

SELAH FREEDOM, INC. AND SUBSIDIARIES

SARASOTA, FLORIDA

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Selah Freedom, Inc. and Subsidiaries
Sarasota, Florida

We have audited the accompanying consolidated financial statements of Selah Freedom, Inc. and subsidiaries (the "Organization") (a non-profit corporation), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
Selah Freedom, Inc. and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Selah Freedom, Inc. and subsidiaries as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and Chapter 10.650, Rules of the Auditor General, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Tampa, Florida
October 21, 2019

SELAH FREEDOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 246,914
Accounts receivable	383,933
Prepaid expenses and other current assets	49,087
Related party receivable	8,901
Total current assets	688,835
 Property and Equipment, net	 2,826,109
 Other Assets	 8,690
 Total Assets	 \$ 3,523,634

LIABILITIES AND NET ASSETS

Current Liabilities:	
Current maturities of long-term debt	\$ 229,673
Accounts payable	265,352
Accrued payroll	57,931
Total current liabilities	552,956
 Long-Term Debt, less current maturities	 605,730
 Total Liabilities	 1,158,686
 Net Assets Without Donor Restrictions	 2,364,948
 Total Liabilities and Net Assets	 \$ 3,523,634

The accompanying notes are an integral part of these consolidated financial statements.

**SELAH FREEDOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Changes in Net Assets Without Donor Restrictions:

Support and revenues:	
Contributions	\$ 1,372,906
Grants and contracts	2,694,514
Special events	406,018
Less: Costs of direct benefits to donors	(118,328)
Merchandise sales	70,833
Other income	13,337
Total support and revenues	4,439,280
Expenses:	
Program services	4,121,966
Supporting services -	
General and administrative	311,931
Fundraising	110,216
Total supporting services	422,147
Total expenses	4,544,113
Change in Net Assets	(104,833)
Net Assets at Beginning of Year	2,469,781
Net Assets at End of Year	\$ 2,364,948

The accompanying notes are an integral
part of these consolidated financial statements.

SELAH FREEDOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	General and Administrative	Fundraising	Total
Accounting and legal fees	\$ 43,592	\$ 27,440	\$ 2,616	\$ 73,648
Advertising and promotion	105,594	8,213	3,520	117,327
Auto and local travel expenses	113,172	2,333	1,167	116,672
Bank fees	-	-	3,076	3,076
Client services	365,790	-	-	365,790
Continuing education	3,922	305	131	4,358
Depreciation and amortization	91,989	-	-	91,989
Dues and subscriptions	2,351	5,487	-	7,838
Employee wages	1,870,742	145,502	62,358	2,078,602
Facilities and equipment	294,480	-	-	294,480
General supplies, training and awareness	57,641	-	-	57,641
Health and dental insurance	198,475	15,437	6,616	220,528
Insurance	18,715	1,456	624	20,795
Interest expense	2,095	41,388	70	43,553
Loss on disposal of property and equipment	7,171	557	239	7,967
Officer wages	195,040	15,170	6,501	216,711
Other contract services	231,721	7,514	6,703	245,938
Other personnel costs	28,470	2,214	949	31,633
Payroll taxes	160,423	12,477	5,347	178,247
Postage and mailing	9,010	700	300	10,010
Printing and copying	25,239	1,963	841	28,043
Software subscriptions	21,795	2,422	-	24,217
Supplies and other expenses	22,696	1,765	763	25,224
Taxes, permits and licenses	13,111	1,020	437	14,568
Telephone and internet	36,453	2,835	1,215	40,503
Travel and meeting expenses	165,202	12,849	5,507	183,558
Web site hosting and maintenance	1,476	115	49	1,640
Workers compensation insurance	35,601	2,769	1,187	39,557
	<u>\$ 4,121,966</u>	<u>\$ 311,931</u>	<u>\$ 110,216</u>	<u>\$ 4,544,113</u>

The accompanying notes are an integral
part of these consolidated financial statements.

SELAH FREEDOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

Cash Flows From Operating Activities:

Change in net assets	\$ (104,833)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	87,808
Loss on disposal of property and equipment	7,967
Amortization of financing costs	4,181
Changes in:	
Accounts receivable	(230,950)
Inventory	35,500
Prepaid expenses and other current assets	33,123
Other assets	320
Accounts payable	232,422
Accrued payroll	(46,476)
Refundable advances	(110,160)
Net cash used in operating activities	(91,098)

Cash Flows From Investing Activities:

Loans to related party	3,125
Purchases of property and equipment	(1,218,141)
Net cash used in investing activities	(1,215,016)

Cash Flows From Financing Activities:

Repayment of long-term debt	(59,250)
Financing costs	(10,103)
Net cash used in financing activities	(69,353)

Net Decrease in Cash and Cash Equivalents (1,375,467)

Cash and Cash Equivalents at Beginning of Year 1,622,381

Cash and Cash Equivalents at End of Year \$ 246,914

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for interest \$ 43,553

Supplemental Schedule of Noncash Investing and Financing Activities:

Long-term debt incurred for purchase of property and equipment \$ 115,414

The accompanying notes are an integral part of these consolidated financial statements.

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

Selah Freedom, Inc. is a not-for-profit corporation that confronts the issue of sex trafficking and exploitation through advocacy, training and restorative services. The Organization provides a twelve-month residential program that allows restoration and transition to independent living for victims of sex trafficking; community support groups for victims recovering from sexual abuse and co-dependency; and mentorship for survivors through ongoing counseling, education, career placement and life skills.

