

FINANCIAL REPORT
OPERATION HOMEFRONT, INC.
DECEMBER 31, 2010

CONTENTS

	PAGE
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Carneiro, Chumney & Co., L.C.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Operation Homefront, Inc.
San Antonio, Texas

We have audited the accompanying Statements of Financial Position of Operation Homefront, Inc. (the Organization) as of December 31, 2010 and 2009, and the related Statements of Activities and Functional Expenses for the year ended December 31, 2010 (with summarized financial information for the year ended December 31, 2009), and Statements of Cash Flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year's summarized financial information for the Statements of Activities and Functional Expenses have been derived from the Organization's 2009 financial statements and, in our report dated March 6, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Operation Homefront, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with United States generally accepted accounting principles.

Carneiro, Chumney & Co., L.C.

March 28, 2011

-1-

OPERATION HOMEFRONT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Current Assets:		
Cash and equivalents	\$ 6,944,269	\$ 2,791,089
Unconditional promises to give	2,108,846	3,517,588
Investments	200	200
Inventory	29,058	64,168
Prepaid expenses	71,471	58,466
Other current assets	643,386	86,312
Total Current Assets	9,797,230	6,517,823
 Fixed assets, net	 356,575	 229,218
 TOTAL ASSETS	\$ 10,153,805	\$ 6,747,041
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 257,612	\$ 389,917
Accrued liabilities	149,314	173,209
Total Current Liabilities	406,926	563,126
 Net Assets:		
Unrestricted	8,467,853	6,172,589
Temporarily restricted	1,279,026	11,326
Total Net Assets	9,746,879	6,183,915
 TOTAL LIABILITIES AND NET ASSETS	\$ 10,153,805	\$ 6,747,041

The accompanying notes are an integral part of these financial statements.

OPERATION HOMEFRONT, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

(With Summarized Financial Information
for the Year Ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Totals	
			2010	2009
Revenue, Support, and Other:				
Contributions	\$ 7,487,331	1,308,500	8,795,831	\$ 7,613,256
In-kind contributions	15,675,766	--	15,675,766	20,878,418
Miscellaneous	24,768	--	24,768	4,863
Interest income	14,120	--	14,120	10,232
Sponsorships	5,000	--	5,000	79,500
Net assets released from restrictions	40,800	(40,800)	--	--
Total Revenue, Support, and Other	23,247,785	1,267,700	24,515,485	28,586,269
Expenses:				
Program services	19,648,139	--	19,648,139	26,481,358
Membership and fundraising	587,264	--	587,264	719,897
Management and general	717,118	--	717,118	614,851
Total Expenses	20,952,521	--	20,952,521	27,816,106
Change in Net Assets	2,295,264	1,267,700	3,562,964	770,163
Net assets, beginning of year	6,172,589	11,326	6,183,915	5,413,752
NET ASSETS, END OF YEAR	\$ 8,467,853	1,279,026	9,746,879	\$ 6,183,915

The accompanying notes are an integral part of these financial statements.

OPERATION HOMEFRONT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

(With Summarized Financial Information for the Year Ended December 31, 2009)

	Program Services										Supporting Services			Totals	
	Program General	Program Deployed	Program Wounded	Program Education	Program Chapter Development	Transitional Housing	Volunteer Services	Total Program Services	Membership and Fundraising	Management and General	Supporting Services	2010	2009		
												2010	2009		
Salaries and benefits	\$ 267,353	209,449	202,746	93,479	521,704	188,575	35,012	1,518,318	219,749	158,791	378,540	1,896,858	\$ 2,050,916		
Professional and contract fees	121,639	90,059	87,253	82,135	18,162	2,809	4,478	406,535	138,226	112,954	251,180	657,715	714,716		
Supplies	32,254	51	4,741	--	34,724	3,758	39	75,567	17,808	22,172	39,980	115,547	95,849		
Communications	8,797	932	1,681	1,821	10,685	2,145	238	26,299	10,702	29,500	40,202	66,501	68,662		
Postage and shipping	76,509	2,578	4,011	3,906	11,145	473	380	99,002	39,436	13,564	53,000	152,002	88,416		
Occupancy and related	35,205	35,205	35,205	--	94	4,885	373	110,967	5,796	33,990	39,786	150,753	134,782		
Rent and maintenance of equipment	2,949	--	--	--	--	--	--	2,949	--	8,131	8,131	11,080	10,299		
Printing and publications	24,211	1,270	659	6,040	7,060	246	36	39,522	41,464	15,043	56,507	96,029	110,988		
Travel	29,916	1,493	9,718	15	12,580	8,976	984	63,682	68,800	17,955	86,755	150,437	202,471		
Training, conferences, and meetings	56,292	--	--	--	79,095	--	695	136,082	31,991	1,288	33,279	169,361	146,931		
Specific assistance to individuals	226,101	123,506	178,561	542	1,243,469	684,790	--	2,456,969	--	--	--	2,456,969	3,002,032		
Membership dues	--	--	--	--	--	--	--	--	1,373	414	1,787	1,787	3,429		
In-kind expenses	14,653,152	1,497	--	446	--	15,229	--	14,670,324	800	285,000	285,800	14,956,124	20,878,418		
Miscellaneous	116	--	221	--	1,522	923	--	2,782	4,773	11,980	16,753	19,535	263,830		
Total Expenses before Depreciation	15,534,494	466,040	524,796	188,384	1,940,240	912,809	42,235	19,608,998	580,918	710,782	1,291,700	20,900,698	27,771,739		
Depreciation	5,871	5,461	5,461	4,966	5,396	9,871	2,115	39,141	6,346	6,336	12,682	51,823	44,367		
TOTAL EXPENSES	\$ 15,540,365	471,501	530,257	193,350	1,945,636	922,680	44,350	19,648,139	587,264	717,118	1,304,382	20,952,521	\$ 27,816,106		

