



Financial Statements

For the Six-Month Period Ended June 30, 2017



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Warrior Canine Connection, Inc.

We have audited the accompanying financial statements of Warrior Canine Connection, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the six-month period 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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 June 30, 2017, and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Correction of Error

As disclosed in Note 10 to the financial statements, the January 1, 2017, net asset balances have been restated to properly record the deferred rent liability related to the prior year and to record certain revenue in the proper period. Our opinion is not modified with respect to these matters.

Raffa, P.C.

Raffa, P.C.

Washington, DC
February 27, 2018

WARRIOR CANINE CONNECTION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

Cash and cash equivalents	\$ 2,212,477
Contributions and contracts receivable	632,941
Prepaid expenses	14,459
Inventory	4,975
Deposits	2,500
Property and equipment, net	<u>1,786,599</u>
TOTAL ASSETS	<u><u>\$ 4,653,951</u></u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 86,305
Deferred rent	<u>44,398</u>
TOTAL LIABILITIES	<u>130,703</u>

Net Assets

Unrestricted	3,839,595
Temporarily restricted	<u>683,653</u>
TOTAL NET ASSETS	<u>4,523,248</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,653,951</u></u>
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The accompanying notes are an integral part of these financial statements.

WARRIOR CANINE CONNECTION, INC.

STATEMENT OF ACTIVITIES
For the Six-Month Period Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions and contracts	\$ 1,263,032	\$ 350,000	\$ 1,613,032
In-kind contributions	732,591	-	732,591
Other income, net	2,796	-	2,796
Net assets released from restrictions:			
Satisfaction of program restrictions	302,866	(302,866)	-
Satisfaction of time restrictions	100,000	(100,000)	-
	<u>2,401,285</u>	<u>(52,866)</u>	<u>2,348,419</u>
TOTAL REVENUE AND SUPPORT			
	<u>2,401,285</u>	<u>(52,866)</u>	<u>2,348,419</u>
EXPENSES			
Program Services:			
Dog Training and Placement	607,980	-	607,980
Mission Based Trauma Recovery	582,792	-	582,792
Other programs	96,890	-	96,890
	<u>1,287,662</u>	<u>-</u>	<u>1,287,662</u>
Total Program Services	1,287,662	-	1,287,662
Supporting Services:			
Management and General	107,841	-	107,841
Fundraising	94,845	-	94,845
	<u>202,686</u>	<u>-</u>	<u>202,686</u>
Total Supporting Services	202,686	-	202,686
TOTAL EXPENSES	<u>1,490,348</u>	<u>-</u>	<u>1,490,348</u>
CHANGE IN NET ASSETS	910,937	(52,866)	858,071
NET ASSETS, BEGINNING OF PERIOD, AS RESTATED	<u>2,928,658</u>	<u>736,519</u>	<u>3,665,177</u>
NET ASSETS, END OF PERIOD	<u>\$ 3,839,595</u>	<u>\$ 683,653</u>	<u>\$ 4,523,248</u>

The accompanying notes are an integral part of these financial statements.

WARRIOR CANINE CONNECTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Six-Month Period Ended June 30, 2017

	Program Services				Supporting Services			Total
	Dog Training and Placement	Mission Based Trauma Recovery	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 357,748	\$ 351,088	\$ 62,419	\$ 771,255	\$ 72,589	\$ 63,515	\$ 136,104	\$ 907,359
Dog breeding, training and care	79,907	73,165	-	153,072	-	-	-	153,072
Payroll taxes and fringe benefits	57,040	52,663	12,142	121,845	10,794	9,445	20,239	142,084
Professional fees	17,403	50,815	-	68,218	3,668	1,467	5,135	73,353
Occupancy	18,761	1,177	15,000	34,938	1,878	751	2,629	37,567
Travel, meals and entertainment	9,530	16,757	-	26,287	1,878	9,388	11,266	37,553
Depreciation and amortization	22,119	5,695	1,570	29,384	2,733	2,050	4,783	34,167
Insurance	7,248	10,061	1,456	18,765	1,645	1,189	2,834	21,599
Repairs and maintenance	10,355	4,125	2,953	17,433	1,868	1,453	3,321	20,754
Dues and subscriptions	9,107	4,797	100	14,004	1,089	467	1,556	15,560
Miscellaneous	5,555	4,339	-	9,894	4,122	2,473	6,595	16,489
Utilities	6,701	2,548	1,250	10,499	1,125	875	2,000	12,499
Training and development	795	4,263	-	5,058	562	-	562	5,620
Printing	2,302	401	-	2,703	676	1,126	1,802	4,505
Bank and credit card fees	214	356	-	570	2,671	320	2,991	3,561
Education, outreach and marketing	2,098	-	-	2,098	40	15	55	2,153
Postage, mailing and delivery	876	432	-	1,308	503	201	704	2,012
State registrations	221	110	-	331	-	110	110	441
TOTAL EXPENSES	\$ 607,980	\$ 582,792	\$ 96,890	\$ 1,287,662	\$ 107,841	\$ 94,845	\$ 202,686	\$ 1,490,348

The accompanying notes are an integral part of these financial statements.

