

OPERATION HOMEFRONT, INC.

Audited Financial Statements

December 31, 2019

AKIN, DOHERTY, KLEIN & FEUGE, P.C.
Certified Public Accountants

OPERATION HOMEFRONT, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Operation Homefront, Inc.
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Operation Homefront, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, 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.

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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, 2019 and 2018, and the results of its activities, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Akin, Doherty, Klein & Feuge P.C.

Akin, Doherty, Klein & Feuge, P.C.

San Antonio, Texas

March 23, 2020

OPERATION HOMEFRONT, INC.
Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash, operating	\$ 721,669	\$ 1,728,211
Cash, escrow funds	201,289	70,283
Cash, security deposits	45,500	52,000
Total cash	<u>968,458</u>	<u>1,850,494</u>
Investments, at fair value	1,987,932	1,945,056
Contributions receivable	8,020,982	6,225,354
Contributed houses inventory	14,425,860	16,637,864
Contributed goods inventory	826,447	2,239,231
Prepaid expenses	327,358	406,989
Other current assets	1,696	1,665
Property and equipment, net	<u>2,656,689</u>	<u>1,343,815</u>
Total Assets	<u><u>\$ 29,215,422</u></u>	<u><u>\$ 30,650,468</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 732,289	\$ 684,788
Accrued expenses	744,802	642,353
Accrued escrow accounts	363,789	347,283
Debt	197,004	34,806
Total liabilities	<u>2,037,884</u>	<u>1,709,230</u>
Net Assets:		
Without donor restrictions:		
Undesignated	2,320,972	2,886,582
Designated for THCR and transitional housing	362,243	3,998,790
Designated for permanent housing	13,842,855	16,217,269
Designated for critical financial assistance	4,372,395	4,902,892
Designated for field operations	107,786	185,705
Total without donor restrictions	<u>21,006,251</u>	<u>28,191,238</u>
With donor restrictions:		
Time restrictions	6,171,287	750,000
Total with donor restrictions	<u>6,171,287</u>	<u>750,000</u>
Total net assets	<u><u>27,177,538</u></u>	<u><u>28,941,238</u></u>
Total Liabilities and Net Assets	<u><u>\$ 29,215,422</u></u>	<u><u>\$ 30,650,468</u></u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues			
Contributed houses	\$ 5,793,126	\$ -	\$ 5,793,126
Contributed goods, services and facilities	21,698,588	-	21,698,588
Contributions	14,910,241	6,171,287	21,081,528
Special events, net of expenses of \$347,014	226,652	-	226,652
	<u>42,628,607</u>	<u>6,171,287</u>	<u>48,799,894</u>
Other revenues:			
Investment earnings, net	41,187	-	41,187
Other revenues	86,988	-	86,988
	<u>42,756,782</u>	<u>6,171,287</u>	<u>48,928,069</u>
Expenses			
Program services	46,125,576	-	46,125,576
Management and general	1,939,232	-	1,939,232
Fundraising	2,626,961	-	2,626,961
	<u>50,691,769</u>	<u>-</u>	<u>50,691,769</u>
Change in Net Assets	(7,934,987)	6,171,287	(1,763,700)
Net assets released from restrictions	750,000	(750,000)	-
Net assets at beginning of year	28,191,238	750,000	28,941,238
	<u>28,191,238</u>	<u>750,000</u>	<u>28,941,238</u>
Net Assets at Year End	<u>\$ 21,006,251</u>	<u>\$ 6,171,287</u>	<u>\$ 27,177,538</u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues			
Contributed houses	\$ 6,093,888	\$ -	\$ 6,093,888
Contributed goods, services and facilities	17,749,939	-	17,749,939
Contributions	21,231,664	750,000	21,981,664
Special events, net of expenses of \$376,258	105,019	-	105,019
	<u>45,180,510</u>	<u>750,000</u>	<u>45,930,510</u>
Other revenues:			
Investment earnings, net	35,407	-	35,407
Other revenues	18,655	-	18,655
	<u>45,234,572</u>	<u>750,000</u>	<u>45,984,572</u>
Expenses			
Program services	44,206,493	-	44,206,493
Management and general	1,753,095	-	1,753,095
Fundraising	2,309,947	-	2,309,947
	<u>48,269,535</u>	<u>-</u>	<u>48,269,535</u>
Change in Net Assets	(3,034,963)	750,000	(2,284,963)
Net assets released from restrictions	1,150,000	(1,150,000)	-
Net assets at beginning of year	<u>30,076,201</u>	<u>1,150,000</u>	<u>31,226,201</u>
Net Assets at Year End	<u>\$ 28,191,238</u>	<u>\$ 750,000</u>	<u>\$ 28,941,238</u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services					Total	Management and General	Fundraising	2019 Total
	Critical Assistance	Hearts of Valor	Field Operations	Homes on the Homefront	THCR and Trans. Housing				
Salaries, taxes and employee benefits	\$ 1,513,341	\$ 78,867	\$ 3,323,450	\$ 1,018,584	\$ 520,703	\$ 6,454,945	\$ 1,265,530	\$ 1,235,367	\$ 8,955,842
Professional services	220,211	8,081	630,420	305,205	63,020	1,226,937	324,842	604,509	2,156,288
Supplies	9,800	667	46,979	13,560	4,985	75,991	21,851	1,098	98,940
Communications	17,131	1,233	77,871	24,656	8,130	129,021	14,035	7,548	150,604
Postage and shipping	69,168	8,847	176,086	77,603	15,309	347,013	4,548	246,196	597,757
Occupancy	97,380	3,597	512,343	129,953	26,464	769,737	80,695	91	850,523
Equipment rental and maintenance	4,881	180	14,180	6,513	1,408	27,162	3,932	-	31,094
Printing and publications	87,391	3,228	253,399	116,621	23,068	483,707	17,672	351,647	853,026
Travel	21,188	421	82,979	16,798	7,597	128,983	26,755	61,791	217,529
Conferences and meetings	15,866	495	48,409	17,887	3,538	86,195	60,557	7,006	153,758
Specific assistance to individuals	2,469,531	143,301	898,032	555,449	1,169,663	5,235,976	-	-	5,235,976
Memberships and dues	924	31	6,199	1,113	578	8,845	1,129	11,630	21,604
In-kind expenses	3,738,160	58,162	17,890,301	8,811,223	276,345	30,774,191	87,560	52,960	30,914,711
Depreciation	97,556	252	93,361	69,446	87,523	348,138	18,083	-	366,221
Miscellaneous	7,613	1,831	13,028	5,219	1,044	28,735	12,043	47,118	87,896
Total expenses	\$ 8,370,141	\$ 309,193	\$ 24,067,037	\$ 11,169,830	\$ 2,209,375	\$ 46,125,576	\$ 1,939,232	\$ 2,626,961	\$ 50,691,769

