Combined Arms

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2019 and 2018

Combined Arms

Table of Contents

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

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, 2019 and 2018 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, 2019 and 2018 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

August 17, 2020

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

Combined Arms

Statements of Financial Position as of December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash	$ 1,772,770	$ 921,294
Contributions receivable	33,500	
Other assets	75,864	20,052
Property, net *(Note 3)*	119,320	75,655
TOTAL ASSETS	$ 2,001,454	$ 1,017,001
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 67,826	$ 37,576
Net assets:		
Without donor restrictions	1,423,834	676,995
With donor restrictions *(Note 6)*	509,794	302,430
Total net assets	1,933,628	979,425
TOTAL LIABILITIES AND NET ASSETS	$ 2001,454	$ 1,017,001

See accompanying notes to financial statements.

Combined Arms

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions *(Note 4)*	$ 2,139,751	$ 622,674	$ 2,762,425
Amenity fees	127,891		127,891
Other income	38,382		38,382
Total revenue	2,306,024	622,674	2,928,698
Net assets released from restrictions:			
Expenditure for program purposes	415,310	(415,310)	
Total	2,721,334	207,364	2,928,698
EXPENSES:			
Program	1,736,692		1,736,692
Management and general	235,991		235,991
Fundraising	168,769		168,769
Total expenses	2,141,452		2,141,452
Changes in net assets before acquisition of Lone Star Veterans net assets	579,882	207,364	787,246
Acquisition of Lone Star Veterans net assets *(Note 1)*	166,957		166,957
Changes in net assets	746,839	207,364	954,203
Net assets, beginning of year	676,995	302,430	979,425
Net assets, end of year	$ 1,423,834	$ 509,794	$ 1,933,628

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 *(Note 4)*	$ 932,983	$ 140,000	$ 1,072,983
Amenity fees	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

Statements of Functional Expenses for the years ended December 31, 2019 and 2018

	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related costs	$ 756,293	$ 76,015	$ 126,138	$ 958,446
Professional services	227,619	106,354	12,443	346,416
Lease expense	271,808	14,692	7,346	293,846
Veterans activities-food and entertainment	147,071			147,071
Communication and technology	71,560	7,247	11,776	90,583
Marketing	84,295		1,076	85,371
Travel and conferences	69,049	5,984		75,033
Office supplies	26,796	2,714	4,409	33,919
Utilities	28,013	1,514	757	30,284
Depreciation	20,997	2,126	3,455	26,578
Grants	24,873			24,873
Other	8,318	19,345	1,369	29,032
Total expenses	$ 1,736,692	$ 235,991	$ 168,769	$ 2,141,452

	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related costs	$ 264,252	$ 64,379	$ 35,020	$ 363,651
Professional services	100,591	12,531	21,296	134,418
Lease expense	265,721	8,809	4,404	278,934
Communication and technology	16,597	4,044	2,200	22,841
Marketing	23,833			23,833
Travel and conferences	7,798	1,678		9,476
Office supplies	9,835	2,396	1,303	13,534
Utilities	18,474	999	499	19,972
Depreciation	9,135	2,226	1,211	12,572
Grants	50,000			50,000
Other	7,719	2,688	823	11,230
Total expenses	$ 773,955	$ 99,750	$ 66,756	$ 940,461

See accompanying notes to financial statements.

Combined Arms

Statements of Cash Flows for the years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 954,203	$ 250,221
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	26,578	12,572
Changes in operating assets and liabilities:		
Contributions receivable	(33,500)	
Other assets	(55,812)	(16,413)
Accounts payable and accrued expenses	30,250	12,067
Net cash provided by operating activities	921,719	258,447
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(70,243)	(37,607)
NET CHANGE IN CASH	851,476	220,840
Cash, beginning of year	921,294	700,454
Cash, end of year	$ 1,772,770	$ 921,294

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Combined Arms is a forward-thinking nonprofit whose mission is to unite the community to accelerate and unleash the impact of veterans on Texas. Through streamlined assessments and customized resources based on individual veteran needs, Combined Arms is simplifying and accelerating the connection point between veterans and resources. Combined Arms deploys a data-driven approach and a collaborative, connected model of service delivery so that veterans and the community are united after the uniform.

Effective March 22, 2019, Lone Star Veterans Association (LSVA) was acquired by Combined Arms. The mission of LSVA was to provide military veterans with community building activities that strengthened careers and families. Activities included creating professional and personal networks of successful members to advance their careers, as well as those new to the community, to find a career and a family to which they can belong. As a result of the acquisition, Combined Arms acquired cash of approximately $167,000 and LSVA's programs were transferred to Combined Arms.

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 public charity under §170(b)(1)(A)(vi).

