

COURAGE WORDWIDE, INC.

FINANCIAL STATEMENTS

December 31, 2017 and 2016

Bill McMahon, CPA

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To Management
CourageWorldwide, Inc.
Rocklin, California

Management is responsible for the accompanying financial statements of Courage Worldwide, Inc. (a non-profit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

I am not independent with respect to Courage Worldwide, Inc.

A handwritten signature in blue ink that reads "Bill McMahon". The signature is written in a cursive, flowing style.

Bill McMahon CPA

Red Bluff, CA

June 19, 2018

COURAGE WORDWIDE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents	\$ 191,236	\$ 49,741
Grants receivable	0	2,420
Other receivable	4,883	0
Prepaid expenses	38,740	20,679
Deposits	3,826	3,627
Inventory	9,091	31,594
Total Current Assets	<u>247,776</u>	<u>108,061</u>
 Property and Equipment:		
Land	20,000	491,000
Buildings and improvements	144,329	803,249
Furnishings and equipment	22,188	71,246
Transportation	74,978	118,673
Animals	0	35,250
Construction in progress	0	402,906
Total Property and Equipment	<u>261,495</u>	<u>1,922,324</u>
Less Accumulated depreciation	<u>(69,565)</u>	<u>(259,283)</u>
Property and Equipment, net	<u>191,930</u>	<u>1,663,041</u>
 Total Assets	 <u>\$ 439,706</u>	 <u>\$ 1,771,102</u>

COURAGE WORDWIDE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017 and 2016

LIABILITIES AND NET ASSETS

	2017	2016
Current Liabilities:		
Accounts payable	\$ 1,903	\$ 11,370
Payroll liabilities	2,147	3,194
Accrued liabilities	6,365	17,358
Line of credit	0	80,789
Current portion of long term debt	14,455	462,008
Total Current Liabilities	24,870	574,719
 Long Term Liabilities:		
Long term debt	36,669	516,380
Less Current portion	(14,455)	(462,008)
Long Term Debt Net of Current Portion	22,214	54,372
Total Liabilities	47,084	629,091
 Net Assets:		
Unrestricted	392,622	1,142,011
 Total Liabilities and Net Assets	\$ 439,706	\$ 1,771,102

COURAGE WORDWIDE, INC.
STATEMENT OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	2017		2016	
Support and Revenue				
Donations	\$ 308,799	54%	\$ 583,285	63%
Program revenues	5,080	1%	18,368	2%
In-kind donations	188,203	33%	23,850	3%
Investment income	0	0%	10	0%
Fundraising	26,796	5%	180,243	19%
Grant income	10,580	2%	111,419	12%
Other income	30,370	5%	9,974	1%
Total Support and Revenue	569,828	100%	927,149	100%
 Expenses				
Program services	848,000	149%	891,805	96%
Support services:				
Administration	112,875	20%	153,525	17%
Fundraising	66,424	12%	150,051	16%
Total Expenses	1,027,299	180%	1,195,381	129%
 Change in Net Assets Before Other Expenses	(457,471)	-80%	(268,232)	-29%
 Other Expenses				
Loss on disposal of assets	(291,918)		0	
 Change in Net Assets	(749,389)		(268,232)	
Net assets, Beginning of Year	1,142,011		1,410,243	
Net assets, End of Year	\$ 392,622		\$ 1,142,011	

COURAGE WORDWIDE, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
<u>Cash Flows From Operating Activities:</u>		
Change in Net Assets	\$ (749,389)	\$ (268,232)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	61,645	67,336
Loss on sale of assets	291,918	0
Donated property included in contributions	(150,000)	0
Rounding	0	(1)
Decrease (Increase) in Assets		
Accounts receivable	0	555
Grants receivable	2,420	16,035
Other receivable	(4,883)	0
Prepaid expenses	(18,061)	2,516
Inventory	22,503	434
Deposits	(199)	6,561
Increase (Decrease) in Liabilities		
Accounts payable	(9,467)	(18,841)
Payroll liabilities	(1,047)	(14,206)
Accrued liabilities	(10,993)	5,310
Net cash provided by (used in) operating activities	(565,553)	(202,533)
 <u>Cash Flows from Investing Activities:</u>		
Purchases of property and equipment	0	(4,942)
Proceeds from sale of assets	1,267,548	627
Net cash provided by (used in) investing activities	1,267,548	(4,315)
 <u>Cash Flows from Financing Activities:</u>		
Net increase (decrease) in long term debt	(560,500)	(23,702)
Net cash provided by (used in) financing activities	(560,500)	(23,702)
Net increase (decrease) in cash	141,495	(230,550)
Cash at beginning of period	49,741	280,291
Cash at end of period	\$ 191,236	\$ 49,741

