

**EXODUS CRY, INC.  
AND  
SUBSIDIARY**

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

**DECEMBER 31, 2019**

**EXODUS CRY, INC. AND SUBSIDIARY**

**DECEMBER 31, 2019**

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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.  
Sacramento, California**

We have audited the accompanying consolidated financial statements of Exodus Cry, Inc. (a nonprofit organization) and subsidiary, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

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, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Period Adjustments**

As described in Note 2 to the consolidated financial statements, net assets as of January 1, 2019 have been adjusted to correct certain prior period errors discovered by management during the current year. Our opinion is not modified with respect to that matter.

*Emerich + Company, P.C.*

October 27, 2020  
Kansas City, Missouri

**EXODUS CRY, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 992,304
Accounts receivable	31,376
Prepaid expenses	5,674
Deposits	1,852
Inventory	8,613
<b>Total Current Assets</b>	<b>1,039,819</b>

**PROPERTY AND EQUIPMENT, at cost**

Equipment and furniture	162,541
Leasehold improvements	4,479
Accumulated depreciation	(141,184)
<b>Net Property and Equipment</b>	<b>25,836</b>

**OTHER ASSETS**

Intangible asset-documentary films	1,238,517
Accumulated amortization	(1,238,517)
	-
Work in progress-documentary films	1,060,768
<b>Total Other Assets</b>	<b>1,060,768</b>

**TOTAL ASSETS**

**\$ 2,126,423**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 12,916
Accrued expenses	20,136
<b>Total Current Liabilities</b>	<b>33,052</b>

**NET ASSETS**

Without donor restrictions	2,093,371
<b>Total Net Assets</b>	<b>2,093,371</b>

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 2,126,423**

See Notes to Consolidated Financial Statements

**EXODUS CRY, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Net Assets without Donor Restrictions</b>	<b>Net Assets with Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 716,674	\$ 52,254	\$ 768,928
Event income	1,755	-	1,755
Sales, net	775	-	775
Licenses	8,710	-	8,710
Royalties	1,366	-	1,366
Rental income	500	-	500
Interest	1,309	-	1,309
Other income	4,189	-	4,189
Net assets released from restrictions	52,254	(52,254)	-
<b>Total Support and Revenue</b>	<b>787,532</b>	<b>-</b>	<b>787,532</b>
<b>EXPENSES</b>			
Program services	740,137	-	740,137
Supporting services			
Management and general	80,580	-	80,580
Fundraising	41,624	-	41,624
<b>Total Expenses</b>	<b>862,341</b>	<b>-</b>	<b>862,341</b>
Gain on disposal of assets	18,229	-	18,229
<b>CHANGE IN NET ASSETS</b>	<b>(56,580)</b>	<b>-</b>	<b>(56,580)</b>
<b>NET ASSETS, Beginning of year</b>	<b>2,301,933</b>	<b>-</b>	<b>2,301,933</b>
<b>Prior Period Adjustment (Note 2)</b>	<b>(151,982)</b>	<b>-</b>	<b>(151,982)</b>
<b>NET ASSETS, Beginning of year, restated</b>	<b>2,149,951</b>	<b>-</b>	<b>2,149,951</b>
<b>NET ASSETS, End of year</b>	<b>\$ 2,093,371</b>	<b>\$ -</b>	<b>\$ 2,093,371</b>

See Notes to Consolidated Financial Statements

**EXODUS CRY, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<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	\$ 449	\$ 8,198	\$ 3,474	\$ 936	\$ 13,057	\$ -	\$ -	\$ -	\$ 13,057
Transaction fees	2,138	2,773	1,182	3,759	9,852	735	3,207	3,942	13,794
Contract fees	9,134	9,605	2,791	13,165	34,695	6,977	3,910	10,887	45,582
Non-capitalized equipment	2,398	2,486	2,185	7,997	15,066	1,638	650	2,288	17,354
Equipment rental and maintenance	765	173	132	459	1,529	53	51	104	1,633
Occupancy	6,218	4,828	3,215	10,861	25,122	2,228	1,321	3,549	28,671
Insurance	5,334	3,341	2,889	11,210	22,774	1,873	1,051	2,924	25,698
Professional fees and contract labor	26,558	24,431	9,739	34,182	94,910	10,283	4,165	14,448	109,358
Travel	6,719	47,504	17,375	9,996	81,594	3,365	1,869	5,234	86,828
Office	3,172	7,866	3,328	7,309	21,675	2,307	997	3,304	24,979
Advertising and marketing	5,100	134	91	3,874	9,199	-	33	33	9,232
Personnel fees	153,016	79,417	69,239	98,476	400,148	47,365	23,619	70,984	471,132
Depreciation and amortization	1,502	3,756	751	4,507	10,516	3,756	751	4,507	15,023
	<u>\$ 222,503</u>	<u>\$ 194,512</u>	<u>\$ 116,391</u>	<u>\$ 206,731</u>	<u>\$ 740,137</u>	<u>\$ 80,580</u>	<u>\$ 41,624</u>	<u>\$ 122,204</u>	<u>\$ 862,341</u>