The accompanying notes are an integral part of these financial statements.

OPERATION HOMEFRONT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Change in net assets	\$3,562,964	\$ 770,163
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	51,823	44,367
Change in in-kind inventory	(557,074)	(47,331)
Decrease (Increase) in Assets:		
Accounts Receivable:		
Unconditional promises to give	1,408,742	(2,002,743)
Contributions receivable	--	37,638
Inventory	35,110	(21,150)
Prepaid expenses	(13,005)	11,170
(Decrease) Increase in Liabilities:		
Accounts payable	(132,305)	309,719
Accrued liabilities	(23,895)	23,406
Net Cash Provided by (Used in) Operating Activities	4,332,360	(874,761)
 Cash Flows (Used in) Investing Activities –		
Purchase of equipment	(179,180)	(209,153)
 Net Increase (Decrease) in Cash	4,153,180	(1,083,914)
 Cash, beginning of year	2,791,089	3,875,003
 CASH, END OF YEAR	\$6,944,269	\$2,791,089

The accompanying notes are an integral part of these financial statements.

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 1: Organization and Significant Accounting Policies

Organization and Nature of Operations

Operation Homefront, Inc. (the 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 changed the name of the organization to Operation Homefront, Inc. The Organization receives funding from community sponsorships and donations and also participates in fundraising events. Operation Homefront, Inc. is a national organization, with 21 and 23 subchapters as of December 31, 2010 and 2009, respectively. The subchapters operate independently from the Organization.

Basis of Presentation

The accompanying financial statements present only the accounts of the Organization and do not include the accounts of any of the subchapters.

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

Net Assets

The net asset classifications shown on the Statements of Financial Position are defined as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted – Net assets that are subject to donor-imposed restrictions that either expire by the passage of time or can be fulfilled by actions of the Organization pursuant to those restrictions.

Unconditional Promises to Give and Contributions Received

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 year 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. As of December 31, 2010, there were no permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges for future contributions are recorded as receivables and recognized at the estimated realizable values.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. This allowance is based on prior years' experience and management's analysis of specific promises made. All receivables are considered collectible as of December 31, 2010, and 2009.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 1: Organization and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments available for current use, with an initial maturity of three months or less, to be cash equivalents.

Concentration of Credit Risk

The Organization maintains multiple bank accounts in San Antonio, Texas. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and without limit for noninterest-bearing transaction accounts. At various times during the year, there were balances in the bank that were over the FDIC limit. Cash at the 2010 and 2009 year ends exceeded federally insured limits by approximately \$2,464,005 and \$1,683,000, respectively.

Contributed Goods, Services, and Facilities

Contributions of goods, services, and facilities are recognized at fair market value, as provided by donor when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses, other current assets, and fixed assets. During the years ended December 31, 2010 and 2009, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Inventory

Inventories are valued at cost determined by the first-in, first-out (FIFO) method. Inventories consist of promotional items for resale to the subchapters.

Expenses, Gains, and Losses

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law.

Investments

Investments consist of common stock of a non-public entity and are carried at par value.

Fixed Assets

Property, plant, and equipment are stated at cost if purchased, or at fair value at the date of the gift if donated, less accumulated depreciation. It is the Organization's policy to capitalize property and equipment over \$500. Depreciation is computed on a straight-line basis over the estimated useful lives of furniture and equipment (5 to 10 years). At the time property, plant, and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation are adjusted, and any gain or loss on disposal is included in the Statement of Changes in Net Assets.

