

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

WARRIOR CANINE CONNECTION, INC.

DECEMBER 31, 2014

WARRIOR CANINE CONNECTION, INC.

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Warrior Canine Connection, Inc.

We have audited the accompanying financial statements of Warrior Canine Connection, Inc., which comprises the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Warrior Canine Connection, Inc., as of December 31, 2014, and the changes in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

David J. Ardoin, P.C.

Germantown, Maryland

June 25, 2015, except for Note A and Note H as to which is July 7, 2017

WARRIOR CANINE CONNECTION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,024,887
Certificate of deposit	10,123
Accounts receivable	131,313
Prepaid expenses	18,890
Inventory	2,125
TOTAL CURRENT ASSETS	<u>2,187,338</u>

FIXED ASSETS

Land improvements	5,820
Furniture, fixtures, and equipment	24,001
	<u>29,821</u>
Accumulated depreciation	(8,929)
TOTAL FIXED ASSETS	<u>20,892</u>

OTHER ASSETS

Deposits	9,440
Amortizable assets, net of amortization	8,672
Construction in progress	156,045
TOTAL OTHER ASSETS	<u>174,157</u>

TOTAL ASSETS	<u>\$ 2,382,387</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ <u>48,260</u>
TOTAL CURRENT LIABILITIES	<u>48,260</u>

NET ASSETS

Unrestricted	1,166,421
Temporarily restricted	1,167,706
TOTAL NET ASSETS	<u>2,334,127</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,382,387</u>
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The Accompanying Notes are an Integral Part of These Statements

WARRIOR CANINE CONNECTION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
General contributions	\$ 500,051	\$ -	\$ 500,051
Fundraising event contributions	165,066	-	165,066
In-kind contributions	169,351	-	169,351
Foundation and trust grants	274,529	1,200,000	1,474,529
Nonprofit organization grants	78,502	-	78,502
United Way CFC	17,834	-	17,834
Fundraising agency contributions	10,965	-	10,965
Contract income	168,346	-	168,346
Special events (net of expenses)	14,139	-	14,139
Miscellaneous revenue	3,989	-	3,989
Realized gain (loss) on sale of securities	(359)	-	(359)
Investment income	36	-	36
TOTAL PUBLIC SUPPORT AND REVENUE	<u>1,402,449</u>	<u>1,200,000</u>	<u>2,602,449</u>
NET ASSETS RELEASED FROM RESTRICTIONS	44,920	(44,920)	-
TOTAL PUBLIC SUPPORT AND REVENUE	<u>1,447,369</u>	<u>1,155,080</u>	<u>2,602,449</u>
EXPENSES			
PROGRAM SERVICES	<u>719,771</u>	<u>-</u>	<u>719,771</u>
SUPPORTING EXPENSES			
Management and General	103,375	-	103,375
Fundraising	37,261	-	37,261
TOTAL SUPPORTING EXPENSES	<u>140,636</u>	<u>-</u>	<u>140,636</u>
TOTAL EXPENSES	<u>860,407</u>	<u>-</u>	<u>860,407</u>
CHANGE IN NET ASSETS	586,962	1,155,080	1,742,042
NET ASSETS, BEGINNING OF YEAR	<u>579,459</u>	<u>12,626</u>	<u>592,085</u>
NET ASSETS, END OF YEAR	<u>\$ 1,166,421</u>	<u>\$ 1,167,706</u>	<u>\$ 2,334,127</u>

