HOFFMAN HOMES, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2015

CONTENTS

Stambaugh Ness, PC

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hoffman Homes, Inc.

We have audited the accompanying statement of financial position of Hoffman Homes, Inc. (a nonprofit organization) as of June 30, 2015, and the related statements 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 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 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 Hoffman Homes, Inc. as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended.

Stambaugh Ness, PC

York, Pennsylvania
December 9, 2015

HOFFMAN HOMES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

CURRENT ASSETS	
Accounts receivable	$ 838,465
Prepaid expenses	150,345
Accounts receivable - other	12,329
Total current assets	1,001,139
RESTRICTED CASH	130,500
INVESTMENTS	4,797,652
PROPERTY, PLANT AND EQUIPMENT	
Property, plant and equipment - at cost	14,567,178
Less: accumulated depreciation	(11,111,435)
Net property, plant and equipment	3,455,743
OTHER ASSETS	
Beneficial interest in perpetual trusts	2,733,179
TOTAL ASSETS	$ 12,118,213

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Line of credit	$ 2,379,263
Cash overdraft	118,310
Accounts payable	119,003
Accrued payroll and related benefits	633,673
Accrued interest	1,955
Current portion of long-term debt	225,278
Interest rate swap liability	23,695
Escrow accounts payable	691
Total current liabilities	3,501,868
LONG-TERM LIABILITIES	
Long-term debt - net of current portion	1,474,168
Pension liability	1,327,522
Total long-term liabilities	2,801,690
TOTAL LIABILITIES	6,303,558
NET ASSETS	
Unrestricted:	
Undesignated	1,991,052
Board designated	51,251
Temporarily restricted	199,281
Permanently restricted	3,573,071
TOTAL NET ASSETS	5,814,655
TOTAL LIABILITIES AND NET ASSETS	$ 12,118,213

See accompanying notes.

HOFFMAN HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS				
Fees for services	$ 8,321,959	$ -	$ -	$ 8,321,959
Food reimbursement	158,726	-	-	158,726
Miscellaneous income	13,749	-	-	13,749
Contributions	399,066	1,097	-	400,163
Bequests	53,128	-	-	53,128
Irrevocable trust fund income	93,193	-	-	93,193
Investment gain	11,752	-	-	11,752
Changes in beneficial interest in perpetual trusts	-	-	(108,768)	(108,768)
Net assets released from restrictions:				
Restrictions satisfied by fulfilling purpose	1,107	(1,107)	-	-
Total revenues and gains	9,052,680	(10)	(108,768)	8,943,902
EXPENSES AND LOSSES				
Health care	1,128,450	-	-	1,128,450
Administration	1,968,954	-	-	1,968,954
Culinary	414,685	-	-	414,685
Clinical services	5,537,977	-	-	5,537,977
Admissions	16,980	-	-	16,980
Development	202,286	-	-	202,286
Operations	966,562	-	-	966,562
Total expenses and losses	10,235,894	-	-	10,235,894
OTHER CREDITS AND CHARGES				
Defined benefit plan changes other than net periodic pension expense	(435,574)	-	-	(435,574)
Unrealized gain on interest rate swaps	8,225	-	-	8,225
Total other credits and charges	(427,349)	-	-	(427,349)
INCREASE (DECREASE) IN NET ASSETS	(1,610,563)	(10)	(108,768)	(1,719,341)
NET ASSETS				
Beginning of year - originally stated	3,652,866	136,291	3,681,839	7,470,996
Prior period adjustment	-	63,000	-	63,000
Beginning of year - restated	3,652,866	199,291	3,681,839	7,533,996
End of year	$ 2,042,303	$ 199,281	$ 3,573,071	$ 5,814,655

See accompanying notes.

