

Consolidated Financial Statements and  
Report of Independent Certified Public Accountants

**Wounded Warrior Project, Inc. and Subsidiary**

For the Year Ended September 30, 2018

# Wounded Warrior Project, Inc. and Subsidiary

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of  
Wounded Warrior Project, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Wounded Warrior Project, Inc. and Subsidiary, collectively, the "Organization", which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wounded Warrior Project, Inc. and Subsidiary as of September 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Iselin, New Jersey  
January 11, 2019

Wounded Warrior Project, Inc. and Subsidiary  
 Consolidated Statement of Financial Position  
 As of September 30, 2018

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**Assets:**

Cash and cash equivalents	\$ 31,409,656
Investments	396,642,127
Contributions receivable, net	6,038,026
Prepaid expenses	9,221,213
Other assets	2,042,391
Property and equipment, net	<u>3,061,442</u>
Total assets	<u><u>\$ 448,414,855</u></u>

**Liabilities and net assets:**

Accounts payable and accrued liabilities	<u>\$ 36,782,414</u>
Total liabilities	<u>36,782,414</u>

**Net assets:**

**Without donor restrictions**

Undesignated	84,196,280
Wounded Warrior Project Long Term Support Trust	106,459,900
Board-Designated Strategic Operating Reserve Fund	<u>214,035,045</u>
Total without donor restrictions	404,691,225

**With donor restrictions**

	<u>6,941,216</u>
Total net assets	<u>411,632,441</u>
Total liabilities and net assets	<u><u>\$ 448,414,855</u></u>

Wounded Warrior Project, Inc. and Subsidiary  
Consolidated Statement of Activities  
For the Year Ended September 30, 2018

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and support:</b>			
Contributions	\$ 245,765,736	\$ 1,891,427	\$ 247,657,163
In-kind contributions	68,234,378	-	68,234,378
Interest and dividends, net of investment fees	8,560,732	57,532	8,618,264
Net realized and unrealized gain on investments	9,495,075	80,668	9,575,743
Other revenue	2,539,279	-	2,539,279
Net assets released from restrictions	4,144,418	(4,144,418)	-
Total revenue and support	<u>338,739,618</u>	<u>(2,114,791)</u>	<u>336,624,827</u>
<b>Program expenses:</b>			
	<u>265,597,946</u>	<u>-</u>	<u>265,597,946</u>
Total program expenses	<u>265,597,946</u>	<u>-</u>	<u>265,597,946</u>
<b>Supporting expenses:</b>			
Management and general	15,015,534	-	15,015,534
Fundraising	61,958,866	-	61,958,866
Total supporting expenses	<u>76,974,400</u>	<u>-</u>	<u>76,974,400</u>
Total expenses	<u>342,572,346</u>	<u>-</u>	<u>342,572,346</u>
<b>Change in net assets</b>	(3,832,728)	(2,114,791)	(5,947,519)
<b>Net assets, beginning of year</b>	<u>408,523,953</u>	<u>9,056,007</u>	<u>417,579,960</u>
<b>Net assets, end of year</b>	<u>\$ 404,691,225</u>	<u>\$ 6,941,216</u>	<u>\$ 411,632,441</u>

Wounded Warrior Project, Inc. and Subsidiary  
Consolidated Statement of Functional Expenses  
For the Year Ended September 30, 2018

