

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

**COMBINED FINANCIAL STATEMENTS**

**December 31, 2017 and 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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 18, 2018

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,788,316	\$ 4,178,524
Restricted cash	245,000	66,066
Contributions receivable	776,863	-
Investments	4,146,798	-
Merchandise inventory	133,085	99,956
Prepaid expenses	338,297	134,000
Other current assets	5,890	5,373
<b>TOTAL CURRENT ASSETS</b>	<b>10,434,249</b>	<b>4,483,919</b>
IMPROVEMENTS AND EQUIPMENT	790,542	757,959
ACCUMULATED DEPRECIATION	(204,762)	(110,895)
DEPOSITS	5,788	5,788
<b>TOTAL ASSETS</b>	<b>\$ 11,025,817</b>	<b>\$ 5,136,771</b>
 <b>LIABILITIES, NET ASSETS AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 110,516	\$ 89,224
Accrued liabilities	2,031	21,787
<b>TOTAL CURRENT LIABILITIES</b>	<b>112,547</b>	<b>111,011</b>
<b>NET ASSETS AND MEMBERS' EQUITY</b>		
Unrestricted	9,743,270	4,959,694
Temporarily restricted	245,000	66,066
Members' equity	925,000	-
<b>TOTAL NET ASSETS AND MEMBERS' EQUITY</b>	<b>10,913,270</b>	<b>5,025,760</b>
<b>TOTAL LIABILITIES, NET ASSETS AND MEMBERS EQUITY</b>	<b>\$ 11,025,817</b>	<b>\$ 5,136,771</b>

*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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUES, SUPPORT AND GAINS		
Donations	\$ 10,717,084	\$ 5,430,602
Contributed services	630,653	401,570
Merchandise sales	145,225	11,734
Gym memberships	122,479	104,192
Unrealized and realized gains on marketable securities	126,319	-
Interest income and dividends	64,687	1,148
Other revenue	4,671	-
TOTAL REVENUES, SUPPORT AND GAINS	11,811,118	5,949,246
Satisfaction of program/use restrictions	981,066	1,277,717
TOTAL REVENUES, SUPPORT AND GAINS AND SATISFACTION OF RESTRICTIONS	12,792,184	7,226,963
EXPENSES		
Programs and mission	5,977,155	4,318,833
Management and general	409,224	409,668
Fundraising and development	697,229	971,727
TOTAL EXPENSES	7,083,608	5,700,228
CHANGE IN UNRESTRICTED NET ASSETS	5,708,576	1,526,735
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Donations	1,160,000	996,800
Net assets released from restrictions	(981,066)	(1,277,717)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	178,934	(280,917)
CHANGE IN NET ASSETS	5,887,510	1,245,818
NET ASSETS, BEGINNING OF YEAR	5,025,760	3,779,942
NET ASSETS, END OF YEAR	\$ 10,913,270	\$ 5,025,760

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

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**COMBINED STATEMENT OF FUNCTIONAL EXPENSE**  
**Year ended December 31, 2017**

	<b>Programs and Mission</b>	<b>Management and General</b>	<b>Fundraising and Development</b>	<b>Total</b>
Salaries and wages	\$ 1,427,731	\$ 42,738	\$ 83,069	\$ 1,553,538
Contract labor	1,252,714	9,587	79,019	1,341,320
Charitable contributions	1,086,249	-	97,938	1,184,187
Travel	1,072,172	5,947	119,824	1,197,943
Professional	189,850	84,178	59,940	333,968
Promotion and marketing	143,625	-	86,674	230,299
Occupancy	115,544	31,733	50,064	197,341
Employee benefits	113,119	36,738	24,929	174,786
Office expense	109,786	19,814	37,220	166,820
Merchant service fees	7,714	116,517	3,212	127,443
Depreciation	99,413	-	4,709	104,122
Repairs and maintenance	36,085	30,748	28,495	95,328
Other	66,720	11,285	4,495	82,500
Meals and entertainment	61,681	1,315	7,965	70,961
Training	62,676	-	-	62,676
Postage and shipping	46,658	5,039	7,451	59,148
Intelligence gathering	45,515	-	-	45,515
Loss on disposal of equipment	36,687	-	-	36,687
Bank fees	3,216	13,585	-	16,801
Fundraising/development	-	-	2,225	2,225
<b>TOTAL EXPENSES</b>	<b>\$ 5,977,155</b>	<b>\$ 409,224</b>	<b>\$ 697,229</b>	<b>\$ 7,083,608</b>

