PURPLE HEART HOMES, INC.
Statesville, North Carolina

FINANCIAL STATEMENTS
Year Ended December 31, 2015

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December 30, 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Purple Heart Homes, Inc.
Statesville, North Carolina

We have audited the accompanying financial statements of Purple Heart Homes, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows 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.

Auditor's 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 auditor's 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 Purple Heart Homes, Inc. as of December 31, 2015, 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.

Cline & Company, PLLC
<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 580,787</td>
</tr>
<tr>
<td>Investments</td>
<td>61,535</td>
</tr>
<tr>
<td>Inventory</td>
<td>258,610</td>
</tr>
<tr>
<td>Total current assets</td>
<td>900,932</td>
</tr>
<tr>
<td>Real estate</td>
<td>1,728,864</td>
</tr>
<tr>
<td>Organization expenses, net of accumulated amortization</td>
<td>690</td>
</tr>
<tr>
<td>Purchase-money mortgages, net of accumulated amortization</td>
<td>603,675</td>
</tr>
<tr>
<td>Property and equipment, net of accumulated depreciation</td>
<td>53,508</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 3,287,669</td>
</tr>
</tbody>
</table>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.
LIABILITIES

Current liabilities
  Accounts payable $ 54,604
  Accrued payroll and withholdings 34,307
  Credit cards payable 36,492
  Line of credit 50,006
  Notes payable 14,544

Total current liabilities 189,953

Long term liabilities
  Notes payable 50,522

Total liabilities 240,475

NET ASSETS

Unrestricted 2,661,524
  Temporarily restricted 385,670

Total net assets 3,047,194

Total liabilities and net assets $ 3,287,669

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THE FINANCIAL STATEMENTS.
### Revenues, gains, and other support

<table>
<thead>
<tr>
<th>Description</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions, monetary transactions</td>
<td>$ 702,213</td>
<td>$ 901,800</td>
<td>$ 1,604,013</td>
</tr>
<tr>
<td>Contributed services and use of facilities</td>
<td>42,991</td>
<td></td>
<td>42,991</td>
</tr>
<tr>
<td>Contributed homes</td>
<td>58,000</td>
<td>436,129</td>
<td>494,129</td>
</tr>
<tr>
<td>Contributed materials</td>
<td>133,750</td>
<td></td>
<td>133,750</td>
</tr>
<tr>
<td>Other in-kind contributions</td>
<td>33,167</td>
<td></td>
<td>33,167</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>1,854</td>
<td></td>
<td>1,854</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>44,695</td>
<td></td>
<td>44,695</td>
</tr>
<tr>
<td>Other gains (losses)</td>
<td>(105,688)</td>
<td>(105,688)</td>
<td></td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>1,216,147</td>
<td>(1,216,147)</td>
<td></td>
</tr>
</tbody>
</table>

**Total revenues, gains, and other support**

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2,248,911</td>
</tr>
</tbody>
</table>

### Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services</td>
<td></td>
</tr>
<tr>
<td>Veterans assistance</td>
<td>1,413,616</td>
</tr>
<tr>
<td>Supporting services</td>
<td></td>
</tr>
<tr>
<td>Management and general</td>
<td>401,168</td>
</tr>
<tr>
<td>Fund-raising</td>
<td>200,323</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>2,015,107</td>
</tr>
</tbody>
</table>

### Change in net assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>233,804</td>
</tr>
</tbody>
</table>

### Net assets at beginning of year

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets at beginning of year</td>
<td>2,813,390</td>
</tr>
</tbody>
</table>

### Net assets at end of year

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets at end of year</td>
<td>3,047,194</td>
</tr>
</tbody>
</table>
PURPLE HEART HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

Cash flows from operating activities
  Increase in net assets $ 233,804
  Adjustments to reconcile increase in net assets to
    net cash provided by operating activities
    Depreciation and amortization 175,092
    (Increase) decrease in operating assets
      Accounts receivable 21,600
      Inventory (119,431)
      Real Estate 218,044
  Increase (decrease) in operating liabilities
    Accounts payable 3,307
    Accrued payroll 6,424
    Credit card payable (52,403)

