

FINANCIAL REPORT
OPERATION HOMEFRONT, INC.
DECEMBER 31, 2008

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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 statement of financial position of Operation Homefront, Inc. (the Organization) as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. 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 audit. The financial statements for the year ended December 31, 2007, were audited by other auditors whose report dated April 28, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with United States generally accepted auditing standards. 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 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 audit provides 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, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with United States generally accepted accounting principles.



March 1, 2009

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OPERATION HOMEFRONT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
Current Assets:		
Cash and equivalents	3,875,003	1,757,600
Receivables:		
Unconditional promises to give	1,514,845	2,950,000
Sponsorships receivable	37,638	155,856
Loans receivable	--	2,500
Related party receivables	--	14,834
Investments	200	--
Inventory	43,018	15,278
Prepaid expenses	69,636	4,627
Other current assets	38,981	79,740
Total Current Assets	5,579,321	4,980,435
Fixed assets, net	64,432	14,074
TOTAL ASSETS	5,643,753	4,994,509

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	80,198	46,071
Accrued liabilities	149,803	39,579
Total Current Liabilities	230,001	85,650
Net Assets:		
Unrestricted	5,147,866	1,476,268
Temporarily restricted	265,886	3,432,591
Total Net Assets	5,413,752	4,908,859
TOTAL LIABILITIES AND NET ASSETS	5,643,753	4,994,509

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

OPERATION HOMEFRONT, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

(With Summarized Financial Information
For the Year Ended December 31, 2007)

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
Revenue, Support, and Other:				
Contributions	3,656,893	467,500	4,124,393	7,345,362
In-kind contributions	12,614,924	--	12,614,924	5,148,614
Miscellaneous	11,800	--	11,800	--
Interest income	45,340	--	45,340	38,160
Sponsorships	314,220	--	314,220	178,025
Special events - Net of direct expenses of \$66,123 and \$62,846	828,103	--	828,103	16,850
Net assets released from restrictions	3,634,205	(3,634,205)	--	--
Total Revenue, Support, and Other	21,105,485	(3,166,705)	17,938,780	12,727,011
Expenses:				
Program services	16,005,622	--	16,005,622	7,535,789
Membership and fundraising	570,978	--	570,978	421,200
Management and general	857,287	--	857,287	583,748
Total Expenses	17,433,887	--	17,433,887	8,540,737
Change in Net Assets	3,671,598	(3,166,705)	504,893	4,186,274
Net assets at beginning of year	1,476,268	3,432,591	4,908,859	722,585
NET ASSETS AT END OF YEAR	5,147,866	265,886	5,413,752	4,908,859

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

OPERATION HOMEFRONT, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008
(With Summarized Financial Information for 2007)

	Program Services	Supporting Services		Totals	
		Membership and Fundraising	Management and General	2008	2007
Salaries and benefits	940,040	372,395	267,617	1,580,052	1,052,379
Professional and contract fees	306,899	41,454	286,515	634,868	467,380
Supplies	50,512	1,498	33,365	85,375	41,840
Communications	17,400	3,833	23,470	44,703	18,876
Postage and shipping	20,084	21,466	36,409	77,959	68,086
Occupancy and related	8,937	--	48,012	56,949	11,623
Rent and maintenance of equipment	1,382	--	4,348	5,730	2,485
Printing and publications	11,524	24,610	11,813	47,947	110,094
Transportation	71,190	46,761	60,281	178,232	87,348
Training, conferences, and meetings	39,219	3,666	2,458	45,343	28,951
Specific assistance to individuals	1,898,949	--	--	1,898,949	1,457,218
Membership and dues	--	125	2,801	2,926	3,587
In-kind expenses	12,590,320	135	4,011	12,594,466	5,148,614
Miscellaneous	30,434	54,212	75,158	159,804	36,268
Total Expenses Before Depreciation	15,986,890	570,155	856,258	17,413,303	8,534,749
Depreciation	18,732	823	1,029	20,584	5,988
TOTAL EXPENSES	16,005,622	570,978	857,287	17,433,887	8,540,737

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

OPERATION HOMEFRONT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Change in net assets	504,893	4,186,274
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	20,584	5,988
Non-cash donation - investment	(200)	--
(Increase) Decrease in Assets:		
Accounts Receivable:		
Unconditional promises to give	1,435,155	(2,950,000)
Contributions receivable	118,218	(29,433)
Loans receivable	2,500	18,947
Related party receivables	14,834	(5,892)
Inventory	(27,740)	5,766
Prepaid expenses	(65,009)	1,363
Other current assets	40,759	74,492
Increase (Decrease) in Liabilities:		
Accounts payable	34,127	12,042
Accrued liabilities	110,224	(77,300)
Net Cash Provided by Operating Activities	2,188,345	1,242,247
Cash Flows (Used in) Investing Activities -		
Purchase of equipment	(70,942)	(9,094)
Net Increase in Cash	2,117,403	1,233,153
Cash at beginning of year	1,757,600	524,447
CASH AT END OF YEAR	3,875,003	1,757,600

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

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

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. As of December 31, 2008 and 2007, there were 30 and 24 subchapters, 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, 2008, and 2007, respectively.

Note 1: Organization and Significant Accounting Policies

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.

(Continued)

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

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, at times, maintains cash and cash equivalents balances at certain financial institutions in excess of federally insured limits of \$100,000. Effective October 3, 2008, the FDIC limit was increased to \$250,000 per depositor through December 1, 2009. Balances in excess of these limits were approximately \$3,598,000 and \$1,695,000 as of December 31, 2008 and 2007, respectively.

Related Party Receivables

Related party receivables include monies due from the various independent chapters for reimbursements of costs the Organization has paid on their behalf, or for promotional supplies ordered from the Organization by the chapters.

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.

Loans Receivable

As part of prior years' program services, the Organization made loans to service men, women, and their families that were expected to be repaid. The balance owing is \$0 and \$2,500 as of December 31, 2008 and 2007, respectively.

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, 2008 and 2007, 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.

(Continued)

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 1: Organization and Significant Accounting Policies (Continued)

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.

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.

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, 2007, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

Note 2: Unconditional Promise to Give

As of December 31, 2008 and 2007, the Organization received unconditional promises to give in the amounts of \$1,154,845 and \$2,950,000, respectively. The unconditional promises to give are to be received within one year 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.

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OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 4: Fixed Assets

Fixed assets at December 31, 2008 and 2007 consist of the following:

	2008	2007
Computers	46,365	16,156
Furniture	33,861	3,209
Office equipment	22,218	12,925
Vehicles	788	--
	103,232	32,290
Less: Accumulated depreciation	(38,800)	(18,216)
	64,432	14,074

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2008 and 2007 are available for the following purposes:

	2008	2007
General military support	181,995	3,350,146
Katrina relief	72,445	72,445
Other	11,446	10,000
	265,886	3,432,591

Note 6: Net Assets Released from Restrictions

Net assets were released in 2008 and 2007 from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	2008	2007
General military support	3,494,205	--
Housing for military families	120,000	--
Wounded female soldiers	20,000	--
	3,634,205	--

(Continued)

OPERATION HOMEFRONT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 7: Contributed Goods, Services, and Facilities

Contributed goods, services, and facilities for the years ended December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Toys	8,456,606	5,090,614
Cosmetics	2,170,000	--
Advertising	1,524,697	--
Computers and equipment	203,802	--
Miscellaneous products	176,368	--
Facilities	19,284	58,000
Furniture	10,378	--
Other	<u>53,789</u>	<u>--</u>
	<u>12,614,924</u>	<u>5,148,614</u>