THE HONOR FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

THE HONOR FOUNDATION

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
The Honor Foundation

We have audited the accompanying financial statements of The Honor Foundation, a nonprofit organization, which comprise of the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits 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 Honor Foundation, a nonprofit organization, as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CONSIDINE & CONSIDINE
An Accountancy Corporation

August 14, 2017

THE HONOR FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	$ 484,407	$ 306,738
Contributions Receivable	701,364	700,000
Other Receivables	2,954	1,500
Prepaid Expenses	14,062	9,068
	1,202,787	1,017,306
PROPERTY AND EQUIPMENT (Note 3)	340,335	88,132
OTHER ASSETS		
Contributions Receivable	-	686,835
TOTAL ASSETS	1,543,122	1,792,273
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	23,238	6,451
Accrued Liabilities	43,144	8,662
	66,382	15,113
NET ASSETS (Note 5)		
Unrestricted	764,736	390,325
Temporarily Restricted	712,004	1,386,835
	1,476,740	1,777,160
TOTAL LIABILITIES AND NET ASSETS	$ 1,543,122	$ 1,792,273

THE HONOR FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE			
Contributions	$ 582,726	$ 13,915	$ 596,641
Donated Services and Facilities (Note 6)	312,640	-	312,640
Grants	13,165	87,500	100,665
Tuition	93,750	-	93,750
Teaching/Consulting	10,519	-	10,519
Other Income	1,962	-	1,962
	1,014,762	101,415	1,116,177
Net Assets Released from Temporary Restricted	776,246	(776,246)	-
	1,791,008	(674,831)	1,116,177
EXPENSES			
Program	1,061,825	-	1,061,825
Management and General	235,011	-	235,011
Development	119,761	-	119,761
	1,416,597	-	1,416,597
DECREASE IN NET ASSETS	374,411	(674,831)	(300,420)
NET ASSETS - BEGINNING OF PERIOD	390,325	1,386,835	1,777,160
NET ASSETS - END OF PERIOD	$ 764,736	$ 712,004	$ 1,476,740

THE HONOR FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE			
Grants	$ 180,000	$ 1,986,835	$ 2,166,835
Contributions	200,411	18,650	219,061
Donated Services and Facilities (Note 6)	191,681	-	191,681
Tuition	34,500	-	34,500
Other Income	3,367	-	3,367
	609,959	2,005,485	2,615,444
Net Assets Released from Temporary Restricted	618,650	(618,650)	-
	1,228,609	1,386,835	2,615,444
EXPENSES			
Program	626,390	-	626,390
Management and General	150,957	-	150,957
Development	47,507	-	47,507
	824,854	-	824,854
INCREASE IN NET ASSETS	403,755	1,386,835	1,790,590
NET ASSETS - BEGINNING OF PERIOD	(13,430)	-	(13,430)
NET ASSETS - END OF PERIOD	$ 390,325	$ 1,386,835	$ 1,777,160

THE HONOR FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	PROGRAM	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL
EXPENSES				
Personnel and Benefits	$ 485,831	$ 135,848	$ 67,325	$ 689,004
Facilities, Equipment and Maintenance	321,179	18,235	19,851	359,265
Faculty	118,536	-	-	118,536
Meetings and Travel	56,422	2,781	10,430	69,633
Professional Services	2,400	62,686	-	65,086
Marketing	49,742	1,462	11,433	62,637
Office and Administrative	12,616	7,414	4,484	24,514
Bank Fees	3,327	1,005	4,933	9,265
Insurance	-	4,610	-	4,610
	1,050,053	234,041	118,456	1,402,550
Depreciation	11,772	970	1,305	14,047
	$ 1,061,825	$ 235,011	$ 119,761	$ 1,416,597

THE HONOR FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	PROGRAM	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL
EXPENSES				
Personnel and Benefits	$ 192,341	$ 88,603	$ 18,349	$ 299,293
Facilities, Equipment and Maintenance	153,533	15,505	4,053	173,091
Marketing	154,252	3,306	4,790	162,348
Faculty	79,913	-	-	79,913
Meetings and Travel	32,799	5,798	5,517	44,114
Professional Services	800	27,101	12,079	39,980
Office and Administrative	2,479	6,877	358	9,714
Scholarships	9,250	-	-	9,250
Bank Fees	691	460	2,360	3,511
Insurance	-	3,307	-	3,307
	626,057	150,957	47,507	824,521
Depreciation	333	-	-	333
	$ 626,390	$ 150,957	$ 47,507	$ 824,854

