

Combined Arms

Financial Statements
And Uniform Guidance Reports

December 31, 2023

Combined Arms

December 31, 2023

Table of Contents

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Statements of Financial Position.....	3
Statements of Activities	4-5
Statements of Functional Expenses	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8-17
Uniform Guidance Reports and Schedules:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-19
Independent Auditors' Report on Compliance for Each Major Program And on Internal Control over Compliance Required by the Uniform Guidance	20-21
Schedule of Findings and Questioned Costs	22
Schedule of Expenditures of Federal Awards.....	23
Notes to the Schedule of Expenditures of Federal Awards.....	24



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Combined Arms

Opinion

We have audited the accompanying financial statements of Combined Arms (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022, and the change 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.

Basis for Opinion

We conducted our audit for the years ended December 31, 2023 and 2022 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pannell Kerr Forster of Texas, P.C.".

August 22, 2024

Combined Arms

Statements of Financial Position

	December 31,	
	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 138,714	\$ 498,491
Investments at fair value	556,601	646,578
Accounts receivable	383,004	57,290
Unconditional promises to give	324,495	320,235
Employee retention credit receivable	262,066	409,001
Prepaid expenses	35,916	66,733
Total current assets	<u>1,700,796</u>	<u>1,998,328</u>
Property and equipment, net	104,755	120,376
Right-of-use assets - operating leases	<u>810,031</u>	<u>1,058,468</u>
Total assets	<u>\$ 2,615,582</u>	<u>\$ 3,177,172</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 223,479	\$ 201,936
Refundable advances	242,067	240,648
Current lease liabilities - operating leases	293,973	273,210
Deferred revenue	<u>52,500</u>	<u>83,138</u>
Total current liabilities	<u>812,019</u>	<u>798,932</u>
Line of credit	370,000	-
Long-term lease liabilities - operating leases	<u>593,546</u>	<u>876,470</u>
Total liabilities	<u>1,775,565</u>	<u>1,675,402</u>
Commitments and contingencies		
Net assets		
Without donor restrictions	157,974	813,354
With donor restrictions	<u>682,043</u>	<u>688,416</u>
Total net assets	<u>840,017</u>	<u>1,501,770</u>
Total liabilities and net assets	<u>\$ 2,615,582</u>	<u>\$ 3,177,172</u>

See notes to financial statements.

Combined Arms

Statements of Activities

Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions	\$ 2,901,239	\$ 1,278,220	\$ 4,179,459
Program service fees	658,680	-	658,680
Event sponsorships	197,640	-	197,640
Rent and amenities fees	124,435	-	124,435
Investment income, net	54,565	-	54,565
Donated materials	85,290	-	85,290
Net assets released from restrictions	<u>1,284,593</u>	<u>(1,284,593)</u>	<u>-</u>
Total revenue and support	<u>5,306,442</u>	<u>(6,373)</u>	<u>5,300,069</u>
Expenses			
Program services	5,130,078	-	5,130,078
Management and general	405,416	-	405,416
Fundraising	<u>426,328</u>	<u>-</u>	<u>426,328</u>
Total expenses	<u>5,961,822</u>	<u>-</u>	<u>5,961,822</u>
Change in net assets	(655,380)	(6,373)	(661,753)
Net assets at beginning of year	<u>813,354</u>	<u>688,416</u>	<u>1,501,770</u>
Net assets at end of year	<u>\$ 157,974</u>	<u>\$ 682,043</u>	<u>\$ 840,017</u>

See notes to financial statements.

Combined Arms

Statements of Activities

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions	\$ 2,469,595	\$ 698,500	\$ 3,168,095
Program service fees	382,197	-	382,197
Event sponsorships	99,170	-	99,170
Rent and amenities fees	126,716	-	126,716
Investment loss, net	(84,287)	-	(84,287)
Donated materials	68,159	-	68,159
Net assets released from restrictions	<u>973,422</u>	<u>(973,422)</u>	<u>-</u>
Total revenue and support	<u>4,034,972</u>	<u>(274,922)</u>	<u>3,760,050</u>
Expenses			
Program services	4,107,178	-	4,107,178
Management and general	289,903	-	289,903
Fundraising	<u>281,846</u>	<u>-</u>	<u>281,846</u>
Total expenses	<u>4,678,927</u>	<u>-</u>	<u>4,678,927</u>
Change in net assets	(643,955)	(274,922)	(918,877)
Net assets at beginning of year	<u>1,457,309</u>	<u>963,338</u>	<u>2,420,647</u>
Net assets at end of year	<u>\$ 813,354</u>	<u>\$ 688,416</u>	<u>\$ 1,501,770</u>

See notes to financial statements.

