

Consolidated Financial Statements and  
Report of Independent Certified Public Accountants

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

For the Year Ended September 30, 2019

# 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, 2019, 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, 2019, 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 24, 2020

Wounded Warrior Project, Inc. and Subsidiary  
 Consolidated Statement of Financial Position  
 As of September 30, 2019

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<b>Assets:</b>	
Cash and cash equivalents	\$ 30,270,432
Investments	412,311,234
Contributions receivable, net	4,353,762
Prepaid expenses	4,856,039
Property and equipment, net	2,389,685
Other assets	1,732,061
Right-of-use lease assets, net	21,171,093
Total assets	<u>\$ 477,084,306</u>
 <b>Liabilities and net assets:</b>	
Accounts payable and accrued liabilities	\$ 33,859,862
Right-of-use lease liabilities	22,732,405
Total liabilities	<u>56,592,267</u>
 <b>Net assets:</b>	
<b>Without donor restrictions</b>	
Undesignated	82,601,028
Wounded Warrior Project Long Term Support Trust	111,730,287
Board-Designated Strategic Operating Reserve Fund	219,259,308
Total without donor restrictions	<u>413,590,623</u>
 <b>With donor restrictions</b>	 <u>6,901,416</u>
Total net assets	<u>420,492,039</u>
Total liabilities and net assets	<u>\$ 477,084,306</u>

Wounded Warrior Project, Inc. and Subsidiary  
Consolidated Statement of Activities  
For the Year Ended September 30, 2019

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and support:</b>			
Contributions	\$ 254,513,087	\$ 13,046,575	\$ 267,559,662
In-kind contributions	94,384,063	-	94,384,063
Interest and dividends, net of investment fees	10,004,735	67,698	10,072,433
Net realized and unrealized gain on investments	9,220,368	61,947	9,282,315
Other revenue	2,796,364	-	2,796,364
Net assets released from restrictions	13,216,020	(13,216,020)	-
Total revenue and support	<u>384,134,637</u>	<u>(39,800)</u>	<u>384,094,837</u>
<b>Program expenses:</b>			
Total program expenses	<u>293,709,811</u>	<u>-</u>	<u>293,709,811</u>
<b>Supporting expenses:</b>			
Management and general	14,705,977	-	14,705,977
Fundraising	66,819,451	-	66,819,451
Total supporting expenses	<u>81,525,428</u>	<u>-</u>	<u>81,525,428</u>
Total expenses	<u>375,235,239</u>	<u>-</u>	<u>375,235,239</u>
<b>Change in net assets</b>	8,899,398	(39,800)	8,859,598
<b>Net assets, beginning of year</b>	<u>404,691,225</u>	<u>6,941,216</u>	<u>411,632,441</u>
<b>Net assets, end of year</b>	<u>\$ 413,590,623</u>	<u>\$ 6,901,416</u>	<u>\$ 420,492,039</u>

Wounded Warrior Project, Inc. and Subsidiary  
Consolidated Statement of Functional Expenses  
For the Year Ended September 30, 2019

	Connection Programs	Physical Health & Wellness Programs	Mental Health & Wellness Programs	Financial Wellness Programs	Independence Program	Government Relations & Community Partnerships	Total Program Expenses	Management and General Expenses	Fundraising Expenses	Total Supporting Expenses	Total
Public service announcements	\$ 13,640,389	\$ 13,613,840	\$ 20,420,760	\$ 20,420,760	\$ 6,806,920	\$ 13,613,843	\$ 88,516,512	\$ -	\$ -	\$ -	\$ 88,516,512
Direct response mail and television	3,569,556	3,562,606	5,343,909	5,343,909	1,781,303	3,562,606	23,163,889	-	47,026,069	47,026,069	70,189,958
Compensation and benefits	15,783,469	5,148,508	14,868,575	16,376,479	2,329,881	2,596,708	57,103,620	4,527,095	8,486,300	13,013,395	70,117,015
Grants	5,255,563	2,250,000	25,757,630	1,280,000	-	9,223,200	43,766,393	-	-	-	43,766,393
Professional services	1,365,794	356,805	5,087,943	832,671	21,475,163	550,841	29,669,217	1,307,085	7,489,353	8,796,438	38,465,655
Warrior program events	13,398,394	1,746,846	5,184,758	166,706	133,592	-	20,630,296	-	-	-	20,630,296
Advertising and promotion	1,998,975	1,990,100	2,988,226	2,987,838	994,840	1,988,261	12,948,240	21,457	237,949	259,406	13,207,646
Rent, depreciation and utilities	1,701,763	569,933	1,530,038	1,444,928	238,924	166,346	5,651,932	2,364,039	1,080,234	3,444,273	9,096,205
Travel	1,693,119	409,014	946,287	829,356	179,088	131,259	4,188,123	111,802	377,532	489,334	4,677,457
Contributions processing	-	-	-	-	-	-	-	4,272,221	-	4,272,221	4,272,221
Warrior financial assistance	147,806	-	-	1,396,601	-	-	1,544,407	-	-	-	1,544,407
Other	1,836,532	694,593	1,692,627	1,642,085	306,029	355,316	6,527,182	2,102,278	2,122,014	4,224,292	10,751,474
<b>Total expenses</b>	<b>\$ 60,391,360</b>	<b>\$ 30,342,245</b>	<b>\$ 83,820,753</b>	<b>\$ 52,721,333</b>	<b>\$ 34,245,740</b>	<b>\$ 32,188,380</b>	<b>\$ 293,709,811</b>	<b>\$ 14,705,977</b>	<b>\$ 66,819,451</b>	<b>\$ 81,525,428</b>	<b>\$ 375,235,239</b>