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

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**COMBINED STATEMENT OF FUNCTIONAL EXPENSE**  
**Year ended December 31, 2016**

	<u>Programs and Mission</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and wages	\$ 938,165	\$ 137,802	\$ 536,835	\$ 1,612,802
Contract labor	993,631	6,142	130,965	1,130,738
Travel	729,489	3,105	33,152	765,746
Charitable contributions	545,576	-	-	545,576
Professional	207,824	98,539	50,954	357,317
Promotion and marketing	250,701	-	88,935	339,636
Employee benefits	154,592	42,472	55,316	252,380
Office expense	110,217	16,082	22,128	148,427
Occupancy	105,037	234	21,099	126,370
Depreciation	68,417	571	13,540	82,528
Bank fees	5,978	59,397	1,282	66,657
Other	28,468	26,333	1,385	56,186
Meals and entertainment	47,571	1,348	4,032	52,951
Intelligence gathering	47,973	-	302	48,275
Training	30,575	770	70	31,415
Fundraising/development	27,023	-	2,398	29,421
Postage and shipping	11,147	8,705	7,179	27,031
Repairs and maintenance	16,449	1,192	2,155	19,796
Loss on disposal of equipment	-	6,976	-	6,976
TOTAL EXPENSES	<u>\$ 4,318,833</u>	<u>\$ 409,668</u>	<u>\$ 971,727</u>	<u>\$ 5,700,228</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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,887,510	\$ 1,245,818
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	104,122	82,528
Loss on disposal of equipment	36,687	6,976
Net unrealized and realized gains on marketable securities	(126,319)	-
Changes in operating assets and liabilities:		
Contributions receivable	(776,863)	-
Merchandise inventory	(33,129)	(4,373)
Prepaid expenses	(204,297)	(134,000)
Other current assets	(517)	(2,083)
Accounts payable	21,292	22,291
Accrued liabilities	(19,756)	21,787
Net cash flows from operating activities	4,888,730	1,238,944
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(80,175)	(204,068)
Proceeds received on disposal of fixed assets	650	1,800
Sales of investments	108,574	-
Purchases of investments	(4,129,053)	-
Net cash flows from investing activities	(4,100,004)	(202,268)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	788,726	1,036,676
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	4,244,590	3,207,914
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 5,033,316	\$ 4,244,590
<b>SHOWN IN THE STATEMENTS OF FINANCIAL POSITION</b>		
Cash and cash equivalents	\$ 4,788,316	\$ 4,178,524
Restricted cash	245,000	66,066
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 5,033,316	\$ 4,244,590
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
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, 2017 and 2016**

NOTE 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.

On November 13, 2017, the Board of Directors of the Organization 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 Christian victims in the middle east. The financial information of The Nazarene Fund, LLC has been combined in the financial statements of the Organization.

NOTE 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.

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Basis of Presentation*

The Organization's 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. All significant inter-company balances and transactions have been eliminated from the combined 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. Restricted cash represents funds received from donors to be used for specific purposes decided by the donor.

*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, 2017 and 2016, 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 Statement of Activities.

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

NOTE 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. No impairment of long-lived assets occurred during the years ended December 31, 2017 and 2016.

*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.

*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.

*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.

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

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.

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.

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, 2017 and 2016, the Organization had \$2,729,597 and \$1,547,803, respectively, that was not covered under federally insured limits. As of December 31, 2017 and 2016, the Organization had treasury bills included in cash and cash equivalents in the amounts of \$1,798,740 and \$2,699,514 which are not covered by federally insured limits but are backed by the credit of the U.S. Government.

As of December 31, 2017, the Company had 3 individuals/businesses that comprised 42% of contributions receivable.

Advertising

Advertising costs are expensed as incurred. The Organization incurred \$230,299 and \$339,636, respectively, in promotional advertising costs for the years ended December 31, 2017 and 2016.

Reclassifications

Certain reclassifications have been made to the previously issued financial statements to conform with the current year presentation. Net assets, assets and liabilities remained unchanged due to these reclassifications.

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 April 18, 2018, which is the date the financial statements were issued.

