Combined Arms

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2018 and 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 statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, of functional expenses, and of cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits 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, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

April 1, 2019

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Combined Arms

Statements of Financial Position as of December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 853,794	$ 619,004
Other assets	20,052	3,639
Property, net *(Note 3)*	75,655	50,620
Cash restricted for equipment and leasehold improvements	67,500	81,450
TOTAL ASSETS	$ 1,017,001	$ 754,713
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 37,576	$ 25,509
Net assets:		
Without donor restrictions	676,995	447,783
With donor restrictions *(Note 6)*	302,430	281,421
Total net assets	979,425	729,204
TOTAL LIABILITIES AND NET ASSETS	$ 1,017,001	$ 754,713

See accompanying notes to financial statements.

Combined Arms

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions and grants *(Note 3)*	$ 932,983	$ 140,000	$ 1,072,983
Rental income *(Note 7)*	115,075		115,075
Other income	2,624		2,624
Total revenue	1,050,682	140,000	1,190,682
Net assets released from restrictions:			
Expenditure for program purposes	118,991	(118,991)	
Total	1,169,673	21,009	1,190,682
EXPENSES:			
Program	773,955		773,955
Management and general	99,750		99,750
Fundraising	66,756		66,756
Total expenses	940,461		940,461
CHANGES IN NET ASSETS	229,212	21,009	250,221
Net assets, beginning of year	447,783	281,421	729,204
Net assets, end of year	$ 676,995	$ 302,430	$ 979,425

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 *(Note 3)*	$ 273,172	$ 429,696	$ 702,868
Rental income *(Note 7)*	68,745		68,745
Total revenue	341,917	429,696	771,613
Net assets released from restrictions:			
Expenditure for program purposes	180,175	(180,175)	
Total	522,092	249,521	771,613
EXPENSES:			
Program	656,302		656,302
Management and general	81,410		81,410
Fundraising	53,357		53,357
Total expenses	791,069		791,069
CHANGES IN NET ASSETS	(268,977)	249,521	(19,456)
Net assets, beginning of year	716,760	31,900	748,660
Net assets, end of year	$ 447,783	$ 281,421	$ 729,204

See accompanying notes to financial statements.

Combined Arms

Statements of Functional Expenses for the years ended December 31, 2018 and 2017

	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related costs	$ 264,252	$ 64,379	$ 35,020	$ 363,651
Rent expense	265,721	8,809	4,404	278,934
Professional services	100,591	12,531	21,296	134,418
Grants	50,000			50,000
Marketing	23,833			23,833
Communication and technology	16,597	4,044	2,200	22,841
Utilities	18,474	999	499	19,972
Office supplies	9,835	2,396	1,303	13,534
Depreciation	9,135	2,226	1,211	12,572
Travel and conferences	7,798	1,678		9,476
Insurance	2,941	716	390	4,047
Other	4,778	1,972	433	7,183
Total expenses	$ 773,955	$ 99,750	$ 66,756	$ 940,461

	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related costs	$ 234,379	$ 63,379	$ 34,695	$ 332,453
Rent expense	218,609	2,654	1,453	222,716
Professional services	88,039	3,994	9,782	101,815
Grants	35,000			35,000
Marketing	21,007			21,007
Communication and technology	16,816	4,548	2,489	23,853
Utilities	14,014	171	145	14,330
Office supplies	6,351	1,718	940	9,009
Depreciation	8,762	2,369	1,298	12,429
Travel and conferences	407	96		503
Insurance	8,417	811	61	9,289
Other	4,501	1,670	2,494	8,665
Total expenses	$ 656,302	$ 81,410	$ 53,357	$ 791,069

See accompanying notes to financial statements.

Combined Arms

Statements of Cash Flows for the years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 250,221	$ (19,456)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	12,572	12,429
Changes in operating assets and liabilities:		
Other assets	(16,413)	26,360
Accounts payable and accrued expenses	12,067	10,646
Net cash provided by operating activities	258,447	29,979
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(37,607)	(8,370)
NET CHANGE IN CASH	220,840	21,609
Cash, beginning of year	700,454	678,845
Cash, end of year	$ 921,294	$ 700,454

Reconciliation of cash reported in the statements of financial position with cash reported in the statements of cash flows:

	2018	2017
Cash	$ 853,794	$ 619,004
Cash restricted for equipment and property improvements	67,500	81,450
Total cash	$ 921,294	$ 700,454

See accompanying notes to financial statements.

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).

Property is reported at cost, if purchased, and at fair value if donated. Depreciation is recognized on a straight-line basis over estimated useful lives of 5-10 years. Expenditures greater than $5,000 with a useful life greater than one year are capitalized.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

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.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and rent costs are allocated based on square footage.

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 pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) 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.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Combined Arms is required to apply the amendments in its fiscal year 2019 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption or the impact 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, 2018 includes cash of $853,704. This includes cash which is restricted for program purposes, but expected to be used in the next fiscal year. Combined Arms expects to fund general expenditures in excess of financial assets available to meet cash needs with future contributions. Combined Arms also may engage in specific targeted fundraising to sponsor veteran events.

NOTE 3 – PROPERTY

Property consists of the following:

	2018	2017
Leasehold improvements	$ 71,828	$ 35,552
Office furniture and equipment	59,539	58,208
Total property, at cost	131,367	93,760
Accumulated depreciation	(55,712)	(43,140)
Property, net	$ 75,655	$ 50,620

NOTE 4 – CONCENTRATION OF CONTRIBUTIONS

Approximately 69% of contributions were from two donors and 68% of contributions were from three donors for the years ended December 31, 2018 and 2017, respectively. Combined Arms expects to diversify this funding base in future years. Program activities will be scaled in accordance with resources available.

NOTE 5 – 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 $1,724,174 as of December 31, 2018.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are subject to expenditure for specified purposes as follows:

	2018	2017
Fitness center	$ 95,000	$ 122,900
Digital marketing	83,369	
Veterans entrepreneurship hub	54,061	104,061
Community portal	25,000	
Non-Houston area outreach	25,000	
Meeting space improvements	20,000	20,000
Technology		34,460
Total subject to expenditure for specified purpose	$ 302,430	$ 281,421

NOTE 7 – LEASE COMMITMENTS AND SUBLEASES

Combined Arms leases office and retail space under noncancelable operating lease agreements for its own use, as well as to sublease to other organizations that serve veterans and their families. Related lease expense of approximately $278,000 was recognized during 2018. Future minimum lease payments at December 31, 2018 are due as follows:

2019	$ 278,460
2020	239,888
2021	92,944
Total	$ 611,292

Under non-cancellable subleases, the subleasing organizations are responsible for utilities and other operating costs. The subleases expire on December 31, 2019. As of December 31, 2018, future minimum rental payments due in 2019 total $98,000.

NOTE 8 – SUBSEQUENT EVENTS

On March 1, 2019, the Boards of Directors of Combined Arms and Lone Star Veterans approved a merger of the two organizations. Management has evaluated subsequent events through April 1, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the aforementioned item were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.