Wounded Warrior Project, Inc. and Subsidiary  
Consolidated Statement of Cash Flows  
For the Year Ended September 30, 2019

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<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 8,859,598
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,005,386
Right-of-use lease amortization	5,220,357
Net realized and unrealized gain on investments	(9,282,315)
Provision for losses on contributions receivable	100,807
Disposal of property and equipment	58,583
Changes in operating assets and liabilities:	
Contributions receivable	1,583,457
Prepaid expenses	4,365,174
Other assets	310,330
Accounts payable and accrued liabilities	(1,226,722)
Right-of-use lease liabilities	(5,354,875)
Net cash provided by operating activities	<u>6,639,780</u>
 <b>Cash flows from investing activities:</b>	
Capital expenditures	(1,392,212)
Purchases of investments	(186,596,617)
Proceeds from sales of investments	<u>180,209,825</u>
Net cash used in investing activities	<u>(7,779,004)</u>
Net decrease in cash	(1,139,224)
Cash and cash equivalents, beginning of year	<u>31,409,656</u>
Cash and cash equivalents, end of year	<u>\$ 30,270,432</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.

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.

Warriors never pay for the Organization’s 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 guide them to internal programs and external resources. WWP 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 the Middle East region of the world 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 meet on a regular basis across the United States, providing 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.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Physical Health & Wellness Programs**

WWP envisions injured warriors living well-adjusted active, healthy lives. Inactivity, weight gain, physical disabilities, and sleep issues seriously affect a warrior's quality of life. Through WWP's Physical Health & Wellness ("PH&W") programs, 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 of program delivery are fitness, nutrition, and wellness.

PH&W also offers an adaptive sports program that teaches physically injured warriors new skills using adaptive equipment and techniques for activities such as wheelchair basketball, skiing, surfing and sled hockey. WWP connects warriors with local community adaptive sports leagues and resources to increase their network of support.

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

Through WWP'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. WWP provides the following Mental Health and Wellness programs:

**Combat Stress Recovery Program ("CSR"):** 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"). CSR 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. CSR provides licensed mental health counselors at Project Odyssey events. CSR 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.

**WWP Talk:** This program provides 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, as well as traditional outpatient therapy. WWP issues monetary grants to the AMCs to fund this program (see Note 9).

**Complex Case Coordination:** Complex Case Coordination is a specialized program designed to assist warriors in specific crisis situations. WWP works with external organizations to facilitate the appropriate level of care and support for these warriors based on their specific needs.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **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. WWP 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 WWP'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.

### **Independence Program**

The Independence Program is designed for the most severely wounded warriors who must rely on their families and 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 purpose of the Trust is to provide the economic means to maintain severely wounded warriors in settings that are as independent as possible, and to assist with long term care needs in the event of a warrior's separation from their caregiver. Specifically, the Trust provides funds to ensure home care, transportation, residential options and other necessary services remain available to these warriors, 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 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. 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.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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Trust net assets of \$111,730,287 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 will not be returned to WWP unless the Trust is terminated. The Organization does not have any plans to terminate the Trust. The Trust is a Type I supporting organization. Based on its defined purpose, from inception through September 30, 2019, there have not yet been any distributions from the Trust. The Organization anticipates making distributions from the Trust during the year fiscal ending September 30, 2020.

### **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. Net assets without donor restrictions may also be designated for specific purposes by the Organization's Board of Directors or may be limited by legal or contractual agreements with outside parties, and include the net assets of the Trust (see Note 1) and Board-Designated Strategic Operating Reserve Fund (see Note 4).

*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 assets 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.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **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.

### **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. Net realized and unrealized gains and losses on investments 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 \$18,262 as of September 30, 2019.