	Connection Programs	Physical Health & Wellness Program	Mental Health & Wellness Programs	Financial Wellness Programs	Independence Program	Government Relations & Community Partnerships	Total Program Expenses	Management and General Expenses	Fundraising Expenses	Total Support Expenses	Total
Direct response mail & television	\$ 8,122,688	\$ 3,377,496	\$ 5,735,191	\$ 2,823,656	\$ 943,482	\$ 1,373,057	\$ 22,375,570	\$ 131,905	\$ 47,464,530	\$ 47,596,435	\$ 69,972,005
Compensation & benefits	16,079,771	3,848,791	14,815,539	14,101,130	2,175,595	1,932,566	52,953,392	3,644,626	6,682,181	10,326,807	63,280,199
Public service announcements	22,396,471	9,352,372	15,751,364	7,629,566	2,584,208	3,814,784	61,528,765	-	-	-	61,528,765
Professional services	3,198,641	687,834	11,586,580	1,249,161	20,464,225	748,664	37,935,105	2,863,438	5,233,121	8,096,559	46,031,664
Grants	-	-	20,246,069	1,000,000	-	14,708,334	35,954,403	-	-	-	35,954,403
Warrior program events	14,249,501	1,406,345	5,830,201	184,737	146,241	-	21,817,025	-	-	-	21,817,025
Advertising and promotion	5,163,637	2,156,239	3,631,575	1,759,058	595,805	879,519	14,185,833	16,163	100,471	116,634	14,302,467
Rent, depreciation, and utilities	2,507,046	643,275	2,169,074	2,055,060	335,460	189,718	7,899,633	2,429,814	742,128	3,171,942	11,071,575
Contribution processing	-	-	-	-	-	-	-	4,161,641	161,504	4,323,145	4,323,145
Warrior financial assistance	82,327	-	-	1,246,492	-	-	1,328,819	-	-	-	1,328,819
Other	3,436,017	837,683	2,685,388	2,013,572	377,715	269,026	9,619,401	1,767,947	1,574,931	3,342,878	12,962,279
<b>Total expenses</b>	<b>\$ 75,236,099</b>	<b>\$ 22,310,035</b>	<b>\$ 82,450,981</b>	<b>\$ 34,062,432</b>	<b>\$ 27,622,731</b>	<b>\$ 23,915,668</b>	<b>\$ 265,597,946</b>	<b>\$ 15,015,534</b>	<b>\$ 61,958,866</b>	<b>\$ 76,974,400</b>	<b>\$ 342,572,346</b>

Wounded Warrior Project, Inc. and Subsidiary  
 Consolidated Statement of Cash Flows  
 For the Year Ended September 30, 2018

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<b>Cash flows from operating activities:</b>	
Change in net assets	\$ (5,947,519)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	3,732,664
Net realized and unrealized gain on investments	(9,575,743)
Provision for losses on contributions receivable	52,867
Changes in operating assets and liabilities:	
Contributions receivable	(673,148)
Prepaid expenses	1,043,485
Other assets	876,547
Accounts payable and accrued liabilities	6,374,681
Net cash used in operating activities	<u>(4,116,166)</u>
<b>Cash flows from investing activities:</b>	
Capital expenditures	(195,035)
Purchases of investments	(491,987,771)
Proceeds from sales of investments	494,182,010
Net cash provided by investing activities	<u>1,999,204</u>
Net decrease in cash	(2,116,962)
Cash and cash equivalents, beginning of year	<u>33,526,618</u>
Cash and cash equivalents, end of year	<u>\$ 31,409,656</u>



# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### 1 Organization

Wounded Warrior Project, Inc. (“WWP” or “Wounded Warrior Project”), is a not-for-profit 501(c)(3) corporation organized February 23, 2005, in the state of Virginia, for the purpose of serving veterans and service members who incurred a physical or mental injury, illness, or wound, co-incident to their military service on or after September 11, 2001. The consolidated financial statements include Wounded Warrior Project, Inc. and Wounded Warrior Project Long Term Support Trust (collectively, the “Organization”).

The mission of Wounded Warrior Project is to honor and empower wounded warriors. WWP empowers warriors to live life on their own terms, mentor fellow warriors, and embody the WWP logo by carrying their peers towards recovery. Warriors never pay for WWP programs, because they paid their dues on the battlefield. The Organization delivers free direct programs and services in the following areas:

#### **Connection Programs**

These programs focus on connecting warriors with peers, programs, and communities, providing a path to recovery and resilience. Through these important interactions, program staff build trust with warriors, help identify their reintegration needs, bring them out of isolation, and then match them to internal programs and external resources. The Organization provides the following Connection programs:

**Alumni:** The Alumni program provides support and camaraderie for wounded warriors and their family members through communication, events and networking. It offers a wide range of activities including sporting events, educational sessions, personal and professional development summits and recreational events that provide individuals a chance to engage with other wounded warriors and family members. The Alumni program also provides backpacks to wounded service members arriving at U.S. military hospitals and trauma centers. WWP backpacks contain clothing and comfort items to make a warrior’s hospital stay more comfortable. Injured warriors overseas who are evacuated from field hospitals to larger military treatment facilities abroad receive a Transitional Care Pack (“TCP”), which includes clothing and toiletries for their immediate comfort.

**International Support:** Landstuhl Regional Medical Center (“LRMC”) is one of the first locations warriors are medically evacuated to when injured overseas, especially from combat zones in Iraq and Afghanistan. Most of the time their belongings are not transported with them. WWP wants to make their stay and travel back to the United States of America as comfortable as possible. WWP has dedicated resources at LRMC that distribute TCP’s, provide support for events and visitation, and educate warriors and families on WWP’s free programs and services.

