Right Answers, Right Here.

TANNER
Accountants & Advisors

OPERATION UNDERGROUND RAILROAD, INC. AND SUBSIDIARIES

Consolidated Financial Statements
As of and for the
Years Ended December 31, 2022 and 2021

(Together with Independent Auditors' Report)

TANNER

Independent Auditors' Report

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

Opinion

We have audited the accompanying consolidated financial statements of Operation Underground Railroad, Inc. and subsidiaries (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to consolidated financial statements.

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, 2022 and 2021, and the changes to their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Recently Adopted Accounting Pronouncement
As discussed in Note 2 to the financial statements, the Company changed its method of accounting for leases due to the adoption of Accounting Standards Update No. 2016-02, Leases *(Topic 842)*. Our opinion is not modified with respect to this matter.

Tanner LLC

March 27, 2023

Consolidated Statements of Financial Position

	As of December 31,	
	2022	**2021**
Assets		
Current assets:		
Cash and cash equivalents	$ 5,365,277	$ 26,659,887
Contributions receivable	120,867	1,209,027
Investments	43,711,745	39,914,760
Merchandise inventory	1,089,821	446,413
Prepaid expenses and other current assets	1,175,956	1,683,113
Total current assets	51,463,666	69,913,200
Property and equipment, net	14,137,825	9,233,842
Operating lease assets	1,366,310	-
Intangibles, net	3,551,776	2,057,892
Other assets	52,765	22,387
Total assets	$ 70,572,342	$ 81,227,321
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 1,645,889	$ 1,158,831
Accrued liabilities	557,824	220,821
Line of credit	4,350,061	-
Long term lease liability, current portion	624,990	-
Current portion of note payable	246,442	-
Total current liabilities	7,425,206	1,379,652
Long term lease liability, less current portion	773,664	-
Note payable, net of current portion	2,653,475	-
Total liabilities	10,852,345	1,379,652
Net assets:		
Net assets without donor restrictions	59,110,466	79,700,269
Net assets with donor restrictions	609,531	147,400
Total net assets	59,719,997	79,847,669
Total liabilities and net assets	$ 70,572,342	$ 81,227,321

See accompanying notes to consolidated financial statements.

Consolidated Statements of Activities

	For the Years Ended December 31,	
	2022	**2021**
Change in net assets without donor restrictions:		
Revenues and other support:		
Donations	$ 24,396,995	$ 38,980,705
Special events, net of direct benefit to the donor of $336,028 and $0, respectively	926,556	-
Contributions of nonfinancial assets	902,180	592,386
Interest income and dividends	659,693	642,356
Gym memberships	177,546	169,259
Merchandise sales	1,162,693	721,300
Rental income	136,667	160,000
Other revenue	287,896	25,239
Unrealized and realized gains (losses) on investments	(5,730,019)	3,092,475
Net assets released from restrictions	580,303	402,633
Total revenues, other support, and reclassifications	23,500,510	44,786,353
Expenses:		
Programs and missions	31,778,247	23,266,648
Management and general	6,294,933	5,041,188
Fundraising and development	6,017,133	3,623,705
Total expenses	44,090,313	31,931,541
Change in net assets without donor restrictions	(20,589,803)	12,854,812
Change in net assets with donor restrictions:		
Donations	1,042,434	268,000
Net assets released from restrictions	(580,303)	(402,633)
Change in net assets with donor restrictions	462,131	(134,633)
Change in net assets	(20,127,672)	12,720,179
Net assets, beginning of year	79,847,669	67,127,490
Net assets, end of year	$ 59,719,997	$ 79,847,669

