19,200
2019	19,200
2020	19,200
2021	19,200
2022	<u>19,200</u>
	<u>96,000</u>

Note 7 – Subsequent Events

Management has evaluated events and accounts of the Organization from December 31, 2017 through October 26, 2018, 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.