

HOMES FOR OUR TROOPS, INC.

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2013 AND 2012**

HOMES FOR OUR TROOPS, INC.
CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
 Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Cash Flows	5-6
Statements of Functional Expenses.....	7-8
 Notes to Financial Statements	 9-18



REPORT OF INDEPENDENT AUDITORS'

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

We have audited the accompanying financial statements of Homes for Our Troops, Inc. (the Organization), which comprise the statement of financial position as of September 30, 2013, 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 the 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 of 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, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The prior year summarized comparative information has been derived from the Organization's 2012 financial statements, and in its report dated January 18, 2013, Parent, McLaughlin & Nangle, Certified Public Accountants, Inc., whose practice was combined with Marcum LLP as of February 1, 2013, expressed an unmodified opinion on those statements.

Marcum LLP

Boston, Massachusetts
January 3, 2014

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2013 AND 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 3,728,059	\$ 1,107,247
Investments	9,584,964	14,924,547
Pledges receivable, net	4,251,944	6,429,447
Construction and acquisition costs for veterans' homes (Note 8)	11,478,000	5,888,000
Prepaid expenses and other assets	246,825	281,117
Property and equipment, net	<u>1,328,243</u>	<u>1,154,037</u>
Total Assets	<u>\$ 30,618,035</u>	<u>\$ 29,784,395</u>
Liabilities and Net Assets		
Contractual commitment to transfer homes to veterans (Note 8)	\$ 11,478,000	\$ 5,888,000
Accrued expenses	<u>1,064,976</u>	<u>585,793</u>
Total Liabilities	<u>12,542,976</u>	<u>6,473,793</u>
Net Assets, unrestricted	<u>18,075,059</u>	<u>23,310,602</u>
Total Liabilities and Net Assets	<u>\$ 30,618,035</u>	<u>\$ 29,784,395</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, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Contributions	\$ 11,123,487	\$ --	\$ 11,123,487	\$ 13,866,345	\$ --	\$ 13,866,345
Contributed materials and services	4,921,279	--	4,921,279	2,308,955	--	2,308,955
Special events - net	316,525	--	316,525	250,055	--	250,055
Investment (loss) income	(154,437)	--	(154,437)	489,654	--	489,654
Other revenue	19,563	--	19,563	17,052	--	17,052
Net assets released from restrictions						
Restrictions released	--	--	--	148,167	(148,167)	--
Total revenues and other support	<u>16,226,417</u>	<u>--</u>	<u>16,226,417</u>	<u>17,080,228</u>	<u>(148,167)</u>	<u>16,932,061</u>
Expenses						
Program services	19,723,563	--	19,723,563	11,316,501	--	11,316,501
General and administrative	871,343	--	871,343	951,512	--	951,512
Fundraising	867,054	--	867,054	889,603	--	889,603
Total expenses	<u>21,461,960</u>	<u>--</u>	<u>21,461,960</u>	<u>13,157,616</u>	<u>--</u>	<u>13,157,616</u>
Change in net assets	(5,235,543)	--	(5,235,543)	3,922,612	(148,167)	3,774,445
Net assets, beginning of year	<u>23,310,602</u>	<u>--</u>	<u>23,310,602</u>	<u>19,387,990</u>	<u>148,167</u>	<u>19,536,157</u>
Net assets, end of year	<u>\$ 18,075,059</u>	<u>\$ --</u>	<u>\$ 18,075,059</u>	<u>\$ 23,310,602</u>	<u>\$ --</u>	<u>\$ 23,310,602</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, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ (5,235,543)	\$ 3,774,445
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	69,629	60,318
Realized losses on investments	222,704	1,311
Unrealized depreciation (appreciation) of investments	208,260	(112,646)
Decrease (increase) in pledges receivable	2,186,241	(1,509,442)
Provision for uncollectible pledges	(8,738)	58,321
(Increase) decrease in construction and acquisition costs for veterans' homes	(5,590,000)	726,682
Decrease in prepaid expenses and other assets	34,292	14,227
Increase (decrease) in contractual commitment to transfer homes to veterans	5,590,000	(726,682)
Increase in accrued expenses	479,183	183,903
Total adjustments	<u>3,191,571</u>	<u>(1,304,008)</u>
Net cash (used in) provided by operating activities	<u>(2,043,972)</u>	<u>2,470,437</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(243,835)	(221,178)
Purchases of investments	(26,451,781)	(3,462,340)
Proceeds from sales of investments	<u>31,360,400</u>	<u>173,438</u>
Net cash provided by (used in) investing activities	<u>4,664,784</u>	<u>(3,510,080)</u>
Net increase (decrease) in cash and cash equivalents	2,620,812	(1,039,643)
Cash and cash equivalents, beginning of year	<u>1,107,247</u>	<u>2,146,890</u>
Cash and cash equivalents, end of year	<u>\$ 3,728,059</u>	<u>\$ 1,107,247</u>