Combined Arms

Statements of Functional Expenses

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenditures
Year ended December 31, 2023				
Salaries and related costs	\$ 2,600,025	\$ 186,790	\$ 222,632	\$ 3,009,447
Professional and contract services	912,413	132,008	136,390	1,180,811
Lease expense	260,849	16,290	22,336	299,475
Communication and technology	437,351	23,080	441	460,872
Utilities	62,371	4,481	5,341	72,193
Travel and conferences	240,998	17,059	18,372	276,429
Marketing and promotion costs	166,139	-	247	166,386
Office supplies	29,436	2,115	2,521	34,072
Food and entertainment	205,573	2,303	2,355	210,231
Depreciation	41,072	2,951	3,517	47,540
Direct assistance	144,230	-	-	144,230
Grants	22,561	100	31	22,692
Interest	-	11,557	-	11,557
Other	7,060	6,682	12,145	25,887
Total expenses	<u>\$ 5,130,078</u>	<u>\$ 405,416</u>	<u>\$ 426,328</u>	<u>\$ 5,961,822</u>
Year ended December 31, 2022				
Salaries and related costs	\$ 2,094,243	\$ 168,929	\$ 170,538	\$ 2,433,710
Professional and contract services	668,667	53,728	61,793	784,188
Lease expense	257,703	20,787	20,985	299,475
Communication and technology	319,112	7,182	2,390	328,684
Utilities	69,217	5,583	5,636	80,436
Bad debt	1,000	12,007	-	13,007
Travel and conferences	161,609	3,515	3,025	168,149
Marketing and promotion costs	60,634	-	-	60,634
Office supplies	29,676	2,394	2,417	34,487
Food and entertainment	256,251	10,072	3,778	270,101
Depreciation	30,495	2,460	2,483	35,438
Direct assistance	109,189	-	-	109,189
Grants	36,236	-	1,500	37,736
Other	13,146	3,246	7,301	23,693
Total expenses	<u>\$ 4,107,178</u>	<u>\$ 289,903</u>	<u>\$ 281,846</u>	<u>\$ 4,678,927</u>

See notes to financial statements.

Combined Arms

Statements of Cash Flows

	Year Ended December 31,	
	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (661,753)	\$ (918,877)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	47,540	35,438
Bad debt	-	13,007
Donated securities	-	(4,865)
Realized and unrealized (gain) loss	(32,486)	102,728
Changes in operating assets and liabilities		
Accounts receivable	(325,714)	110,808
Unconditional promises to give	(4,260)	87,839
Employee retention credit receivable	146,935	(409,001)
Prepaid expenses	30,817	19,890
Accounts payable and accrued expenses	21,543	26,149
Deferred rent liability	-	(98,738)
Refundable advances	1,419	188,497
Right-of-use asset and operating lease liability, net	(13,724)	91,212
Deferred revenue	(30,638)	21,085
Net cash used in operating activities	(820,321)	(734,828)
Cash flows from investing activities:		
Purchase of equipment	(31,919)	(21,254)
Purchase of investments	-	(18,434)
Proceeds from sale of marketable securities	144,500	-
Sales of investments	(22,037)	-
Net cash provided by (used in) investing activities	90,544	(39,688)
Cash flows from financing activities:		
Proceeds from line of credit	370,000	-
Net cash provided by financing activities	370,000	-
Net decrease in cash and cash equivalents	(359,777)	(774,516)
Cash and cash equivalents - beginning of year	498,491	1,273,007
Cash and cash equivalents - end of year	\$ 138,714	\$ 498,491
Supplemental cash flow information		
Cash paid for amounts included in operating leases	\$ 313,200	\$ 307,000
Cash paid for interest	\$ 11,557	\$ -
Non-cash investing and financing activity:		
Right-of-use assets obtained in exchange of operating lease obligations	\$ -	\$ 1,406,110

See notes to financial statements.