Special events costs not included above:

Awards	\$ 71,669
Production costs	245,227
Value to guests	11,350
Other direct costs	18,768
	<u>\$ 347,014</u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services					Total	Management and General	Fundraising	2018 Total
	Critical Assistance	Hearts of Valor	Field Operations	Homes on the Homefront	THCR and Trans. Housing				
Salaries, taxes and employee benefits	\$ 1,612,892	\$ 90,002	\$ 2,767,928	\$ 1,264,978	\$ 456,535	\$ 6,192,335	\$ 1,213,503	\$ 1,184,619	\$ 8,590,457
Professional services	267,096	13,482	423,672	416,082	72,565	1,192,897	304,613	579,596	2,077,106
Supplies	10,539	1,091	30,969	14,940	4,475	62,014	15,302	2,250	79,566
Communications	21,945	1,047	71,060	32,659	9,215	135,926	13,723	7,090	156,739
Postage and shipping	57,739	7,277	81,816	68,386	7,864	223,082	5,235	169,661	397,978
Occupancy	126,009	4,386	420,078	186,697	21,056	758,226	84,488	-	842,714
Equipment rental and maintenance	8,507	296	13,003	12,598	1,562	35,966	5,148	-	41,114
Printing and publications	62,349	2,172	97,103	92,331	10,426	264,381	9,336	235,423	509,140
Travel	24,840	520	62,904	23,041	8,808	120,113	24,774	61,520	206,407
Conferences and meetings	16,188	563	32,617	23,924	2,781	76,073	54,090	13,322	143,485
Specific assistance to individuals	2,205,458	143,502	806,893	183,155	1,102,220	4,441,228	-	-	4,441,228
Memberships and dues	804	28	4,364	1,191	469	6,856	302	12,448	19,606
In-kind expenses	5,945,671	61,103	11,095,951	13,216,296	51,310	30,370,331	-	-	30,370,331
Depreciation	158,386	461	20,038	19,606	10,729	209,220	7,937	-	217,157
Miscellaneous	13,527	40,934	11,685	50,618	1,081	117,845	14,644	44,018	176,507
Total expenses	\$ 10,531,950	\$ 366,864	\$ 15,940,081	\$ 15,606,502	\$ 1,761,096	\$ 44,206,493	\$ 1,753,095	\$ 2,309,947	\$ 48,269,535

