

Operation Homefront, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2014 and 2013

Operation Homefront, Inc.
December 31, 2014 and 2013

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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 statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years 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 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 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

San Antonio, Texas
April 23, 2015

Operation Homefront, Inc.
Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 3,314,145	\$ 3,922,383
Restricted cash	782,273	541,204
Investments	4,426,402	6,258,393
Accounts receivable		
Trade	3,218	9,158
Unconditional promises to give	3,180,638	492,981
Accrued interest receivable	7,642	14,828
Contributed houses inventory	41,994,105	33,079,105
Contributed goods inventory	1,771,397	4,256,591
Other inventory	33,234	27,597
Prepaid expenses and other	241,895	329,826
Property and equipment, net	627,174	400,686
	<u>\$ 56,382,123</u>	<u>\$ 49,332,752</u>
Liabilities and Net Assets		
Accounts payable	\$ 552,637	\$ 706,150
Accrued expenses	1,068,896	905,641
Accrued escrow accounts	782,273	541,204
Deferred revenue	170,000	100,000
	<u>2,573,806</u>	<u>2,252,995</u>
Net Assets		
Unrestricted	6,001,077	11,849,437
Temporarily restricted	47,807,240	35,230,320
	<u>53,808,317</u>	<u>47,079,757</u>
Total net assets	<u>53,808,317</u>	<u>47,079,757</u>
Total liabilities and net assets	<u>\$ 56,382,123</u>	<u>\$ 49,332,752</u>

Operation Homefront, Inc.
Statements of Activities
Years Ended December 31, 2014 and 2013

	Unrestricted	Temporarily Restricted	2014 Total	Unrestricted	Temporarily Restricted	2013 Total
Support, Revenue and Other						
Contributed houses	\$ -	\$ 21,348,790	\$ 21,348,790	\$ -	\$ 25,260,145	\$ 25,260,145
Contributed goods, services and facilities	19,579,893	-	19,579,893	27,888,002	-	27,888,002
Contributions	10,524,432	10,053,358	20,577,790	15,540,316	3,751,904	19,292,220
Investment income	240,442	-	240,442	589,288	-	589,288
Special events, net of direct donor/benefit expenses of \$248,113	270,913	-	270,913	428,214	-	428,214
Miscellaneous	11,987	-	11,987	166,316	-	166,316
Net assets released from restrictions	18,825,228	(18,825,228)	-	7,994,663	(7,994,663)	-
	<u>49,452,895</u>	<u>12,576,920</u>	<u>62,029,815</u>	<u>52,606,799</u>	<u>21,017,386</u>	<u>73,624,185</u>
Expenses						
Program services	51,031,839	-	51,031,839	46,586,416	-	46,586,416
Membership and fundraising	2,200,166	-	2,200,166	2,371,457	-	2,371,457
Management and general	2,069,250	-	2,069,250	1,135,077	-	1,135,077
	<u>55,301,255</u>	<u>-</u>	<u>55,301,255</u>	<u>50,092,950</u>	<u>-</u>	<u>50,092,950</u>
Change in Net Assets	(5,848,360)	12,576,920	6,728,560	2,513,849	21,017,386	23,531,235
Net Assets, Beginning of Year	11,849,437	35,230,320	47,079,757	9,335,588	14,212,934	23,548,522
Net Assets, End of Year	<u>\$ 6,001,077</u>	<u>\$ 47,807,240</u>	<u>\$ 53,808,317</u>	<u>\$ 11,849,437</u>	<u>\$ 35,230,320</u>	<u>\$ 47,079,757</u>

Operation Homefront, Inc.
Statement of Functional Expenses
Year Ended December 31, 2014

