

HEROES ON THE WATER, INC.

**AUDITED
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 and 2015**

Heroes on the Water, Inc.
For the Years Ended December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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
April 26, 2017

Heroes on the Water, Inc.
Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 286,977	\$ 148,565
Inventory	45,412	13,936
Prepaid expenses	8,761	7,367
Total Current Assets	341,150	169,868
Other Assets - Security deposits	455	455
Property and Equipment (net)	171,887	143,255
Total Assets	\$ 513,492	\$ 313,578
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 10,877	\$ 6,476
Payroll liabilities	114	-
Total Current Liabilities	10,991	6,476
Net Assets		
Unrestricted net assets	502,501	307,102
Total Net Assets	502,501	307,102
Total Liabilities and Net Assets	\$ 513,492	\$ 313,578

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, 2016 and 2015

	2016	2015
Support and Revenues		
Individuals and other contributions	\$ 303,647	\$ 221,684
Other corporate contributions	230,587	185,906
Not for profit coporation contributions	245,396	166,751
Foundation contributions and grants	112,724	137,384
In-kind donated goods and skilled services	58,711	44,229
Governmental donations	75,474	32,426
T-shirt and other sales	6,412	7,253
Miscellaneous	9,135	5,394
Total Support and Revenues	<u>1,042,085</u>	<u>801,027</u>
 Expenses		
Program services	662,912	620,439
Support services	56,859	56,035
Fundraising activities	126,915	60,010
Total Expenses	<u>846,686</u>	<u>736,484</u>
 Change in net assets	195,399	64,543
 Unrestricted net assets, beginning of year	<u>307,102</u>	<u>242,559</u>
 Unrestricted net assets, end of year	<u>\$ 502,501</u>	<u>\$ 307,102</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, 2016

	Program Services	Support Services	Fundraising Activities	Total
Payroll expenses	\$204,617	\$30,497	\$ 45,805	\$ 280,919
Fishing and kayak supplies	164,182	-	-	164,182
Other contract services	51,750	11,125	77,551	140,426
Travel, meetings, lodging, and mileage	46,781	-	249	47,030
Shirts and hats	35,182	-	-	35,182
Website	16,084	2,010	2,010	20,104
Depreciation	17,521	-	-	17,521
Other	12,952	76	656	13,684
Marketing, logos, and signage	13,286	-	-	13,286
Insurance	12,079	-	-	12,079
Legal, accounting, and auditing	8,245	2,061	-	10,306
Special event registration	9,315	-	-	9,315
Shipping and storage	8,981	-	-	8,981
Printing and postage	5,123	198	378	5,699
Meals and entertainment	4,304	-	266	4,570
State and other registration fees	3,723	-	-	3,723
Supplies, repairs, and maintenance	878	92	-	970
Total expenses before donated goods and services	<u>615,002</u>	<u>46,059</u>	<u>126,915</u>	<u>787,976</u>
Donated facilities and goods	47,911	10,800	-	58,711
Total In-kind donations	<u>47,911</u>	<u>10,800</u>	<u>-</u>	<u>58,711</u>
 Total expenses	 <u><u>\$662,912</u></u>	 <u><u>\$56,859</u></u>	 <u><u>\$126,915</u></u>	 <u><u>\$ 846,686</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.
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in Net Assets	195,399	\$ 64,543
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	17,521	15,160
(Increase) Decrease in:		
Prepaid expenses	(1,393)	11,266
Accounts receivable	-	93
Inventory	(31,476)	(961)
Security deposits	-	(200)
Increase (Decrease) in:		
Accounts payable	4,406	(6,821)
Wages payable and payroll liabilities	109	(7,088)
Net Cash Provided by (Used in) Operating Activities	184,565	75,992
 Cash Flows from Investing Activities		
Cash paid for property and equipment	(46,153)	(52,066)
Net Cash Provided by (Used in) Investing Activities	(46,153)	(52,066)
 Net Increase (Decrease) in Cash	138,412	23,926
 Cash at Beginning of Year	\$ 148,565	\$ 124,639
 Cash at End of Year	\$ 286,977	\$ 148,565
 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, 2016 and 2015

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 2013.

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, 2016 and 2015

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, 2016 is comprised of \$230,586 deposited with one financial institution. The Federal Depository Insurance Corporation (FDIC) insured these bank deposits to certain limits. The Organization's cash deposits were fully insured by the FDIC at December 31, 2016. The Organization also held \$56,392 of undeposited funds at December 31, 2016.

Cash at December 31, 2015 is comprised of \$114,423 deposited with one financial institution. The Federal Depository Insurance Corporation (FDIC) insured 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, 2016 and 2015

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, 2016 and 2015, all of the Organization's net assets are considered unrestricted.

Note 5: Property and Equipment

The following is a list of the Organization's property and equipment at December 31, 2016 and 2015:

<u>Depreciable assets</u>	<u>2016</u>	<u>2015</u>
Kayaks	\$ 94,741	\$ 79,409
Trailers	128,712	97,711
Furniture and equipment	6,476	6,476
Total property and equipment:	229,929	183,596
(Less) Accumulated depreciation	(58,041)	(40,341)
Total property and equipment (net)	\$ 171,887	\$ 143,255

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.