**Peer Support:** Peer Support is the programmatic embodiment of WWP’s logo, fostering relationships that enable warriors to help other warriors through the recovery process. WWP peer led groups provide camaraderie and opportunities for warriors to engage with other warriors who can share their understanding and perspective.

**Soldier Ride®:** Soldier Ride is a unique three to five-day program for warriors to use cycling and the bonds of service to overcome physical, mental and emotional wounds. Warriors of all ability levels can cycle on adaptive hand cycles, trikes and bicycles. In addition to the physical benefits, Soldier Ride helps raise public awareness of the challenges wounded warriors face today. Warriors have the opportunity to take part in annual events, including rides initiating from the south lawn of the White House to those held in local communities across the nation.

#### **Physical Health & Wellness Program**

WWP envisions injured warriors living well-adjusted active, healthy lives. Inactivity, weight gain, and sleep issues seriously affect a warrior’s quality of life. Through WWP’s Physical Health & Wellness (“PH&W”) program, warriors regain their physical independence and well-being. PH&W uses coaching, skill-building, education, and physical training to reduce stress, combat depression, and promote an overall healthy and active lifestyle. PH&W has something to offer warriors in every stage of recovery. Three primary areas are fitness, nutrition, and wellness.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Mental Health & Wellness Programs**

Through the Organization's mental health and wellness programs, WWP honors its commitment to be there for this generation of wounded service members – no matter how long or difficult their road to recovery. Interactive programs, rehabilitative retreats, and professional services provide warriors with the tools to develop and maintain healthy, meaningful relationships, set goals for the future, and build resilience without the barriers or stigmas associated with mental health issues. The Organization provides the following Mental Health and Wellness programs:

**Combat Stress Recovery Programs (“CSRP”):** This program addresses the mental health and cognitive needs of service members dealing with the invisible wounds of war, namely Post Traumatic Stress Disorder (“PTSD”) and Traumatic Brain Injury (“TBI”). CSRP challenges warriors to set goals and understand their “new normal.” Many warriors begin their recovery journey with Project Odyssey®, an outdoor, rehabilitative retreat that promotes peer connection, challenging experiences, and healing with other combat veterans. CSRP provides licensed mental health counselors at Project Odyssey events. CSRP also provides post-retreat continued care services to improve warrior resiliency and long-term psychological well-being. This is accomplished through the establishment of goals and the identification and use of community-based resources.

CSRP also provides WWP Talk, a non-clinical telephonic, emotional support program for warriors, their families and caregivers, which helps bridge the gap that may prevent participation in other programs. This mental health support line was created for wounded service members living with PTSD, depression, combat stress, and other mental health conditions. Together, the warrior, family member or caregiver and WWP Talk teammates develop coping strategies to help the warrior overcome challenges and learn to thrive again despite invisible wounds.

**Warrior Care Network®:** The Warrior Care Network provides treatment for PTSD and TBI through an integrated care model. The Warrior Care Network consists of four leading national academic medical centers (“AMCs”) that provide warriors and their families with world-class, evidence-based mental health care. These AMCs provide warriors with an individualized multi-week, intensive outpatient program and post discharge care. WWP issues monetary grants to the AMCs to fund this program (see Note 9).

### **Financial Wellness Programs**

An important component to successful transition into civilian life for wounded service members is the opportunity to pursue a meaningful career, achieve financial stability, and provide for his or her family. The Organization provides the following Financial Wellness programs:

**Benefits Service:** The Benefits Service program ensures that warriors and their families have information and access to government benefits and community resources necessary for successful transition to life after injury. A key part of this program is the Organization's team of highly trained personnel that are accredited by the U.S. Department of Veteran Affairs to represent warriors and advocate on their behalf. WWP personnel represent warriors in their filing of claims for benefits with the U.S. Department of Veteran Affairs and U.S. Department of Defense. WWP personnel work closely with each agency so they can walk warriors through every step of the process. When a claim is filed, WWP makes sure it is processed correctly the first time and guides injured service members through this crucial part of their transition.

**Warriors to Work®:** Warriors to Work is one of the cornerstones of WWP's efforts to achieve the goal of economically empowered wounded warriors. This program assists wounded warriors with their transition to the civilian workforce. It offers a complete package of career guidance and support services including resume writing assistance, interviewing skills, networking, job training, and job placement. The program staff provide on-going individual counseling and personal support to all program participants as they strive to build a career in the civilian workforce.

