

HEROES ON THE WATER, INC.

**AUDITED
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 and 2017**

Heroes on the Water, Inc.
For the Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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, 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.

JaFallett and Abbott PLLC

Tom Bean, Texas
April 25, 2019

Heroes on the Water, Inc.
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 151,436	\$ 185,609
Accounts receivable	121,926	-
Inventory	39,017	47,976
Prepaid expenses	3,779	2,546
Total Current Assets	316,158	236,131
Other Assets - security deposits	2,180	655
Property and Equipment (net)	221,708	198,673
Total Assets	\$ 540,046	\$ 435,459
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 53,695	\$ 31,123
Payroll liabilities	461	508
Total Current Liabilities	54,156	31,631
Net Assets		
With donor restrictions	35,967	18,662
Without donor restrictions	449,923	385,166
Total Net Assets	485,890	403,828
Total Liabilities and Net Assets	\$ 540,046	\$ 435,459

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

Heroes on the Water, Inc.
Statements of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenues			
Individuals and other contributions	\$ 326,973	\$ -	\$ 326,973
Not for profit corporation contributions	91,345	66,963	158,308
Other corporate contributions	239,614	-	239,614
Foundation contributions and grants	50,535	-	50,535
Governmental grants	21,331	-	21,331
In-kind donated goods and skilled services	110,195	-	110,195
Miscellaneous	3,931.91	-	3,932
T-shirt and other sales	23,558	-	23,558
Net assets released from restrictions	49,658	(49,658)	-
Total Support and Revenues	917,140	17,305	934,445
Expenses			
Program services	719,111	-	719,111
Fundraising activities	90,944	-	90,944
Support services	42,329	-	42,329
Total Expenses	852,384	-	852,384
Change in net assets	64,757	17,305	82,062
Net assets, beginning of year	385,166	18,662	403,828
Net assets, end of year	\$ 449,923	\$ 35,967	\$ 485,890

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

Heroes on the Water, Inc.
Statements of Activities
For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenues			
Individuals and other contributions	\$ 330,989	\$ -	\$ 330,989
Not for profit coporation contributions	163,654	25,000	188,654
Other corporate contributions	172,092	-	172,092
Foundation contributions and grants	151,116	-	151,116
Governmental grants	6,828	100,000	106,828
In-kind donated goods and skilled services	40,405	-	40,405
Miscellaneous	7,259	-	7,259
T-shirt and other sales	5,598	-	5,598
Net assets released from restrictions	106,338	(106,338)	-
Total Support and Revenues	984,278	18,662	1,002,940
 Expenses			
Program services	834,206	-	834,206
Fundraising activities	208,100	-	208,100
Support services	59,307	-	59,307
Total Expenses	1,101,613	-	1,101,613
 Change in net assets	(117,335)	18,662	(98,673)
 Net assets, beginning of year	502,501	-	502,501
 Net assets, end of year	\$ 385,166	\$ 18,662	\$ 403,828

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, 2018

	Program Services	Support Services	Fundraising Activities	Total
Payroll expenses	\$ 235,493	\$ 41,111	\$ 38,425	\$ 315,029
Fishing and kayak supplies	166,867	-	4,174	171,041
Other contract services	38,050	200	23,374	61,624
Shirts and hats	37,634	-	5,141	42,775
Travel, meetings, lodging, and mileage	24,371	343	3,418	28,132
Depreciation	30,221	-	-	30,221
Other	13,398	277	8,259	21,934
Insurance	18,434	157	523	19,115
Website	17,646	-	-	17,646
Marketing, logos, and signage	8,049	-	2,330	10,379
Legal, accounting, and auditing	12,628	17	16	12,660
Special event registration	6,677	-	1,851	8,529
Shipping and storage	8,334	-	-	8,334
Printing and postage	2,748	130	1,130	4,007
State and other registration fees	2,469	-	475	2,944
Interest	1,676	27	1,044	2,747
Meals and entertainment	713	67	72	851
Supplies, repairs, and maintenance	-	-	711	711
Total expenses before donated goods and services	<u>625,406</u>	<u>42,329</u>	<u>90,944</u>	<u>758,679</u>
Donated services and goods	<u>93,705</u>	<u>-</u>	<u>-</u>	<u>93,705</u>
Total In-kind donations	<u>93,705</u>	<u>-</u>	<u>-</u>	<u>93,705</u>
Total expenses	<u><u>\$ 719,111</u></u>	<u><u>\$ 42,329</u></u>	<u><u>\$ 90,944</u></u>	<u><u>\$ 852,384</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, 2017