HOFFMAN HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Health Care	Administration	Culinary	Clinical Services	Admissions	Development	Operations	Total
Salaries	$ 527,991	$ 632,815	$ 77,163	$ 4,291,906	$ -	$ 99,401	$ 263,748	$ 5,893,024
Employee benefits*	100,992	201,250	19,489	1,014,068	829	17,040	60,187	1,413,855
Contracted services***	446,615	87,097	1,223	77	-	-	12,560	547,572
Bad debt expense	-	384,994	-	147,610	-	-	-	532,604
Utilities**	-	35,369	-	7,112	-	-	387,069	429,550
Depreciation expense	-	403,669	-	-	-	-	-	403,669
Food and food service supplies	-	-	315,725	-	-	-	-	315,725
Miscellaneous expense	-	47,872	-	8,437	285	69,191	13,993	139,778
Housekeeping & sanitation	28,987	3,479	-	2,772	-	-	88,063	123,301
Interest expense	-	93,903	-	-	-	-	-	93,903
Insurance - property and liability	-	-	-	-	-	-	81,671	81,671
Maintenance & repairs	-	-	918	-	-	-	49,390	50,308
Lease expense	-	25,398	-	-	10,250	-	-	35,648
Staff development/recruitment	838	7,220	167	24,983	-	778	167	34,153
Behavior management	-	-	-	27,601	-	-	-	27,601
Medical/dental supplies & expense	18,210	-	-	2,957	-	-	-	21,167
Office supplies/equipment	1,117	9,254	-	5,404	3,387	1,007	-	20,169
Postage	-	16,270	-	-	-	3,079	-	19,349
Travel/vehicle expense	3,700	481	-	712	-	2,035	9,266	16,194
Computers	-	13,938	-	-	-	-	428	14,366
Printing	-	4,687	-	-	379	6,660	-	11,726
Recreation	-	-	-	4,338	-	-	-	4,338
Advertising	-	903	-	-	-	2,958	20	3,881
Education curriculum	-	-	-	-	1,850	-	-	1,850
Board of directors expense	-	355	-	-	-	137	-	492
	$ 1,128,450	$ 1,968,954	$ 414,685	$ 5,537,977	$ 16,980	$ 202,286	$ 966,562	$ 10,235,894

* Includes Social Security, Unemployment Tax, Workers Compensation, Medical, Life, Dental, Pension and Employee Assistance Program.
** Includes telephone, electricity, fuel oil, water & sewer, cable TV and propane gas.
*** Includes legal, accounting, psychiatric and other professional services.

See accompanying notes.

HOFFMAN HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	$ (1,719,341)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation expense	403,669
Bad debt expense	532,604
Realized and unrealized loss on investments	227,175
Unrealized gain on interest rate swaps	(8,225)
Changes in beneficial interest in perpetual trusts	108,768
Defined benefit plan changes other than net periodic pension expense	435,574
(Increase) decrease in:	
Accounts receivable	352,090
Accounts receivable - other	6,310
Prepaid expenses	35,861
Restricted cash	132,352
Increase (decrease) in:	
Accounts payable	(38,093)
Accrued payroll and related benefits	73,425
Accrued interest	(284)
Escrow accounts payable	500
Net cash provided by operating activities	542,385
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(199,236)
Purchase of investments	(673,303)
Proceeds from sale of investments	655,939
Net cash used in investing activities	(216,600)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net change in line of credit	37,214
Proceeds from long-term debt	14,016
Net change in cash overdraft	(162,737)
Payments on long-term debt	(214,278)
Net cash used in financing activities	(325,785)
NET CHANGE IN CASH	-
Cash at beginning of year	-
Cash at end of year	-
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash payments for interest	$ 93,903

See accompanying notes.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Hoffman Homes, Inc. is a private, not-for-profit, Pennsylvania Corporation related to the United Church of Christ.

The purpose of Hoffman Homes, Inc. is to provide comprehensive psychiatric care, treatment, and education to emotionally and behaviorally troubled children and their families. Hoffman Homes, Inc. is committed to providing services that are cost effective and responsive to the unique needs of each child, always in close cooperation with the parents/guardians, referring agencies, case management organizations, school systems, and funding sources. Hoffman Homes, Inc. grants credit to the agencies that place the youth in their facilities. The agencies that purchase services from Hoffman Homes, Inc. are located in Pennsylvania.

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.

Basis of Accounting

The financial statements of Hoffman Homes, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, Hoffman Homes, Inc. 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Hoffman Homes, Inc. considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. There were no cash equivalents as of June 30, 2015.

