

HOMETOWN HEROES, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

HOMETOWN HEROES, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hometown Heroes, Inc.
Grafton, Wisconsin

We have audited the accompanying financial statements of Hometown Heroes, Inc. (a not-for-profit corporation) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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 the 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 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 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 auditors consider internal control relevant to the Organization'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 Organization'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 Hometown Heroes, Inc. as of December 31, 2017 and 2016, 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.

A handwritten signature in black ink that reads "Schenck AC". The signature is written in a cursive style.

Certified Public Accountants

Milwaukee, Wisconsin
November 13, 2018

HOMETOWN HEROES, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 441,246	\$ 353,599
Accounts receivable	-	1,069
Inventory	1,288	2,407
Prepaid expenses and security deposit	34,193	28,951
Total current assets	<u>476,727</u>	<u>386,026</u>
<u>Property and equipment</u>		
Computer software and equipment	6,613	6,613
Camp equipment	1,072	1,072
Vehicle	4,223	-
Education film development	32,440	32,440
Total property and equipment	<u>44,348</u>	<u>40,125</u>
Less: Accumulated depreciation	<u>(37,893)</u>	<u>(32,382)</u>
Property and equipment, net	<u>6,455</u>	<u>7,743</u>
Total assets	<u>\$ 483,182</u>	<u>\$ 393,769</u>

LIABILITIES AND NET ASSETS

<u>Current liabilities</u>		
Accounts payable	\$ 18,331	\$ 601
Credit card payable	-	4,447
Accrued insurance fees	574	355
Accrued payroll liabilities	2,229	1,781
Deferred revenue - Grand Slam Charity Jam	1,250	-
Total current liabilities	<u>22,384</u>	<u>7,184</u>
<u>Net assets</u>		
Unrestricted	451,598	386,585
Temporarily restricted	9,200	-
Total net assets	<u>460,798</u>	<u>386,585</u>
Total liabilities and net assets	<u>\$ 483,182</u>	<u>\$ 393,769</u>

See accompanying notes to financial statements.

HOMETOWN HEROES, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	Unrestricted	Temporarily Restricted	2017 Total	2016 Unrestricted
<u>Support and revenues</u>				
Contributions and grants	\$ 528,500	\$ 9,200	\$ 537,700	\$ 404,481
Special events, net	64,930	-	64,930	102,793
Raffle receipts, less direct costs	12,433	-	12,433	10,312
Inventory sales, less cost of sales	110	-	110	322
Total support and revenues	<u>605,973</u>	<u>9,200</u>	<u>615,173</u>	<u>517,908</u>
<u>Expenses</u>				
<u>Program</u>				
Camp Hometown Heroes expenses	101,843	-	101,843	123,508
Grants to charities	18,212	-	18,212	9,000
Salaries, wages and payroll taxes	42,586	-	42,586	29,415
Program supplies	63,966	-	63,966	50,236
Insurance and occupancy costs	47,395	-	47,395	22,198
Camper travel costs and other related costs	66,362	-	66,362	81,924
Contracted services	3,431	-	3,431	2,100
Advertising and promotion	1,565	-	1,565	2,416
Other	65,732	-	65,732	60,086
Total program expenses	<u>411,092</u>	<u>-</u>	<u>411,092</u>	<u>380,883</u>
<u>Management and general</u>				
Advertising and promotion	1,030	-	1,030	-
Amortization	5,511	-	5,511	12,593
Bank and transaction fees	7,576	-	7,576	7,443
Occupancy and administrative costs	30,069	-	30,069	30,356
Professional fees	28,048	-	28,048	24,157
Salaries, wages and payroll taxes	20,272	-	20,272	33,463
Travel	4,155	-	4,155	4,579
Total management and general expenses	<u>96,661</u>	<u>-</u>	<u>96,661</u>	<u>112,591</u>
<u>Fundraising</u>				
Salaries, wages and payroll taxes	7,414	-	7,414	5,447
Event and other expenses	25,793	-	25,793	6,995
Total fundraising expenses	<u>33,207</u>	<u>-</u>	<u>33,207</u>	<u>12,442</u>
Total expenses	<u>540,960</u>	<u>-</u>	<u>540,960</u>	<u>505,916</u>
Change in net assets	65,013	9,200	74,213	11,992
Net assets, beginning of year	386,585	-	386,585	374,593
Net assets, end of year	<u>\$ 451,598</u>	<u>\$ 9,200</u>	<u>\$ 460,798</u>	<u>\$ 386,585</u>

See accompanying notes to financial statements.

