

**OPERATION UNDERGROUND RAILROAD, INC.
AND AFFILIATES**

COMBINED FINANCIAL STATEMENTS

December 31, 2019 and 2018

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CERTIFIED PUBLIC
ACCOUNTANTS AND
BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors Operation Underground Railroad, Inc. and Affiliates Anaheim, California

We have audited the accompanying combined financial statements of Operation Underground Railroad, Inc. and Affiliates which comprise the combined statements of financial position as of December 31, 2019 and 2018, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Operation Underground Railroad, Inc. and Affiliates as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

WSRP, LLC

Salt Lake City, Utah
April 15, 2020

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,002,092	\$ 2,891,941
Restricted cash	20,984	170,335
Contributions receivable	814,440	654,201
Investments	25,767,207	12,597,159
Merchandise inventory	93,231	90,585
Prepaid expenses	292,044	226,834
Other current assets	6,285	3,317
TOTAL CURRENT ASSETS	29,996,283	16,634,372
IMPROVEMENTS AND EQUIPMENT	842,174	772,714
ACCUMULATED DEPRECIATION	(355,960)	(273,379)
INTANGIBLE ASSET	429,095	-
DEPOSITS	5,788	5,788
TOTAL ASSETS	\$ 30,917,380	\$ 17,139,495
 LIABILITIES, NET ASSETS AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 98,627	\$ 160,599
Accrued liabilities	7,882	7,090
TOTAL CURRENT LIABILITIES	106,509	167,689
NET ASSETS AND MEMBERS' EQUITY		
Net assets without donor restriction	30,121,049	16,559,015
Net assets with donor restriction	20,984	170,335
Members' equity	668,838	242,456
TOTAL NET ASSETS AND MEMBERS' EQUITY	30,810,871	16,971,806
TOTAL LIABILITIES, NET ASSETS AND MEMBERS EQUITY	\$ 30,917,380	\$ 17,139,495

The accompanying notes are an integral part of the financial statements.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
Years ended December 31, 2019 and 2018

	2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS; REVENUES, SUPPORT AND GAINS		
Donations	\$ 20,063,913	\$ 16,233,349
Contributed services	952,159	413,373
Interest income and dividends	529,903	278,615
Gym memberships	127,326	118,866
Merchandise sales	226,557	118,602
Other revenue	18,327	19,627
Unrealized and realized gains (losses) on investments	1,280,720	(583,023)
TOTAL REVENUES, SUPPORT AND GAINS	23,198,905	16,599,409
Satisfaction of program/use restrictions	487,331	794,664
TOTAL REVENUES, SUPPORT AND GAINS AND SATISFACTION OF RESTRICTIONS	23,686,236	17,394,073
EXPENSES		
Programs and mission	8,250,940	9,624,185
Management and general	508,203	465,006
Fundraising and development	938,677	1,171,681
TOTAL EXPENSES	9,697,820	11,260,872
CHANGE IN UNRESTRICTED NET ASSETS	13,988,416	6,133,201
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Donations	337,980	719,999
Net assets released from restrictions	(487,331)	(794,664)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(149,351)	(74,665)
CHANGE IN NET ASSETS	13,839,065	6,058,536
NET ASSETS, BEGINNING OF YEAR	16,971,806	10,913,270
NET ASSETS, END OF YEAR	\$ 30,810,871	\$ 16,971,806

The accompanying notes are an integral part of the financial statements.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2019

	<u>Programs and Mission</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Contract labor	\$ 3,237,287	\$ 10,048	\$ 128,299	\$ 3,375,634
Travel	1,601,885	15,321	121,812	1,739,018
Salaries and wages	1,311,719	78,365	174,230	1,564,314
Office expense	684,681	32,693	97,852	815,226
Professional	344,333	43,623	57,752	445,708
Promotion and marketing	194,353	496	170,799	365,648
Occupancy	258,497	-	21,221	279,718
Merchant service fees	6,651	214,555	9,390	230,596
Employee benefits	176,561	11,245	21,388	209,194
Other	132,044	6,377	16,941	155,362
Postage and shipping	30,864	5,258	110,680	146,802
Depreciation	100,453	-	4,908	105,361
Bank fees	13,224	88,535	152	101,911
Meals and entertainment	50,560	1,512	1,738	53,810
Intelligence gathering	40,897	-	-	40,897
Training	24,722	-	-	24,722
Repairs and maintenance	23,140	175	898	24,213
Charitable contributions	12,470	-	617	13,087
Loss on disposal of equipment	6,599	-	-	6,599
TOTAL EXPENSES	\$ 8,250,940	\$ 508,203	\$ 938,677	\$ 9,697,820

