

Operation Homefront, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2013 and 2012

Operation Homefront, Inc.
December 31, 2013 and 2012

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Independent Auditor's Report

To the Board of Directors
Operation Homefront, Inc.
San Antonio, Texas

We have audited the accompanying financial statements of Operation Homefront, Inc., which comprise the statement of financial position as of December 31, 2013, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation Homefront, Inc., as of December 31, 2013, 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.

Prior Year Audited by Other Auditors

The 2012 financial statements were audited by other auditors and their report thereon, dated June 10, 2013, expressed an unmodified opinion.

BKD, LLP

San Antonio, Texas
May 19, 2014

Operation Homefront, Inc.
Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 3,922,383	\$ 2,868,411
Restricted cash	541,204	-
Investments	6,258,393	5,670,200
Accounts receivable		
Trade	9,158	223,375
Property management	-	135,407
Unconditional promises to give	492,981	2,180,600
Accrued interest receivable	14,828	14,586
Contributed houses inventory	33,079,105	10,982,913
Contributed goods inventory	4,256,591	2,177,834
Other inventory	27,597	50,001
Prepaid expenses	329,826	168,789
Property and equipment, net	400,686	394,887
 Total assets	 \$ 49,332,752	 \$ 24,867,003
Liabilities and Net Assets		
Accounts payable	\$ 706,150	\$ 876,615
Accrued expenses	905,641	336,866
Accrued escrow accounts	541,204	-
Deferred revenue	100,000	105,000
 Total liabilities	 2,252,995	 1,318,481
Net Assets		
Unrestricted	11,849,437	9,335,588
Temporarily restricted	35,230,320	14,212,934
 Total net assets	 47,079,757	 23,548,522
 Total liabilities and net assets	 \$ 49,332,752	 \$ 24,867,003

Operation Homefront, Inc.
Statements of Activities
Years Ended December 31, 2013 and 2012

	Unrestricted	Temporarily Restricted	2013 Total	Unrestricted	Temporarily Restricted	2012 Total
Support, Revenue and Other						
Contributed houses	\$ -	\$ 25,260,145	\$ 25,260,145	\$ -	\$ 10,982,913	\$ 10,982,913
Contributed goods, services and facilities	27,888,002	-	27,888,002	42,733,698	-	42,733,698
Contributions	15,540,316	3,751,904	19,292,220	10,007,619	3,181,778	13,189,397
Investment income	589,288	-	589,288	427,524	-	427,524
Special events, net of direct donor/benefit expenses of \$279,595	428,214	-	428,214	117,830	-	117,830
Miscellaneous	166,316	-	166,316	8,671	-	8,671
Net assets released from restrictions	7,994,663	(7,994,663)	-	3,222,030	(3,222,030)	-
	<u>52,606,799</u>	<u>21,017,386</u>	<u>73,624,185</u>	<u>56,517,372</u>	<u>10,942,661</u>	<u>67,460,033</u>
Expenses						
Program services	46,586,416	-	46,586,416	52,177,075	-	52,177,075
Membership and fundraising	2,371,457	-	2,371,457	1,301,525	-	1,301,525
Management and general	1,135,077	-	1,135,077	1,306,711	-	1,306,711
	<u>50,092,950</u>	<u>-</u>	<u>50,092,950</u>	<u>54,785,311</u>	<u>-</u>	<u>54,785,311</u>
Change in Net Assets	2,513,849	21,017,386	23,531,235	1,732,061	10,942,661	12,674,722
Net Assets, Beginning of Year	<u>9,335,588</u>	<u>14,212,934</u>	<u>23,548,522</u>	<u>7,603,527</u>	<u>3,270,273</u>	<u>10,873,800</u>
Net Assets, End of Year	<u>\$ 11,849,437</u>	<u>\$ 35,230,320</u>	<u>\$ 47,079,757</u>	<u>\$ 9,335,588</u>	<u>\$ 14,212,934</u>	<u>\$ 23,548,522</u>

Operation Homefront, Inc.
Statement of Functional Expenses
Year Ended December 31, 2013

	Program Services							Supporting Services			Total	
	Program General	Program Deployed	Program Wounded	Field Operations	Permanent Housing	Transitional Housing	Volunteer Services	Total Program	Membership and Fundraising	Management and General		Total Supporting Services
Compensation and related expenses	\$ 1,142,032	\$ 193,108	\$ 622,576	\$ 2,889,366	\$ 200,045	\$ 279,638	\$ 235,100	\$ 5,561,865	\$ 991,646	\$ 513,129	\$ 1,504,775	\$ 7,066,640
Professional and contract fees	544,346	276,032	275,839	199,180	47,368	10,281	11,546	1,364,592	349,092	239,595	588,687	1,953,279
Supplies	45,098	-	189	55,840	8,638	5,216	26	115,007	10,473	47,579	58,052	173,059
Communications	54,964	3,034	-	95,835	11,475	7,845	1,429	174,582	12,086	15,218	27,304	201,886
Postage and shipping	227,060	1,846	64,252	52,166	3,738	634	21	349,717	169,291	22,219	191,510	541,227
Occupancy	168,348	6,177	1,969	273,186	131,410	4,375	1,854	587,319	78,763	55,595	134,358	721,677
Rent and maintenance	19,329	-	578	6,608	2,761	495	216	29,987	6,673	4,214	10,887	40,874
Printing and publications	474,386	-	-	45,461	481	125	279	520,732	391,486	41,731	433,217	953,949
Travel	604,324	725	5,027	237,481	250,047	5,178	1,427	1,104,209	187,007	97,958	284,965	1,389,174
Training, conferences and meetings	102,201	-	275	8,286	712	333	171	111,978	3,501	22,626	26,127	138,105
Specific assistance to individuals	1,749,925	110,467	3,194,453	1,031,224	540,206	1,229,740	-	7,856,015	-	-	-	7,856,015
Membership dues	119	-	-	4,492	-	-	438	5,049	5,641	1,143	6,784	11,833
In-kind expenses	1,916,526	-	-	22,983,981	3,572,046	140,226	-	28,612,779	90,402	55,279	145,681	28,758,460
Miscellaneous	-	-	28,192	19,206	6,661	806	15	54,880	69,315	-	69,315	124,195
Total expenses before depreciation	7,048,658	591,389	4,193,350	27,902,312	4,775,588	1,684,892	252,522	46,448,711	2,365,376	1,116,286	3,481,662	49,930,373
Depreciation	37,600	15,369	26,711	47,248	1,382	8,053	1,342	137,705	6,081	18,791	24,872	162,577
Total expenses	\$ 7,086,258	\$ 606,758	\$ 4,220,061	\$ 27,949,560	\$ 4,776,970	\$ 1,692,945	\$ 253,864	\$ 46,586,416	\$ 2,371,457	\$ 1,135,077	\$ 3,506,534	\$ 50,092,950

