

HOMES FOR OUR TROOPS, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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 statements of financial position as of September 30, 2014 and 2013, and the related statements of activities, cash flows and functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Boston, MA
May 8, 2015

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2014 AND 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 1,519,634	\$ 3,728,059
Investments	9,089,757	9,584,964
Pledges receivable, net	3,068,486	4,251,944
Construction and acquisition costs for veterans' homes (Note 8)	9,606,000	11,478,000
Prepaid expenses and other assets	218,872	246,825
Property and equipment, net	<u>1,549,976</u>	<u>1,328,243</u>
Total Assets	<u>\$ 25,052,725</u>	<u>\$ 30,618,035</u>
Liabilities and Net Assets		
Contractual commitment to transfer homes to veterans (Note 8)	\$ 9,606,000	\$ 11,478,000
Accrued expenses	<u>774,227</u>	<u>1,064,976</u>
Total Liabilities	<u>10,380,227</u>	<u>12,542,976</u>
Net Assets, unrestricted	<u>14,672,498</u>	<u>18,075,059</u>
Total Liabilities and Net Assets	<u>\$ 25,052,725</u>	<u>\$ 30,618,035</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, 2014 AND 2013

	2014	2013
Revenues and Other Support		
Contributions	\$ 13,349,839	\$ 11,123,487
Contributed materials and services	3,717,594	4,921,279
Special events - net	458,759	316,525
Investment income (loss)	148,553	(154,437)
Other revenue	<u>15,501</u>	<u>19,563</u>
Total Revenues and Other Support	17,690,246	16,226,417
Expenses		
Program services	18,855,335	19,723,563
General and administrative	1,096,349	871,343
Fundraising	<u>1,141,123</u>	<u>867,054</u>
Total Expenses	<u>21,092,807</u>	<u>21,461,960</u>
Change in Net Assets	(3,402,561)	(5,235,543)
Net Assets, Beginning of Year	<u>18,075,059</u>	<u>23,310,602</u>
Net Assets, End of Year	<u>\$ 14,672,498</u>	<u>\$ 18,075,059</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, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ (3,402,561)	\$ (5,235,543)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	90,276	69,629
Realized losses on investments	65,253	222,704
Unrealized (appreciation) depreciation of investments	(63,040)	208,260
Donated stock	(112,170)	(169,630)
Provision for uncollectible pledges	187	(8,738)
Changes in operating assets and liabilities:		
Decrease in pledges receivable	1,183,271	2,186,241
Decrease (increase) in construction and acquisition costs for veterans' homes	1,872,000	(5,590,000)
Decrease in prepaid expenses and other assets	27,953	34,292
(Decrease) increase in contractual commitment to transfer homes to veterans	(1,872,000)	5,590,000
(Decrease) increase in accrued expenses	(290,749)	479,183
Total adjustments	<u>900,981</u>	<u>3,021,941</u>
Net Cash Used in Operating Activities	<u>(2,501,580)</u>	<u>(2,213,602)</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(312,009)	(243,835)
Purchases of investments	(277,168)	(26,282,151)
Proceeds from sales of investments	<u>882,332</u>	<u>31,360,400</u>
Net Cash Provided by Investing Activities	<u>293,155</u>	<u>4,834,414</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(2,208,425)	2,620,812
Cash and Cash Equivalents, Beginning of Year	<u>3,728,059</u>	<u>1,107,247</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,519,634</u>	<u>\$ 3,728,059</u>
Supplemental Disclosures		
Noncash investing activities:		
Unrealized (appreciation) depreciation of investments	<u>\$ (63,040)</u>	<u>\$ 208,260</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, 2014

	New Home Program	Home Award Program	Total Program Services	General and Administrative	Fundraising	Total Expenses
Cost of veterans' homes	\$ 14,833,143	\$ 889,969	\$ 15,723,112	\$ --	\$ --	\$ 15,723,112
Salaries and benefits	1,644,936	22,446	1,667,382	739,083	471,957	2,878,422
Advertising and message communication	296,948	--	296,948	20,786	90,649	408,383
Travel	310,857	11,483	322,340	45,916	34,944	403,200
Home project and fundraising events	260,126	--	260,126	244	4,196	264,566
Payroll taxes	133,858	1,633	135,491	65,389	41,180	242,060
Fundraising appeals	--	--	--	--	218,839	218,839
Deed transfer costs	166,274	11,278	177,552	--	--	177,552
Professional services	53,430	220	53,650	98,326	12,496	164,472
Miscellaneous	38,774	5,024	43,798	32,317	68,110	144,225
Office supplies and expenses	42,638	--	42,638	30,512	25,186	98,336
Depreciation	30,153	--	30,153	30,061	30,062	90,276
Promotional materials	29,340	--	29,340	94	49,621	79,055
Credit card contribution fees	--	--	--	--	67,514	67,514
Telephone and computers	28,297	--	28,297	12,767	12,139	53,203
Occupancy	21,499	--	21,499	14,878	6,638	43,015
Postage and shipping	22,646	363	23,009	5,976	7,592	36,577
Total Expenses	\$ 17,912,919	\$ 942,416	\$ 18,855,335	\$ 1,096,349	\$ 1,141,123	\$ 21,092,807

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

	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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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 was discontinued during 2014.

