

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS**

FINANCIAL STATEMENTS

DECEMBER 31, 2015

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USA Homeownership Foundation, Inc.
DBA Veterans Association of Real Estate Professionals
Corona, California

We have audited the accompanying financial statements of USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals (the Organization) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statement of activities, functional expenses, 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 controls 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 risk 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 design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the 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 USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals 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.

(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have issued our report dated November 30, 2016 on our consideration of USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

KHO & PATEL



San Dimas, California
November 30, 2016

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

ASSETS

Assets	
Cash and cash equivalents	\$ 511,949
Homes under construction and held for sale <i>(Note 3)</i>	6,224,168
Property and equipment, net <i>(Note 4)</i>	183,784
Organizational costs, net	<u>4,240</u>
Total assets	<u><u>\$ 6,924,141</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable - related parties	\$ 48,673
Notes payable - related parties <i>(Note 6)</i>	72,024
Notes payable <i>(Note 7)</i>	641,197
Payroll liabilities	18,001
Other liabilities	<u>698</u>
Total current liabilities	780,593
Long-term liabilities	
Notes payable - related parties <i>(Note 6)</i>	36,750
Commitments and contingencies <i>(Note 5)</i>	<u>-</u>
Total liabilities	<u>817,343</u>
Total net assets	<u>6,106,798</u>
Total liabilities and net assets	<u><u>\$ 6,924,141</u></u>

See independent auditor's report and accompanying notes.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Support	
In-kind donations	\$ 4,450,701
Chapter donations and fundraisers	220,008
National donations and fundraisers	163,865
Corporate sponsorships	240,751
Rehabilitation contributions	<u>67,300</u>
Total support	5,142,625
Revenues	
Membership dues	88,957
Sale of rehabilitated real estate	2,143,409
Short-term rental income	<u>6,143</u>
Total revenue	<u>2,238,509</u>
Total revenue and other support	7,381,134
Expenses	
Program services expenses	4,729,053
Management and general expenses	143,564
Fundraising expenses	<u>215,198</u>
Total expenses	<u>5,087,815</u>
Increase in net assets	2,293,319
Net assets, beginning of year	<u>3,813,479</u>
Net assets, end of year	<u><u>\$ 6,106,798</u></u>

See independent auditor's report and accompanying notes.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program services expenses	Management and general expenses	Fundraising expenses	Total expenses
Advertising and promotion	\$ -	\$ -	\$ 40,953	\$ 40,953
Auto	3,534	-	-	3,534
Bank and wire fees	-	5,848	-	5,848
Chapter expenses	62,072	5,991	95,327	163,390
Charitable donations	575,529	-	-	575,529
Computer and software	4,362	1,599	-	5,961
Depreciation and amortization	12,412	4,224	-	16,636
Dues and subscriptions	2,132	-	-	2,132
Event costs	276,412	-	-	276,412
Insurance	1,619	2,365	782	4,766
Licenses and permits	2,566	804	3,203	6,573
Loan interest	-	7,500	-	7,500
Meals and entertainment	20,992	4,415	-	25,407
Office supplies and expense	-	12,698	-	12,698
Outside services	8,835	1,086	1,400	11,321
Salaries	87,702	53,184	42,358	183,244
Postage and delivery	-	3,075	-	3,075
Printing and reproduction	19,139	4,502	3,428	27,069
Professional development	334	-	-	334
Professional fees	5,850	12,771	12,500	31,121
Property rehabilitation	3,536,046	16,964	-	3,553,010
Rent	10,800	3,600	-	14,400
Repairs and maintenance	-	740	-	740
State taxes	-	10	-	10
Telephone, internet and fax	6,565	2,188	-	8,753
Travel	76,905	-	-	76,905
Web design and website hosting	15,247	-	15,247	30,494
	<u>\$ 4,729,053</u>	<u>\$ 143,564</u>	<u>\$ 215,198</u>	<u>\$ 5,087,815</u>

See independent auditor's report and accompanying notes.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 2,293,319
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
(Gain)/loss on sale of property and equipment	(105,151)
Depreciation and amortization expense	16,636
In-kind donations, capitalized	(4,450,701)
Changes in operating assets and liabilities:	
Homes under construction and held for sale (Note 3)	2,089,100
Other assets	2,507
Accounts payable - related parties	48,673
Payroll liabilities	15,432
Other liabilities	698
Net cash used in operating activities	(89,487)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(13,068)
Net cash used in investing activities	(13,068)