The accompanying notes are an integral part of the financial statements.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

	<u>Programs and Mission</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Contract labor	\$ 4,154,403	\$ 8,313	\$ 95,820	\$ 4,258,536
Travel	1,397,273	12,165	211,495	1,620,933
Salaries and wages	1,620,807	82,011	162,509	1,865,327
Office expense	1,095,971	20,307	56,489	1,172,767
Professional	188,132	50,843	66,136	305,111
Promotion and marketing	83,056	1,019	259,611	343,686
Occupancy	173,203	45,434	64,523	283,160
Merchant service fees	-	166,816	-	166,816
Employee benefits	135,939	27,426	27,137	190,502
Other	82,694	7,143	7,823	97,660
Postage and shipping	12,456	7,684	104,778	124,918
Depreciation	94,265	-	4,814	99,079
Bank fees	17,591	33,741	5,752	57,084
Meals and entertainment	56,198	1,606	6,889	64,693
Intelligence gathering	38,970	-	-	38,970
Training	30,176	180	12,000	42,356
Repairs and maintenance	66,472	225	673	67,370
Charitable contributions	362,633	93	85,232	447,958
Loss on disposal of equipment	13,946	-	-	13,946
TOTAL EXPENSES	<u>\$ 9,624,185</u>	<u>\$ 465,006</u>	<u>\$ 1,171,681</u>	<u>\$ 11,260,872</u>

The accompanying notes are an integral part of the financial statements.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
Years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,839,065	\$ 6,058,536
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	105,361	99,079
Loss on disposal of equipment	6,599	13,946
Noncash contributions of intangible assets - copyright	(429,095)	-
Net unrealized and realized (gains) losses on investments	(1,280,720)	583,023
Changes in operating assets and liabilities:		
Contributions receivable	(160,239)	122,662
Merchandise inventory	(2,646)	42,500
Prepaid expenses	(65,210)	111,463
Other current assets	(2,968)	2,573
Accounts payable	(61,972)	50,083
Accrued liabilities	792	5,059
Net cash flows from operating activities	11,948,967	7,088,924
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(121,296)	(26,580)
Proceeds received on disposal of fixed assets	22,457	-
Sales of investments	5,804,811	2,541,313
Purchases of investments	(17,694,139)	(11,574,697)
Net cash used by investing activities	(11,988,167)	(9,059,964)
NET DECREASE IN CASH, RESTRICTED CASH, AND CASH EQUIVALENTS	(39,200)	(1,971,040)
CASH, RESTRICTED CASH, AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,062,276	5,033,316
CASH, RESTRICTED CASH, AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,023,076	\$ 3,062,276
SHOWN IN THE STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 3,002,092	\$ 2,891,941
Restricted cash	20,984	170,335
CASH, RESTRICTED CASH, AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,023,076	\$ 3,062,276
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Operation Underground Railroad, Inc. was incorporated in the State of Utah as a not-for-profit corporation on September 6, 2013.

Operation Underground Railroad, Inc. was formed for the purposes of rescuing child sex victims and prevention of child exploitation, which constitute its major program activities. Operation Underground Railroad, Inc. holds both 100% ownership in Deacon, Inc., a Nevada corporation, and also is the sole member of The Underground Xfit, LLC, a Utah limited liability company. Deacon, Inc. is a for-profit corporation that employs independent contractors to perform security and tactical operations. The Underground Xfit, LLC was formed for the sole purpose of establishing and managing an exercise facility.

On November 13, 2017, the Board of Directors of the Operation Underground Railroad, Inc. established a new entity, The Nazarene Fund, LLC, a California limited liability company. The Nazarene Fund, LLC was formed for the sole purpose of rescuing persecuted victims in the middle east.