Special events costs not included above:

Awards	\$ 70,964
Production costs	178,563
Value to guests	26,372
Other direct costs	100,359
	<u>\$ 376,258</u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ (1,763,700)	\$ (2,284,963)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	366,221	217,157
(Gain) loss on investments	(41,187)	(35,407)
Contributed houses	(5,793,126)	(6,093,888)
Contributed goods, services and facilities	(21,698,588)	(17,749,939)
Contributed investments	(37,068)	(46,147)
In-kind expenses	30,914,711	30,370,331
Loss on disposal of property and equipment	7,199	807
(Gain) loss on disposal of houses	(75,329)	70,367
Change in operating assets and liabilities:		
Contributions receivable	(1,795,628)	(4,338,328)
Prepaid expenses	79,631	(193,329)
Inventory	(28,299)	217,007
Accounts payable	47,501	9,651
Accrued expenses	102,449	104,706
Accrued escrow accounts	16,506	(284,232)
Other current assets and liabilities	(31)	8,995
Net cash provided by operating activities	<u>301,262</u>	<u>(27,212)</u>
Investing Activities		
Purchase of property and equipment	(1,831,449)	(1,120,921)
Proceeds from the disposal of property and equipment	145,155	-
Proceeds from the sale of houses	305,419	99,633
Net investment activity	<u>35,379</u>	<u>697,685</u>
Net cash (used) by investing activities	<u>(1,345,496)</u>	<u>(323,603)</u>
Financing Activities		
Borrowings on debt	1,205,156	900,000
Payments on debt	<u>(1,042,958)</u>	<u>(933,390)</u>
Net cash provided (used) by financing activities	<u>162,198</u>	<u>(33,390)</u>
Change in cash and cash equivalents	(882,036)	(384,205)
Cash and cash equivalents at beginning of year	<u>1,850,494</u>	<u>2,234,699</u>
Cash and Cash Equivalents at End of Year	<u>\$ 968,458</u>	<u>\$ 1,850,494</u>
Supplemental Disclosures		
Cash paid for interest	\$ 9,730	\$ 11,714
Cash paid for income taxes	-	-

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Operation Homefront, Inc. (Organization or 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. The Organization changed its name to Operation Homefront, Inc. in 2006. 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 2 headquarter offices (San Antonio, TX and Arlington, VA) and its 19 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 (rent/mortgage payments, home/car repairs, utility/grocery bills and other essential items);
- Transitional and permanent housing; and
- Recurring family support (back-to-school supplies, holiday meals, holiday toys and other essential items).

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 less the present value of the estimated closing costs of transferring these homes to the deserving candidate when deeded to Operation Homefront.

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U. S. generally accepted accounting principles. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Without Donor Restrictions: Net assets for use in operations and not subject to donor-imposed stipulations. Grants and contributions for recurring programs are generally not considered “restricted” under GAAP, though for internal reporting the Organization tracks such grants and contributions to verify the disbursement matches the intent.

