

# **Operation Homefront, Inc.**

Independent Auditor's Report and Financial Statements

December 31, 2015 and 2014

**Operation Homefront, Inc.**  
**December 31, 2015 and 2014**

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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, 2015 and 2014, 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, 2015 and 2014, 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  
March 30, 2016

**Operation Homefront, Inc.**  
**Statements of Financial Position**  
**December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,953,277	\$ 3,314,145
Restricted cash	882,746	782,273
Investments	3,268,075	4,426,402
Accounts receivable		
Trade	2,760	3,218
Unconditional promises to give	1,687,653	3,180,638
Accrued interest receivable	6,301	7,642
Contributed houses inventory	40,289,588	41,994,105
Contributed goods inventory	1,369,153	1,771,397
Other inventory	31,831	33,234
Prepaid expenses and other	316,139	241,895
Property and equipment, net	391,176	627,174
Real estate held for sale, net	1,897,728	-
	<b>\$ 53,096,427</b>	<b>\$ 56,382,123</b>
Total assets	<b>\$ 53,096,427</b>	<b>\$ 56,382,123</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 612,499	\$ 552,637
Accrued expenses	295,855	1,068,896
Accrued escrow accounts	882,746	782,273
Deferred revenue	150,000	170,000
	1,941,100	2,573,806
Total liabilities	1,941,100	2,573,806
<b>Net Assets</b>		
Unrestricted	5,594,542	6,001,077
Temporarily restricted	45,560,785	47,807,240
	51,155,327	53,808,317
Total net assets	51,155,327	53,808,317
Total liabilities and net assets	<b>\$ 53,096,427</b>	<b>\$ 56,382,123</b>

**Operation Homefront, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2015 and 2014**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>2015 Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>2014 Total</b>
<b>Support, Revenue and Other</b>						
Contributed houses	\$ -	\$ 13,593,778	\$ 13,593,778	\$ -	\$ 21,348,790	\$ 21,348,790
Contributed goods, services and facilities	20,242,379	-	20,242,379	19,579,893	-	19,579,893
Contributions	11,290,371	4,966,637	16,257,008	10,524,432	10,053,358	20,577,790
Investment income	54,008	-	54,008	240,442	-	240,442
Special events, net of direct donor/benefit expenses of \$238,013	289,936	-	289,936	270,913	-	270,913
Miscellaneous	17,101	-	17,101	11,987	-	11,987
Net assets released from restrictions	20,806,870	(20,806,870)	-	18,825,228	(18,825,228)	-
	<u>52,700,665</u>	<u>(2,246,455)</u>	<u>50,454,210</u>	<u>49,452,895</u>	<u>12,576,920</u>	<u>62,029,815</u>
<b>Expenses</b>						
Program services	48,867,936	-	48,867,936	51,031,839	-	51,031,839
Membership and fundraising	1,908,176	-	1,908,176	2,200,166	-	2,200,166
Management and general	2,331,088	-	2,331,088	2,069,250	-	2,069,250
	<u>53,107,200</u>	<u>-</u>	<u>53,107,200</u>	<u>55,301,255</u>	<u>-</u>	<u>55,301,255</u>
<b>Change in Net Assets</b>	(406,535)	(2,246,455)	(2,652,990)	(5,848,360)	12,576,920	6,728,560
<b>Net Assets, Beginning of Year</b>	6,001,077	47,807,240	53,808,317	11,849,437	35,230,320	47,079,757
<b>Net Assets, End of Year</b>	<u>\$ 5,594,542</u>	<u>\$ 45,560,785</u>	<u>\$ 51,155,327</u>	<u>\$ 6,001,077</u>	<u>\$ 47,807,240</u>	<u>\$ 53,808,317</u>

