

HOMES FOR OUR TROOPS, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

HOMES FOR OUR TROOPS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Homes for Our Troops, Inc.

We have audited the accompanying financial statements of Homes for Our Troops, Inc. (a not-for-profit organization), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, cash flows and functional expenses 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.

Auditors' 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 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 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, 2016 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.

Report on Summarized Comparative Information

We have previously audited Homes for Our Troops, Inc.'s 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated August 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Boston, MA
June 29, 2017

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2016 AND 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 1,185,695	\$ 864,889
Investments	8,191,330	8,698,619
Pledges receivable, net	2,672,320	3,669,337
Construction and acquisition costs for veterans' homes (Note 8)	4,884,629	6,906,703
Prepaid expenses and other assets	575,552	516,325
Property and equipment, net	<u>1,528,715</u>	<u>1,569,908</u>
Total Assets	<u>\$ 19,038,241</u>	<u>\$ 22,225,781</u>
Liabilities and Net Assets		
Contractual commitment to transfer homes to veterans (Note 8)	\$ 4,884,629	\$ 6,906,703
Accrued expenses	<u>1,010,020</u>	<u>794,714</u>
Total Liabilities	<u>5,894,649</u>	<u>7,701,417</u>
Net Assets		
Unrestricted	13,143,592	14,388,394
Temporarily restricted	<u>--</u>	<u>135,970</u>
Total Net Assets	<u>13,143,592</u>	<u>14,524,364</u>
Total Liabilities and Net Assets	<u>\$ 19,038,241</u>	<u>\$ 22,225,781</u>

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

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
Revenues and Other Support				
Contributions	\$ 16,486,717	\$ 2,350	\$ 16,489,067	\$ 16,886,357
Contributed materials and services	4,236,912	--	4,236,912	4,269,962
Special events - net	980,313	--	980,313	483,388
Investment (loss) income	313,104	--	313,104	(96,190)
Other revenue	18,159	--	18,159	14,385
Net assets released from restrictions	<u>138,320</u>	<u>(138,320)</u>	<u>--</u>	<u>--</u>
Total Revenues and Other Support	22,173,525	(135,970)	22,037,555	21,557,902
Expenses				
Program services	20,829,213	--	20,829,213	19,106,722
General and administrative	1,138,724	--	1,138,724	1,406,924
Fundraising	<u>1,450,390</u>	<u>--</u>	<u>1,450,390</u>	<u>1,192,390</u>
Total Expenses	<u>23,418,327</u>	<u>--</u>	<u>23,418,327</u>	<u>21,706,036</u>
Change in Net Assets	(1,244,802)	(135,970)	(1,380,772)	(148,134)
Net Assets, Beginning of Year	<u>14,388,394</u>	<u>135,970</u>	<u>14,524,364</u>	<u>14,672,498</u>
Net Assets, End of Year	<u>\$ 13,143,592</u>	<u>\$ --</u>	<u>\$ 13,143,592</u>	<u>\$ 14,524,364</u>

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

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ (1,380,772)	\$ (148,134)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	113,275	108,634
Realized losses on investments	122,102	117,538
Unrealized (appreciation) depreciation of investments	(225,933)	179,442
Donated stock	(322,613)	(616,410)
(Decrease) in allowance for uncollectible pledges	(290,680)	(2,338)
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	1,287,697	(598,513)
Decrease in construction and acquisition costs for veterans' homes	2,022,074	3,181,228
(Increase) in prepaid expenses and other assets	(59,227)	(297,453)
Decrease in contractual commitment to transfer homes to veterans	(2,022,074)	(3,181,228)
Increase in accrued expenses	215,306	20,487
Total adjustments	<u>839,927</u>	<u>(1,088,613)</u>
Net Cash Used in Operating Activities	<u>(540,845)</u>	<u>(1,236,747)</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(72,082)	(128,566)
Purchases of investments	(2,270,602)	(3,183,042)
Proceeds from sales of investments	<u>3,204,335</u>	<u>3,893,610</u>
Net Cash Provided by Investing Activities	<u>861,651</u>	<u>582,002</u>
Net Increase (Decrease) in Cash and Cash Equivalents	320,806	(654,745)
Cash and Cash Equivalents, Beginning of Year	<u>864,889</u>	<u>1,519,634</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,185,695</u>	<u>\$ 864,889</u>
Supplemental Disclosures		
Noncash investing activities:		
Unrealized (appreciation) depreciation of investments	<u>\$ (225,933)</u>	<u>\$ 179,442</u>