The Accompanying Notes are an Integral Part of These Statements

WARRIOR CANINE CONNECTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	SUPPORTING SERVICES			TOTAL
	PROGRAM SERVICES	MANAGE. & GENL.	FUND- RAISING	
Salaries	\$ 416,335	\$ 68,709	\$ 8,291	\$ 493,335
Payroll taxes	33,376	705	344	34,425
Fringe benefits	14,460	792	16	15,268
Total	464,171	70,206	8,651	543,028
Bank and paypal fees	-	518	9,466	9,984
Marketing and advertising	3,249	2,587	5,081	10,917
Depreciation	-	3,660	-	3,660
Vehicle fuel, maintenance	2,950	-	126	3,076
Vet care	28,365	-	-	28,365
Dog food and supplies	44,519	-	-	44,519
Dog care, breeding, acquisition	1,482	-	-	1,482
Miscellaneous	1,236	2,039	-	3,275
Insurance	4,777	1,452	393	6,622
Occupancy	36,417	4,552	4,552	45,521
Registration and filing fees	4,181	-	-	4,181
Postage, fax, office	6,936	1,156	3,468	11,560
Stationery, cards, printing	1,341	-	-	1,341
Professional services				
Legal	41,495	-	-	41,495
Consulting	35,006	4,376	4,376	43,758
Accounting & audit	-	5,250	-	5,250
Computer expense	4,637	515	-	5,152
Conference, meetings	1,998	-	-	1,998
Website management	600	-	-	600
Telephone & internet	7,224	903	903	9,030
Graduation expenses	4,076	-	-	4,076
Travel, meals & lodging	23,151	5,788	-	28,939
Building repair and maintenance	1,960	373	245	2,578
Total	255,600	33,169	28,610	317,379
Total expenses	\$ 719,771	\$ 103,375	\$ 37,261	\$ 860,407
	<u>84%</u>	<u>12%</u>	<u>4%</u>	<u>100%</u>

The Accompanying Notes are an Integral Part of These Statements

WARRIOR CANINE CONNECTION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	\$ 1,742,042
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	3,660
In-kind contributions	(27,846)
Earnings from certificate of deposit	(36)
Increase in accounts receivable	(127,778)
Increase in prepaid expenses	(12,023)
Increase in inventory	(2,125)
Increase in account payable and accrued expenses	33,003

NET CASH PROVIDED BY OPERATING ACTIVITIES	1,608,897
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CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of deposits	(3,150)
Purchase of fixed assets	(5,559)
Purchase of amortizable assets	(8,672)
Purchase of construction in progress	(128,199)

NET CASH USED IN INVESTING ACTIVITIES	(145,580)
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NET INCREASE IN CASH AND CASH EQUIVALENTS	1,463,317
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	561,570
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,024,887
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NON-CASH INVESTING ACTIVITY:

Acquisition of construction in progress donated to organization	\$ 27,846
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The Accompanying Notes are an Integral Part of These Statements

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Warrior Canine Connection, Inc. has been organized exclusively as a charitable and educational organization to provide service members and veterans with post-traumatic stress (PTS) and traumatic brain injuries (TBI) with a continuing mission to support their fellow warriors through the training of mobility services dogs. WCC's training method offers a safe, effective and inexpensive therapeutic intervention that remediates the core-symptoms of PTS and TBI and produces well trained services dogs that will be partnered at no cost with disabled combat veterans. The Organization was incorporated July 27, 2011 as a non-stock corporation under the Maryland General Corporation Law and is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code of 1986 pursuant to a determination letter issued on October 13, 2011.

Basis of presentation – The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

The Organization presents information regarding its financial position and activities according to three classes of net assets described as follows:

Unrestricted – All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily restricted net assets – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently restricted net assets – Resources accumulated through donations or grants that are subject to a restriction. These net assets include the original value of the gift, plus any subsequent additions.

There were no permanently restricted net assets as of December 31, 2014. Temporarily restricted net assets were \$1,167,706 at December 31, 2014.

Fair value – For cash, short-term investments and payables, the carrying amount is a reasonable estimate of fair value. Investments are carried at market value, which approximates fair value. See Note A for additional information regarding the valuation of the Organization's investments.

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Fixed assets – Land improvements, and furniture and fixtures are recorded at cost. Depreciation is provided on the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Life</u>
Land improvements	20 years
Furniture and fixtures	7-10 years

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value on the date of the gift. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction. In addition, contributed services using specialized skills that would have been required to be purchased if not provided by donation are also recognized.

Fair value measurements – ASC 820, Fair Value Measurements and Disclosures, establishes 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements (continuation) - The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of deposit are valued at cost plus accrued interest, which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Income taxes – The Organization is exempt from income taxes under Section 501(c)(3) and is a publicly supported organization under Section 509(a)(2) of the Internal Revenue Code. Therefore, no provision has been made for income taxes in the financial statements.

Accounting for Uncertainty in Income Taxes – The Organization accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. It is management's belief that the Organization does not hold any uncertain tax positions. The Organization is not currently under examination by any taxing jurisdiction. The Organization's Federal tax returns are generally open for examination for three years following the date filed.

Subsequent events – The Organization has evaluated subsequent events through June 25, 2015, which is the date the financial statements were available to be issued.

