

Financial Statements and Report of Independent Certified Public Accountants

Homes For Our Troops

September 30, 2020 and 2019



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Homes For Our Troops, Inc.

We have audited the accompanying financial statements of Homes For Our Troops, Inc., which comprise the statement of financial position as of September 30, 2020 and 2019, 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 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 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 Homes For Our Troops, Inc. as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
February 12, 2021

Homes For Our Troops, Inc.

STATEMENTS OF FINANCIAL POSITION

September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 944,708	\$ 1,170,193
Investments	6,349,438	8,662,617
Pledges receivable, net	3,357,547	1,890,429
Construction and acquisition costs for veterans' homes	12,392,492	14,527,099
Prepaid expenses and other assets	318,519	338,696
Property and equipment, net	1,543,925	1,505,634
Total assets	<u>\$ 24,906,629</u>	<u>\$ 28,094,668</u>
 LIABILITIES AND NET ASSETS		
Commitment to transfer homes to veterans	\$ 7,188,161	\$ 7,947,980
Accounts payable and accrued expenses	1,412,340	1,305,071
Line of credit	502,027	-
Total liabilities	<u>9,102,528</u>	<u>9,253,051</u>
 NET ASSETS		
Without donor restrictions	12,446,554	16,951,188
With donor restrictions - purpose or time	3,357,547	1,890,429
Total net assets	<u>15,804,101</u>	<u>18,841,617</u>
 Total liabilities and net assets	<u>\$ 24,906,629</u>	<u>\$ 28,094,668</u>

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

Homes For Our Troops, Inc.

STATEMENT OF ACTIVITIES

For the year ended September 30, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2020 Total</u>
Revenues and other support			
Contributions	\$ 18,518,926	\$ 2,582,095	21,101,021
Contributed public service announcements	16,423,944	-	16,423,944
Contributed materials and services	4,003,822	-	4,003,822
Small Business Administration grant	1,056,033	-	1,056,033
Special events revenue, net:			
Special events revenue	294,507	-	294,507
Cost of direct benefit to donors	<u>(31,595)</u>	<u>-</u>	<u>(31,595)</u>
Net revenue from special events	262,912	-	262,912
Investment income	308,281	-	308,281
Other revenue	676,472	-	676,472
Releases from restrictions	<u>1,114,977</u>	<u>(1,114,977)</u>	<u>-</u>
Total revenues and other support	<u>42,365,367</u>	<u>1,467,118</u>	<u>43,832,485</u>
Expenses			
Program services	26,449,697	-	26,449,697
Program services - Public service announcement	<u>16,423,944</u>	<u>-</u>	<u>16,423,944</u>
Total program services	42,873,641	-	42,873,641
General and administrative	1,980,897	-	1,980,897
Fundraising	<u>2,015,463</u>	<u>-</u>	<u>2,015,463</u>
Total expenses	<u>46,870,001</u>	<u>-</u>	<u>46,870,001</u>
CHANGE IN NET ASSETS	(4,504,634)	1,467,118	(3,037,516)
Net assets, beginning of year	<u>16,951,188</u>	<u>1,890,429</u>	<u>18,841,617</u>
Net assets, end of year	<u>\$ 12,446,554</u>	<u>\$ 3,357,547</u>	<u>\$ 15,804,101</u>

The accompanying notes are an integral part of this financial statement.

Homes For Our Troops, Inc.

