

**THE HONOR FOUNDATION  
FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

## **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, 2017 and 2016, 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, 2017 and 2016, 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.

A handwritten signature in black ink that reads "Considine & Considine". The script is cursive and somewhat stylized.

CONSIDINE & CONSIDINE  
An Accountancy Corporation

July 13, 2018

**THE HONOR FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

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	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,049,797	\$ 484,407
Contributions Receivable	255,000	701,364
Other Receivables	1,500	2,954
Prepaid Expenses	14,994	14,062
	1,321,291	1,202,787
<b>PROPERTY AND EQUIPMENT (Note 3)</b>	470,024	340,335
<b>TOTAL ASSETS</b>	1,791,315	1,543,122
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	24,354	23,238
Accrued Liabilities	42,333	43,144
	66,687	66,382
<b>NET ASSETS (Note 5)</b>		
Unrestricted	1,184,650	764,736
Temporarily Restricted	539,978	712,004
	1,724,628	1,476,740
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 1,791,315	\$ 1,543,122

See Accompanying Notes to the Financial Statements

**THE HONOR FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
<b>REVENUE</b>			
Contributions	\$ 1,063,174	\$ 51,883	\$ 1,115,057
Grants	-	555,000	555,000
Donated Services and Facilities (Note 6)	289,690	-	289,690
Tuition	88,750	-	88,750
Other Income	2,159	-	2,159
	1,443,773	606,883	2,050,656
Net Assets Released from Temporary Restricted	778,909	(778,909)	-
	2,222,682	(172,026)	2,050,656
<b>EXPENSES</b>			
Program	1,263,052	-	1,263,052
Management and General Development	280,714	-	280,714
	259,002	-	259,002
	1,802,768	-	1,802,768
<b>CHANGE IN NET ASSETS</b>	419,914	(172,026)	247,888
<b>NET ASSETS - BEGINNING OF PERIOD</b>	764,736	712,004	1,476,740
<b>NET ASSETS - END OF PERIOD</b>	\$ 1,184,650	\$ 539,978	\$ 1,724,628

See Accompanying Notes to the Financial Statements

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

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	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
<b>REVENUE</b>			
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
<b>EXPENSES</b>			
Program	1,061,825	-	1,061,825
Management and General Development	235,011	-	235,011
	119,761	-	119,761
	1,416,597	-	1,416,597
<b>CHANGE IN NET ASSETS</b>	374,411	(674,831)	(300,420)
<b>NET ASSETS - BEGINNING OF PERIOD</b>	390,325	1,386,835	1,777,160
<b>NET ASSETS - END OF PERIOD</b>	\$ 764,736	\$ 712,004	\$ 1,476,740

See Accompanying Notes to the Financial Statements

**THE HONOR FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>EXPENSES</b>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>DEVELOPMENT</u>	<u>TOTAL</u>
Personnel	\$ 616,443	\$ 163,289	\$ 175,487	\$ 955,219
Event Specific	321,777	2,367	17,854	341,998
Facilities and Equipment	156,401	30,873	13,291	200,565
Meetings and Travel	67,278	10,029	18,292	95,599
Professional Fees	13,375	61,134	4,200	78,709
Marketing	26,345	732	8,388	35,465
Administrative	14,743	5,016	10,266	30,025
Bank and Merchant Fees	3,319	1,191	9,305	13,815
Insurance	-	5,113	-	5,113
	<u>1,219,681</u>	<u>279,744</u>	<u>257,083</u>	<u>1,756,508</u>
Depreciation	43,371	970	1,919	46,260
	<u>\$ 1,263,052</u>	<u>\$ 280,714</u>	<u>\$ 259,002</u>	<u>\$ 1,802,768</u>

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

<b>EXPENSES</b>	<b>PROGRAM</b>	<b>MANAGEMENT AND GENERAL</b>	<b>DEVELOPMENT</b>	<b>TOTAL</b>
Personnel	\$ 485,831	\$ 135,848	\$ 67,325	\$ 689,004
Event Specific	303,841	-	9,978	313,819
Facilities and Equipment	143,633	22,863	9,873	176,369
Meetings and Travel	56,422	2,781	10,430	69,633
Professional Fees	2,400	62,686	-	65,086
Marketing	42,039	1,462	11,433	54,934
Administrative	12,560	2,786	4,484	19,830
Bank and Merchant Fees	3,327	1,005	4,933	9,265
Insurance	-	4,610	-	4,610
	<u>1,050,053</u>	<u>234,041</u>	<u>118,456</u>	<u>1,402,550</u>
Depreciation	11,772	970	1,305	14,047
	<u>\$ 1,061,825</u>	<u>\$ 235,011</u>	<u>\$ 119,761</u>	<u>\$ 1,416,597</u>



