

SELAH FREEDOM, INC. AND SUBSIDIARIES

SARASOTA, FLORIDA

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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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, 2017, 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. 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, 2017, 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.

Saltmarsh Cleveland & Gund

Tampa, Florida
July 27, 2018

SELAH FREEDOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

| | |
|---|----------------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 1,622,381 |
| Accounts receivable | 152,983 |
| Inventory | 35,500 |
| Prepaid expenses and other current assets | 82,210 |
| Related party receivable | 12,026 |
| Total current assets | <u>1,905,100</u> |
| Property and Equipment, net | 1,588,329 |
| Other Assets | <u>9,010</u> |
| Total Assets | <u><u>\$ 3,502,439</u></u> |

LIABILITIES AND NET ASSETS

| | |
|--|----------------------------|
| Current Liabilities: | |
| Current maturities of long-term debt | \$ 31,347 |
| Accounts payable | 32,930 |
| Accrued expenses and other liabilities | 104,407 |
| Refundable advances | 110,160 |
| Total current liabilities | <u>278,844</u> |
| Long-Term Debt, less current maturities | <u>753,814</u> |
| Total Liabilities | 1,032,658 |
| Net Assets: | |
| Unrestricted | <u>2,469,781</u> |
| Total Liabilities and Net Assets | <u><u>\$ 3,502,439</u></u> |

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, 2017**

Changes in Unrestricted Net Assets:

| | |
|--|--------------|
| Support and revenues: | |
| Contributions | \$ 2,656,531 |
| Grants and contracts | 1,372,533 |
| Special events | 154,259 |
| Less: Costs of direct benefits to donors | (89,077) |
| Merchandise sales | 107,854 |
| Other income | 14,259 |
| Total support and revenues | 4,216,359 |
| Expenses: | |
| Program services | 2,661,328 |
| Supporting services - | |
| General and administrative | 217,792 |
| Fundraising | 71,894 |
| Total supporting services | 289,686 |
| Total expenses | 2,951,014 |
| Change in Net Assets | 1,265,345 |
| Net Assets at Beginning of Year | 1,204,436 |
| Net Assets at End of Year | \$ 2,469,781 |

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, 2017

| | Program Services | General and Administrative | Fundraising | Total |
|--|---------------------|-------------------------------|------------------|---------------------|
| Accounting and legal fees | \$ 38,288 | \$ 35,991 | \$ 2,297 | \$ 76,576 |
| Advertising and promotion | 28,247 | 2,197 | 941 | 31,385 |
| Auto and local travel expenses | 83,872 | 1,729 | 865 | 86,466 |
| Bank fees | - | 16,932 | 1,881 | 18,813 |
| Client services | 206,348 | - | - | 206,348 |
| Continuing education | 340 | 27 | 11 | 378 |
| Depreciation and amortization | 55,688 | - | - | 55,688 |
| Dues and subscriptions | 3,482 | 8,124 | - | 11,606 |
| Employee wages | 1,182,193 | 91,948 | 39,406 | 1,313,547 |
| Facilities and equipment | 196,921 | - | - | 196,921 |
| General supplies, training and awareness | 19,889 | - | - | 19,889 |
| Health and dental insurance | 85,260 | 6,631 | 2,842 | 94,733 |
| Insurance | 11,060 | 860 | 368 | 12,288 |
| Loss on disposal of property and equipment | 42,042 | 3,270 | 1,401 | 46,713 |
| Merchandise cost of sales | 22,785 | - | - | 22,785 |
| Officer wages | 280,697 | 21,832 | 9,356 | 311,885 |
| Other contract services | 69,120 | 1,858 | 1,690 | 72,668 |
| Payroll taxes | 115,060 | 8,949 | 3,835 | 127,844 |
| Postage and mailing | 4,707 | 366 | 157 | 5,230 |
| Printing and copying | 17,812 | 1,385 | 593 | 19,790 |
| Software subscriptions | 9,939 | 1,104 | - | 11,043 |
| Supplies and other expenses | 29,014 | 2,256 | 967 | 32,237 |
| Taxes, permits and licenses | 1,882 | 146 | 62 | 2,090 |
| Telephone and internet | 36,019 | 2,801 | 1,200 | 40,020 |
| Travel and meeting expenses | 96,025 | 7,469 | 3,201 | 106,695 |
| Web site hosting and maintenance | 278 | 22 | 9 | 309 |
| Workers compensation insurance | 24,360 | 1,895 | 812 | 27,067 |
| | <u>\$ 2,661,328</u> | <u>\$ 217,792</u> | <u>\$ 71,894</u> | <u>\$ 2,951,014</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, 2017

Cash Flows From Operating Activities:

| | |
|---|--------------|
| Change in net assets | \$ 1,265,345 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 51,542 |
| Contributions of property and inventory | (357,515) |
| Loss on disposal of property and equipment | 46,713 |
| Amortization of financing costs | 4,146 |
| Changes in: | |
| Accounts receivable | (152,983) |
| Inventory | 23,242 |
| Prepaid expenses and other current assets | (21,188) |
| Other assets | (5,110) |
| Accounts payable | 32,930 |
| Accrued expenses and other liabilities | 45,228 |
| Refundable advances | 103,220 |
| Net cash provided by operating activities | 1,035,570 |