COURAGE WORDWIDE, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

SUPPLEMENTAL INFORMATION	<u>2017</u>	<u>2016</u>
Interest Paid	\$ <u>41,101</u>	\$ <u>29,938</u>
Non-Cash Investing Activities:		
Fixed assets acquired by in-kind donation	150,000	0
Fixed assets purchased with contracts payable obligation	<u>0</u>	<u>0</u>
	\$ <u>0</u>	\$ <u>0</u>

COURAGE WORDWIDE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Payroll	\$ 111,020	\$ 47,289	\$ 22,487	\$ 180,796
Payroll taxes and benefits	30,364	13,522	7,460	51,346
Marketing	2,946	1,553	857	5,356
Occupancy	19,800	4,169	2,300	26,269
Mortgage interest	10,959	0	0	10,959
In-kind services	26,049	1,257	694	28,000
In-kind goods	3,153	0	0	3,153
Professional fees	15,582	18,214	3,602	37,398
Other administrative expenses	2,028	285	157	2,470
Office expense	12,850	6,090	3,360	22,300
Information technology	2,493	1,173	731	4,397
Depreciation expense	48,958	4,261	2,351	55,570
Education	5,850	0	0	5,850
Licenses and fees	18,692	7,268	4,010	29,970
Insurance	14,122	1,477	815	16,414
Travel and meetings	6,955	1,075	593	8,623
Resident expense	11,886	0	0	11,886
Special events	6,842	0	14,115	20,957
Development	53	0	0	53
Tanzania expense	114,606	0	0	114,606
Tanzania depreciation expense	6,075	0	0	6,075
Non-mortgage interest	22,008	5,242	2,892	30,142
Repairs and improvements	3,560	0	0	3,560
Other program expenses	351,149	0	0	351,149
Total Expenses	\$ 848,000	\$ 112,875	\$ 66,424	\$ 1,027,299

COURAGE WORDWIDE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Payroll	\$ 423,421	\$ 71,035	\$ 36,103	\$ 530,559
Payroll taxes and benefits	94,076	15,549	8,578	118,203
Marketing	3,374	1,754	968	6,096
Occupancy	50,889	6,535	3,606	61,030
Mortgage interest	13,552	7,146	3,942	24,640
In-kind services	540	0	25,910	26,450
In-kind goods	1,622	104	57	1,783
Professional fees	6,990	26,197	939	34,126
Other administrative expenses	6,004	1,541	849	8,394
Office expense	17,531	7,341	4,050	28,922
Information technology	2,761	1,299	731	4,791
Depreciation expense	61,330	2,947	1,626	65,903
Education	13,428	0	0	13,428
Licenses and fees	4,598	463	255	5,316
Insurance	26,850	5,309	2,929	35,088
Travel and meetings	11,473	4,193	2,314	17,980
Resident expense	42,098	0	0	42,098
Special events	2,866	0	56,028	58,894
Development	16,622	0	0	16,622
Tanzania expense	67,511	0	0	67,511
Tanzania depreciation expense	1,433	0	0	1,433
Non-mortgage interest	3,144	1,388	766	5,298
Repairs and improvements	19,692	724	400	20,816
Total Expenses	\$ 891,805	\$ 153,525	\$ 150,051	\$ 1,195,381

COURAGE WORDWIDE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations - Courage Worldwide (CWW) (formerly Courage to Be You, Inc.) is an international, 501 (c)(3) nonprofit organization founded in 2005 in California to simply help people find their purpose. Then in 2007, a focus was given to building homes for children rescued from sex trafficking so they too had resources and the opportunity to be and do all they were created to be and do.

The commercial sex trafficking of women and children is a profitable business of epidemic proportions. Globally, there are an estimated 4.5 million victims held in this form of modern day slavery. In our own backyard, hundreds of thousands of U.S. children are also used as a commodity for the profit of one and the pleasure of another. Worldwide there is a severe lack of services and homes for these highly traumatized children and young adults. CWW's vision is to change that fact by building a restorative home for victims of this crime in every city around the world that needs one. They call their homes Courage Houses.

