

Right Answers, Right Here.



TANNER

Accountants & Advisors



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

**Combined Financial Statements
As of and for the
Years Ended December 31, 2021 and 2020**

(Together with Independent Auditors' Report)



TANNER

Independent Auditors' Report

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

Opinion

We have audited the accompanying combined financial statements of Operation Underground Railroad, Inc. and affiliates (collectively, the Organization), which comprise the combined statements of financial position as of December 31, 2021 and 2020, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to combined financial statements.

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, 2021 and 2020, 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.

Tanner LLC

April 22, 2022

Combined Statements of Financial Position

As of December 31,

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 26,659,887	\$ 15,289,869
Contributions receivable	1,209,027	361,876
Investments	39,914,760	50,998,603
Merchandise inventory	446,413	217,945
Prepaid expenses and other current assets	1,683,113	425,442
Total current assets	69,913,200	67,293,735
Property and equipment, net	9,233,842	491,210
Intangibles, net	2,057,892	27,028
Other assets	22,387	5,945
Total assets	<u>\$ 81,227,321</u>	<u>\$ 67,817,918</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 1,158,831	\$ 537,900
Accrued liabilities	220,821	152,528
Total current liabilities	1,379,652	690,428
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	79,700,269	66,845,457
Net assets with donor restrictions	147,400	282,033
Total net assets	79,847,669	67,127,490
Total liabilities and net assets	<u>\$ 81,227,321</u>	<u>\$ 67,817,918</u>

Combined Statements of Activities

For the Years Ended December 31,

	<u>2021</u>	<u>2020</u>
Change in net assets without donor restrictions:		
Revenues and other support:		
Donations	\$ 38,980,705	\$ 44,717,596
Contributed goods and services	592,386	806,882
Interest income and dividends	642,356	402,288
Gym memberships	169,259	130,772
Merchandise sales	721,300	842,683
Rental income	160,000	-
Other revenue	25,239	13,004
Unrealized and realized gains on investments	3,092,475	2,986,923
Net assets released from restrictions	402,633	317,494
Total revenues, other support, and reclassifications	44,786,353	50,217,642
Expenses:		
Programs and missions	23,266,648	10,909,143
Management and general	5,041,188	1,385,114
Fundraising and development	3,623,705	1,867,815
Total expenses	31,931,541	14,162,072
Change in net assets without donor restrictions	12,854,812	36,055,570
Change in net assets with donor restrictions:		
Donations	268,000	578,543
Net assets released from restrictions	(402,633)	(317,494)
Change in net assets with donor restrictions	(134,633)	261,049
Change in net assets	12,720,179	36,316,619
Net assets, beginning of year	67,127,490	30,810,871
Net assets, end of year	\$ 79,847,669	\$ 67,127,490

Combined Statements of Functional Expenses

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

Combined Statements of Functional Expenses - Continued

For the Year Ended December 31, 2020

	Programs and Missions	Management and General	Fundraising and Development	Total
Bank fees	\$ 870	\$ 20,884	\$ -	\$ 21,754
Charitable contributions	526,341	-	-	526,341
Contract labor	4,468,116	186,783	382,249	5,037,148
Cost of merchandise sold	387,731	-	174,145	561,876
Depreciation and amortization	146,881	-	-	146,881
Employee benefits	272,215	16,298	41,849	330,362
Impairment loss	365,039	-	-	365,039
Insurance	98,403	7,335	12,858	118,596
Intelligence gathering	60,234	-	-	60,234
Litigation settlement	-	100,000	-	100,000
Meals and entertainment	39,475	1,216	6,121	46,812
Merchant service fees	-	-	454,511	454,511
Occupancy	284,473	80,000	80,520	444,993
Office expense	159,349	35,823	156,083	351,255
Postage and shipping	235,548	6,527	44,834	286,909
Professional	193,047	801,142	11,715	1,005,904
Promotion and marketing	95,173	214	56,805	152,192
Repairs and maintenance	40,685	-	-	40,685
Salaries and wages	1,893,163	79,468	360,737	2,333,368
Supplies and equipment	916,163	21,131	24,579	961,873
Training	53,375	-	1,300	54,675
Travel	637,818	22,802	59,509	720,129
Other	35,044	5,491	-	40,535
Total expenses	\$ 10,909,143	\$ 1,385,114	\$ 1,867,815	\$ 14,162,072