Consolidated Statements of Functional Expenses

For the Year Ended December 31, 2022

	Programs and Missions	Management and General	Fundraising and Development	Total
Bank fees	$ 25,751	$ 92,170	$ 13,554	$ 131,475
Charitable contributions	9,502,944	865	30,000	9,533,809
Contract labor	4,852,474	3,208,380	140,908	8,201,762
Cost of merchandise sold	568,149	-	206,520	774,669
Depreciation and amortization	385,774	123,557	51,179	560,510
Employee benefits	1,222,301	107,750	421,469	1,751,520
Insurance	144,060	102,587	13,075	259,722
Intelligence gathering	50,950	-	-	50,950
Interest expense	-	129,325	-	129,325
Loss on disposal of property and equipment	58,398	-	-	58,398
Meals and entertainment	276,385	101,702	29,086	407,173
Merchant service fees	64,160	-	547,977	612,137
Occupancy	358,498	185,001	141,768	685,267
Office expense	56,728	14,194	140,371	211,293
Postage and shipping	203,238	8,052	36,505	247,795
Professional	-	293	-	293
Promotion and marketing	721,052	8,084	625,597	1,354,733
Repairs and maintenance	28,054	87,451	25,165	140,670
Salaries and wages	9,068,167	1,219,547	2,773,663	13,061,377
Supplies and equipment	524,942	203,554	192,749	921,245
Training	63,328	3,236	136,546	203,110
Travel	3,346,246	347,459	335,675	4,029,380
Other	256,648	351,726	155,326	763,700
Total expenses	$ 31,778,247	$ 6,294,933	$ 6,017,133	$ 44,090,313

For the Year Ended December 31, 2021

	Programs and Missions	Management and General	Fundraising and Development	Total
Bank fees	$ 3,984	$ 45,825	$ -	$ 49,809
Charitable contributions	12,131,979	266	-	12,132,245
Contract labor	2,094,253	1,141,308	548,083	3,783,644
Cost of merchandise sold	436,902	-	14,326	451,228
Depreciation and amortization	236,568	28,843	24,329	289,740
Employee benefits	434,816	223,575	162,231	820,622
Insurance	85,412	48,261	6,970	140,643
Intelligence gathering	149,026	-	-	149,026
Loss on disposal of property and equipment	64,886	-	-	64,886
Meals and entertainment	115,336	47,604	31,008	193,948
Merchant service fees	12,044	-	600,170	612,214
Occupancy	170,914	155,053	122,975	448,942
Office expense	8,379	41,373	174,660	224,412
Postage and shipping	134,920	9,411	113,296	257,627
Professional	54,310	1,583,198	8,814	1,646,322
Promotion and marketing	178,179	-	281,421	459,600
Repairs and maintenance	24,260	39,755	4,767	68,782
Salaries and wages	4,916,614	1,016,799	1,089,236	7,022,649
Supplies and equipment	164,709	195,085	75,806	435,600
Training	224,848	28,867	-	253,715
Travel	1,440,372	177,295	265,576	1,883,243
Other	183,937	258,670	100,037	542,644
Total expenses	$ 23,266,648	$ 5,041,188	$ 3,623,705	$ 31,931,541

Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2022	**2021**
Cash flows from operating activities:		
Change in net assets	$ (20,127,672)	$ 12,720,179
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	560,510	289,740
Loss on disposal of property and equipment	58,398	64,886
Noncash contribution of other assets	-	(15,635)
Net unrealized and realized lossed (gains) on investments	5,730,019	(3,092,475)
Donated stocks and intangibles	(121,797)	(351,393)
Reinvested interest and dividends	(659,693)	(642,356)
Changes in operating assets and liabilities:		
Contributions receivable	1,088,160	(847,151)
Prepaid expenses and other assets	476,779	(1,258,478)
Merchandise inventory	(643,408)	(228,468)
Operating lease asset and liability	32,344	-
Accounts payable	487,058	620,931
Accrued liabilities	337,003	68,293
Net cash and cash equivalents provided by (used in) operating activities	(12,782,299)	7,328,073
Cash flows from investing activities:		
Purchases of property and equipment	(5,522,891)	(9,070,230)
Purchase of intangibles	(1,450,622)	(2,057,892)
Net change in investments	(8,788,776)	15,170,067
Net cash and cash equivalents provided by (used in) investing activities	(15,762,289)	4,041,945
Cash flows from financing activities:		
Borrowing on line of credit	4,350,061	-
Proceeds from note payable	3,000,000	-
Payments on note payable	(100,083)	-
Net cash and cash equivalents provided by investing activities	7,249,978	-
Net change in cash and cash equivalents	(21,294,610)	11,370,018
Cash and cash equivalents at beginning of year	26,659,887	15,289,869
Cash and cash equivalents at end of year	$ 5,365,277	$ 26,659,887
Supplemental disclosure of cash flow information:		
Operating lease assets acquireid under operating leases	$ 1,779,236	$ -
Cash paid for interest	$ 129,325	$ -

