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DRAFT

Connected Warriors, Inc.

Financial Statements

December 31, 2018

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Connected Warriors, Inc.
Statement of Financial Position
December 31, 2018

ASSETS

Current assets:

Cash	\$ 6,804
Accounts receivable	97,450
Investments	675,127
Inventory	5,757
	<u>785,138</u>

Website development costs, net 13,927

Total assets \$ 799,065

LIABILITIES AND NET ASSETS

Commitments and contingencies

Liabilities:

Accounts payable and accrued expenses	\$ 8,761
Related party notes payable, current	80,000
Total liabilities	<u>88,761</u>

Net assets:

Without donor restriction	710,304
Total net assets	<u>710,304</u>

Total liabilities and net assets \$ 799,065

See accompanying notes to financial statements.

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Connected Warriors, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Revenues and support:			
Event revenues	\$ 508,539	\$ -	\$ 508,539
In-kind donations	135,257	-	135,257
Contributions	72,487	-	72,487
Grants	3,508	-	3,508
Other income	15,419	-	15,419
Unrealized gain on investment	528,360	-	528,360
Net assets released from restriction	110,676	(110,676)	-
Total revenues and support	<u>1,374,246</u>	<u>(110,676)</u>	<u>1,263,570</u>
Expenses:			
Program services	442,250	-	442,250
Fundraising	199,859	-	199,859
General and administrative	95,829	-	95,829
Total expenses	<u>737,938</u>	<u>-</u>	<u>737,938</u>
Change in net assets	636,308	(110,676)	525,632
Net assets, beginning of year	<u>73,996</u>	<u>110,676</u>	<u>184,672</u>
Net assets, end of year	<u>\$ 710,304</u>	<u>\$ -</u>	<u>\$ 710,304</u>

See accompanying notes to financial statements.

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Connected Warriors, Inc.
Statement of Functional Expense
For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll wages and taxes	\$ 67,270	\$ 11,920	\$ 47,147	\$ 126,337
Supplies	23,351	3,720	2,741	29,812
Travel	99,687	1,350	23,715	124,752
Contracted services	157,446	39,583	3,804	200,833
Printing	3,480	954	2,087	6,521
Postage	2,228	625	1,395	4,248
Facility fees	65,095	12,000	-	77,095
Office fees	409	-	-	409
Insurance	-	571	-	571
Computer services	5,887	9,918	224	16,029
Bank fees	645	1,996	1,105	3,746
Licenses and registrations	200	86	-	286
Miscellaneous expenses	16,500	6,103	983	23,586
Annual gala	52	40	85,990	86,082
Other fundraising events	-	-	30,668	30,668
Amortization	-	6,963	-	6,963
	<u>\$ 442,250</u>	<u>\$ 95,829</u>	<u>\$ 199,859</u>	<u>\$ 737,938</u>

See accompanying notes to financial statements.

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Connected Warriors, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Changes in net assets	\$ 525,632
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Unrealized gain on investment	(528,360)
Amortization	6,963
Changes in operating assets and liabilities:	
Accounts receivable	(97,450)
Inventory	4,575
Prepaid expenses	5,100
Accounts payable and accrued expenses	3,303
Net cash used in operating activities	<u>(80,237)</u>
Cash flows from investing activities	<u>-</u>
Cash flows from financing activities:	
Net borrowing from related party notes payable	80,000
Net cash provided by financing activities	<u>80,000</u>
Net decrease in cash	(237)
Cash, beginning of year	<u>7,041</u>
Cash, end of year	<u>\$ 6,804</u>

See accompanying notes to financial statements.

Connected Warriors, Inc.
Notes to Financial Statements

Note 1 – Organization and Description of Business

Connected Warriors, Inc. (the "Organization") was founded on August 30, 2011, as a not-for-profit corporation under the laws of the State of Florida. The Organization's purpose is to provide free evidence based trauma-conscious yoga therapy to service members, veterans and their families in the United States and abroad through a national network of yoga teachers. The Organization's support comes primarily from contributions from individual donors and revenues from annual events.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Organization's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restriction: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restriction: Net assets subject to stipulations imposed by donors, and grantors. 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, where by the donor has stipulated the funds be maintained in perpetuity.

Functional Allocation of Expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Certain program and support expenses, such as salaries, benefits and other administrative costs, are allocated among program services, general and administrative and fundraising based on management's analysis of these costs.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the 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.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three (3) months or less to be cash equivalents. There were no cash equivalents as of December 31, 2018.

Connected Warriors, Inc.
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies, continued

Inventory

Inventory, which consists of promotional items, is stated at the lower of cost or net realizable value.

Investments

The Organization carries investments in securities at their fair value in the statement of financial position. Quoted market prices are used to determine fair values. Unrealized gains (losses) are included in the accompanying statement of activities and changes in net assets.

Website Development

Website development costs are capitalized and amortized over their estimated useful life of three (3) years. Costs related to the maintenance of the website are expensed as incurred.