Operation Homefront, Inc.
Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services							Supporting Services			Total	
	Program General	Program Deployed	Program Wounded	Field Operations	Permanent Housing	Transitional Housing	Volunteer Services	Total Program	Membership and Fundraising	Management and General		Total Supporting Services
Compensation and related expenses	\$ 329,226	\$ 193,654	\$ 198,280	\$ 1,752,682	\$ 129,664	\$ 341,791	\$ 55,198	\$ 3,000,495	\$ 281,458	\$ 536,042	\$ 817,500	\$ 3,817,995
Professional and contract fees	726,284	74,463	217,648	148,856	186,742	32,470	6,379	1,392,842	246,968	187,111	434,079	1,826,921
Supplies	104,778	38,232	44,981	69,056	1,554	16,164	3,013	277,778	63,890	77,302	141,192	418,970
Communications	20,195	7,085	17,085	17,918	5,882	2,746	30	70,941	27,997	10,542	38,539	109,480
Postage and shipping	287,158	8,009	24,449	26,405	321	1,504	27	347,873	184,893	18,767	203,660	551,533
Occupancy	92,639	66	65	77,187	30,270	7,913	-	208,140	3,121	132,497	135,618	343,758
Rent and maintenance	36,879	-	-	3,549	125	732	-	41,285	309,456	13,011	322,467	363,752
Printing and publications	435,988	57	21,440	67,374	57	10,198	382	535,496	87,468	32,090	119,558	655,054
Travel	332,768	3,518	14,074	83,025	50,005	4,485	307	488,182	14,129	50,123	64,252	552,434
Training, conferences and meetings	194,002	395	1,889	32,041	-	485	-	228,812	624	39,671	40,295	269,107
Specific assistance to individuals	820,332	92,132	1,277,292	275,301	229,340	1,153,984	30	3,848,411	3,760	154	3,914	3,852,325
Membership dues	240	60	60	183	-	-	-	543	47,335	780	48,115	48,658
In-kind expenses	19,550,053	-	31,500	22,003,279	-	4,915	-	41,589,747	23,861	21,075	44,936	41,634,683
Miscellaneous	10,126	12	-	3,974	7	144	274	14,537	-	172,581	172,581	187,118
Total expenses before depreciation	22,940,668	417,683	1,848,763	24,560,830	633,967	1,577,531	65,640	52,045,082	1,294,960	1,291,746	2,586,706	54,631,788
Depreciation	55,064	17,745	18,175	21,280	3,082	14,370	2,277	131,993	6,565	14,965	21,530	153,523
Total expenses	\$ 22,995,732	\$ 435,428	\$ 1,866,938	\$ 24,582,110	\$ 637,049	\$ 1,591,901	\$ 67,917	\$ 52,177,075	\$ 1,301,525	\$ 1,306,711	\$ 2,608,236	\$ 54,785,311

Operation Homefront, Inc.
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Change in net assets	\$ 23,531,235	\$ 12,674,722
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	162,577	153,523
Net realized/unrealized gain on investments	(484,242)	(298,316)
Contributed houses	(25,260,145)	(10,982,913)
Contributed goods, services and facilities	(27,888,002)	(42,733,698)
In-kind expenses	29,087,197	41,416,704
Change in inventory	22,404	(32,557)
(Increase) decrease in		
Accounts receivable - trade	214,217	(147,019)
Accounts receivable - property management	135,407	(135,407)
Grants receivable	-	700,000
Accrued interest receivable	(242)	8,386
Unconditional promises to give	1,687,619	(709,287)
Prepaid expenses	(161,037)	(88,509)
Increase (decrease) in		
Accounts payable	(170,465)	732,510
Accrued expenses	454,775	202,815
Deferred revenue	(5,000)	105,000
	<u>1,326,298</u>	<u>865,954</u>
Investing Activities		
Purchase of equipment	(168,374)	(116,356)
Purchase of investments	(2,877,075)	(2,700,840)
Proceeds from sale of investments	2,773,123	2,089,820
	<u>(272,326)</u>	<u>(727,376)</u>
Net Increase in Cash and Cash Equivalents	1,053,972	138,578
Cash and Cash Equivalents, Beginning of Year	<u>2,868,411</u>	<u>2,729,833</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,922,383</u></u>	<u><u>\$ 2,868,411</u></u>

Operation Homefront, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 1: Nature of Operations

Organization

Operation Homefront, Inc. (Organization), was incorporated in 2002 as CincHouse.com, Inc., an Arizona not-for-profit, for the purpose of providing assistance to deployed military troops and their families. During the year ended December 31, 2006, the Organization's Board of Directors (Board) changed the name of the Organization to Operation Homefront, Inc. The Organization receives funding from community sponsorships and donations and also participates in numerous fundraising events. In June of 2012, the Board of the Organization voted to consolidate the 25 individual chapters into one national chapter, with those locations becoming field offices. This allows the Organization to provide emergency financial and other assistance/services to military families and wounded warriors across the United States through its 23 locations serving 43 states.

Operation Homefront provides direct services to military families to alleviate emergency financial burdens as well as counseling and/or recovery support. Key service areas include:

- Financial assistance
- Emergency food assistance
- Emergency home and appliance repairs
- Critical baby items
- Furniture and household items
- Housing assistance
- Transitional family housing for our wounded warriors

These key service areas are provided through the contribution of goods, gift cards and other services which are recognized at fair value and reflected in the accompanying financial statements as in-kind contributions which are offset by a like amount included as expenses of the Organization.

