

HEROES ON THE WATER, INC.

**AUDITED
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

Heroes on the Water, Inc.
For the Years Ended December 31, 2014 and 2013

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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, 2014 and 2013, and the related statements of activities, functional expenses, and 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.

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, 2014 and 2013, 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.

LaFollett and Abbott PLLC

Tom Bean, Texas
May 22, 2015

Heroes on the Water, Inc.
Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 124,639	\$ 374,613
Accounts receivable	94	115
Inventory	12,975	4,356
Prepaid expenses	18,633	4,018
Total Current Assets	<u>156,341</u>	<u>383,102</u>
Other Assets - Security deposits	<u>255</u>	<u>749</u>
Property and Equipment (net)	<u>106,348</u>	<u>53,484</u>
Total Assets	<u><u>\$ 262,944</u></u>	<u><u>\$ 437,335</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 13,297	\$ 14,080
Wages payable	7,088	9,051
Deferred revenue	-	5,000
Total Current Liabilities	<u>20,385</u>	<u>28,131</u>
Net Assets		
Unrestricted net assets	<u>242,559</u>	<u>409,204</u>
Total Net Assets	<u>242,559</u>	<u>409,204</u>
Total Liabilities and Net Assets	<u><u>\$ 262,944</u></u>	<u><u>\$ 437,335</u></u>

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, 2014 and 2013

Support and Revenues	2014	2013
Individuals and other contributions	\$ 245,463	\$ 217,237
Other corporate contributions	205,752	91,800
Not for profit coporation contributions	133,291	160,113
Foundation contributions and grants	74,499	82,978
In-kind donated goods and skilled services	72,170	9,662
T-shirt and other sales	12,470	15,984
Governmental donations	7,200	6,025
Miscellaneous	5,391	924
Interest	190	284
Total Support and Revenues	<u>756,426</u>	<u>585,007</u>
Expenses		
Program services	792,400	300,397
Support services	75,692	92,261
Fundraising activities	54,979	44,727
Total Expenses	<u>923,071</u>	<u>437,385</u>
Change in net assets	(166,645)	147,622
Unrestricted net assets, beginning of year	<u>409,204</u>	<u>261,582</u>
Unrestricted net assets, end of year	<u><u>\$ 242,559</u></u>	<u><u>\$ 409,204</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.
Statement of Functional Expenses
For the Year Ended December 31, 2013

	Program Services	Support Services	Fundraising Activities	Total
Payroll expenses	\$ 78,761	\$ 50,593	\$ 7,384	\$ 136,738
Fishing and kayak supplies	60,345	-	-	60,345
Other contract services	40,395	5,241	6,275	51,911
Special event registration	-	18,768	18,768	37,536
Travel, meetings, lodging, and mileage	18,377	1,298	240	19,915
Meals and entertainment	17,656	981	981	19,618
Legal, accounting, and auditing	1,148	9,837	4,708	15,693
Printing and postage	12,497	973	544	14,014
Shirts and hats	13,645	-	-	13,645
Shipping and storage	11,203	-	-	11,203
Website	8,553	-	2,138	10,691
Chapter conferences	10,621	-	-	10,621
Supplies, repairs and maintenance	5,406	1,153	505	7,064
Other	4,026	1,586	886	6,498
Insurance	4,837	-	-	4,837
Depreciation	4,179	242	-	4,421
State and other registration fees	3,702	-	-	3,702
Marketing, logos, and signage	1,046	9	395	1,450
Total expenses before donated goods and services	<u>296,397</u>	<u>90,681</u>	<u>42,824</u>	<u>429,902</u>
Donated skilled labor	<u>4,000</u>	<u>1,580</u>	<u>1,903</u>	<u>7,483</u>
Total In-kind donations	<u>4,000</u>	<u>1,580</u>	<u>1,903</u>	<u>7,483</u>
Total expenses	<u><u>\$ 300,397</u></u>	<u><u>\$ 92,261</u></u>	<u><u>\$ 44,727</u></u>	<u><u>\$ 437,385</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (166,645)	\$ 147,622
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	8,835	4,421
Gain from sale of equipment	-	(283)
(Increase) Decrease in:		
Prepaid expenses	(14,615)	17,857
Accounts receivable	21	(115)
Inventory	(8,619)	(4,356)
Security deposits	494	(273)
Increase (Decrease) in:		
Accounts payable	(783)	8,767
Wages payable	(1,963)	9,051
Deferred revenue	(5,000)	(39,161)
Net Cash Provided by (Used in) Operating Activities	<u>(188,275)</u>	<u>143,530</u>
Cash Flows from Investing Activities		
Cash proceeds from equipment sales	-	6,800
Cash paid for property and equipment	(61,699)	(25,895)
Net Cash Provided by (Used in) Investing Activities	<u>(61,699)</u>	<u>(19,095)</u>
Net Increase (Decrease) in Cash	(249,974)	124,435
Cash at Beginning of Year	<u>\$ 374,613</u>	<u>\$ 250,178</u>
Cash at End of Year	<u><u>\$ 124,639</u></u>	<u><u>\$ 374,613</u></u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>

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, 2014 and 2013

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 2011.

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, 2014 and 2013

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 statement 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, 2013 is comprised of \$374,613 deposited with one financial institution. The Federal Depository Insurance Corporation (FDIC) insures these bank deposits to certain limits. \$250,000 of the Organization's cash deposits were fully insured by the FDIC at December 31, 2013, while \$124,613 was uncollateralized.

Cash at December 31, 2014 is comprised of \$124,639 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, 2014.

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, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013:

<u>Depreciable assets</u>	<u>2014</u>	<u>2013</u>
Kayaks	\$ 65,915	\$ 38,415
Trailers	63,190	28,991
Furniture and equipment	2,424	2,425
Total property and equipment:	131,529	69,831
(Less) Accumulated depreciation	(25,181)	(16,347)
Total property and equipment (net)	\$ 106,348	\$ 53,484

Note 6: Financial Health of the Organization

The Organization experienced a substantial reduction in operating cash and net assets during fiscal year 2014. Management has assessed the results and expected declines in these balances during 2014 due to the planned expansion of operations. This expansion has now ceased and management expects better financial results for 2015. If negative trends did continue, management has a mitigation plan to reduce operating expenses and also noted much flexibility in this regard due to the Organization having neither long-term debt nor contractual commitments.

HEROES ON THE WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2014 and 2013

Note 7: 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.