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. (O.U.R.) was formed for the purposes of rescuing victims of childhood sexual and other exploitation and prevention of child exploitation, which constitute its major program activities. Operation Underground Railroad, Inc. holds 100% ownership in Deacon, Inc., a Nevada corporation, and also is the sole member of OLH, LLC, a private limited liability business in Costa Rica and the following Utah limited liability companies: The Underground Xfit, LLC, O.U.R. Aftercare Group, LLC, O.U.R. Thailand, LLC, O.U.R. Therapeutic Services, LLC, O.U.R. Store, LLC, O.U.R. Murray, LLC, and O.U.R. Florida, LLC. 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. The other entities were all formed for purposes primarily supporting the purpose of Operation Underground Railroad, Inc.

In September 2022, O.U.R. acquired Abuse Relief Corps, a not-for-profit corporation in Ghana. As part of this acquisition, O.U.R. recognized vehicles for approximately $24,000. No other material impacts resulted from this acquisition.

The consolidated financial statements present the accounts and activities of Operation Underground Railroad, Inc., and its subsidiaries, Deacon, Inc., The Underground Xfit, LLC, OLH, LLC, O.U.R. Aftercare Group, LLC, O.U.R. Thailand, LLC, O.U.R. Therapeutic Services, LLC, O.U.R. Store, LLC, O.U.R. Florida, LLC, and Abuse Relief Corps (collectively, the Organization). All significant inter-company balances and transactions have been eliminated from the consolidated financial statements.

2. Summary of Significant Accounting Policies

The consolidated 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 (US GAAP). The significant accounting policies are described below.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results may differ from such estimates.

Financial Statement Presentation

The Organization reports its financial position and activities according to two classes of net assets:

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 Board of Directors. 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, 2022 and 2021 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 donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of USD coin (cryptocurrency).

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 donor. 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, 2022 and 2021, management did not identify any uncollectible contributions receivable and, accordingly, did not record a valuation allowance.

Investments
Investments in equity and debt securities are measured at fair values in the statements of financial position to the extent such investments have quoted market values. Realized and unrealized gains and losses are included in the change in net assets. Investment returns are reported net of related external and direct internal investment expenses.

Merchandise Inventory
Merchandise inventory consists of merchandise sold as part of programs and missions and fundraising and developing activities. Inventory is valued at the lower of cost or net realizable value based on the first-in first-out method.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated economic useful lives of the assets or over the related lease terms (if shorter) as follows:

Buildings and improvements	15-39 years
Leasehold improvements	15-20 years
Furniture, fixtures, and equipment	5-20 years
Vehicles	5 years
Software	3 years

Expenditures that materially increase values or capacities or extend useful lives of property and equipment are capitalized. Routine maintenance, repairs, and renewal costs are expensed as incurred. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation and amortization are removed from the related accounts and any gain or loss is reflected in the consolidated statement of operations.

Impairment of Long-Lived Assets
Long-lived assets, such as property and equipment and intangibles, 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 net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future net 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.

Adoption of New Accounting Standards
During 2022, the Organization adopted Accounting Standards Update (ASU) No. 2020-07, *Not-For-Profit Entities* (Topic 958). ASU 2020-07 requires not-for-profit entities to improve disclosures regarding nonfinancial contributions received on the statement of activities and in the notes to the financial statements. As required by this ASU, the provisions were adopted as of January 1, 2022 following a modified retrospective approach. Other than the more detailed disclosures regarding nonfinancial contributions, the adoption of this standard did not have a material impact on the accompanying consolidated financial statements.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, Leases (*Topic 842*). This guidance replaces the prior lease accounting guidance in its entirety. The underlying principle of the new standard is the recognition of lease assets and liabilities by lessees for substantially all leases. The standard also requires additional quantitative and qualitative disclosures. Effective January 1, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, Leases (*Topic 842*) using the modified retrospective method. Under this method, financial results reported in periods prior to January 1, 2022 are unchanged. The Organization has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organization accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2021) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022 (the beginning of the earliest period presented) a lease liability and a right-of-use (ROU) asset of $1,124,018, which represents the present value of the remaining lease payments of existing leases as of adoption, discounted using the Organization's risk-free rate ranging from 0.40% to 1.37%.