STATEMENT OF ACTIVITIES

For the year ended September 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2019 Total</u>
Revenues and other support			
Contributions	\$ 20,954,395	\$ 1,594,249	\$ 22,548,644
Contributed public service announcements	7,100,451	-	7,100,451
Contributed materials and services	3,061,059	-	3,061,059
Special events revenue, net:			
Special events revenue	665,882	-	665,882
Cost of direct benefit to donors	<u>(289,083)</u>	<u>-</u>	<u>(289,083)</u>
Net revenue from special events	376,799	-	376,799
Investment income	375,787	-	375,787
Other revenue	278,790	-	278,790
Releases from restrictions	<u>4,196,841</u>	<u>(4,196,841)</u>	<u>-</u>
Total revenues and other support	<u>36,344,122</u>	<u>(2,602,592)</u>	<u>33,741,530</u>
Expenses			
Program services	24,305,508	-	24,305,508
Program services - Public service announcement	<u>7,100,451</u>	<u>-</u>	<u>7,100,451</u>
Total program services	31,405,959	-	31,405,959
General and administrative	1,844,641	-	1,844,641
Fundraising	<u>2,074,988</u>	<u>-</u>	<u>2,074,988</u>
Total expenses	<u>35,325,588</u>	<u>-</u>	<u>35,325,588</u>
CHANGE IN NET ASSETS	1,018,534	(2,602,592)	(1,584,058)
Net assets, beginning of year	<u>15,932,654</u>	<u>4,493,021</u>	<u>20,425,675</u>
Net assets, end of year	<u>\$ 16,951,188</u>	<u>\$ 1,890,429</u>	<u>\$ 18,841,617</u>

The accompanying notes are an integral part of this financial statement.

Homes For Our Troops, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2020

	<u>Total program services</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
Cost of veterans' homes	\$ 22,281,343	\$ -	\$ -	\$ 22,281,343
Public service announcements	16,423,944	-	-	16,423,944
Salaries and benefits	2,363,898	1,478,884	1,054,337	4,897,119
Professional services	682,388	178,679	142,865	1,003,932
Travel	225,133	10,176	25,437	260,746
Advertising and message communication	235,484	1,590	208,905	445,979
Payroll taxes	173,481	112,049	90,348	375,878
Home project and fundraising events	114,112	-	364	114,476
Telephone and computers	128,858	87,565	78,241	294,664
Fundraising appeals	-	-	106,353	106,353
Postage and shipping	8,680	1,249	102,819	112,748
Promotional materials	9,341	1,526	17,592	28,459
Office supplies and expenses	26,766	18,851	32,519	78,136
Insurance	114,581	37,588	30,940	183,109
Miscellaneous	18,509	11,536	88,543	118,588
Depreciation	46,069	27,509	25,277	98,855
Occupancy	21,054	13,695	10,923	45,672
	<u>\$ 42,873,641</u>	<u>\$ 1,980,897</u>	<u>\$ 2,015,463</u>	<u>\$ 46,870,001</u>
Total expenses				

The accompanying notes are an integral part of this financial statement.

Homes For Our Troops, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2019

	<u>Total program services</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
Cost of veterans' homes	\$ 19,815,537	\$ -	\$ -	\$ 19,815,537
Public service announcements	7,100,451	-	-	7,100,451
Salaries and benefits	2,313,753	1,445,638	1,038,932	4,798,323
Professional services	853,672	84,277	142,674	1,080,623
Travel	350,429	16,068	68,930	435,427
Advertising and message communication	287,378	1,490	210,712	499,580
Payroll taxes	165,053	106,730	85,627	357,410
Home project and fundraising events	164,994	-	2,818	167,812
Telephone and computers	101,762	53,356	56,973	212,091
Fundraising appeals	-	-	111,651	111,651
Postage and shipping	11,919	2,256	92,419	106,594
Promotional materials	11,635	-	32,440	44,075
Office supplies and expenses	35,425	26,611	23,912	85,948
Insurance	104,330	51,506	42,076	197,912
Miscellaneous	36,478	22,922	138,728	198,128
Depreciation	28,289	17,650	14,202	60,141
Occupancy	24,854	16,137	12,894	53,885
	<u>\$ 31,405,959</u>	<u>\$ 1,844,641</u>	<u>\$ 2,074,988</u>	<u>\$ 35,325,588</u>
Total expenses	<u>\$ 31,405,959</u>	<u>\$ 1,844,641</u>	<u>\$ 2,074,988</u>	<u>\$ 35,325,588</u>

The accompanying notes are an integral part of this financial statement.