Contributions

Contributions received are recorded as revenue without donor restricted net assets or with donor restricted net assets depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributed Services

Contributed services are recognized if the services received create or enhance non-financial assets or require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions are recognized at fair value when donated services received create or enhance long-lived assets or require specialized skills and when goods that would typically need to be purchased are provided by donation.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2018 was \$4,814, which was charged to contracted services in the statement of functional expenses.

Income Taxes

The Organization has been recognized by the Internal Revenue Services ("IRS") as an organization that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Furthermore, it has been determined that the Organization is not a private foundation.

No provision has been made for income taxes in the financial statements. Furthermore, the Organization believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions. Generally, the Organization is not subject to U.S. federal income tax examinations by tax authorities for three (3) years from the date of filing.

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Connected Warriors, Inc.
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies, continued

Fair Value of Financial Instruments

The fair value of the Organization’s cash, accounts receivable, inventory, investments, and accrued expenses approximates their carrying amounts due to the relatively short maturity of these items.

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-08 – Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and the accounting guidance for contributions received and contributions made. ASU No. 2018-08 should assist entities in (i) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (ii) determining whether a contribution is conditional. ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization does not expect the adoption of ASU No. 2018-08 to have a material effect on the financial statements and disclosures.

Accounting Pronouncements Adopted

The Organization has adopted the financial statement presentation and disclosure standards contained in the FASB ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, modifying Accounting Standards Codification (“ASC”) 958. The provisions have been applied for the year ended December 31, 2018.

Date of Management’s Review

Management has evaluated subsequent events through **December [XX], 2019**, the date on which the financial statements were available to be issued.

Note 3 – Liquidity and Availability of Resources

The Organization’s financial assets available to meet cash needs for general expenditure, without donor or other restrictions limiting their use, within one year as of December 31, 2018 consist of:

Financial assets as of December 31, 2018:

Cash	\$	6,804
Accounts receivable		97,450
Investments		675,127
Total financial assets		<u>779,381</u>
Less: financial assets not available for general expenditure		<u>-</u>
Total financial assets available for general expenditure	\$	<u><u>779,381</u></u>

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Connected Warriors, Inc.
Notes to Financial Statements

Note 4 – Fair Value Measurements

Certain assets are recorded at fair value. Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received. Fair value is based on assumptions market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Organization's assets recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

Level 1 - Inputs are based upon quoted prices for identical instruments traded in active markets.

Level 2 - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.

Level 3 - Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Organization uses to measure its assets at fair value.

- Common stock – common stock is valued at the quoted net asset value of shares reported in the active market in which the stock is traded.

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Connected Warriors, Inc.
Notes to Financial Statements

Note 4 – Fair Value Measurements, continued

Fair Value on a Recurring Basis

Investments measured at fair value on a recurring basis are summarized below:

<i>Description</i>	As of December 31, 2018			
	Investments Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Common stock	\$ 675,127	\$ 675,127	\$ -	\$ -

Note 5 – Website Development Costs

Website development costs consisted of the following as of December 31, 2018:

Website development costs	\$ 20,890
Less: accumulated amortization	(6,963)
Website development costs, net	\$ 13,927

Amortization expense for the year ended December 31, 2018 was \$6,963.

Note 6 – Donated Services

Donated services consisted of the following as of December 31, 2018:

Donated services:	
Yoga instructor's	\$ 59,782
Studio space	63,475
Office rent	12,000
	\$ 135,257

Note 7 – Related Party Notes Payable

In April 2018, the Organization entered into a promissory note with a board member with an original principal amount of \$50,000. The promissory note accrues interest at 1.5% per annum and was due on December 23, 2018. As of December 31, 2018 the loan was in default and is due on demand. The outstanding balance on the promissory note as of December 31, 2018 was \$30,000.

Connected Warriors, Inc.
Notes to Financial Statements

Note 7 – Related Party Notes Payable, continued

In June 2018, the Organization entered into a promissory note with a board member with an original principal amount of \$50,000. The promissory note accrues interest at 1.5% per annum and was due on December 21, 2018. As of December 31, 2018 the loan was in default and is due on demand. The outstanding balance on the promissory note as of December 31, 2018 was \$50,000.

Note 8 – Net Assets With Donor Restrictions

As of December 31, 2018, the Organization did not have net assets with donor restriction. Net assets released from donor restriction consisted of the following as of December 31, 2018:

Time restriction:	
Common stock	\$ <u>110,676</u>

Note 9 – Subsequent Events

In February 2019, the Organization entered into a promissory note with a board member with an original principal amount of \$50,000. The promissory note accrues interest at 1.5% per annum and is due on February 14, 2020.

In April 2019, the Organization entered into a promissory note with a board member with an original principal amount of \$10,000. The promissory note accrues interest at 1.5% per annum and is due on April 5, 2020.

In July 2019, the Organization entered into a promissory note with a board member with an original principal amount of \$54,000. The promissory note accrues interest at 1.5% per annum and was paid in full on November 14, 2019.