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 1 - Nature of Operations and Summary of Significant Accounting PoliciesNature of operations

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

Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity. It recognizes the impact of an uncertain tax position only if that position is more likely than not of being sustained upon examination by the taxing authority based on the technical merits. The Organization accounts for interest and penalties relating to uncertain tax positions in the current period statement of activities, if necessary.

Basis of presentation

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, these financial statements present the financial position, change in net assets, and cash flows of the Organization.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958-205, net assets, revenues, expenses, gains and losses are classified on the existence or absence of donor-imposed restrictions, as follows:

- Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.
- Net assets with donor restrictions - net assets subject to donor-imposed stipulations that specify a use for a contributed asset. When a purpose restriction or a time restriction ends, net assets with donor restrictions are released to net assets without donor restrictions and reported in the statements of activities.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash and have an original maturity of three months or less on the date of acquisition.

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)Investments

Investments in marketable securities with readily determinable fair values are reported at fair value in the statements of financial position. Gains and losses are included in net assets without donor restrictions, unless the gain or loss is restricted by donor or law. See Note 2 for discussion of fair value measurements.

Accounts receivable, program service, rent and amenity fees

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 the Organization 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 the Organization's right to consideration that is conditioned only upon the passage of time, are reported as accounts receivable.

Rent and amenity fees are recognized as space and other services are provided to other not-for-profit organizations which serve the veteran community. Revenue is recognized in an amount that reflects the consideration the Organization expects to receive on a month-to-month basis over time when the services have been provided.

Costs incurred related to revenue not yet invoiced result in a contract asset. There were no contract assets as of December 31, 2023 and 2022. Payments collected but not yet recognized as revenue result in a contract liability and are reported as deferred revenue on the statements of financial position.

The following table shows the Organization's accounts receivables and contract liabilities at December 31, 2023, December 31, 2022 and January 1, 2022.

	December 31, 2023	December 31, 2022	January 1, 2022
Accounts receivable	\$ 383,004	\$ 57,290	\$ 168,098
Deferred revenue	\$ 52,500	\$ 83,138	\$ 62,053

The Organization provides an allowance for credit losses equal to the estimated losses that will be incurred in the collection of accounts receivable. This estimate is based upon historical experience coupled with a review of the current status of existing receivables. The allowance and associated accounts receivables are reduced when the receivables are determined to be uncollectible. Management considered all amounts collectible at December 31, 2023 and 2022, and therefore no allowance has been recorded.

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)Contributions and unconditional promises to give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in net assets with donor restrictions depending upon the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions in which the restrictions are met in the same year as received are recorded as unrestricted contributions in the accompanying statements of activities. Non-current unconditional promises to give are reflected at present value. Conditional promises to give have a barrier to overcome and include a right of return, and are not included as support until the promise becomes unconditional. At December 31, 2023 and 2022, the Organization had conditional promises to give of \$2,395,332 and \$1,186,878, respectively, which primarily relate to unutilized grants.

The Organization provides an allowance for doubtful promises to give equal to the estimated losses that will be incurred in the collection of unconditional promises to give. This estimate is based on historical experience coupled with a review of the current status of existing promises. The allowance and associated promises are reduced when the promises are determined to be uncollectible. The Organization considers unconditional promises to give to be fully collectible at December 31, 2023 and 2022, and therefore no allowance has been recorded.

Promises to give at December 31, 2023 and 2022 are due within one year.

Event sponsorships

Event sponsorships are considered special event revenue and is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Organization recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. The Organization recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place.

Property and equipment

Property and equipment is recorded at cost, if purchased and at fair value, if donated. The Organization's policy is to capitalize all expenditures for property in excess of \$5,000. Depreciation is recognized on a straight-line basis over the estimated useful life. Expenditures for additions and betterments are capitalized, and expenditures for maintenance and repairs are charged to activities as incurred.

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)Leases

Lease obligations primarily relate to real estate leases for the Organization's facility. For any lease with an initial term in excess of 12 months, the right-of-use assets and lease liabilities are recognized on the statements of financial position as either an operating or finance lease at the inception of an agreement where it is determined that a lease exists.

Right-of-use assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are recognized based on present value of future payments over the lease term at the commencement date. The incremental borrowing rate used for each lease is based on an evaluation of the Organization's credit ratings and the prevailing market rates for collateralized debt in a similar economic environment with similar payment terms and maturity dates commensurate with the terms of the lease. Operating leases also typically require payment of real estate taxes, common area maintenance and insurance. These components comprise the majority of the variable lease costs and are excluded from the present value of the lease obligations. Right-of-use assets also include prepaid lease payments and initial direct costs and are reduced by lease incentives. The lease terms generally do not include options to extend or terminate the lease unless it is reasonably certain that the option will be exercised. Fixed payments may contain predetermined fixed rent escalations.

The following accounting policy elections are made in connection with lease accounting:

- Short-term leases – The Organization has elected to not apply the new guidance to leases with terms of 12 months or less. Instead, these leases are recognized as expense on a straight-line basis over the lease term.
- Discount rates – The Organization elected to use its incremental borrowing rate as the discount rate when the rate implicit to the leases is not readily determinable.
- Lease and non-lease components – The Organization elected the practical expedient to choose whether to separate non-lease components from lease components by class of underlying assets or account for them as a single lease component. The Company elected not to separate lease and non-lease components for all leases.

Donated materials

Donated nonfinancial assets are recorded as contributions at their fair values at the date of donation and reported as expense when utilized. The Organization receives donated facilities, food and toys by various individuals and organizations for one of the Organization's program events to provide assistance to the families of veterans. Additionally, the Organization received computers for relocated refugees also under one of the Organization's program events. The Organization did not monetize any contributed nonfinancial assets and contributed nonfinancial assets did not have donor restrictions.

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)Donated materials (continued)

Donated nonfinancial assets were as follows for the years ended December 31:

	2023	2022
Toy donations	\$ 13,032	\$ 11,300
Venue usage	-	13,000
Catering	4,743	11,359
Computers	67,515	32,500
	<u>\$ 85,290</u>	<u>\$ 68,159</u>

Functional expense allocation

The Organization allocates expenses on a functional basis among various programs and supporting activities. Expenses that can be identified with a specific program and supporting activities are allocated directly according to their natural expenditure classifications. Expenses related to more than one function are allocated to programs and supporting services on the basis of estimated time expenses or usage by function.

Marketing and promotion costs

Marketing and promotion costs are expensed as incurred. The Organization expensed \$166,386 and \$60,634 in marketing and promotion costs for the years ended December 31, 2023 and 2022, respectively.

Financial instruments, credit risk and concentration of credit risk

Financial instruments that potentially subject the Organization to credit risk include cash and cash equivalents, investments, accounts receivables and unconditional promises to give. Cash and cash equivalents are deposited in demand accounts with federally-insured institutions to minimize risk. From time to time, the balances in these accounts may exceed the federally-insured limits. The Organization has not incurred losses related to these deposits. The investments in marketable securities are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

Unconditional promises to give consist of contributions receivable from state and local governments, individuals, private foundations, and corporations across the United States. Accounts receivable consists of amounts due from customers and are due in 30 days. Although the Organization is directly affected by the financial stability of its donors and customers, management does not believe significant credit risk exists at December 31, 2023 and 2022.

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)Financial instruments, credit risk and concentration of credit risk (continued)

Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established as needed based upon factors surrounding credit risk of specific donors and customers, historical trends, and other information. When management determines that a receivable is uncollectible, the balance is removed from the receivables balance and is charged against the allowance.

The Organization receives monetary support from corporations, foundations, state and local governments, and individual donors. During 2023, one source of support accounted for approximately 18% of the Organization's revenue. During 2022, one source of support accounted for approximately 19% of the Organization's revenue.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Management believes its estimates are reasonable.

Recently adopted accounting pronouncement

Effective January 1, 2023, the Organization adopted FASB Accounting Standards Updated 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Organization's financial statements.

