

**SCARLET HOPE, INC**

Financial Report

December 31, 2019, 2018 and 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, 2019, 2018 and 2017, the statement of activities and statement of cash flows for the years 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 blue ink that reads 'Drake Small + Assoc.'.

Louisville, Kentucky  
August 17, 2020

**Statement of Financial Position**  
December 31, 2019, 2018 and 2017

|                                   | 2019                    | 2018                    | 2017                    |
|-----------------------------------|-------------------------|-------------------------|-------------------------|
| <b>Assets</b>                     |                         |                         |                         |
| Current Assets                    |                         |                         |                         |
| Cash                              | 312,996                 | 406,612                 | 482,206                 |
| Investments                       | 40,119                  | 43,522                  | 40,089                  |
| Inventory                         | 13,752                  | 10,273                  | 8,233                   |
| Other current assets              | <u>2,676</u>            | <u>2,500</u>            | <u>220</u>              |
| <b>Total current assets</b>       | <b><u>369,543</u></b>   | <b><u>462,907</u></b>   | <b><u>530,748</u></b>   |
| Fixed Assets                      |                         |                         |                         |
| Trucks and autos                  | 46,799                  | 58,466                  | 58,466                  |
| Office furniture and fixtures     | 12,431                  | 13,330                  | 13,330                  |
| Machinery and equipment           | 164,716                 | 163,817                 | 159,796                 |
| Leasehold Improvements            | 412,561                 | 122,972                 | 113,214                 |
| Building                          | <u>660,956</u>          | <u>660,956</u>          | <u>615,000</u>          |
|                                   | 1,297,463               | 1,019,541               | 959,806                 |
| Less accumulated depreciation     | <u>(310,707)</u>        | <u>(264,781)</u>        | <u>(220,432)</u>        |
| <b>Total fixed assets</b>         | <b><u>986,756</u></b>   | <b><u>754,760</u></b>   | <b><u>739,374</u></b>   |
|                                   | <b><u>1,356,299</u></b> | <b><u>1,217,667</u></b> | <b><u>1,270,122</u></b> |
| <b>Liabilities and Net Assets</b> |                         |                         |                         |
| Liabilities                       |                         |                         |                         |
| Accounts payable                  | 7,782                   | 13,488                  | 15,788                  |
| Credit cards payable              | 7,942                   | 6,053                   | 9,599                   |
| Accrued payroll taxes             | 4,824                   | 7,875                   | 5,426                   |
| Notes payable, bank               | 51,052                  | 146,038                 | 164,780                 |
| Accrued expenses                  | <u>999</u>              | <u>2,122</u>            | <u>1,434</u>            |
| <b>Total current liabilities</b>  | <b><u>72,599</u></b>    | <b><u>175,576</u></b>   | <b><u>197,027</u></b>   |
| Long-term liabilities             |                         |                         |                         |
| Note payable, bank                | <u>228,350</u>          |                         |                         |
| Net assets                        |                         |                         |                         |
| Without donor restrictions        | 955,544                 | 983,736                 | 1,038,413               |
| With donor restrictions           | <u>99,806</u>           | <u>58,355</u>           | <u>34,682</u>           |
| <b>Total net assets</b>           | <b><u>1,055,350</u></b> | <b><u>1,042,091</u></b> | <b><u>1,073,095</u></b> |
|                                   | <b><u>1,356,299</u></b> | <b><u>1,217,667</u></b> | <b><u>1,270,122</u></b> |

See Accompanying Notes and Independent Accountant's Review Report  
**SCARLET HOPE, INC**