THE HONOR FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	$ (300,420)	$ 1,790,590
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Donated Services	(150,150)	(9,500)
Depreciation	14,047	333
Changes in Operating Assets and Liabilities:		
Contribution Receivable	682,925	(1,386,835)
Tuition Receivable	1,500	(1,500)
Prepaid Expenses	(5,402)	(9,068)
Accounts Payable	16,787	(18,097)
Accrued Liabilities	34,482	4,634
	594,189	(1,420,033)
NET CASH PROVIDED BY OPERATING ACTIVITES	293,769	370,557
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchases of Property and Equipment	(116,100)	(78,965)
NET INCREASE IN CASH	177,669	291,592
CASH - BEGINNING	306,738	15,146
CASH - ENDING	$ 484,407	$ 306,738

NON-CASH INVESTING ACTIVITY (See Note 7)

NOTE 1 THE ORGANIZATON

The Honor Foundation (the "Organization"), is a California non-profit Organization that was incorporated in 2013. Headquartered in San Diego, California, with an additional campus in Virginia Beach, Virginia, the Organization's mission is to educate and provide Navy SEALs and U.S. Special Operations the tools to transition from active duty to the private sector. The Organization's support comes primarily from contributions including donated services and facilities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements are prepared using the accrual method in conformity with accounting principles generally accepted ("GAAP") in the United States of America.

Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Basis of Presentation - Under accounting standards on Financial Statements of Not-for-profit Organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets - Consists of assets which are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in any of its programs or supporting services.

Temporarily Restricted Net Assets - Temporarily restricted net assets consist of contributed amounts subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the amounts. There were $712,004 and $1,386,835 of temporarily restricted net assets as of December 31, 2016 and 2015, respectively.

Permanently Restricted Net Assets - Permanently restricted amounts are those which are restricted by donors that neither expire by the passage of time nor can be fulfilled or removed by actions of the Organization. There were no permanently restricted net assets as of December 31, 2016.

Cash - The Organization considers highly liquid financial instruments with an original fixed maturity date of less than three months to be cash equivalents.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization maintains its cash in one commercial bank. Cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 as of December 31, 2016 and 2015, the Organization had approximately $220,000 and $45,000, respectively, that was in excess of the FDIC limit.

Contributions Receivable - Contributions receivable consist of donor promises to give. It is the Organization's policy to charge off uncollectible contributions receivable when management determines the receivable will not be collected. Contributions receivable that are expected to be received in excess of one year are reported at present value and a discount is recorded. All contributions receivable are considered collectible as of December 31, 2016 and 2015.

Property and Equipment - Property and equipment are carried at cost if purchased, or at fair value at date of gift if donated, less depreciation. Depreciation is computed using the straight-line method of depreciation over the assets' estimated useful lives of three to fifteen years. Maintenance and repairs are charged to the expense as incurred; major renewals and betterments are capitalized. It is the Organization's policy to capitalize all property and equipment costs in excess of a cost or fair value of $1,000. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is recognized in the current period financial statements.

Fair Value Measurement - The Organization follows accounting standards which define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements for all financial statement elements.

Revenue Recognition - Revenue is recognized when earned, which may be when cash is received, unconditional promises are made, ownership of assets are transferred or services rendered. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

Functional Allocation of Expenses - The Organization allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Organization's management.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor-Imposed Restrictions - All contributions are considered to be unrestricted unless specifically restricted by the donor. Amounts received designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted, increasing those net asset classes. If a restriction is fulfilled in the same period in which the contribution is received, the support is reported as temporarily restricted and then released from restriction in the same period.

Donated Services and Facilities - The Organization follows standards relating to contributions received and contributions made as consistent with Financial Accounting Standards Board (FASB) codification. These standards require recording the value of donated services and facilities that create or enhance non-financial assets or require specialized skills. The fair value of donated services and facilities has been measured on a nonrecurring basis using quoted prices for similar financial statement elements in inactive markets (Level 2 inputs).

Marketing - Marketing expenses are charged to expense as incurred.

Income Taxes - As a nonprofit organization, The Honor Foundation has obtained exempt status under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code.

Management has considered its tax position and believes that all of the positions taken in its exempt organization tax returns are more likely than not to be sustained upon examination. Accordingly, the Organization has not accrued interest or penalties related to uncertain tax positions. The Organization files tax returns in the U.S. Federal jurisdiction and the State of California.

