

Consolidated Financial Statements and
Report of Independent Certified Public Accountants

Wounded Warrior Project, Inc. and Subsidiary

For the Year Ended September 30, 2017

Wounded Warrior Project, Inc. and Subsidiary

Table of Contents

Report of Independent Certified Public Accountants	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

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, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the 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, 2017, 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 12, 2018

Wounded Warrior Project, Inc. and Subsidiary
 Consolidated Statement of Financial Position
 As of September 30, 2017

Assets:	
Cash and cash equivalents	\$ 33,526,618
Investments	389,260,623
Contributions receivable, net	5,417,745
Prepaid expenses	10,264,698
Property and equipment, net	6,599,071
Other assets	2,918,938
Total assets	<u><u>\$447,987,693</u></u>
 Liabilities and net assets:	
Accounts payable and accrued liabilities	\$ 30,407,733
Total liabilities	<u>30,407,733</u>
 Net assets:	
Without donor restrictions	
Undesignated	98,300,182
Wounded Warrior Project Long Term Support Trust	100,524,751
Board-Designated Strategic Operating Reserve Fund	<u>209,699,020</u>
Total without donor restrictions	408,523,953
 With donor restrictions	
Total net assets	<u>9,056,007</u>
Total liabilities and net assets	<u><u>\$447,987,693</u></u>

Wounded Warrior Project, Inc. and Subsidiary
Consolidated Statement of Activities
For the Year Ended September 30, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Contributions	\$ 207,642,379	\$ 6,245,426	\$ 213,887,805
In-kind contributions	38,993,892	-	38,993,892
Interest and dividends, net of investment fees	7,522,493	20,495	7,542,988
Net realized and unrealized gain on investments	17,519,502	124,212	17,643,714
Other revenue	2,152,572	-	2,152,572
Net assets released from restrictions	2,762,444	(2,762,444)	-
Total revenue and support	276,593,282	3,627,689	280,220,971
Program expenses:	203,645,836	-	203,645,836
Total program expenses	203,645,836	-	203,645,836
Supporting expenses:			
Management and general	13,278,844	-	13,278,844
Fundraising	53,286,795	-	53,286,795
Total supporting expenses	66,565,639	-	66,565,639
Total expenses	270,211,475	-	270,211,475
Change in net assets	6,381,807	3,627,689	10,009,496
Net assets, beginning of year	402,142,146	5,428,318	407,570,464
Net assets, end of year	\$ 408,523,953	\$ 9,056,007	\$ 417,579,960

Wounded Warrior Project, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2017

	Connection Programs	Physical Health & Wellness	Soldier Ride®	Combat Stress Recovery	Warrior Care Network®	Benefits Service	Warriors to Work®
Direct response mail, television, and online	\$ 2,945,975	\$ 840,599	\$ 1,008,683	\$ 2,032,554	\$ 2,714,387	\$ 1,016,722	\$ 1,745,693
Compensation (salaries, taxes, benefits)	11,154,182	2,589,727	2,149,127	9,151,259	1,601,258	5,961,038	4,135,467
Outside services and professional fees	2,708,970	466,781	652,308	2,806,491	7,987,708	502,694	582,859
Grants	1,000,000	-	-	-	23,700,000	-	-
Public service announcements	5,324,734	1,521,353	1,825,623	3,651,247	5,020,464	1,825,623	3,194,841
Warrior program events	10,068,922	1,033,250	1,660,770	4,957,870	-	82,811	54,083
Rent, depreciation, and utilities	2,290,354	520,972	634,164	1,895,817	334,271	935,430	754,093
Advertising and promotion	1,737,252	496,358	595,629	1,191,259	1,637,981	595,629	1,042,352
Contribution processing	-	-	-	-	-	-	-
Warrior financial assistance	1,074,934	-	-	-	-	-	-
Other	2,114,089	441,991	539,369	1,554,519	344,708	845,253	541,093
Total expenses	\$ 40,419,412	\$ 7,911,031	\$ 9,065,673	\$ 27,241,016	\$ 43,340,777	\$ 11,765,200	\$ 12,050,481

Wounded Warrior Project, Inc. and Subsidiary
Consolidated Statement of Functional Expenses (cont'd)
For the Year Ended September 30, 2017