Lease Commitments
The Organization leases certain office spaces. The Organization assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. For all arrangements where it is determined that a lease exists, the related ROU assets and lease liabilities are recorded within the balance sheet as either operating or finance leases. At inception or modification, the Organization calculates the present value of lease payments using the implicit rate determined from the contract or the Organization's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Organization to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset. The present value is adjusted for prepaid lease payments, lease incentives, and initial direct costs (e.g. commissions). The Organization's leases may require fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the ROU assets and lease liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term. Fixed non-lease costs, for example common-area maintenance costs, taxes, insurance, and maintenance, are included in the measurement of the ROU asset and lease liability as the Organization does not separate lease and non-lease components.

Lease terms may include options to extend or terminate the lease when it is reasonably certain the Organization will exercise that option. The exercise of lease renewal options is at the Organization's sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The Organization rented or sublet a portion of the Organization's headquarters to a third party through an operating lease.

Donations and Contributed Goods and Services
The Organization's primary source of revenue is from individual and corporate donations. Unconditional donations received are recorded as with or without donor restrictions, depending on the existence of any donor restrictions. Conditional promises to give, that is, those with a measurable performance or other barriers, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Organization has no conditional promises to give as of December 31, 2022 and 2021.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their estimated fair value 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 estimated fair value in the period received. The Organization does not recognize in the consolidated financial statements any services contributed that did not meet the criteria outlined above. During the years ended December 31, 2022 and 2021, the Organization recognized $161,671 and $34,000, respectively, in contributed services and related expenses. The value of these services is based on invoices provided by the Company providing the service. The contributed services are primarily used for headquarters and other Utah locations, which represent technology services and donated space in American Fork, Utah. There were no donor restrictions on these donations. Of this amount, $117,783 and $34,000, respectively, were applicable to fundraising and development activities, $5,388 and $103,300, respectively, were applicable to management and general activities, $18,000 and $455,086, respectively, were applicable to programs and missions, and $20,500 and $0, respectively, were used to directly benefit donors through special events.

During the years ended December 31, 2022 and 2021, the Organization also received $387,754 and $103,694, respectively, of cryptocurrency and $78,535 and $351,393, respectively, of stock, which are recorded as both a nonfinancial donation and intangible asset. The value of these cryptocurrencies and stock is the fair value based on readily available market on the date of donation. The Organization generally sells donated stock as quickly as possible. Those not sold by the end of the year are included in investments. The Organization records donated cryptocurrency as intangible assets or cash equivalents, as applicable.

The Organization receives donated supplies, primarily of gift cards, shirts, books, and other small items, which are valued at fair value at the time they are received. Fair value of such donated supplies is based on third party vendor quotes and local store prices. During the years ended December 31, 2022 and 2021, the Organization recognized approximately $274,400 and $103,299, respectively, of in-kind support related to such donations. The contributed supplies were used for the care of victims or were liquidated shortly after being received. There were no donor restrictions on these donations.

The Organization had the following nonfinancial contributions received during the years ended December 31:

	2022	2021
Cryptocurrency	$ 387,574	$ 103,694
Supplies	274,400	103,299
Services	161,671	34,000
Stock	78,535	351,393
	$ 902,180	$ 592,386

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. Gym memberships are recognized over time (generally monthly) and merchandise sales are recognized at a point in time.

Concentrations of Credit Risk

The Organization maintains cash and cash equivalents in bank deposit accounts which often 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.

Functional Allocation of Expenses

The costs of programs and supporting services have been summarized on a functional basis in the statements of activities and statements of functional expenses. 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, primarily salaries and wages and expenses related to buildings. The methodology management uses to allocate indirect expenses are square footage, units, time and efforts.

Joint Costs

The Organization achieves some of its programmatic and fundraising goals through special events that include requests for contributions. The costs of conducting those events included certain joint costs that are not directly attributable to the program, management and general, or the fundraising component of the activities. Those joint costs totaled and were allocated as follows for the years ended December 31:

	2022	2021
Programs and missions	$ 536,223	$ -
Fundraising and development	383,048	-
	$ 919,271	$ -

Advertising

Advertising costs are expensed as incurred. The Organization incurred $256,935 and $421,611, respectively, in advertising costs for the years ended December 31, 2022 and 2021.