See Notes to Consolidated Financial Statements

**EXODUS CRY, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ (56,580)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	15,023
Gain on disposal of assets	(18,229)
Changes in:	
Accounts receivable	248,624
Prepaid expenses	(3,016)
Deposits	(1,552)
Inventory	6,393
Accounts payable	(4,706)
Accrued expenses	9,036
	<u>194,993</u>
<b>Net cash provided by operating activities</b>	<b><u>194,993</u></b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Net purchases and disposals of property and equipment	483,672
Costs capitalized for documentary films production	(301,532)
	<u>182,140</u>
<b>Net cash provided by investing activities</b>	<b><u>182,140</u></b>

**INCREASE IN CASH AND CASH EQUIVALENTS** 377,133

**CASH AND CASH EQUIVALENTS, Beginning of year** 615,171

**CASH AND CASH EQUIVALENTS, End of year** \$ 992,304

See Notes to Consolidated Financial Statements



**EXODUS CRY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Exodus Cry, Inc. (the Organization) is built on a foundation of prayer and is committed to abolishing sex slavery through Christ-centered prevention, intervention, and holistic restoration of trafficking 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 branch or 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.

**Change in Accounting Principle**

FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. We have implemented Topic 606; however, the adoption of this standard did not have a material effect on the presentation in these consolidated financial statements.

The Organization has also adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605) as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. The implementation did not have a material effect on the presentation in these consolidated financial statements.

**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.

**EXODUS CRY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue and Revenue Recognition (Continued)**

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.

**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. 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 October 27, 2020, the date on which the consolidated financial statements were available to be issued. See Note 9 for Uncertainties.

**EXODUS CRY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE 2: PRIOR PERIOD ADJUSTMENT**

The Organization did not properly record licenses revenue and amortization related to documentary films in the prior year. For the year ended December 31, 2018, it was determined that film licenses revenue related to one film was understated as only the cash receipts were recorded as revenue. Therefore, amortization expense was understated as well. The effect of the correction was to decrease the beginning net asset balance for 2019 by \$151,982.

The effect of the restatement on the change in net assets as of and for the year ended December 31, 2018 is as follows:

	<u>As previously reported</u>	<u>Restated</u>
Licenses revenue	\$ 540,522	\$ 820,522
Accounts receivable	-	280,000
Accumulated amortization	806,535	1,238,517
Amortization expense	215,991	647,973
Net assets	2,301,933	2,149,951

**NOTE 3: 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.

**NOTE 4: 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.

Future minimum lease payments are as follows:

<u>Years ending December 31,</u>	
2020	\$ 22,430
2021	<u>3,809</u>
Total minimum lease payments	\$ <u>26,239</u>

Rent expense for the year ended December 31, 2019 was \$11,164.

**NOTE 5: NET ASSETS WITH DONOR RESTRICTIONS**

For 2019, net assets were released from donor restrictions by satisfying the restricted purposes as follows:

Abolition	<u>2019</u> \$ 1,144
Intervention	36,114
Media/Film	<u>14,996</u>
	\$ <u>52,254</u>

**EXODUS CRY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**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.

**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, 2019, reduced by amounts that are not available to meet general expenditures because of donor restrictions.

Financial assets at year end:	
Cash and cash equivalents	\$ 992,304
Accounts receivable	<u>31,376</u>
Total financial assets	1,023,680
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>\$ 1,023,680</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 \$15,920 for the year ended December 31, 2019.

**NOTE 9: 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.

PPP Loan

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 will be utilized to fund payroll and other operating expenses. The loan bears interest at 1% and requires monthly payments of \$6,568 beginning November 27, 2020. The balance of the loan is due April 27, 2022. Portions or all the loan may be forgiven, provided certain requirements of the U.S. Small Business Administration Paycheck Protection Program, including provisions of the CARES Act, are met. Future minimum principle payments as of the date of report issuance are:

For the Years Ending December 31,	
2020	\$ 12,947
2021	78,134
2022	<u>26,219</u>
	<u>\$ 117,300</u>