**Operation Homefront, Inc.**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2015**

	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	\$ 657,544	\$ 203,291	\$ 1,093,920	\$ 956,623	\$ 720,224	\$ 691,547	\$ 411,553	\$ 4,734,702	\$ 1,133,794	\$ 1,616,546	\$ 2,750,340	\$ 7,485,042
Professional fees	468,712	279,469	529,902	74,358	92,900	21,533	52,594	1,519,468	275,947	320,816	596,763	2,116,231
Supplies	8,590	-	1,078	34,170	2,794	8,509	578	55,719	5,283	27,968	33,251	88,970
Communications	44,442	-	11,967	89,349	19,199	6,125	5,874	176,956	14,395	19,385	33,780	210,736
Postage and shipping	216,930	385	55,971	27,732	7,207	951	1,905	311,081	85,403	8,637	94,040	405,121
Occupancy	224,419	95	220,796	291,970	50,690	7,657	5,736	801,363	44,669	32,225	76,894	878,257
Rent and maintenance	19,776	-	1,812	1,042	4,644	739	602	28,615	3,912	3,098	7,010	35,625
Printing and publications	1,609	-	713	10,250	372	43	2,090	15,077	33,275	24,650	57,925	73,002
Travel	37,133	-	14,798	157,899	-	14,668	5,019	229,517	133,013	112,427	245,440	474,957
Conferences and meetings	652	-	-	6,026	3,109	995	619	11,401	13,634	94,143	107,777	119,178
Specific assistance to individuals	482,482	17,798	3,568,038	983,490	714,593	1,390,563	785	7,157,749	-	-	-	7,157,749
Memberships and dues	-	-	-	2,816	60	420	-	3,296	1,716	2,053	3,769	7,065
In-kind expenses	1,289,192	-	350,110	17,208,757	14,781,655	50,826	-	33,680,540	-	54	54	33,680,594
Miscellaneous	4,448	-	1,908	4,193	262	15	15	10,841	130,471	26,461	156,932	167,773
<b>Total expenses before depreciation</b>	<b>3,455,929</b>	<b>501,038</b>	<b>5,851,013</b>	<b>19,848,675</b>	<b>16,397,709</b>	<b>2,194,591</b>	<b>487,370</b>	<b>48,736,325</b>	<b>1,875,512</b>	<b>2,288,463</b>	<b>4,163,975</b>	<b>52,900,300</b>
Depreciation	24,111	5,286	17,713	6,564	44,304	21,292	12,341	131,611	32,664	42,625	75,289	206,900
<b>Total expenses</b>	<b>\$ 3,480,040</b>	<b>\$ 506,324</b>	<b>\$ 5,868,726</b>	<b>\$ 19,855,239</b>	<b>\$ 16,442,013</b>	<b>\$ 2,215,883</b>	<b>\$ 499,711</b>	<b>\$ 48,867,936</b>	<b>\$ 1,908,176</b>	<b>\$ 2,331,088</b>	<b>\$ 4,239,264</b>	<b>\$ 53,107,200</b>

**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
<b>Total expenses before depreciation</b>	<b>6,320,897</b>	<b>598,148</b>	<b>6,362,677</b>	<b>21,366,818</b>	<b>13,862,833</b>	<b>1,777,611</b>	<b>588,740</b>	<b>50,877,724</b>	<b>2,189,814</b>	<b>2,048,546</b>	<b>4,238,360</b>	<b>55,116,084</b>
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
<b>Total expenses</b>	<b>\$ 6,342,734</b>	<b>\$ 606,324</b>	<b>\$ 6,383,442</b>	<b>\$ 21,404,136</b>	<b>\$ 13,871,009</b>	<b>\$ 1,833,588</b>	<b>\$ 590,606</b>	<b>\$ 51,031,839</b>	<b>\$ 2,200,166</b>	<b>\$ 2,069,250</b>	<b>\$ 4,269,416</b>	<b>\$ 55,301,255</b>