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

HOMES FOR OUR TROOPS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	New Home Program	General and Administrative	Fundraising	Total Expenses
Cost of veterans' homes	\$ 17,239,633	\$ --	\$ --	\$ 17,239,633
Salaries and benefits	1,850,737	848,023	649,605	3,348,365
Professional services	402,117	77,039	35,797	514,953
Travel	348,805	35,787	73,819	458,411
Advertising and message communication	212,444	2,339	97,533	312,316
Home project and fundraising events	250,353	--	11,610	261,963
Payroll taxes	154,877	62,372	42,298	259,547
Fundraising appeals	--	--	193,827	193,827
Deed transfer costs	147,016	--	--	147,016
Credit card contribution fees	--	--	113,795	113,795
Depreciation	66,880	25,248	21,147	113,275
Promotional materials	--	--	95,106	95,106
Postage and shipping	34,647	10,192	46,189	91,028
Miscellaneous	19,568	35,111	31,481	86,160
Telephone and computers	47,133	13,489	18,726	79,348
Office supplies and expenses	35,110	21,071	13,276	69,457
Occupancy	19,893	8,053	6,181	34,127
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 20,829,213</u>	<u>\$ 1,138,724</u>	<u>\$ 1,450,390</u>	<u>\$ 23,418,327</u>

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

HOMES FOR OUR TROOPS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	New Home Program	General and Administrative	Fundraising	Total Expenses
Cost of veterans' homes	\$ 15,610,484	\$ --	\$ --	\$ 15,610,484
Salaries and benefits	1,803,306	1,014,329	517,912	3,335,547
Professional services	440,523	97,358	34,202	572,083
Travel	363,729	50,677	60,952	475,358
Advertising and message communication	177,457	13,378	88,470	279,305
Payroll taxes	135,816	78,238	36,330	250,384
Home project and fundraising events	207,773	--	29,231	237,004
Fundraising appeals	--	--	146,970	146,970
Deed transfer costs	119,863	--	--	119,863
Miscellaneous	34,413	31,500	51,634	117,547
Depreciation	37,162	35,736	35,736	108,634
Telephone and computers	43,180	26,390	30,409	99,979
Office supplies and expenses	39,128	23,577	34,025	96,730
Credit card contribution fees	--	--	93,777	93,777
Postage and shipping	27,047	9,757	18,609	55,413
Promotional materials	44,394	14	7,742	52,150
Occupancy	22,447	12,599	6,391	41,437
Bad debts	--	13,371	--	13,371
Total Expenses	<u>\$ 19,106,722</u>	<u>\$ 1,406,924</u>	<u>\$ 1,192,390</u>	<u>\$ 21,706,036</u>

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

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 - 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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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; consequently, revenue and gains are recognized when earned, and expenses and losses are recognized when incurred.

BASIS OF PRESENTATION

Under Federal Accounting Standards Board Accounting Standards Codification ("FASB 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 three classes of net assets (unrestricted net assets, temporarily restricted net assets and permanently restricted net assets) 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:

Unrestricted net assets:

Unrestricted net assets are 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 unrestricted.

Temporarily restricted net assets:

Temporarily restricted net assets 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.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

Permanently restricted net assets:

Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes. The Organization had no permanently restricted net assets as of September 30, 2016 and 2015.

USE OF ESTIMATES

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

INVESTMENT VALUATION AND REVENUE RECOGNITION

Investments in securities with readily determinable fair values (mutual and exchange-traded funds) are carried at fair value as determined by major securities markets. Fair value 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. The Organization's management is responsible for the fair value measurements of investments reported in the financial statements. The Organization believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

Purchases and sales of securities are recorded on a trade date basis. Investment income is accrued as earned. Dividends are recorded on the ex-dividend date. Restricted gains and investment income for which restrictions are met in the same reporting period are classified as unrestricted. Investment income and realized and unrealized gains/losses are allocated to specific net asset categories on a pro-rata basis; except for permanently restricted amounts, which are generally specifically identified. See Note 13 for the discussion on fair value.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PLEDGES RECEIVABLE

Pledges receivable are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

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 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.