**Emergency Financial Assistance:** WWP's Emergency Financial Assistance (“EFA”) program provides financial assistance to warriors and immediate family members who encounter emergent situations that impact their life, safety, or shelter.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Independence Program**

The Independence Program is designed for the most severely wounded warriors who must rely on their families and/or caregivers due to moderate to severe TBI, spinal-cord injury, or other neurological conditions. Oftentimes, these severely wounded warrior's cognitive or physical challenges limit their opportunities to access resources and activities in their own community. The Independence Program provides support and training in important life skills and enables involvement in meaningful activities, including social and recreational wellness, volunteer work, and education.

The Independence Program is a team effort, bringing together the warrior and his or her full support team to develop an individualized plan that is focused on goals that provide a future with purpose. The Independence Program is designed as a comprehensive long-term partnership intended to adapt to the warriors' ever-changing needs.

### **Long Term Support Trust**

The Wounded Warrior Project Long Term Support Trust (the "Trust") was established as a supporting organization on September 27, 2013 to help provide the financial support necessary to maintain severely wounded warriors in settings that are as independent as possible, and to assist them with long term care needs in the event of the warrior's separation from his or her caregiver.

The goal of the Trust is to empower these most severely wounded warriors, who have experienced a moderate to severe brain TBI, spinal-cord injury, or other neurological condition, to live as independently as possible, with the highest quality of life and finest, most compassionate care possible.

The Trust provides funds to ensure services including life-skills training, home care, transportation, and residential options remain available to the severely wounded, who upon the loss of their caregiver, are at risk for institutionalization. WWP is responsible for identifying the warriors who are members of the charitable class of persons served by the Trust. The Trust will generally make approved distributions directly to service providers to provide for the needs of warriors. Distributions for the benefit of a specific warrior shall take into account his or her health, financial needs, care requirements, provision for a decent standard of living, ability to live independently, community-based resources available, and in general, the requirements to alleviate the suffering that results from the injuries or illness suffered by the warrior as a result of his or her military service. Further, WWP takes into consideration the availability of government benefits and other forms of public funding and resources that may provide for some or all of the needs of the warrior.

As of September 30, 2018, the Trust net assets of \$106,459,900 are separately presented on the accompanying consolidated statement of financial position as part of net assets without donor restrictions. The Trust is consolidated in accordance with authoritative guidance because, among other factors, WWP has the power to remove the Trustee and appoint a successor Trustee, and the Trust is operated, supervised, and controlled by WWP, its supported organization. All funds held by the Trust must be used for the purposes defined by the Trust and cannot be returned to WWP. The Trust is a Type I supporting organization. Based on its defined purpose, from inception through September 30, 2018 there has not yet been any required or requested distributions from the Trust.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Government Relations & Community Partnerships**

One of WWP's strategic priorities is to improve the lives of veterans by expanding its impact through advocacy and collaboration. WWP has dedicated resources for these efforts. WWP's Government Relations team advocates for legislation and policy that positively impact the lives of service members, veterans, and families, as well as future veterans. WWP also educates veterans and their families about the programs and services available from the federal government, enabling them to utilize the benefits and entitlements they've earned.

In addition, WWP has a dedicated Community Partnerships team that engages and amplifies the network of support for warriors and their families through relationships and investments in similarly focused organizations, including issuance of monetary grants (see Note 9).

## **2 Summary of Significant Accounting Policies**

The following summary of significant accounting policies of the Organization is presented to assist in understanding the accompanying consolidated financial statements. The consolidated financial statements and accompanying notes are representations of the Organization's management. These accounting policies conform to accounting principles generally accepted in the United States of America ("US GAAP") and have been consistently applied in the presentation of the accompanying consolidated financial statements.

### **Basis of Presentation**

The accompanying consolidated financial statements reflect the accounts of the Organization and have been prepared on the accrual basis of accounting in accordance with US GAAP. All material intercompany accounts and transactions have been eliminated in consolidation.

### **Net Assets**

Net assets, and revenue and support, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The net assets of the Trust (see Note 1) and Board-Designated Strategic Operating Reserve Fund (see Note 4) are also included within net assets without donor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated 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 a maturity of three months or less when purchased to be cash equivalents.

### **Concentration of Credit Risk**

The Organization places its cash and cash equivalents with FDIC insured financial institutions. At times, the account balances may exceed the FDIC insured limits. The Organization does not believe it is exposed to any significant credit risk with respect to such cash accounts.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Investments**

Investments are carried at fair value (see Note 5 for fair value measurements). Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are reflected in the consolidated statement of activities. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified and prudent asset allocation to achieve its long-term return objectives, while maintaining portfolio stability and preserving capital.