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

NOTE 3 - INVESTMENTS

During 2017 the Organization changed their investment strategy to include mutual funds and exchange traded and closed ended funds. As of December 31, 2017 the investments comprised the following:

	<u>Carrying Value</u>	<u>Unrealized Gains (Losses)</u>	<u>Fair Market Value</u>
Exchange traded/closed ended funds	\$ 2,045,951	\$ 134,623	\$ 2,180,574
Mutual funds	1,969,535	(3,311)	1,966,224
Total investments	<u>\$ 4,015,486</u>	<u>\$ 131,312</u>	<u>\$ 4,146,798</u>

As of December 31, 2016, the Organization had no investments as the treasury bills are included in cash and cash equivalents due to their short-term nature. Return on investment securities recorded on the accompanying statements of activities as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Unrealized gains	\$ 131,312	\$ -
Dividend income	54,699	-
Interest income	9,968	1,142
Realized losses	(4,993)	-
Total investment return	<u>\$ 190,986</u>	<u>\$ 1,142</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. 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.

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded/closed ended funds	\$ 2,180,574	\$ -	\$ -
Mutual funds	1,966,224	-	-
Total assets at fair value	<u>\$ 4,146,798</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 - IMPROVEMENTS AND EQUIPMENT

Improvements and equipment for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cost:		
Leasehold improvements	\$ 255,444	\$ 255,444
Tactical equipment	170,899	130,915
Fitness equipment	80,346	77,853
Office equipment	104,823	162,051
Vehicles	155,664	108,330
Software	23,366	23,366
	<u>790,542</u>	<u>757,959</u>
Less: accumulated depreciation	<u>(204,762)</u>	<u>(110,895)</u>
Improvements and equipment, net	<u>\$ 585,780</u>	<u>\$ 647,064</u>

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**NOTE 6 - RELATED PARTY TRANSACTIONS**

During 2017, the Nazarene Fund 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 Nazarene Fund contracted individually with Operation Underground Railroad to solicit and collect tax-exempt funding on its behalf until it was awarded tax-exempt status. As such, Operation Underground Railroad served as a pass-through entity and remitted those funds collected directly to the Nazarene Fund. The Nazarene Fund received a total of \$1,000,000 in such transactions from Operation Underground Railroad during the year ended December 31, 2017.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

The Organization had \$245,000 and \$66,066, respectively, in temporarily restricted net assets as of December 31, 2017 and 2016. Temporarily restricted net assets of \$981,066 and \$1,277,717, respectively, were released from restriction during the years ended December 31, 2017 and 2016. The December 31, 2017 and 2016 restricted balances included the following amounts and restrictions:

	<b>2017</b>	<b>2016</b>
Technology implementation	\$ 220,000	\$ 29,066
Law Enforcement Training - Utah	20,000	-
Law Enforcement Training - California	5,000	-
Sponsorships	-	17,000
Operations specific to Haiti	-	10,000
Utah Anti-trafficking and Victim Support	-	10,000
Total temporary restricted net assets	\$ 245,000	\$ 66,066

**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, 2017 and 2016, the Organization paid \$186,419 and \$122,652, respectively, in rent expense. As of December 31, 2017, future lease obligations based on the continuation of current contracts were as follows:

2018		\$ 200,393
2019		195,062
2020		36,265
Total operating lease obligations		\$ 431,720

**OPERATION UNDERGROUND RAILROAD, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
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**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 \$630,653 and \$401,570, respectively, in contributed services and related expenses during the years ended December 31, 2017 and 2016. Of this amount, \$120,253 and \$185,275, respectively, was applicable to fundraising and development activities, \$12,571 and \$24,000, respectively, was applicable to management and general activities, and \$497,829 and \$192,295, respectively, was applicable to programs and missions. The Organization also received 8,584 and 6,772 hours, respectively, in other volunteer services during the years ended December 31, 2017 and 2016 that did not meet the criteria outlined above and therefore were not recognized as revenue.

**NOTE 10 - ALLOCATION OF JOINT COSTS**

Costs incurred by and on behalf of The Underground Xfit, LLC during the years ended December 31, 2017 and 2016 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 2017 and 2016 were \$233,675 and \$254,806, respectively. Of this amount, as of December 31, 2017 and 2016, approximately 80% was allocated directly to program and missions with the remaining 20% being allocated directly to fundraising and development.

**NOTE 11 - 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. Tax years subject to examination are from 2014 forward.

**NOTE 12 - EMPLOYEE BENEFIT PLAN**

During 2016, the Organization established a Simple IRA plan, which is available to all full-time 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 3% of total wages. During the years ended December 31, 2017 and 2016 the Company made matching contributions of \$19,320 and \$18,151, respectively.