Income Taxes

Operation Underground Railroad, Inc. is exempt from federal income taxes in accordance with the provisions of Section 501(c)(3) of the Internal Revenue Code. Deacon, Inc. is subject to income taxes based upon the results of its operations and recognizes deferred tax assets and liabilities for the differences between the book bases and income tax bases of its assets and liabilities. However, no income taxes have been recorded and no deferred tax assets or liabilities recognized for Deacon, Inc. due to the immaterial amounts. The Underground Xfit, LLC is a disregarded entity for income tax purposes and its operations are reflected along with Operation Underground Railroad, Inc. in its Form 990 filing. The Organization evaluates tax positions taken or expected to be taken to determine whether the tax positions will be sustained by tax authorities. There are no tax returns pertaining to the Organization which are currently under examination.

Subsequent Events

Management has evaluated subsequent events through March 27, 2023, which is the date the consolidated financial statements were available to be issued.

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statement of financial position, comprised the following as of December 31:

		2022		2021
Cash and cash equivalents	$	5,365,277	$	26,659,887
Investments		43,711,745		39,914,760
Contributions receivable		120,867		1,209,027
Other current assets		135,154		126,643
		49,333,043		67,910,317
Less amounts not available to be used within one year:				
Net assets with donor restrictions		(609,531)		(147,400)
	$	48,723,512	$	67,762,917

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.

4. Investments

Investments consisted of the following as of December 31:

		2022		2021
Common Stock	$	14,772,896	$	-
Bonds		13,994,155		-
Equity ETPs		12,417,102		24,889,649
Alternative investments		2,138,165		-
REIT		389,427		-
Mutual funds		-		15,025,111
	$	43,711,745	$	39,914,760

Components of investment income for the years ended December 31, 2022 are summarized as follows:

		2022		2021
Net unrealized gains (losses)	$	(707,249)	$	2,649,328
Dividend income		594,244		639,614
Net realized gains (losses)		(5,022,770)		443,147
Interest income		65,449		2,742
	$	(5,070,326)	$	3,734,831

Investment expenses for the years ended December 31, 2022 totaled $217,907 and $206,170, respectively, and were netted against related interest income and dividends on the accompanying consolidated statements of activities.

Alternative investments are comprised primarily of shares owned in various limited partnerships, valued at $2,138,165 and $0 as of December 31, 2022 and 2021, respectively. The following tables outline the specific alternative investments and their terms and investing strategies as of December 31, 2022:

Investments	Unfunded Commitments	Fund Terms and Investment Strategy
CAA-Akkadian Ventures Annex VI, LP - Class 1	$ 94,808	- Fund will invest in co-investment opportunities stemming from CAA-Akkadian Ventures VI, LP - First Close: 4/28/2022 - Final Close (anticipated): on or before December 31, 2022. - Investment Period: 5 years after initial close.
CAA-Point Olema U.S. VC Portfolio, L.P.	553,589	- Perpetual with liquidity options after 2 years - Early-stage VC strategy managed by Stanford Endowment and Makena alumni in a unique evergreen fund format. - US Venture Capital, smaller fund focus, concentrated portfolio, Angel, Seed, Series A/B rounds, emerging managers, downside protection via structured strategies like venture debt, direct co-investment opportunities, opportunistic secondaries to manage j-curve. - Launched on January 1, 2022.
CAA-Akkadian Ventures VI, LP	637,500	- The Partnership's investment period will be 5 years after initial close, and its term will be 10 years. - Secondary and opportunistic investments in growth-stage ($10m+ ARR) technology companies - First Close: April 28, 2022. - Final Close (anticipated): on or before December 31, 2022.
CAA-Montauk Triguard IX Access Fund, LP	1,910,000	- 12-years from the Final Closing Date with two possible 12 months extensions. - Niche secondary private equity strategy focused on serving as an intermediary for the evolving secondary marketplace. - Targeting a mid-teens IRR with a minimal j-curve and rapid and reliable distributions. - The Access fund will invest 75% of it's capital into Montauk Triguard Fund IX and allocate to select co-investment opportunities out of the remaining 25%.
GT Partners Private Credit Offshore Fund I	687,500	- 5 years with two possible 12 months extensions. - GT Partners ("Ghost Tree") aims to build a portfolio of diversified, cashflow-orient private credit investments, by partnering with specialists across the private credit sub-sectors including asset backed lending, hard-money lending, specialty finance, among others.

