HOMES FOR OUR TROOPS, INC.

FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS
HOMES FOR OUR TROOPS, INC.
Taunton, Massachusetts

We have audited the accompanying statements of financial position of Homes for Our Troops, Inc. (a nonprofit organization) as of September 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Homes for Our Troops, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homes for Our Troops, Inc. as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Parent, McLaughlin + Nangle
Certified Public Accountants, Inc.

March 14, 2012

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HOMES FOR OUR TROOPS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND 2010

ASSETS	2011	2010
Cash and cash equivalents	$ 2,146,890	$ 2,386,943
Investments	1,748,310	5,877,759
Pledges receivable, net	4,978,326	3,677,805
Construction and acquisition costs for veterans' homes (Note H)	6,614,682	2,630,305
Prepaid expenses and other assets	295,344	254,100
Investments designated for veterans' projects (Note F)	9,776,000	6,216,750
Property and equipment, net	902,254	826,750
Total Assets	$ 26,461,806	$ 21,870,412

LIABILITIES AND NET ASSETS		
Liabilities:		
Contractual commitment to transfer homes to veterans (Note H)	$ 6,614,682	$ 2,630,305
Accrued expenses	310,967	259,786
Total Liabilities	6,925,649	2,890,091
Net Assets:		
Unrestricted:		
Undesignated Net Assets	9,611,990	12,113,571
Designated by the Board of Directors (Note F)	9,776,000	6,216,750
Total Unrestricted	19,387,990	18,330,321
Temporarily Restricted	148,167	650,000
Total Net Assets	19,536,157	18,980,321
Total Liabilities and Net Assets	$ 26,461,806	$ 21,870,412

See accompanying notes to financial statements.

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Contributions	$ 10,670,012	$ -	$ 10,670,012	$ 7,861,023	$ 55,836	$ 7,916,859
Contributed materials and services	5,566,469	-	5,566,469	3,150,113	-	3,150,113
Special events - net	102,458	-	102,458	91,111	-	91,111
Investment income	376,014	-	376,014	512,396	-	512,396
Other revenue	36,404	-	36,404	22,360	-	22,360
Net assets released from restrictions:						
Restrictions released	501,833	(501,833)	-	3,333,000	(3,333,000)	-
Total revenues and other support	17,253,190	(501,833)	16,751,357	14,970,003	(3,277,164)	11,692,839
Expenses:						
Program services (Note F)	14,372,314	-	14,372,314	10,535,768	-	10,535,768
General and administrative	882,401	-	882,401	563,023	-	563,023
Fundraising	940,806	-	940,806	676,947	-	676,947
Total expenses	16,195,521	-	16,195,521	11,775,738	-	11,775,738
Change in net assets	1,057,669	(501,833)	555,836	3,194,265	(3,277,164)	(82,899)
Net assets, beginning of year	18,330,321	650,000	18,980,321	15,136,056	3,927,164	19,063,220
Net assets, end of year	$ 19,387,990	$ 148,167	$ 19,536,157	$ 18,330,321	$ 650,000	$ 18,980,321

See accompanying notes to financial statements.

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HOMES FOR OUR TROOPS, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 555,836	($ 82,899)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	49,910	63,751
Accretion of discount on pledges	-	(55,836)
Realized (gains) losses on investments	(22,927)	2,969
Unrealized depreciation (appreciation) on investments	78,993	(219,589)
(Increase) decrease in pledges receivable	(1,544,545)	2,484,948
Allowance for uncollectible pledges	244,024	32,828
(Increase) decrease in construction and acquisition costs for veterans' homes	(3,984,377)	445,340
Increase in prepaid expenses and other assets	(41,244)	(53,394)
Decrease in cash designated for veterans' projects	-	5,754,000
Increase (decrease) in contractual commitment to transfer homes to veterans	3,984,377	(445,340)
Increase in accrued expenses	51,181	75,723
Total adjustments	(1,184,608)	8,085,400
Net cash (used in) provided by operating activites	(628,772)	8,002,501
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(125,414)	(249,563)
Purchases of investments	(1,533,505)	(19,319,765)
Proceeds from sales of investments	2,047,638	7,441,876
Net cash provided by (used in) investing activities	388,719	(12,127,452)
Net decrease in cash and cash equivalents	(240,053)	(4,124,951)
Cash and cash equivalents, beginning of year	2,386,943	6,511,894
Cash and cash equivalents, end of year	$ 2,146,890	$ 2,386,943
SUPPLEMENTAL DISCLOSURES:		
Noncash investing activities:		
Unrealized depreciation (appreciation) on investments	$ 78,993	($ 219,589)
Donated stock	$ 45,960	$ 8,185