Homes For Our Troops, Inc

STATEMENTS OF CASH FLOWS

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,037,516)	\$ (1,584,058)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	98,855	60,141
Realized (gains) losses on investments	(412,288)	74,150
Unrealized depreciation (appreciation) of investments	105,815	(152,885)
Donated stock	(880,347)	(275,249)
Changes in operating assets and liabilities		
(Increase) Decrease in pledges receivable	(1,467,118)	2,602,592
Decrease (Increase) in construction and acquisition costs for veterans' homes	2,134,607	(1,485,335)
Decrease (Increase) in prepaid expenses and other assets	20,177	(109,018)
(Decrease) Increase in contractual commitment to transfer homes to veterans	(759,816)	4,499,599
Increase (Decrease) in accrued expenses	107,265	(696,005)
Total adjustments	<u>(1,052,850)</u>	<u>4,517,990</u>
Net cash (used in) provided by operating activities	<u>(4,090,366)</u>	<u>2,933,932</u>
Cash flows from investing activities:		
Purchases of property and equipment	(137,146)	(123,280)
Sales of investments	4,500,000	4,303,730
Purchases of investments	<u>(1,000,000)</u>	<u>(6,597,052)</u>
Net cash provided by (used in) investing activities	<u>3,362,854</u>	<u>(2,416,602)</u>
Cash flows from financing activities:		
Borrowings on line of credit	<u>502,027</u>	-
Net cash provided by financing activities	<u>502,027</u>	-
Net (decrease) increase in cash	(225,485)	517,330
Cash, beginning of year	<u>1,170,193</u>	<u>652,863</u>
Cash, end of year	<u>\$ 944,708</u>	<u>\$ 1,170,193</u>
Non-cash operating activities:		
Costs related to construction and acquisition costs for veterans' homes in accounts payable	<u>\$ 750,537</u>	<u>\$ 826,908</u>

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

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

NOTE A - NATURE OF THE ORGANIZATION

Homes For Our Troops, Inc. (the "Organization") was organized in 2004 as a not-for-profit corporation for the purpose of building specially adapted, barrier-free homes for severely injured military veterans.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the application of the accrual basis of accounting.

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Presentation of Financial Statements of Not-For-Profit Entities*, the Organization is required to report information regarding its financial position and activities according to two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) based upon the existence or absence of donor-imposed restrictions.

To ensure observance of limitations and restrictions that may be placed on the use of resources available to the Organization, its accounts are maintained in the following net asset categories:

Net Assets without Donor Restrictions - Net assets without donor restrictions are those net assets that are not subject to donor-imposed stipulations. Donor-restricted gains and investment income and contributions whose restrictions are met in the same reporting period are also classified as net assets without donor restrictions.

Net Assets with Donor Restrictions - Net assets with donor restrictions are net assets subject to donor-imposed stipulations that may or will be met whether by actions of the Organization and/or the passage of time.

Use of Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include estimates of potentially uncollectible pledge receivables, commitments to transfer homes to veterans, useful lives of land, buildings, and equipment and allocation of certain expenses to the various functions. Actual results could differ from those estimates.

Investment Valuation

Investments in securities with readily determinable fair values (mutual and exchange-traded funds) are carried at fair value as determined by major securities markets. Changes in fair value are recorded as unrealized gains or losses on investments and reflected within investment gains in the statement of activities. Realized gains or losses from the sale of investment securities are computed on the specific-identification cost basis.

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Contributions

Contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions to be received after one year are recorded as with donor restrictions due to time, and discounted at an appropriate rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Pledges receivable are stated at the amount management expects to collect from outstanding balances, less a present value discount. Management provides for potentially uncollectible amounts through a provision for uncollectible pledges and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Contributed Public Service Announcements and Other Goods and Services

The Organization produces and distributes public service television and radio announcements that focus attention on the home building program that the Organization provides to veterans, which enables the veterans to rebuild their lives. These public service announcements are distributed to television and radio stations nationwide, who then provide airtime to deliver announcements to assist the Organization in its mission, free of charge.

The Organization contracts with a third-party valuation company to value each television and radio airing, based on the number of impressions (number of people exposed to the spot) using the third party's proprietary database of Nielsen audience data. The amount recognized as both gift in kind revenue and expense is the fair market value of each airing that occurred during the fiscal year.