The combined financial statements present the results of Operation Underground Railroad, Inc., and its subsidiaries, Deacon, Inc. and The Underground Xfit, LLC, combined with The Nazarene Fund, LLC (collectively the "Organization"). All significant inter-company balances and transactions have been eliminated from the combined financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies are described below.

Change in Accounting Principles

In 2019, the Organization adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of Topic 606 is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. This guidance was effective for the Organization beginning on January 1, 2019, with the option to adopt using either a full retrospective or a modified retrospective approach. The Organization adopted Topic 606 using the modified retrospective approach, under which there was no cumulative effect of initially applying Topic 606.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from such estimates.

Financial Statement Presentation

The combined financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. During 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under those standards, net assets, contributions, service fees, gains, losses, and expenses are classified as net assets with donor restrictions and net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions and based upon the following criteria:

Net Assets Without Donor Restrictions – Net assets without donor restrictions are able to be spent by the Organization at its discretion and are subject to self-imposed limits by action of the governing board. Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. As of December 31, 2019 and 2018 there were no Board-designated net assets.

Net Assets With Donor Restrictions – Net assets with donor restrictions include contributions of cash and other assets received with donor stipulations that limit the use of the donated assets, or have been restricted by the donor to be held and invested in perpetuity. When a donor restriction expires or a purpose restriction is accomplished, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying financial statements of cash and cash equivalents, accounts receivables, accounts payable, accrued expenses, and other current liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash represents funds received from donors to be used for specific purposes decided by the donor.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Donations are recorded at the earlier of either the receipt of funds or at the date an unconditional promise to give is received from the promisor. Contributions receivable are reported at the amount management expects to collect from donors. Differences between the amount due and the amount management expects to collect are reported in the statements of activities of the year in which those differences are determined, with an offsetting entry to a valuation allowance for contributions receivable. 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 contributions receivable. As of December 31, 2018 and 2017, management did not identify any uncollectible contributions receivable and, accordingly, did not record a valuation allowance.

Improvements & Equipment

Equipment purchases with a value greater than \$1,000 are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair market value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Depreciation is calculated on the straight-line basis over the assets' estimated useful lives. The estimated useful lives applied to each asset class are as follows:

Leasehold improvements	20 years
Tactical equipment	5-20 years
Fitness equipment	5-20 years
Office equipment	2-10 years
Vehicles	5 years
Software	3 years

Gains and losses from the sale or disposal of equipment are recorded in the Statements of Activities.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment of long-lived assets occurred during the years ended December 31, 2019 and 2018.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Merchandise Inventory

Merchandise inventory consists of merchandise sold as part of fundraising activities. Goods are valued at the lower of cost or net realizable value based on the first-in first-out method.

Revenue Recognition

The Organization recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers. Accordingly, revenue is recognized when control of the goods or services promised under a contract is transferred to the customer either at a point in time (e.g., upon delivery) or over time (e.g., as the Organization performs under the contract) in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for the goods or services. The Organization accounts for a contract when it has approval and commitment from both parties to perform their respective obligations, the rights and payment terms to be transferred are identified, the contract has commercial substance and collectability of consideration is probable. If collectability is not probable, the sale is deferred until collection becomes probable or payment is received.

The Organization's primary source of revenue is from individual and corporate contributions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Concentrations of Credit Risk

The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and management believes that the Organization is not exposed to any significant credit risk on its cash and cash equivalents. As of December 31, 2019 and 2018, the Organization had \$2,432,648 and \$2,560,474, respectively, in excess of federally insured limits.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of programs and supporting services have been summarized on a functional basis in the statements of activities. All direct costs are charged to the functional area they pertain to. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area. General and administrative costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. The methodology management uses to allocate indirect expenses are square footage, units, time and efforts.

Advertising

Advertising costs are expensed as incurred. The Organization incurred \$365,648 and \$343,686, respectively, in promotional advertising costs for the years ended December 31, 2019 and 2018.