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

A. Nature of activities:

Homes for Our Troops, Inc. (the Organization) was organized in 2004 as a not-for-profit corporation for the purpose of building specially adapted, barrier-free homes for severely injured military veterans.

B. Summary of Significant Accounting Policies:

Basis of accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of presentation:

The Organization follows FASB ASC 958,"Not-For-Profit Entities." In accordance with FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. The Organization further subdivides unrestricted net assets into: (a) Board-designated net assets, which have been designated by action of the Board of Directors for specific purposes; and (b) other unrestricted net assets.

Contributions:

The Organization follows FASB ASC 958,"Not-For-Profit Entities." In accordance with FASB ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Reclassifications:

Certain reclassifications have been made to the 2010 schedule of functional expenses in order to conform to the 2011 presentation.

Use of estimates:

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

B. Summary of Significant Accounting Policies - continued:

Statements of cash flows:

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statements of cash flows.

Investments:

Investments in all securities with readily determinable fair value are reported at their fair value in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities.

Promises to give:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on management's analysis of specific promises made.

Property and equipment:

Property and equipment are recorded at cost and depreciated on a straight-line basis over their respective estimated useful lives. Purchases of property and equipment costing $1,000 or more are capitalized.

Income taxes:

The Organization is recognized as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization recognizes and measures its unrecognized tax positions in accordance with FASB ASC 740, "Income Taxes." Under that guidance the Organization assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax positions is adjusted when new information is available, or when an event occurs that requires a change. The Organization has not identified any uncertain tax positions at September 30 2011 or 2010. Interest and penalties associated with unrecognized tax positions are classified as additional income taxes in the Statement of Activities.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization's federal Exempt Organization Business

B. Summary of Significant Accounting Policies - continued:

Income taxes - continued:

Income Tax Returns are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Subsequent events:

Subsequent events have been evaluated through March 14, 2012, which is the date the financial statements were available to be issued.

Advertising:

The Organization expenses advertising as incurred.

C. Investments:

Investments are comprised of the following at September 30:

2011	Cost	Fair Market Value	Unrealized Appreciation (Depreciation)
Mutual funds - fixed income	$ 11,383,714	$ 11,524,310	$ 140,596
Unrealized appreciation at September 30, 2010			219,589
Total unrealized depreciation on investments			($ 78,993)

2010	Cost	Fair Market Value	Unrealized Appreciation
Mutual funds - fixed income	$ 11,874,920	$ 12,094,509	$ 219,589
Unrealized appreciation at September 30, 2009			-
Total unrealized appreciation on investments			$ 219,589

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C. Investments - (continued):

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

	2011	2010
Unrealized appreciation at end of year	$ 140,596	$ 219,589
Unrealized appreciation at beginning of year	219,589	-
(Decrease) increase for the year	(78,993)	219,589
Net realized gains (losses)	22,927	(2,969)
Dividend and interest income	451,059	306,088
	394,993	522,708
Less custodial and investment advisor fees	(18,979)	(10,312)
Total investment income	$ 376,014	$ 512,396

D. Property and Equipment:

A summary of property and equipment at September 30, is as follows:

	2011	2010
Land	$ 50,500	$ 50,500
Buildings and improvements	844,496	763,984
Furniture and equipment	77,345	136,877
Vehicles	71,771	75,400
	1,044,112	1,026,761
Less accumulated depreciation	(141,858)	(200,011)
	$ 902,254	$ 826,750

Depreciation expense charged to operations amounted to $49,910 and $63,751 for the years ended September 30, 2011 and 2010, respectively.

