OPERATION UNDERGROUND RAILROAD, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

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CERTIFIED PUBLIC
ACCOUNTANTS AND
BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Operation Underground Railroad, Inc. and Subsidiaries
Glendale, California

We have audited the accompanying consolidated financial statements of Operation Underground Railroad, Inc. and Subsidiaries which comprise the consolidated statement of financial position as of December 31, 2015, 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Operation Underground Railroad, Inc. and Subsidiaries as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

WSRP, LLC

Salt Lake City, Utah
November 17, 2016

OPERATION UNDERGROUND RAILROAD, INC. AND SUBSIDIARIES
Consolidated Statement of Financial Position

	As of December 31, 2015
ASSETS	
Current assets:	
Cash and cash equivalents	$ 2,860,931
Restricted cash	346,983
Merchandise inventory	95,583
Other current assets	3,290
Total current assets	3,306,787
Noncurrent assets:	
Property and equipment	570,569
Accumulated depreciation	(36,269)
Deposits	5,788
Total noncurrent assets	540,088
Total assets	$ 3,846,875
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	$ 66,933
Total current liabilities	66,933
Net assets:	
Unrestricted	3,432,959
Temporarily restricted	346,983
Total net assets	3,779,942
Total liabilities and net assets	$ 3,846,875

For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Contribution revenue:			
Donations	$ 4,557,248	$ 770,500	$ 5,327,748
Contributed services	374,282	-	374,282
Interest income	32,263	-	32,263
Gym memberships	27,817	-	27,817
Merchandise sales	18,484	-	18,484
Rental income	10,643	-	10,643
Net assets released from restriction:			
Satisfaction of program/use restrictions	497,517	(497,517)	-
Total revenues and support	5,518,254	272,983	5,791,237
Expenses:			
Salaries and wages	1,148,057	-	1,148,057
Travel	820,037	-	820,037
Contract labor	547,394	-	547,394
Fundraising/development	365,414	-	365,414
Professional	285,114	-	285,114
Charitable contributions	247,162	-	247,162
Employee benefits	177,300	-	177,300
Office expense	176,329	-	176,329
Occupancy	148,359	-	148,359
Other	64,376	-	64,376
Meals and entertainment	41,588	-	41,588
Depreciation	31,768	-	31,768
Training	27,366	-	27,366
Intelligence gathering	25,974	-	25,974
Promotion and marketing	17,562	-	17,562
Postage and shipping	8,608	-	8,608
Repairs and maintenance	8,449	-	8,449
Total expenses	4,140,857	-	4,140,857
Change in net assets	1,377,397	272,983	1,650,380
Net assets - beginning of year (Restated)	2,055,562	74,000	2,129,562
Net assets - end of year	$ 3,432,959	$ 346,983	$ 3,779,942

OPERATION UNDERGROUND RAILROAD, INC. AND SUBSIDIARIES
Consolidated Statement of Functional Expense

For the Year Ended December 31, 2015

	Programs and Mission	Fundraising/ development	Management and General	Total
Salaries and wages	$ 702,594	$ 328,309	$ 117,154	$ 1,148,057
Travel	782,662	34,013	3,362	820,037
Contract labor	306,054	224,537	16,803	547,394
Fundraising/development	-	298,991	66,423	365,414
Professional	2,081	-	283,033	285,114
Charitable contributions	247,162	-	-	247,162
Employee benefits	104,408	34,598	38,294	177,300
Office expense	109,228	57,321	9,780	176,329
Occupancy	55,996	81,140	11,223	148,359
Other	8,312	19,600	36,464	64,376
Meals and entertainment	33,833	7,158	597	41,588
Depreciation	11,850	11,922	7,996	31,768
Training	19,138	4,814	3,414	27,366
Intelligence	25,974	-	-	25,974
Promotion and marketing	-	17,562	-	17,562
Postage and shipping	661	4,016	3,931	8,608
Repairs and maintenance	7,124	798	527	8,449
Total expenses	$ 2,417,077	$ 1,124,779	$ 599,001	$ 4,140,857

OPERATION UNDERGROUND RAILROAD, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows

	For the Year Ended December 31, 2015
Cash flows from operating activities:	
Change in net assets	$ 1,650,380
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	31,768
Loss on disposal of equipment	4,036
(Increase) decrease in operating assets:	
Merchandise inventory	(17,939)
Other current assets	288,559
Increase in operating liabilities:	
Accounts payable	20,420
Net cash provided by operating activities	1,977,224
Cash flows from investing activities:	
Purchase of property and equipment	(506,166)
Net cash used in investing activities	(506,166)
Net increase in cash and cash equivalents	1,471,058
Cash and cash equivalents at beginning of year (Restated)	1,736,856
Cash and cash equivalents at end of year	$ 3,207,914
Shown in the Statement of Financial Position as:	
Cash and cash equivalents	$ 2,860,931
Restricted cash	346,983
	$ 3,207,914
Supplemental disclosure of cash flow information:	
Interest paid	$ 1,490

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

1. ORGANIZATION AND NATURE OF ACTIVITIES

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

The Organization was formed for the purposes of rescuing child sex victims and prevention of child exploitation, which constitute the Organization's major program activities. The Organization holds 100% ownership in Deacon, Inc., a Nevada corporation, and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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.

Financial Statement Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 958, *Not-for-profit Entities.* Under those standards, net assets, contributions, service fees, gains, losses, and expenses are classified as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions and based upon the following criteria:

Unrestricted – Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted – Temporarily restricted net assets include contributions of cash and other assets received with donor stipulations that limit the use of the donated assets. When a donor restriction expires or a 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.

Permanently Restricted – Permanently restricted net assets include funds that have been restricted by the donor to be held and invested in perpetuity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Basis of Presentation

The Organization's consolidated financial statements present the consolidated results of Operation Underground Railroad, Inc., and its subsidiaries, Deacon, Inc. and The Underground Xfit, LLC. All significant inter-company balances and transactions have been eliminated from the consolidated financial statements.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

Advertising

Advertising costs are expensed as incurred. The Organization incurred $17,561 in promotional advertising costs for the year ended December 31, 2015.

Property and Equipment

Equipment purchases with a value greater than $500 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 Statement of Activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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. Assets to be disposed of are presented separately in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. As of December 31, 2015, management did not identify any impairment of long-lived assets.

Contributions

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.

Use of Estimates

The preparation of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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.

Merchandise Inventory

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

Concentration 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, 2015, the Organization had $2,927,910 that was not covered under federally insured limits.

Subsequent Events

The preparation of 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. Management evaluated subsequent events through November 15, 2016, which is the date the financial statements were issued. Management did not identify any material recognizable subsequent events during this period.

3. PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following at December 31, 2015:

Leasehold improvements	$	255,444
Tactical equipment		130,915
Fitness equipment		61,009
Office equipment		57,264
Vehicles		42,571
Software		23,366
Subtotal property and equipment		570,569
Less: accumulated depreciation		(36,269)
Property and equipment, net	$	534,300

4. RELATED PARTY TRANSACTIONS

During the early part of 2015, the Organization had not yet received a determination letter from the Internal Revenue Service approving its status as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The Organization contracted individually with Child Rescue of North America and Elizabeth Smart Foundation, both tax-exempt corporations, to solicit and collect tax-exempt funding on its behalf until it was awarded tax-exempt status. As such, these entities served as pass-through entities on behalf of the Organization and remitted funds collected solely for Operation Underground Railroad, Inc. directly to the Organization. The Organization received a total of $3,107,058 in such transactions from the aforementioned entities during the year ended December 31, 2015. The Organization received approval of its tax-exempt status in a letter from the Internal Revenue Service dated March 3, 2015 with an effective exemption date of September 6, 2013.

Elizabeth Smart Foundation, a related party, entered into a cost-sharing agreement for shared office space in December 2014. Under this agreement, the Organization paid $6,250 in shared costs on behalf of Elizabeth Smart Foundation during the year ended December 31, 2015.

The Organization also entered into a sublease agreement with a related party during 2015. See Note 6 for more details on this related party transaction.

5. RESTRICTED NET ASSETS

The Organization had $346,983 in temporarily restricted net assets as of December 31, 2015, which consisted solely of restricted cash and cash equivalents. Temporarily restricted net assets of $497,517 were released from restriction during the year ended December 31, 2015. The December 31, 2015 restricted balance included the following amounts and restrictions:

Technology implementation	$ 221,868
Child Exploitation Targeting Center	108,115
Fundraising support	17,000
	$ 346,983

6. LEASE OBLIGATIONS AND LONG-TERM DEBT

The Organization entered into one lease agreement in the last quarter of 2014, and two additional lease agreements for office and meeting space in 2015. In 2015, the Organization paid $118,352 in rent expense. Of this amount, As of December 31, 2015, future lease obligations based on the continuation of current contracts were as follows:

Operating leases:	
2016	$ 77,507
2017	72,506
2018	73,956
2019	62,654
2020	-
Total operating lease obligation	$ 286,623

The Organization also entered into a sublease agreement with an employee beginning in 2015. Lease payments were deducted directly from the employee's monthly payroll. For the year ended December 31, 2015, a total of $10,643 was deducted as monthly rent payments. The term of this lease is on a month-to-month basis ending on January 31, 2016 with expected future minimum lease revenue as of December 31, 2015 totaling $1,000.

The Organization did not incur any long-term debt during the year ended December 31, 2015.

7. 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 $374,282 in contributed services and related expenses during the year ended December 31, 2015. Of this amount, $156,000 was applicable to fundraising and development activities, $114,577 was applicable to management and general activities, and $103,705 was applicable to programs and missions. The Organization also received 5,860 hours in other volunteer services during the year ended December 31, 2015 that did not meet the criteria outlined above and therefore were not recognized as revenue.

8. ALLOCATION OF JOINT COSTS

Costs incurred by and on behalf of The Underground Xfit, LLC during the year ended December 31, 2015 were jointly allocated to different activities. The primary activities to which costs were jointly allocated were fundraising and development and program-type activities. The total amount of costs allocated in 2015 was $134,316. Of this amount, approximately 25 percent was allocated directly to program and missions with the remaining 75 percent being allocated directly to fundraising and development.

9. 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. The Organization has determined that there is no tax liability and there are no tax returns which are currently under examination.

10. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made to record $5,788 in other noncurrent assets related to rental security deposits and $5,789 in other current assets related to prepaid rent not recorded in the prior period. Beginning total assets and beginning net assets were each increased by $11,577 to reflect the adjustment. Cash flows were adjusted by $5,789 in the current period to reflect prepaid rent expensed during the year ended December 31, 2015.

A prior period adjustment was also made to reclassify $286,061 in contributions receivable as of December 31, 2014 that was included in cash and cash equivalents as of that date. Beginning cash and cash equivalents were decreased by $286,061 and beginning other current assets were increased by the same amount. Cash flows were also adjusted by $286,061 in the current period to reflect receivable amounts collected during the year ended December 31, 2015.