	<u>Program Services</u>	<u>Support Services</u>	<u>Fundraising Activities</u>	<u>Total</u>
Payroll expenses	\$ 295,975	\$ 59,307	\$ 116,401	\$ 471,683
Fishing and kayak supplies	231,352	-	5,303	236,654
Other contract services	48,250	-	52,153	100,403
Shirts and hats	54,495	-	1,764	56,260
Travel, meetings, lodging, and mileage	30,795	-	10,388	41,183
Other	17,946	-	8,809	26,755
Depreciation	25,047	-	-	25,047
Website	18,303	-	-	18,303
Shipping and storage	16,211	-	133	16,344
Insurance	13,537	-	176	13,713
Marketing, logos, and signage	8,025	-	5,654	13,679
Special event registration	9,828	-	1,000	10,828
Legal, accounting, and auditing	10,708	-	-	10,708
Printing and postage	7,004	-	2,282	9,285
Meals and entertainment	2,397	-	2,615	5,012
State and other registration fees	4,397	-	-	4,397
Supplies, repairs, and maintenance	954	-	-	954
Total expenses before donated goods and services	<u>795,223</u>	<u>59,307</u>	<u>206,678</u>	<u>1,061,209</u>
Donated services and goods	<u>38,983</u>	<u>-</u>	<u>1,422</u>	<u>40,405</u>
Total In-kind donations	<u>38,983</u>	<u>-</u>	<u>1,422</u>	<u>40,405</u>
 Total expenses	 <u><u>\$ 834,206</u></u>	 <u><u>\$ 59,307</u></u>	 <u><u>\$ 208,100</u></u>	 <u><u>\$ 1,101,613</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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	\$ 82,062	\$ (98,673)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	30,221	25,047
(Increase) Decrease in:		
Prepaid expenses	(1,232)	6,215
Accounts receivable	(121,975)	(49)
Inventory	8,959	(2,564)
Security deposits	(1,525)	(200)
Increase (Decrease) in:		
Accounts payable	22,572	20,246
Wages payable and payroll liabilities	(47)	444
Net Cash Provided by (Used in) Operating Activities	19,034	(49,534)
 Cash Flows from Investing Activities		
Cash paid for property and equipment	(53,207)	(51,834)
Net Cash Provided by (Used in) Investing Activities	(53,207)	(51,834)
 Cash Flows from Financing Activities		
Net Cash Provided by (Used in) Financing Activities	-	-
 Net Increase (Decrease) in Cash	(34,173)	(101,368)
 Cash at Beginning of Year	\$ 185,609	\$ 286,977
 Cash at End of Year	\$ 151,436	\$ 185,609
 Cash paid for interest	\$ 2,747	\$ -
 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, 2018 and 2017

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 2015.

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 value or historical cost (or fair value at donation date).

HEROES ON THE WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

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. When possible, direct costs are identified and allocated accordingly. Wages and benefits are allocated based on the estimated time spent on each function.

Note 3: Cash and Cash Equivalents

Cash at December 31, 2018 is comprised of \$126,354 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, 2018. The Organization also held \$25,082 of undeposited funds at December 31, 2018.

Cash at December 31, 2017 is comprised of \$155,864 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, 2017. The Organization also held \$29,745 of undeposited funds at December 31, 2017.

HEROES ON THE WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 4: Information Regarding Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover general expenditures as needed.

The following table reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of certain donor restrictions and unavailability of security deposits.

Financial assets at year end:	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 151,436	\$ 185,609
Accounts receivable	121,926	-
Security deposits	<u>3,779</u>	<u>2,546</u>
	<u>277,141</u>	<u>188,155</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	35,967	18,662
Security deposits not available in one year	3,779	2,546
Less net assets with purpose restrictions to be met in less than a year	<u>(35,967)</u>	<u>(18,662)</u>
	<u>3,779</u>	<u>2,546</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 273,362</u>	<u>\$ 185,609</u>

Note 5: Net Assets

Net assets are classified into two separate categories: with donor restrictions and without donor restrictions. The classifications are determined based upon the existence and/or nature of any donor restrictions.

- A. Without donor restrictions net assets are available for current operating expenses or for designation by the Board of Directors for a specific purpose.
- B. With donor restrictions net assets have been restricted by donors until the occurrence of a certain event or the expiration of time requirements. Such net asset balances may also have principal balances restricted by donors that will not expire. Only earnings on the balance may be expended by the Organization in that situation.

HEROES ON THE WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 5: Net Assets (continued)

The following list describes the type of donor restrictions for the Organization's net assets at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Specific Purpose		
Kayak purchases	\$ 6,000	\$ -
Trailer enhancements	1,662	-
Texas chapter event	-	18,662
Specific Chapters		
Southeast Louisiana	19,005	-
Northwest Washington	6,400	-
Rio Grande Valley	1,500	-
Portland	1,400	-
Total	<u>\$ 35,967</u>	<u>\$ 18,662</u>

Note 6: Property and Equipment

The following is a list of the Organization's property and equipment at December 31, 2018 and 2017:

<u>Depreciable assets</u>	<u>2018</u>	<u>2017</u>
Kayaks	\$ 127,951	\$ 99,760
Trailers	198,602	175,526
Furniture and equipment	8,464	6,475
Total property and equipment:	335,018	281,761
(Less) Accumulated depreciation	(113,310)	(83,088)
Total property and equipment (net)	<u>\$ 221,708</u>	<u>\$ 198,673</u>

Note 7: Contributed Goods and Skilled Services

Only contributions of donated services that require specialized skills are included in the Statement of Activities. For the year ended December 31, 2018, the Organization received contributions of skilled labor with an estimated fair value of \$6,000 related to program activities. The Organization also received \$104,195 of rehabilitative program equipment and other goods.

HEROES ON THE WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 7: Contributed Goods and Skilled Services (continued)

For the year ended December 31, 2017, the Organization received \$40,405 of rehabilitative program equipment and other program and fundraising goods.

Note 8: Change in Accounting Principle and Comparative Financial Statements

Due to the adoption of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* during the year ended December 31, 2018, the equity terms of “unrestricted net assets” and “temporarily net assets” have been replaced with the terminology “without donor restrictions” and “with donor restrictions”. Accordingly, fiscal year 2017 equity balances presented on pages three and five have been revised to present the new terminology.

Note 9: 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.