

Combined Arms

Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2017

Combined Arms

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Independent Auditors' Report

To the Board of Directors of
Combined Arms:

We have audited the accompanying financial statements of Combined Arms, which comprise the statement of financial position as of December 31, 2017 and the related statements of activities, of functional expenses, and of 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.

Auditors' 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 our audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Combined Arms as of December 31, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

July 26, 2018

Combined Arms

Statement of Financial Position as of December 31, 2017

ASSETS

Cash	\$ 619,004
Other assets	54,259
Cash restricted for equipment and property improvements	<u>81,450</u>
TOTAL ASSETS	<u>\$ 754,713</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	<u>\$ 25,509</u>
Net assets:	
Without donor restrictions	447,783
With donor restrictions (<i>Note 5</i>)	<u>281,421</u>
Total net assets	<u>729,204</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 754,713</u>

See accompanying notes to financial statements.

Combined Arms

Statement of Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions and grants	\$ 273,172	\$ 429,696	\$ 702,868
Rental income (<i>Note 7</i>)	<u>68,745</u>	<u> </u>	<u>68,745</u>
Total revenue	341,917	429,696	771,613
Net assets released from restrictions:			
Expenditure for program purposes	<u>180,175</u>	<u>(180,175)</u>	<u> </u>
Total	<u>522,092</u>	<u>249,521</u>	<u>771,613</u>
EXPENSES:			
Program	656,302		656,302
Management and general	81,410		81,410
Fundraising	<u>53,357</u>	<u> </u>	<u>53,357</u>
Total expenses	<u>791,069</u>	<u> </u>	<u>791,069</u>
CHANGES IN NET ASSETS	(268,977)	249,521	(19,456)
Net assets, beginning of year	<u>716,760</u>	<u>31,900</u>	<u>748,660</u>
Net assets, end of year	<u>\$ 447,783</u>	<u>\$ 281,421</u>	<u>\$ 729,204</u>

See accompanying notes to financial statements.

Combined Arms

Statement of Functional Expenses for the year ended December 31, 2017

	<u>PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related costs	\$ 234,379	\$ 63,379	\$ 34,695	\$ 332,453
Occupancy costs	232,674	2,824	1,547	237,045
Professional services	88,039	3,994	9,782	101,815
Grants	35,000			35,000
Communication and technology	16,816	4,548	2,489	23,853
Marketing	21,007			21,007
Depreciation	8,762	2,369	1,298	12,429
Insurance	8,417	811	61	9,289
Office supplies	6,351	1,718	940	9,009
Other	<u>4,857</u>	<u>1,767</u>	<u>2,545</u>	<u>9,169</u>
Total expenses	<u>\$ 656,302</u>	<u>\$ 81,410</u>	<u>\$ 53,357</u>	<u>\$ 791,069</u>

See accompanying notes to financial statements.

Combined Arms

Statement of Cash Flows for the year ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ (19,456)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	12,429
Changes in operating assets and liabilities:	
Other assets	26,360
Accounts payable and accrued expenses	<u>10,646</u>
Net cash provided by operating activities	<u>29,979</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of equipment	<u>(8,370)</u>
NET CHANGE IN CASH	21,609
Cash, beginning of year	<u>678,845</u>
Cash, end of year	<u>\$ 700,454</u>

A reconciliation of cash in the statement of financial position to cash in the statement of cash flows is as follows:

Cash	\$ 619,004
Cash restricted for equipment and property improvements	<u>81,450</u>
Total cash	<u>\$ 700,454</u>

See accompanying notes to financial statements.

Combined Arms

Notes to Financial Statements for the year ended December 31, 2017

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Combined Arms’ mission is to build a network of partner organizations in Houston, Texas, in order to assist transitioning military veterans and their families on their path to making Houston their new home. The mission is accomplished by establishing and nurturing a system of organizations focused on supporting organizations that provide military transition and community reintegration services; reducing program redundancies and costs; and increasing collaboration among programs within the system.

Federal income tax status – Combined Arms is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a Type I supporting organization under §509(a)(3).

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Without donor restrictions* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *With donor restrictions* include contributions restricted by the donor for specific purposes or future time periods. Donor-imposed restrictions may be temporary or permanent in nature. When a purpose restriction is accomplished or a time restriction ends, net assets with restrictions are released to net assets without restrictions.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. Combined Arms plans to adopt this ASU for its fiscal year ending December 31, 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available to meet cash needs for general expenditures within one year at December 31, 2017, includes cash of \$619,004. This includes cash which is restricted for program purposes but expected to be used in the next fiscal year.

NOTE 3 – CONCENTRATION OF CONTRIBUTIONS

For the year ended December 31, 2017, approximately 68% of contributions were from three donors. Combined Arms expects to diversify this funding base in future years. Program activities will be scaled in accordance with resources available.

NOTE 4 – CONDITIONAL PLEDGE

In 2016, an organization made a \$2,774,174 multi-year pledge to Combined Arms on the condition that certain milestones and required deliverables are satisfied by Combined Arms each year, as determined by the organization. Of the amount pledged, Combined Arms had recognized \$1,086,674 of as of December 31, 2017.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2017 are available for the following purposes:

Fitness center	\$ 122,900
Veterans entrepreneurship hub	104,061
Technology	34,460
Meeting space improvements	<u>20,000</u>
Total net assets with donor restrictions	<u>\$ 281,421</u>

NOTE 6 – COMMITMENTS

Lease commitments – Combined Arms leases office and retail space under noncancelable operating lease agreements. Related lease expense of approximately \$223,000 was recognized during 2017. Future minimum lease payments at December 31, 2017 are due as follows:

2018	\$ 269,837
2019	188,168
2020	185,888
2021	<u>92,944</u>
Total	<u>\$ 736,837</u>

NOTE 7 – RENTAL INCOME

Combined Arms subleased office space to organizations under non-cancellable operating leases effective September 15, 2017. Under these agreements, the leasing organizations are responsible for utilities and

other operating costs. The leases expire December 31, 2018. As of December 31, 2017, future minimum rental payments due in 2018 total \$95,000.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 26, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