**Statement of Activities**

Years Ended December 31, 2019, 2018 and 2017

|  | 2019             | 2018             | 2017             |
|--|------------------|------------------|------------------|
| <b>Changes in net assets without donor restrictions</b>            |                  |                  |                  |
| Revenues   |                  |                  |                  |
| Program service revenue  | 420,583          | 338,514          | 251,937          |
| Contributions, grants and fundraising events                       | 870,167          | 645,417          | 610,227          |
| Other income   | 14,426           | 2,379            | 8,129            |
| Investment income  | 12,538           | (186)            | 3,387            |
| Interest income  | 652              | 1,482            | 1,112            |
| <b>Total revenues</b>  | <b>1,318,366</b> | <b>987,606</b>   | <b>874,792</b>   |
| Net assets released from restrictions                              |                  |                  |                  |
| Satisfaction of program restrictions                               | 130,131          | 111,827          | 32,115           |
| <b>Total revenues and other support without donor restrictions</b> | <b>1,448,497</b> | <b>1,099,433</b> | <b>906,907</b>   |
| Expenses   |                  |                  |                  |
| Program services   | 911,795          | 607,478          | 601,992          |
| Fundraising costs  | 74,637           | 71,285           | 41,465           |
| General and administrative   | 490,257          | 475,347          | 273,421          |
| <b>Total expenses</b>  | <b>1,476,689</b> | <b>1,154,110</b> | <b>916,878</b>   |
| <b>Decrease in net assets without donor restrictions</b>           | <b>(28,192)</b>  | <b>(54,677)</b>  | <b>(9,971)</b>   |
| <b>Changes in net assets with donor restrictions</b>               |                  |                  |                  |
| Contributions  | 13,457           | 8,272            | 32,777           |
| Grants   | 27,994           | 15,401           | 1,904            |
| <b>Increase in net assets with donor restrictions</b>              | <b>41,451</b>    | <b>23,673</b>    | <b>34,682</b>    |
| <b>Increase (decrease) in total net assets</b>                     | <b>13,259</b>    | <b>(31,004)</b>  | <b>24,711</b>    |
| Net assets at beginning of year                                    | 1,042,091        | 1,073,095        | 1,048,384        |
| <b>Net assets at end of year</b>                                   | <b>1,055,350</b> | <b>1,042,091</b> | <b>1,073,095</b> |

See Accompanying Notes and Independent Accountant's Review Report  
SCARLET HOPE, INC

**Statement of Cash Flows**

Year Ended December 31, 2019, 2018 and 2017

|   | 2019             | 2018            | 2017            |
|---|------------------|-----------------|-----------------|
| <b>Cash Flows from Operating Activities</b>   |                  |                 |                 |
| Increase (decrease) in total net assets   | 33,259           | (31,004)        | 24,711          |
| Adjustments to reconcile increase in total net assets to cash provided by operating activities: |                  |                 |                 |
| Depreciation and amortization   | 45,926           | 44,349          | 43,315          |
| Changes in assets and liabilities:  |                  |                 |                 |
| Decrease (increase)   |                  |                 |                 |
| Inventory   | (3,479)          | (2,040)         |                 |
| Other current assets  | (176)            | (2,280)         | (220)           |
| Increase (decrease)   |                  |                 |                 |
| Accounts and credit cards payable   | (3,817)          | 5,846           | 6,913           |
| Accrued expenses and taxes  | (4,174)          | 3,137           | 702             |
| <b>Net cash provided by operating activities</b>  | <u>67,539</u>    | <u>18,008</u>   | <u>75,421</u>   |
| <b>Cash Flows from Investing Activities</b>   |                  |                 |                 |
| Investment income and unrealized gains  | 3,403            | (3,433)         | (4,284)         |
| Purchase of property and equipment  | (277,922)        | (59,735)        | (63,566)        |
| <b>Net cash used in investing activities</b>  | <u>(274,519)</u> | <u>(63,168)</u> | <u>(67,850)</u> |
| <b>Cash Flows from Financing Activities</b>   |                  |                 |                 |
| Net proceeds (payments) on line of credit   | 40,009           | (18,742)        | (10,364)        |
| Proceeds from notes payable   | 242,000          |                 |                 |
| Payments on notes payable   | (148,645)        |                 | (1,285)         |
| <b>Net cash from financing activities</b>   | <u>133,364</u>   | <u>(18,742)</u> | <u>(11,649)</u> |
| <b>Net increase (decrease) in cash</b>  | <b>(73,616)</b>  | <b>(63,902)</b> | <b>(4,078)</b>  |
| Cash at beginning of year   | <u>406,612</u>   | <u>482,206</u>  | <u>486,284</u>  |
| <b>Cash at end of year</b>  | <u>312,996</u>   | <u>406,612</u>  | <u>482,206</u>  |