	Independence Program	Government Relations & Community Partnerships	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Direct response mail, television, and online	\$ 2,390,633	\$ 1,969,792	\$ 16,665,038	\$ 137,543	\$ 38,927,854	\$ 39,065,397	\$ 55,730,435
Compensation (salaries, taxes, benefits)	2,450,393	1,611,189	40,803,640	3,585,295	4,111,598	7,696,893	48,500,533
Outside services and professional fees	17,856,570	628,285	34,192,666	3,796,216	3,879,359	7,675,575	41,868,241
Grants	-	12,678,317	37,378,317	-	-	-	37,378,317
Public service announcements	4,411,923	3,651,245	30,427,053	-	-	-	30,427,053
Warrior program events	155,303	-	18,013,009	-	-	-	18,013,009
Rent, depreciation, and utilities	446,094	227,878	8,039,073	3,600,347	550,479	4,150,826	12,189,899
Advertising and promotion	1,439,438	1,191,258	9,927,156	34,411	142,160	176,571	10,103,727
Contribution processing	-	-	-	7,904	4,518,605	4,526,509	4,526,509
Warrior financial assistance	-	-	1,074,934	-	-	-	1,074,934
Other	423,337	320,591	7,124,950	2,117,128	1,156,740	3,273,868	10,398,818
Total expenses	\$ 29,573,691	\$ 22,278,555	\$ 203,645,836	\$ 13,278,844	\$ 53,286,795	\$ 66,565,639	\$ 270,211,475

Wounded Warrior Project, Inc. and Subsidiary
 Consolidated Statement of Cash Flows
 For the Year Ended September 30, 2017

Cash flows from operating activities:

Change in net assets	\$ 10,009,496
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,351,400
Net realized and unrealized gain on investments	(17,643,714)
Provision for losses on contributions receivable	21,991
Change in operating assets and liabilities:	
Contributions receivable	3,630,564
Prepaid expenses	(1,773,722)
Other assets	4,730,648
Accounts payable and accrued liabilities	8,053,613
Net cash provided by operating activities	12,380,276

Cash flows from investing activities:

Capital expenditures	(38,692)
Purchases of investments	(293,682,050)
Proceeds from sales of investments	260,361,747
Net cash used in investing activities	(33,358,995)
Net decrease in cash	(20,978,719)
Cash and cash equivalents, beginning of year	54,505,337
Cash and cash equivalents, end of year	\$ 33,526,618

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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 Organization delivers free direct programs and services in the following areas:

Connection Programs

These programs focus on connecting warriors with their peers, families, and communities. Through these important interactions, program staff build trust with warriors, help identify their readjustment needs, 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 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. This program also identifies, trains, and challenges leaders within the wounded warrior population to support their peers in their continued path toward physical and mental health and well-being.

WWP Packs: Backpacks are provided 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 transported to when injured. Most of the time during transport, 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 on WWP’s free programs and services.

Peer Support: Peer Support is the programmatic embodiment of WWP’s logo, fostering relationships that enable one warrior to help another through the recovery process. The WWP peer support program mentors serve as listeners, role models, and motivators who can share their understanding and perspective with fellow warriors. WWP’s goal of Peer Support is for the warrior being mentored to eventually mentor a fellow warrior - embodying the WWP’s mission and logo.

Physical Health & Wellness Programs

WWP envisions a generation of 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 two Physical Health & Wellness programs, warriors regain their physical independence and well-being. The Organization provides the following Physical Health & Wellness programs:

Physical Health & Wellness (“PH&W”): PH&W is designed to reduce stress, combat depression, and promote an overall healthy and active lifestyle by encouraging participation in fun, educational activities. 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

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 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.

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, outdoor rehabilitative retreats, and professional services provide warriors with the tools to 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 Program (“CSRP”): This program addresses the mental health and cognitive needs of service members dealing with the invisible wounds of war. CSRP challenges warriors to set goals and understand their “new normal.” Many warriors begin their 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 continued care services to improve warrior resiliency and 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 helpline was created for wounded service members living with PTSD, depression, combat stress, or 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®: In order to enhance access and provide Post Traumatic Stress Disorder (“PTSD”) treatment through an integrated care model, WWP established the Warrior Care Network. Warrior Care Network consists of four leading national academic medical centers (“AMCs”) that connect warriors and their families with world-class, evidence-based mental health care. These AMCs provide warriors with multi-week, intensive outpatient programs and individualized care. During the year ended September 30, 2017, WWP granted \$23,700,000 in funds to the AMCs, which is included in the accompanying consolidated statement of functional expenses as grant expense.