WARRIOR CANINE CONNECTION, INC.

STATEMENT OF CASH FLOWS
For the Six-Month Period Ended June 30, 2017
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 858,071
In-kind contributions	(591,050)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	34,167
Changes in assets and liabilities:	
Contributions and contracts receivable	(199,300)
Inventory	(844)
Prepaid expenses	1,478
Deposits	9,190
Accounts payable and accrued expenses	4,734
Deferred rent	7,200
	<u>123,646</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>123,646</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(131,231)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(131,231)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,585)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>2,220,062</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,212,477</u>
NONCASH INVESTING ACTIVITY	
Acquisition of construction-in-progress donated to organization	<u>\$ 591,050</u>

The accompanying notes are an integral part of these financial statements.

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Six-Month Period Ended June 30, 2017

1. Organization and Summary of Significant Accounting Policies

Organization

Warrior Canine Connection, Inc. (the Organization) was incorporated on August 5, 2011, under the laws of the State of Maryland as a charitable and educational organization that provides 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 service dogs. The Organization's training method offers a safe, effective and inexpensive therapeutic intervention that remediates the core symptoms of PTS and TBI and produces well-trained service dogs that will be partnered, at no cost, with disabled combat veterans. The Organization's programs are funded primarily through grants and contributions from foundations and individuals.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Organization changed its fiscal year-end to June 30 from December 31 and, as a result, only six months of activity is reported in the accompanying statement of activities from the period January 1, 2017, to June 30, 2017.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with purchased maturities of three months or less to be cash equivalents.

Property and Equipment and Related Depreciation and Amortization

Transportation equipment, furniture, fixtures and equipment, and computer and software are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are stated at cost and are amortized over the remaining life of the lease. The cost of property and equipment retired or disposed of is removed from the accounts, along with the related accumulated depreciation or amortization, and any gain or loss, if any, is reflected in revenue and support or expenses in the accompanying statement of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

The estimated useful lives for property and equipment are as follows:

<u>Asset Class</u>	<u>Life</u>
Transportation equipment	7 years
Furniture, fixtures and equipment	7-10 years
Computer and software	3 years

Continued

WARRIOR CANINE CONNECTION, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Six-Month Period Ended June 30, 2017**

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

The net assets of the Organization are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

Donated Goods and Services

The Organization's Dog Training and Placement Program and Mission Based Trauma Recovery Program are furthered through the contribution of goods and services by various individuals and organizations. Donated goods and services are recorded at fair value as of the date of donation and are included in contributions revenue and assets or expenses in the accompanying financial statements. Donated goods and services are disclosed in Note 6.

Revenue Recognition

Contributions are recognized when promised, and are considered available for unrestricted use, unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

The Organization recognizes revenue from contracts based on allowable direct and indirect costs incurred. Any costs that have not been reimbursed are reflected as contributions and contracts receivable in the accompanying statement of financial position.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, expenses that are not directly charged to a program or supporting service are proportionately allocated among the programs and supporting services based on labor costs expended.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of certain assets and liabilities and revenue and expenses. Accordingly, actual results could differ from those estimates.

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Six-Month Period Ended June 30, 2017

2. Contributions and Contracts Receivable

Contributions and contracts receivable totaled \$632,941 and represented amounts due from government, corporations and foundations. As of June 30, 2017, all contributions and contracts receivable were considered fully collectible and were expected to be received within one year.

3. Property and Equipment

The Organization's property and equipment consisted of the following as of June 30, 2017:

Leasehold improvements	\$ 955,498
Construction in progress	751,944
Furniture, fixtures and equipment	90,965
Computer and software	61,913
Transportation equipment	<u>32,426</u>
Total Property and Equipment	1,892,746
Less: Accumulated Depreciation and Amortization	<u>(106,147)</u>
Property and Equipment, Net	<u>\$ 1,786,599</u>

Depreciation and amortization expense totaled \$34,167 for the six-month period ended June 30, 2017.

The Organization received donated materials and services for leasehold improvements at its new facility in Boyds, Maryland, during the six-month period ended June 30, 2017. The estimated value of the donated materials and services was \$591,050. These materials and services were capitalized and initially included in construction in progress, and then later transferred to leasehold improvements, once the related asset was placed in service. The Organization estimated the total cost of all current and future leasehold improvements to be \$8,400,000, which is expected to be funded through charitable contributions. Total costs incurred through the six-month period ended June 30, 2017 was \$955,498.

