

Operation Military Embrace, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2018 and 2017

Operation Military Embrace, Inc.

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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 statements of financial position as of December 31, 2018 and 2017 and the related statements of activities and of cash flows for the years then ended, the related statement of functional expenses for the year ended December 31, 2018, 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 Operation Military Embrace, Inc. as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Operation Military Embrace, Inc. adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

May 1, 2019

Operation Military Embrace, Inc.

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

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 272,909	\$ 178,107
Prepaid expenses and other assets	18,663	19,020
Property and equipment (<i>Note 4</i>)	<u>18,126</u>	<u>27,653</u>
TOTAL ASSETS	<u>\$ 309,698</u>	<u>\$ 224,780</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	<u>\$ 620</u>	<u>\$ 38</u>
Net assets without donor restrictions (<i>Note 5</i>)	<u>309,078</u>	<u>224,742</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 309,698</u>	<u>\$ 224,780</u>

See accompanying notes to financial statements.

Operation Military Embrace, Inc.

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 306,189	\$ 25,572	\$ 331,761
In-kind contributions (<i>Note 6</i>)	156,349		156,349
Special event revenue	42,937		42,937
Cost of direct donor benefit provided to donors	<u>(11,744)</u>	<u> </u>	<u>(11,744)</u>
Total revenue	493,731	25,572	519,303
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>25,572</u>	<u>(25,572)</u>	<u> </u>
Total	<u>519,303</u>	<u>0</u>	<u>519,303</u>
EXPENSES:			
Program expenses	353,784		353,784
Management and general	44,198		44,198
Fundraising	<u>36,985</u>	<u> </u>	<u>36,985</u>
Total expenses	<u>434,967</u>	<u> </u>	<u>434,967</u>
CHANGES IN NET ASSETS	84,336	0	84,336
Net assets, beginning of year	<u>224,742</u>	<u> </u>	<u>224,742</u>
Net assets, end of year	<u>\$ 309,078</u>	<u>\$ 0</u>	<u>\$ 309,078</u>

See accompanying notes to financial statements.

Operation Military Embrace, Inc.

Statement of Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 275,102	\$ 14,636	\$ 289,738
In-kind contributions (<i>Note 6</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 Functional Expenses for the year ended December 31, 2018

	<u>PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Goods and supplies	\$ 142,287		\$ 26,199	\$ 168,486
Direct assistance	121,113			121,113
Meals and entertainment	29,496			29,496
Rent	10,557	\$ 12,219	2,346	25,122
Postage and shipping	23,612	270	270	24,152
Compensation	9,900	9,900	2,200	22,000
Professional fees	2,994	10,525	3,801	17,320
Travel	6,179	3,949	878	11,006
Depreciation	4,287	4,287	953	9,527
Other	<u>3,359</u>	<u>3,048</u>	<u>338</u>	<u>6,745</u>
Total expenses	<u>\$ 353,784</u>	<u>\$ 44,198</u>	<u>\$ 36,985</u>	434,967
Cost of direct donor benefit provided to donors				<u>11,744</u>
Total				<u>\$ 446,711</u>

See accompanying notes to financial statements.

Operation Military Embrace, Inc.

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

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 84,336	\$ 82,705
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	9,527	10,493
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	357	2,486
Accounts payable	<u>582</u>	<u>(120)</u>
Net cash provided by operating activities	<u>94,802</u>	<u>95,564</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment		<u>(3,058)</u>
NET CHANGE IN CASH	94,802	92,506
Cash, beginning of year	<u>178,107</u>	<u>85,601</u>
Cash, end of year	<u>\$ 272,909</u>	<u>\$ 178,107</u>

See accompanying notes to financial statements.

Operation Military Embrace, Inc.

Notes to Financial Statements for the years ended December 31, 2018 and 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 – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

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

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

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 2018 and 2017, volunteers served more than 11,000 and 13,000 hours, respectively. 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.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of

contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefitted. Compensation and occupancy related costs are allocated on the basis of estimated time and effort expended by OME personnel.

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.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

OME adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources and presentation of expenses by both nature and function has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

OME relies on contributions of cash and goods to provide financial assistance and support to veterans and their families. Financial assets available for general expenditures at December 31, 2018 consist of cash totaling \$272,909. OME has never incurred debt when financial resources are unavailable; the assistance provided to veterans and spending is managed so as not to exceed cash on hand.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2018</u>	<u>2017</u>
Vehicles	\$ 37,916	\$ 37,916
Equipment	14,459	14,459
Computer software	<u>11,656</u>	<u>11,656</u>
Total depreciable property and equipment, at cost	64,031	64,031
Accumulated depreciation	<u>(45,905)</u>	<u>(36,378)</u>
Property and equipment, net	<u>\$ 18,126</u>	<u>\$ 27,653</u>

NOTE 5 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2018</u>	<u>2017</u>
Property and equipment, net	\$ 18,126	\$ 27,653
Undesignated	<u>290,952</u>	<u>197,089</u>
Total net assets without donor restrictions	<u>\$ 309,078</u>	<u>\$ 224,742</u>

NOTE 6 – IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following:

	<u>2018</u>	<u>2017</u>
Goods and supplies:		
Care package content items	\$ 103,304	\$ 73,613
Goods for P-X program	23,290	28,043
Goods for family assistance program and motivational events	14,111	21,591
Space for care package program	3,900	3,900
Other goods for fundraising events	<u>11,744</u>	<u>4,502</u>
Total in-kind contributions	<u>\$ 156,349</u>	<u>\$ 131,649</u>

NOTE 7 – RELATED PARTY TRANSACTION

OME leases approximately 1,100 square-feet in the home of two members of the Board of Directors for storage and office space. The agreement is approved by the Board of Directors and renews annually. Rent expense under this agreement in 2018 and 2017 was \$18,000 plus utilities in the amount of \$3,800 and \$4,200, respectively. Additionally, one member of the Board of Directors was compensated \$22,000 for services performed. Purchase of goods totaling more than \$9,000 were made from a director-owned distributorship.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 1, 2019, 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.