

Connected Warriors, Inc.

Financial Statements

December 31, 2016

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Independent Auditors' Report

To the Board of Directors
Connected Warriors, Inc.
Boca Raton, Florida

We have audited the accompanying financial statements of Connected Warriors, Inc., which comprise the statement of financial position at December 31, 2016, 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.

Auditors' 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 Connected Warriors, Inc. at December 31, 2016, 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.

Angela Carlson LLP

Boca Raton, Florida
July 27, 2017

Connected Warriors, Inc.
Statement of Financial Position
December 31, 2016

ASSETS

Current assets:

Cash	\$	39,450
Accounts receivable		37,280
Inventory		4,178
Investments, at fair value		191,926
Website development costs		3,000
Total assets	\$	<u>275,834</u>

LIABILITIES AND NET ASSETS

Commitments and contingencies

Liabilities:

Accrued expenses	\$	17,875
Total liabilities		<u>17,875</u>

Net assets:

Unrestricted		66,033
Temporarily restricted		191,926
Total net assets		<u>257,959</u>

Total liabilities and net assets	\$	<u>275,834</u>
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See accompanying notes to financial statements.

Connected Warriors, Inc.
Statement of Activities
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and support:			
Event revenues	\$ 152,978	\$ -	\$ 152,978
In-kind donations	11,000	85,676	96,676
Contributions	116,527	-	116,527
Foundations and grants	84,240	-	84,240
Other income	2,531	19,375	21,906
Total revenues and support	<u>367,276</u>	<u>105,051</u>	<u>472,327</u>
Expenses:			
Program services	305,033	-	305,033
Supporting services:			
Fundraising and marketing	38,504	-	38,504
Management and general	78,444	-	78,444
Total expenses	<u>421,981</u>	<u>-</u>	<u>421,981</u>
Change in net assets	(54,705)	105,051	50,346
Net assets, beginning of year (as restated)	<u>120,738</u>	<u>86,875</u>	<u>207,613</u>
Net assets, end of year	<u>\$ 66,033</u>	<u>\$ 191,926</u>	<u>\$ 257,959</u>

See accompanying notes to financial statements.

Connected Warriors, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Fundraising & Marketing	General & Administrative	Total
Consulting and contracted services	\$ 101,987	\$ 3,995	\$ 33,356	\$ 139,338
Special events	-	8,728	183	8,911
Supplies	74,681	30	1,390	76,101
Salaries and benefits	57,429	24,580	24,407	106,416
Travel	48,256	87	188	48,531
Classes and training	2,848	-	-	2,848
Business fees	525	528	3,820	4,873
Marketing and promotion	6,420	-	103	6,523
Postage	9,479	-	353	9,832
Insurance	983	-	1,326	2,309
Other costs	2,425	556	558	3,539
Office expenses	-	-	12,760	12,760
	<u>\$ 305,033</u>	<u>\$ 38,504</u>	<u>\$ 78,444</u>	<u>\$ 421,981</u>

See accompanying notes to financial statements.

Connected Warriors, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities:		
Changes in net assets	\$	50,346
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated stock		(85,676)
Unrealized gain		(19,375)
Changes in operating assets and liabilities:		
Accounts receivable		(37,280)
Inventory		(4,178)
Accrued expenses		17,875
Net cash used in operating activities		<u>(78,288)</u>
Cash flows from investing activities		
Website development costs		(3,000)
Net cash used in investing activities		<u>(3,000)</u>
Cash flows from financing activities		<u>-</u>
Net decrease in cash		(81,288)
Cash, beginning of year		<u>120,738</u>
Cash, end of year	\$	<u>39,450</u>

See accompanying 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the actions of the Board of Directors.

Temporarily Restricted Net Assets – subject to donor-imposed stipulations that may be fulfilled by the actions of the Board of Directors or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets – subject to donor-imposed stipulations that are to be maintained permanently. The Organization has no permanently restricted net assets at December 31, 2016.

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 at December 31, 2016.

Accounts Receivable

Accounts receivable are presented net of a reserve for doubtful accounts, should the Organization's management deem that a reserve is necessary. Receivables are considered impaired if full payments are not received in accordance with the agreed upon terms. The Organization's allowance for bad debt at December 31, 2016 was \$0.

Note 2 – Summary of Significant Accounting Policies, continued

Inventory

Inventory, which consists of general merchandise, is stated at the lower of average cost method (first-in, first-out) or market.