CASH FLOWS FROM FINANCING ACTIVITIES

Repayments made on notes payable - related parties	(45,476)
Proceeds from loan notes payable - related parties	88,500
Repayments made on notes payable	(457,387)
Proceeds from loan notes payable	885,500
Net cash provided by financing activities	471,137

Net increase in cash and cash equivalents 368,582

Cash and cash equivalents, beginning of the year

143,367

Cash and cash equivalents, end of the year \$ 511,949

SUPPLEMENTAL DISCLOSURES

Interest paid	<u><u>\$ 90,055</u></u>
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See independent auditor's report and accompanying notes.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 1 - General

USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals (the Organization) (a nonprofit organization), is a California non-profit organization incorporated on May 11, 2011 dedicated to increasing sustainable homeownership and economic development for the active military and veteran communities across the.

The Organization is governed by an independent, volunteer Board of Directors who oversees the Organization's operations. Revenues to support the Organization are primarily renovation and sale of donated properties, membership dues, contributions and fundraising activities.

Note 2 - Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the financial statements.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Contributions are presented in the accompanying financial statements as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

The net assets of the Organization are presented in accordance with generally accepted accounting principles which require it to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted

Unrestricted undesignated net assets represent resources over which the Organization has discretionary control and are used to carry on the operations of the Organization. Unrestricted board designated net assets represent resources designated by the Board of Trustees for particular purposes.

Temporarily Restricted

Temporarily restricted net assets represent resources currently available for use, but expendable only for those operating purposes specified by the donor. Resources of this class of net assets originate from contributions, grants, bequests and investment income earned by the restricted fund.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 2 - Summary of Significant Accounting Policies (continued)

Financial Statement Presentation (concluded)

Permanently Restricted

Permanently restricted net assets are maintained as an endowment, which represents net assets that are subject to restrictions requiring, in perpetuity, that the principal be invested and permits the Organization to use all or part of the income earned for general or specific purposes. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes.

The Organization does not currently have any temporarily or permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash in operating bank accounts, cash on hand and interest bearing short-term investments with maturity of three months or less as cash and cash equivalents.

Uninsured Cash Balances

The Organization maintains balances in its checking and saving accounts at various financial institutions, which periodically exceeds the federally insured limits of \$250,000, per insured bank. Accordingly, there is a concentration of credit risk related to amounts on deposit in excess of this coverage. Management believes this risk is not significant.

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.

Homes Under Construction and Held For Sale

Homes under construction includes the direct and indirect costs of construction, land, and the donated value of materials and professional services used in the construction of homes. Transfer to homeowners is recorded when the home is occupied and title is transferred.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions and Donor Restrictions

Contributions received are recorded as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. Contributions not subject to donor restrictions are reported as unrestricted support.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Depreciation expense is computed under the straight-line method over the estimated useful lives of the assets.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged against income as incurred, whereas significant renewals or betterments are capitalized. Included in the statement of activities are provisions for depreciation in the amount of \$6,378.

In-Kind Support

The Organization receives donations from a variety of sources for the furtherance of its objectives. Non-cash donations are recorded as contributions at their estimated fair market values at the date of donation. Contributions of services are recognized if the services received creates or enhances nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended December 31, 2015, the Organization received \$4,450,701 in donated properties that have been reflected in the statements of activities.

Functional Expense Allocation

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

Income Taxes

The Organization follows the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Accounting for Uncertainty in Income Taxes, which prescribes a minimum recognition threshold and measurement methodology for tax positions taken, or expected to be taken, in a tax return prior to recognition in the financial statements. The standard also provides guidance for derecognition, classification, interest and penalties, and accounting in interim periods, disclosure, and transition.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 2 - Summary of Significant Accounting Policies (concluded)

Income Taxes (concluded)

The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701d, and therefore no provision for income taxes is included in the financial statements. The Organization believes that it has appropriate support for the positions taken on its tax returns and that the exempt status would be sustained on examination.

The Organization classifies interest and penalties on underpayments of income tax, if any, as interest expense and penalties, respectively, both of which would be included in general and administrative expenses. The Organization files tax returns in the United States federal and California state jurisdictions.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such interest and penalties are incurred.

Fair Value Measurements

The Organization has financial instruments whereby the fair market value of the financial instruments could be different than that recorded on a historical basis on the accompanying statements of financial position. The Organization's financial instruments consist of cash and cash equivalents, accounts payable, and notes payable. The carrying amounts of the Organization's financial instruments generally approximate their fair values at December 31, 2015.

Subsequent Events

The Organization has evaluated subsequent events for potential recognition and/or disclosure through November 30, 2016, the date the financial statements were issued.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 3 – Homes Under Construction and Held for Sale

A summary of activity in homes under construction and building lots for the year ended December 31, 2015 is as follows:

Balance – December 31, 2014	\$ 3,850,444
Purchased or donated property	4,450,701
Holding and constructions costs	518,367
Transfer/sale of homes	<u>(2,595,344)</u>
Property and property development costs	<u>\$ 6,224,168</u>

Note 4 - Property and Equipment

As of December 31, 2015, the cost of property and equipment is as follows:

Building and land	\$ 172,772
Computers	16,560
Furniture and equipment	2,156
Production equipment	2,479
Less accumulated depreciation	<u>(10,183)</u>
Total, net	<u>\$ 183,784</u>

Note 5 – Commitments and Contingencies

Leases

The Organization leases office space under a sublease from Win Win Consulting, Inc., a related party. The term of the agreement was from November 1, 2014 through September 30, 2016. The lease was classified as an operating lease and provided for a base monthly rental of \$1,200.

On September 13, 2016, the Organization entered into a lease agreement with an unrelated party for office space. The term of the agreement is October 1, 2016 through September 30, 2017 at a monthly rental of \$1,500.

Rental expense for the year ended December 31, 2015 amounted to \$14,400.

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 5 – Commitments and Contingencies (concluded)

Leases (concluded)

Minimum future rental payments under the above non-cancelable operating leases are as follows:

Year ending December 31,	
2016	\$ 15,300
2017	<u>13,500</u>
Total minimum future rental payments	<u>\$ 28,800</u>

Legal

The Organization is from time to time involved in ordinary routine litigation incidental to the conduct of its business. The Organization regularly reviews all pending litigation matters in which it is involved and establishes reserves deemed appropriate for such litigation matters, such reserved amounts are charged to operations in the year during which they are accrued.

The Organization believes that no presently pending litigation matters are likely to have a material adverse effect on the Organization financial statements, taken as a whole.

Note 6 – Notes Payable – Related Parties

	Current portion	Total
Secured short-term notes payable to Scott Storace, a related party; loans are collateralized by the property owned by the Organization, bearing interest at 30% per annum, payable at maturity, various maturity dates through March 30, 2016.	\$ 32,024	\$ 32,024
Unsecured short-term note payable to Madison Tryst Company, custodian Alvin Toney, a related party; bearing interest at 26% per annum; original maturity date of March 30, 2015, extended though September 20, 2016.	30,000	30,000

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 6 – Notes Payable – Related Parties (concluded)

	Current portion	Total
Secured short-term note payable to Dustin Luce, a related party; loan is collateralized by the property owned by the Organization, bearing interest at 30% per annum, payable at maturity, original maturity date of March 30, 2015, extended though September 20, 2016.	\$ 10,000	\$ 10,000
Unsecured interest free note payable to Rick Mercado, a related party; matures on October 1, 2017.	<u>-</u>	<u>36,750</u>
Total notes payable, related parties	<u>\$ 72,024</u>	<u>\$ 108,774</u>

Principal payments on notes payable, related parties are due as follows:

Year ending December 31,

2016	\$ 72,024
2017	<u>36,750</u>
Total future notes payable	<u>\$ 108,774</u>

Note 7 – Notes Payable

	Current portion	Total
Secured short-term notes payable to various entities for the construction and maintenance of homes under construction and held for sale; loans are collateralized by the various properties owned by the Organization, bearing interest ranging from 20% - 30% per annum, payable at maturity, various maturity dates through June 28, 2016.	<u>\$ 641,197</u>	<u>\$ 641,197</u>
Total notes payable	<u>\$ 641,197</u>	<u>\$ 641,197</u>

**USA HOMEOWNERSHIP FOUNDATION, INC.
DBA VETERANS ASSOCIATION OF REAL ESTATE PROFESSIONALS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 7 – Notes Payable (concluded)

Principal payments on notes payable, are due as follows:

Year ending December 31,

2016	\$	641,197
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SUPPLEMENTAL INFORMATION



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
USA Homeownership Foundation, Inc.
DBA Veterans Association of Real Estate Professionals
Corona, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise of USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals' basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals' internal control. Accordingly, we do not express an opinion on the effectiveness of USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether USA Homeownership Foundation, Inc. DBA Veterans Association of Real Estate Professionals' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

(Continued)

To the Board of Directors
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KHO & PATEL



San Dimas, California
November 30, 2016