Investments	Unfunded Commitments	Fund Terms and Investment Strategy
CAA-Tramview Real Estate Fund II, LP	799,989	- Perpetual, investor liquidity provision after 9 years. - Value-add focused real estate strategy ran by former Head of Special Situations Group for Townsend. - Team oversaw and managed $4.5B of equity invested across 100+ transactions. - The fund will target opportunistic, cashflow oriented investments.
Nuveen Churchill Direct Lending Corp	689,459	- Consistent with the terms of the Initial Offering, the Company's investment period will remain five (5) years from March 13, 2020, the date of the commencement of the Initial Offering, subject to up to two 1-year extensions. - Private BDC structure managed by Churchill Asset Management, investing primarily in directly originated, senior secured loans to private equity owned US middle market companies. - Targeting 8-10% IRR.
CAA-Hunter Point Capital Investors Offshore Access Fund, L.P.	1,000,000	- Perpetual with potential liquidity options after 10 years - Hunter Point aims to acquire minority stakes in Private Equity, Credit, Real Estate, and Infrastructure GPs, targeting established firms with $3B+ in AUM and poised for growth - CAA-Hunter Point Capital Investors Access Fund will allocate 70% of its commitments to the underlying fund and 30% to no-fee, no-carry co-investments.
Total	$ 6,372,845	

5. Fair Value Measurements

US GAAP defines fair value and establishes a framework for measuring fair value. The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable (supported by little or no market activity).

All investments are considered to be Level 1 with the exception of certain alternative investments valued at $2,138,165 and $0 as of December 31, 2022 and 2021, respectively, which have not been classified in the fair value hierarchy and are measured using the net asset value per share (or its equivalent) practical expedient and are summarized in Note 4.

The fair value of the intangible asset (see Note 7) was calculated by management based on the appraisal of a third-party using Level 3 inputs. The valuation was determined using a discounted cash flow analysis where the intellectual property is valued with the present value of the projected cash flows. The cost of capital was determined to be 10% and the evaluation was used with forecasted cash flows through 2024.

6. Property and Equipment

Property and equipment consisted of the following as of December 31:

	2022	2021
Buildings and improvements	$ 4,986,584	$ 3,757,000
Land	5,117,909	2,910,200
Furniture, fixtures, and equipment	2,594,464	1,837,370
Leasehold improvements	2,021,977	974,698
Vehicles	335,088	244,946
Software	229,722	182,714
	15,285,744	9,906,928
Less: accumulated depreciation and amortization	(1,147,919)	(673,086)
	$ 14,137,825	$ 9,233,842

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 totaled $560,510 and $262,712, respectively.

7. Intangibles

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. During the years ended December 31, 2022 and 2021, amortization expense of $0 and $27,028, respectively, was recognized. As of December 31, 2021, the copyright was fully amortized.

During 2021, the Organization acquired a copyright of the “Dirty Business Docu Series” for $2,000,000 and additional film footage for $57,892, which was determined to be the fair value. The copyright and film footage are reported as intangible assets and will be amortized on a straight-line basis over their estimated useful lives of 5 years. During 2022, the Organization continued filming more footage and capitalized an additional $1,334,874. The Organization has not begun to use the copyright or film footage, therefore, the amortization period has not begun. They expect to begin using the footage in 2023.

During 2022, the Organization acquired a music video and animations for $115,748, which was determined to be the fair value. The music video and animations are reported as intangible assets and will be amortized on a straight-line basis over their estimated useful lives of 5 years. The Organization has not begun to use the music video or animations; therefore, the amortization period has not begun. They expect to begin using the music video and animations in 2023.

8. Line of Credit

In July 2022, the Organization entered a revolving loan agreement with a bank with an interest rate of 0.5% below the Wall Street Journal Prime Rate, but not less than 3.5%, and a borrowing capacity of $5,000,000. As of December 31, 2022, the interest rate was 7%. Additionally, the line of credit (LOC) calls for an "unused fee" equal to 0.25% fee of the unused LOC commitment amount, payable quarterly in arrears. The LOC is collateralized by substantially all the Organization's assets. The outstanding balance was $4,350,061 as of December 31, 2022. The LOC matures in July 2023. Interest is due monthly and principal is due at maturity. This line of credit requires the Organization to meet certain affirmative and negative covenants, which management believes the Organization was in compliance with as of December 31, 2022.