Investments

The Organization carries investments in restricted 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 under the caption "Other income". See "Fair Value Measurements" Note.

Website Development

Website development costs are capitalized and amortized over their estimated useful lives. Costs related to the maintenance of the website are expensed as incurred.

Contributions

Contributions received are recorded as unrestricted, temporarily unrestricted, or permanently 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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions 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 net assets.

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. During 2016, a number of volunteers donated substantial hours and space to the Organization's programs and events. However, these donated services are not reflected in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been presented among the programs and supporting services benefited.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2016 was \$2,183, which was charged to consulting and 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.

Note 2 – Summary of Significant Accounting Policies, continued

Income Taxes, continued

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. The IRS Form 990 and other tax returns subsequent to 2013 remain subject to examination by the taxing authorities.

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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14 Not-For-Profit ("NFP") Entities (Topic 958), "*Presentation of Financial Statements of Not-For-Profit Entities*". Under the new guidance, not-for-profit entities are required to: (1) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than the currently required three classes. That is, an NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets; (2) present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes; (3) continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method reconciliation if using the direct method; (4) provide enhanced disclosure on (a) governing board designations, appropriation, and similar actions that result in self-imposed limits on use of resources without donor-imposed restrictions as of the end of the period; (b) composition of net assets with donor restrictions at the end of the period; (c) qualitative information that communicates how the Organization manages its liquid resources to meet cash needs for general expenditures within one year of the balance sheet date; (d) qualitative information that communicates availability of the Organization's financial asset at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date; (e) amount of expenses by both their natural and functional classification; (f) methods used to allocate costs among programs and support functions; (g) additional disclosures on underwater endowment funds. The new reporting guidance is effective for fiscal years beginning after December 15, 2017. Management is evaluating the potential impact of this new guidance on the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*" ("ASU 2016-18"), which provides guidance on the classification of restricted cash in the statement of cash flows. ASU No. 2016-18 is effective for our fiscal year beginning January 1, 2018. Early adoption is permitted. We do not expect the adoption of ASU No. 2016-18 to have a material effect on our financial statements and disclosures.

Date of Management's Review

Management has evaluated subsequent events through July 27, 2017, the date on which the financial statements were available to be issued.

Note 3 – 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.

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

Note 3 – Fair Value Measurements, continued

Fair Value on a Non-Recurring Basis

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

<i>Description</i>	As of December 31, 2016			
	Investments Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Restricted common stock	\$ 191,926	\$ 191,926	\$ -	\$ -

During 2016, the Organization received a donation in the form of restricted common stock valued at \$85,676 on the date of donation from a related party. The value of the restricted security is recorded as an in-kind donation in the accompanying statement of activities.

Note 4 – Website Development Costs

Website development costs totaled \$3,000 at December 31, 2016. Amortization expense for the year ended December 31, 2016 was \$0. Amortization will begin upon completion of the website development when the website is fully operational.

Note 5 – Leases

The Organization's office location was donated by a third party at \$1,000 per month for eleven (11) months during 2016. Accordingly, the costs of this space are recorded as in-kind donations in the accompanying statement of activities. Total in-kind rent contribution for the year ended December 31, 2016 was \$11,000. The Organization has \$1,000 rent payable at December 31, 2016, which is included in accrued expenses in the accompanying statement of financial position.

Note 6 – Related Parties

In 2016, the Organization received advances from three (3) individuals, consisting of two (2) related parties, which totaled approximately \$61,000. The advances were fully repaid by the Organization during 2016.

Connected Warriors, Inc.
Notes to Financial Statements

Note 7 – Prior Period Adjustment

The Organization previously issued audited financial statements as of and for the year ended December 31, 2015 on July 26, 2016. The accompanying financial statements include adjustments made to correct errors in these previously issued financial statements as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Beginning net assets, as previously reported	\$ 75,469	\$ -	\$ 75,469
Increase in net assets, as previously reported	\$ 45,269	\$ -	\$ 45,269
Increase in temporarily restricted contributions	-	86,875	86,875
Increase in net assets, as restated	<u>\$ 45,269</u>	<u>\$ 86,875</u>	<u>\$ 132,144</u>
Ending net assets, as previously reported	\$ 120,738	\$ -	\$ 120,738
Adjustments to increase the change in net assets	-	86,875	86,875
Ending net assets, as restated	<u>\$ 120,738</u>	<u>\$ 86,875</u>	<u>\$ 207,613</u>