Combined Statements of Cash Flows

For the Years Ended December 31,

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 12,720,179	\$ 36,316,619
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	289,740	146,881
(Gain) loss on disposal of property and equipment	64,886	(4,621)
Noncash contribution of other assets	(15,635)	-
Impairment of intangible asset	-	365,039
Net unrealized and realized gains on investments	(3,092,475)	(2,986,923)
Donated stocks and intangibles	(351,393)	(677,799)
Reinvested interest and dividends	(642,356)	(402,288)
Changes in operating assets and liabilities:		
Contributions receivable	(847,151)	452,564
Prepaid expenses and other assets	(1,258,478)	(127,270)
Merchandise inventory	(228,468)	(124,714)
Accounts payable	620,931	439,273
Accrued liabilities	68,293	144,646
Net cash and cash equivalents provided by operating activities	<u>7,328,073</u>	<u>33,541,407</u>
Cash flows from investing activities:		
Purchases of property and equipment	(9,070,230)	(124,228)
Proceeds from sale of property and equipment	-	14,000
Purchase of intangibles	(2,057,892)	-
Net change in investments	<u>15,170,067</u>	<u>(21,164,386)</u>
Net cash and cash equivalents provided by (used in) investing activities	<u>4,041,945</u>	<u>(21,274,614)</u>
Net change in cash and cash equivalents	11,370,018	12,266,793
Cash and cash equivalents at beginning of year	<u>15,289,869</u>	<u>3,023,076</u>
Cash and cash equivalents at end of year	<u>\$ 26,659,887</u>	<u>\$ 15,289,869</u>

Notes to Combined Financial Statements

1. Organization and Nature of Activities

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

Operation Underground Railroad, Inc. was formed for the purposes of rescuing 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 The Underground Xfit, LLC, a Utah limited liability company, O.U.R. Aftercare Group, LLC, a Utah limited liability company, O.U.R. Therapeutic Services, LLC, a Utah limited liability company, and O.U.R. Store, 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. The O.U.R. Aftercare Group, LLC and O.U.R. Therapeutic Services, LLC were formed during 2021 for the sole purpose of providing services to the rescued victims and had no activity during the year ended December 31, 2021. The O.U.R. Store, LLC was formed during 2021 for the sole purpose of selling Organization merchandise and had no activity during the year ended December 31, 2021.

On November 13, 2017, the Board of Directors of Operation Underground Railroad, Inc. established The Nazarene Fund, LLC, a California limited liability company. The Nazarene Fund, LLC was formed for the sole purpose of rescuing persecuted victims in the middle east. In November 2020, control and management of the Nazarene Fund, LLC was transferred to another organization.

The combined financial statements present the accounts and activities of Operation Underground Railroad, Inc., and its subsidiaries, Deacon, Inc., The Underground Xfit, LLC, O.U.R. Aftercare Group, LLC, O.U.R. Therapeutic Services, LLC, O.U.R. Store, LLC, and combined with The Nazarene Fund, LLC (collectively, the Organization). All significant inter-company balances and transactions have been eliminated from the combined financial statements.

2. Summary of Significant Accounting Policies

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

Use of Estimates

The preparation of combined 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, 2021 and 2020 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 combined 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 money market accounts.

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, 2021 and 2020, 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 fundraising 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 defined by the Organization as assets with an individual cost of more than \$1,500. Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at their estimated fair values at the date of donation. Maintenance, repairs and renewals that neither materially add to the value of the property and equipment nor appreciably prolong their useful lives are charged to expense as incurred. Major renewals and betterments are capitalized. Gains and losses on dispositions of property and equipment are shown as other revenue on the combined statement of activities in the year of disposition.

Depreciation and amortization of property and equipment are calculated on the straight-line method over the following estimated useful lives, or lease terms, if shorter:

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

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.

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.

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, 2021 or 2020.

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 combined 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. During the years ended December 31, 2021 and 2020, the Organization recognized \$592,386 and \$806,882, respectively, in contributed services and related expenses. Of this amount, \$34,000 and \$102,409, respectively, were applicable to fundraising and development activities, \$103,300 and \$26,674, respectively, were applicable to management and general activities, and \$455,086 and \$677,799, respectively, were applicable to programs and missions. The Organization does not recognize in the combined financial statements any services contributed that did not meet the criteria outlined above.

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. As of December 31, 2021 and 2020, the Organization had \$8,006,776 and \$11,976,122, respectively, in excess of federally insured limits.