Restricted Cash

These amounts represent cash that has been restricted by donors, as well as by Board designation.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Accounts Receivable

Accounts receivable balances are reviewed by management monthly. Any account over sixty days past due based on contractual terms is analyzed. Management believes that at June 30, 2015, no allowance is necessary as all accounts are deemed collectible. Account balances generally are written off when management judges such balances uncollectible.

Donated Assets

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period the promise is made. The promise is an asset, decrease of a liability, or an expense depending on the form of the promise made. Conditional promises to give are recognized when the conditions on which they depend on are substantially met.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when the purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Prepaid Expenses

The prepaid expenses consist of insurance and pension expenses.

Beneficial Interest in Perpetual Trusts

Hoffman Homes, Inc. recognizes its interests in irrevocable perpetual trust agreements of which it has been named an income beneficiary. The assets reported in the statement of financial position represent Hoffman Homes, Inc.'s beneficial interest in the fair market value of the irrevocable perpetual trusts. Upon Hoffman Homes, Inc. being named an income beneficiary of an irrevocable perpetual trust, the initial interest is recognized as permanently restricted bequest income. Hoffman Homes, Inc. also recognizes changes in the fair market value of its beneficial interests in perpetual trusts in the permanently restricted section of the statement of activities.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Income Tax Status

Hoffman Homes, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Section 501(c)(3) defines the exempt organization as being "organized and operated for religious, charitable, scientific, testing for public safety, literacy or educational purposes, or for the prevention of cruelty to children or animals." In addition, Hoffman Homes, Inc. qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, no provision for federal or state income taxes has been recorded in the financial statements. Adjustments, if any, for uncertain tax positions would be recorded as a liability. The Organization is no longer subject to tax examinations by tax authorities for years before 2011.

The Organization would also recognize accruals for interest and penalties related to uncertain tax positions in its interest expense.

Allocation of Functional Expenses

Expenses reported on Hoffman Homes, Inc.'s Statement of Functional Expenses are allocated directly to their functional categories.

Concentrations of Credit Risk

The financial instruments that potentially subject Hoffman Homes, Inc. to credit risk consist primarily of cash, investments and accounts receivable that represent amounts due for per diem fees from managed care organizations, government agencies, and private pay clients. Hoffman Homes, Inc. maintains its cash deposits and investments with various financial institutions where the account balances may at times exceed FDIC insured limits.

At June 30, 2015, accounts receivable from three managed care organizations accounted for 89% of total accounts receivable. Three organizations provided 98% of total fee for service revenue during the year ended June 30, 2015.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs totaled $3,881 for the year ended June 30, 2015.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Property, Plant and Equipment

Hoffman Homes, Inc. capitalizes all expenditures for property and equipment with a useful life greater than one year and a cost in excess of $1,000. Purchased property and equipment are carried at cost. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the respective assets.

Equipment, new construction costs, furnishings, building improvements, land, and vehicles are stated at cost. Expenditures for renewals and improvements that significantly add to productive capacity or extend the useful life of the asset are capitalized. Maintenance and repairs are charged to expense as incurred. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts, and the resulting gain or loss is reflected in the statement of activities.

Donations of property and equipment are recorded as contributions at their estimated fair value on the date received. Hoffman Homes, Inc. does not imply time restrictions with respect to donated property and equipment.

Compensated Absences

Employees of Hoffman Homes, Inc. are entitled to paid time off and sick bank days. It is Hoffman Homes, Inc.'s policy to pay accrued paid time off when an employee resigns with proper notice. Sick bank days are only available for use during an extended illness and are not paid out upon separation of employment. The liability resulting from these policies has been recorded in the financial statements.