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

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

Supplemental Disclosures

Noncash investing activities

Unrealized depreciation (appreciation) of investments	\$ 208,260	\$ (112,646)
Donated stock	\$ 169,630	\$ 47,584
Software acquisition accrued	\$ --	\$ 110,700
Vehicle exchanged in lieu of severance payment	\$ --	\$ 19,777

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, 2013

	2013					
	New Home Program	Home Award Program	Total Program Services	General and Administrative	Fundraising	Total Expenses
Cost of veterans' homes	\$ 13,921,762	\$ 2,713,312	\$ 16,635,074	\$ --	\$ --	\$ 16,635,074
Salaries and benefits	1,569,450	109,157	1,678,607	613,245	408,977	2,700,829
Travel	288,048	11,554	299,602	26,518	38,745	364,865
Advertising and message communication	273,379	--	273,379	11,047	14,518	298,944
Home project and fundraising events	244,652	389	245,041	--	10,884	255,925
Payroll taxes	134,919	9,925	144,844	51,716	34,790	231,350
Miscellaneous	51,687	21,691	73,378	46,777	47,317	167,472
Deed transfer costs	107,189	27,397	134,586	--	--	134,586
Fundraising appeals	--	--	--	--	122,741	122,741
Office supplies and expenses	60,769	--	60,769	30,571	23,186	114,526
Professional services	35,841	11,355	47,196	45,126	7,927	100,249
Promotional materials	33,536	--	33,536	--	45,338	78,874
Credit card contribution fees	--	--	--	--	73,432	73,432
Depreciation	27,615	--	27,615	21,454	20,560	69,629
Telephone and computers	36,811	--	36,811	14,087	9,451	60,349
Postage and shipping	17,018	121	17,139	5,034	5,320	27,493
Occupancy	15,986	--	15,986	5,768	3,868	25,622
Total expenses	<u>\$ 16,818,662</u>	<u>\$ 2,904,901</u>	<u>\$ 19,723,563</u>	<u>\$ 871,343</u>	<u>\$ 867,054</u>	<u>\$ 21,461,960</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, 2012

	2012					
	New Home Program	Home Award Program	Total Program Services	General and Administrative	Fundraising	Total Expenses
Cost of veterans' homes	\$ 8,291,709	\$ --	\$ 8,291,709	\$ --	\$ --	\$ 8,291,709
Salaries and benefits	1,437,669	38,267	1,475,936	647,700	380,779	2,504,415
Advertising and message communication	364,311	--	364,311	34,229	25,769	424,309
Home project and fundraising events	321,036	--	321,036	--	26,189	347,225
Travel	277,668	--	277,668	39,030	25,315	342,013
Payroll taxes	134,891	--	134,891	41,725	34,826	211,442
Miscellaneous	60,958	--	60,958	69,013	43,564	173,535
Professional services	42,047	7,796	49,843	55,913	48,069	153,825
Promotional materials	69,937	--	69,937	5,770	71,673	147,380
Fundraising appeals	--	--	--	--	111,048	111,048
Office supplies and expenses	64,558	--	64,558	22,123	23,135	109,816
Deed transfer costs	77,229	--	77,229	--	--	77,229
Credit card contribution fees	--	--	--	--	65,091	65,091
Telephone and computers	42,005	--	42,005	10,831	12,052	64,888
Depreciation	38,827	--	38,827	11,698	9,793	60,318
Occupancy	23,743	--	23,743	7,412	6,182	37,337
Postage and shipping	23,850	--	23,850	6,068	6,118	36,036
Total expenses	<u>\$ 11,270,438</u>	<u>\$ 46,063</u>	<u>\$ 11,316,501</u>	<u>\$ 951,512</u>	<u>\$ 889,603</u>	<u>\$ 13,157,616</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, 2013 AND 2012