**THE HONOR FOUNDATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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	2017	2016
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 247,888	\$ (300,420)
<b>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Donated Services	(115,950)	(150,150)
Depreciation	46,260	14,047
Changes in Operating Assets and Liabilities:		
Contributions Receivable	446,364	682,925
Other Receivables	1,454	1,500
Prepaid Expenses	(932)	(5,402)
Accounts Payable	1,116	16,787
Accrued Liabilities	(811)	34,482
	377,501	594,189
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	625,389	293,769
<b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(59,999)	(116,100)
<b>NET INCREASE IN CASH</b>	565,390	177,669
<b>CASH - BEGINNING</b>	484,407	306,738
<b>CASH - ENDING</b>	\$ 1,049,797	\$ 484,407

**NON-CASH INVESTING ACTIVITY (Note 7)**

See Accompanying Notes to the Financial Statements

**THE HONOR FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1 THE ORGANIZATION**

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 \$539,978 and \$712,004 of temporarily restricted net assets as of December 31, 2017 and 2016, 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, 2017 and 2016.

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

**THE HONOR FOUNDATION**  
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**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, 2017 and 2016, the Organization had approximately \$738,000 and \$220,000, 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, 2017 and 2016.

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.

**THE HONOR FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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 2016 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:

	2017	2016
Software	\$ 102,875	\$ 17,550
Website	51,015	51,015
Accumulated Depreciation	(60,641)	(14,380)
	<u>93,249</u>	<u>54,185</u>
Work in Progress	376,775	286,150
	<u>\$ 470,024</u>	<u>\$ 340,335</u>

**THE HONOR FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 3 PROPERTY AND EQUIPMENT (Continued)**

Depreciation expense for the years ended December 31, 2017 and 2016 was \$46,260 and \$14,047, respectively.

Below are the purpose, expected total cost, and estimated completion dates for the following two 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.

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, 2017:

	Completion Date	Actual WIP 12/31/2017	Estimated Total Cost
Data Dashboard	9/30/2018	\$ 322,075	\$ 428,305
Virtual Institute	9/30/2018	54,700	81,790
Total Work in Progress		\$ 376,775	\$ 510,095

Included in estimated total cost of the ongoing projects is approximately \$289,000 of donated services. As of December 31, 2017, the Organization received approximately \$219,000 of donated services for these ongoing projects.

**THE HONOR FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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

**THE HONOR FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**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, 2017:

	Contributions Receivable
Balance at January 1, 2017	\$ 701,364
New Contributions	-
Collections	(701,364)
Balance at December 31, 2017	\$ -

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

**NOTE 5 NET ASSETS**

Net assets consist of the following at December 31:

	2017	2016
Unrestricted Net Assets	\$ 1,184,650	\$ 764,736
Temporarily Restricted Net Assets:		
Marine Raider Foundation Grant	500,000	-
Program Support	39,978	12,000
Navy SEAL Foundation Grant	-	700,004
	539,978	712,004
	\$ 1,724,628	\$ 1,476,740

The Marine Raider Foundation granted funds to the Organization's programs and for the expansion of the Organization's services to the members of the U.S. Marine Raider Community.

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

**THE HONOR FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 6 DONATED SERVICES AND FACILITIES**

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

	2017	2016
Work in Progress		
Data Dashboard	\$ 110,800	\$ 97,775
Transition Readiness Assessment	5,150	51,675
Virtual Institute	-	700
Total Work in Progress	115,950	150,150
Space Usage	101,100	110,955
Training Faculty Services	68,140	47,460
Professional Services	4,500	-
Advertising	-	4,075
	\$ 289,690	\$ 312,640

**NOTE 7 NON-CASH INVESTING ACTIVITY**

The Organization received donated services of \$115,950 and \$150,150 related to property and equipment for the years ended December 31, 2017 and 2016, respectively.

**NOTE 8 COMMITMENTS**

The Organization has entered into four 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:

	2018	\$	6,108
	2019		3,324
	2020		1,629
		\$	11,061

Total rental expense related to the equipment leases was \$5,824 and \$4,132 for the years ended December 31, 2017 and 2016, respectively.



**THE HONOR FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 8 COMMITMENTS (Continued)**

On July 20, 2017, the Organization entered into a lease agreement with a third party. The sixty month lease commenced on February 12, 2018. Monthly rent expense includes base rent and general operating costs. The base rent portion of monthly rent expense begins in year three and cannot exceed \$2,500, \$2,575, and \$2,652 per month for years three, four, and five, respectively. General operating costs are paid monthly by the Organization for the entirety of the lease.

Minimum future lease payments, including general operating costs, for the years ended December 31 are as follows:

2018	\$	25,371
2019		29,205
2020		57,289
2021		61,210
2022		62,742
Thereafter		5,287
	\$	<u>241,104</u>

**NOTE 9 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 13, 2018, 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 January 2018 the Organization expanded operations to Camp Lejuene, North Carolina. The North Carolina campus is scheduled to open in August 2018.