Fair Value of Financial Instruments

Accounting Standards Codification 820, *Fair Value Measurements*, provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. Accounting Standards Codification 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting Standards Codification 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Accounting Standards Codification 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Fair Value of Financial Instruments - continued

The estimated fair values of the Organization's financial instruments for the fiscal year ended June 30, 2015 are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 2,760,937	$ -	$ -	$ 2,760,937
Mutual funds - fixed income	1,415,579	-	-	1,415,579
Common stock	215,771	-	-	215,771
Real estate investment trusts	-	-	262,080	262,080
Pension plan assets	5,635,512	-	-	5,635,512
Beneficial interests in perpetual trusts	-	-	2,733,179	2,733,179
Derivative instruments - swap	-	(23,695)	-	(23,695)
	$10,027,799	$ (23,695)	$2,995,259	$ 12,999,363

The change in Level 3 fair value inputs is as follows:

Beginning balance	$3,351,979
Unrealized loss	(356,720)
Ending balance	$2,995,259

Revenue Recognition

Grant revenue which is determined to be an exchange transaction, is classified as unrestricted revenue or deferred revenue, as appropriate, when received or receivable. Such grant revenue is not deemed to be a contribution, since the proceeds thereof are used to pursue objectives of the grantor.

Grant revenue which is deemed to be a contribution, is classified as temporarily restricted revenue when received or receivable. Such grant revenue is not in respect of exchange transactions, since the proceeds are non-reciprocal, unconditional and voluntary.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received which are restricted for future periods or restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, Hoffman Homes, Inc. reports the support as unrestricted.

NOTE B - OVERVIEW OF RESULTS OF OPERATIONS

The Organization's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

The Organization incurred operating losses of approximately $1,200,000 during fiscal year ending June 30, 2015 and approximately $450,000 for the year ending June 30, 2014, leading to a decline in liquidity.

Management continues to explore means to improve operational efficiency, explore new revenue streams and endowment development. As recently as August 25, 2015, the Organization was approved by the State Board of Private Academic Schools to begin offering classes with their private academic license. The Organization looks to this as an opportunity to enhance their overall program offerings.

NOTE C - IRREVOCABLE TRUST FUND INCOME

Hoffman Homes, Inc. receives income from several irrevocable trusts. The following provides income distributions from the listed trusts that are attributed to the year ended June 30, 2015:

Trustee	Trust	Trust Income
BB&T Trust	u/w L. Crawford	$ 16,643
PNC Advisors	Katherine H. Glatfelter	12,768
Merrill Lynch	Frances Mowery	12,184
BB&T Trust	u/w F. Crawford	10,776
Fulton Financial Advisors	u/w John Gerber	8,986
Wilmington Trust	Stewart & Florence Wolf Bortner	7,498
Trust Corp. America	u/w Estella M. Yingling	2,993
Fulton Bank	Ammon & Dorothy Patrick	2,869
PNC Advisors	Emma Duttera	2,000
Wilmington Trust	u/w Jacob Schnader	1,583
Wilmington Trust	Elmira Quickel	1,166
Wilmington Trust	u/w Mamie B. Bush	1,153
Wilmington Trust	u/w Howard W. Sheeler	379
Wilmington Trust	Jessie Omwake	228
		$ 81,226

NOTE D - PROPERTY, PLANT AND EQUIPMENT

Below is a summary of the activity in the property, plant and equipment accounts as of June 30, 2015:

	July 1, 2014	Additions (Deletions)	June 30, 2015
Buildings	$ 10,150,520	$ 4,503	$ 10,155,023
Furniture and fixtures	1,685,853	8,372	1,694,225
Equipment	1,152,878	70,812	1,223,690
Vehicles	122,960	115,547	238,507
Land improvements	907,795	45	907,840
Water tower	103,893	-	103,893
Sewage treatment plants	244,000	-	244,000
	14,367,899	199,279	14,567,178
Less: accumulated depreciation	(10,707,723)	(403,712)	(11,111,435)
Net property, plant and equipment	$ 3,660,176	$ (204,433)	$ 3,455,743

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2015, temporarily restricted net assets are available as follows:

Purpose restrictions:	
Housing construction or upgrades	$ 100,728
Gym roof replacement	63,497
Birthday/Christmas gifts for youth in care	9,152
Recreation center	5,000
Outpatient program development	1,000
Curtains	600
Total purpose restrictions	179,977
Time restrictions:	
Bequest to be held in trust for 50 years	19,304
Total time restrictions	19,304
	$ 199,281

NOTE F - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the beneficial interest in perpetual trusts and bequests received by Hoffman Homes, Inc. in which the donor has restricted the use of the principal portion of the gift.