E. Contributed Materials and Services:

Contributed materials and services are reflected as contributions at their estimated fair values on the date of donation. The following have been reflected as both expense and contribution revenue in the accompanying financial statements for the years ended September 30, 2011 and 2010, respectively:

	2011	2010
Building materials and construction services	$ 5,450,449	$ 3,075,514
Land	91,500	-
Travel accomodations	16,720	34,583
Advertising and promotion	7,800	40,016
Total contributed materials and services revenue	$ 5,566,469	$ 3,150,113

F. Net Assets:

Board-designated net assets represent amounts designated for specific veterans' projects. Once the Organization commits to undertake a project to build a new home or adapt an existing home, the estimated cost of the project is included as Board-designated net assets and as cash or investments designated for veterans' projects.

A commitment to undertake a project is often made while the veteran is still undergoing treatment in a hospital or rehabilitation center, a process that can take many months. More time is then needed to plan and complete the project. Because of these factors, many months can pass between the time the Organization makes the commitment to undertake a project and the time the project is completed. This policy of self-restricting funds was established as a means to ensure that funds needed for current commitments cannot be used for any other purpose or project.

As of September 30, 2011 and 2010, $9,776,000 and $6,216,750, respectively, of investments has been designated exclusively to fund committed projects. These self-restricted funds will be recorded in the Statement of Activities as Program Services when the funds are spent.

Temporarily restricted net assets as of September 30, 2011 and 2010 are restricted for the following purposes:

	2011	2010
Incorporate "green" building materials into veterans' homes and promote the benefits of green building	$ 148,167	$ 650,000
Temporarily restricted net assets	$ 148,167	$ 650,000

G. Concentration of Credit Risk:

The Organization maintains its cash balances at several banks located in Massachusetts. The cash balances are insured, with certain limitations, by the Federal Deposit Insurance Corporation. At certain times during the year, cash balances exceeded the insured amounts. Management monitors, on a regular basis, the financial condition of the financial institutions, along with their balances, to keep this potential risk to a minimum.

At September 30, 2011 and 2010, $0 and $650,000, or approximately 0% and 18% of pledges receivable, respectively, are attributable to one donor organization. In addition, at September 30, 2011 and 2010, $4,078,140 and $2,611,200, or approximately 82% and 71% of pledges receivable, respectively, are attributable to pledges of eligible veterans' benefits provided by the Department of Veterans Affairs under the Specially Adapted Housing Grant Program.

H. Construction and Acquisition Costs for Veterans' Homes and Contractual Commitment to Transfer Homes to Veterans:

Construction and acquisition costs for veterans' homes represents real estate acquisition and home construction costs of specially adapted home projects.

When acquiring land, purchasing an existing home, or constructing a new home, title and ownership of the property is retained by the Organization until such time the Organization transfers ownership to the veteran. Prior to transfer of ownership, costs incurred and donations of materials and services received by the Organization for these activities are recorded as an asset of the Organization in the Statement of Financial Position.

To the extent that all significant conditions of the contractual agreement between the Organization and the veteran have been met, a liability representing the contractual commitment to transfer the home to the veteran is established.

Upon transfer of ownership, the full cost of the property and the corresponding contractual liability are both reduced to zero. Costs incurred and donations of materials and services received to adapt existing homes already owned by veterans are recorded directly to Program Services expense.

As of September 30, 2011 and 2010, the Organization's estimated contractual obligations to fund the completion of current and future projects amounted to approximately $9,776,000 and $6,216,750, respectively.

