

SCARLET HOPE, INC

Financial Report

December 31, 2020, 2019 and 2018



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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, 2020, 2019 and 2018, 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 cursive script that reads 'Drake Small & Associates'.

Louisville, Kentucky
July 21, 2021

Statement of Financial Position
December 31, 2020, 2019 and 2018

	2020	2019	2018
Assets			
Current Assets			
Cash	463,903	312,996	406,612
Investments	4,016	40,119	43,522
Inventory		13,752	10,273
Other current assets	<u>13,437</u>	<u>2,676</u>	<u>2,500</u>
Total current assets	<u>481,356</u>	<u>369,543</u>	<u>462,907</u>
Fixed Assets			
Trucks and autos	33,466	46,799	58,466
Office furniture and fixtures	12,431	12,431	13,330
Machinery and equipment	137,137	164,716	163,817
Leasehold Improvements	14,368	412,561	122,972
Building	<u>660,956</u>	<u>660,956</u>	<u>660,956</u>
	858,358	1,297,463	1,019,541
Less accumulated depreciation	<u>(301,074)</u>	<u>(310,707)</u>	<u>(264,781)</u>
Total fixed assets	<u>557,284</u>	<u>986,756</u>	<u>754,760</u>
	<u>1,038,640</u>	<u>1,356,299</u>	<u>1,217,667</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable		7,782	13,488
Credit cards payable	1,717	7,942	6,053
Accrued payroll taxes	4,571	4,824	7,875
Notes payable, bank	49,972	51,052	146,038
Accrued expenses	<u>398</u>	<u>999</u>	<u>2,122</u>
Total current liabilities	<u>56,658</u>	<u>72,599</u>	<u>175,576</u>
Long-term liabilities			
Note payable, bank	<u>221,669</u>	<u>228,350</u>	
Net assets			
Without donor restrictions	670,921	955,544	983,736
With donor restrictions	<u>89,392</u>	<u>99,806</u>	<u>58,355</u>
Total net assets	<u>760,313</u>	<u>1,055,350</u>	<u>1,042,091</u>
	<u>1,038,640</u>	<u>1,356,299</u>	<u>1,217,667</u>

Statement of Activities

Years Ended December 31, 2020, 2019 and 2018

	2020	2019	2018
Changes in net assets without donor restrictions			
Revenues			
Program service revenue	89,733	420,583	338,514
Contributions, grants and fundraising events	875,598	870,167	645,417
Other income	18,994	14,426	2,379
Investment income	4,931	12,538	(186)
Interest income	<u>65</u>	<u>652</u>	<u>1,482</u>
Total revenues	989,321	1,318,366	987,606
Net assets released from restrictions			
Satisfaction of program restrictions	<u>143,014</u>	<u>130,131</u>	<u>111,827</u>
Total revenues and other support without donor restrictions	<u>1,132,335</u>	<u>1,448,497</u>	<u>1,099,433</u>
Expenses			
Program services	613,830	911,795	607,478
Fundraising costs	16,575	74,637	71,285
General and administrative	<u>786,553</u>	<u>490,257</u>	<u>475,347</u>
Total expenses	1,416,958	1,476,689	1,154,110
Decrease in net assets without donor restrictions	<u>(284,623)</u>	<u>(28,192)</u>	<u>(54,677)</u>
Changes in net assets with donor restrictions			
Contributions and grants	132,600	125,457	135,500
Program services	<u>(143,014)</u>	<u>(84,006)</u>	<u>(111,827)</u>
Increase (decrease) in net assets with donor restrictions	<u>(10,414)</u>	<u>41,451</u>	<u>23,673</u>
Increase (decrease) in total net assets	(295,037)	13,259	(31,004)
Net assets at beginning of year	<u>1,055,350</u>	<u>1,042,091</u>	<u>1,073,095</u>
Net assets at end of year	<u>760,313</u>	<u>1,055,350</u>	<u>1,042,091</u>

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

Statement of Cash Flows

Year Ended December 31, 2020, 2019 and 2018

	2020	2019	2018
Cash Flows from Operating Activities			
Increase (decrease) in total net assets	(295,037)	13,259	(31,004)
Adjustments to reconcile increase in total net assets to cash provided by operating activities:			
Depreciation and amortization	49,063	45,926	44,349
Changes in assets and liabilities:			
Decrease (increase)			
Inventory	13,752	(3,479)	(2,040)
Other current assets	(10,761)	(176)	(2,280)
Increase (decrease)			
Accounts and credit cards payable	14,007	(3,817)	5,846
Accrued expenses and taxes	(854)	(4,174)	3,137
Net cash provided by operating activities	<u>(229,830)</u>	<u>67,539</u>	<u>18,008</u>
Cash Flows from Investing Activities			
Investment income and unrealized gains	36,103	3,403	(3,433)
Loss on disposal/abandonment of fixed assets	352,396		
Purchase of property and equipment		(277,922)	(59,735)
Net cash used in investing activities	<u>388,499</u>	<u>(274,519)</u>	<u>(63,168)</u>
Cash Flows from Financing Activities			
Net proceeds (payments) on line of credit	(1,602)	40,009	(18,742)
Proceeds from notes payable		242,000	
Payments on notes payable	(6,160)	(148,645)	
Net cash from financing activities	<u>(7,762)</u>	<u>133,364</u>	<u>(18,742)</u>
Net increase (decrease) in cash	150,907	(73,616)	(63,902)
Cash at beginning of year	<u>312,996</u>	<u>406,612</u>	<u>482,206</u>
Cash at end of year	<u><u>463,903</u></u>	<u><u>312,996</u></u>	<u><u>406,612</u></u>

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

Notes to Financial Statements

December 31, 2020, 2019 and 2018

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. Prior to their closing in March, 2020, the Organization operated two full-service bakeries. Currently, 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 December 31, 2020, 2019 and 2018.