Contributed services, goods and facilities – For the first six months of 2014, the Organization's executive director and training instructor salaries were funded indirectly through personal employment contracts between those individuals and SAGE Consulting, Inc. Contracts with SAGE are solely for the purpose of carrying out the mission of the Organization. The amount of salaries reported as an in-kind contribution and as expense for the year ended December 31, 2014 was \$65,500.

Also, during the first six months of 2014, the SAGE contract reimbursed the director for occupancy and utility expenses for the facility which houses the Organization offices and canine program. The amount of rent and utilities reported as in-kind contribution and as expense for the year ended December 31, 2014 was \$22,120.

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed services, goods and facilities (continued) – These individual contracts with SAGE Consulting, Inc. ended on June 30, 2014 and were replaced by a new SAGE contract directly with the Organization to compensate it for certain salaries but does not include funds for rental expenses. Thus, for the remaining six months of 2014, the Organization recorded the relevant contract payments as actual income of the Organization.

The Organization also received various gifts of dog related goods and supplies which are used in its canine program. Management estimates the value of these items to be \$24,522 and is reported as an in-kind contribution and canine supply expense. The Organization also received pro-bono legal services from its general counsel. The value of these services as reported by the law firm was \$29,363 and is reported as an in-kind contribution and legal expense. The Organization also received donated architectural services for the new facility in Germantown, Maryland which it estimates the value to be \$27,846 and is reported as construction in progress. The total in-kind contributions reported on the statement of activities for the year ended December 31, 2014 was \$169,351.

Management believes that these estimates of such expenditures provide a reasonable basis for recording off-setting in-kind contributions and expenses. The recording of in-kind contributions and donations has no net impact on the reported change in net assets.

NOTE B - FINANCIAL INSTRUMENTS

Financial instruments which potentially subject the Organization to concentration of credit risk consist of temporary cash investments. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2014, cash balances of the Organization were fully insured. The Organization's temporary cash investments are held with high credit quality financial institutions and management believes there is no significant concentration of credit risk.

NOTE C – PROGRAM DESCRIPTIONS

In 2014, Warrior Canine Connections (WCC) provided its service dog training therapy program for Post Traumatic Stress (PTS) and Traumatic Brain Injuries (TBI) to wounded Warriors in treatment at the National Intrepid Center of Excellence (NICoE) at Walter Reed National Military Medical Center (WRNMMC) in Bethesda, MD. WCC also served patients in the Behavioral Health and Brain Injury Treatment Programs at WRNMMC. WCC staff provided patients and staff members with information on the use of service dogs for physical and psychological disabilities and the care and training of service dogs. Additionally, WCC dogs worked with Soldiers in the Warrior Transition Units at WRNMMC and Fort Belvoir, VA. Field trips were also arranged for NICoE and WRNMMC patients to WCC's Healing Quarters in Brookeville, MD. WCC also continued to provide services to recovering Warriors at the NeuroRestorative National Capitol facility in Germantown, MD. During 2014, WCC staff presented service dog training as a therapeutic intervention for PTS and TBI to several hundred military and civilian leaders in meetings and in conjunction with tours of the NICoE and WRNMMC.

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE C – PROGRAM DESCRIPTIONS (CONTINUED)

The WCC West Coast program operates out of the “Welcome Center” on the campus of the VA Medical Center in Menlo Park, CA. In 2014, WCC staff provided service dog training therapy services to 13 programs at the Menlo Park VA and the nearby Palo Alto VA ranging from acute in-patient Poly-trauma to out-patient mental health.

The WCC therapeutic service dog training program relies on the availability of Golden and Labrador Retriever puppies, purpose bred for health and temperament for service dog work. Two litters of puppies were bred by the WCC Dog Program Director and raised at the WCC Puppy Enrichment Center until they were ready to be placed in the homes of volunteer Puppy Foster Parents. Several puppies were also donated by breeders known to produce dogs suitable for the WCC program. Recovering Warriors from NICoE and WRNMMC and civilian volunteers were involved in the early socialization of these future service dogs for disabled combat Veterans in the medical facilities and at the WCC Brookeville HQ. WCC puppies were featured on a puppy cam that was viewed by millions of people around the world, providing WCC with an outstanding educational opportunity to share information about the breeding, care, therapeutic training, and benefits of service dogs to wounded Warriors. A WCC dog must be approximately two years old and meet industry training standards to be eligible to be placed with a disabled combat Veteran. The second graduation of WCC dogs took place in October 2014. Six dogs were placed in support of combat Veterans with disabilities and their families.