Previously, two Courage Houses were open serving victims of this population, one in Northern California and one in Tanzania, Africa. During 2016, the care home in California was temporarily closed due to changes in government funding. The care home and real property were sold November 21, 2017, and the mortgage and line of credit were paid off. The Organization began renting a safe house December 1, 2017, for girls over 18 years old. CWW currently employs approximately fifteen people worldwide and continues to utilize an army of volunteers to execute its vision and mission. CWW has certified over 2,000 volunteers through an extensive twenty-four hour training curriculum. Tens of thousands of individuals have attended hundreds of CWW sponsored trainings and awareness events. Attendees have included members of Congress, state lawmakers, foreign government leaders, educators, mental health professionals, law enforcement officers, health care and social workers, church leaders, and juvenile justice personnel. CWW's existing training materials, along with newly developed curriculum, are being converted to an online format with plans to translate in multiple languages. CWW is committed to educating communities around the world as to the nature and effects of this crime against children so that it can execute its mission and vision to build Courage Houses in every city around the world that needs one. CWW is the official training partner of the California Highway Patrol.

continued

See Accountant's Report

COURAGE WORDWIDE, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CWW is a recognized anti-trafficking leader and tireless victim advocate. The organizational focus has been and will remain on victim rescue and restoration. However, CWW also participates in prevention programs in schools, provides justice for victims by partnering with law enforcement to prepare victim/witnesses for trial, decreases demand with awareness and educational campaigns, and helps to change policy and strengthen laws by serving on numerous task forces and national boards around the U.S. while training communities to protect and restore its most vulnerable children.

Phenomenal, local community support for CWW efforts is reflected in the 50,000 volunteer hours and over \$1,000,000 of in-kind and professional services over the last 10 years. CWW has achieved a national and global footprint with 100% of states in the U.S. and 190 countries throughout the world being exposed to the vision and mission of the organization through website and social media resources.

Basis of Presentation - Substantially all of the Organization's revenues result from contributions, bequests, and special grants, which are recognized as income when received and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. In addition, unconditional promises to give are recorded in the year made, less an allowance for doubtful collections. Conditional promises to give are recognized when the conditions on which they depend are substantailly met. Expenditures are recognized when the liability is incurred, rather than when cash is disbursed.

The financial statements of the Organization have been prepared on the accrual basis of accounting and maintained in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

continued

See Accountant's Report

COURAGE WORDWIDE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk - This is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization's bank balances are insured up to \$250,000. As of December 31, 2017 and 2016, the Organization had no bank balances in excess of the FDIC insured limit.

Prepaid Expenses - Prepaid expenses consist primarily of prepaid insurance.

Grants Receivable - The Organization received grant funds from county agencies based on the number of residents each month and agreements with those counties. There have been no instances of those funds being uncollectible; therefore, no allowance for uncollectible accounts has been recorded in these financial statements.

Inventory - Inventory consists of books, CD's, and promotional items related to the Organization's cause. It is stated at average cost or market value.

Property and Equipment - Property and equipment are recorded at cost and include improvements that significantly add to its productivity or extend its useful life. Depreciation of property and equipment is calculated on the straight-line method. Items with a cost in excess of \$1,500 and donated assets with a fair market value in excess of \$1,500 are capitalized. During the years ended December 31, 2017 and 2016, the Organization received \$150,000 and \$0 in donated fixed assets respectively. The estimated useful lives for financial statement purposes are as follows:

	<u>Lives (years)</u>
Office Equipment and Furniture	5-7
Vehicles	3-5
Leasehold improvements	15-40

Depreciation expense for the years ended December 31, 2017 and 2016 was \$61,645 and \$67,336, respectively.

Vacation Accrual - As of December 31, 2017 and 2016 there was no accrued vacation.

Net Assets - The Organization has unrestricted net assets. Designated unrestricted net assets consist of the net investment in fixed assets. The Organization does not have permanently or temporarily restricted net assets.

continued

COURAGE WORDWIDE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donations and Grant income - The Organization receives donations and grants from corporations, foundations, charitable organizations, and individuals. Donations and grants are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-605 *Not-For-Profit Entities - Revenue Recognition*.

Donated Goods - Noncash donations for supplies including household items, prizes, food, and beverages have been recorded as in-kind donations and are recorded at fair market value at the date of donation. During the years ended December 31, 2017 and 2016, CWW received \$3,153 and \$1,783 respectively of donated goods.