Total adjustments 252,633

Net cash provided by (used in) operating activities 486,437

Cash flows from investing activities
  Investments received through in-kind contribution (33,167)
  Payments for property and equipment (26,919)
  Issuance of purchase-money mortgages (195,000)

Net cash provided by (used in) investing activities (255,086)

Cash flows from financing activities
  Net proceeds from line-of-credit 50,006
  Net proceeds from long-term debt 65,066

Net cash provided by (used in) financing activities 115,072

Net increase (decrease) in cash and cash equivalents 346,423

Cash and cash equivalents beginning of year 234,364

Cash and cash equivalents end of year $ 580,787

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THE FINANCIAL STATEMENTS.
Supplemental disclosure of cash flow information

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$6,838</td>
</tr>
<tr>
<td>Taxes</td>
<td>$-</td>
</tr>
</tbody>
</table>
NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Purple Heart Homes, Inc. (the Organization) was established in 2008 and provides personalized housing solutions for service connected disabled veterans and their families that are substantial in function, design, and quality. The Organization is supported primarily through donor contributions.

Basis of Accounting. The financial statements of the Organization have been prepared on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned. Expenses are recognized during the period in which they are incurred.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at December 31, 2015.

Investments. Investments are reported at fair value based on quoted market prices. Investments classified as short-term are available for operations in the next year. Unrealized and realized gains and losses are included in the accompanying statement of activities. As of December 31, 2015, the Organization's investments consisted entirely of equity securities.

Purchase-Money Mortgages. Homes are available to purchasers at no less than fifty percent and up to sixty-five percent of the estimated value of the property. The Organization obtains a purchase-money mortgage for the difference between the contract sales price and the amount that the purchaser is required to pay for the home. The mortgage expires over a fifteen year period at no cost to the purchaser. Service connected disabled veterans that demonstrate major improvement in credit repair and complete all required programs within five years have the opportunity to have the mortgage removed ratably over the five year period.

Property and Equipment. Purchased property and equipment is capitalized at cost. Expenditures for maintenance and repairs, which do not improve or extend the life of an asset, are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Net Assets

Unrestricted Net Assets. Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.

Temporarily Restricted Net Assets. Temporarily restricted net assets include those net assets whose use by the Organization has been donor restricted by specific time or purpose limitations. Net assets are released from restrictions either as a result of the expiration of a time restriction or due to the satisfaction of a purpose restriction.
NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions. The Organization recognizes contributions as revenue in the period received. Contributions received are recorded as unrestricted support, temporarily restricted support, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanent restricted net assets, as applicable. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when restrictions expire. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Contributed Services. Contributed services are recognized by the Organization 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 Organization records donated services which meet the recognition criteria at the fair market value of the services received. In 2015, the Organization recognized $42,991 of contributed services revenue related to services provided by contractors, architects, and other professionals who assisted with home renovations and other organizational functions.

A substantial number of volunteers have donated significant amounts of time and services to the Organization's program operations and to its fundraising campaigns. However, these services do not meet the criteria for recognition as contributed services and, accordingly, are not recognized in the accompanying financial statements.

Contributed Homes and Materials. In-kind contributions and the corresponding donated homes and materials inventory are recorded at their estimated fair value on the date of donation.

Other Gains (Losses). The Organization has received, as a donation, real estate from multiple sources. Upon receipt, these gifts in-kind were recorded at the home’s estimated fair value. These homes are held for a specified period while the Organization attempts to locate a Veteran to place in the home. If the Organization is unable to identify a Veteran to place in the home, the home is sold to investors. A gain or loss is calculated on the difference between the sales price and the amount recorded at the time of donation.

Program Services. The Organization offers the following two distinct programs:

The Veterans Aging in Place Program is specifically designed to help older service connected disabled veterans and their caregivers who currently own their own home. The program is designed to provide a barrier-free living environment at no cost to the veteran.