Operation Homefront also operates a program called Homes on the Homefront (Homefront), which receives donated houses from certain financial institutions. These homes are located throughout the United States and are made available to eligible military family and veteran candidates. Operation Homefront is tasked with identifying and placing eligible candidates in those homes, mortgage free. Contributions of these homes are recognized at the estimated fair value, as provided by an appraisal, when deeded over to Operation Homefront, less the present value of the estimated closing costs of transferring these homes to the deserving candidate.

In May 2013, Army Homefront Fund, Inc., an affiliate organization of Operation Homefront, Inc., was dissolved and its remaining net assets totaling \$86,138 were transferred to Operation Homefront, Inc.

Operation Homefront, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Note 2: Summary of Significant Accounting Policies

The financial statements of Operation Homefront have been prepared on the accrual basis of accounting and include only the activities of the Organization. The significant accounting policies followed in preparing the accompanying financial statements are described below.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Operation Homefront considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted of a money market account.

The financial institutions holding Operation Homefront's accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, aggregate account balances are insured up to \$250,000 per participating financial institution. At December 31, 2013, Operation Homefront had interest-bearing cash accounts that exceeded federally insured limits by approximately \$2,742,000.

Restricted Cash

Operation Homefront's restricted cash consists of funds collected from the military families or veterans for escrowed deposits, real estate taxes, home insurance and homeowners association fees that are participating in Homes on the Homefront. These funds are not considered to be cash and cash equivalents; thus, they are classified separately on the statement of financial position.

Accounts and Notes Receivable

All receivables are shown net of an allowance for doubtful accounts. The allowance is determined by management based upon history and an analysis of specific accounts. Receivables are written off against the allowance when management determines uncollectibility. As of December 31, 2013 and 2012, there is no allowance.

Unconditional Promises to Give/Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, which increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets

Operation Homefront, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as unrestricted restricted.

Unconditional promises to give are recorded at the estimated collectible amount. Conditional promises to give are not included as support until the conditions are substantially met. An allowance for uncollectible unconditional promises to give has not been established, as management does not deem one necessary based on past collection history.

Contributed property and equipment are recorded at fair value at the date of donation. Operation Homefront records contributed property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. If a donor stipulates how long the assets must be used, the contribution is recorded as restricted support.

Investments and Investment Return

Investments in equity securities, corporate bonds, government securities and mutual funds having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes dividends, interest and realized and unrealized gains and is net of taxes and investment costs.

Investment return is reflected in the statements of activities as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

Inventory

Inventory is stated at the lower of cost (on a first-in, first-out basis) or market. Inventories consist of promotional items for field office use and for resale to the public.

Contributed Goods Inventory

Contributed goods inventory consists of in-kind contributions of goods, including gift cards, children's toys and other household items acquired through major retail donations, for distribution and use in Operation Homefront's programs and are valued at the estimated fair value as of the date the goods are contributed.

Contributed Houses Inventory

Contributed houses inventory consists of in-kind contributions of houses from various financial institutions received by Operation Homefront for distribution in the Organization's programs, and are valued at the estimated fair value as of the date contributed, less the present value of the estimated closing costs to Operation Homefront.

Property and Equipment

Property and equipment purchased, as well as the cost of those improvements which increase the economic useful lives of the assets, are recorded at cost. Repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over the estimated useful life of 3 – 10 years for furniture and equipment. Operation Homefront capitalizes all additions greater than \$500.

Operation Homefront, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Deferred Revenue

Deferred revenue represents program revenue attributable to a special event that has not yet been completed as of year-end.

Temporarily and Permanently Restricted Net Assets

The financial statement presentation follows the recommendations of the financial Accounting Standards Board (FASB), ASC Topic 958, *Not-for-Profit Entities*. In accordance with ASC 958, Operation Homefront 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.

