

HEROES ON THE WATER, INC.

**AUDITED
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

Heroes on the Water, Inc.
For the Years Ended December 31, 2015 and 2014

INDEX

	<u>Page</u>
Independent Auditor's Report.....	1-2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Functional Expenses.....	5-6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8-10



Susan LaFollett, CPA – Partner
Rod Abbott, CPA – Partner

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Heroes on the Water, Inc.

We have audited the accompanying financial statements of Heroes on the Water, Inc. (a Texas nonprofit organization), which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and 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.

Auditor's 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 the 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 auditor's 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 Heroes on the Water, Inc. as of December 31, 2015 and 2014, 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.

JaFallett and Abbott PLLC

Tom Bean, Texas
May 3, 2016

Heroes on the Water, Inc.
Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 148,565	\$ 124,639
Accounts receivable	-	94
Inventory	13,936	12,975
Prepaid expenses	7,367	18,633
Total Current Assets	169,868	156,341
Other Assets - Security deposits	455	255
Property and Equipment (net)	143,255	106,348
Total Assets	\$ 313,578	\$ 262,944
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 6,476	\$ 13,297
Wages payable	-	7,088
Total Current Liabilities	6,476	20,385
Net Assets		
Unrestricted net assets	307,102	242,559
Total Net Assets	307,102	242,559
Total Liabilities and Net Assets	\$ 313,578	\$ 262,944

The accompanying notes are an integral part of these financial statements.

Heroes on the Water, Inc.
Statements of Activities
For the Years Ended December 31, 2015 and 2014

Support and Revenues	2015	2014
Individuals and other contributions	\$ 221,684	\$ 245,463
Other corporate contributions	185,906	205,752
Not for profit coporation contributions	166,751	133,291
Foundation contributions and grants	137,384	74,499
In-kind donated goods and skilled services	44,229	72,170
Governmental donations	32,426	7,200
T-shirt and other sales	7,253	12,470
Miscellaneous	5,394	5,391
Interest	-	190
Total Support and Revenues	<u>801,027</u>	<u>756,426</u>
Expenses		
Program services	620,439	792,400
Support services	56,035	75,692
Fundraising activities	60,010	54,979
Total Expenses	<u>736,484</u>	<u>923,071</u>
Change in net assets	64,543	(166,645)
Unrestricted net assets, beginning of year	<u>242,559</u>	<u>409,204</u>
Unrestricted net assets, end of year	<u><u>\$ 307,102</u></u>	<u><u>\$ 242,559</u></u>

The accompanying notes are an integral part of these financial statements.

Heroes on the Water, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services	Support Services	Fundraising Activities	Total
Payroll expenses	\$ 164,606	\$ 38,251	\$ 9,091	\$ 211,948
Fishing and kayak supplies	138,868	-	-	138,868
Other contract services	56,086	12,604	40,265	108,955
Travel, meetings, lodging, and mileage	73,473	28	1,506	75,007
Shirts and hats	25,798	-	60	25,858
Website	16,148	-	4,037	20,185
Meals and entertainment	17,742	986	986	19,714
Depreciation	15,160	-	-	15,160
Special event registration	13,486	-	-	13,486
Insurance	12,084	-	-	12,084
Legal, accounting, and auditing	7,788	2,596	-	10,384
Shipping and storage	10,100	-	-	10,100
Other	6,624	759	379	7,762
Supplies, repairs, and maintenance	6,386	216	324	6,926
Printing and postage	4,869	544	497	5,910
Marketing, logos, and signage	2,248	51	2,865	5,164
State and other registration fees	4,744	-	-	4,744
Total expenses before donated goods and services	<u>576,210</u>	<u>56,035</u>	<u>60,010</u>	<u>692,255</u>
Donated facilities and goods	<u>44,229</u>	<u>-</u>	<u>-</u>	<u>44,229</u>
Total In-kind donations	<u>44,229</u>	<u>-</u>	<u>-</u>	<u>44,229</u>
Total expenses	<u><u>\$ 620,439</u></u>	<u><u>\$ 56,035</u></u>	<u><u>\$ 60,010</u></u>	<u><u>\$ 736,484</u></u>

The accompanying notes are an integral part of these financial statements.

Heroes on the Water, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2014

	Program Services	Support Services	Fundraising Activities	Total
Payroll expenses	\$ 227,643	\$ 46,105	\$ 14,408	\$ 288,156
Fishing and kayak supplies	203,401	-	-	203,401
Other contract services	74,279	19,535	13,828	107,642
Travel, meetings, lodging, and mileage	86,951	72	2,693	89,716
Shirts and hats	22,131	-	12,448	34,579
Website	16,795	-	4,199	20,994
Shipping and storage	20,266	-	-	20,266
Printing and postage	12,039	1,095	796	13,930
Special event registration	3,110	3,999	3,999	11,108
Other	8,562	1,404	704	10,670
Legal, accounting, and auditing	6,708	2,236	-	8,944
Meals and entertainment	7,995	444	444	8,883
Depreciation	8,834	-	-	8,834
Insurance	7,751	-	-	7,751
Supplies, repairs, and maintenance	5,396	630	944	6,970
Marketing, logos, and signage	4,043	172	516	4,731
State and other registration fees	4,326	-	-	4,326
Total expenses before donated goods and services	<u>720,230</u>	<u>75,692</u>	<u>54,979</u>	<u>850,901</u>
Donated facilities and goods	<u>72,170</u>	<u>-</u>	<u>-</u>	<u>72,170</u>
Total In-kind donations	<u>72,170</u>	<u>-</u>	<u>-</u>	<u>72,170</u>
Total expenses	<u><u>\$ 792,400</u></u>	<u><u>\$ 75,692</u></u>	<u><u>\$ 54,979</u></u>	<u><u>\$ 923,071</u></u>

The accompanying notes are an integral part of these financial statements.