As of June 30, 2015, permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

Scholarships	$ 7,785
Unrestricted uses	3,565,286
	$ 3,573,071

NOTE G - OPERATING LEASES

Hoffman Homes, Inc. leases equipment and vehicles under numerous operating leases with various expiration dates.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2015, are as follows:

June 30,	
2016	$ 24,975
2017	5,238
2018	574
	$ 30,787

Rental expense amounted to $35,648 in 2015.

NOTE H - INVESTMENTS

Investments consist of the following as of June 30, 2015:

Cash	$ 143,285
Common stock	215,771
Mutual funds and alternative investments	2,760,937
Mutual funds - fixed income	1,415,579
Real estate investment trusts	262,080
	$ 4,797,652

NOTE H - INVESTMENTS - continued

The following is a schedule of the components of investment gain as shown in the statement of activities for the year ended June 30, 2015:

Interest and dividends	$ 247,025
Unrealized losses	(253,421)
Realized gains	26,246
	$ 19,850

NOTE I - ESCROW ACCOUNTS PAYABLE

The youths' individual account balances are maintained by the Hoffman Homes, Inc.'s business office. This money may be withdrawn for personal needs during a youth's stay. At the time of discharge, the total amount held in escrow for the youth is returned to the youth, along with interest accrued on the deposit. As of June 30, 2015, escrow accounts payable were $691.

NOTE J - LINE OF CREDIT

Hoffman Homes, Inc. has a $3,000,000 line of credit with PNC Bank, of which $2,379,263 was used as of June 30, 2015; however, as of this date, they also had cash overdrafts in the amount of $118,310, therefore, the outstanding amount on the line of credit at June 30, 2015 is $2,497,573. The bank advances on the line of credit are due on demand and carry an interest rate of the bank's prime rate less .65%, which was 2.60% at June 30, 2015. The line of credit is secured by all assets of Hoffman Homes, Inc.

NOTE K - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2015:

Term note payable to bank in monthly principal installments of approximately $16,500, plus interest at LIBOR plus 1.85% or 2.04% at June 30, 2015, due in June 2020, secured by all business assets.

Term note payable to bank in monthly principal and interest payments of $330, due in March 2022, secured by Ford F-250.

	$ 1,699,446
Less current portion	(225,278)
Long-term portion	$ 1,474,168

NOTE K - LONG-TERM DEBT - continued

Future maturities of long-term debt are as follows as of June 30, 2015:

2016	$ 225,278
2017	234,657
2018	244,029
2019	253,375
2020	260,525
Thereafter	481,582
	$ 1,699,446

Terms of the Organization's loan agreements provide for certain financial covenants. The Organization did not meet the Debt Service covenant for the year ending June 30, 2015. A waiver was received in December 2015.

NOTE L - CONTINGENT LIABILITIES

Hoffman Homes, Inc. participates in several grant programs with funding from federal and state sources. These programs are subject to compliance audits by the grantors or their representatives. The audits of some of these programs for and including the year ended June 30, 2015, have not yet been conducted. Accordingly, Hoffman Homes, Inc.'s compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time.

NOTE M - RETIREMENT PLANS

Tax Deferred Annuity Plan

Hoffman Homes, Inc. maintains a tax deferred annuity plan under Internal Revenue Code Section 403(b), covering eligible full-time employees.

Defined Benefit Plan

Hoffman Homes, Inc. has a defined benefit pension plan covering substantially all of its employees that were employed as of June 30, 2003. The benefits are based on years of service and the employee's compensation during the last year of employment. Hoffman Homes, Inc.'s funding policy is to contribute the minimum required deposit, as defined in Section 412 of the Internal Revenue Code, throughout the plan year which will keep the Plan from developing an accumulated funding deficiency.

NOTE M - RETIREMENT PLANS - continued

Defined Benefit Plan - continued

Hoffman Homes, Inc. adopted a plan amendment which suspended all future benefit accruals in the defined benefit plan as of June 30, 2003. Hoffman Homes, Inc. established a defined contribution 403(b) plan for employee and employer contributions to be made after June 30, 2003.