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. During 2012, the Organization began a new program, the Home Award Program, to donate renovated, foreclosed homes to injured military veterans and spouses of fallen service members. The Home Award Program will be discontinued during 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements are prepared on the accrual basis of accounting. Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

UNRESTRICTED NET ASSETS - Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. The Organization further subdivides this classification into a) Board-designated net assets, which have been designated by Board action for specific purposes; and b) other unrestricted net assets.

Restricted gains and investment income and donor-restricted contributions whose restrictions are met in the same reporting period are 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 or the passage of time.

PERMANENTLY RESTRICTED NET ASSETS - Permanently restricted net assets are net assets subject to donor-imposed stipulations of which the principal must 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.

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.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PLEDGES RECEIVABLE (CONTINUED)

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.

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 11 for the discussion on fair value.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost at the date of acquisition or fair value on the date of donation in the case of gifts and depreciated on a straight-line basis over their respective estimated useful lives.

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 amortized over the useful life of the related asset.

The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal and any resulting gains or losses are accounted for in the Statement of Activities.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

ADVERTISING

The Organization expenses advertising as incurred.

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, 2013 or 2012.

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

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATEMENTS OF CASH FLOWS

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

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

USE OF ESTIMATES

The presentation of financial statements in conformity with generally accepted accounting principles 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.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2012 financial statements in order to conform to the 2013 presentation.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 3, 2014, 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 THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 - INVESTMENTS

Investments are comprised of the following at September 30:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Cash and equivalents	\$ 4,878,545	\$ 4,878,545	\$ --	\$ --
Common stocks	1,182,877	1,220,317	--	--
Mutual and exchange traded funds	715,154	745,104	14,671,305	14,924,547
Government securities	1,063,669	1,058,267	--	--
Corporate bonds	<u>1,699,737</u>	<u>1,682,731</u>	<u>--</u>	<u>--</u>
Total	<u>\$ 9,539,982</u>	<u>\$ 9,584,964</u>	<u>\$ 14,671,305</u>	<u>\$ 14,924,547</u>

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

	2013	2012
Unrealized appreciation at end of year	\$ 44,982	\$ 253,242
Unrealized appreciation at beginning of year	<u>253,242</u>	<u>140,596</u>
(Decrease) increase for the year	(208,260)	112,646
Net realized losses	(222,704)	(1,311)
Dividend and interest income	<u>300,812</u>	<u>398,493</u>
	(130,152)	509,828
Less custodial and investment advisor fees	<u>(24,285)</u>	<u>(20,174)</u>
Total investment (loss) income	<u>\$ (154,437)</u>	<u>\$ 489,654</u>

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give from various donors and are discounted at 3.23% if long-term. Pledges receivable consist of the following at September 30:

	2013	2012
Amounts due		
Within one year	\$ 4,527,878	\$ 5,990,034
After one year, through three years	166,667	941,666
Discount	<u>(26,082)</u>	<u>(76,996)</u>
Total pledges receivable	4,668,463	6,854,704
Allowance for uncollectible pledges	<u>(416,519)</u>	<u>(425,257)</u>
Pledges receivable, net	<u>\$ 4,251,944</u>	<u>\$ 6,429,447</u>

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30 is as follows:

	2013	2012
Land	\$ 50,500	\$ 50,500
Buildings and improvements	984,121	984,121
Furniture and equipment	284,456	241,161
Vehicles	--	37,918
Construction in progress	<u>202,740</u>	<u>--</u>
	1,521,817	1,313,700
Less accumulated depreciation	<u>(193,574)</u>	<u>(159,663)</u>
	<u>\$ 1,328,243</u>	<u>\$ 1,154,037</u>

Depreciation expense charged to operations amounted to \$69,629 and \$60,318 for the years ended September 30, 2013 and 2012, respectively.

