

Operation Military Embrace, Inc.

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

Independent Auditors' Report

To the Board of Directors of
Operation Military Embrace, Inc.:

We have audited the accompanying financial statements of Operation Military Embrace, Inc., which comprise the statement of financial position as of December 31, 2017 and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation Military Embrace, Inc. as of December 31, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



July 2, 2018

Operation Military Embrace, Inc.

Statement of Financial Position as of December 31, 2017

ASSETS

Cash	\$ 178,107
Prepaid expenses and other assets	19,020
Property and equipment (<i>Note 2</i>)	<u>27,653</u>
TOTAL ASSETS	<u>\$ 224,780</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ <u>38</u>
Unrestricted net assets	<u>224,742</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 224,780</u>

See accompanying notes to financial statements.

Operation Military Embrace, Inc.

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 275,102	\$ 14,636	\$ 289,738
In-kind contributions (<i>Note 3</i>)	131,649		131,649
Special event revenue	42,397		42,397
Cost of direct donor benefit provided to donors	<u>(17,646)</u>	<u> </u>	<u>(17,646)</u>
Total revenue	431,502	14,636	446,138
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>14,636</u>	<u>(14,636)</u>	<u> </u>
Total	<u>446,138</u>	<u>0</u>	<u>446,138</u>
EXPENSES:			
Program expenses	308,780		308,780
Management and general	29,058		29,058
Fundraising	<u>25,595</u>		<u>25,595</u>
Total expenses	<u>363,433</u>		<u>363,433</u>
CHANGES IN NET ASSETS			
	82,705	0	82,705
Net assets, beginning of year	<u>142,037</u>	<u> </u>	<u>142,037</u>
Net assets, end of year	<u>\$ 224,742</u>	<u>\$ 0</u>	<u>\$ 224,742</u>

See accompanying notes to financial statements.

Operation Military Embrace, Inc.

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

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ 82,705
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	10,493
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	2,486
Accounts payable	<u>(120)</u>
Net cash provided by operating activities	<u>95,564</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	<u>(3,058)</u>
------------------------------------	----------------

NET CHANGE IN CASH 92,506

Cash, beginning of year 85,601

Cash, end of year \$ 178,107

See accompanying notes to financial statements.

Operation Military Embrace, Inc.

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Operation Military Embrace, Inc. (OME) is a group of dedicated Texans who have formed a Texas-based not-for-profit military support organization to assist America’s seriously injured and ill Warriors and their families in their time of need.

Federal income tax status – OME 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).

Property and equipment is reported at cost if purchased and at fair value at the date of gift if donated. Depreciation is provided on a straight-line basis over estimated useful lives of 5 years. OME capitalizes property and equipment that have a useful life greater than one year and a cost of more than \$1,000.

Net asset classification – Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met. In 2017, one donor provided 13% of contributions and special event revenue.

Donated materials, use of facilities, and services – Donated materials and use of facilities are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have contributed their time to fill board positions and provide administrative support in addition to soliciting and packaging items to be sent to the deployed active duty personnel and to be given away to in the free P-X program. In 2017, volunteers served more than 13,000 hours. No amount has been recognized in the financial statements for these services because they did not meet the criteria for recognition under generally accepted accounting principles.

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 August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and

underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. OME is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 is comprised of the following:

Vehicles	\$ 37,916
Equipment	14,459
Computer software	<u>11,656</u>
Total depreciable property and equipment, at cost	64,031
Accumulated depreciation	<u>(36,378)</u>
Property and equipment, net	<u>\$ 27,653</u>

NOTE 3 – IN-KIND CONTRIBUTIONS

In-kind contributions at December 31, 2017 consist of the following:

Care package content items	\$ 73,613
Goods for P-X program	28,043
Goods for family assistance program	4,461
Other goods	21,632
Space for care package program	<u>3,900</u>
Total	<u>\$ 131,649</u>

NOTE 4 – RELATED PARTY TRANSACTION

OME leases approximately 1,100 square-feet in the home of two directors for storage and office space. The agreement is approved by the Board of Directors and renews annually. Rent expense under this agreement in 2017 was \$18,000.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 2, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.