Note 2 - Fair Value Measurements

U.S. GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

These inputs are summarized in the three broad levels listed below

- Level 1 – observable inputs such as quoted prices in active markets at the measurement date for identical assets or liabilities.
- Level 2 – other inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 2 - Fair Value Measurements (Continued)

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

- Corporate and government bonds – 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 value.
- Mutual funds – valued daily using quoted market prices.

The methods described above may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the valuation methods are considered appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes, set forth by level, within the fair value hierarchy, the Organization's investments at fair value:

December 31, 2023	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,055	\$ -	\$ -	\$ 8,055
Mutual funds	201,692	-	-	201,692
Corporate and government bonds	-	346,854	-	346,854
Total investments	<u>\$ 209,747</u>	<u>\$ 346,854</u>	<u>\$ -</u>	<u>\$ 556,601</u>
December 31, 2022	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 81,352	\$ -	\$ -	\$ 81,352
Mutual funds	171,892	-	-	171,892
Corporate and government bonds	-	393,334	-	393,334
Total investments	<u>\$ 253,244</u>	<u>\$ 393,334</u>	<u>\$ -</u>	<u>\$ 646,578</u>

Note 3 - Property and Equipment

Property and equipment as of December 31, consists of the following:

	2023	2022	Class Life
Leasehold improvements	\$ 188,962	\$ 188,962	1 - 10 years
Office furniture and equipment	112,607	80,688	1 - 5 years
Computer equipment and software	<u>28,843</u>	<u>28,843</u>	1 - 4 years
Total property, at cost	330,412	298,493	
Less: accumulated depreciation	<u>(225,657)</u>	<u>(178,117)</u>	
Property and equipment, net	<u>\$ 104,755</u>	<u>\$ 120,376</u>	

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 3 - Property and Equipment (Continued)

Depreciation expense amounted to \$47,540 and \$35,438 for the years ended December 31, 2023 and 2022, respectively.

Note 4 - Line of Credit

The Organization is party to a \$620,000 revolving line of credit agreement with a financial institution. Interest is based on the prime rate, as published by the Wall Street Journal, which is 8.50% at December 31, 2023. The agreement requires interest only payments until the end of the agreement on June 30, 2023, at which time any unpaid interest and the principal are due. In June 2023, the line of credit was increased to \$1,000,000 and date of maturity was extended until June 30, 2025. The line of credit had a balance of approximately \$370,000 and \$0 at December 31, 2023 and 2022, respectively.

Note 5 - Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, consist of the following:

	2023	2022
New market expansion	\$ 510,319	\$ 592,916
Special immigrant visa	43,636	70,500
Time restricted	-	25,000
Food pantry	128,088	-
Total net assets with donor restrictions	<u>\$ 682,043</u>	<u>\$ 688,416</u>

During the years ended December 31, 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amounts of \$1,284,593 and \$973,422, respectively.

Note 6 - Leases

At December 31, 2023, operating lease right-of-use assets and lease liabilities included office space. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term.

The components of lease costs for the years ended December 31 are as follows:

	2023	2022
Operating lease costs	\$ 299,475	\$ 299,475
Sublease income	<u>(124,435)</u>	<u>(126,716)</u>
Total lease costs, net	<u>\$ 175,040</u>	<u>\$ 172,759</u>

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 6 - Leases (Continued)

The weighted-average remaining lease term at December 31, 2023 and 2022 was 2.83 years and 3.83 years, respectively. The weighted-average discount rate at December 31, 2023 and 2022 was 4.00%.

The Organization has the following minimum future rental income under non-cancelable lease terms as of December 31, 2023:

<u>Year Ended December 31,</u>	<u>Minimum Future Rental Income</u>
2024	\$ 66,780
2025	<u>74,015</u>
	<u>\$ 140,795</u>

Undiscounted cash flows related to operating lease liabilities at December 31, 2023 are as follows:

<u>Year Ended December 31</u>	<u>Operating</u>
2024	\$ 331,248
2025	326,800
2026	<u>279,000</u>
Total undiscounted cash flows	937,048
Less discount to present value	<u>(49,529)</u>
Discounted present value of lease liabilities	887,519
Less: current portion of lease liabilities	<u>(293,973)</u>
Long-term portion of lease liabilities	<u>\$ 593,546</u>