During 2017, the Organization received a donation of land and buildings located in Tanzania, valued at \$150,000.

Donated Services - For the years ended December 31, 2017 and 2016, \$28,000 and \$540, respectively, have been reflected in the financial statements for donated services from various professionals. The Organization would have had to pay for these services requiring specific expertise. The services have been recorded at fair market value.

Volunteer Hours - The Organization receives volunteer hours for both program and fundraising services but were not recognized as contributions in the financial statements as they did not meet the criteria to be recognized as contributions.

Concentration - Less than 1% of the organization's funding came from state and county funds for the year ended December 31, 2017, whereas 12% of the organization's funding came from state and county funds for the year ended December 31, 2016.

Income Tax - The Organization is exempt from Federal income taxes under section 501 (c)(3) of the Internal Revenue Code and Section 23701 (d) of the Revenue and Taxation Code of the State of California. During the years ended December 31, 2017 and 2016, it did not have any unrelated business income. The Organization believes that it has appropriate support for income tax provisions taken. Therefore, management has not identified any uncertain income tax provisions. The Organization continues to remain subject to examination by U.S. authorities for the prior three years and by state authorities for the prior four years.

Expense Allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs benefitted.

continued

COURAGE WORDWIDE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising - The cost of nondirect-response advertising is charged to expense as incurred. Advertising expense for the year ended December 31, 2017 and 2016 was \$5,356 and \$6,096.

Note 2 LEASES

The Organization leased certain property under non-cancelable (except under certain circumstances) operating lease arrangements. Office space lease expense for the year ended December 31, 2017 was \$8,720. Office space lease expense for the year ended December 31, 2016 was \$32,342. The Organization ended its lease for office space June 30, 2017.

On December 1, 2017, the Organization entered into a one year lease for a safe-house for girls over age 18. Monthly lease payments are \$2,400. The term expires November 30, 2018.

Note 3 LINE OF CREDIT

The Organization had a line of credit with Rabobank, originally dated June 17, 2015 including interest at 3.25%, maturing June 18, 2016. The line was renewed at 4%, maturing May 18, 2017, monthly payment \$1,233.39 plus quarterly principal payments of \$5,000. The balance as of December 31, 2016 was \$80,789. The loan was paid off in 2017.

Note 4 LONG-TERM DEBT

Long-term debt consists of:

	2017	2016
<p>Note payable to Placer Lender Services dated February 24, 2010 for the purchase of real property. The note was payable at \$3,193.25 per month beginning April 5, 2010 and maturing May 5, 2017 including interest at 5.5%. On May 5, 2017 the note on the real property was refinanced with interest at 9.99%, maturing May 1, 2018. The loan was paid off upon sale of the property November 21, 2017.</p>	\$	\$
	0	440,857

continued

COURAGE WORDWIDE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 4 LONG-TERM DEBT (continued)

	2017	2016
Contract payable to Toyota Financial for \$35,010 dated June 30, 2015 for the purchase of a vehicle. The contract is payable at \$596.94 per month beginning July 30, 2015 and maturing June 30, 2020 including interest at .9%. The contract is secured by the vehicle.	17,702	24,672
Contract payable to Toyota Financial for \$35,013 dated June 30, 2015 for the purchase of a vehicle. The contract is payable at \$596.99 per month beginning July 30, 2015 and maturing June 30, 2020 including interest at .9%. The contract is secured by the vehicle. The loan was paid off upon sale of the vehicle in 2017.	0	24,674
Contract payable to Toyota Financial for \$36,609 dated June 30, 2015 for the purchase of a vehicle. The contract is payable at \$656.18 per month beginning July 30, 2015 and maturing June 30, 2020 including interest at 2.9%. The contract is secured by the vehicle.	18,967	26,177
Total Long Term Debt	36,669	516,380
Less Current Portion	(14,455)	(462,008)
Total Long Term Debt-net of current portion	\$ 22,214	\$ 54,372

Aggregate maturities on long-term debt over the next five years are as follows:

	2017	2016
1 Year	\$ 14,455	\$ 462,008
2 Years	14,738	21,488
3 Years	7,476	21,835
4 Years	0	11,049
5 Years	0	0
Thereafter	0	0
Total	\$ 36,669	\$ 516,380

continued

COURAGE WORDWIDE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 5 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 19, 2018 which is the date the financial statements were available to be issued. Management concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements.