

HOMES FOR OUR TROOPS, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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, 2017, 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, 2017 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 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Boston, MA
February 8, 2018

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2017 AND 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 409,497	\$ 1,185,695
Investments	7,758,782	8,191,330
Pledges receivable, net	2,698,420	2,672,320
Construction and acquisition costs for veterans' homes (Note 8)	8,562,873	4,884,629
Prepaid expenses and other assets	613,378	575,552
Property and equipment, net	<u>1,471,786</u>	<u>1,528,715</u>
Total Assets	<u>\$ 21,514,736</u>	<u>\$ 19,038,241</u>
Liabilities and Net Assets		
Contractual commitment to transfer homes to veterans (Note 8)	\$ 8,562,873	\$ 4,884,629
Accrued expenses	<u>2,121,522</u>	<u>1,010,020</u>
Total Liabilities	<u>10,684,395</u>	<u>5,894,649</u>
Net Assets		
Unrestricted	<u>10,830,341</u>	<u>13,143,592</u>
Total Net Assets	<u>10,830,341</u>	<u>13,143,592</u>
Total Liabilities and Net Assets	<u>\$ 21,514,736</u>	<u>\$ 19,038,241</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, 2017 AND 2016

	<u>Unrestricted</u>	<u>Total</u>
	2017	2016
Revenues and Other Support		
Contributions	\$ 19,337,511	\$ 16,489,067
Contributed Public Service Announcements	19,053,000	--
Contributed materials and services	4,356,282	4,236,912
Special events - net	648,199	980,313
Investment income	662,602	313,104
Other revenue	37,124	18,159
	<u>44,094,718</u>	<u>22,037,555</u>
Total Revenues and Other Support		
Expenses		
Program services	24,266,507	20,829,213
Program services - Public Service Announcements	19,053,000	--
	<u>43,319,507</u>	<u>20,829,213</u>
Total program services	43,319,507	20,829,213
General and administrative	1,517,393	1,138,724
Fundraising	1,571,069	1,450,390
	<u>46,407,969</u>	<u>23,418,327</u>
Total Expenses	<u>46,407,969</u>	<u>23,418,327</u>
Change in Net Assets	(2,313,251)	(1,380,772)
Net Assets, Beginning of Year	<u>13,143,592</u>	<u>14,524,364</u>
Net Assets, End of Year	<u>\$ 10,830,341</u>	<u>\$ 13,143,592</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, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ (2,313,251)	\$ (1,380,772)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	80,914	113,275
Realized (gains) losses on investments	(415,508)	122,102
Unrealized appreciation of investments	(73,095)	(225,933)
Donated stock	(418,377)	(322,613)
Increase (decrease) in allowance for uncollectible pledges	118,175	(290,680)
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	(144,275)	1,287,697
(Increase) decrease in construction and acquisition costs for veterans' homes	(3,678,244)	2,022,074
Increase in prepaid expenses and other assets	(37,826)	(59,227)
Increase (decrease) in contractual commitment to transfer homes to veterans	3,678,244	(2,022,074)
Increase in accrued expenses	1,111,502	215,306
Total adjustments	221,510	839,927
Net Cash Used in Operating Activities	<u>(2,091,741)</u>	<u>(540,845)</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(23,984)	(72,082)
Redemptions of investments	1,524,259	--
Purchases of investments	(10,067,157)	(2,270,602)
Proceeds from sales of investments	9,882,425	3,204,335
Net Cash Provided by Investing Activities	<u>1,315,543</u>	<u>861,651</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(776,198)	320,806
Cash and Cash Equivalents, Beginning of Year	<u>1,185,695</u>	<u>864,889</u>
Cash and Cash Equivalents, End of Year	<u>\$ 409,497</u>	<u>\$ 1,185,695</u>
Supplemental Disclosures		
Noncash investing activities:		
Unrealized (appreciation) depreciation of investments	<u>\$ (73,095)</u>	<u>\$ (225,933)</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, 2017

