Combined Arms

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2020 and 2019

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, 2020 and 2019 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, 2020 and 2019 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 24, 2021

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Combined Arms

Statements of Financial Position as of December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash *(Note 5)*	$ 1,417,570	$ 1,772,770
Accounts receivable	41,827	23,103
Contributions receivable	67,650	33,500
Investments *(Note 3)*	692,333	
Prepaid expenses	66,064	52,761
Property, net *(Note 4)*	97,989	119,320
TOTAL ASSETS	$ 2,383,433	$ 2,001,454
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 43,706	$ 67,826
Security deposits and deferred revenue	23,306	
Total liabilities	67,012	67,826
Commitments and contingencies *(Notes 2 and 8)*		
Net assets:		
Without donor restrictions	1,549,972	1,423,834
With donor restrictions *(Note 7)*	766,449	509,794
Total net assets	2,316,421	1,933,628
TOTAL LIABILITIES AND NET ASSETS	$ 2,383,433	$ 2,001,454

See accompanying notes to financial statements.

Combined Arms

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions *(Notes 2, 5 and 6)*	$ 1,155,810	$ 1,878,026	$ 3,033,836
Program service fees	236,422		236,422
Amenity fees	119,461		119,461
Investment return	32,377		32,377
Other income	3,182		3,182
Total revenue	1,547,252	1,878,026	3,425,278
Net assets released from restrictions:			
Expenditure for program purposes	1,587,871	(1,587,871)	
Time restricted	33,500	(33,500)	
Total	3,168,623	256,655	3,425,278
EXPENSES:			
Program	2,385,638		2,385,638
Management and general	341,256		341,256
Fundraising	315,591		315,591
Total expenses	3,042,485		3,042,485
CHANGES IN NET ASSETS	126,138	256,655	382,793
Net assets, beginning of year	1,423,834	509,794	1,933,628
Net assets, end of year	$ 1,549,972	$ 766,449	$ 2,316,421

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 5)*	$ 2,139,751	$ 622,674	$ 2,762,425
Program service fees	38,200		38,200
Amenity fees	127,891		127,891
Other income	182		182
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	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

Statements of Functional Expenses for the years ended December 31, 2020 and 2019

	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	2020 TOTAL
Salaries and related costs	$ 1,395,489	$ 170,460	$ 220,848	$ 1,786,797
Professional and contract services	382,859	139,007	70,781	592,647
Lease expense	252,931	13,672	6,836	273,439
Communication and technology	89,693	10,723	13,746	114,162
Utilities	52,626	2,845	1,422	56,893
Travel and conferences	46,565	1,433		47,998
Marketing	39,750			39,750
Office supplies	31,218	1,755	973	33,946
Veterans activities – food and entertainment	33,463			33,463
Depreciation	25,170	1,361	680	27,211
Direct assistance	20,383			20,383
Grants	13,684			13,684
Other	1,807		305	2,112
Total expenses	$ 2,385,638	$ 341,256	$ 315,591	$ 3,042,485

	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	2019 TOTAL
Salaries and related costs	$ 756,293	$ 76,015	$ 126,138	$ 958,446
Professional and contract services	227,619	106,354	12,443	346,416
Lease expense	271,808	14,692	7,346	293,846
Communication and technology	71,560	7,247	11,776	90,583
Utilities	28,013	1,514	757	30,284
Travel and conferences	69,049	5,984		75,033
Marketing	84,295		1,076	85,371
Office supplies	26,796	2,714	4,409	33,919
Veterans activities – food and entertainment	147,071			147,071
Depreciation	20,997	2,126	3,455	26,578
Direct assistance	1,401			1,401
Grants	23,472			23,472
Other	8,318	19,345	1,369	29,032
Total expenses	$ 1,736,692	$ 235,991	$ 168,769	$ 2,141,452

See accompanying notes to financial statements.

Combined Arms

Statements of Cash Flows for the years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 382,793	$ 954,203
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	27,211	26,578
Net realized and unrealized gain on investments	(31,806)	
Changes in operating assets and liabilities:		
Contributions receivable	(34,150)	(33,500)
Prepaid expenses	(32,027)	(55,812)
Accounts payable and accrued expenses	(24,120)	30,250
Security deposits and deferred revenue	23,306	
Net cash provided by operating activities	311,207	921,719
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(5,880)	(70,243)
Purchase of investments	(569,915)	
Net change in cash held as investments	(90,612)	
Net cash used by investing activities	(666,407)	(70,243)
NET CHANGE IN CASH	(355,200)	851,476
Cash, beginning of year	1,772,770	921,294
Cash, end of year	$ 1,417,570	$ 1,772,770

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Combined Arms is a forward-thinking nonprofit organization 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 are received. Amortization of discounts is included in contribution revenue. Contributions receivable at December 31, 2020 are due within one year.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses. Investment return is reported in the statement of activities as an increase in *net assets without donor restrictions* unless the use of the income is limited by donor-imposed restrictions. Net investment return whose use is restricted by the donor is reported as a change in *net assets with donor restrictions* until expended in accordance with donor-imposed restrictions. Cash held for long-term purposes are grouped with investments and are excluded from cash for purposes of cash flow.

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 to 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.