### **Contributions Receivable**

Management evaluates total contributions receivable based upon a review of account balances, including the age of the balance and historical collection experience with donors, and reduces the carrying value of contributions receivable by an allowance for doubtful accounts to reflect an estimate of losses to be sustained. Uncollectible amounts are charged against the allowance account when management determines the possibility of collection to be remote, and any amounts subsequently collected are recorded as income in the period received. The allowance for doubtful accounts totaled \$25,348 as of September 30, 2018.

### **Beneficial Interest in Trust**

The Organization is a beneficiary of an irrevocable charitable lead annuity trust held by a bank trustee. As of September 30, 2018, the balance of the Organization's beneficial interest in this trust, which is included in contributions receivable in the accompanying consolidated statement of financial position, totals \$646,587 and is reported at fair value, which is based on the present value of the scheduled annuity payments to be received.

### **Prepaid Expenses**

Prepaid expenses primarily consist of postage purchased in advance of, and to be used for future direct mail campaigns, as well as advance payments for program events and other services.

### **Property and Equipment**

Property and equipment with an individual value of \$10,000 or more, or a capital project with a total value of \$10,000 or more, is recorded at historical cost, or if donated, at fair value at date of receipt. Historical cost is defined as the amount paid to acquire an asset. Maintenance and repairs are charged to expense as incurred. When items of property and equipment are sold or otherwise disposed of, the assets and related accumulated depreciation accounts are eliminated, and any gain or loss is included in the consolidated statement of activities.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Construction in progress is recorded at cost and is transferred to property and equipment accounts when useable or placed in service. Leasehold improvements are recorded at the inception of the lease and are depreciated over the remaining life of the lease, or the useful life of the improvement, whichever is shorter. For improvements made during the lease term, the depreciation period is the shorter of the useful life of the improvement, or the remaining lease term (including any renewal periods that are deemed to be reasonably assured), generally three to five years. Fixed asset lives for consolidated financial statement reporting of depreciation other than leasehold improvements are as follows:

Furniture and fixtures	5 years
Vehicles & trailers	3 years
Information technology equipment	3 years

### **Endowment**

The Organization has adopted investment and spending policies, approved by its Board of Directors, for endowment assets that attempt to provide a supplementary source of funding for operations, and capital projects for the benefit of the Organization, while seeking to maintain the purchasing power of these endowment assets over the long-term. As of September 30, 2018, WWP had one endowment with investments, at fair value, totaling \$1,324,845.

The Organization's Board of Directors has interpreted VA Code § 64.2-1100, et seq., referred to as the Virginia Uniform Prudent Management of Institutional Funds Act (VUPMIFA), as requiring the preservation of the original value of any donor-restricted gift, as of the gift date, absent explicit donor stipulations to the contrary. As a result, the Organization classifies as net assets with donor restrictions: (1) the original value of gifts donated to its endowment fund, (2) the original value of subsequent gifts to its endowment fund, (3) accumulations to its endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (4) any remaining portion of the donor-restricted endowment fund until such amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for expenditure prescribed by VUPMIFA.

In accordance with VUPMIFA, the Organization considers the following factors in making a determination to appropriate for expenditure or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Organization and its endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected income and appreciation of endowment investments;
6. Other resources of the Organization; and
7. The investment policies of the Organization.

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or VUPMIFA requires the Organization to retain as a fund of perpetual duration. As of September 30, 2018, there were no such deficiencies of this nature.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Contributions**

Unrestricted contributions and in-kind contributions are recognized and reported as increases to net assets without donor restrictions in the consolidated statement of activities in the fiscal year in which the donor makes an unconditional promise to give to the Organization. Contributions and in-kind contributions that are restricted by the donor as to their specified purpose or time period for use are recognized and reported as increases to net assets with donor restrictions in the consolidated statement of activities in the fiscal year in which the donor makes a promise to give to the Organization. When a donor restriction expires or is satisfied, the related assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities.

Unpaid volunteers have made significant contributions of their time to the Organization. No amounts have been reflected in the accompanying consolidated financial statements for these contributed services since such contributed services did not meet the criteria for recognition.

### **Joint Costs**

In accordance with Accounting Standards Codification (“ASC”) 958 *Not-for-profit entities*, the Organization allocates joint costs that meet the criteria for purpose, audience and content between fundraising expenses and program expenses. Accordingly, WWP allocates joint costs that benefit program services and include a fundraising appeal. The programmatic component of these activities includes the education and recruitment of wounded service members that have not yet engaged with WWP, a call to action to enlist the public’s aid in identifying wounded service members that would benefit from WWP’s free programs and services, and an opportunity to thank WWP’s alumni for their sacrifices in serving our country. These joint costs are incurred through direct response television and certain direct mail campaigns. The cost of conducting these activities included a total of \$39,086,750 of joint costs for the year ended September 30, 2018. Of these costs, \$22,029,437 was allocated to program expenses and \$17,057,313 was allocated to fundraising expenses.

