GARY SINISE FOUNDATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
GARY SINISE FOUNDATION AND SUBSIDIARY
Woodland Hills, California

We have audited the accompanying consolidated financial statements of Gary Sinise Foundation and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gary Sinise Foundation and Subsidiary as of December 31, 2016, and the changes in their net assets and their 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 Gary Sinise Foundation and Subsidiary's 2015 consolidated financial statements, and our report dated July 12, 2016 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, as restated (see Note 12), is consistent with the audited consolidated financial statements from which it has been derived.

Armanino LLP

Armanino LLP
Los Angeles, California

June 30, 2017

THE GARY SINISE FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

ASSETS

	2016	2015 (Restated)
CURRENT ASSETS		
Cash and cash equivalents	$ 13,709,031	$ 17,680,238
Investments	10,167,865	-
Receivables	10,414	196,448
Receivable from agreement with outside organization	50,000	100,000
Beneficial interests in grants receivable	281,860	281,860
Grants receivable, current portion	4,231,303	2,676,998
Inventory	123,426	36,142
Donated land	-	1,200
Prepaid expenses	400,116	198,511
Total Current Assets	28,974,015	21,171,397
Property and equipment - net	264,969	282,430
Grants receivable, net of current portion	105,000	-
Deposits	19,628	18,706
TOTAL ASSETS	$ 29,363,612	$ 21,472,533

LIABILITIES AND NET ASSETS

	2016	2015 (Restated)
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 399,747	$ 254,814
Deferred income	32,500	40,601
Grant payable, current portion	129,379	-
Deferred rent	111,363	41,033
Total Current Liabilties	672,989	336,448
LONG-TERM LIABILITIES		
Grant payable, net of current portion	129,379	-
TOTAL LIABILITIES	802,368	336,448
COMMITMENTS (Note 6)		
NET ASSETS		
Unrestricted		
Operations	10,653,028	16,397,983
Board-designated endowment	10,167,865	-
Total unrestricted net assets	20,820,893	16,397,983
Temporarily restricted	7,740,351	4,738,102
TOTAL NET ASSETS	28,561,244	21,136,085
TOTAL LIABILITIES AND NET ASSETS	$ 29,363,612	$ 21,472,533

See independent auditor's report and accompanying notes.

THE GARY SINISE FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016			
	Unrestricted	Temporarily Restricted	Total	2015 (Restated)
PUBLIC SUPPORT AND REVENUE				
Bequests	$ 1,361,818	$ 713,052	$ 2,074,870	$ 10,958,000
Foundations	2,002,036	6,505,801	8,507,837	5,148,214
Individuals	6,294,287	595,325	6,889,612	5,732,947
Corporations	935,606	1,339,569	2,275,175	2,553,895
In-kind donations	2,578,400	-	2,578,400	1,695,442
Performances	177,500	-	177,500	347,000
Board contributions	532,387	-	532,387	540,000
In-direct public support	437,382	154,060	591,442	196,189
Merchandise sales	108,009	-	108,009	92,870
Loss on investment	-	-	-	(4,800)
Interest and dividends	122,281	-	122,281	713
Realized/Unrealized gain on investments	58,057	-	58,057	-
Total Support and Revenue	14,607,763	9,307,807	23,915,570	27,260,470
Net Assets Released from Restrictions:				
Restricted satisfied by payments	6,305,558	(6,305,558)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	20,913,321	3,002,249	23,915,570	27,260,470
FUNCTIONAL EXPENSES				
Program services	14,767,452	-	14,767,452	12,321,775
General and administrative	770,608	-	770,608	733,708
Fundraising	952,351	-	952,351	710,877
Total Functional Expenses	16,490,411	-	16,490,411	13,766,360
CHANGE IN NET ASSETS	4,422,910	3,002,249	7,425,159	13,494,110
BEGINNING NET ASSETS	16,397,983	4,738,102	21,136,085	7,641,975
ENDING NET ASSETS	$ 20,820,893	$ 7,740,351	$ 28,561,244	$ 21,136,085

See independent auditor's report and accompanying notes.

THE GARY SINISE FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016										
	Program Services						Supporting Services				
	R.I.S.E.	Relief and Resiliency	Community Outreach and Education	Military Support Concerts	First Responders	Total	Management and General	Fund Raising	Total	2016	2015 (Restated)
Salaries, payroll taxes and employee benefits	$ 286,183	$ 252,257	$ 285,486	$ 185,825	$ 14,247	$ 1,023,998	$ 88,189	$ 352,760	$ 440,949	$ 1,464,947	$ 996,629
Accounting	-	-	-	-	-	-	192,000	-	192,000	192,000	149,120
Advertising and promotion	28,440	220	220	220	-	29,100	8,386	62,127	70,513	99,613	87,497
Commissions	-	-	-	7,500	-	7,500	-	-	-	7,500	18,000
Computer	21,920	19,317	21,863	14,224	1,088	78,412	11,016	29,016	40,032	118,444	79,309
Construction costs	7,299,323	-	-	-	-	7,299,323	-	-	-	7,299,323	6,710,890
Contributions	122,857	699,342	419,416	-	456,157	1,697,772	-	-	-	1,697,772	978,504
Depreciation and amortization	10,994	9,689	10,966	7,134	546	39,329	3,387	13,548	16,935	56,264	40,171
Equipment rental	16,647	432,809	18,681	330	-	468,467	1,728	22,015	23,743	492,210	298,021
Furnishings - In-lind	340,000	-	-	-	-	340,000	-	-	-	340,000	371,500
Insurance	69,206	8,445	9,444	16,392	470	103,957	7,613	11,719	19,332	123,289	95,636
Legal	297,013	-	22,539	-	3,094	322,646	45,692	23,139	68,831	391,477	495,666
Merchandise cost	-	-	-	-	-	-	113,297	-	113,297	113,297	142,020
Merchant fees	5,376	1,835	5,128	626	1,101	14,066	88,488	5,398	93,886	107,952	71,585
Miscellaneous	10,729	6,680	8,778	3,613	275	30,075	24,387	8,324	32,711	62,786	49,267
Outside services	318,754	430,859	309,628	185,316	-	1,244,557	56,037	197,922	253,959	1,498,516	1,613,613
Postage	10,475	11,875	12,655	4,025	359	39,389	8,486	34,326	42,812	82,201	64,606
Printing	2,199	2,056	7,617	583	44	12,499	1,387	40,028	41,415	53,914	61,598
Rents	47,776	42,103	47,653	31,003	2,371	170,906	14,719	58,876	73,595	244,501	163,112
Repairs and maintenance	11,159	275	311	202	16	11,963	192	384	576	12,539	2,256
Supplies	53,436	35,676	35,927	11,054	669	136,762	20,763	33,436	54,199	190,961	192,746
Taxes and licenses	111,277	-	-	-	-	111,277	6,764	-	6,764	118,041	83,372
Telephone	2,324	2,048	2,318	1,508	116	8,314	716	2,864	3,580	11,894	12,571
Travel and entertainment	477,074	634,007	409,358	155	269	1,520,863	61,403	49,931	111,334	1,632,197	889,104
Utilities	5,748	-	-	-	-	5,748	48	-	48	5,796	27,635
Website	14,125	12,448	14,089	9,166	701	50,529	15,910	6,538	22,448	72,977	71,932
TOTAL EXPENSES	$ 9,563,035	$ 2,601,941	$ 1,642,077	$ 478,876	$ 481,523	$ 14,767,452	$ 770,608	$ 952,351	$ 1,722,959	$ 16,490,411	$ 13,766,360

See independent auditor's report and accompanying notes.

THE GARY SINISE FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016	2015 (Restated)
Cash flows from operating activities:		
Change in net assets	$ 7,425,159	$ 13,494,110
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	56,264	40,171
Realized/Unrealized gain on invesments	(58,057)	-
Donated inventory	(80,056)	-
Unrealized loss on investment in land	-	4,800
(Increase) decrease in operating assets		
Grants receivable	(1,659,305)	(851,998)
Accounts receivable	186,034	7,103
Receivable from outside organization, net	50,000	200,860
Inventory	(7,228)	(3,376)
Prepaid expenses	(201,605)	(161,243)
Deposits	(922)	(4,391)
Increase (decrease) in operating liabilities		
Accounts payable and accrued liabilities	144,933	71,953
Deferred rent	70,330	15,539
Deferred income	(8,101)	(101,125)
Grants payable	258,758	-
Cash provided by operating activites	6,176,204	12,712,403
Cash flows from investing activities		
Capital expenditures	(38,803)	(135,320)
Purchases of investments	(10,722,472)	-
Proceeds from sale of investments	612,664	-
Proceeds from sale of donated land	1,200	-
Cash provided (used) by investing activities	(10,147,411)	(135,320)
Cash flows from financing activities		
Principal payments on equipment line of credit	-	(119,218)
Cash (used) by financing activities	-	(119,218)
(Decrease) increase in cash and cash equivalents	(3,971,207)	12,457,865
Cash and cash equivalents, beginning of year	17,680,238	5,222,373
Cash and cash equivalents, end of year	$ 13,709,031	$ 17,680,238

See independent auditor's report and accompanying notes.

NOTE 1 – NATURE OF OPERATIONS

Gary Sinise Foundation ("GSF") (a Delaware nonprofit corporation) was formed in October 2010 with a mission to serve America by honoring its defenders, veterans, first responders, their families and those in need. GSF does this by creating and supporting unique programs designed to entertain, educate, inspire, strengthen and build communities.

GSF believes the ramifications of war leave an indelible impact on all service members. It furthermore believes it is the individual responsibility of each citizen to support America's defenders. GSF is committed to ensuring the sacrifices made by all of our nation's heroes are honored and remembered.

R.I.S.E. (Restoring Independence Supporting Empowerment) builds mortgage-free, specially adapted smart homes for our most severely wounded heroes and their loved ones. In addition, the program provides adapted vehicles, wheelchairs, and home modifications for our injured, wounded, ill and/or aging defenders. Through *R.I.S.E.* GSF provides our heroes with the resources necessary to overcome their new life challenges and reclaim their independence.

Relief and Resiliency Outreach provides complete support to injured, wounded (visible and invisible), ill and/or aging veterans, their loved ones, and gold star families as they cope with trauma and loss during their time of urgent need. GSF is also hosting day-long *Invincible Spirit Festivals* at America's military centers to boost the morale and spirits of the patients, families and staff.

GSF's *Community Outreach and Education* programs honor our active duty service members as well as the generations that have served before us. *Serving Heroes* shows appreciation by serving hearty, classic American meals to our defenders across the country. *Arts and Entertainment Outreach* offeres free dinner and performances to local veterans at the Steppenwolf Theatre in Chicago. And *Soaring Valor* provides WWII veterans a chance to visit The National WWII Museum and sponsors a historian to document their first-hand accounts of the war. With an impressive panel of individuals, the *Ambassador Council* inspires, educates, and reminds communities to remember the sacrifices made by all American defenders.

First Responder Outreach provides grants for equipment, training, and wellness to ensure our firefighters, police, and EMTs have the tools they need to perform to the best of their abilities.

The Lt. Dan Band ("LDB") (a Delaware limited liability company) is wholly owned by GSF and was formed in March 2011. Its proceeds help support GSF's mission. *Gary Sinise and the Lt. Dan Band* continue to bring their exhilarating performances to our nation's service members and their families across the world. Whether boosting morale on military bases at home and abroad or raising awareness and funding through benefit concerts, the band entertains, educates, inspires and builds communities with its explosive live show.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation
The accompanying consolidated financial statements include the accounts of GSF and LDB (collectively referred to as the "Organization"). All significant intercompany transactions and balances have been eliminated in consolidation.

Tax Status
GSF is a nonprofit public benefit corporation organized under the laws of Delaware and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding state provisions.

LDB is a single member limited liability company that is a disregarded entity under the Internal Revenue Code. However, LDB is subject to a California state income tax as well as other state and tax jurisdictions. For California income tax purposes, a limited liability company is required to pay a fee based on its gross receipts as defined, plus $800 annually.

The Organization's federal income tax and informational returns for tax years ending December 31, 2013 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Organization's most significant jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ending December 31, 2012 and subsequent.

Basis of Presentation
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.

Unrestricted General Net Assets – Include contributions, fundraising, fees and other forms of unrestricted revenue and expenditures related to the general operations and fundraising efforts of the Organization.

Unrestricted Board Designated Endowment – The Board of Directors, as part of the Organization's long-term strategic plan, has established a board designated endowment fund in the amount of $10,000,000. All investment earnings and gains/losses for the year are reported as part of the endowment.

Temporarily Restricted Net Assets – Include gifts and grants received that are temporarily restricted with respect to time or use by the donor or grantor. When the restrictions expire, the net assets of this fund are reclassified to unrestricted net assets. Restricted gifts and grants received are reported as unrestricted revenue if the restriction is met in the same reporting period.

Permanently Restricted Net Assets – Included assets that have been restricted by the donor in perpetuity and cannot be expended by the Organization. There were no permanently restricted net assets as of December 31, 2016.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the financial statement, the Organization considers all investments purchased with a maturity date of three months or less to be cash equivalents. At December 31, 2016, the Organization's cash and cash equivalents balance includes $3,064,406 in short-term money market funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Grants Receivable

Grants receivable are expected to be received as follows; $4,231,303 in 2017, $35,000 in 2018, $35,000 in 2019, and $35,000 in 2020.

Receivables

Receivables consist of credit card remittances that have been processed but not yet received.

Inventory

Inventory consists of t-shirts and other merchandise and is stated at the lower of cost or market on a first-in, first-out basis, and plumbing fixtures to be used to furnish SMART homes as they are built. It is valued at its fair market value at the time of donation. Inventory value by category is as follows:

Plumbing fixtures	$	80,056
Merchandise		43,370
	$	123,426

Property and Equipment

Purchases of property and equipment are recorded at cost. Donated items are recorded at fair value when received. Depreciation and amortization on both purchased and donated items are recorded using the straight-line method over the shorter of the estimated useful life of the related asset as follows:

Furniture and office equipment	3-7 years
Computer equipment	3 years
Website	3 years
Leasehold improvements	10 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets
Management reviews each asset or asset group for impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable, but at least annually.

Deferred Income
Deferred income at December 31, 2016 was $32,500 which is LDB performance revenue received for several events that will take place in 2017.

In-Kind Donations
In-kind donations consist of contributed assets and contributed services.

Contributed assets are recognized at the asset's fair value on the date of contribution.

Contributed services are recognized if the services received: a) create or enhance long-lived assets or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The amounts recognized as in-kind donations are as follows:

Donated services and materials	$ 2,498,344
Donated plumbing fixtures	80,056
	$ 2,578,400

All of these expenses are included in program expenses.

Contributions
Contributions consist primarily of donations from foundations, businesses and individuals. Contributions are accrued when committed to the Organization by the donor.

Concentration of Risk
Occasionally the Organization's cash balances exceed FDIC-insured limits. The Organization has not experienced and does not anticipate any losses related to these balances.

Functional Expenses
The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated accordingly.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Financial Information
The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Fair Value Measurements
The fair value of financial assets and liabilities is measured according to the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification. Fair value is required to be evaluated and adjusted according to the following valuation techniques:

> **Level 1** – Fair value is determined using quoted market prices in active markets for identical assets and liabilities.
>
> **Level 2** – Fair value is determined using quoted market prices in active markets for similar assets and liabilties.
>
> **Level 3** – Fair value is determined using unobservable market prices in a market that is typically inactive.

Subsequent Events
The Organization has evaluated events subsequent to December 31, 2016, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through June 30, 2017, the date the consolidated financial statements were available to be issued. As discussed in Note 9, the Organization received $140,930 of the beneficial interests in grants receivable in 2017.

NOTE 3 - RECEIVABLE FROM AGREEMENT WITH OUTSIDE ORGANIZATION

In June 2014 the Organization entered into an agreement with another nonprofit organization in relation to the Smart Home program. Under the agreement, the Organization assumed responsibility for 14 Smart Homes, and the other nonprofit assumed responsibility for 7 Smart Homes. Under the agreement, funds received by either organization for the benefit of Smart Homes for which it is not responsible are to be transferred to the other organization.

In April 2015, the Organization entered into an agreement that modified the original agreement. Under the new agreement, the Organization and the other nonprofit agreed to apply certain offsets of funds they were holding and grant money they expected to receive for certain Smart Homes once completed.

All agreements noted above have been included within the accompanying consolidated financial statements.

GARY SINISE FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and office equipment	$	197,387
Computer equipment		122,680
Leasehold improvements		61,129
Website		111,410
		492,606
Accumulated depreciation and amortization		(227,637)
Net property and equipment	$	264,969

NOTE 5 – GRANT PAYABLE

The Organization issued a grant to a foundation for $388,137 payable over three years. The first payment of $129,379 was made in 2016, the remaining balance of $258,758 is payable in equal installments in 2017 and 2018.

NOTE 6 - COMMITMENTS

Smart Home Construction
Through its R.I.S.E. program, the Organization is committed to building 20 Smart Homes. The total budgeted cost of those Smart Homes total $14,142,134; as of December 31, 2016 the Organization had expended $3,778,223 on those homes, resulting in a remaining net commitment of $10,363,911.

Leases
In November 2013, the Organization entered into an operating lease for offices that commenced April 2014 and originally expired in August 2020; in May 2016 the Organization extended the lease until November 2022.

The scheduled minimum lease payments under the lease terms are as follows:

Year Ending December 31,		
2017	$	181,712
2018		200,345
2019		206,356
2020		213,137
2021		214,795
2022		202,437
	$	1,218,782

Total rent expense was $244,501 in 2016.

Deferred rent represents the difference between the lease payments and the lease expense. The lease expense is recognized on a straight-line basis giving consideration to planned lease escalations and free rent concessions.

NOTE 7 – RELATED PARTIES

The founder of the Organization donated $532,387 during the year ended December 31, 2016, to underwrite the operating costs of the Organization. The founder also does not receive any salary or other form of compensation from the Organization.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31, 2016:

	Beginning Balance	Contributions	Net assets Released	Ending Balance
Smart Homes (R.I.S.E. Program)	$ 4,738,102	$ 8,882,807	$ (6,270,558)	$ 7,350,351
General R.I.S.E.	-	175,000	(35,000)	140,000
General support	-	250,000	-	250,000
Totals	$ 4,738,102	$ 9,307,807	$ (6,305,558)	$ 7,740,351

NOTE 9 - BENEFICIAL INTERESTS IN GRANTS RECEIVABLE

The Department of Veterans Affairs offers a Specially Adapted Housing Grant ("SAHG") for Veterans who have a service-connected disability due to military service. During 2015, the Organization completed homes for four Veterans who qualified for a SAHG. Upon completion of the homes, the Veterans entered into an agreement with the Organization to pay the proceeds of the SAHG to the Organization as partial reimbursement of the land acquisition and construction costs. In both years, these amounts consisted of four such grants in the amount of $70,465. In April 2017 the Organization received $140,930, it is expected that the remaining balance will be received later in 2017.

GARY SINISE FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 – BOARD-DESIGNATED ENDOWMENT

In the February 2016, the Board of Directors established a board designated endowment fund in the amount of $10,000,000 as part of the Organization's long-term strategic plan. The Organization has adopted an endowment investment policy, approved by the Board, for endowment assets that attempt to maximize the return on invested assets while minimizing risk and expenses. This is to be done through prudent investing and planning, as well as through the maintenance of a diversified portfolio. The Organization targets a diversified asset allocation that places an emphasis on fixed income securities and equity investments with approximately 5% to be held in cash and cash equivalents accounts to be available for program expenditures, administative costs, and other anticipated expenses. Five percent (5%) of the total market value of the fund as of September 30 of each year maybe utilized over the course of the following calendar year for the Organization's adminstrative and overhead expenses. No such allocation was made in 2016.

Activity in the 2016 Board-Designated endowment was as follows:

Balance, December 31, 2015	$ -
Purchases of investments	10,722,472
Sales of investments	(612,664)
Unrealized gains	59,334
Realized loss	(1,277)
Balance, December 31, 2016	$ 10,167,865

NOTE 11 – INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, investments at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 3,416,115	$ -	$ -	$ 3,416,115
Mutual funds	3,784,121	-	-	3,784,121
Corporate stocks	1,369,432	-	-	1,369,432
Corporate bonds	976,654	-	-	976,654
U.S. Treasury notes	355,768	-	-	355,768
Other marketable security funds	265,775	-	-	265,775
	$10,167,865	$ -	$ -	$ 10,167,865

At December 31, 2016, all invested amounts are Board-Designated endowments.

NOTE 12 – CORRECTION OF AN ACCOUNTING ERROR

In 2014 the Organization recognized $1,173,331 related to donated furniture it anticipated would be of use in the SMART homes being built for severely wounded war veterans. Accordingly, the Organization recognized an asset and contribution revenue in this amount based on a valuation obtained by the donor in 2014. In 2015, the Organization recognized an impairment related to this inventory of $391,876. In 2016 the Organization's management ultimately concluded that this donated furniture was not viable in the the SMART homes due to its bulky size and because the furniture is unfinished, these facts were not known at the time of the donation. Because these facts were not known in 2014 but were knowable, the recognition of this donated furniture is being treated as a correction of a prior period accounting error and prior periods are being adjusted. Accordingly inventory and net assets are being adjusted for presentation in the statement of financial position for all periods presented as follows:

	Net assets				
	Unrestricted	Temporarily Restricted	Total Net Assets	Inventory	Change in Net Assets
Balances at December 31, 2014, as previously reported	$ 3,925,627	$ 4,889,679	$ 8,815,306	$ 1,206,097	$ 3,675,573
Correction of inventory valuation	(1,173,331)	-	(1,173,331)	(1,173,331)	(1,173,331)
Balances at December 31, 2014, as restated	$ 2,752,296	$ 4,889,679	$ 7,641,975	$ 32,766	$ 2,502,242
Balances at December 31, 2015, as previously reported	$ 17,179,438	$ 4,738,102	$ 21,917,540	$ 817,597	$ 13,102,234
Correction of inventory valuation	(781,455)	-	(781,455)	(781,455)	-
Correction of inventory impairment	-	-	-	-	391,876
Balances at December 31, 2015, as restated	$ 16,397,983	$ 4,738,102	$ 21,136,085	$ 36,142	$ 13,494,110