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. The Organization had no temporarily restricted net assets as of September 30, 2014 and 2013.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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, 2014 and 2013.

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 10 for the discussion on fair value.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expenses were \$408,383 and \$298,944 for the years ended September 30, 2014 and 2013, 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, 2014 or 2013.

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. Management believes the Organization is no longer subject to income tax examinations for years prior to 2011.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2013 financial statements in order to conform to the 2014 presentation.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 8, 2015, 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:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and equivalents	\$ 4,015,018	\$ 4,015,018	\$ 4,878,545	\$ 4,878,545
Common stocks	1,246,083	1,364,660	1,182,877	1,220,317
Mutual and exchange traded funds	689,078	652,205	715,154	745,104
Real estate investment trusts	16,386	15,872	--	--
Government securities	1,009,848	1,011,422	1,063,669	1,058,267
Corporate bonds	<u>2,005,322</u>	<u>2,030,580</u>	<u>1,699,737</u>	<u>1,682,731</u>
Total	<u>\$ 8,981,735</u>	<u>\$ 9,089,757</u>	<u>\$ 9,539,982</u>	<u>\$ 9,584,964</u>

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

	2014	2013
Unrealized appreciation at end of year	\$ 108,022	\$ 44,982
Unrealized appreciation at beginning of year	<u>44,982</u>	<u>253,242</u>
Increase (decrease) for the year	63,040	(208,260)
Net realized losses	(65,253)	(222,704)
Dividend and interest income	<u>207,821</u>	<u>300,812</u>
	205,608	(130,152)
Less custodial and investment advisor fees	<u>(57,055)</u>	<u>(24,285)</u>
Total investment income (loss)	<u>\$ 148,553</u>	<u>\$ (154,437)</u>

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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:

	2014	2013
Amounts due:		
Within one year	\$ 3,485,192	\$ 4,527,878
After one year, through three years	--	166,667
Discount	--	(26,082)
Total pledges receivable	3,485,192	4,668,463
Allowance for uncollectible pledges	(416,706)	(416,519)
Pledges receivable, net	<u>\$ 3,068,486</u>	<u>\$ 4,251,944</u>

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2014	2013
Land	\$ 50,500	\$ 50,500
Buildings and improvements	984,121	984,121
Furniture and equipment	304,971	284,456
Construction in progress	494,234	202,740
	1,833,826	1,521,817
Less accumulated depreciation	(283,850)	(193,574)
	<u>\$ 1,549,976</u>	<u>\$ 1,328,243</u>

Depreciation expense charged to operations amounted to \$90,276 and \$69,629 for the years ended September 30, 2014 and 2013, respectively.

NOTE 6 - NET ASSETS

During 2013, the Organization terminated its policy of self-restricting funds, which resulted in the reclassification of the 2012 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, 2014 AND 2013

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 ten 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, 2014 and 2013, respectively:

	2014	2013
Building materials and construction services	\$ 2,624,377	\$ 2,204,773
Existing homes	816,717	2,714,393
Land	276,500	--
Advertising and promotion	<u>--</u>	<u>2,113</u>
Total contributed materials and services revenue	<u>\$ 3,717,594</u>	<u>\$ 4,921,279</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.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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, 2014 and 2013, the Organization's estimated contractual obligations to fund the completion of current and future projects amounted to approximately \$13,184,000 and \$16,842,000, 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, \$957,251, or approximately 23% of pledges receivable, respectively, are attributable to three donor organizations. At September 30, 2014 and 2013, \$2,722,575 and \$3,053,120, or approximately 88% and 72% 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 - 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.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 11 - 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, 2014 and 2013.

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, 2014 AND 2013

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, 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, 2014 and 2013:

	Total Fair Value	Level 1	Level 2	Level 3
<u>September 30, 2014</u>				
Cash and equivalents	\$ 4,015,018	\$ 4,015,018	\$ --	\$ --
Equity securities:				
Mid cap	325,149	325,149	--	--
Large blend	213,223	213,223	--	--
Small blend	113,833	113,833	--	--
Common stocks	1,364,660	1,364,660	--	--
Real estate investment trusts	15,872	15,872	--	--
Debt securities:				
Government securities	1,011,422	--	1,011,422	--
Corporate bonds	2,030,580	--	2,030,580	--
 Total	 <u>\$ 9,089,757</u>	 <u>\$ 6,047,755</u>	 <u>\$ 3,042,002</u>	 <u>\$ --</u>
<u>September 30, 2013</u>				
Cash and equivalents	\$ 4,878,545	\$ 4,878,545	\$ --	\$ --
Equity securities:				
Intermediate government	361,775	361,775	--	--
Large blend	383,329	383,329	--	--
Common stocks	1,220,317	1,220,317	--	--
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>