

Homes for Our Troops' Audit Report for Fiscal Year Ended 09/30/2007

Thank you for taking the time to review our audited financial statements for our Fiscal Year the year ended September 30, 2007. This summary is provided to give you an overview of the year, and the audit report itself follows after the summary.

If you have any questions, please contact Tom Benoit, our Chief Financial Officer via e-mail at tombenoit@homesforourtroops.org or via phone at 508-823-3300.

Summary of Fiscal Year Ended September 30, 2007

For our Fiscal Year ended September 30, 2007, our costs for administration and fundraising were **only 7% of donations**.

Achieving this low level of overhead was made possible by our dedicated employees who strive every day to run the organization as efficiently as possible.

We were able to keep our overhead costs low while at the same time doubling donations from FY06 to FY07, to just over \$8,000,000. Doubling our donations year over year was a result of the generosity of our many donors and corporate sponsors who donated monetarily and provided home construction materials and professional labor.

This outpouring of support and the prudent management of the funds you entrusted to us resulted in many more severely disabled veterans being provided specially adapted homes this past year. During FY07 we completed 10 homes, and we had 18 homes in various stages of progress at the end of FY07.

We thank you for your support and ask that you continue to support our mission in 2008 and beyond.

HOMES FOR OUR TROOPS, INC.
FINANCIAL STATEMENTS AND ACCOMPANYING
INFORMATION FOR THE YEARS ENDED
SEPTEMBER 30, 2007 AND 2006

(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, 2007 and 2006, 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, 2007 and 2006, 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.

Certified Public Accountants, Inc.

December 6, 2007

Parent, McLaughlin & Nangle
Certified Public Accountants, Inc.

160 Federal Street
Boston, MA 02110-1713
617/426-9440
Fax No. 617/423-3955

100 Cummings Center
Suite 335G
Beverly, MA 01915-6106
978/921-0005
Fax No. 978/927-3428

85 Rangeway Road
Forest Ridge Office Park, Bldg #1
Billerica, MA 01862-2105
978/663-9750
Fax No. 978/663-5151

Ten Commerce Way
Raynham, MA 02767-1089
508/880-4955
Fax No. 508/823-6976

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2007 AND 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 2,780,249	\$ 105,746
Pledges receivable	291,000	403,400
Construction and acquisition costs for veterans' homes (Note H)	2,159,826	894,426
Prepaid expenses and other assets	25,343	15,023
Cash designated for veterans' projects (Note E)	3,103,000	1,915,000
Property and equipment, net	<u>97,329</u>	<u>28,314</u>
Total Assets	<u>\$ 8,456,747</u>	<u>\$ 3,361,909</u>

LIABILITIES AND NET ASSETS

Liabilities:

Contractual commitment to transfer homes to veterans (Note H)	\$ 2,159,826	\$ 894,426
Accrued expenses	<u>190,885</u>	<u>63,405</u>
Total Liabilities	2,350,711	957,831

Net Assets:

Unrestricted Net Assets	3,003,036	489,078
Designated by the Board of Directors (Note E)	<u>3,103,000</u>	<u>1,915,000</u>
Total Net Assets	<u>6,106,036</u>	<u>2,404,078</u>
Total Liabilities and Net Assets	<u>\$ 8,456,747</u>	<u>\$ 3,361,909</u>

See accompanying notes to financial statements.

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	Unrestricted	
	2007	2006
Revenues and other support:		
Contributions	\$ 6,285,292	\$ 2,969,038
Contributed materials and services	1,529,202	771,881
Special events - net	120,102	9,422
Investment revenue	203,650	53,762
Total revenues and other support	<u>8,138,246</u>	<u>3,804,103</u>
Expenses:		
Program services (Note E)	3,851,478	1,827,715
General and administrative	219,284	160,274
Fundraising	365,526	448,736
Total expenses	<u>4,436,288</u>	<u>2,436,725</u>
Change in net assets	3,701,958	1,367,378
Net assets, beginning of year	<u>2,404,078</u>	<u>1,036,700</u>
Net assets, end of year	<u>\$ 6,106,036</u>	<u>\$ 2,404,078</u>

See accompanying notes to financial statements.

HOMES FOR OUR TROOPS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 3,701,958</u>	<u>\$ 1,367,378</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	25,422	13,754
Decrease (increase) in pledges receivable	112,400	(272,500)
Increase in construction and acquisition costs for veterans' homes	(1,265,400)	(353,291)
Increase in prepaid expenses and other assets	(10,320)	(10,590)
Increase in cash designated for veterans' projects	(1,188,000)	(1,111,000)
Increase in contractual commitment to transfer homes to veterans	1,265,400	353,291
Increase in accrued expenses	<u>127,480</u>	<u>44,328</u>
Total adjustments	(<u>933,018</u>)	(<u>1,336,008</u>)
Net cash provided by operating activities	<u>2,768,940</u>	<u>31,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(<u>94,437</u>)	(<u>5,640</u>)
Net cash used in investing activities	(<u>94,437</u>)	(<u>5,640</u>)
Net increase in cash and cash equivalents	2,674,503	25,730
Cash and cash equivalents, beginning of year	<u>105,746</u>	<u>80,016</u>
Cash and cash equivalents, end of year	<u>\$ 2,780,249</u>	<u>\$ 105,746</u>

See accompanying notes to financial statements.

HOMES FOR OUR TROOPS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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 new homes and adapting existing homes to meet the special needs of 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 SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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 SFAS No. 116 *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. 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. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

HOMES FOR OUR TROOPS, INC.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006

(Continued)

B. Summary of Significant Accounting Policies - continued:

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.

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.

