SCHALL & ASHENFARB Certified Public Accountants, LLC

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DEFY VENTURES

Audited Financial Statements

December 31, 2020

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Independent Auditor's Report

To the Board of Directors of
Defy Ventures, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Defy Ventures, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2020, and the related 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2020, 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 23, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

March 15, 2021

DEFY VENTURES, INC.
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2020
(With comparative totals at December 31, 2019)

	12/31/20	12/31/19
Assets		
Current assets:		
Cash and cash equivalents	$1,415,975	$583,542
Pledges receivable (Note 3)	189,980	175,240
Prepaid expenses and security deposits	22,061	30,222
Total current assets	1,628,016	789,004
Non-current assets:		
Pledges receivable, net (Note 3)	144,815	265,160
Total assets	$1,772,831	$1,054,164
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$104,206	$141,394
Deferred rent	10,128	13,556
Loans payable (Note 4)	95,968	91,274
Total current liabilities	210,302	246,224
Long-term liabilities:		
Accounts payable and accrued expenses (Note 6)	62,010	69,610
Loans payable (Note 4)	439,122	498,536
Total long-term liabilities	501,132	568,146
Total liabilities	711,434	814,370
Net Assets:		
Without donor restrictions	113,997	(683,845)
With donor restrictions (Note 7)	947,400	923,639
Total net assets	1,061,397	239,794
Total liabilities and net assets	$1,772,831	$1,054,164

The attached notes and auditor's report are an integral part of these financial statements.

DEFY VENTURES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020
(With comparative totals for the year ended December 31, 2019)

	Without Donor Restrictions	With Donor Restrictions (Note 7)	Total 12/31/20	Total 12/31/19
Public support and revenue:				
Foundation contributions	$876,215	$430,600	$1,306,815	$976,011
Corporate contributions	340,388	150,000	490,388	193,768
Individual contributions	380,999		380,999	918,342
Government grants	76,187	110,582	186,769	241,332
Gain on forgiveness of debt (Note 4)	50,000		50,000	100,000
Paycheck Protection Program loan (Note 5)	227,171		227,171	0
Other revenue	37,955		37,955	78,754
Net assets released from restrictions	667,421	(667,421)	0	0
Total public support and revenue	2,656,336	23,761	2,680,097	2,508,207
Expenses:				
Program services	1,393,318		1,393,318	1,603,421
Supporting services:				
Management and general	297,560		297,560	339,577
Fundraising	167,616		167,616	203,823
Total supporting services	465,176	0	465,176	543,400
Total expenses	1,858,494	0	1,858,494	2,146,821
Change in net assets	797,842	23,761	821,603	361,386
Net assets - beginning of year	(683,845)	923,639	239,794	(121,592)
Net assets - end of year	$113,997	$947,400	$1,061,397	$239,794

The attached notes and auditor's report are an integral part of these financial statements.

DEFY VENTURES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
'(With comparative totals for the year ended December 31, 2019)

		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 12/31/20	Total Expenses 12/31/19
Salaries	$919,494	$190,476	$109,899	$300,375	$1,219,869	$1,290,721
Payroll taxes and benefits	162,392	36,498	17,765	54,263	216,655	238,693
Consultant and professional fees	41,740	22,891	180	23,071	64,811	103,833
Postage and shipping	3,058	299	831	1,130	4,188	2,448
Printing expense	4,004	140	11	151	4,155	4,742
Rent expense	58,946			0	58,946	59,429
Stipends and grants	36,504			0	36,504	24,356
Participant training	45,708			0	45,708	66,292
Software subscriptions	26,120	10,799	9,309	20,108	46,228	49,258
Travel and meetings	18,931	1,832	11,266	13,098	32,029	61,489
Telephone expense	2,530	350	250	600	3,130	1,917
Insurance	22,666	20,381		20,381	43,047	44,004
Bank and payroll fees	979	608	14,948	15,556	16,535	24,316
Events	19,550	18	2,709	2,727	22,277	79,710
Office expenses	23,636	1,681	10	1,691	25,327	31,341
Constituent development	5,909		438	438	6,347	46,826
Interest expense		11,112		11,112	11,112	13,168
Staff recruitment				0	0	195
Training center				0	0	923
Bad debts		240		240	240	116
Other expenses	1,151	235		235	1,386	3,044
Total expenses	$1,393,318	$297,560	$167,616	$465,176	$1,858,494	$2,146,821

The attached notes and auditor's report are an integral part of these financial statements.