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: To help warriors make the most of their earned benefits and successfully transition to life after injury, WWP provides the tools they need to become financially secure. The Benefits Service team ensures 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.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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 assistance, interviewing skills, networking, job training, and job placement. The program staff provides continued individual counseling and personal support to all program participants as they strive to build a career in the civilian workforce.

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 brain injury, spinal-cord injury, or other neurological conditions. Oftentimes, the 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 to enable involvement in meaningful activities, including social and recreational wellness, volunteer work, education, and other important life skills.

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. It's 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 injury, 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. 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, 2017, the Trust net assets of \$100,524,751 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. WWP is responsible for identifying the warriors who are members of the charitable class of persons served by the Trust. As of September 30, 2017, there have not been any distributions requested of or made from the Trust.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Government Relations and Community Partnerships

One of WWP's strategic priorities is to improve the lives of veterans by expanding its impact through 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. WWP also 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 financial grants.

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.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. WWP has elected to early adopt ASU 2016-14 for the purpose of preparing the accompanying consolidated financial statements.

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.

Net Assets

Net assets, 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.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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. 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.

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, 2017, the balance of the beneficial interest in the trust, which is included in contributions receivable in the accompanying consolidated statement of financial position, totals \$704,710 and is reported at its fair value, which is based on the present value of the scheduled annuity payments to be received.

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, infrastructure redevelopment, and other 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, 2017, WWP had one endowment with investments totaling \$1,363,844.

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, (2) the original value of subsequent gifts to its endowment, (3) accumulations to its endowment 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 until such amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for expenditure prescribed by VUPMIFA.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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 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, 2017, there were no such deficiencies of this nature.

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 records 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 \$4,314 as of September 30, 2017.

Prepaid Expenses

Prepaid expenses primarily consists 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 values of \$10,000 or more and a useful life longer than three years are recorded at cost, or, if donated, at their estimated fair value at date of receipt. 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

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
Computers	3-5 years
Vehicles	3 years
Website and software	3 years

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 the 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 the 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 the contribution of these services did not meet the criteria for recognition.

Functional Expenses

The costs of providing program and supporting services 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 services (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.

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 programs and services, and an opportunity to thank WWP’s alumni for their sacrifices in serving our country. These joint costs include direct response television and certain direct mail campaigns. The cost of conducting these activities included a total of \$29,482,891 of joint costs for the year ended September 30, 2017. Of these costs, \$16,339,783 was allocated to program expenses and \$13,143,108 was allocated to fundraising expenses.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Grants

Grant expense is recognized at the time of the grant, 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.

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, 2017, 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 2014. However, the Organization is still open to examination by taxing authorities from fiscal year 2014 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 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 WWP for fiscal year 2021. Early adoption is permitted. WWP is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

3 Net Assets With Donor Restrictions

As of September 30, 2017, the Organization had \$7,692,163 of contributions restricted by donors to 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, 2017, 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 restrictions.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Net assets with donor restrictions are restricted for the following purposes or periods as of September 30, 2017:

	<u>2017</u>
Subject to purpose restrictions	\$ 3,790,458
Subject to time restrictions	3,901,705
Total subject to purpose and time restrictions	<u>\$ 7,692,163</u>
Endowment:	
Endowment fund	\$ 1,000,000
Accumulated investment gains on endowment fund with purpose restriction	363,844
Total endowment	<u>1,363,844</u>
Total net assets with donor restrictions	<u>\$ 9,056,007</u>

4 Liquidity and Availability

Financial assets consist of the Organization's cash and cash equivalents, investments, and net contributions receivable. The following represents the Organization's financial assets as of September 30, 2017, reduced by amounts not available for general use within one year of September 30, 2017 because of contractual or donor-imposed restrictions, as well the Board-Designated Strategic Operating Reserve Fund and investments held in the Trust:

	<u>2017</u>
Financial assets as of September 30, 2017	\$428,204,986
Less those unavailable for general expenditures within one year, due to:	
Contractual, board, or donor-imposed restrictions:	
Wounded Warrior Project Long Term Support Trust	(100,524,751)
Board-Designated Strategic Operating Reserve Fund	(209,699,020)
Restricted by donors with time or purpose restrictions	<u>(9,056,007)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$108,925,208</u>

The Organization's financial assets available to meet cash needs for general expenditures within one year represents funding for ongoing operational requirements and planned increase in program expenditures in fiscal year 2018.