**Operation Homefront, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Activities</b>		
Change in net assets	\$ (2,652,990)	\$ 6,728,560
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	206,900	185,171
Net realized/unrealized (gain) loss on investments	17,105	(51,876)
Loss on disposal of equipment	70,054	-
Contributed houses	(13,593,778)	(21,348,790)
Contributed goods, services and facilities	(18,344,651)	(19,579,893)
In-kind expenses	33,680,594	33,884,130
Contributed investments	(76,621)	-
Contributed real estate	(1,897,728)	-
Change in inventory	1,403	(5,637)
(Increase) decrease in		
Accounts receivable - trade	458	5,940
Accrued interest receivable	-	7,186
Unconditional promises to give	1,492,985	(2,687,657)
Prepaid expenses	(74,244)	(150,390)
Increase (decrease) in		
Accounts payable	59,862	(153,513)
Accrued expenses	(77,041)	163,255
Deferred revenue	(20,000)	70,000
Other current assets and liabilities	(532,246)	841,533
	<u>(1,739,938)</u>	<u>(2,091,981)</u>
<b>Investing Activities</b>		
Purchase of equipment	(42,858)	(422,730)
Purchase of investments	(2,420,595)	(3,087,361)
Proceeds from house fire	205,000	-
Proceeds from sale of investments	3,637,523	4,993,834
	<u>1,379,070</u>	<u>1,483,743</u>
<b>Decrease in Cash and Cash Equivalents</b>	<b>(360,868)</b>	<b>(608,238)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>3,314,145</b>	<b>3,922,383</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 2,953,277</b>	<b>\$ 3,314,145</b>



# Operation Homefront, Inc.

## Notes to Financial Statements

### December 31, 2015 and 2014

#### 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 its funding from community sponsorships, corporate and individual donations and also participates in numerous fundraising events throughout the year. The Organization provides emergency financial and other assistance/services to military families and wounded warriors across the United States through its 17 field offices that serve all 50 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 families 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, 2015 and 2014**

**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, 2015 and 2014, 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, 2015 and 2014, Operation Homefront had cash accounts that exceeded federally insured limits by approximately \$2,358,000 and \$1,880,600, 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, 2015 and 2014, 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, 2015 and 2014**

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. Revenue for the contributed goods is recognized in circumstances in which Operation Homefront has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with FASB ASC 958-605-25. Contributed goods are valued and recorded as revenues at the estimated fair value as of the date the goods are contributed. The distribution of these contributed goods for Operation Homefront's programs are recorded as program expenses in the statements of functional expenses.

***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. Revenue for the contributed houses is recognized in circumstances in which Operation Homefront has sufficient discretion over the use and disposition of the houses to recognize a contribution in conformity with FASB ASC 958-605-25. Contributed houses are valued and recorded as revenue at the estimated fair value as of the date contributed, less the present value of the estimated closing costs to Operation Homefront. The distribution of these houses for Operation Homefront's programs is recorded as program expenses in the statements of functional expenses.

**Operation Homefront, Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

***Real Estate Held for Sale***

Real estate held for sale consists of a warehouse facility in Fulton County, Georgia, and other real estate in New Mexico, that are being held for sale and are valued at the facility's estimated net realizable value as of December 31, 2015.

***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.

***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, 2015 and 2014, 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 2012.

**Operation Homefront, Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

***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.

**Note 3: Unconditional Promises to Give**

The unconditional pledges receivable at December 31, 2015 and 2014, represents promises to give future contributions to the Organization and are due as follows:

	<b>2015</b>	<b>2014</b>
Less than one year	\$ 1,587,653	\$ 2,823,635
One to five years	100,000	357,003
	\$ 1,687,653	\$ 3,180,638

**Note 4: Investments**

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

	<b>2015</b>		<b>2014</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 137,190	\$ 137,190	\$ 181,728	\$ 181,727
Government securities				
FHLMC	66,231	65,913	37,210	38,420
FNMA	235,571	236,833	392,234	397,844
U.S. Treasury bonds	67,230	70,247	85,142	95,966
U.S. Treasury notes	198,239	197,556	306,026	305,350
European investments	9,916	9,763		
Corporate bonds	381,212	379,251	442,386	446,104
Equity securities	1,202,881	1,261,240	1,500,442	1,709,599
Mutual funds				
Non-traditional bond	485,625	466,048	633,632	638,416
High-yield bond	161,056	147,620	206,677	209,159
World stock	183,371	149,820	215,058	203,035
Mid-cap value	184,848	146,394	200,448	200,582
Other	200	200	200	200
	\$ 3,313,570	\$ 3,268,075	\$ 4,201,183	\$ 4,426,402

**Operation Homefront, Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

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

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 107,248	\$ 248,870
Net realized and unrealized gains (losses) on investments reported at fair value	(17,105)	51,876
Investment fees	<u>(36,135)</u>	<u>(60,304)</u>
Net investment income	<u>\$ 54,008</u>	<u>\$ 240,442</u>

**Note 5: Property and Equipment**

Property and equipment at December 31 consisted of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 20,000	\$ 20,000
Computers	325,525	576,723
Furniture	237,350	367,909
Office equipment	11,771	43,197
Communication equipment	1,994	35,517
Vehicles	<u>37,821</u>	<u>45,321</u>
Total property and equipment	634,461	1,088,667
Less accumulated depreciation and amortization	<u>(243,285)</u>	<u>(461,493)</u>
Net property and equipment	<u>\$ 391,176</u>	<u>\$ 627,174</u>

Depreciation and amortization expense was \$206,900 and \$185,171 for the years ended December 31, 2015 and 2014, respectively.

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**Note 6: Restrictions on Net Assets**

Temporarily restricted net assets as of December 31, 2015 and 2014, were available for the following purposes:

	<u>2015</u>	<u>2014</u>
Transitional housing	\$ 245,638	\$ 123,160
Permanent housing	41,649,905	42,033,398
Program - general	1,756,266	2,301,543
Program - wounded	1,859,522	3,337,126
Field operations	49,454	12,013
	<u>\$ 45,560,785</u>	<u>\$ 47,807,240</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>2015</u>	<u>2014</u>
Transitional housing	\$ 387,522	\$ 376,839
Permanent housing	15,662,271	13,452,113
Program - general	1,761,814	945,143
Program - wounded	2,955,129	4,001,119
Field operations	40,134	50,014
	<u>\$ 20,806,870</u>	<u>\$ 18,825,228</u>

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**Note 8: Gifts-in-Kind**

Contributed goods, services and facilities for the years ended December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Gift cards	\$ 488,128	\$ 381,239
Computers	17,885	114,335
Facilities	1,954,475	177,218
Goods	16,947,689	18,743,613
Services	53,027	87,656
Food	573,021	-
Vehicles	-	16,123
Furniture	208,154	59,709
	<u>\$ 20,242,379</u>	<u>\$ 19,579,893</u>

**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 \$15,280 with varying expiration dates through April 2021. 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 \$40 to \$1,560.

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 \$893 to \$3,080 with varying expiration dates through June 2017.

Rent expense amounted to \$580,839 and \$760,686 for the years ended December 31, 2015 and 2014, respectively.

The aggregate minimum future lease payments on noncancellable leases at December 31, 2015, are as follows:

2016	\$ 1,217,889
2017	349,297
2018	131,688
2019	131,688
2020	131,688
Thereafter	<u>43,896</u>
	<u>\$ 2,006,146</u>



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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 \$108,921 and \$73,839 for the years ended December 31, 2015 and 2014, 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 year ended December 31, 2015.

***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, 2015 and 2014, 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:

	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 137,190	\$ -	\$ -	\$ 137,190
Government securities				
FHLMC	-	65,913	-	65,913
FNMA	-	236,833	-	236,833
U.S. Treasury bonds	-	70,247	-	70,247
U.S. Treasury notes	-	197,556	-	197,556
Corporate bonds	-	379,251	-	379,251
European investments	9,763	-	-	9,763
Equity securities	1,261,240	-	-	1,261,240
Mutual funds				
Non-traditional bond	466,048	-	-	466,048
High-yield bond	147,620	-	-	147,620
World stock	149,820	-	-	149,820
Mid-cap value	146,394	-	-	146,394
Other	200	-	-	200
	<u>\$ 2,318,275</u>	<u>\$ 949,800</u>	<u>\$ -</u>	<u>\$ 3,268,075</u>
	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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	-	446,103	-	446,103
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>\$ 1,283,683</u>	<u>\$ -</u>	<u>\$ 4,426,402</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, 2015 and 2014, 26 percent and 33 percent, respectively, of total support, revenue and other income which represents \$12,964,008 and \$20,420,649 worth of contributed houses was received from two financial institutions during 2015 and 2014.

**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.

**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.