Contributed goods and services are reflected in the accompanying financial statements at their estimated fair value, if reasonably determined. The contributions of services are recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

Construction and Acquisition Costs for Veterans' Homes

Construction and acquisition costs for veterans' homes represent real estate acquisition and home construction costs incurred as of the period end for specially adapted home projects. When acquiring land and constructing a new home, title and ownership of the property is retained by the Organization until such time that the Organization transfers ownership to the veteran. The Organization enters into an agreement with the veteran prior to construction, noting at that time that the project may span multiple fiscal years. The contribution payable (presented as a "Commitment to transfer homes to veterans" liability on the statement of financial position) to the veteran is conditional upon the veteran meeting certain barriers. Before the barriers are overcome, the Organization has the right to cancel the agreement. Near to the end of construction, the parties agree that the barriers have been overcome and the contribution becomes unconditional at this date, called the Key Ceremony Date. The construction costs are expensed at this date, and closing occurs soon thereafter.

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Contractual Commitment to Transfer Homes to Veterans

At the Key Ceremony Date, when all significant conditions of the contractual agreement between the Organization and the veteran have been met, a liability representing the contractual commitment to transfer the home to the veteran is recorded, with corresponding program expense recognition. Upon transfer of ownership, the full cost of the property and the corresponding contractual liability are derecognized. Several variables may impact the recognition or the derecognition of the asset and the liability in a given year, such as inclement weather or general contractor delays.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or fair value on the date of donation. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is reflected in the accompanying statement of activities.

Depreciation of property and equipment is computed on the straight-line method based on the estimated useful lives of the respective assets, which range from three to forty years.

Fundraising and Special Events

The direct cost of fundraising and special events that provide a benefit to the contributors are deducted from the gross revenues raised at such events.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Salaries and other expenses, which are associated with a specific function, are charged directly to that function. Salaries and other expenses which benefit more than one function are allocated to the various functions based on the time spent.

Income Taxes

The Organization is recognized as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. During the years ended September 30, 2020 and 2019, there was no significant unrelated business income. In addition, the Organization has been determined by the Internal Revenue Service ("IRS") not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization recognizes and measures its unrecognized tax positions and assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The Organization has not identified any uncertain tax positions as of September 30, 2020 or 2019.

The Organization is currently not subject to any audits by its taxing jurisdictions.

Subsequent Events

Subsequent events have been evaluated through February 12, 2021, which is the date the financial statements were available to be issued. No events requiring recognition or disclosures in the financial statements were identified.

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Risks and Uncertainties

In March 2020, the World Health Organization declared the spread of COVID-19 a worldwide pandemic. All facets of life in the United States were impacted; Homes For Our Troops was no exception. In mid-March, states imposed restrictions which forced the unprecedented shut down of most in-person activities unless they were deemed essential. This had a severe effect on the Organization's independent fundraisers, which represent approximately 7% of the Organization's overall revenue. While the pandemic had a detrimental impact on independent fundraising revenue, construction operations and home building continued with few disruptions across all states, and the Organization transferred 25 homes to Veterans during 2020.

The Organization expects the financial impact of the pandemic to continue and is unsure of the full impact on fiscal 2021. The Organization has seen significant cost increases in lumber and concrete and expects those costs to be much higher in fiscal year 2021. Due to this uncertainty, early in the pandemic the Organization implemented measures to conserve resources by implementing a hiring freeze, suspending land search and purchases, halting new construction starts, limiting non-essential travel, and suspending salary increases for fiscal year 2021. The Organization has worked closely with its Finance Committee and Board of Directors to ensure that conservative projections were built into its fiscal 2021 budget and that a sufficient amount of liquidity is available to continue its mission. To that end, the Organization obtained a loan from the Paycheck Protection Program, administered by the Small Business Administration, early in the pandemic, and initiated a \$3.0 million line of credit, as management was uncertain of what the full effects of the pandemic would be on revenue. The Organization utilized \$0.5 million of that line of credit in 2020 (see Note F for further details).

Although the Organization's fiscal 2021 budget was built using conservative projections, the Organization is concerned that the continued, extended limits on in-person activities will hamper fundraising efforts that were expected to improve early in the fiscal year. Fortunately, the Organization has multiple revenue categories that are expected to mitigate the impact of the in-person restrictions, but the Organization is concerned that other revenue categories might be impacted due to the overall uncertainty of the pandemic. The Organization has taken appropriate actions to limit the impact of the pandemic moving forward, but recognizes that the full impact of COVID-19 cannot be fully estimated at September 30, 2020 and through the date of this report

Finally, the Organization's investments were subject to the same market fluctuations that have been well chronicled across the country. The Organization works closely through its Finance Committee, and within the parameters of the Investment Policy Statement, with professional investment advisors to ensure its investments are well taken care of, but there remains a measure of risk.