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. The methodology management uses to allocate indirect expenses are square footage, units, time and efforts.

Advertising

Advertising costs are expensed as incurred. The Organization incurred \$421,611 and \$152,192, respectively, in advertising costs for the years ended December 31, 2021 and 2020.

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 and The Nazarene Fund, LLC are disregarded entities for income tax purposes and their 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 April 22, 2022, which is the date the combined 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 combined statement of financial position, comprised the following as of December 31:

	2021	2020
Cash and cash equivalents	\$ 26,659,887	\$ 15,289,869
Investments	39,914,760	50,998,603
Contributions receivable	1,209,027	361,876
Other current assets	126,643	196,735
	<u>67,910,317</u>	<u>66,847,083</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(147,400)	(282,033)
	<u>\$ 67,762,917</u>	<u>\$ 66,565,050</u>

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:

	2021	2020
Mutual funds	\$ 15,025,111	\$ 29,897,715
Exchange traded funds	24,889,649	21,100,888
	<u>\$ 39,914,760</u>	<u>\$ 50,998,603</u>

Components of investment income for the years ended December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Net unrealized gains	\$ 2,649,328	\$ 2,731,460
Dividend income	639,614	401,996
Net realized gains	443,147	255,463
Interest income	2,742	292
	\$ 3,734,831	\$ 3,389,211

Investment expenses for the years ended December 31, 2021 and 2020 totaled \$206,170 and \$126,475, respectively, and were netted against related interest income and dividends on the accompanying combined statements of activities.

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.

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:

	2021	2020
Buildings	\$ 3,757,000	\$ -
Land	2,910,200	-
Furniture, fixtures, and equipment	1,837,370	432,838
Leasehold improvements	974,698	260,652
Vehicles	244,946	212,031
Software	182,714	23,366
	9,906,928	928,887
Less: accumulated depreciation and amortization	(673,086)	(437,677)
	\$ 9,233,842	\$ 491,210

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 totaled \$262,712 and \$109,853, 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, 2021 and 2020, amortization expense of \$27,028 and \$37,028, respectively, was recognized. During the year ended December 31, 2020, management identified and recorded an impairment on this copyright totaling \$365,039. 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. 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 2022.

8. 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:

	2021	2020
Aftercare	\$ 147,400	\$ 5,252
International crimes against children	-	194,781
K-9 units	-	82,000
	\$ 147,400	\$ 282,033

9. Commitments and Contingencies

Legal Matters

The Organization is involved in various legal actions occurring in the normal course of activities. Management, after consultation with legal counsel, believes that the outcome of these proceedings will not have a material impact on the Organization's financial position, results of operations, or liquidity.

Operating Leases

The Organization has entered in two lease agreements for office space in Utah and additional lease agreements for aftercare centers in Utah and Thailand. The lease agreements expire at various times through 2025. For the years ended December 31, 2021 and 2020, total rent expenses on such operating leases were approximately \$192,000 and \$325,000, respectively. As of December 31, 2021, future minimum lease payments are as follows:

<u>Years ending December 31,</u>	
2022	\$ 180,014
2023	108,328
2024	82,924
2025	<u>6,922</u>
	<u>\$ 378,188</u>

The Organization leases a portion of its headquarters to a third-party. The lease was initiated in May 2021 and expires August 2022. Rent is \$20,000 per month. Actual rental income for the year ended December 31, 2021 was \$160,000. Future minimum lease income is \$140,000 for the year ending December 31, 2022.

10. Related Party Transactions

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

11. Employee Benefit Plan

The Organization has established a Simple 401(k) plan, which is available to all employees. The plan allows employees to defer up to the federal maximum limit of their income on a pre-tax basis through contributions to the plan. The Organization matches 100% of an employee's contributions up to 6% of total wages. During the years ended December 31, 2021 and 2020, the Organization made matching contributions of \$223,806 and \$77,671, respectively.

12. Subsequent Events

In March 2022, the Organization formed the following wholly-owned subsidiaries: O.U.R. Thailand, LLC; OLH, LLC; and O.U.R. Florida, LLC. Each of these subsidiaries were formed for the primary purpose of international expansion in accordance with the Organization's mission.

On April 5, 2022, the Organization purchased land in Costa Rica at a price of \$2,200,000 for the purpose of building a vocational training and rehab center for survivors.