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

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### 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 at December 31, 2019, 2018 and 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 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

Professional services contributed to the Organization during the year ended December 31, 2019 were valued at \$5,900. During the years ended December 31, 2018 and 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 various facilities. The Organization receives more than 2,500 volunteer hours per year.

*See Independent Accountant's Review Report*

**SCARLET HOPE, INC**

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

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### Note 1 – Nature of Activities 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, 2019, 2018 and 2017

**Note 1 – Nature of Activities 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, 2019, 2018 and 2017 consisted of grants and donations received during 2019, 2018 and 2017 to fund specific projects and services of the Organization, less the amounts expended during those years to fund those projects and services. Balances of net assets with donor restrictions at December 31, 2019, 2018 and 2017 were as follows:

|  | Net Assets<br>Beginning | Contributions<br>and Grants | Program<br>Services | Net Assets<br>Ending |
|--|-------------------------|-----------------------------|---------------------|----------------------|
| Grainger Technology                            |                         | 5,000                       | (4,095)             | 905                  |
| Southeast Christian Hope<br>Discipleship       |                         | 60,797                      | (28,020)            | 32,777               |
| Louisville Regional Baptist<br>Association     | <u>          </u>       | <u>1,000</u>                | <u>          </u>   | <u>1,000</u>         |
| <b>Total, December 31, 2017</b>                | <u>          </u>       | <u>66,797</u>               | <u>(32,115)</u>     | <u>34,682</u>        |
| <br>   |                         |                             |                     |                      |
| Grainger Technology                            | 905                     |                             | (905)               |                      |
| Southeast Christian - Hope<br>Discipleship     | 32,777                  | 20,000                      | (43,170)            | 9,607                |
| Louisville Regional Baptist<br>Association     | 1,000                   | 500                         | (1,500)             |                      |
| Carson Myre                                    |                         | 20,000                      | (11,603)            | 8,397                |
| Gheens Foundation                              |                         | 20,000                      | (18,766)            | 1,234                |
| Southeast Christian - Hope<br>For Kids         |                         | 32,442                      |                     | 32,442               |
| Southeast Christian - Hope<br>House Renovation |                         | 32,558                      | (32,558)            |                      |
| National Christian Foundation                  |                         | <u>10,000</u>               | <u>(3,325)</u>      | <u>6,675</u>         |
| <b>Total, December 31, 2018</b>                | <u>34,682</u>           | <u>135,500</u>              | <u>(111,827)</u>    | <u>58,355</u>        |

**Note 2 – Restrictions on Net Assets (continued)**

|  | Net Assets<br>Beginning | Contributions<br>and Grants | Program<br>Services | Net Assets<br>Ending |
|--|-------------------------|-----------------------------|---------------------|----------------------|
| <b>Southeast Christian - Hope<br/>Discipleship</b> | 9,607                   |                             | (9,607)             |                      |
| <b>Carson Myre</b>                                 | 8,397                   | 50,000                      | (58,397)            |                      |
| <b>Gheens Foundation</b>                           | 1,234                   | 30,000                      | (31,234)            |                      |
| <b>Southeast Christian - Hope<br/>For Kids</b>     | 32,442                  |                             | (1,114)             | 31,328               |
| <b>Etscorn Foundation</b>                          |                         | 5,000                       |                     | 5,000                |
| <b>Kentucky Colonels</b>                           |                         | 13,457                      | (13,457)            |                      |
| <b>Woodsley Foundation</b>                         |                         | 7,000                       |                     | 7,000                |
| <b>Women 4 Women</b>                               |                         | 20,000                      | (8,142)             | 11,858               |
| <b>Northeast Christian Church</b>                  | 46,125                  |                             | (2,430)             | 43,695               |
| <b>National Christian Foundation</b>               | <u>6,675</u>            | <u>          </u>           | <u>(5,750)</u>      | <u>925</u>           |
| <b>Total, December 31, 2019</b>                    | <u>104,480</u>          | <u>125,457</u>              | <u>(130,131)</u>    | <u>99,806</u>        |