### **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, 2019, 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 \$587,302 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 capitalized 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 resulting 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. 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. Construction in progress, primarily for future leasehold improvements, is recorded at cost and is transferred to property and equipment accounts when useable or placed in service. Property and equipment estimated useful lives other than leasehold improvements are as follows:

Furniture and fixtures	5 years
Program equipment	3 - 5 years
Vehicles and trailers	3 years
Information technology equipment	3 - 5 years

The Organization's policy is to periodically review the estimated useful lives of its property and equipment. During 2019, the Organization revised the estimated useful lives of certain property and equipment categories as the actual lives generally were longer than the useful lives used for depreciation purposes. The effect of this change in estimate was not material to the consolidated financial statements.

### **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, 2019, WWP had one endowment with investments, at fair value, totaling \$1,319,466.

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.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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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, 2019, there were no such deficiencies of this nature.

### **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*, WWP allocates joint advertising 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 wounded warriors 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 \$36,520,908 of joint costs for the year ended September 30, 2019. Of these costs, \$23,163,889 was allocated to program expenses and \$13,357,019 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 statements of activities and 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, 2019, 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.

### **New Accounting Pronouncements**

The Organization early adopted Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (Topic 842), on October 1, 2018. This standard requires organizations that enter into lease agreements as a lessee, to record on their statement of financial position the rights and obligations of the lease agreement, as a Right-of-Use (“ROU”) lease asset and liability, respectively. In order to adopt this ASU, the Organization elected certain practical expedients permitted under the standard’s transition guidance. The practical expedients eliminate the need to reassess the lease classification of expired or existing leases, the need to assess whether any expired or existing contracts are or contain leases, the need to separately assess lease and non-lease components, and the need to reassess initial direct costs for any existing leases. WWP also elected the short-term lease practical expedient, and accordingly, does not record ROU lease assets or lease liabilities with terms less than 12 months. In addition, the Organization utilized the portfolio approach to group leases with similar characteristics. The Organization’s adoption of this standard on October 1, 2018 resulted in the recording of initial ROU lease assets and liabilities of \$19,349,249 and \$21,045,079, respectively, and the reversal of deferred rent liability balances, and did not change how lease expense is recorded in the consolidated statement of activities (see Note 7 for additional information).

The Organization early adopted ASU No. 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the scope and the accounting guidance for contributions received and contributions made*, on October 1, 2018. This standard clarifies and improves the scope and accounting guidance for contributions received and contributions made by not-for-profit organizations. The Organization adopted the standard on a modified prospective basis and the adoption did not have a material impact on how the Organization accounts for its contributions received or grant making activities (contributions made).

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 to periods beginning on or after December 15, 2018. Under this standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. Contributions revenue is specifically excluded from this guidance. The Organization is currently evaluating this standard as it relates to its other revenue, but does not believe it will have a material impact on its consolidated financial statements.

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

As of September 30, 2019, the Organization had \$5,581,950 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, 2019, the Organization had one donor-restricted endowment, which restricts it to spend investment earnings 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, 2019:

Subject to purpose restrictions	\$ 3,628,152
Subject to time restrictions	<u>1,953,798</u>
Total subject to purpose and time restrictions	<u>\$ 5,581,950</u>
Endowment fund:	
Corpus	\$ 1,000,000
Accumulated unspent earnings with purpose restriction	<u>319,466</u>
Total endowment fund	<u>\$ 1,319,466</u>
 Total net assets with donor restrictions	 <u><u>\$ 6,901,416</u></u>

#### 4. Liquidity and Availability of Financial Assets

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, 2019, reduced by amounts not available for general use within one year of September 30, 2019 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, 2019	\$ 446,935,428
Less those unavailable for general expenditures within one year, due to contractual, board, or donor-imposed restrictions:	
Wounded Warrior Project Long Term Support Trust	(111,730,287)
Board-Designated Strategic Operating Reserve Fund	(219,259,308)
Restricted by donors	(6,901,416)
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 109,044,417</u></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 its 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 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, 2019 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:

*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 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 at the end of the period.

The Organization believes that the reported fair value of its investments in government and corporate fixed income securities and structured notes, 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.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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The following table sets forth by level, within the fair value hierarchy, the Organization's assets reported at fair value as of September 30, 2019:

	Level 1	Level 2	Level 3	Total
Government fixed income securities	\$ 7,858,082	\$ 63,464,408	\$ -	\$ 71,322,490
Corporate fixed income securities	-	87,478,841	-	87,478,841
Mutual funds	195,663,435	-	-	195,663,435
Common and preferred stocks	36,523,504	-	-	36,523,504
Structured notes	-	21,322,964	-	21,322,964
<b>Total investments at fair value</b>	<b>\$ 240,045,021</b>	<b>\$ 172,266,213</b>	<b>\$ -</b>	<b>\$ 412,311,234</b>

There were no significant transfers of assets between levels during the year ended September 30, 2019.