NOTE C - INVESTMENTS

Investments are comprised of the following as of September 30:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 73,584	\$ 737,078
Mutual and exchange traded funds	<u>6,275,854</u>	<u>7,925,539</u>
Total	<u>\$ 6,349,438</u>	<u>\$ 8,662,617</u>

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Total investment income is comprised of the following for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Change in unrealized appreciation	\$ (105,815)	\$ 152,885
Net realized (losses) gains	233,415	(50,703)
Dividend and interest income	<u>203,326</u>	<u>297,052</u>
Subtotal	330,926	399,234
Less: Custodial and investment advisor fee	<u>(22,645)</u>	<u>(23,447)</u>
Total investment income	<u>\$ 308,281</u>	<u>\$ 375,787</u>

NOTE D - PLEDGES RECEIVABLE

Pledges receivable, discounted at rates ranging from 1.92-2.05%, consist of the following as of September 30:

	<u>2020</u>	<u>2019</u>
Amounts due		
Within one year	\$ 2,616,365	\$ 1,848,130
After one year, through five years	<u>1,100,000</u>	<u>200,000</u>
Total pledges receivable	3,716,365	2,048,130
Discounts	(76,531)	(6,559)
Allowance for uncollectible pledges	<u>(282,287)</u>	<u>(151,142)</u>
Pledges receivable, net	<u>\$ 3,357,547</u>	<u>\$ 1,890,429</u>

As of September 30, 2020 and 2019, respectively, \$2,200,000 and \$293,869, or 66% and 16% of pledges receivable, are attributable to pledges from two corporate partner organizations.

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following as of September 30:

	2020	2019
Land	\$ 50,500	\$ 50,500
Buildings and improvements	1,712,319	1,712,319
Furniture and equipment	584,507	447,361
	<u>2,347,326</u>	<u>2,210,180</u>
Less: Accumulated depreciation	<u>(803,401)</u>	<u>(704,546)</u>
	<u>\$ 1,543,925</u>	<u>\$ 1,505,634</u>

Depreciation expense amounted to \$98,855 and \$60,141 for the years ended September 30, 2020 and 2019, respectively.

NOTE F - LINE OF CREDIT

During 2020, as a result of the pandemic and the uncertainty of the impact on revenue, the Organization initiated a line of credit with a bank at a borrowing limit of up to \$3,000,000. The loan is payable on demand. Interest is charged by utilizing a fluctuating rate based on the LIBOR (Advantage) rate plus 0.90%. The line of credit remains in effect indefinitely. The loan is collateralized by a first priority interest in the investment assets of the Organization. During fiscal year 2020, the Organization originally borrowed \$1,000,000, but with a strong cash position at year-end, paid off \$500,000. As a result, as of September 30, 2020, the outstanding balance is \$502,027, which includes interest incurred of \$2,027 on this line during the year ended September 30, 2020. Subsequent to year-end, the line of credit balance was paid in full, with no balance outstanding as of the date of issuance of the financial statements.

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS AND ASSETS RELEASED FROM RESTRICTION

Net assets with donor restrictions consist of grants that are restricted by time, and grants restricted for the purpose of building a specially adapted, barrier-free home for a severely injured military veteran within a specific geographic location which is specified by the donors.

Net assets released from donor restrictions are as follows as of September 30:

	2020	2019
Time and purpose restrictions		
Specially adapted housing grants	\$ 247,875	\$ 124,978
Payment on pledges receivable	730,478	3,920,634
Release of timing restrictions	136,624	151,229
	<u>1,114,977</u>	<u>4,196,841</u>
Total	<u>\$ 1,114,977</u>	<u>\$ 4,196,841</u>

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE H - CONTRIBUTED MATERIALS AND SERVICES

The following have been reflected as contribution revenue and program expense in the accompanying financial statements for the years ended September 30:

	2020	2019
Building materials and construction services	\$ 3,258,086	\$ 2,249,099
Public service announcements	16,423,944	7,100,451
Professional services	745,736	811,960
	<u>\$ 20,427,766</u>	<u>\$ 10,161,510</u>

NOTE I - COMMITMENTS AND CONTINGENCIES

Commitment to Transfer Homes to Veterans

As of September 30, 2020 and 2019, the Organization's estimated commitment to fund the completion of current (in-process) and future projects is \$57.3 million and \$64.5 million, respectively. These commitments are expected to be met between fiscal years 2021 through 2025.