HOMETOWN HEROES, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Cash flow from operating activities</u>		
Change in net assets	\$ 74,213	\$ 11,992
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,511	12,593
Change in current assets and liabilities:		
Accounts receivable	1,069	(1,069)
Inventory	1,119	(391)
Prepaid expenses and security deposit	(5,242)	(21,360)
Accounts payable	17,730	(7,413)
Credit card payable	(4,447)	274
Accrued insurance fees	219	355
Accrued payroll liabilities	448	1,463
Deferred revenue - Grand Slam Charity Jam	1,250	(10,000)
Net cash provided by (used in) operating activities	<u>91,870</u>	<u>(13,556)</u>
<u>Cash flow from investing activities</u>		
Purchase of property and equipment	<u>(4,223)</u>	<u>(1,072)</u>
Increase (decrease) in cash and cash equivalents	87,647	(14,628)
Cash and cash equivalents, beginning of year	<u>353,599</u>	<u>368,227</u>
Cash and cash equivalents, end of year	<u>\$ 441,246</u>	<u>\$ 353,599</u>

See accompanying notes to financial statements.

HOMETOWN HEROES, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Hometown Heroes, Inc. (the Organization) is a not-for-profit corporation organized and existing under the laws of the State of Wisconsin and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization was created to provide support, healing and recognition to our first responders, military community, and children and families in need and for the purposes of transforming the lives of children, families, first responders and veterans in need through a “Pay it Forward” approach to volunteerism and giving. By creating opportunities for thousands of inspiring volunteers, the Organization not only benefits the recipients but also those who serve.

The Organization funds various charities and its major program is Camp Hometown Heroes which is a national free week-long overnight summer camp for children who have lost a parent, sibling, or other loved one who served in the US military and died in service. The Organization also supports the Kids2Kids Christmas event which collects and distributes nearly 20,000 toys to low income children throughout southeastern Wisconsin. The major fundraising event that supports the Organization is the Grand Slam Charity Jam which raises awareness of the mission of the Organization and funds to support the mission.

Use of estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Basis of accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities with revenues and expenses reflected in the period earned or incurred.

Basis of presentation: The Organization records and classifies its net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and its activities are classified in the following three categories of net assets:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations and which the Board of Directors retains full control to use in achieving any of its purposes.

Temporarily restricted net assets - net assets that result from contributions whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets - net assets resulting from contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Organization. The Organization had no permanently restricted net assets as of December 31, 2017 and 2016.

HOMETOWN HEROES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents: The Organization considers their checking, money market accounts and certificate of deposits to be cash.

Concentration of credit risk: The Organization maintains a checking account at one financial institution. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation in the amount of \$250,000 per official custodian. The Organization's deposits at times may exceed federally insured limits. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on its cash and investments.

Property and equipment: All expenditures for property and equipment in excess of \$500 are capitalized as the useful lives of these assets are beneficial for more than one year. Depreciation is computed using the straight-line method over the estimated lives of the assets.

Revenue recognition: Revenue is recognized when earned. Revenues from various sources are recognized in the period such events or fundraising occurs and the amounts are collected.

Contribution recognition: Contributions are recognized as revenue when they are received or unconditionally promised. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. There were temporary restricted contributions received during the year ended December 31, 2017 which are available for use in the subsequent year.

Deferred revenue: Amounts received in advance for an event are classified as deferred revenue. The availability of these funds is conditional upon the Organization completing the event and failure to perform these events would result in the refund of the funds by the Organization.