Principles of Consolidation:

The consolidated financial statements of Selah Freedom, Inc. and subsidiaries include the accounts of two wholly-owned subsidiaries: MELW, LLC and MLE Florida, LLC (collectively, the “Organization”). All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation:

The accompanying consolidated financial statements are presented on the accrual basis of accounting. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions.
- With Donor Restrictions - Net assets whose use is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization or by the passage of time.

Use of Estimates:

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions:

The Organization records contributions received as with or without restrictions depending on the existence and/or nature of any donor restrictions. Non-cash contributions are recorded at fair market value at the time of donation.

In-Kind Donations:

Significant inventory, property and equipment are donated to the Organization by various individuals and organizations. Donated inventory, property and equipment of \$46,611 for the year ended December 31, 2018, were recorded at fair value at the date of donation, and have been included in revenue and expenses, or capitalized where applicable, in the period received.

Cash Equivalents:

The Organization considers all highly liquid investment instruments with original maturities of three months or less as cash equivalents.

Accounts Receivable:

The Organization bills for program services provided to clients, and the Organization is reimbursed by its funding sources under various grants and contracts. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes none of the accounts receivable at December 31, 2018 are deemed to be uncollectible. Therefore, no provision for uncollectible accounts has been made in the accompanying consolidated financial statements.

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment:

Property and equipment are stated at cost. All acquisitions of property and equipment in excess of \$500 are capitalized. Disbursements for repairs and maintenance are charged to expense. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	5 - 40 years
Furniture and equipment	5 - 10 years
Vehicles	5 years
Software	3 years

Donations of property and equipment are reported as increases in net assets without restrictions 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 contributions. 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 net assets with restrictions to net assets without restrictions at that time.

Refundable Advances:

Refundable advances represent grant monies received for which performance has not yet occurred and contributions received for special events that have not yet occurred. These amounts are potentially refundable should the Organization default on the arrangements. Revenue is recognized in the statement of activities upon performance of services or completion of each event.

Financing Costs:

Financing costs are reported as a deduction from the carrying amount of the debt and amortized to interest expense on a straight-line basis over the term of the related debt. Amortization of financing costs was \$4,181 for the year ended December 31, 2018. Accumulated amortization was \$3,003 at December 31, 2018.

Income Taxes:

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses:

The direct costs of providing the Organization's various program and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Certain categories of expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are included in the consolidated statement of functional expenses, and are allocated on the basis of estimates of time and effort.

Advertising Costs:

The Organization expenses all advertising costs as incurred. Advertising expense for the year ended December 31, 2018 was \$117,327.

New Accounting Pronouncement:

During 2018, the Organization implemented ASU 2016-14, *Not-For-Profit Entities-Presentation of Financial Statement of Not-for-Profit Entities (Topic 958)*. ASU 2016-14 requires not-for-profit entities to present on the statement of financial position amounts for two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) rather than the three classes previously required. The adoption of this standard did not materially impact the Organization's financial position, results of operations or cash flows.

Subsequent Events:

Management has evaluated subsequent events through October 21, 2019, which is the date the consolidated financial statements were available to be issued.

NOTE 2 - LIQUIDITY

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 246,914
Accounts receivable	<u>383,933</u>
	<u>\$ 630,847</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.

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 308,944
Buildings and improvements	2,286,398
Furniture and equipment	180,047
Vehicles	190,950
Software	1,820
	<u>2,968,159</u>
Less accumulated depreciation	<u>142,050</u>
Property and equipment, net	<u><u>\$ 2,826,109</u></u>

Depreciation expense was \$87,808 for the year ended December 31, 2018.

NOTE 4 - LINE OF CREDIT

The Organization has a \$150,000 revolving line of credit with a financial institution. The line of credit has a maturity date of February 2021 and accrues interest at Wall Street Journal Prime plus 1.0% (6.5% as of December 31, 2018). The line of credit is secured by the Company's deposits with the financial institution and certain real property. There was no balance outstanding on the line of credit at December 31, 2018.

NOTE 5 - LONG-TERM DEBT

Long-term debt is summarized as follows:

Notes payable to bank and finance companies bearing interest up to 10.84%, secured by real property and vehicles, maturities through October 2027	\$ 842,503
Less unamortized financing costs	<u>7,100</u>
Long-term debt, less unamortized financing costs	<u>835,403</u>
Less current maturities	<u>229,673</u>
Long-term debt, less current maturities	<u><u>\$ 605,730</u></u>

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 - LONG-TERM DEBT (Continued)

Scheduled maturities of long-term debt are as follows:

2019	\$ 229,673
2020	37,407
2021	37,235
2022	35,999
2023	32,174
Thereafter	<u>470,015</u>
	<u>\$ 842,503</u>

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Concentration - Major Funding Sources:

The Organization's funding source base consists of a diverse mix of governmental and other corporate entities. At December 31, 2018, amounts due from two major funding sources comprised 92% of total accounts receivable.

Operating Lease:

The Organization has continuing operating leases involving vehicles and facilities. Lease expense for the year ended December 31, 2018 totaled \$119,631. There are no future minimum lease payments.

Employment Agreement:

The President of the Organization is employed "at will". The President or the Organization can terminate employment at any time and for any reason whatsoever, with or without cause or advance notice. However, if the President is terminated for any reason other than for cause or misconduct, she will receive all wages earned through the time of her termination, along with one month's severance pay for each year she was employed by the Organization, not to exceed twenty-four months. At December 31, 2018, the Organization had no plans to terminate the President.

NOTE 7 - RELATED PARTIES

At December 31, 2018, the Organization had an unsecured receivable due from the Organization's President in the amount of \$8,901.