**Note 3 – Investments**

The Organization held \$40,119 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, 2019, 2018 and 2017:

|                           | 2019          | 2018          | 2017          |
|---------------------------|---------------|---------------|---------------|
| Cash                      | 248           | 860           | 879           |
| Equities                  | 37,079        | 9,900         | 17,595        |
| Fixed income mutual funds | <u>2,792</u>  | <u>32,762</u> | <u>21,615</u> |
| <b>Total investments</b>  | <u>40,119</u> | <u>43,522</u> | <u>40,089</u> |

**Note 3 – Investments (continued)**

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2019, 2018 and 2017:

|                                | 2019                 | 2018                | 2017                |
|--------------------------------|----------------------|---------------------|---------------------|
| Interest and dividends         | 1,224                | 1,578               | 1,104               |
| Taxes and fees                 | (110)                | (201)               | (180)               |
| Realized gains (losses)        | 9,798                |                     |                     |
| Unrealized gains (losses)      | <u>2,278</u>         | <u>(186)</u>        | <u>3,360</u>        |
| <b>Total investment income</b> | <b><u>13,190</u></b> | <b><u>1,191</u></b> | <b><u>4,284</u></b> |

**Note 4 – Fixed Assets**

Depreciation and amortization expense taken on building, furniture and equipment, and leasehold improvements for the years ended December 31, 2019, 2018 and 2017 was \$45,926, \$44,349 and \$43,315, respectively.

**Note 5 – Note Payable, Bank**

The Organization has a \$100,000 line of credit with a bank with a balance outstanding at December 31, 2019 of \$40,009. The line is secured by a mortgage on the Organization's building and improvements and carries a variable interest rate at prime which was 5.5% at December 31, 2019.

The Organization has a promissory note with a bank expiring August 15, 2034 with an outstanding balance of \$239,393 at December 31, 2019. 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 5.5%) for the remaining 10 years.

The Organization previously had a \$200,000 line of credit with a bank. The balance outstanding was \$146,038 and \$164,780 as of December 31, 2018 and 2017, respectively. The line was secured by a mortgage on the Organization's building and improvements and carried a fixed interest rate of 3%.

**Note 6 – Leasing Arrangement as Lessee (continued)**

The Organization leases a building for \$1,600 a month under a cancelable operating lease which expires in December, 2022. The Organization also leases retail space at a graduated monthly amount (currently \$2,500) under a non-cancelable operating lease which expires in December, 2023. Lease expense for the years ended December 31, 2019, 2018 and 2017 was \$47,374, \$29,200 and \$19,200, respectively.

Aggregate future minimum rental payments required under the operating lease for future years ending December 31 are as follows:

|      |                       |
|------|-----------------------|
| 2020 | 49,800                |
| 2021 | 50,100                |
| 2022 | 50,400                |
| 2023 | <u>30,800</u>         |
|      | <b><u>181,100</u></b> |

**Note 7 – Subsequent Events**

Management has evaluated events and accounts of the Organization from December 31, 2019 through August 17, 2020, 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.

At the end of 2019, Scarlet's Bakery sales had not met the desired benchmarks and management began working diligently to shift its strategy. In March of 2020, the bakeries experienced an immediate negative impact in sales due to COVID19.

Although an attempt was made to keep one location open, the impact was significant enough that a decision was made to permanently shut down both retail locations and use the client base, equipment, supplies and market knowledge to create an e-commerce model. This model has significantly lowered overhead and opens a much broader market.

Management anticipates incurring an initial loss of approximately \$90,000 on the change in strategy due to the write-off of assets including leasehold improvements at the two facilities.