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises were received. Amortization of discounts is included in contribution revenue. Contributions receivable at December 31, 2019 are due within one year; approximately 75% is from one donor.

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 *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before Combined Arms is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Amenity fees are recognized as space and services are provided to other not-for-profit organizations which serve the veteran community. Revenue is recognized in an amount that reflects the consideration Combined Arms expects to receive.

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 more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy expenses 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 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. The ASU is effective for fiscal periods beginning after December 15, 2021. Combined Arms plans to adopt this ASU for fiscal year ending December 31, 2022. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise the following:

	2019	2018
Financial assets:		
Operating cash	$ 1,772,770	$ 853,704
Cash restricted for equipment and leasehold improvements		67,500
Contributions receivable	33,500	
Total financial assets	1,806,270	921,204
Less financial assets not available for general expenditure:		
Donor-restricted contributions not expected to be used in coming year	(509,794)	(302,430)
Total financial assets available for general expenditure	$ 1,296,476	$ 618,774

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Combined Arms considers all expenditures related to its ongoing activities of assisting transitioning military veterans and their families, providing community building activities that strengthen careers and families, and nurturing a system of organizations focused on supporting individuals providing military transition, as well as the conduct of services undertaken to support those activities, to be general expenditures. Combined Arms also has a $100,000 line of credit that may be drawn upon in the event of unanticipated financial circumstances or an immediate liquidity need resulting from events outside the typical business cycle of converting financial assets to cash or settling financial liabilities.

Combined Arms receives significant contributions restricted by donors for specific programs which are ongoing, major, and central to its annual operations and considers these funds to be available to meet its cash needs for general expenditures. 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:

	2019	2018
Leasehold improvements	$ 97,419	$ 71,828
Office furniture and equipment	104,192	59,539
Total property, at cost	201,611	131,367
Accumulated depreciation	(82,291)	(55,712)
Property, net	$ 119,320	$ 75,655

NOTE 4 – CONCENTRATIONS

Approximately 51% and 69% of contributions were from two donors for the years ended December 31, 2019 and 2018, respectively. Bank demand deposits exceed the federally insured limits per depositor per institution.

NOTE 5 – CONDITIONAL CONTRIBUTION

In 2016, an organization made a $2,774,174 multi-year commitment to Combined Arms conditioned upon achievement of certain milestones and required deliverables; Combined Arms has recognized $2,174,174 as of December 31, 2019.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
New market expansion	$ 216,577	
Community leader program	105,110	
Digital marketing	92,290	$ 83,369
For future operating periods	33,500	
Veterans entrepreneurship hub	54,061	54,061
Fitness center		95,000
Community portal		25,000
Non-Houston area outreach		25,000
Meeting space improvements		20,000
Other	8,256	
Total subject to expenditure for specified purpose	$ 509,794	$ 302,430

NOTE 7 – LEASE COMMITMENTS AND SUBLEASES

Combined Arms leases office and retail space under noncancelable operating lease agreements. Related lease expense of approximately $287,000 and $278,000 was recognized during 2019 and 2018 respectively. Future minimum lease payments at December 31, 2019 are due as follows:

2020	$ 239,888
2021	92,944
Total	$ 332,832

NOTE 8 – NOTES PAYABLE

In June 2019, Combined Arms entered into a $100,000 revolving line of credit agreement with a bank; interest is based on the prime rate as published by the Wall Street Journal, which is 5.50% at December 31, 2019. The agreement requires interest only payments until the end of the agreement on June 28, 2021, at which time any unpaid interest and the principal are due. In June 2020, the agreement was amended and increased the maximum principal amount available to $620,000. The line of credit had no balance at December 31, 2019.

NOTE 9 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus, COVID-19, and on March 13, 2020, a national emergency was declared in the United States.

There is expected to be a decrease in contributions without a corresponding decrease in costs as Combined Arms continues to pay its workforce and provide services to veterans and veteran organizations. Combined Arms received approximately $277,000 in financial relief under the Small Business Administration’s Paycheck Protection Program; under provisions in the legislation passed by the

Federal government, the loan is subject to be forgiven if all conditions are met, including the use of funds to meet payroll and other specified expenses. Management has applied for forgiveness and expects the loan to be forgiven.

In June 2020, Combined Arms amended its line of credit agreement increasing the maximum principal amount available to $620,000.

Stay-at-home orders have caused mandated and voluntary closings of Combined Arms facilities. The extent of the impact of COVID-19 on Combined Arms operational and financial performance will depend on developments such as the duration and spread of the outbreak and impact on clients, donors, employees, and vendors, all of which are uncertain and cannot be predicted. Therefore, while Combined Arms expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through August 17, 2020, which is the date that the financial statements were available for issuance. No other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.