Cash Flows From Investing Activities:

| | |
|--|-----------|
| Loans to related party | (3,125) |
| Proceeds from sale of property and equipment | 200,431 |
| Purchases of property and equipment | (124,162) |
| Net cash provided by investing activities | 73,144 |

Cash Flows From Financing Activities:

| | |
|---------------------------------------|-----------|
| Repayments on line of credit | (149,806) |
| Repayment of long-term debt | (21,203) |
| Financing costs | (9,438) |
| Net cash used in financing activities | (180,447) |

Net Increase in Cash and Cash Equivalents 928,267

Cash and Cash Equivalents at Beginning of Year 694,114

Cash and Cash Equivalents at End of Year \$ 1,622,381

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for interest \$ 11,627

Supplemental Schedule of Noncash Investing and Financing Activities:

Long-term debt incurred for purchase of property and equipment \$ 567,244

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

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

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:

- *Unrestricted net assets* are not subject to donor-imposed stipulations, or the donor-imposed restrictions have expired. Unrestricted net assets may be designated for specific purposes by the action of the Board of Directors.
- *Temporarily restricted net assets* are subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. The Organization has no temporarily restricted net assets.
- *Permanently restricted net assets* are subject to donor-imposed stipulations that the assets be maintained permanently by the Organization. The Organization has no permanently restricted net assets.

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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions:

The Organization records contributions received as unrestricted, temporarily restricted, or permanently restricted support 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 \$357,515 for the year ended December 31, 2017, 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, 2017 are deemed to be uncollectible. Therefore, no provision for uncollectible accounts has been made in the accompanying consolidated financial statements.

Inventory:

Inventory is stated at the lower of cost (first-in, first-out method) or net realizable value and consists primarily of merchandise available for sale to the public.

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 unrestricted net assets 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 temporarily restricted net assets to unrestricted net assets 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 \$4,146 for the year ended December 31, 2017. Accumulated amortization was \$3,400 at December 31, 2017.

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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Expenses:

Direct costs of providing the Organization's various programs have been reported on a functional basis in the consolidated statement of activities. Indirect general and administrative costs have been allocated among the programs, fundraising, and general and administrative expenses based on a systematic methodology made by management.

Advertising Costs:

The Organization expenses all advertising costs as incurred. Advertising expense for the year ended December 31, 2017 was \$31,385.

Recent Accounting Standards:

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"), which requires inventory to be valued at the lower of cost or net realizable value. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016. Management adopted ASU 2015-11 in 2017. There was no impact on the consolidated financial position or results of operations as a result of the adoption of ASU 2015-11.

Subsequent Events:

Management has evaluated subsequent events through July 27, 2018, which is the date the consolidated financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | |
|-------------------------------|---------------------|
| Land | \$ 308,944 |
| Buildings and improvements | 1,136,035 |
| Furniture and equipment | 151,893 |
| Vehicles | 96,980 |
| Software | 1,820 |
| | <hr/> |
| | 1,695,672 |
| Less accumulated depreciation | 107,343 |
| | <hr/> |
| Property and equipment, net | <u>\$ 1,588,329</u> |

Depreciation expense was \$51,542 for the year ended December 31, 2017.

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 - 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 prime plus 1.0% (5.5% as of December 31, 2017). 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, 2017.

NOTE 4 - LONG-TERM DEBT

Long-term debt is summarized as follows:

| | |
|--|--------------------------|
| Notes payable to bank and finance companies bearing interest up to 6.05%, secured by real property and vehicles, maturities through October 2027 | \$ 795,613 |
| Less unamortized financing costs | <u>10,452</u> |
| Long-term debt, less unamortized financing costs | 785,161 |
| Less current maturities | <u>31,347</u> |
| Long-term debt, less current maturities | <u><u>\$ 753,814</u></u> |

Scheduled maturities of long-term debt are as follows:

| | |
|------------|--------------------------|
| 2018 | \$ 31,347 |
| 2019 | 218,554 |
| 2020 | 25,056 |
| 2021 | 24,433 |
| 2022 | 19,269 |
| Thereafter | <u>476,954</u> |
| | <u><u>\$ 795,613</u></u> |

NOTE 5 - 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, 2017, amounts due from three major funding sources comprised 88% of total accounts receivable.

SELAH FREEDOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 - COMMITMENTS AND CONTINGENCIES (Continued)

Concentration of Credit Risk:

The Company maintains checking and depository accounts with financial institutions which are insured by the Federal Deposit Insurance Corporation up to certain limits. Cash and cash equivalents exceeded the federally insured limit by \$1,013,386 as of December 31, 2017.

Operating Lease:

The Organization has continuing operating leases involving vehicles and facilities. Lease expense for the year ended December 31, 2017 totaled \$106,201.

Future minimum lease payments are as follows:

| | |
|------|------------------|
| 2018 | \$ <u>28,558</u> |
|------|------------------|

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, 2017, the Organization had no plans to terminate the President.

NOTE 6 - RELATED PARTIES

At December 31, 2017, the Organization had an unsecured receivable due from the Organization’s President in the amount of \$12,026.