NOTE 6 - NET ASSETS

During 2013, the Organization terminated its policy of self-restricting funds which resulted in the reclassification of the prior year Board Designated net assets and investments of \$10,520,000 to conform to the 2013 presentation.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 6 - NET ASSETS (CONTINUED)

Board-designated net assets formerly represented amounts designated for specific veterans' projects. Once the Organization committed to undertake a project to build a new home, the estimated cost of the project was included as Board-designated net assets and as cash or investments designated for veterans' projects.

This policy of self-restricting funds was set in place when the Organization first began, due to the uncertainty of future revenues. Now that the Organization has been operating for nine years and has a more predictable flow of revenues, this policy was deemed to be no longer necessary.

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, 2013 and 2012, respectively:

	2013	2012
Building materials and construction services	\$ 2,128,773	\$ 2,226,103
Existing homes	2,714,393	--
Land	76,000	58,400
Travel accommodations	--	7,641
Advertising and promotion	2,113	16,811
Total contributed materials and services revenue	<u>\$ 4,921,279</u>	<u>\$ 2,308,955</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 statement of financial position.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

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, 2013 and 2012, the Organization's estimated contractual obligations to fund the completion of current and future projects amounted to approximately \$16,842,000 and \$10,520,000, respectively.

NOTE 9 - 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, 2013 and 2012, \$957,251 and \$2,522,075 or approximately 23% and 39% of pledges receivable, respectively, are attributable to three donor organizations. In addition, at September 30, 2013 and 2012, an additional \$3,053,120 and \$3,061,440, or approximately 72% and 48% 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 10 - RELATED PARTY TRANSACTIONS

During 2012, the Organization entered into a severance agreement with its former president. The terms of the agreement required the Organization to pay one year's salary plus certain benefits over a twelve-month period. The total amount paid under this agreement was approximately \$187,000. Concurrent with his departure, the Organization also agreed to sell a vehicle to the former president. The sale price was \$19,777, which was equal to the estimated fair value of the vehicle. The purchase price was deducted from monthly severance payments made in connection with the aforementioned agreement.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 11 - FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments, when applicable, to certain assets and liabilities and to determine fair value disclosures. 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.

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 or liabilities 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 or liabilities.
- Level 2** Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation must be based on quoted prices for similar assets or liabilities; 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 or liability.
- 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. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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, 2013 AND 2012

NOTE 11 - 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, 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.

Level 3 The Organization does not have any assets or liabilities measured at fair value in Level 3 at either September 30, 2013 or 2012.

The following table sets forth by level, within the fair value hierarchy, the Organization's fair value measurements at September 30, 2013:

	Total Fair Value	Level 1	Level 2	Level 3
September 30, 2013				
Cash and equivalents	\$ 4,878,545	\$ 4,878,545	\$ --	\$ --
Equity securities:				
International growth	495,802	495,802	--	--
Mid cap	246,532	246,532	--	--
Large cap	477,983	477,983	--	--
Exchange traded funds	745,104	745,104	--	--
Debt securities:				
Government securities	1,058,267	--	1,058,267	--
Corporate bonds	1,682,731	--	1,682,731	--
Total	<u>\$ 9,584,964</u>	<u>\$ 6,843,966</u>	<u>\$ 2,740,998</u>	<u>\$ --</u>
September 30, 2012				
Mutual funds - fixed income	<u>\$ 14,924,547</u>	<u>\$ 14,924,547</u>	<u>\$ --</u>	<u>\$ --</u>