Income tax status: The Organization is exempt from federal income taxes as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of state law, and accordingly, is not subject to federal or state income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

HOMETOWN HEROES, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently issued accounting standards: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which amends current financial statements presentation and disclosure requirements. This ASU was presented to simplify the net asset classification requirements and improve the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The standard reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications, and eliminates the requirement to prepare a reconciliation in the statement of cash flows when applying the direct method. This standard is effective for annual reporting periods beginning after December 15, 2017. The Organization is currently evaluating the impact of ASU 2016-14 on the Organization's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard supersedes all existing U.S. GAAP guidance on revenue recognition and is expected to require the use of more judgment and result in additional disclosures. The FASB has issued several amendments to the original standard, which is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. Adoption is to be applied retrospectively. The Organization is currently evaluating the impact of ASU 2014-09 on the Organization's financial statements and has not yet determined its method of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is expected to increase transparency and comparability among organizations. The core principle of this guidance is that a lessee should recognize the assets and liabilities that arise from leases. The standard requires lessees to reflect most leases on their balance sheet as lease liabilities with a corresponding right-of-use asset, while leaving presentation of lease expense in the statement of income largely unchanged. The standard also eliminates the real-estate specific provisions that exist under current U.S. GAAP and modifies the classification criteria and accounting which lessors must apply to sales-type and direct financing leases. This standard is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact of ASU 2016-02 on the Organization's financial statements.

Subsequent events: The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through November 13, 2018, the date on which the financial statements were available to be issued.

HOMETOWN HEROES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 – AFFILIATED ORGANIZATION

Among other donors, the Organization is supported by Kapco, Inc. (Kapco) in the form of contributions, administrative assistance and fundraising events. Key members of Kapco management are also board members and officers of the Organization and serve in various capacities. During the years ended December 31, 2017 and 2016, the Organization collected \$26,069 and \$23,838 in direct financial contributions from Kapco.

NOTE 3 – CONTRIBUTED SERVICES, OFFICE SPACE AND EQUIPMENT

The Organization has two employees that provide direct oversight and management. Other various management, administrative, fundraising, and financial duties are performed by officers, directors and other individuals to the Organization. The Organization reimbursed Kapco \$18,000 for these services during each of the years ended December 31, 2017 and 2016.

The Organization is provided rent-free office space from Kapco, Inc. during the years ended December 31, 2017 and 2016 and the amount of rent expense is recorded as a contribution. Total rent expense recorded for office and parking space for each of the years ended December 31, 2017 and 2016 was \$3,000 and is included in occupancy and administrative costs in the Statements of Activities.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are foundation grants restricted specifically for Camp Reunite and for a bridge restoration at Camp Matawa and totaled \$9,200 and \$0 as of December 31, 2017 and 2016, respectively.

NOTE 5 – FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by function for the years ended December 31, 2017 and 2016 is summarized as follows:

Program services	\$	411,092	\$	380,883
Management and general		96,661		112,591
Fundraising		33,207		12,442
		<u>540,960</u>		<u>505,916</u>

The specific costs of providing various programs and management and general expenses have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

HOMETOWN HEROES, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 6 – LEASE WITH WISCONSIN DEPARTMENT OF NATURAL RESOURCES

The Organization entered into a long-term lease with the Wisconsin Department of Natural Resources (WDNR) which commenced on September 1, 2017 for occupancy of facilities and land use of the former Camp Matawa located within the northern unit of the Kettle Moraine State Forest. The term of the lease is for fifteen (15) years through August 30, 2032. The base rent is \$24,000 per year under the terms of the lease agreement. The Organization is responsible for all the general administrations and operations of the facilities and land use. In conjunction with the lease, the Organization will be responsible for insurance, maintenance, utilities, taxes, assessments and other charges.

Rent expense on the WDNR operating lease was \$8,000 for the year ended December 31, 2017. The future minimum annual rental commitments under this operating lease as of December 31, 2017 are as follows:

<u>Years Ending December 31,</u>	
2018	\$ 24,000
2019	24,000
2020	24,000
2021	24,000
2022	24,000
Thereafter	<u>232,000</u>
Total minimum lease payments	<u>\$ 352,000</u>