Purchases of property and equipment costing \$1,000 or more are capitalized. Construction in progress is capitalized as incurred and depreciated upon being placed in service. Interest costs incurred during construction periods are capitalized as part of the cost of the asset constructed and are depreciated over the useful life of the related asset.

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions to be received after one year are discounted at an appropriate discount 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. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. 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.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expenses were \$312,316 and \$279,305 for the years ended September 30, 2016 and 2015, respectively.

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 Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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. In addition, the Organization has been determined by the Internal Revenue Service 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 measurement of unrecognized tax positions is adjusted when new information is available, or when an event occurs that requires a change. Interest and penalties associated with unrecognized tax positions, if any, would be classified as additional income taxes in the Statements of Activities. The Organization has not identified any uncertain tax positions at September 30, 2016 or 2015.

The Organization is subject to routine audits by taxing jurisdictions. The Organization's federal Return of Organization Exempt from Income Tax and Exempt Organization Business Income Tax Returns are subject to examination by the Internal Revenue Service, generally for three years after they were filed. There are currently no audits for any tax periods in progress.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statements in order to conform to the 2016 presentation.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 29, 2017, which is the date the financial statements were available to be issued. No events requiring recognition or disclosures in the financial statements were identified.

NOTE 3 - INVESTMENTS

Investments are comprised of the following at September 30:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash and equivalents	\$ 2,898,904	\$ 2,898,904	\$ 3,786,338	\$ 3,786,338
Common stocks	1,931,505	2,072,342	1,958,782	1,864,615
Government securities	1,183,988	1,191,711	1,123,049	1,139,419
Corporate bonds	1,851,768	1,858,568	1,901,870	1,908,247
Foreign bonds	<u>170,652</u>	<u>169,805</u>	<u>--</u>	<u>--</u>
Total	<u>\$ 8,036,817</u>	<u>\$ 8,191,330</u>	<u>\$ 8,770,039</u>	<u>\$ 8,698,619</u>

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

	2016	2015
Unrealized appreciation at end of year	\$ 154,513	\$ (71,420)
Unrealized appreciation at beginning of year	<u>(71,420)</u>	<u>108,022</u>
(Decrease) increase for the year	225,933	(179,442)
Net realized gains (losses)	(122,102)	(117,538)
Dividend and interest income	<u>262,508</u>	<u>258,039</u>
	366,339	(38,941)
Less custodial and investment advisor fees	<u>(53,235)</u>	<u>(57,249)</u>
Total investment income (loss)	<u>\$ 313,104</u>	<u>\$ (96,190)</u>

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give from various donors and are discounted at rates ranging from 2.45% to 2.85% if long-term. Pledges receivable consist of the following at September 30:

	2016	2015
Amounts due:		
Within one year	\$ 2,662,825	\$ 3,725,517
After one year, through five years	150,000	382,000
Total pledges receivable	2,812,825	4,107,517
Discount	(16,817)	(23,812)
Allowance for uncollectible pledges	(123,688)	(414,368)
Pledges receivable, net	<u>\$ 2,672,320</u>	<u>\$ 3,669,337</u>

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2016	2015
Land	\$ 50,500	\$ 50,500
Buildings and improvements	1,642,599	1,590,105
Furniture and equipment	341,376	320,303
Construction in progress	--	1,484
	2,034,475	1,962,392
Less accumulated depreciation	(505,760)	(392,484)
	<u>\$ 1,528,715</u>	<u>\$ 1,569,908</u>

Depreciation expense charged to operations amounted to \$113,275 and \$108,634 for the years ended September 30, 2016 and 2015, respectively.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2016 represents pledged contribution revenue restricted for the purpose of building a specially adapted, barrier-free home for a severely injured military veteran within a specific geographic location specified by the donor.