Reclassifications - Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's format. Total net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 3 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

	2016	2015
Software	$ 68,565	$ 17,550
Accumulated Depreciation	(14,380)	(333)
	54,185	17,217
Work in Progress	286,150	70,915
	$ 340,335	$ 88,132

NOTE 3 PROPERTY AND EQUIPMENT (Continued)

Depreciation expense for the years ended December 31, 2016 and 2015 is $14,047 and $333, respectively.

Below are the purpose, expected total cost, and estimated completion dates for the following three current and ongoing projects in Work in Progress.

Data Dashboard is a learning management system for fellows and alumni, resource for coaches, and administrative tool for staff to efficiently manage and report on program outcomes. It can be used for the classroom or virtual environment.

Transition Readiness Assessment is a tool to assess the readiness of fellows to transition out of the military. It can be used for the classroom or virtual environment.

Virtual Institute is a platform to provide online courses to the fellows in order to expand the reach of the classroom environment.

The following summarizes Work In Progress as of December 31, 2016:

	Completion Date	Actual WIP 12/31/2016	Estimated Total Cost
Data Dashboard	12/31/2017	$ 160,775	$ 322,075
Transition Readiness Assessment	1/31/2017	78,675	85,325
Virtual Institute	12/31/2017	46,700	46,700
Total Work in Progress		$ 286,150	$ 454,100

Included in estimated total cost of the ongoing projects is approximately $268,000 of donated services. As of December 31, 2016, the organization received approximately $160,000 of total donated services.

NOTE 4 FAIR VALUE MEASUREMENT

The Organization follows the method of fair value measurement to value its financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels has been established, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Financial assets carried at fair value and measured on a non-recurring basis as of December 31, 2016:

Assets	Level 1	Level 2	Level 3	Total
Contributions Receivable	$ -	$ -	$ 701,364	$ 701,364

Financial assets carried at fair value and measured on a non-recurring basis as of December 31, 2015:

Assets	Level 1	Level 2	Level 3	Total
Contributions Receivable	$ -	$ -	$ 1,386,835	$ 1,386,835

NOTE 4 FAIR VALUE MEASUREMENT (Continued)

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended December 31, 2016:

	Contributions Receivable
Balance at January 1, 2016	$ 1,386,835
New Contributions	1,360
Collections	(699,996)
Discount on Contributions	13,165
Balance at December 31, 2016	$ 701,364

The following summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended December 31, 2015:

	Contributions Receivable
Balance at January 1, 2015	$ -
New Contributions	2,000,000
Collections	(600,000)
Discount on Contributions	(13,165)
Balance at December 31, 2015	$ 1,386,835

NOTE 5 NET ASSETS

Net assets consist of the following at December 31:

	2016	2015
Unrestricted Net Assets	$ 764,736	$ 390,325
Temporarily Restricted Net Assets:		
Navy SEAL Foundation Grant	700,004	1,386,835
Program Support	12,000	-
	712,004	1,386,835
	$ 1,476,740	$ 1,777,160

The Navy SEAL Foundation granted funds to the Organization’s programs and growth over several years.

NOTE 6 DONATED SERVICES AND FACILITIES

The following summarizes donated services and facilities as of December 31:

	2016	2015
Work in Progress		
Data Dashboard	$ 97,775	$ -
Transition Readiness Assessment	51,675	-
Virtual Institute	700	9,500
Total Work in Progress	150,150	9,500
Space Usage	110,955	75,150
Training Faculty Services	47,460	24,981
Advertising	4,075	82,050
	$ 312,640	$ 191,681

NOTE 7 NON-CASH INVESTING ACTIVITY

The Organization received donated services of $150,150 and $9,500 related to property and equipment for the years ended December 31, 2016 and 2015, respectively.

NOTE 8 COMMITMENTS

The Organization has entered into two non-cancelable lease agreements for computer equipment. The leases will expire over the next three years. Minimum future lease payments under the remaining non-cancelable equipment leases for the years ended December 31 are as follows:

2017	$ 3,826
2018	2,784
	$ 6,610

Total rental expense related to the equipment leases was $4,132 and $716 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 14, 2017, the date which the financial statements were available to be issued. There were no material subsequent events which affected the amounts or disclosures in the financial statements, except as noted below.

In June 2017, the Organization entered into a lease agreement with a third party. The sixty month lease is expected to commence on December 1, 2017. The monthly rent will be gifted to the Organization for the entirety of the lease while the Organization will be responsible for monthly general operating expenses as set forth in the lease agreement.