WCC is collaborating with WRNMMC, the Uniformed Services University of the Health Sciences (USUHS) and civilian academic experts on research associated with the neurobiology of the human-animal bond and the treatment of PTSD. The protocol for the study was approved and subject recruitment began in late 2014. Design of a larger research study to evaluate the efficacy of service dog training as an adjunctive treatment for PTSD and TBI and to maximize the therapeutic benefits to recovering Warriors who participate in the program was initiated with these collaborative partners in 2014.

NOTE D – FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing program and supporting services has been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among programs and the supporting services benefited. The allocation was made on the basis of an analysis made by management.

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of a donation from the Bob and Renee Parsons Foundation for 850,000, the Bob Woodruff Foundation for \$200,000 and the Schultz Family Foundation for \$150,000. The total received in 2014 for restricted contributions was \$1,200,000. The Bob and Renee Parsons Foundation contribution is restricted for the new headquarters facility in Germanton, Maryland. The Bob Woodruff Foundation contribution is restricted for the salaries of a Service Dog Training Instructors at the VA Medical center-Menlo Park and the Brookeville, MD headquarters and the WCC Medical Director. The Schultz Family Foundation contribution is restricted for the support of capacity building, strategic advisement and training framework development. The balance of the restricted amount as of December 31, 2014 is \$1,167,706.

NOTE F – CONCENTRATION OF CONTRIBUTIONS

Contributions from six donors represented \$1,550,949 or 69% of contributions and grants for the year ended December 31, 2014.

NOTE G- NEW HEADQUARTERS FACILITY

The Organization reached an agreement with the State of Maryland and entered into a lease of state parkland for therapeutic service dog training for Veterans. The lease is for a location at the Schaeffer Farm area of Seneca Creek State Park in Germantown Maryland. This location will house the new headquarters of the Organization and help expand its mission and enable it to continue to operate in a Maryland State Park that offers a peaceful environment to support the healing process for Veterans. The new location will enable the Organization to add an "apprentice service dog training" program and offer art and music therapy, as well as acupuncture and eventually add equine therapy and therapeutic farming and gardening. The area within Schaeffer Farm offers a tranquil restorative setting close to Walter Reed National Military Medical Center, providing the ideal location for Veterans to prepare to transition back into civilian and family life. The lease is for twenty five years and the fixed annual rent payable is \$1 per year for years 1 through 10 (\$10 was paid at the signing of the lease to pay the rent for the first 10 years); \$18,000 per year for years 11 through 15; \$24,000 per year for years 16 through 20 and \$30,000 per year for years 21 through 25. The Organization estimates the cost of the improvements to be \$3,000,000 which will be funded through contributions. Total costs incurred through the year ended December 31, 2014 were \$156,043 which includes in-kind contribution of services of \$27,846. Occupancy is anticipated during 2016 after initial property improvements are completed, at which time the Organization will transfer its entire operations from the Old Headquarters Facility.

NOTE H – OLD HEADQUARTERS FACILITY

The Organization headquarters are located at a residential facility in Brookeville, Maryland, which is a historic property owned by the Maryland Department of Natural Resources (DNR). The DNR had entered into a lease dated from 1992 with an independent caretaker who was responsible for maintaining the property while he resided there. The caretaker subleased the property to the executive director, personally, beginning December 2010 at a rate of \$2,894 per month plus utilities. Under a personal employment

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE H – OLD HEADQUARTERS FACILITY (CONTINUED)

contract with SAGE Consulting, Inc. through June 30, 2014, the executive director was reimbursed \$22,120 for monthly rent and utility expenses. After WCC was formed in July 2011, with Board approval, the Organization used this facility for program headquarters and training. Through June, 2014, the Organization recorded an in-kind gift contribution and rental expenses of \$22,120.

At July 1, 2014, with Board approval, the Organization began to reimburse the executive director for the monthly rental and utility charges. The rent reimbursed for the six months ended December 31, 2014 was \$18,607 and utility reimbursements totaled \$2,966.

During a 2013 review, the DNR had extended the term of the sublease to the director, but, based on maintenance and repair expenses for the property, determined that the caretaker had overcharged the rent under the overriding 1992 lease and required him to make refunds for 2012, 2013 and 2014. The executive director received refunds of \$20,259 and \$3,258 for years 2012 and 2013, respectively. During February 2015, the Organization received \$14,959, which was the refund determined for the twelve months of 2014.