Temporarily restricted net assets are those whose use by Operation Homefront has been limited by donors to a specific time period or purpose.

As of December 31, 2013 and 2012, Operation Homefront had no permanently restricted net assets.

Expiration of Donor-imposed Restrictions

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and, at that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed or specified purpose restriction has been met.

Income Taxes

Operation Homefront is exempt from income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC 501(c)(3) and a similar provision of state law.

Operation Homefront files tax returns in the U.S. federal jurisdiction. With a few exceptions, Operation Homefront is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on direct salaries and other methods.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

Operation Homefront, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Note 3: Unconditional Promises to Give

Unconditional promises to give as of December 31, 2013 and 2012, amounted to \$492,087 and \$2,180,600, respectively. All of the 2103 promises to give are due to be collected during 2014.

Note 4: Investments

The cost and fair value of investments at September 30 are as follows:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 218,058	\$ 218,058	\$ 248,105	\$ 248,105
Government securities				
FHLMC	89,579	92,196	169,946	178,712
FNMA	553,536	548,347	485,451	498,557
U.S. Treasury bonds	99,294	94,971	90,983	106,810
U.S. Treasury notes	756,386	743,131	516,948	528,142
Corporate bonds	876,996	869,256	805,367	832,825
Equity securities	1,660,937	2,156,631	1,634,889	1,840,432
Mutual Funds				
Non-traditional bond	568,603	591,759	535,805	554,470
High-yield bond	553,094	584,897	535,804	559,310
World stock	146,497	183,457	159,889	161,245
Mid-cap value	129,876	175,490	147,764	161,392
Other	200	200	200	200
	<u>\$ 5,653,056</u>	<u>\$ 6,258,393</u>	<u>\$ 5,331,151</u>	<u>\$ 5,670,200</u>

Investment income for the years ended September 30 was comprised of:

	2013	2012
Dividends and interest	\$ 196,214	\$ 182,096
Net realized and unrealized gains on investments reported at fair value	484,242	298,316
Investment fees	<u>(91,168)</u>	<u>(52,888)</u>
Net investment income	<u>\$ 589,288</u>	<u>\$ 427,524</u>

Operation Homefront, Inc.
Notes to Financial Statements
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Note 5: Property and Equipment

Property and equipment at September 30 consisted of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 20,000	\$ 20,000
Computers	385,655	262,278
Furniture	236,139	212,443
Office equipment	43,196	35,496
Communication equipment	35,517	32,757
Vehicles	<u>49,259</u>	<u>38,416</u>
Total property and equipment	769,766	601,390
Less accumulated depreciation and amortization	<u>(369,080)</u>	<u>(206,503)</u>
Net property and equipment	<u>\$ 400,686</u>	<u>\$ 394,887</u>

Depreciation and amortization expense was \$162,577 and \$153,523 for the years ended December 31, 2013 and 2012, respectively.

Note 6: Restrictions on Net Assets

Temporarily restricted net assets as of December 31, 2013 and 2012, were available for the following purposes:

	<u>2013</u>	<u>2012</u>
Transitional housing	\$ 100,000	\$ 12,545
Permanent housing	33,008,496	12,019,338
Program - general	807,823	455,954
Program - wounded	1,302,385	1,725,097
Field operations	<u>11,616</u>	<u>-</u>
	<u>\$ 35,230,320</u>	<u>\$ 14,212,934</u>

Operation Homefront, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

Note 7: Net Assets Released from Restrictions

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, at September 30:

	<u>2013</u>	<u>2012</u>
Transitional housing	\$ 450,626	\$ 653,816
Permanent housing	5,014,807	376,852
Program - general	155,481	1,536,163
Program - wounded	2,368,529	245,199
Expansion of Army Homefront events	-	410,000
Field operations	5,220	-
	<u>\$ 7,994,663</u>	<u>\$ 3,222,030</u>