Heroes on the Water, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in Net Assets	\$ 64,543	\$ (166,645)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	15,160	8,835
(Increase) Decrease in:		
Prepaid expenses	11,266	(14,615)
Accounts receivable	93	21
Inventory	(961)	(8,619)
Security deposits	(200)	494
Increase (Decrease) in:		
Accounts payable	(6,821)	(783)
Wages payable	(7,088)	(1,963)
Deferred revenue	-	(5,000)
Net Cash Provided by (Used in) Operating Activities	75,992	(188,275)
Cash Flows from Investing Activities		
Cash paid for property and equipment	(52,066)	(61,699)
Net Cash Provided by (Used in) Investing Activities	(52,066)	(61,699)
Net Increase (Decrease) in Cash	23,926	(249,974)
Cash at Beginning of Year	\$ 124,639	\$ 374,613
Cash at End of Year	\$ 148,565	\$ 124,639
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

HEROES ON THE WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1: Description of Organization

A. Organization, History, and Purpose

Heroes on the Water, Inc. (the Organization), is incorporated as a Texas nonprofit corporation and is governed by a five member board of directors. The mission of the Organization is to provide injured military personnel with assistance in rehabilitation and reintegration into society through kayaking and fishing via its local chapters that provide these program services.

B. Tax Status

In October of 2008, the Internal Revenue Service determined the Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Thus no provision for income taxes has been recorded. The Organization is generally no longer subject to examination by the IRS for years before 2012.

Note 2: Summary of Significant Accounting Policies

A. Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

B. Contributions

Contributions of donated equipment and supplies are recorded at their fair value in the period received. Contributions of donated services that require specialized skills that would typically be purchased if not provided by donation, are recorded at their fair value in the period received.

C. Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

D. Inventory

Most inventories consist of soft goods such as hats and t-shirts held for resale. Inventory is maintained on the first in, first out methodology and valued at the lower of fair market value (FMV) or historical cost (or FMV at donation date).

HEROES ON THE WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 2: Summary of Significant Accounting Policies (continued)

E. Property and Equipment

The Organization's policy is that property and equipment with a cost or donated fair value greater than \$1,000 will be capitalized and depreciated using the straight-line method. Depreciable lives for the Organization's kayaks and trailers are seven years, and five years for furniture and other equipment. Donated property and equipment is recorded at fair value at the donation date.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the program services, supporting services, and fundraising activities.

Note 3: Cash and Cash Equivalents

Cash at December 31, 2014 is comprised of \$98,639 deposited with one financial institution. The Federal Depository Insurance Corporation (FDIC) insures these bank deposits to certain limits. The Organization's cash deposits were fully insured by the FDIC at December 31, 2014. The Organization also held \$31,634 of undeposited funds at December 31, 2014.

Cash at December 31, 2015 is comprised of \$114,423 deposited with one financial institution. The Federal Depository Insurance Corporation (FDIC) insures these bank deposits to certain limits. The Organization's cash deposits were fully insured by the FDIC at December 31, 2015. The Organization also held \$43,216 of undeposited funds at December 31, 2015.

Note 4: Net Assets

Net assets are classified into three separate categories: unrestricted, temporarily restricted, and permanently restricted. The classifications are determined based upon the existence and/or nature of any donor restrictions.

HEROES ON THE WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 4: Net Assets (continued)

- A. Unrestricted net assets are available for current operating expenses or for designation by the Board of Directors for a specific purpose.
- B. Temporarily restricted net assets have been restricted by donors until the occurrence of a certain event or the expiration of time requirements.
- C. Permanently restricted net assets have principal balances restricted by donors that will not expire. Only earnings on the balance may be expended by the Organization.

At December 31, 2015 and 2014, all of the Organization's net assets are considered unrestricted, and the Board of Directors has designated \$5,000 of this balance as reserved.

Note 5: Property and Equipment

The following is a list of the Organization's property and equipment at December 31, 2015 and 2014:

<u>Depreciable assets</u>	<u>2015</u>	<u>2014</u>
Kayaks	\$ 79,409	\$ 65,915
Trailers	97,711	63,190
Furniture and equipment	6,476	2,424
Total property and equipment:	<u>183,596</u>	<u>131,529</u>
(Less) Accumulated depreciation	<u>(40,341)</u>	<u>(25,181)</u>
Total property and equipment (net)	\$ 143,255	\$ 106,348

Note 6: Subsequent Events

Management has evaluated subsequent events through the date of the independent auditor's report, the date on which the financial statements were available to be issued. Management has not identified any subsequent events.