DEFY VENTURES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
'(With comparative totals for the year ended December 31, 2019)

	12/31/20	12/31/19
Cash flows from operating activities:		
Change in net assets	$821,603	$361,386
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on forgiveness of debt	(50,000)	(100,000)
Changes in assets and liabilities:		
Pledges receivable	105,605	(164,177)
Prepaid expenses and security deposits	8,161	(5,554)
Accounts payable and accrued expenses	(44,788)	(32,593)
Deferred rent	(3,428)	2,005
Total adjustments	15,550	(300,319)
Net cash provided by operating activities	837,153	61,067
Cash flows from financing activities:		
Repayment of loans payable	(4,720)	(10,190)
Net cash used for financing activities	(4,720)	(10,190)
Net increase in cash and cash equivalents	832,433	50,877
Cash and cash equivalents - beginning of year	583,542	532,665
Cash and cash equivalents - end of year	$1,415,975	$583,542

Supplemental disclosures:		
Interest paid	$11,112	$13,168
Taxes paid	$0	$0

The attached notes and auditor's report are an integral part of these financial statements.

DEFY VENTURES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 1 - Nature of Activities

Defy Ventures, Inc. (the "Organization") is a not-for-profit entrepreneurship, leadership, employment, and character development training program for currently and formerly incarcerated men, women, and youth.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting
The accompanying financial statements have been prepared using the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

b. Basis of Presentation
The Organization classifies information regarding their financial position and activities according to separate classes of net assets based on the existence or absence of donor restrictions as follows:

- *Net Assets Without Donor Restrictions* – represents all activity without donor-imposed restrictions.

- *Net Assets With Donor Restrictions* – relates to contributions of cash and other assets with donor stipulations that make clear the assets' restriction, either due to a program nature or by the passage of time.

c. Revenue Recognition
The Organization follows the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "Topic 606").

The Organization has the following types of revenue that fall under Topic 606: book sales and license fees that have been included with other revenue in the statement of activities. Each different source of revenue is analyzed to determine that it has a contract with the customer that identifies both the performance obligation and the transaction price. Revenue is recognized when the performance obligation is complete.

The Organization follows ASU 2018-08 ("Topic 605") for recording contributions. Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statement of activities. However, when a restriction is met in the period the contribution is received, it is recorded as net assets without donor restrictions.

The Organization records promises to give as revenue in the period they become unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Long-term pledges are recorded at fair value using a risk adjusted discounted rate. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions may be subject to conditions which are defined under Topic 605 as both a barrier to entitlement and a right of return of payments or release from obligations and are recognized as income once the conditions have been substantially met.

The Organization's government and private grants are primarily conditional, non-exchange transactions and fall under Topic 605. Revenue from these transactions is recognized when qualifying expenditures are incurred, performance related outcomes are achieved, and other conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenue.

Receivables outstanding at year end are reviewed for collectability considering factors such as historical trends and subsequent collections. Based on this review, no allowance for doubtful accounts has been recorded.

d. Cash and Cash Equivalents
Checking accounts with local banks and highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash and cash equivalents.

e. Concentration of Credit Risk
Financial instruments, which potentially subject the Organization to concentration of credit risk, consist of cash and money market accounts that have been placed with financial institutions that management deems to be creditworthy. At times during the year and at year end, cash balances exceeded federally insured limits; however, the Organization has not experienced any losses due to the failure of any of these financial institutions.

f. In-Kind Services
Donated facilities and services are recognized if they create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided in-kind.

Board members and other individuals volunteer their time and perform a variety of tasks that assist the Organization. These services do not meet the above criteria and have not been recorded in the financial statements.

g. Expense Allocation
The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Salaries, payroll taxes and benefits were allocated using time and effort as the basis.

All other expenses have been charged directly to the applicable program or supporting services.

h. Management Estimates
The presentation of financial statements in accordance with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

i. Accounting for Uncertainty of Income Taxes/Tax Status

The Organization does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending December 31, 2017 and later are subject to examination by applicable taxing authorities.