Subsequent Events

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America require management to disclose subsequent events, which are events or transactions that occur after the balance sheet date but before the financial statements are issued.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

Management evaluated subsequent events through April 15, 2020, which is the date the financial statements were issued.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 3 - INVESTMENTS

Investments comprised the following as of December 31, 2019:

<u>2019</u>	<u>Carrying Value</u>	<u>Unrealized Gains</u>	<u>Fair Market Value</u>
Exchange traded funds	\$ 8,906,426	\$ 945,132	\$ 9,851,558
Mutual funds	15,872,689	42,960	15,915,649
Total investments	<u>\$ 24,779,115</u>	<u>\$ 988,092</u>	<u>\$ 25,767,207</u>

Investments comprised the following as of December 31, 2018:

<u>2018</u>	<u>Carrying Value</u>	<u>Unrealized Losses</u>	<u>Fair Market Value</u>
Exchange traded funds	\$ 4,251,336	\$ (214,910)	\$ 4,036,426
Mutual funds	8,723,621	(162,888)	8,560,733
Total investments	<u>\$ 12,974,957</u>	<u>\$ (377,798)</u>	<u>\$ 12,597,159</u>

Return on investment securities recorded on the accompanying combined statements of activities as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Unrealized gains (losses)	\$ 988,092	\$ (377,798)
Dividend income	524,823	277,393
Interest income	5,080	1,222
Realized gains (losses)	292,628	(205,225)
Total investment return	<u>\$ 1,810,623</u>	<u>\$ (304,408)</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

The Organization holds investments which are measured at fair value on an annual basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A framework for measuring fair value prioritizes the use of observable market-based inputs over the use of unobservable inputs when measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset on the measurement date.

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The three levels are defined as follows:

Level 1 – Quoted market prices (observable inputs) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 – Observable inputs other than quoted prices included in Level 1 for the asset or liability, either directly or indirectly. Fair value is determined through the use of models or other valuation methodologies. Example: thinly traded securities.

Level 3 – Unobservable inputs for the asset or liability that are not corroborated by market data, and reflect the entity’s assumptions for pricing the asset or liability.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization uses the market approach to measure the fair value of their investments. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2019:

<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded funds	\$ 9,851,558	\$ -	\$ -
Mutual funds	15,915,649	-	-
Intangible asset valuation (See Note 6)	-	-	429,095
Total assets at fair value	<u>\$ 25,767,207</u>	<u>\$ -</u>	<u>\$ 429,095</u>

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2018:

<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded funds	\$ 4,036,426	\$ -	\$ -
Mutual funds	8,560,733	-	-
Total assets at fair value	<u>\$ 12,597,159</u>	<u>\$ -</u>	<u>\$ -</u>

The table below presents the valuation techniques and significant Level 3 inputs used in the valuation of the intangible asset as of December 31, 2019. The table is not intended to be all inclusive but instead captures the significant unobservable inputs relevant to the determination of fair value.

<u>Type</u>	<u>Fair Value December 31, 2019</u>	<u>Significant Unobservable Inputs</u>	<u>Input</u>
Intangible Asset - Note 6	\$ 429,095	Discount Rate and Estimated Number of Years	10.0% and 5 years

The following table provides a reconciliation of the beginning and ending balances for the intangible asset that used Level 3 inputs for the year ended December 31, 2019:

	<u>Intangible Asset</u>
Balance as of December 31, 2018	\$ -
Contribution of copyright that used Level 3 inputs	429,095
Valuation adjustments	-
Balance as of December 31, 2019	<u>\$ 429,095</u>

OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 5 - IMPROVEMENTS AND EQUIPMENT

Improvements and equipment are as follows:

	2019	2018
Leasehold improvements	\$ 260,652	\$ 255,444
Tactical equipment	127,716	127,716
Fitness equipment	88,879	83,709
Office equipment	186,371	126,815
Vehicles	155,190	155,664
Software	23,366	23,366
	<u>842,174</u>	<u>772,714</u>
Less: accumulated depreciation	<u>(355,960)</u>	<u>(273,379)</u>
Improvements and equipment, net	<u>\$ 486,214</u>	<u>\$ 499,335</u>

NOTE 6 - INTANGIBLE ASSET

On December 17, 2019, the Organization received an in-kind donation of a copyright for the movie "Operation Toussaint" which was determined to have a fair market value of \$429,095 and which is reported as an intangible asset that is being amortized over its estimated useful life of 20 years. As of December 31, 2019 there was no impairment identified by management on this copyright and amortization expense totaled \$0.