The Veteran Home Ownership Program is specifically designed to enable service connected disabled veterans who do not already own a home, to become homeowners.
NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The goal of both programs is to help reintegrate the veteran into the community in which they live and to proudly acknowledge the sacrifice they have made on their country's behalf. Whether it is adapting a veteran's existing home, building a home from the ground up, or adapting and modifying a foreclosed home, the Organization is committed to guiding the veteran through the entire process.

Supporting Services

Management and general. The management and general services includes expenditures to secure proper administrative functioning, maintaining the assets, and manage the financial responsibilities of the Organization.

Fund-raising. The fundraising service includes expenditures which provide the structure necessary to encourage and secure private financial support.

Functional Allocation of Expenses. The Organization allocates its expenses on a functional basis among its various programs and support services. Accordingly, certain shared costs have been allocated among the programs and supporting services benefited. Expenses that are identified with a specific program or support service are charged directly according to their natural expenditure classification.

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

Income Taxes. The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions.

The Organization files IRS Form 990, Return of Organization Exempt from Income Tax, annually with the Federal Government. Generally, returns remain open for examination by taxing authorities for three years after they have been filed. Therefore, returns related to the years ended December 31, 2012 through 2015 remain open for examination.
NOTE B - INVENTORY

Inventory consists of the following at December 31:

Materials 258,610

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

Office equipment $28,733
Vehicles 37,971
Accumulated depreciation (13,196)

Property and equipment, net $53,508

Depreciation expense for the year ended December 31, 2015 was $5,225.

NOTE D - REVOLVING LINE OF CREDIT

The Organization has a revolving line of credit with a bank allowing for borrowings up to $100,000. Interest is payable monthly at a fluctuating rate equal to the Prime Rate, as set by the lender, plus 1.00%, with a floor of 4.50%. The line is secured by substantially all property, including inventory and equipment, owned by the Organization. The line expires June 15, 2016. There was an outstanding balance at December 31, 2015 of $50,006.

NOTE E - NOTES PAYABLE

At December 31, 2015, the notes payable consisted of the following:

Note payable to a bank in monthly installments of $1,033, which includes interest at 4.75%. The note matures June 15, 2019 and is secured by equipment. $39,870

Note payable to Ally in monthly installments of $242, which includes interest at 13.10%. The note matures September 15, 2020 and is secured by a vehicle. 10,242
NOTE E - NOTES PAYABLE (continued)

Note payable to Ally in monthly installments of $286, which includes interest at 9.15%. The note matures July 23, 2021 and is secured by a vehicle.

\[
\begin{array}{l}
\text{Less: current portion} \\
\text{Long-term portion} \\
\end{array}
\]

\[
\begin{array}{l}
14,954 \\
65,066 \\
(14,544) \\
50,522
\end{array}
\]

At December 31, 2015, future maturities of long-term debt are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$ 14,544</td>
</tr>
<tr>
<td>2017</td>
<td>15,502</td>
</tr>
<tr>
<td>2018</td>
<td>16,537</td>
</tr>
<tr>
<td>2019</td>
<td>11,359</td>
</tr>
<tr>
<td>2020</td>
<td>5,163</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,961</td>
</tr>
<tr>
<td></td>
<td>$ 65,066</td>
</tr>
</tbody>
</table>

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 consist of $385,670. This amount will be utilized to complete projects for the Veterans Aging in Place program.

During 2015, the Organization released $521,815 from temporarily restricted net assets. This amount went toward rehabilitating homes and providing barrier free accessible homes to veterans.

NOTE G - FINANCIAL INSTRUMENTS AND CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization has not experienced any losses in such accounts and believes it is not exposed to significant credit risk on its cash and cash equivalents.

The Organization maintains its cash balances at several institutions. The Federal Deposit Insurance Corporation ("FDIC") covers up to $250,000 for substantially all depository accounts. From time to time, the Organization may have amounts on deposit in excess of FDIC limits. At December 31, 2015, the Organization had $214,131 on deposit in excess of FDIC insured limits.
NOTE H - SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 30, 2016, the date at which the financial statements were available to be issued.