

**FINANCIAL REPORT**  
**OPERATION HOMEFRONT, INC.**  
**DECEMBER 31, 2009**

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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, 2009 and 2008, and the related statements of activities and functional expenses for the year ended December 31, 2009 (with summarized financial information for the year ended December 31, 2008), and statements of cash flows for the years ended December 31, 2009 and 2008. 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 2008 financial statements and, in our report dated March 1, 2009, 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, 2009 and 2008, 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 6, 2010

**OPERATION HOMEFRONT, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	2,791,089	3,875,003
Receivables:		
Unconditional promises to give	3,517,588	1,514,845
Sponsorships receivable	--	37,638
Investments	200	200
Inventory	64,168	43,018
Prepaid expenses	58,466	69,636
Other current assets	86,312	38,981
Total Current Assets	6,517,823	5,579,321
Fixed assets, net	229,218	64,432
<b>TOTAL ASSETS</b>	<b>6,747,041</b>	<b>5,643,753</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	389,917	80,198
Accrued liabilities	173,209	149,803
Total Current Liabilities	563,126	230,001
Net Assets:		
Unrestricted	6,172,589	5,147,866
Temporarily restricted	11,326	265,886
Total Net Assets	6,183,915	5,413,752
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>6,747,041</b>	<b>5,643,753</b>

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

**OPERATION HOMEFRONT, INC.**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2009

(With Summarized Financial Information  
For the Year Ended December 31, 2008)

	Unrestricted	Temporarily Restricted	Totals	
			2009	2008
Revenue, Support, and Other:				
Contributions	7,239,817	148,040	7,387,857	4,124,393
In-kind contributions	20,878,418	--	20,878,418	12,614,924
Miscellaneous	4,863	--	4,863	11,800
Interest income	10,232	--	10,232	45,340
Sponsorships	79,500	--	79,500	314,220
Special events - net of direct expenses of \$52,611 and \$66,123	172,788	--	172,788	828,103
Net assets released from restrictions	402,600	(402,600)	--	--
Total Revenue, Support, and Other	28,788,218	(254,560)	28,533,658	17,938,780
Expenses:				
Program services	26,481,358	--	26,481,358	16,005,622
Membership and fundraising	667,286	--	667,286	570,978
Management and general	614,851	--	614,851	857,287
Total Expenses	27,763,495	--	27,763,495	17,433,887
Change in Net Assets	1,024,723	(254,560)	770,163	504,893
Net assets at beginning of year	5,147,866	265,886	5,413,752	4,908,859
NET ASSETS AT END OF YEAR	6,172,589	11,326	6,183,915	5,413,752

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

OPERATION HOMEFRONT, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(With Summarized Financial Information for the year ended December 31, 2008)

	Program Services											Supporting Services			Totals	
	Program General	Program Deployed	Program Wounded	Program Education	Chapter Development	Transitional Housing	Volunteer Services	Total Program Services	Membership and Fundraising	Management and General	Total Supporting Services	2009	2008			
												2009	2008			
Salaries and benefits	815,487	135,712	122,033	229,996	163,853	176,308	33,558	1,676,947	209,965	164,004	373,969	2,050,916	1,580,052			
Professional and contract fees	201,318	51,480	51,230	58,016	11,687	6,224	1,079	381,034	116,548	217,134	333,682	714,716	634,868			
Supplies	28,252	12,041	220	45	2,319	5,392	130	48,399	18,090	29,360	47,450	95,849	85,375			
Communications	11,705	888	1,488	1,576	12,248	1,455	314	29,674	9,996	28,992	38,988	68,662	44,703			
Postage and shipping	18,633	4,322	3,864	153	6,218	572	13	33,775	28,835	25,806	54,641	88,416	77,959			
Occupancy and related	30,347	26,641	25,741	13,211	11,005	1,068	115	108,128	7,869	18,785	26,654	134,782	56,949			
Rent and maintenance of equipment	4,421	11	11	--	183	22	11	4,659	111	5,529	5,640	10,299	5,730			
Printing and publications	20,475	4	4	3,144	34,337	423	30	58,417	20,750	31,821	52,571	110,988	47,947			
Travel	52,301	25,147	13,225	--	23,577	12,811	449	127,510	36,080	38,881	74,961	202,471	178,232			
Training, conferences, and meetings	--	--	--	2,500	89,127	--	--	89,127	2,194	2,999	5,193	94,320	45,343			
Specific assistance to individuals	1,030,991	86,487	209,927	--	987,572	684,555	--	3,002,032	--	--	--	3,002,032	1,898,949			
Membership dues	434	--	--	--	--	--	--	434	1,323	1,672	2,995	3,429	2,926			
In-kind expenses	19,354,276	187,217	1,204,871	106,371	--	3,291	--	20,856,026	--	22,392	22,392	20,878,418	12,594,466			
Miscellaneous	22,017	--	153	--	396	1,293	75	23,934	214,194	25,702	239,896	263,830	159,804			
Total Expenses Before Depreciation	21,590,657	529,950	1,632,767	415,012	1,342,522	893,414	35,774	26,440,096	665,955	613,077	1,279,032	27,719,128	17,413,303			
Depreciation	27,951	8,873	444	444	1,775	1,331	444	41,262	1,331	1,774	3,105	44,367	20,584			
TOTAL EXPENSES	21,618,608	538,823	1,633,211	415,456	1,344,297	894,745	36,218	26,481,358	667,286	614,851	1,282,137	27,763,495	17,433,887			

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

**OPERATION HOMEFRONT, INC.**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Change in net assets	770,163	504,893
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	44,367	20,584
Non-cash donation - investment	--	(200)
(Increase) Decrease in Assets:		
Accounts Receivable:		
Unconditional promises to give	(2,002,743)	1,435,155
Contributions receivable	37,638	118,218
Loans receivable	--	2,500
Related party receivables	--	14,834
Inventory	(21,150)	(27,740)
Prepaid expenses	11,170	(65,009)
Other current assets	(47,331)	40,759
Increase (Decrease) in Liabilities:		
Accounts payable	309,719	34,127
Accrued liabilities	23,406	110,224
Net Cash (Used in) Provided by Operating Activities	(874,761)	2,188,345
Cash Flows (Used in) Investing Activities -		
Purchase of equipment	(209,153)	(70,942)
Net (Decrease) Increase in Cash	(1,083,914)	2,117,403
Cash at beginning of year	3,875,003	1,757,600
CASH AT END OF YEAR	2,791,089	3,875,003

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

# OPERATION HOMEFRONT, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

### 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 the national organization with 23 and 26 subchapters as of December 31, 2009 and 2008, respectively, operating 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. 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, 2009, and 2008, respectively.

#### *Use of Estimates*

The preparation of financial statements in conformity with United States generally accepted accounting principles 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.



# OPERATION HOMEFRONT, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

### Note 1: Organization and Significant Accounting Policies

#### *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*

On October 3, 2008, the federal government temporarily increased this Federal Deposit Insurance Corporation (FDIC) limit to \$250,000 per depositor through December 31, 2013, for interest bearing accounts. On October 14, 2008, the FDIC announced its temporary Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. The transaction account guarantee applies to all personal and business checking deposit accounts that do not earn interest at participating institutions. This unlimited insurance coverage is temporary, and will remain in effect until June 30, 2010, for institutions that have not opted out of the program. Balances in excess of these limits were approximately \$1,683,000 and \$3,598,000 as of December 31, 2009 and 2008, respectively. The Organization's financial institutions opted out of the Transaction Account Guarantee Program effective January 1, 2010, effectively reducing their FDIC coverage to \$250,000 per depositor.

#### *Sponsorships Receivable*

Sponsorships receivable include receivables from corporate sponsors that advertise on the Organization's website and for sponsorship promises to give made before year end.

#### *Contributed Goods, Services, and Facilities*

Contributions of goods, services, and facilities are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses. During the years ended December 31, 2009 and 2008, 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, 2009 AND 2008

### Note 1: Organization and Significant Accounting Policies

#### *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.

#### *Fair Value of Financial Instruments*

The "Fair Value Measurements and Disclosures" Topic of the FASB Accounting Standards Codification 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 or liabilities 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 United States generally accepted principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

### Note 2: Unconditional Promise to Give

As of December 31, 2009 and 2008, the Organization received unconditional promises to give in the amounts of \$3,517,588 and \$1,154,845, respectively. The unconditional promises to give are to be received within two years after the fiscal year received.

### 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, 2009 AND 2008

Note 4: Fixed Assets

Fixed assets at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Computers	245,498	46,365
Furniture	41,329	33,861
Office equipment	24,769	22,218
Vehicles	<u>788</u>	<u>788</u>
	312,384	103,232
Less: Accumulated depreciation	<u>(83,166)</u>	<u>(38,800)</u>
	<u>229,218</u>	<u>64,432</u>

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2009 and 2008, are available for the following purposes:

	<u>2009</u>	<u>2008</u>
General military support	--	181,995
Katrina relief	--	72,445
Other	<u>11,326</u>	<u>11,446</u>
	<u>11,326</u>	<u>265,886</u>

Note 6: Net Assets Released from Restrictions

Net assets were released in 2009 and 2008 from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	<u>2009</u>	<u>2008</u>
General military support	324,600	3,494,205
Housing for military families	78,000	120,000
Wounded female soldiers	<u>--</u>	<u>20,000</u>
	<u>402,600</u>	<u>3,634,205</u>

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Note 7: In Kind Contributions

Contributed goods, services, and facilities for the years ended December 31, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
Toys	6,456,837	8,456,606
Cosmetics	6,360,370	2,170,000
Infant clothing and furniture	5,757,712	--
Advertising	319,360	1,524,697
School supplies	1,247,027	--
Computers and equipment	122,225	203,802
Miscellaneous products	288,166	176,368
Facilities	--	19,284
Furniture	--	10,378
Other	<u>326,721</u>	<u>53,789</u>
	<u>20,878,418</u>	<u>12,614,924</u>

Note 8: 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 3 months of service. In accordance with the plan, the Organization elected to match the employee contribution at 4% and 1% for the years ended December 31, 2009 and 2008, respectively. The Organization's 2009 and 2008 plan expense totaled \$20,093 and \$2,416, respectively.

Note 9: Subsequent Events

Subsequent events have been evaluated through the date of this report.