The Organization has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation as defined in Section 509(a).

j. Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Defy Venture's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

k. New Accounting Pronouncements

FASB sued ASU No. 2020-07, Presentation and Disclosures by *Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the December 31, 2022 year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures.

FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the December 31, 2022 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

The Organization is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Pledges Receivable

Pledges receivable are due as follows:

Year Ending:	December 31, 2021	$189,980
	December 31, 2022	115,000
	December 31, 2023	20,000
	December 31, 2024	10,000
		334,980
Less: discount to present value at 1%		(185)
Total		$334,795

Note 4 - Loans Payable

As of December 31, 2020 and 2019, the Organization has two outstanding loans that total $535,090 and $589,810, respectively. The terms of the loans are as follows:

a. On May 20, 2014, the Organization obtained a $500,000 Program Related Investment loan agreement from the White Horse Foundation. The original loan called for repayment of principal beginning in March 2019 with quarterly payments of $20,000. In 2019, the White Horse Foundation agreed to forgive $50,000 and the loan was amended; whereby, the loan balance was reduced to $450,000 with quarterly principal and interest payments beginning on December 31, 2019. In 2020, the lender agreed to forbear the loan payments due for the first three quarters of 2020, while still accruing the interest due for those three quarters, adding $6,629 to the balance of the loan, with quarterly principal and interest payments commencing on December 31, 2020. Both the original and amended loans bear an annual interest rate of 2%. As of December 31, 2020, the loan balance due to the White Horse Foundation was $435,090.

b. On June 9, 2015, the Organization obtained a $200,000 Program Related Investment loan agreement from the Kapor Foundation. The repayment of principal begins in September 2019 with quarterly payments of $16,667. Any remaining balance will be due on June 30, 2022. In 2019, the Kapor Foundation agreed to forgive the first three payments totaling $50,000. During 2020, the Kapor Foundation agreed to forgive an additional $50,000. The loan bears interest at 2%. As of December 31, 2020, the loan balance due to the Kapor Foundation was $100,000.

Principal repayment will be as follows:

Year Ending:	White Horse Foundation	Kapor Foundation	Total
December 31, 2021	$45,968	$50,000	$95,968
December 31, 2022	46,894	50,000	96,894
December 31, 2023	47,839	0	47,839
December 31, 2024	48,803	0	48,803
December 31, 2025	49,786	0	49,786
Thereafter	195,800	0	195,800
Total	$435,090	$100,000	$535,090

Note 5 - Paycheck Protection Program – Forgiven Loan

During the year ended December 31, 2020, the Organization obtained a loan from the SBA through the Paycheck Protection Program (PPP). Terms of the loan indicated that if certain conditions were met, which include maintaining average work forces during periods subsequent to receipt of the loan funds that are not less than pre-determined historical periods, that the loan, or a portion thereof, could be forgiven.

Defy accounts for the PPP loan in accordance with Topic 605. In October 2020, the Organization submitted its application for forgiveness and on December 2, 2020 full forgiveness was approved by the SBA. As all conditions had been met at year end, revenue was recognized in 2020. Subsequent to year end, the Organization received a second PPP loan totaling $268,285.

Note 6 - Business Pitch Competition Prizes Payable

The Business Pitch Competitions are an opportunity for entrepreneurs-in-training ("EIT's") who have completed the Organization's CEO of Your New Life program to receive feedback on the viability of their business ideas and earn seed capital for their future businesses, ranging from $100 to $500. As the prison systems prohibit the Organization from making payments to incarcerated individuals, the Organization reflects a payable at the time the award has been earned by the EIT. Based on a review of historical payouts and estimated release dates, the Organization has reflected $62,010 and $69,610 of these awards payable as long-term payables as of December 31, 2020 and 2019, respectively.

