

**EXODUS CRY, INC.
AND
SUBSIDIARY**

**INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2021

EXODUS CRY, INC. AND SUBSIDIARY

DECEMBER 31, 2021

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EMERICK & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS, AUDITING & TAX PROFESSIONALS
David Emerick • James Flanagan • Rick Hann • Kristy Helt

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Exodus Cry, Inc. and Subsidiary
San Clemente, California**

Opinion

We have audited the accompanying consolidated financial statements of Exodus Cry, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Exodus Cry, Inc. and Subsidiary as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Exodus Cry, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Exodus Cry, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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, including omissions, 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 Exodus Cry, Inc. and Subsidiary'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 Exodus Cry, Inc. and Subsidiary'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.

Emerick & Company, P.C.

Emerick & Company, P.C.
Kansas City, Missouri
July 25, 2022

EXODUS CRY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 758,262
Accounts receivable	25,334
Prepaid expenses	14,339
Deposits	3,413
Inventory	13,025
Total Current Assets	<u>814,373</u>

PROPERTY AND EQUIPMENT, at cost

Equipment and furniture	506,964
Vehicles	129,566
Accumulated depreciation	<u>(251,266)</u>
Net Property and Equipment	<u>385,264</u>

OTHER ASSETS

Intangible asset-documentary films	1,796,354
Accumulated amortization	<u>(1,796,354)</u>
	-
Work in progress-documentary films	<u>1,974,262</u>
Total Other Assets	<u>1,974,262</u>

TOTAL ASSETS

\$ 3,173,899

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 50,599
Accrued expenses	37,474
Current portion of loans payable	28,671
Total Current Liabilities	<u>116,744</u>

NONCURRENT LIABILITIES

Noncurrent portion of loans payable	<u>75,265</u>
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TOTAL LIABILITIES

192,009

NET ASSETS

Without donor restrictions	<u>2,981,890</u>
Total Net Assets	<u>2,981,890</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 3,173,899

See Notes to Consolidated Financial Statements

EXODUS CRY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,447,993	\$ 13,357	\$ 2,461,350
Event income	765	-	765
Sales, net	967	-	967
Licenses	2,792	-	2,792
Royalties	1,118	-	1,118
Rental income	6,801	-	6,801
Interest	1,580	-	1,580
Gain on forgiveness of Paycheck Protection Program debt	117,300	-	117,300
Net assets released from restrictions	13,357	(13,357)	-
Total Support and Revenue	2,592,673	-	2,592,673
EXPENSES			
Program services	1,550,089	-	1,550,089
Supporting services			
Management and general	209,790	-	209,790
Fundraising	240,496	-	240,496
Total Expenses	2,000,375	-	2,000,375
OTHER INCOME/EXPENSE			
Other income	(997)	-	(997)
Loss on disposal of assets	(4,235)	-	(4,235)
Total Other Income/Expense	(5,232)	-	(5,232)
CHANGE IN NET ASSETS	587,066	-	587,066
NET ASSETS, Beginning of year	2,394,824	-	2,394,824
NET ASSETS, End of year	\$ 2,981,890	\$ -	\$ 2,981,890

See Notes to Consolidated Financial Statements

EXODUS CRY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total Expenses</u>	
	<u>Messaging</u>	<u>Abolition</u>	<u>Intervention</u>	<u>Film</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>		<u>Total</u>
Contributions	\$ -	\$ 7,900	\$ 10,966	\$ 60	\$ 18,926	\$ -	\$ -	\$ -	\$ 18,926
Transaction fees	150	3,547	-	202	3,899	1,817	74,193	76,010	79,909
Contract fees	37,354	12,255	439	6,103	56,151	17,729	13,359	31,088	87,239
Non-capitalized equipment	1,543	219	455	18,198	20,415	-	2,402	2,402	22,817
Equipment rental and maintenance	1,620	-	528	4,543	6,691	591	788	1,379	8,070
Occupancy	12,028	-	2,687	12,463	27,178	5,849	7,884	13,733	40,911
Insurance	14,666	815	3,400	8,228	27,109	18,398	5,932	24,330	51,439
Professional fees and contract labor	86,405	85,823	11,291	29,662	213,181	38,760	37,151	75,911	289,092
Travel	3,712	4,102	4,148	7,237	19,199	2,751	8,169	10,920	30,119
Office	4,007	834	1,919	6,469	13,229	4,460	13,563	18,023	31,252
Advertising and marketing	946	26,992	-	585	28,523	-	1,038	1,038	29,561
Personnel expenses	267,370	89,223	123,634	77,524	557,751	32,001	76,017	108,018	665,769
Depreciation and amortization	-	-	-	557,837	557,837	87,434	-	87,434	645,271
	<u>\$ 429,801</u>	<u>\$ 231,710</u>	<u>\$ 159,467</u>	<u>\$ 729,111</u>	<u>\$ 1,550,089</u>	<u>\$ 209,790</u>	<u>\$ 240,496</u>	<u>\$ 450,286</u>	<u>\$ 2,000,375</u>