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 unrestricted net assets if the restrictions expire in the fiscal period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a 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 exempt from federal income tax, under Section 501 (c)(3) of the Internal Revenue Code.

HOMES FOR OUR TROOPS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006

(Continued)

C. **Property and Equipment:**

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

	<u>2007</u>	<u>2006</u>
Furniture and equipment	\$ 80,273	\$ 23,319
Vehicles	<u>65,400</u>	<u>27,918</u>
	145,673	51,237
Less accumulated depreciation	(<u>48,344</u>)	(<u>22,923</u>)
	<u>\$ 97,329</u>	<u>\$ 28,314</u>

Depreciation expense charged to operations amounted to \$25,422 and \$13,754 for the years ended September 30, 2007 and 2006, respectively.

D. **Contributed Materials and Services:**

Contributed materials and services are reflected as contributions at their estimated 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, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Legal services	\$ -	\$ 47,640
Building materials and construction services	1,623,876	411,795
Land	215,752	44,246
Advertising and promotion	<u>17,774</u>	<u>-</u>
Total contributed materials and services expense	1,857,402	503,681
Net change in pledged materials receivable	(<u>328,200</u>)	<u>268,200</u>
Total contributed materials and services revenue	<u>\$ 1,529,202</u>	<u>\$ 771,881</u>

HOMES FOR OUR TROOPS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

(Continued)

E. Board-designated net assets:

Board-designated net assets represents 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 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, 2007 and 2006, \$3,103,000 and \$1,915,000 of cash has been designated exclusively to fund committed projects, respectively. These self-restricted funds will be recorded in the Statement of Activities as Program Costs when the funds are spent.

F. Lease Commitment:

As of September 30, 2007, the Organization was obligated under an operating lease for office space expiring in February, 2009. Future minimum lease payments as of September 30, 2007 amount to \$27,200. Rent expense charged to operations for the years ended September 30, 2007 and 2006 amounted to \$22,610 and \$10,656, respectively.

G. Concentration of Credit Risk:

The Organization maintains its cash balances at several banks located in Massachusetts. The Federal Deposit Insurance Corporation insures balances up to \$100,000. 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. Additionally, cash equivalents include a money market mutual fund, which are not insured by the Federal Deposit Insurance Corporation, amounting to approximately \$4,925,000 and \$1,438,000 as of September 30, 2007 and 2006, respectively.

HOMES FOR OUR TROOPS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

(Continued)

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, 2007 and 2006, the Organization's estimated contractual obligations to fund the completion of current and future projects amounted to approximately \$3,103,000 and \$1,915,000, respectively.

I. Pledges Receivable:

At September 30, 2007, pledges receivable included \$260,000 of unconditional promises from The Injured Marine Semper Fi Fund. No discount to net present value was provided since all balances, payable upon completion of ongoing projects, were considered current. At September 30, 2006, pledges receivable included \$328,200 of materials and services for ongoing home projects.

HOMES FOR OUR TROOPS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

(Continued)

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 Transaction:

During the 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. Under the terms of the guarantee, the President is prohibited from mortgaging or otherwise encumbering the land and the Organization must be released from the guarantee before the land can be sold. The Organization will be released from the guarantee upon full repayment of the President's bank loan, and is liable under the guarantee only if the President defaults on the loan. Upon the sooner of default or August 2, 2010, the Organization has the right to exercise its security interest and take ownership of the land. As of September 30, 2007, the President remains in good standing under the terms of the loan from the bank.



INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING INFORMATION

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

Our report on our audits of the basic financial statements of Homes for Our Troops, Inc. for the years ended September 30, 2007 and 2006 appears on page 1. The audits were made for the purpose of forming an opinion on the basic financial statements of Homes for Our Troops, Inc. taken as a whole. The accompanying information included in the Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Parent, McLaughlin & Nangle

Certified Public Accountants, Inc.

December 6, 2007

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Certified Public Accountants, Inc.

160 Federal Street
Boston, MA 02110-1713
617/426-9440
Fax No. 617/423-3955

100 Cummings Center
Suite 335G
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85 Rangeway Road
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HOMES FOR OUR TROOPS, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2007

(With Comparative Totals for 2006)

	2007			Total Expenses	
	Program Services	General and Administrative	Fundraising	2007	2006
Costs of veterans' homes	\$ 3,286,751	\$ -	\$ -	\$ 3,286,751	\$ 1,536,520
Salaries and employee benefits	267,808	106,923	104,968	479,699	247,458
National fundraising appeals	-	-	148,432	148,432	255,795
Printing and promotional materials	109,939	-	22,214	132,153	19,882
Travel	77,143	12,738	15,170	105,051	101,311
Professional fees	5,222	33,443	7,509	46,174	46,738
Advertising	18,777	463	17,440	36,680	15,802
Payroll taxes	19,046	6,936	6,795	32,777	16,596
Miscellaneous	4,715	27,405	-	32,120	50,436
Occupancy	15,732	5,470	5,086	26,288	12,936
Office supplies	8,121	4,610	13,418	26,149	15,644
Depreciation	10,006	9,382	6,034	25,422	13,754
Postage and shipping	7,356	2,767	10,115	20,238	7,536
Telephone and telecommunications	10,156	5,517	3,645	19,318	18,328
Auto	7,310	2,272	2,324	11,906	9,558
Conferences, conventions and events	3,396	1,358	2,376	7,130	20,791
Donated professional fees	-	-	-	-	47,640
	<u>\$ 3,851,478</u>	<u>\$ 219,284</u>	<u>\$ 365,526</u>	<u>\$ 4,436,288</u>	<u>\$ 2,436,725</u>