I. Pledges Receivable:

Pledges receivable represent unconditional promises to give from various donors. Pledges receivable consist of the following at September 30, 2011, and 2010:

	2011	2010
Amounts due:		
Within one year	$ 5,345,262	$ 3,800,717
Total pledges receivable	5,345,262	3,800,717
Allowance for uncollectible pledges	(366,936)	(122,912)
Pledges receivable, net	$ 4,978,326	$ 3,677,805

J. Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

K. Related Party Transactions:

During the fiscal year ended September 30, 2007, the Organization guaranteed a loan made by a bank to the Organization's President in the amount of $100,000, pledging cash held in a certificate of deposit at the bank in the amount of $100,000 as collateral under the guarantee. In return for the guarantee, the President gave the Organization a security interest in a buildable lot of land owned by the President, such land being estimated by management to have a fair value in excess of the amount of the guarantee. The President was restricted from selling, mortgaging or otherwise encumbering the land unless the Organization was released from the guarantee, and the Organization was liable under the guarantee only if the President defaulted on the loan. In December 2008, the agreement was amended to increase the guarantee and collateralized cash balance to $116,000.

In February 2011, the President refinanced the loan, the loan guarantee was cancelled, and the pledged cash was released back to the Organization.

L. Fair Value Measurements:

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Organization's financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value hierarchy:

In accordance with this guidance, the Organization groups its financial assets and liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The fair value hierarchy prioritizes its inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly. These may include quoted prices for similar securities.

Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

L. Fair Value Measurements - (continued):

A description of the valuation techniques applied to the Organization's major categories of assets and liabilities measured at fair value on a recurring basis is as follows:

Level 1 - The securities measured at fair value Level 1 are based on quoted market prices in an active exchange market. These investments include mutual funds.

Level 2 - The Organization does not have any assets or liabilities measured at fair value in Level 2 at either September 30, 2011 or 2010.

Level 3 - The Organization does not have any assets or liabilities measured at fair value in Level 3 at either September 30, 2011 or 2010.

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

Fair values of assets measured on a recurring basis at September 30, 2011 and 2010 follows:

		Fair Value Measurements at Reporting Date Using:		
	Total Fair Value	Level 1	Level 2	Level 3
September 30, 2011:				
Mutual funds - fixed income	$ 11,524,310	$ 11,524,310	$ -	$ -
September 30, 2010:				
Mutual funds - fixed income	$ 12,094,509	$ 12,094,509	$ -	$ -

M. Subsequent Event:

In February 2012, the Organization's Board of Directors entered into a severance agreement with the former president of the Organization. The terms of the agreement require the Organization to pay one year's salary plus certain benefits. The total amount expected to be paid under this agreement is approximately $187,000.

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INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING INFORMATION

BOARD OF DIRECTORS
HOMES FOR OUR TROOPS, INC.
Taunton, Massachusetts

We have audited the financial statements of Homes For Our Troops, Inc. as of and for the year ended September 30, 2011 and 2010, and have issued our report thereon dated February XX, 2012, which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Parent, McLaughlin + Nangle

Certified Public Accountants, Inc.

March 14, 2012

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HOMES FOR OUR TROOPS, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2011

(With Comparative Totals for 2010)

	2011			Total Expenses	
	Program Services	General and Administrative	Fundraising	2011	2010
Costs of veterans homes	$ 11,818,757	$ -	$ -	$ 11,818,757	$ 8,192,166
Salaries and benefits	1,040,981	496,029	265,350	1,802,360	1,595,433
Professional services	105,084	115,881	252,457	473,422	271,709
Advertising and message communication	355,652	20,113	81,518	457,283	428,888
Travel	333,142	27,545	59,478	420,165	276,504
Home project and fundraising events	233,388	-	25,945	259,333	205,978
Payroll taxes	97,509	46,660	24,839	169,008	151,434
Miscellaneous	15,414	107,158	16,763	139,335	120,211
Promotional materials	66,680	6,471	65,714	138,865	151,603
Deed transfer costs	138,798	-	-	138,798	51,714
Office supplies and expense	39,490	22,354	24,091	85,935	66,401
Telephone and computers	43,773	11,913	7,821	63,507	40,356
Postage and shipping	41,685	9,764	5,383	56,832	53,177
Fundraising appeals	-	-	54,816	54,816	48,581
Depreciation	30,115	12,867	6,928	49,910	63,751
Credit card contribution fees	-	-	46,681	46,681	38,023
Occupancy	11,846	5,646	3,022	20,514	19,809
	$ 14,372,314	$ 882,401	$ 940,806	$ 16,195,521	$ 11,775,738

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