NOTE 7 - CONTRIBUTED MATERIALS AND SERVICES

Contributed materials and services are reflected as contributions at their estimated fair values on the date of donation. The following have been reflected as both expense and contribution revenue in the accompanying financial statements for the years ended September 30, 2016 and 2015, respectively:

	2016	2015
Building materials and construction services	\$ 3,814,293	\$ 3,841,118
Professional services	422,619	414,844
Land	<u> --</u>	<u> 14,000</u>
Total contributed materials and services revenue	<u>\$ 4,236,912</u>	<u>\$ 4,269,962</u>

NOTE 8 - CONSTRUCTION AND ACQUISITION COSTS FOR VETERANS' HOMES AND CONTRACTUAL COMMITMENT TO TRANSFER HOMES TO VETERANS

Construction and acquisition costs for veterans' homes represents real estate acquisition and home construction costs of 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 the Organization transfers ownership to the veteran. Prior to transfer of ownership, costs incurred and donations of materials and services received by the Organization for these activities are recorded as an asset of the Organization in the Statements of Financial Position.

To the extent that 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 established. Upon transfer of ownership, the full cost of the property and the corresponding contractual liability are both reduced to zero.

As of September 30, 2016 and 2015, the Organization's estimated contractual obligations to fund the completion of current and future projects amounted to approximately \$49,605,000 and \$27,433,000, respectively. These contractual obligations will be required to be met between fiscal years 2017 through 2019.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 9 - EMPLOYEE BENEFIT PLAN

The Organization maintains employee benefit plan established under Internal Revenue Service 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 1% of the participating employees' salaries. During 2016, the maximum contribution was increased to 3% of participating employees' salaries. Contribution expense under this plan amounted to \$37,001 and \$20,159 for the years ended September 30, 2016 and 2015, respectively.

NOTE 10 - CONCENTRATION OF CREDIT RISK

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

At September 30, 2016, \$656,117 or approximately 25% of pledges receivable are attributable to three donor organizations. At September 30, 2016 and 2015, \$1,737,402 and \$2,113,950, or approximately 65% and 88% of pledges receivable, respectively, are attributable to pledges of eligible veterans' benefits provided by the Department of Veterans Affairs under the Specially Adapted Housing Grant Program.

NOTE 11 - LITIGATION

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 12 – RELATED PARTY TRANSACTION

During the year ended September 30, 2015, the Organization recognized \$979,903 in contribution revenue in the form of a pledge made by a company at which a member of the Organization's board of directors holds a senior executive position. The pledge is to be paid in three installments through May, 2017. As of September 30, 2016, the outstanding balance of \$326,214 is included in pledges receivable, net on the Organization's Statement of Financial Position.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 13 - 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. However, in many instances, there are no quoted market prices for the Organization's financial instruments.

In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques may be significantly affected by the assumptions used. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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, 2016 and 2015.

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.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 13 - FAIR VALUE MEASUREMENTS (CONTINUED)

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 is as follows:

Level 1 The securities measured at fair value Level 1 are based on quoted market prices in an active exchange market. These investments include cash and equivalents, common stocks, real estate investment trusts and exchange traded funds.

Level 2 The securities measured at fair value in Level 2 are based on independent unadjusted market-based prices received from a third-party pricing service that utilizes pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. These securities include debt and mortgage-backed securities issued by government sponsored enterprises, U.S. Treasury securities, and corporate bonds.

The following table sets forth by level, within the fair value hierarchy, the Organization's fair value measurements at September 30, 2016 and 2015:

	Total Fair Value	Level 1	Level 2	Level 3
<u>September 30, 2016</u>				
Cash and equivalents	\$ 2,898,904	\$ 2,898,904	\$ --	\$ --
Equity securities:				
Common stocks	2,072,342	2,072,342	--	--
Debt securities:				
Government securities	1,191,711	--	1,191,711	--
Corporate bonds	1,858,568	--	1,858,568	--
Foreign bonds	169,805	--	169,805	--
	<u>\$ 8,191,330</u>	<u>\$ 4,971,246</u>	<u>\$ 3,220,084</u>	<u>\$ --</u>
<u>September 30, 2015</u>				
Cash and equivalents	\$ 3,786,338	\$ 3,786,338	\$ --	\$ --
Equity securities:				
Common stocks	1,864,615	1,864,615	--	--
Debt securities:				
Government securities	1,139,419	--	1,139,419	--
Corporate bonds	1,908,247	--	1,908,247	--
	<u>\$ 8,698,619</u>	<u>\$ 5,650,953</u>	<u>\$ 3,047,666</u>	<u>\$ --</u>