The Organization has an investment policy authorized by the Board of Directors that provides guidance and oversight for 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 stability 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 fund and authorize any transfer from the fund. 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 monthly 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

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.

The Organization also measures certain investments using net asset value ("NAV") which is exempted from categorization within the fair value hierarchy and related disclosures described above.

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, 2017 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, 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 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.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Limited Partnerships Interests: Investments in limited partnership interests invest in diversified private investment funds, which in turn hold investments and equity in a variety of industries. These partnerships are measured using net asset value per share and are 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.

As of September 30, 2017, the Organization has no unfunded commitments with respect to its limited partnership investments. These investments have monthly liquidity redemption frequencies and have redemption notice periods between 5 and 35 days. The Organization believes it can redeem its investment in these funds at their reported value.

The Organization believes that the reported fair value of its investments in government and corporate fixed income securities, structured notes, and limited partnership interests 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, 2017:

	Level 1	Level 2	Level 3	NAV	Total
Exchange traded funds	\$ 17,492,000	\$ -	\$ -	\$ -	\$ 17,492,000
Government fixed income securities	7,927,302	60,698,807	-	-	68,626,109
Corporate fixed income securities	-	101,253,462	-	-	101,253,462
Mutual funds	136,442,607	-	-	-	136,442,607
Common and preferred stocks	43,205,624	-	-	-	43,205,624
Structured notes	-	10,276,811	-	-	10,276,811
Limited partnerships interests	-	-	-	11,964,010	11,964,010
Total investments at fair value	\$205,067,533	\$172,229,080	\$ -	\$ 11,964,010	\$389,260,623

There were no significant transfers of assets between Level 1 and Level 2 during the year ended September 30, 2017.

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. The Organization, in collaboration with its investment advisors, monitors the Organization's investments and the risks associated on a regular basis. The Organization believes this process minimizes 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.

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

6 Property and Equipment

Property and equipment consists of the following at September 30, 2017:

	<u>2017</u>
Furniture and fixtures	\$ 17,910,998
Leasehold improvements	7,808,675
Computers	1,404,234
Vehicles	1,398,671
Website and software	1,234,889
Gross property and equipment	29,757,467
Less: Accumulated depreciation	(23,158,396)
Property and equipment, net	<u>\$ 6,599,071</u>

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, 2017, WWP recognized a deferred rent liability of \$1,576,122 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, 2017 totaled \$6,616,708.

Future minimum lease payments for operating leases with an initial or remaining lease term of twelve months or more at September 30, 2017 are as follows:

2018	\$ 5,508,098
2019	4,936,368
2020	3,925,451
2021	2,703,743
2022	2,367,015
Thereafter	7,057,051
Total minimum lease payments	<u>\$ 26,497,726</u>

8 In-Kind Contributions

The Organization recognizes in-kind contributions at their estimated fair value. During the year ended September 30, 2017, the Organization received the following in-kind contributions:

	<u>2017</u>
Public service announcements	\$ 30,427,053
Advertising and promotion	4,230,471
Professional services	3,136,950
Other	1,199,418
Total in-kind contributions	<u>\$ 38,993,892</u>

Wounded Warrior Project, Inc. and Subsidiary

Notes to Consolidated Financial Statements

The Organization's consolidated financial statements include the following in-kind contributions:

Public Service Announcements

Public service announcements help the American public understand the needs of post-9/11 veterans, 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 free programs and services the Organization provides for wounded warriors. These public service announcements are distributed to television stations, radio stations, internet, and newspapers nationwide that then deliver the announcements to assist the Organization in its mission, free of charge. The Organization has contracted with independent outside agencies to track the date and time that each public service announcement 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 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 expensed at their fair value when rendered.

Other

Other in-kind contributions consists primarily of event tickets and recreation activities which are used to defray program costs, or as part of fundraising events, or are given to alumni. The Organization values these items at fair value on the date received.

9 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, 2017, the Organization provided \$1,077,684 in matching contributions, which is included in compensation in the accompanying consolidated statement of functional expenses.

10 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.

11 Subsequent Events

The Organization has evaluated events through January 12, 2018, 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.