Periodic benefit cost (income) included in the Statement of Activities for 2015 include the following components:

Interest cost on the projected benefit obligation	$280,264
Expected return on assets held in the plan	(392,848)
Recognized net actuarial loss	50,624
	$(61,960)

Other disclosure information:

Measurement date	June 30, 2015
Projected benefit obligation	$ 6,981,034
Accumulated benefit obligation	6,981,034
Fair value of plan assets	5,653,512
Funded status	(1,327,522)
Contributions	19,695
Benefits paid	(277,125)

Pension plan assets are carried at fair value based upon quoted market prices, a Level 1 fair value input and are made up of equity securities ($1,667,786), mutual funds ($3,770,792) and cash/money funds ($214,834).

Contributions to the plan expected to be made during fiscal year ending June 30, 2016:	$ -

Components of expected net periodic pension cost for fiscal year ending June 30, 2016:

Interest cost	$297,028
Return on assets	(385,050)
Amortization of net loss or (gain) from earlier periods	88,482
	$ 460

Total expense for June 30, 2015 was $42,329.

NOTE M - RETIREMENT PLANS - continued

Defined Benefit Plan - continued

Items not recognized as a component of net periodic pension cost:

Net loss	$ 567,853

Assumptions:

Weighted average discount rate	4.35%
Weighted average compensation increase	0.00%
Expected long-term rate of return on assets	7.00%

Change in pension liability:

Net loss	$(567,853)
Amortization of gain	50,624
Difference between employer contribution and net periodic benefit cost	61,960
	$(455,269)

Estimated future fiscal year benefit payments:

2016	$ 282,013
2017	294,771
2018	300,871
2019	300,937
2020	324,723
2021 - 2025	1,899,508

Allocation of plan assets at fair value:

Equity	28%
Mutual funds	68%
Other	4%

Investment policies and strategies:

The investment policy for plans sponsored by Hoffman Homes, Inc. is based on ERISA standards for prudent investing. This policy seeks to maximize return while limiting risk, which is achieved through a balanced portfolio of equity and fixed income investments, as well as alternative asset classes. Within each asset class, a diversified mix of individual securities and bonds is selected. Equity allocations are targeted between 50% and 75% of the portfolio, with the remainder in fixed income investments and a small portion in alternative asset classes such as real estate. Asset manager performance is reviewed at least once every six months and benchmarked against the peer universe for the given investment style.

NOTE M - RETIREMENT PLANS - continued

Defined Benefit Plan - continued

Determination of expected long-term rate of return on assets:

Hoffman Homes, Inc. has examined the historical benchmarks for returns in each asset class in its portfolio and, based on the target asset mix, has developed a weighted average expected return for the portfolio as a whole, taking into consideration forecasts of long-term expected inflation rates of 2.0% - 3.5%.

NOTE N - DERIVATIVE INSTRUMENTS

During the fiscal year ending June 30, 2012, Hoffman Homes, Inc. entered into a forward start interest rate swap to hedge the interest rate risk associated with a loan in the amount of $2,350,000 at a fixed-rate. The loan was issued during the year ending June 30, 2012. The swap was effective on March 9, 2012, and terminates on March 9, 2022.

Hoffman Homes, Inc. is paying interest related to the swap agreement. The swap is issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to the fair value at the end of the year. The swap agreement had a negative fair value of $(23,695) at June 30, 2015. This amount is included in liabilities on the statement of financial position and the change in fair value shown as an unrealized gain on the statement of activities, affecting the changes in unrestricted net assets.

The fair market value of Hoffman Homes, Inc.'s financial assets and liabilities is determined using forecasted levels of LIBOR and the notional value noted above, and is considered a Level 2 input in accordance with Accounting Standards Codification 820, *Fair Value Measurements.* Level 2 inputs are based on quoted market prices for similar assets or liabilities within active markets. Management determined that the carrying value of the swap was materially consistent with the fair market value at June 30, 2015.

NOTE O - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 9, 2015, the date the financial statements were available to be issued.