Note 8: Gifts in Kind

Contributed goods, services and facilities for the years ended December 31, 2013 and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
Toys	\$ 8,903,005	\$ 16,436,696
Cosmetics	230,776	380
Infant clothing and furniture	2,077,902	1,004,937
Advertising	387,964	18,274
School supplies	5,507,587	12,992,562
Computers and equipment	157,406	61,258
Miscellaneous products	7,322,017	11,790,634
Facilities	294,501	17,410
Furniture	334,583	137,558
Vehicles	43,200	3,937
Other items	2,629,061	270,052
	<u>\$ 27,888,002</u>	<u>\$ 42,733,698</u>

Operation Homefront, Inc.
Notes to Financial Statements
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Note 9: Leases

Operation Homefront leases office space in various cities where its field offices and headquarters are located under noncancellable operating leases with monthly payments ranging from \$300 to \$11,716 with varying expiration dates through October 2017. The Organization also leases warehouse and storage facilities in multiple locations which are used for the storage of the various inventories of in-kind donations. The agreements are month-to-month and have monthly payments ranging from \$100 to \$833.

In addition, the Organization leases apartment units for disabled service members discharged from military service who are transitioning from a military base housing arrangement to more permanent housing. These agreements have monthly payments ranging from \$867 to \$2,278 with varying expiration dates through June 2014.

The aggregate minimum future lease payments on noncancellable leases at December 31, 2013, are as follows:

2014	\$	386,789
2015	\$	203,381
2016	\$	155,907
2017	\$	111,694
2018	\$	56,950

Note 10: Defined Contribution Plan

Operation Homefront maintains a defined contribution 401(k) employee benefit plan for employees who have completed three months of service and are at least 18 years old. Contribution expense amounted to \$69,496 and \$51,004 for the years ended December 31, 2013 and 2012, respectively.

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Note 11: Disclosures about Fair Value of Assets

Fair value 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 measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the calculation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2013 and 2012.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include registered investment funds, equity securities and cash and cash equivalents. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At December 31, 2013 and 2012, Operation Homefront had no Level 3 securities.

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30:

	2013			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 218,058	\$ -	\$ -	\$ 218,058
Government securities				
FHLMC	-	92,196	-	92,196
FNMA	-	548,347	-	548,347
U.S. Treasury bonds	-	94,971	-	94,971
U.S. Treasury notes	-	743,131	-	743,131
Corporate bonds	-	869,256	-	869,256
Equity securities	2,156,631	-	-	2,156,631
Mutual funds				
Non-traditional bond	591,759	-	-	591,759
High-yield bond	584,897	-	-	584,897
World stock	183,457	-	-	183,457
Mid-cap value	175,490	-	-	175,490
Other	200	-	-	200
	<u>\$ 3,910,492</u>	<u>\$ 2,347,901</u>	<u>\$ -</u>	<u>\$ 6,258,393</u>
	2012			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 248,105	\$ -	\$ -	\$ 248,105
Government securities				
FHLMC	-	178,712	-	178,712
FNMA	-	498,557	-	498,557
U.S. Treasury bonds	-	106,810	-	106,810
U.S. Treasury notes	-	528,142	-	528,142
Corporate bonds	-	832,825	-	832,825
Equity securities	1,840,432	-	-	1,840,432
Mutual funds				
Non-traditional bond	554,470	-	-	554,470
High-yield bond	559,310	-	-	559,310
World stock	161,245	-	-	161,245
Mid-cap value	161,392	-	-	161,392
Other	200	-	-	200
	<u>\$ 3,525,154</u>	<u>\$ 2,145,046</u>	<u>\$ -</u>	<u>\$ 5,670,200</u>

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Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Investments

Operation Homefront invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Contributions

For the year ended December 31, 2013, 34 percent of total support, revenue and other income which represents \$25,260,145 worth of contributed houses were received from two financial institutions.

Note 13: Contingency

From time-to-time, the Organization is subject to litigation that arises in the ordinary course of business. Operation Homefront maintains sufficient insurance in force to cover such litigation subject to its deductible. Although the amount of any liability with respect to currently pending litigation cannot be determined, in the opinion of management, such liability will not have a material adverse effect on Operation Homefront's financial condition or results of operations.

Note 14: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report on the financial statements, which is the date the financial statements were available to be issued.