	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
Personnel and benefits	\$ 1,305,182	\$ 250,957	\$ 978,448	\$ 909,741	\$ 709,433	\$ 246,638	\$ 490,077	\$ 4,890,476	\$ 1,371,952	\$ 1,408,088	\$ 2,780,040	\$ 7,670,516
Professional fees	481,036	265,423	289,752	183,446	72,726	59,691	56,369	1,408,443	317,891	224,399	542,290	1,950,733
Supplies	25,201	-	99	55,686	3,815	7,397	1,671	93,869	17,187	57,693	74,880	168,749
Communications	9,350	-	57,041	98,366	11,398	3,536	2,192	181,883	16,288	3,116	19,404	201,287
Postage and shipping	173,254	1,494	-	40,086	5,504	1,920	1,091	223,349	75,224	16,153	91,377	314,726
Occupancy	301,715	590	248,755	322,227	230,229	11,422	13,041	1,127,979	62,681	50,861	113,542	1,241,521
Rent and maintenance	20,552	-	-	6,420	3,200	103	258	30,533	8,208	5,079	13,287	43,820
Printing and publications	169,384	-	50,240	28,233	218	100	3,543	251,718	85,174	29,758	114,932	366,650
Travel	398,461	-	3,410	249,000	199,245	14,340	11,474	875,930	148,017	64,507	212,524	1,088,454
Conferences and meetings	8,160	-	-	7,480	107	19	5,974	21,740	49,837	155,153	204,990	226,730
Specific assistance to individuals	536,480	79,684	4,716,990	798,175	308,916	1,417,448	-	7,857,693	-	-	-	7,857,693
Memberships and dues	245	-	-	4,955	-	107	3,035	8,342	150	650	800	9,142
In-kind expenses	2,878,732	-	17,942	18,654,841	12,317,997	14,618	-	33,884,130	-	-	-	33,884,130
Miscellaneous	13,145	-	-	8,162	45	272	15	21,639	37,205	33,089	70,294	91,933
Total expenses before depreciation	6,320,897	598,148	6,362,677	21,366,818	13,862,833	1,777,611	588,740	50,877,724	2,189,814	2,048,546	4,238,360	55,116,084
Depreciation	21,837	8,176	20,765	37,318	8,176	55,977	1,866	154,115	10,352	20,704	31,056	185,171
Total expenses	\$ 6,342,734	\$ 606,324	\$ 6,383,442	\$ 21,404,136	\$ 13,871,009	\$ 1,833,588	\$ 590,606	\$ 51,031,839	\$ 2,200,166	\$ 2,069,250	\$ 4,269,416	\$ 55,301,255

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.
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Activities		
Change in net assets	\$ 6,728,560	\$ 23,531,235
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	185,171	162,577
Net realized/unrealized gain on investments	(51,876)	(484,242)
Contributed houses	(21,348,790)	(25,260,145)
Contributed goods, services and facilities	(19,579,893)	(27,888,002)
In-kind expenses	33,884,130	28,758,460
Change in inventory	(5,637)	22,404
(Increase) decrease in		
Accounts receivable - trade	5,940	214,217
Accounts receivable - property management	-	135,407
Accrued interest receivable	7,186	(242)
Unconditional promises to give	(2,687,657)	1,687,619
Prepaid expenses	(150,390)	(161,037)
Increase (decrease) in		
Accounts payable	(153,513)	(170,465)
Accrued expenses	163,255	454,775
Deferred revenue	70,000	(5,000)
Other current assets and liabilities	841,533	328,737
	<u>(2,091,981)</u>	<u>1,326,298</u>
Investing Activities		
Purchase of equipment	(422,730)	(168,374)
Purchase of investments	(3,087,361)	(2,877,075)
Proceeds from sale of investments	4,993,834	2,773,123
	<u>1,483,743</u>	<u>(272,326)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(608,238)	1,053,972
Cash and Cash Equivalents, Beginning of Year	<u>3,922,383</u>	<u>2,868,411</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,314,145</u></u>	<u><u>\$ 3,922,383</u></u>

Operation Homefront, Inc.

Notes to Financial Statements

December 31, 2014 and 2013

Note 1: Nature of Operations

Organization

Operation Homefront, Inc. (Organization/Operation Homefront), 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, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013, Operation Homefront had interest-bearing cash accounts that exceeded federally insured limits by approximately \$1,880,600 and \$2,742,000, respectively.

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 in the statements 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, 2014 and 2013, 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, 2014 and 2013

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.

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, 2014 and 2013

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, 2014 and 2013, 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 2011.

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.

Operation Homefront, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

Note 3: Unconditional Promises to Give

The unconditional pledges receivable at December 31, 2014 and 2013, represent promises to give future contributions to the Organization and are due as follows:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 2,823,635	\$ 492,981
One to five years	357,003	-
	<u>\$ 3,180,638</u>	<u>\$ 492,981</u>

Note 4: Investments

The cost and fair value of investments at December 31, are as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 181,728	\$ 181,727	\$ 218,058	\$ 218,058
Government securities				
FHLMC	37,210	38,420	89,579	92,196
FNMA	392,234	397,844	553,536	548,347
U.S. Treasury bonds	85,142	95,966	99,294	94,971
U.S. Treasury notes	306,026	305,350	756,386	743,131
Corporate bonds	442,386	446,104	876,996	869,256
Equity securities	1,500,442	1,709,599	1,660,937	2,156,631
Mutual funds				
Non-traditional bond	633,632	638,416	568,603	591,759
High-yield bond	206,677	209,159	553,094	584,897
World stock	215,058	203,035	146,497	183,457
Mid-cap value	200,448	200,582	129,876	175,490
Other	200	200	200	200
	<u>\$ 4,201,183</u>	<u>\$ 4,426,402</u>	<u>\$ 5,653,056</u>	<u>\$ 6,258,393</u>