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, 2020 and 2019 were valued at \$23,850 and \$5,900, respectively. During the year ended December 31, 2018, the value of contributed 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 receives more than 2,500 volunteer hours per year.

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.

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, 2020, 2019 and 2018 consisted of grants and donations received during those years 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, 2020, 2019 and 2018 were as follows:

	Net Assets Beginning	Contributions and Grants	Program Services	Net Assets Ending
Southeast Christian - Hope				
For Kids	31,328		(31,328)	
Etscorn Foundation	5,000			5,000
Carson Myre		50,000	(17,269)	32,731
Community Foundation		5,000		5,000
Gheens Foundation		25,000	(25,000)	
Horstman Family Foundation		10,000	(5,575)	4,425
Woosley Foundation	7,000		(7,000)	
Women 4 Women	11,858		(11,858)	
United Parcel Service		42,600	(364)	42,236
Northeast Christian Church	43,695		(43,695)	
National Christian Foundation	925		(925)	
Total, December 31, 2020	<u>99,806</u>	<u>132,600</u>	<u>(143,014)</u>	<u>89,392</u>

Notes to Financial Statements
December 31, 2020, 2019 and 2018

Note 2 – Restrictions on Net Assets (continued)

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

	Net Assets Beginning	Contributions and Grants	Program Services	Net Assets Ending
Grainger Technology	905		(905)	
Southeast Christian - Hope Discipleship	32,777	20,000	(43,170)	9,607
Louisville Regional Baptist 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 For Kids		32,442		32,442
Southeast Christian - Hope House Renovation		32,558	(32,558)	
National Christian Foundation		<u>10,000</u>	<u>(3,325)</u>	<u>6,675</u>
Total, December 31, 2018	<u>34,682</u>	<u>135,500</u>	<u>(111,827)</u>	<u>58,355</u>

Notes to Financial Statements
December 31, 2020, 2019 and 2018

Note 3 – 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 December 31, 2020, 2019 and 2018:

	2020	2019	2018
Cash	987	248	860
Equities	3,029	37,079	9,900
Fixed income mutual funds	<u> </u>	<u>2,792</u>	<u>32,762</u>
Total investments	<u>4,016</u>	<u>40,119</u>	<u>43,522</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Interest and dividends	102	1,224	1,578
Taxes and fees	(99)	(110)	(201)
Realized gains (losses)	19	9,798	
Unrealized gains (losses)	<u>4,974</u>	<u>2,278</u>	<u>(186)</u>
Total investment income	<u>4,996</u>	<u>13,190</u>	<u>1,191</u>

Note 4 – Fixed Assets

Depreciation and amortization expense taken on building, furniture and equipment, and leasehold improvements for the years ended December 31, 2020, 2019 and 2018 was \$49,063, \$45,926, and \$44,349, respectively.

Note 5 – Notes Payable, Bank

The Organization has a \$100,000 line of credit with a bank with a balance outstanding of \$38,407 and \$40,009 at December 31, 2020 and 2019, respectively. The line is secured by a mortgage on the Organization's building and improvements and carries a variable interest rate at prime which was 3.25% at December 31, 2020.

Note 5 – Notes Payable, Bank (continued)

The Organization has a promissory note with a bank expiring August 15, 2034 with an outstanding balance of \$233,233 and \$239,393 at December 31, 2020 and 2019, respectively. 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 3.25%) for the remaining 10 years.

The Organization previously had a \$200,000 line of credit with a bank. The balance outstanding was \$146,038 as of December 31, 2018. 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

The Organization leases a building for \$1,600 a month under a cancelable operating lease which expires in December, 2022. Lease expense for the years ended December 31, 2020, 2019 and 2018 was \$62,910, \$47,374, and \$29,200, respectively.

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

2021	19,200
2023	<u>19,200</u>
	<u>38,400</u>

Note 7 – Loss on Disposal and Abandonment of Property, Plant & Equipment

At the end of 2019, Scarlet's Bakery sales had not met desired benchmarks and with the negative impact of COVID 19 in March, 2020, management made the decision to close the bakeries and shift to an online e-commerce model. The total loss on disposal and abandonment of equipment and leasehold improvements totaled \$352,396 during the year ended December 31, 2020 and is included in General and Administrative expenses.

Note 8 – Subsequent Events

Management has evaluated events and accounts of the Organization from December 31, 2020 through July 21, 2021, 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.