Program service fees are derived from contracts with customers to provide workflow efficiency implementation, training and assistance services and tools. Revenue is recognized in the amount of consideration that Combined Arms expects to be entitled to receive when performance obligations are satisfied either at a point in time or over time depending on the nature of the services provided, which is generally one year or less. Revenue is recognized using the output method as performance obligations are met. Amounts are billed as work progresses in accordance with agreed-upon terms, either at periodic intervals or upon achievement of milestones. Amounts billed that represent Combined Arms' right to consideration that is conditioned only upon the passage of time, are reported as accounts receivable. Costs incurred related to revenue not yet recognized result in a contract asset. Payments collected but not yet recognized as revenue result in a contract liability and are reported as deferred revenue. There was no deferred revenue for program services fees for each of the years ended December 31, 2020, 2019, and 2018. Accounts receivable at December 31, 2020, 2019, and 2018 were $35,401, $16,214, and $0, respectively.

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 on a month-to-month basis. Deferred revenue for each of the years ended December 31, 2020, 2019, and 2018 were $8,306, $0, and $0, respectively. Accounts receivable at December 31, 2020, 2019, and 2018 were $6,426, $6,889, and $8,050, respectively.

Functional allocation of expenses – Expenses are reported by their functional classification. 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 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. Combined Arms is required to adopt this ASU for fiscal year 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:

	2020	2019
Financial assets:		
Cash	$ 1,417,570	$ 1,772,770
Contributions receivable	67,650	33,500
Accounts receivable	41,827	23,103
Investments	692,333	
Total financial assets	2,219,380	1,829,373
Less financial assets not available for general expenditure:		
Donor-restricted contributions not expected to be used in the following year	(766,449)	(509,794)
Total financial assets available for general expenditure	$ 1,452,931	$ 1,319,579

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 $620,000 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.

During 2020, Combined Arms received approximately $277,000 in financial relief under the Small Business Administration's Paycheck Protection Program (PPP loan), which was forgiven during the year and recognized as contribution revenue. In February 2021, Combined Arms was approved a second PPP loan of $324,157, which was subsequently forgiven in June 2021 and will be recognized as revenue in 2021.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2020 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Corporate and government bonds:				
AAA		$ 317,706		$ 317,706
BBB		95,712		95,712
BB		10,439		10,439
Equity mutual funds:				
Domestic large-cap	$ 107,950			107,950
Total assets held at fair value	$ 107,950	$ 423,857	$ 0	531,807
Cash				90,612
Certificates of deposit				69,914
Total investments				$ 692,333

Valuation methods used for assets measured at fair value are as follows:

- *Corporate and government bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *Mutual funds* are valued at the reported net asset value.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Combined Arms believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 4 – PROPERTY

Property consists of the following:

	2020	2019
Leasehold improvements	$ 97,960	$ 97,419
Office furniture and equipment	109,531	104,192
Total property, at cost	207,491	201,611
Accumulated depreciation	(109,502)	(82,291)
Property, net	$ 97,989	$ 119,320

NOTE 5 – CONCENTRATIONS

Approximately 39% and 51% of contributions were from two donors for the years ended December 31, 2020 and 2019, respectively.

Bank demand deposits exceed the federally insured limit per depositor per institution.

NOTE 6 – CONDITIONAL CONTRIBUTIONS

Combined Arms has entered into the following conditional contribution agreements:

AWARD AMOUNT	AMOUNT RECOGNIZED IN FISCAL YEAR 2020	AMOUNT OUTSTANDING AS OF DECEMBER 31, 2020	BARRIER TO RECEIVE PAYMENT
$150,000	$50,000	$100,000	Matching gift of $50,000 for fiscal years 2021 and 2022.
$150,000	$75,000	$75,000	Conditioned upon achievement of milestones and required deliverables.
$950,000	$350,000	$600,000	Conditioned upon achievement of milestones and required deliverables.
$2,000,000	$391,002	$1,608,998	Government award conditioned upon provision of services and incurrence of allowable costs.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
New market expansion	$ 575,967	$ 216,577
Disaster relief and response	100,306	
Veterans entrepreneurship hub	34,061	54,061
Community leader program	28,204	105,110
For future operating periods	25,000	33,500
Digital marketing		92,290
Other	2,911	8,256
Total subject to expenditure for specified purpose	$ 766,449	$ 509,794

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Combined Arms leases office and retail space under noncancelable operating lease agreements. Related lease expense of approximately $271,000 and $287,000 was recognized during 2020 and 2019, respectively. Future minimum lease payments at December 31, 2020 are due as follows:

2021	$ 224,243
2022	307,000
2023	313,200
2024	320,200
2025	326,800
Thereafter	279,000
Total	$ 1,770,443

Combined Arms is party to a grant agreement which requires fulfillment of certain conditions as set forth in the grant contract and is subject to review and audit by the state and federal governments. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Combined Arms with the terms of the contracts. Management believes such disallowances, if any, would not be material to Combined Arms financial position or changes in net assets. Should this grant agreement not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred.

Combined Arms is party to a $620,000 revolving line of credit agreement with a bank; interest is based on the prime rate as published by the Wall Street Journal, which is 3.25% at December 31, 2020. The agreement requires interest only payments until the end of the agreement on June 30, 2022, at which time any unpaid interest and the principal are due. The line of credit had no balance at December 31, 2020.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 24, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the receipt and forgiveness of a second PPP loan as disclosed in Note 2, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.