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, 2019:

Furniture and fixtures	\$ 16,408,757
Leasehold improvements	6,932,701
Information technology equipment	2,714,520
Vehicles & trailers	1,399,954
Program equipment	371,363
Construction in progress	638,549
Gross property and equipment	28,465,844
Less: Accumulated depreciation	(26,076,159)
<b>Property and equipment, net</b>	<b>\$ 2,389,685</b>

### 7. Leases

Effective October 1, 2018, the Organization began accounting for leases in accordance with ASU No. 2016-02, *Leases* (Topic 842)(see Note 2 for additional information).

The Organization leases office space, storage space and office equipment primarily under non-cancelable operating leases. These lease agreements provide for increases in scheduled rent, operating expenses, and real estate taxes attributable to the leased property, but do not contain any residual value guarantees or material restricted covenants.

# Wounded Warrior Project, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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The value of a ROU lease liability is based on the present value of future lease payments. The Organization uses a risk-free rate as the discount rate in calculating the ROU lease liability value. For purposes of valuation at September 30, 2019, the Organization used a weighted average discount rate of 2.7% and an overall weighted average remaining lease term of 5.4 years. Office space leases generally include an option to extend the lease term. The Organization does not include these options in its ROU lease liability valuation as it is not reasonably certain that it will exercise such options.

Cash paid for amounts included in the measurement of lease liabilities included in operating cash flows totaled \$5,354,875 for the year ended September 30, 2019.

ROU assets obtained in exchange for lease obligations totaled \$6,457,059 for the year ended September 30, 2019.

Total operating lease expense for the year ended September 30, 2019 totaled \$5,220,357. The Organization did not have any short-term lease cost during the period.

Future minimum lease payments for operating leases with an initial or remaining lease term of twelve months or more at September 30, 2019 are as follows:

2020	\$	5,007,383
2021		4,614,911
2022		4,219,996
2023		3,641,146
2024		3,382,536
Thereafter		3,634,553
Total minimum lease payments		24,500,525
Less: Imputed interest		(1,768,120)
ROU lease liabilities	\$	22,732,405

### 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 ("PSAs") help the American public understand the needs of wounded warriors and their family members, while also making warriors and their families aware of the free programs and services available to them through WWP. WWP produces and distributes public service television, radio, internet, and newspaper announcements that focus attention on the programs and services WWP provides. These PSAs are broadcasted or delivered nationwide, at no charge to WWP, to assist in the achievement of its mission. These PSAs are recognized as in-kind contributions at fair value, with a corresponding PSA expense, as they are delivered to the public. The Organization contracts with independent outside agencies to track and estimate the fair value of each PSA based on the date, time, and market in which it is displayed.

#### **Advertising and Promotion**

WWP receives free advertising through billboard, magazine, and rental truck advertisements that serve as platforms to market and brand its mission. These donated advertisements are recognized as in-kind contributions at fair value, with a corresponding expense, as they are delivered to the public.

#### **Professional Services**

WWP 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 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 at their fair value, with a corresponding expense, as they are delivered to the public. WWP 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, 2019, WWP received the following in-kind contributions:

Public service announcements	\$ 88,516,512
Advertising and promotion	3,108,592
Professional services	1,628,660
Other	1,130,299
<b>Total in-kind contributions</b>	<b>\$ 94,384,063</b>

### **9. Grants**

In order to amplify and expand the network of support available for warriors and their families, WWP invests in similarly focused organizations through the issuance of monetary grants. In addition, WWP issues monetary grants to AMCs in the Warrior Care Network (see Note 1). Grant expense for the year ended September 30, 2019 totaled \$43,766,393, including \$24,882,630 granted to the Warrior Care Network AMCs.

Certain of WWP'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 satisfied. As of September 30, 2019, future conditional payments on these grant agreements are estimated to be as follows:

	<b>Warrior Care Network</b>
2020	\$ 26,875,259
2021	29,638,438
2022	28,778,286
2023	29,263,069
2024	411,646
<b>Total</b>	<b>\$ 114,966,698</b>

### **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 eligible compensation, as defined by the Plan, subject to certain Internal Revenue Code 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, 2019, WWP provided \$1,574,022 in matching contributions, which is included in compensation in the accompanying consolidated statement of functional expenses.

### **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 24, 2020, the date the consolidated financial statements were available to be issued. The Organization is not aware of any material events that require recognition or disclosure in the accompanying consolidated financial statements.