The fair value of the intangible asset was calculated by management based on the appraisal of a third party using level 3 inputs. The valuation was determined using the discounted cash flow analysis where the intellectual property is valued with the present value of its projected cash flows. The cost of capital was determined to be 10.0% and the evaluation was used with forecasted cash flows through 2024.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

The Organization had \$20,984 and \$170,335, respectively, in net assets with donor restrictions as of December 31, 2019 and 2018. Net assets with donor restrictions of \$487,331 and \$794,664, respectively, were released from restriction during the years ended December 31, 2019 and 2018. The December 31, 2019 and 2018 net assets with donor restrictions included the following amounts:

	2019	2018
Mission related operations	\$ 20,984	\$ 96,858
Technology implementation	<u>-</u>	<u>73,477</u>
Total net assets with donor restrictions	<u>\$ 20,984</u>	<u>\$ 170,335</u>

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NOTE 8 - LEASE OBLIGATIONS

The Organization has entered in two lease agreements for office space in Utah and an additional lease agreement for an aftercare center in Thailand. The lease agreements expire at various times through 2020. For the years ended December 31, 2019 and 2018, the Organization paid \$262,224 and \$270,786, respectively, in rent expense. As of December 31, 2019, future lease obligations based on the continuation of current contracts were as follows:

2020	\$	116,103
2021		78,141
2022		79,704
2023		81,298
Thereafter		89,845
		89,845
Total operating lease obligations	\$	445,091

NOTE 9 - CONTRIBUTED SERVICES

Contributed services that 1) create or enhance nonfinancial assets or 2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recognized as revenue in the financial statements. The Organization recognized \$952,159 and \$413,373, respectively, in contributed services and related expenses during the years ended December 31, 2019 and 2018. Of this amount, \$85,716 and \$193,506, respectively, was applicable to fundraising and development activities, \$1,912 and \$4,333, respectively, was applicable to management and general activities, and \$864,531 and \$215,534, respectively, was applicable to programs and missions. The Organization also received 16,767 and 15,877 hours, respectively, in other volunteer services during the years ended December 31, 2019 and 2018 that did not meet the criteria outlined above and therefore were not recognized as revenue.

NOTE 10 - INCOME TAXES

The Organization is exempt from federal income taxes in accordance with the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization evaluates the tax positions taken or expected to be taken to determine whether the tax positions will be sustained by the applicable tax authority. Deacon, Inc, The Underground Xfit, LLC and The Nazarene Fund, LLC are disregarded entities for tax purposes. The Organization has determined that there is no tax liability and there are no tax returns which are currently under examination. Tax years subject to examination are from 2015 forward.

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NOTE 11 - EMPLOYEE BENEFIT PLAN

The Organization has established a Simple 401(k) plan, which is available to all employees. The plan allows employees to defer up to the federal maximum limit of their income on a pre-tax basis through contributions to the plan. The Company matches 100% of an employee's contributions up to 6% of total wages. During the years ended December 31, 2019 and 2018 the Company made matching contributions of \$55,714 and \$22,385, respectively

NOTE 12 - INFORMATION ABOUT LIQUIDITY

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. In addition, the Organization invests cash in excess of daily requirements in short-term liquid investments. To help manage unanticipated liquidity needs, or in the event of financial distress, the Organization has investments in securities that can be quickly turned into cash, and which bear favorable rates in the investment strategy.

NOTE 13 - AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions of internal designations. Amounts not available include amounts set aside for long-term investing that could be drawn upon if the governing board approves that action.

	<u>2019</u>	<u>2018</u>
Financial Assets		
Cash	\$ 3,023,076	\$ 3,062,276
Short-term investments	25,767,207	12,597,159
Contributions receivable	814,440	654,201
Total financial assets	29,604,723	16,313,636
Contractual or donor-imposed funds		
Other donor restrictions	(20,984)	(170,335)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 29,583,739</u>	<u>\$ 16,143,301</u>