### **Functional Expenses**

The costs of providing program services and supporting activities have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting activities (i.e. fundraising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount or estimates of time and effort incurred by personnel.

### **Grants**

Grant expense is recognized at the time of grant commitment, provided that the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense in the period in which the grantee meets the terms of the conditions, as acknowledged by WWP.

### **Income Taxes**

The Organization has received tax determination letters from the Internal Revenue Service and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. As such, only unrelated business income is subject to income tax. The Organization is not classified as a private foundation.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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The Organization follows authoritative guidance which requires the Organization to evaluate its tax positions for any uncertainties based on the technical merits of the position taken. The Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be upheld upon examination by taxing authorities. As of September 30, 2018, the Organization does not believe it has any uncertain tax positions. The Organization has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the Organization has filed Internal Revenue Service Form 990 tax returns as required and all other applicable returns in those jurisdictions where required.

The Organization believes that it is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to fiscal year 2015. However, the Organization is still open to examination by taxing authorities from fiscal year 2015 forward. No tax expense, interest or penalties have been recorded in the accompanying consolidated financial statements related to any uncertain tax positions.

### **New Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2019 (fiscal year 2021 for WWP). WWP will early adopt on October 1, 2018 for fiscal year 2019. WWP has evaluated the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements and expects to record a right-of-use asset and corresponding lease liability of approximately \$19 million on its September 30, 2019 consolidated statement of financial position. WWP does not expect a change in the total amount or timing of future rent expense recognition due to the adoption of ASU 2016-02.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the scope and the accounting guidance for contributions received and contributions made*, to clarify and improve the scope and accounting guidance for contributions received and contributions made. ASU 2018-08 is effective for annual periods beginning after December 15, 2018 (fiscal year 2020 for WWP) and earlier application is permitted. WWP will early adopt on October 1, 2018 on a modified retrospective basis. The adoption of this standard will not have a material effect on WWP’s consolidated financial statements.

### **3 Net Assets With Donor Restrictions**

As of September 30, 2018, the Organization had \$5,616,371 of contributions restricted by donors for either future periods of time or for specified purposes. Purpose restrictions are generally specific to a certain program or use in a specific geographic region.

As of September 30, 2018, the Organization had one donor-restricted endowment, which restricts WWP to spend investment proceeds only on the Independence Program (see description in Note 1). As required by US GAAP, the net assets associated with this endowment fund are classified and reported based on the donor-imposed restriction.



# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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Net assets with donor restrictions are restricted for the following purposes or periods as of September 30, 2018.

	<u>2018</u>
Subject to purpose restrictions	\$ 3,362,605
Subject to time restrictions	<u>2,253,766</u>
Total subject to purpose and time restrictions	<u>\$ 5,616,371</u>
Endowment:	
Endowment fund	\$ 1,000,000
Accumulated investment gains on endowment fund with purpose restriction	<u>324,845</u>
Total endowment	<u>1,324,845</u>
 Total net assets with donor restrictions	 <u>\$ 6,941,216</u>

#### 4 Liquidity and Availability

The Organization's financial assets consist of cash and cash equivalents, investments, and net contributions receivable. The following represents the Organization's financial assets as of September 30, 2018, reduced by amounts not available for general use within one year of September 30, 2018 because of contractual or donor-imposed restrictions, as well as the Board-Designated Strategic Operating Reserve Fund and investments held in the Trust:

Financial assets as of September 30, 2018	\$ 434,089,809
Less those unavailable for general expenditures within one year, due to contractual, board, or donor-imposed restrictions:	
Wounded Warrior Project Long Term Support Trust	(106,459,900)
Board-Designated Strategic Operating Reserve Fund	(214,035,045)
Restricted by donors	(6,941,216)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 106,653,648</u>

The Organization has an investment management and oversight policy authorized by the Board of Directors that provides governance and guidance on the management of cash and cash equivalents, and investments. The policy provides that the Organization maintain an adequate level of cash to meet on-going operational requirements. In addition, the policy sets forth the structure for investment of excess cash based on the financial needs of the Organization, the time horizon of those needs and the Board of Directors' investment philosophy.