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 1: Organization and Significant Accounting Policies (Continued)

Income Taxes

The Organization operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and, as such, is not subject to federal or state income tax. The Organization is classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code, and the corresponding provisions of the state revenue codes. The Organization adopted the provisions of FASB ASC topic 740-10-25, *Income Taxes – Overall – Recognition*, which requires recognition and disclosure of uncertain tax positions in the financial statements and footnotes. Management of the Organization believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the FASB ASC, 820-10, defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Summarized Financial Information

The Statements of Activities and Functional Expenses include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Note 2: Unconditional Promises to Give

As of December 31, 2010 and 2009, the Organization received unconditional promises to give in the amounts of \$2,108,846 and \$3,517,588, respectively. Unconditional promises to give of \$576,166 are to be received in the year ended December 31, 2011, and \$1,532,680 in the year ended December 31, 2012.

Note 3: Investments

During fiscal years 2007 and 2006, a donor donated 200,000 shares of common stock of a non-public entity to the Organization with a par value of \$.001. It is the Organization's intention to retain the stock certificates until the entity becomes public and the market value increases. Since this stock is not publicly traded, there is no indication that fair value is materially different than par.

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 4: Fixed Assets

Fixed assets at December 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Computers	\$ 379,800	\$ 245,498
Furniture	59,058	41,329
Office equipment	27,588	24,769
Communication equipment	24,803	--
Vehicles	--	788
	<u>491,249</u>	<u>312,384</u>
Less: Accumulated depreciation	(134,675)	(83,166)
	<u>\$ 356,575</u>	<u>\$ 229,218</u>

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Transitional Housing	\$ 1,237,684	\$ 11,326
Other	<u>41,342</u>	<u>--</u>
	<u>\$ 1,279,026</u>	<u>\$ 11,326</u>

Note 6: Net Assets Released from Restrictions

Net assets were released in 2010 and 2009 from temporary donor restrictions, by incurring expenses satisfying the restricted purposes, or by the occurrence of other events specified by donors as follows:

	<u>2010</u>	<u>2009</u>
General military support	\$ 40,800	\$ 324,600
Transitional housing	<u>--</u>	<u>78,000</u>
	<u>\$ 40,800</u>	<u>\$ 402,600</u>

Note 7: In-Kind Contributions

Contributed goods, services, and facilities for the years ended December 31 consist of the following:

	<u>2010</u>	<u>2009</u>
Toys	\$ 9,368,862	\$ 6,456,837
Cosmetics	1,524,955	6,360,370
Infant clothing and furniture	496,441	5,757,712
Advertising	43,913	319,360
School supplies	3,063,543	1,247,027
Computers and equipment	180,234	122,225
Miscellaneous products	292,387	288,166
Facilities	366,750	--
Furniture	11,739	--
Vehicles	14,180	--
Other	<u>312,762</u>	<u>326,721</u>
	<u>\$ 15,675,766</u>	<u>\$ 20,878,418</u>

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 8: Operating Leases

The Organization leases office space in San Antonio, Texas under an operating lease, with monthly payments of \$8,369 expiring May 31, 2014. A warehouse in San Antonio, Texas, used for storage of in-kind goods, is leased with monthly payments ranging from \$800 to \$1,000 expiring December 31, 2013. The Organization also leases office space in Rockville, Maryland, with monthly payments of \$5,289 through December 31, 2011.

The Organization leases apartment units for disabled service members discharged from military service, who are transitioning from military base housing to more permanent housing. These operating leases have varying units and monthly payments ranging from \$739 to \$1,525, with varying expiring dates through February 2012.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of December 31, 2010 for each of the next five years and in the aggregate are:

2011	\$ 465,751
2012	198,727
2013	166,248
2014	67,162
2015	<u> --</u>
Total Minimum Future Rental Payments	\$ <u>897,888</u>

Note 9: Retirement Plan

The Organization adopted a defined contribution 401(k) employee benefit plan covering employees who have attained the age of 18 and have completed at least three months of service. In accordance with the plan, the Organization elected to match the employee contribution at 4% for the years ended December 31, 2010 and 2009. The Organization's 2010 and 2009 plan expense totaled \$17,969 and \$20,093, respectively.

Note 10: Reclassifications

Certain financial statement items have been reclassified in this presentation in order to enhance comparability with the December 31, 2010 financial statements.

Note 11: Subsequent Events

Subsequent events have been evaluated through the date of this report, which is the date the financial statements were available to be issued.