9. Note Payable

In July 2022, the Organization entered a note payable agreement with a bank with an interest rate of 4.78% in the amount of $3,000,000, and due in monthly installments of $31,645 plus accrued interest. The note matures in July 2027. This note requires the Organization to meet certain affirmative and negative covenants, which management believes the Organization was in compliance with as of December 31, 2022. Future maturities of the note payable as of December 31, 2022 are as follows:

Years ending December 31,		
2023	$	246,442
2024		258,483
2025		271,113
2026		284,360
2027		1,839,519
	$	2,899,917

10. Net Assets with Donor Restrictions

Net assets with donor restrictions comprised the unspent portion of various restricted donations, which are restricted due to time or purpose, as show below as December 31:

		2022		2021
International operations	$	549,182	$	-
Domestic operations		40,430		-
Aftercare		19,919		147,400
	$	609,531	$	147,400

11. Commitments and Contingencies

Operating Leases

The Organization is committed under various noncancelable operating leases, including lease agreements for office space in Utah, Thailand, Indonesia, Cambodia, and Costa Rica. The lease agreements expire at various times through 2026. For the years ended December 31, 2022 and 2021, total rent expenses on such operating leases were approximately $404,000 and $192,000, respectively.

Lease assets and liabilities consisted of the following as of December 31, 2022:

Leases Classification	**December 31, 2022**
Assets	
Operating lease right-of-use assets	$ 1,366,310
Liabilities	
Current:	
Current portion of long term operating lease liability	$ 624,990
Noncurrent:	
Long term operating lease liability, less current portion	773,664
Total lease liabilities	$ 1,398,654

The components of lease expense were as follows as of December 31, 2022:

Lease Cost	**Classification**	**December 31, 2022**
Operating	Occupancy	$ 378,528
Short-term lease cost	Occupancy	25,815
Variable lease cost	Occupancy	280,924
Sublease income	Rental income	(136,667)
Net lease cost		$ 548,600

The weighted average remaining lease terms and interest rates were as follows as of December 31, 2022:

Lease Term and Discount Rate	**December 31, 2022**
Weighted Average Remaining Lease Term (years)	
Operating leases	2.48
Weighted Average Discount Rate	
Operating leases	2.15%

The following table reconciles the undiscounted future cash flows for the next five years and thereafter to the operating lease liabilities recorded within the consolidated balance sheet as of December 31, 2022:

Maturities of Lease Liabilities	
Year ending December 31:	**Operating**
2023	$ 646,348
2024	472,087
2025	277,238
2026	35,727
Total lease payments	1,431,400
Less: interest	(32,746)
Present value of lease liabilities	$ 1,398,654

The Organization leased a portion of its headquarters to a third-party. The lease was initiated in May 2021 and expired August 2022. Rent was $20,000 per month. Actual rental income for the year ended December 31, 2022 and 2021 was $136,667 and $160,000, respectively.

Supplemental cash flow information related to lease commitments was as follows for the years ended December 31, 2022:

Supplemental Cash Flow Information	**December 31, 2022**
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	$ 402,226
Lease assets obtained in exchange for lease obligations:	
Operating leases	$ 1,779,236

12. Related Party Transactions

The Organization contracted a member of the Board of Directors to perform legal services for an amount of $230,534 and $67,820 during the years ended December 31, 2022 and 2021, respectively. Another member of the Board of Directors performed construction services to improve office space in California for an amount of $490,000 and $221,793 during the years ended December 31, 2022 and 2021, respectively, with $0 and $87,000 included in accounts payable as of December 31, 2022 and 2021, respectively.

13. 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 Organization matches 100% of an employee's contributions up to 6% of total wages. During the years ended December 31, 2022 and 2021, the Organization made matching contributions of $412,772 and $223,806, respectively.

14. Subsequent Events

On January 9, 2023, the Organization purchased a townhome located in American Fork, Utah, at a price of $463,120 for the use of aftercare services for victims.