The Board of Directors of the Organization has designated a Strategic Operating Reserve Fund ("Strategic Reserves") to ensure the long-term sustainability of the mission, programs, and ongoing operations of the Organization. The Strategic Reserves are intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Strategic Reserves may also be used for one-time, non-recurring expenses that will build long-term capacity, such as staff development, research and development or investment in technology and infrastructure. The Board of Directors is required to approve any request for use of the Strategic Reserves. The Strategic Reserves target minimum is equal to six months of average annual operating costs and the target maximum is equal to twelve months of average annual operating costs. Average annual operating costs do not include depreciation, in-kind and other non-cash expenses, one-time or unusual expenditures or capital purchases.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### 5 Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Authoritative guidance provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.
- Level 2 Inputs to the valuation methodology include: quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset. These investments include positions that are not traded in active markets and/or are subject to transfer restrictions. Valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes "observable" requires significant judgment by the Organization. There have been no changes in the valuation methodologies used by the Organization at September 30, 2018 as compared to prior years. The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

*Exchange Traded Funds:* These securities track an index, a commodity or a basket of assets like an index fund, and trade like equities on an active exchange. They experience price changes throughout the day as they are bought and sold.

*Government and Corporate Fixed Income Securities:* Valued using matrix pricing or valued at the closing price reported on the active market on which similar individual investments trade. Matrix pricing is a mathematical technique used without relying exclusively on quoted prices for the specific investments, but rather on the investments' relationship to other benchmark quoted investments.

*Mutual Funds:* Valued using the net asset value calculation method with the change in market value reflected on an active market once at the end of the trading day.

*Common and Preferred Stocks:* Valued at the closing price reported on the active market on which the individual investments trade.

*Structured Notes:* Debt instruments with returns tied to the performance of an equity market index. Valuations for structured notes represent the current price at which the underwriter or one of its affiliates was prepared to execute a transaction up to an indicative bid size as of the close of the end of the period.

*Limited Partnership Interest:* Limited partnerships invest in diversified private investment funds, which in turn hold investments and equity in a variety of industries. The partnership is valued using net asset value per share which is determined by the general partner and/or the investment manager using the fair value of the underlying assets, obtained from quoted market prices for investments in marketable securities.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

As of September 30, 2018, the Organization has no unfunded commitments with respect to its sole limited partnership investment. The investment has a monthly liquidity redemption frequency and a redemption notice period of 35 days. The Organization believes it can redeem its investment in this fund at its reported value.

The Organization believes that the reported fair value of its investments in government and corporate fixed income securities, structured notes, and its limited partnership interest is a reasonable estimate of their fair value. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets reported at fair value as of September 30, 2018:

	Level 1	Level 2	Level 3	NAV	Total
Exchange traded funds	\$ 166,877	\$ -	\$ -	\$ -	\$ 166,877
Government fixed income securities	6,915,710	69,849,504	-	-	76,765,214
Corporate fixed income securities	-	77,017,532	-	-	77,017,532
Mutual funds	187,300,050	-	-	-	187,300,050
Common and preferred stocks	35,419,724	-	-	-	35,419,724
Structured notes	-	19,856,357	-	-	19,856,357
Limited partnership interest	-	-	-	116,373	116,373
Total investments at fair value	\$ 229,802,361	\$ 166,723,393	\$ -	\$ 116,373	\$ 396,642,127

There were no significant transfers of assets between levels during the year ended September 30, 2018.

The Organization's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near-term and that such changes could materially affect the amounts reported in the consolidated financial statements. On a regular basis, the Organization, in collaboration with its investment advisors, monitors its investments and associated risks. The Organization believes this process helps manage investment risk.

As discussed in Note 2, the Organization is the beneficiary of an irrevocable charitable lead annuity trust. The investments that support the trust are similarly exposed to the risks identified above.

### 6 Property and Equipment, Net

Property and equipment consist of the following at September 30, 2018:

Furniture and fixtures	\$ 17,420,772
Leasehold improvements	6,869,303
Information technology equipment	2,708,794
Vehicles & trailers	1,344,177
Construction in progress	128,877
Gross property and equipment	28,471,923
Less: Accumulated depreciation	(25,410,481)
Property and equipment, net	\$ 3,061,442

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### 7 Leases

The Organization leases office space, storage space and office equipment primarily under non-cancelable operating leases. The leases provide for increases in scheduled rent, operating expenses, and real estate taxes attributable to the leased property. The leases expire in various years through 2027. At September 30, 2018, WWP recognized a deferred rent liability of \$1,334,000, included within accounts payable and accrued liabilities in the accompanying statement of financial position, which represents the cumulative difference between the rent expense recognized on the straight-line basis over the term of the lease and the actual rent paid. Total rent expense for the year ended September 30, 2018 totaled \$6,976,239.