See Notes to Consolidated Financial Statements

**EXODUS CRY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 587,066
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	645,271
Gain on forgiveness of Paycheck Protection Program debt	(117,300)
Loss on disposal of assets	4,235
Changes in:	
Accounts receivable	(25,334)
Prepaid expenses	(2,689)
Deposits	(1,262)
Inventory	3,084
Accounts payable	(3,908)
Accrued expenses	2,434
	<u>1,091,597</u>
Net cash provided by operating activities	<u>1,091,597</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net purchases and disposals of property and equipment	(182,394)
Costs capitalized for documentary films production	(830,634)
	<u>(1,013,028)</u>
Net cash used by investing activities	<u>(1,013,028)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on loans payable	(36,851)
	<u>(36,851)</u>
Net cash used by financing activities	<u>(36,851)</u>

INCREASE IN CASH AND CASH EQUIVALENTS 41,718

CASH AND CASH EQUIVALENTS, Beginning of year 716,544

CASH AND CASH EQUIVALENTS, End of year \$ 758,262

Noncash Transactions

Forgiveness of Paycheck Protection Program debt	\$ 117,300
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See Notes to Consolidated Financial Statements

EXODUS CRY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Exodus Cry, Inc. (the Organization) is committed to abolishing sex trafficking and breaking the cycle of commercial sexual exploitation, while assisting and empowering its victims.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, Magic Lantern Pictures, LLC (MLP). All significant intercompany accounts and transactions have been eliminated upon consolidation. The subsidiary is a single member limited liability company (SMLLC), with the Organization being the sole member. Per Internal Revenue Service (IRS) Announcement 99-102, a SMLLC is disregarded as an entity separate from its owner and takes on the tax-exempt status of its owner. For tax purposes, MLP is treated as a division of the Organization. Furthermore, MLP engages in no activity unrelated to the Organization's tax-exempt purposes.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). Revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to any donor-imposed restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are classified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities.

Revenue and Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The Organization recognizes revenue derived from sales as the goods are delivered to the buyer.

The Organization recognizes revenue from licenses for films based on consideration specified in a contract with a customer and recognizes revenue when it satisfies the performance obligations by transferring control of the film to a customer.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

EXODUS CRY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

The Organization considers all accounts receivable shown in these consolidated financial statements to be collectible; therefore, no allowance for doubtful accounts has been provided.

Inventory

DVDs, CDs, clothing and other merchandise are valued at the lower of cost or net realizable value.

Intangible Asset – Documentary Films

The intangible asset-documentary films is carried at cost. Amortization is computed based on a ratio of revenue earned in the year to total ultimate (expected) revenue to be earned. When the asset is retired or otherwise disposed of, the cost and related accumulated amortization are removed from the accounts, and any resulting gain or loss is recognized.

Property and Equipment

The Organization capitalizes equipment over \$1,000 at cost. Lesser amounts are expensed. Property and equipment is being depreciated over estimated useful lives of 3 to 5 years using the straight-line method.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of activities. Costs that can be directly attributed to a specific program or supporting service are charged to that program or supporting function. Expenses that relate to more than one program or supporting service are allocated among programs and supporting services benefited, including personnel, occupancy, insurance, travel, office, transaction fees, professional fees and contract labor, and equipment costs. Such allocations are determined by management using an overhead cost allocation matrix which allocates costs based on estimates of time and efforts.

Subsequent Events

Management has evaluated subsequent events through July 25, 2022, the date on which the consolidated financial statements were available to be issued. See Note 10 for Uncertainties.