Note 7 - Liquidity and Availability of Resources

The Organization's financial assets available for general expenditure within one year at December 31, is as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 138,714	\$ 498,491
Investments at fair value	556,601	646,578
Accounts receivable	383,004	57,290
Unconditional promises to give	324,495	320,235
Employee retention credit receivable	<u>262,066</u>	<u>409,001</u>
Total financial assets	1,664,880	1,931,595
Donor-imposed restrictions	<u>(682,043)</u>	<u>(688,416)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 982,837</u>	<u>\$ 1,243,179</u>

Combined Arms

Notes to Financial Statements

December 31, 2023

Note 7 - Liquidity and Availability of Resources (Continued)

The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization also has the ability to access funding through the line of credit (see Note 4) through June 30, 2025, if needed.

Note 8 - Special Grant Assistance

Under the provisions of the CARES Act and the subsequent extension of the CARES Act, the Organization was eligible for a refundable employee retention credit subject to certain criteria. In 2022 the Organization applied for \$409,001 which erroneously included previously applied federal funds of \$240,648. The Organization recognized \$168,353 of contribution revenue during the year ended December 31, 2022, that were recorded in the accompanying statement of activities for the year then ended. The portion that will be required to be repaid once received was recorded as refundable advances on the statements of financial position as of December 31, 2022.

Note 9 - Subsequent Events

Management has evaluated subsequent events as of August 22, 2024, which was the date the financial statements were available for issuance and has determined that there are no other subsequent events to be reported.

UNIFORM GUIDANCE REPORTS AND SCHEDULES



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
of Combined Arms

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Combined Arms (the "Organization"), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 22, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pannell Kerr Foster of Texas, P.C.

August 22, 2024



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
of Combined Arms

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Combined Arms (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2023. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



August 22, 2024

Combined Arms

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

I. Summary of Auditors' Results***Financial Statements***Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Material weaknesses identified? **No**Significant deficiencies identified not considered to be a material weakness? **None reported**Noncompliance material to the financial statements noted? **No*****Federal Awards***

Internal control over major program:

Material weaknesses identified? **No**Significant deficiencies identified not considered to be a material weakness? **None reported**Type of auditors' report issued on compliance for major programs: **Unmodified**Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? **No****Major Program:**

Federal Major Program:

U.S. Department of Labor – Workforce Innovation and Opportunity Act Cluster – Adult Program – Assistance Listing No. 17.258

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? **No****II. Findings – Financial Statements Audit**

Year ended December 31, 2023: None

III. Findings and Questioned Costs – Major Federal Award Program Audit

Year ended December 31, 2023: None

Combined Arms

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Contract or Pass- through Grantor's I.D. Number	Current Year Expenditures	Current Year Revenues
Federal Awards:				
U.S. Department of Labor				
<i>Passed through Texas Office of the Governor - Texas Workforce Commission</i>				
Workforce Innovation and Opportunity Act Cluster				
Workforce Innovation and Opportunity Act - Phase I	17.258	2920WOS007	\$ 119,228	\$ 119,228
Workforce Innovation and Opportunity Act - Phase II	17.258	2923WOS005	787,100	787,100
			<u>\$ 906,328</u>	<u>\$ 906,328</u>
U.S. Department of Health and Human Services				
<i>Passed through Centers for Disease Control and Prevention</i>				
Building NGO Capacity to Prevent Veteran Suicide	93.421	4982	35,881	35,881
Total Expenditure of Federal Awards			<u>\$ 942,209</u>	<u>\$ 942,209</u>

Combined Arms

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal grant activity of Combined Arms (the "Organization") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Therefore, some amounts presented in the schedule may differ from amounts presented in or used in the preparation of the financial statements.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles as found in the Uniform Guidance for federal awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

Note 3 - Relationship to Financial Reports Submitted to Grantor Agencies

Amounts reflected in the financial reports filed with grantor agencies for the programs and the supplementary schedules may not agree because of accruals included in the next report filed with the agencies, matching requirements not included in the SEFA and different program year ends.

Note 4 - Federal Insurance and Loan Programs

The Organization had no federal insurance programs in effect and no loan or loan guarantee programs outstanding during the year ended December 31, 2023.