Contingencies

The Organization is subject to certain claims encountered in the normal course of business. The resolution of these matters is not expected to have a material effect on the Organization's financial position or results of operations.

NOTE J - EMPLOYEE BENEFIT PLAN

The Organization maintains an employee benefit plan established under IRS Code Section 401(k) which covers substantially all of its eligible employees. Under the terms of the plan, the Organization makes contributions on a non-discretionary basis in a maximum amount equal to 3% of the participating employees' eligible salaries. Contribution expense under this plan amounted to \$107,142 and \$104,217 for the years ended September 30, 2020 and 2019, respectively.

NOTE K - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at a banking institution located within Massachusetts. The cash balances are insured, with certain limitations, by the Federal Deposit Insurance Corporation ("FDIC"). At certain times during the year, cash balances exceeded the insured amounts. Management monitors, on a regular basis, the financial condition of the financial institution, along with their balances, to keep this potential risk to a minimum.

The Organization also maintains an investment accounts with a broker/dealer, which is not insured by the FDIC. These accounts may be subject to insurance by the Securities Investor Protection Corporation. Management believes that the risk of loss with respect to maintaining these accounts with the broker/dealer has been limited by choosing a strong institution with which to do business.

Refer to Note D for disclosure regarding concentration of credit risk within pledges receivable.

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE L - RELATED-PARTY TRANSACTIONS

Included in the financial statements are cash and gifts in kind from various members of the Board of Directors or related entities they are associated with, valued at \$1,628,445 and \$2,763,363 for the years ended September 30, 2020 and 2019, respectively. Cash donations for the years ended September 30, 2020 and 2019 totaled \$1,469,492 and \$2,596,027, respectively, and gifts in kind, which included professional legal services, travel, and meals provided at build project events, are valued at \$158,953 and \$167,336, respectively.

NOTE M - FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments, when applicable, to certain assets and liabilities to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices.

Fair Value Hierarchy

The Organization utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 - Valuation is based on quoted market prices in active markets for identical assets that the Organization has the ability to access at the measurement date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.
- Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. The valuation must be based on quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset.
- Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Organization had no Level 3 assets as of September 30, 2020.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

There have been no changes in the methodology used at September 30, 2020.

A description of the valuation techniques applied to the Organization's major categories of assets and liabilities measured at fair value on a recurring basis, applies only to Level 1 securities, which are measured at fair value. Level 1 securities are based on quoted market prices in an active exchange market. These investments include money market funds and exchange traded funds.

All investments as of September 30, 2020 and 2019 are valued based on Level 1 inputs.

Homes For Our Troops, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE N - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. When reviewing available resources required to meet its expenditures over a 12-month period, all expenditures are considered related to its ongoing activities.

In addition to the financial assets available to meet expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover expenditures not covered by donor-restricted resources.

The following summarizes the financial assets available to meet its expenditures as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets available within 12 months:		
Cash	\$ 944,708	\$ 1,170,193
Investments	6,349,438	8,662,617
Pledges receivable, net due in one year or less available for expenditures	<u>2,334,078</u>	<u>1,696,988</u>
Total financial assets available within 12 months	<u>\$ 9,628,224</u>	<u>\$ 11,529,798</u>

NOTE O - SMALL BUSINESS ADMINISTRATION LOAN/GRANT

The Organization received a Paycheck Protection Program (“PPP”) loan of \$1,056,033 granted by the Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right-of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the funds. For the year ending September 30, 2020, the Organization recognized the entire PPP loan as grant revenue, which represents the amount of qualified expenses incurred and barriers to entitlement were met. The Organization filed an application for forgiveness of the loan on October 28th, 2020, with inclusion of compliance substantiation and certification therein. The notice of forgiveness was received from the lender and the SBA on February 5th, 2021. All documentation supporting program compliance has been made available for the financial statement audit.