Future minimum lease payments for operating leases with an initial or remaining lease term of twelve months or more at September 30, 2018 are as follows:

2019	\$	5,246,638
2020		4,441,608
2021		3,324,376
2022		2,861,970
2023		2,436,751
Thereafter		5,122,091
<b>Total minimum lease payments</b>		<b>\$ 23,433,434</b>

### 8 In-Kind Contributions

The Organization's consolidated financial statements include the following in-kind contributions revenue and support, and associated expense:

#### **Public Service Announcements**

Public service announcements help the American public understand the needs of wounded warriors and their family members, while also making warriors and their families aware of the programs and services available to them. The Organization produces and distributes public service television, radio, internet, and newspaper announcements that focus attention on the programs and services the Organization provides at no cost to wounded warriors and their families. These public service announcements ("PSAs") are distributed to television stations, radio stations, internet, and newspapers nationwide that then deliver the announcements to assist the Organization in the achievement of its mission, free of charge. These PSAs are recognized as in-kind contributions at fair value and expensed when they are run publicly. The Organization has contracted with independent outside agencies to track the date and time that each PSA displays and to estimate the fair value of the announcement and printed advertisement based on the date, time, and market.

#### **Advertising and Promotion**

The Organization receives free advertising through billboard, magazine, and rental truck advertisements that serve as platforms to market and brand the mission of the Organization. These donated advertisements are recognized as in-kind contributions at fair value and are expensed as used.

#### **Professional Services**

The Organization receives donated professional services that would typically be purchased if not provided as an in-kind contribution. These services, which require specialized skills, are recognized as in-kind contributions at their fair value when the pledge is made and are expensed when the services are rendered.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Other**

Other in-kind contributions consist primarily of event tickets and recreation activities which are used to defray program costs, or as part of fundraising events. These items are recognized as in-kind contributions and expensed when they are used. The Organization values these items at either face value or fair value on the date received depending on the nature of the item.

During the year ended September 30, 2018, the Organization received the following in-kind contributions:

Public service announcements	\$ 61,528,766
Advertising and promotion	3,681,315
Professional services	1,630,838
Other	1,393,459
Total in-kind contributions	\$ 68,234,378

### **9 Grants**

In order to amplify and expand the network of support available for warriors and their families, the Organization invests in similarly focused organizations through the issuance of monetary grants. In addition, the Organization issues monetary grants to AMCs in the Warrior Care Network (see Note 1). Grant expense for the year ended September 30, 2018 totaled \$35,954,403, including \$20,146,069 granted to the Warrior Care Network AMCs.

Certain of the Organization's grant agreements have significant future conditions, and consequently, a portion of the expense for those grants will not be recognized until specific conditions are met. As of September 30, 2018, future conditional payments on these grant agreements are estimated to be as follows:

	<b>Warrior Care Network</b>	<b>Government Relations &amp; Community Partnerships</b>	<b>Total</b>
2019	\$ 14,638,980	\$ 323,600	\$ 14,962,580
2020	25,220,446	-	25,220,446
2021	24,643,425	-	24,643,425
2022	24,740,139	-	24,740,139
2023	25,469,416	-	25,469,416
2024	38,905	-	38,905
Total	\$ 114,751,311	\$ 323,600	\$ 115,074,911

### **10 Retirement Plan**

WWP has a 401(k) plan (the "Plan") that is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). Each year, participants may contribute up to 80% of compensation, as defined by the Plan, subject to certain Internal Revenue Code ("IRC") limitations. WWP provides a matching contribution of 100% of the first 3% and 50% of the next 2% of eligible compensation that a participant contributes to the Plan. For the year ended September 30, 2018, the Organization provided \$1,367,229 in matching contributions, which is included in compensation in the accompanying consolidated statement of functional expenses.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **11 Contingencies**

The Organization may be subject to legal actions or claims in the ordinary course of its business. Management is not aware of any current legal matters pending which would have a material adverse impact on the consolidated financial statements of the Organization.

### **12 Subsequent Events**

The Organization has evaluated events through January 11, 2019, the date the consolidated financial statements were available to be issued. On October 11, 2018, the Organization entered into a conditional grant agreement with a Warrior Care Network AMC which provides for \$20,072,015 in future conditional payments through the end of fiscal year 2024. This grant agreement is not included in the future conditional payments in Note 9. The Organization is not aware of any other material events that require recognition or disclosure in the accompanying consolidated financial statements