Operation Homefront, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

Investment income for the years ended December 31 was comprised of:

	<u>2014</u>	<u>2013</u>
Dividends and interest	\$ 248,870	\$ 196,214
Net realized and unrealized gains on investments reported at fair value	51,876	484,242
Investment fees	<u>(60,304)</u>	<u>(91,168)</u>
Net investment income	<u>\$ 240,442</u>	<u>\$ 589,288</u>

Note 5: Property and Equipment

Property and equipment at December 31 consisted of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 20,000	\$ 20,000
Computers	576,723	385,655
Furniture	367,909	236,139
Office equipment	43,197	43,196
Communication equipment	35,517	35,517
Vehicles	<u>45,321</u>	<u>49,259</u>
Total property and equipment	1,088,667	769,766
Less accumulated depreciation and amortization	<u>(461,493)</u>	<u>(369,080)</u>
Net property and equipment	<u>\$ 627,174</u>	<u>\$ 400,686</u>

Depreciation and amortization expense was \$185,171 and \$162,577 for the years ended December 31, 2014 and 2013, respectively.

Operation Homefront, Inc.
Notes to Financial Statements
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Note 6: Restrictions on Net Assets

Temporarily restricted net assets as of December 31, 2014 and 2013, were available for the following purposes:

	<u>2014</u>	<u>2013</u>
Transitional housing	\$ 123,160	\$ 100,000
Permanent housing	42,033,398	33,008,496
Program - general	2,301,543	807,823
Program - wounded	3,337,126	1,302,385
Field operations	<u>12,013</u>	<u>11,616</u>
	<u>\$ 47,807,240</u>	<u>\$ 35,230,320</u>

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, for the years ending December 31:

	<u>2014</u>	<u>2013</u>
Transitional housing	\$ 376,839	\$ 450,626
Permanent housing	13,452,113	5,014,807
Program - general	945,143	155,481
Program - wounded	4,001,119	2,368,529
Field operations	<u>50,014</u>	<u>5,220</u>
	<u>\$ 18,825,228</u>	<u>\$ 7,994,663</u>

Operation Homefront, Inc.
Notes to Financial Statements
December 31, 2014 and 2013

Note 8: Gifts-in-Kind

Contributed goods, services and facilities for the years ended December 31, 2014 and 2013, consisted of the following:

	2014	2013
Gift cards	\$ 381,239	\$ 797,463
Computers	114,335	23,035
Other equipment	-	134,371
Facilities	177,218	294,500
Goods	18,743,613	25,118,512
Services	87,656	1,142,337
Vehicles	16,123	43,200
Furniture	59,709	334,583
	\$ 19,579,893	\$ 27,888,001

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 \$20,488 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 \$105 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 2017.

Rent expense amounted to \$760,686 and \$419,730 for the years ended December 31, 2014 and 2013, respectively.

The aggregate minimum future lease payments on noncancellable leases at December 31, 2014, are as follows:

2015	\$ 471,873
2016	391,846
2017	220,186
	\$ 1,083,905

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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 21 years old. Contribution expense amounted to \$73,839 and \$69,496 for the years ended December 31, 2014 and 2013, respectively.

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, 2014 and 2013.

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, 2014 and 2013, 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 December 31:

	2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 181,728	\$ -	\$ -	\$ 181,728
Government securities				
FHLMC	-	38,420	-	38,420
FNMA	-	397,844	-	397,844
U.S. Treasury bonds	-	95,966	-	95,966
U.S. Treasury notes	-	305,350	-	305,350
Corporate bonds	-	446,104	-	446,104
Equity securities	1,709,599	-	-	1,709,599
Mutual funds				
Non-traditional bond	638,416	-	-	638,416
High-yield bond	209,159	-	-	209,159
World stock	203,035	-	-	203,035
Mid-cap value	200,582	-	-	200,582
Other	200	-	-	200
	<u>\$ 3,142,719</u>	<u>\$ 1,283,684</u>	<u>\$ -</u>	<u>\$ 4,426,403</u>
	2013			
	Level 1	Level 2	Level 3	Total
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>

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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 years ended December 31, 2014 and 2013, 33 percent and 34 percent, respectively, of total support, revenue and other income which represents \$20,420,649 and \$25,260,145 worth of contributed houses was received from two financial institutions during 2014 and 2013.

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

On February 10, 2015, Operation Homefront received a gift of real estate comprised of 22.68 acres of land and buildings located in Fulton County, Georgia, with an appraised value of \$2,250,000.

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.