NOTE 2: INCOME TAXES

The Organization has received an exemption from the IRS from federal income taxes under Section 501(a), as an entity described in Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization's tax returns are subject to possible examination by tax authorities. The tax returns remain open for examination for a period of three years after the filing deadlines.

EXODUS CRY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 3: LEASES

The Organization entered into an operating lease for office space beginning September 1, 2019 through February 2021 with the option to renew one time for one year. This option was not taken as the Organization moved from Sacramento, California, to Orange County, California in 2021.

The Organization entered into an operating lease for office space beginning August 2021 through August 2022 with no option to renew.

Additionally, the Organization entered into a lease for office space beginning November 2020 through November 2021. There was no option to renew, however, the lessor has provided the Organization the opportunity to rent on a month to month basis.

The Organization leases storage space on a month to month basis.

Future minimum lease payments for the year ending December 31, 2022 are \$16,367.

Rent expense for the year ended December 31, 2021 was \$25,259.

NOTE 4: LOANS PAYABLE

During the year ended December 31, 2020, the Organization received financing in the form of a loan payable due to a financial institution. The note bears interest at a fixed rate of 7.85% with monthly payments of \$3,070 including principal and interest with a maturity of October 2025. The note is secured by property. The outstanding balance at December 31, 2021 is \$103,936.

Future maturities are:

2022	\$ 28,671
2023	31,004
2024	33,527
2025	<u>10,734</u>
	<u>\$ 103,936</u>

NOTE 5: NET ASSETS WITH DONOR RESTRICTIONS

For the year ended December 31, 2021, net assets were released from donor restrictions by satisfying the restricted purposes as follows:

	<u>2021</u>
Abolition	\$ 892
Intervention	11,165
Media/film	<u>1,300</u>
	<u>\$ 13,357</u>

NOTE 6: CONCENTRATION OF CREDIT RISK

At various times during the year, the Organization's cash deposits may exceed federally insured limits. The Organization has not experienced any losses due to these credit risks.

EXODUS CRY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 7: AVAILABILITY AND LIQUIDITY

The Organization strives to maintain liquid financial assets sufficient to cover operating expenditures. The following table reflects the Organization's financial assets as of December 31, 2021, reduced by amounts that are not available to meet general expenditures because of donor restrictions.

Financial assets at year end:	
Cash and cash equivalents	\$ 758,262
Accounts receivable	<u>25,334</u>
Total financial assets	783,596
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 783,596</u>

NOTE 8: RETIREMENT PLAN

The Organization sponsors a defined contribution plan under IRC Section 403(b). The plan covers all full-time employees who meet the eligibility requirements. The Organization's contribution to the plan was \$33,522 for the year ended December 31, 2021.

NOTE 9: GAIN ON FORGIVENESS OF PAYCHECK PROTECTION PROGRAM DEBT

In April 2020, the Organization qualified for a loan program under the Coronavirus Aid, Relief and Economic Security (CARES) Act and entered into a debt agreement for \$117,300. The proceeds were utilized to fund payroll and other operating expenses. The Organization received notification in March 2021 that the loan balance was forgiven in full, and it was recognized as revenue in the consolidated statement of activities for the year ended December 31, 2021.

NOTE 10: UNCERTAINTIES

COVID-19

In March 2020, the World Health Organization declared coronavirus (COVID-19) a global pandemic. The COVID-19 outbreak in the United States and the related work restrictions has impacted the Organization and its operations. The extent to which these events will affect the future financial position and the related changes in net assets and cash flows is unknown.

Threatened Claim

In 2021, the Organization received a Cease and Desist Letter in which a former board member demanded that the Organization cease and desist from developing, producing, exhibiting, or otherwise exploiting a production using the former board member's story in any fictionalized account, re-enactment, or has the former board member's story as a substantial story-line.

In February 2022, the Organization hired an attorney to provide legal services regarding the matter. In May 2022, the attorney provided the former board member's attorney with a response to the Cease and Desist Letter. There has been no further communication with the former board member or their attorney.

The amount of liability, if any, cannot be reasonably estimated. The Organization is of the opinion the disposition or ultimate resolution of such claims will not have a material adverse impact on the Organization's financial position.