Note 7 - Net Assets With Donor Restrictions

The activity of net assets with donor restrictions is as follows:

	December 31, 2020			
	Balance 1/1/20	Contributions	Released from Restrictions	Balance 12/31/20
Program restrictions:				
Northern California Chapter Operations	$140,900	$12,500	($149,881)	$3,519
Northern California Men's Prisons	69,966	0	(43,093)	26,873
Northern California Post-Release	0	25,000	(5,291)	19,709
Southern California Chapter Operations	155,957	99,152	(135,883)	119,226
Southern California Post-Release	0	175,000	(8,673)	166,327
Southern California Post-Release Chromebooks	6,216	0	(6,216)	0
Tri-State Chapter Operations	37,067	5,000	(41,865)	202
Tri-State (NY/NJ/CT) Chapter Post-Release	488	25,000	(6,173)	19,315
Tri-State (NY/NJ/CT) Post-Release Chromebooks	0	10,000	(3,131)	6,869
Illinois Chapter Operations	0	70,500	(15,179)	55,321
Wisconsin Program & Support Chapter Operations	0	150,000	(14,753)	135,247
Washington Chapter Operations	0	10,000	0	10,000
Curriculum for Ages 50 and Over	0	57,600	(10,580)	47,020
Venture Fund	0	26,430	(2,643)	23,787
New Case Management System	68,045	25,000	(49,060)	43,985
Total program restrictions	478,639	691,182	(492,421)	677,400
Time restrictions	445,000	0	(175,000)	270,000
Total	$923,639	$691,182	($667,421)	$947,400

	December 31, 2019			
	Balance 1/1/19	Contributions	Released from Restrictions	Balance 12/31/19
Program restrictions:				
Northern California Chapter Operations	$228,855	$163,906	($251,861)	$140,900
Northern California Men's Prisons	73,009	157,180	(160,223)	69,966
Northern California Post-Release	8,584	0	(8,584)	0
Southern California Chapter Operations	57,497	293,428	(188,752)	162,173
Southern California Post-Release	40,959	0	(40,959)	0
Tri-State Chapter Operations	0	53,495	(16,428)	37,067
Connecticut – York Cohort	5,487	0	(5,487)	0
Tri-State (NY/NJ/CT) Chapter Post-Release	14,414	1,000	(14,926)	488
New Case Management System	0	100,000	(31,955)	68,045
Total program restrictions	428,805	769,009	(719,175)	478,639
Time restrictions	197,500	375,000	(127,500)	445,000
Total	$626,305	$1,144,009	($846,675)	$923,639

Note 8 - Liquidity and Availability of Financial Resources

The Organization maintains cash on hand to be available for its general expenditures, liabilities, other obligations, and for ongoing operations. As part of its liquidity management, the Organization operates its programs within a board approved budget and relies on grants and contributions to fund its operations and program activities.

The following reflects the Organization's financial assets at December 31, 2020 that are available to meet cash needs for general expenditures within one year:

Cash and cash equivalents	$1,415,975	
Pledges receivable due within one year	189,980	
Total current financial assets		$1,605,955
Less: contributions with purpose restrictions		(677,400)
Financial assets available to meet cash needs for general expenditures within one year		$928,555

Note 9 - Commitments and Contingencies

a. The Organization has rental agreements for virtual office space in New York City and Denver, Colorado, each on a month-to-month basis.

b. Additionally, the Organization has a lease agreement for office space in Los Angeles, California that expires on November 30, 2022. The future minimum rental requirements are as follows:

Year Ending:	December 31, 2021	$53,121
	December 31, 2022	49,780
Total		$102,901

c. From time-to-time claims may be made against the Organization in the normal course of business. The Organization does not believe that there are any claims that are in excess of insurance levels at year end and has not recorded any reserves for any such matters.

Note 10 - Retirement Plan

The Organization administers a retirement plan under section 401(k) of the Internal Revenue Code. This plan offers employees an opportunity to contribute pre-tax dollars up to statutory limits. All employees over the age of 21 are eligible. Eligible employees can receive an employer profit sharing contribution, discretionary in the amount as determined by the Organization. The Organization did not make any contributions to this plan.

Note 11- Subsequent Events

Management has evaluated the impact of all subsequent events through March 15, 2021, which is the date that the financial statements were available to be issued. All events that have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements have been made.

Note 12- Other Matters

On January 30, 2020, the World Health Organization declared a novel coronavirus (COVID-19) outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. It is unknown how long these conditions will last and what the complete financial effect will be. Management continues to monitor the outbreak; however, as of the date of these financial statements the potential impact cannot be quantified.