	Total Program Services	General and Administrative	Fundraising	Total Expenses
Cost of veterans' homes	\$ 20,041,393	\$ --	\$ --	\$ 20,041,393
Public service announcements	19,053,000	--	--	19,053,000
Salaries and benefits	2,181,013	1,103,606	759,062	4,043,681
Professional services	547,901	177,109	64,301	789,311
Travel	399,125	26,333	83,105	508,563
Advertising and message communication	283,113	5,655	75,859	364,627
Payroll taxes	171,047	71,323	54,135	296,505
Home project and fundraising events	203,508	--	22,207	225,715
Telephone and computers	96,617	32,295	81,654	210,566
Deed transfer costs	125,769	--	--	125,769
Credit card contribution fees	--	--	123,957	123,957
Fundraising appeals	--	--	123,153	123,153
Postage and shipping	31,794	9,502	64,561	105,857
Promotional materials	35,280	5,152	60,093	100,525
Office supplies and expenses	48,239	20,050	22,632	90,921
Miscellaneous	32,586	36,928	14,406	83,920
Depreciation	46,470	19,702	14,742	80,914
Occupancy	22,652	9,738	7,202	39,592
Total Expenses	\$ 43,319,507	\$ 1,517,393	\$ 1,571,069	\$ 46,407,969

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
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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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.

BASIS OF PRESENTATION

Under Financial 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, 2017 and 2016.

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, 2017 and 2016.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 an original 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.

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, 2017 AND 2016

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, less a present value discount. Management provides for probable uncollectible amounts through a provision for uncollectible pledges and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. 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 accompanying Statements 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.

IMPAIRMENT OF LONG-LIVED ASSETS

The Organization reviews their long-lived assets for impairment as follows: Long-lived assets to be held and used by the Organization are reviewed to determine whether any events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets, measured using either available market prices or estimated discounted cash flows. There were no impairment charges taken during the years ended September 30, 2017 and 2016.

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

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONTRIBUTIONS (CONTINUED)

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.

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

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expenses were \$364,627 and \$312,316 for the years ended September 30, 2017 and 2016, 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 accompanying Statements of Activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Salaries and other expenses, which are associated with a specific function, are charged directly to that function. Salaries and other expenses, which benefit more than one function, are allocated to the various functions based on the time spent.

INCOME TAXES

The Organization is recognized as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. During the years ended September 30, 2017 and 2016, there was no significant unrelated business income. 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.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES (CONTINUED)

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 accompanying Statements of Activities. The Organization has not identified any uncertain tax positions at September 30, 2017 or 2016.

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.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 8, 2018, 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:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 337,255	\$ 337,255	\$ 2,898,904	\$ 2,898,904
Common stocks	--	--	1,931,505	2,072,342
Mutual and exchange traded funds	7,193,919	7,421,527	--	--
Government securities	--	--	1,183,988	1,191,711
Corporate bonds	--	--	1,851,768	1,858,568
Foreign bonds	--	--	170,652	169,805
Total	<u>\$ 7,531,174</u>	<u>\$ 7,758,782</u>	<u>\$ 8,036,817</u>	<u>\$ 8,191,330</u>

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 3 – INVESTMENTS (CONTINUED)

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

	2017	2016
Unrealized appreciation at end of year	\$ 227,608	\$ 154,513
Unrealized appreciation (depreciation) at beginning of year	<u>154,513</u>	<u>(71,420)</u>
Increase for the year	73,095	225,933
Net realized gains (losses)	415,508	(122,102)
Dividend and interest income	<u>199,826</u>	<u>261,508</u>
	688,429	365,339
Less custodial and investment advisor fees	<u>(25,827)</u>	<u>(52,235)</u>
Total investment income	<u>\$ 662,602</u>	<u>\$ 313,104</u>

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:

	2017	2016
Amounts due:		
Within one year	\$ 2,844,750	\$ 2,662,825
After one year, through five years	<u>100,000</u>	<u>150,000</u>
Total pledges receivable	2,944,750	2,812,825
Discount	(4,467)	(16,817)
Allowance for uncollectible pledges	<u>(241,863)</u>	<u>(123,688)</u>
Pledges receivable, net	<u>\$ 2,698,420</u>	<u>\$ 2,672,320</u>

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2017	2016
Land	\$ 50,500	\$ 50,500
Buildings and improvements	1,642,599	1,642,599
Furniture and equipment	<u>365,360</u>	<u>341,376</u>
Construction in progress	2,058,459	2,034,475
Less accumulated depreciation	<u>(586,673)</u>	<u>(505,760)</u>
	<u>\$ 1,471,786</u>	<u>\$ 1,528,715</u>

Depreciation expense charged to operations amounted to \$80,914 and \$113,275 for the years ended September 30, 2017 and 2016, respectively.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

There were no temporarily restricted net assets at September 30, 2017 and 2016. During 2016, 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 was fully expended and released from restrictions.

NOTE 7 - CONTRIBUTED MATERIALS AND SERVICES

Contributed materials and services are reflected as contributions at their estimated fair values on the date of donation. During 2017, the Organization began producing and distributing public service television, radio, and internet announcements that focus attention on the home building program that the Organization provides to Veterans, which enables the Veterans to rebuild their lives. These public service announcements are distributed to television and radio stations nationwide, who then provide airtime to deliver announcements to assist the Organization in its mission, free of charge.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 7 - CONTRIBUTED MATERIALS AND SERVICES (CONTINUED)

The following have been reflected as both expense and contribution revenue in the accompanying financial statements for the years ended September 30, 2017 and 2016, respectively:

	2017	2016
Building materials and construction services	\$ 3,761,642	\$ 3,814,293
Public Service Announcements	19,053,000	--
Professional services	<u>594,640</u>	<u>422,619</u>
Total contributed materials and services revenue	<u>\$ 23,409,282</u>	<u>\$ 4,236,912</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 accompanying 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, 2017 and 2016, the Organization's estimated contractual obligations to fund the completion of current and future projects amounted to approximately \$59,336,892 and \$49,605,000, 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, 2017 AND 2016

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' eligible salaries. During 2016, the maximum contribution was increased to 3% of participating employees' salaries. Contribution expense under this plan amounted to \$82,195 and \$37,001 for the years ended September 30, 2017 and 2016, respectively.

NOTE 10 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at a bank 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 institution, along with their balances, to keep this potential risk to a minimum.

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

At September 30, 2017 and 2016, \$1,597,621 and \$1,737,402, or approximately 59% and 65% 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, paid in three installments through May 2017, had an outstanding balance of \$326,214 as of September 30, 2016 and was included in pledges receivable, net in the accompanying Statements of Financial Position. The final installment of \$326,214 was received during 2017.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016.

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

There have been no changes in the methodology used at September 30, 2017 and 2016.

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 13 - FAIR VALUE MEASUREMENTS (CONTINUED)

FAIR VALUE HIERARCHY (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 money market funds, 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, corporate bonds, and foreign bonds.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's fair value measurements at September 30, 2017:

	Total Fair Value	Level 1	Level 2	Level 3
September 30, 2017				
Money market funds	\$ 337,255	\$ 337,255	\$ --	\$ --
Mutual and exchange traded funds:	<u>7,421,527</u>	<u>7,421,527</u>	<u>--</u>	<u>--</u>
Total	<u>\$ 7,758,782</u>	<u>\$ 7,758,782</u>	<u>\$ --</u>	<u>\$ --</u>

HOMES FOR OUR TROOPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 13 - FAIR VALUE MEASUREMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

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

	Total Fair Value	Level 1	Level 2	Level 3
September 30, 2016				
Money market funds	\$ 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	<u>169,805</u>	<u>--</u>	<u>169,805</u>	<u>--</u>
Total	<u>\$ 8,191,330</u>	<u>\$ 4,971,246</u>	<u>\$ 3,220,084</u>	<u>\$ --</u>