4. Temporarily Restricted Net Assets

The temporarily restricted net assets of the Organization were available for the following programs or purposes as of June 30, 2017:

Training Internship	\$ 284,490
Mission Based Trauma Recovery	166,735
Healing Headquarters construction	157,428
Veterans Treatment Court	<u>75,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 683,653</u>

Continued

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Six-Month Period Ended June 30, 2017

5. Operating Lease

The Organization has entered into a noncancelable operating lease for its headquarters that expires in May 2039. The term of the lease provides for fixed annual rent payments of \$1 from year one through year 10; \$18,000 from year 11 through year 15; \$24,000 from year 16 through year 20; and \$30,000 from year 21 through year 25.

Under GAAP, all rental payments, including fixed rent increases, less any rental abatements and other incentives, if any, are recognized on a straight-line basis over the term of the lease. The difference between the GAAP rent expense and the required lease payments is reflected as deferred rent in the accompanying statement of financial position.

The Organization has also entered into a five-year noncancelable lease for land through March 2020, with a fixed rate of \$3,660 payable annually on April 1. The additional acreage is to provide an environmental buffer between the Organization and adjacent farming operations.

Future minimum lease payments, subject to cost-of-living adjustments, are as follows:

Year Ending June 30,	
2018	\$ 3,661
2019	3,661
2020	2,746
2021	1
2022	1
Thereafter	<u>360,005</u>
Total	<u>\$ 370,075</u>

The Organization also entered into a building lease effective June 24, 2016, for housing interns working at the Organization's facility. The lease was on a month-to-month basis beginning July 1, 2016, at a monthly fixed rent of \$2,500. This lease was terminated as of November 30, 2017.

Rent expense totaled \$37,567 for the six-month period ended June 30, 2017, and is included in occupancy expense in the accompanying statement of functional expenses.

6. Contributed Services, Goods and Facilities

The Organization receives various gifts of dog-related goods and supplies which are used in its canine programs. Management estimated the value of these items to be \$132,839 and it is reported as in-kind contributions in the accompanying statement of activities. The Organization also received donated materials and services for the facility in Boyds, Maryland, the value of which is estimated to be \$591,050. These donated materials and services are capitalized as construction in progress.

Continued

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Six-Month Period Ended June 30, 2017

6. Contributed Services, Goods and Facilities (continued)

The Organization's programs are also furthered through the contribution of time from volunteers. Volunteers have contributed approximately 1,122 hours to the organization's program services for the six-month period ended June 30, 2017. These services are not reflected in the accompanying statement of activities because the services do not meet the necessary criteria for recognition under GAAP.

7. Concentration of Credit Risk

Financial instruments, which potentially subject the Organization to concentration of credit risk, consist principally of cash balances maintained at various creditworthy financial institutions. While the amount at a given bank, at times, exceeds the amount guaranteed by federal agencies, and therefore bears some risk, the Organization has not experienced, nor does it anticipate, any losses on its funds. At June 30, 2017, the amount in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000 was approximately \$1,394,000.

8. Retirement Plan

The Organization participates in a contributory defined contribution retirement plan. All full-time employees are eligible to participate in the plan. Employees who elect to participate may contribute any amount of their annual salary up to the limits permitted by law. The Organization makes discretionary contributions to match employee contributions, the amount of which match is determined on an annual basis. The Organization made matching contributions of \$7,576 to the plan for the six-month period ended June 30, 2017.

9. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from the payment of taxes on income other than net unrelated business income. For the six-month period ended June 30, 2017, no provision for income taxes was made, as the Organization had no net unrelated business income.

The Organization has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization evaluated its uncertainty in income taxes for the six-month period ended June 30, 2017, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2017, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

Continued

WARRIOR CANINE CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Six-Month Period Ended June 30, 2017

10. Prior Period Adjustments

Unrestricted net assets have been restated as of the beginning of the six-month period ended June 30, 2017, to record rent on a straight-line basis in accordance with GAAP. The effect of this restatement was to decrease unrestricted net assets by \$37,198 and record a corresponding liability for the related deferred rent.

Temporarily restricted net assets have been restated to remove a temporarily restricted contribution which was related to the prior year. The effect of this restatement was to increase temporarily restricted net assets by \$100,000 as of the beginning of the six-month period ended June 30, 2017.

The effect on the total change in net assets for the year ended December 31, 2016, as previously reported, was an increase of \$62,802.

11. Subsequent Events

The Organization's management has evaluated subsequent events through February 27, 2018, the date the financial statements were available to be issued. There were no subsequent events identified through February 27, 2018, required to be recognized or disclosed in these financial statements.