With Donor Restrictions: Net assets subject to donor-imposed restrictions that are more restrictive than Operation Homefront’s mission and purpose. Donor imposed restrictions, that are temporary in nature are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition: The Organization recognizes contributions and grants either when a valid promise to give (generally in writing) is received or as collected in the case of most smaller denomination gifts. Contributions and grants are reported as without or with donor restriction, depending on the existence and/or nature of any restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction depending on the nature of the restriction. When a restriction expires, the net assets are reclassified to net assets without donor restriction. Non-cash contributions are recorded at their fair market value at the date of contribution.

Gifts of houses or other tangible goods are reported as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Organization does not have any material contract assets or contract liabilities on the balance sheet as of December 31, 2019.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand and deposits held by financial institutions with maturities of three months or less.

Investments: Investments are reported at fair market value determined by quoted market prices. Gains and losses (realized and unrealized) are reported as investment earnings, net of expenses in the accompanying statements of activities.

Contributions Receivable: Contributions are recorded as receivables and revenue in the year made unless the contribution is dependent upon the occurrence of a specified future and uncertain event to bind the donor. Contributions are recognized when the conditions upon which they depend are substantially met or when the possibility that the condition will not be met is remote. An allowance was not considered necessary at December 31, 2019 and 2018.

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.

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 accounting standards. 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.

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 accounting standards. 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.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Other Inventory: Inventory is stated at the lower of cost or net realizable value, using the first-in, first out method. Inventories consist of promotional items for field office use and for resale to the public.

Property and Equipment: Property and equipment is valued at historical cost or estimated fair value at the date of donation. Expenditures for betterments greater than \$500 that materially extend the useful life of an asset are capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets, which is generally three to five years for furniture and equipment and forty years for buildings.

Accrued Escrow Accounts: Operation Homefront's accrued escrow accounts 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.

Employee Benefit Plan: The Organization has a 401(k) employee benefit covering all full-time employees after three months of service and are a least 21 years old. Employees may contribute a percentage of their annual compensation up to the limit allowed by the IRS. The Organization matches up to 4% of the employees' contributions. The Organization contributions to the Plan were approximately \$211,000 in 2019 and \$182,000 in 2018.

Income Taxes: Operation Homefront is a tax-exempt organization under Internal Revenue Service Code Section 501(c)(3). In addition, the Organization is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. Donors of money and/or property are entitled to the maximum charitable contribution deduction allowed by law. The Organization is not subject to Texas margin tax. Management is not aware of any tax positions that would have a significant impact on its financial position. Its federal tax returns for the last four years remain subject to examination.

Functional Allocation of Expenses: Certain costs have been allocated among the programs and supporting services benefited. Also see Note G.

Special Events: Costs associated with special events are netted against the related revenue.

Advertising: Advertising, printing and publication costs are expensed as incurred.

Subsequent Events: Subsequent events have been evaluated by management through the date of the independent auditor's report. Material subsequent events, if any, are disclosed in a separate footnote to these financial statements.

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Concentrations of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and investments. The Organization places its cash and investments with financial institutions, and limits the amount of credit exposure, although it may from time to time have cash balances or investments in excess of that insured by the FDIC. The Organization periodically assesses the financial condition of the institutions and believes the risk of loss is minimal. At December 31, 2019 and 2018, the Organization had cash accounts that exceeded federally insured limits by approximately \$444,000 and \$1,479,000, respectively.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Recently Adopted Accounting Pronouncement: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, regarding revenue recognition, effective for periods beginning after December 15, 2018. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. The Organization adopted this new pronouncement effective January 1, 2019. This standard was implemented using the modified retrospective method. While adoption of this standard required additional disclosures, adoption did not have a material impact on the financial statements and no adjustments were made to prior periods.

Additionally, ASU 2016-01 regarding the recognition and measurement of financial assets and financial liabilities and ASU 2016-18 regarding the presentation of restricted cash in the statement of cash flows were implemented but had no effect on the financial statement presentation.

New Accounting Pronouncements: In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2020. A lessee will be required to recognize on the statement of financial position the assets and liabilities for leases with lease terms of more than 12 months. The impact to operations is expected to be minimal. Management does not expect the new standard to have a significant impact on its financial position, results of operations, and related disclosures.

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no effect on the previously reported change in net assets.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2019 and 2018

NOTE B – INVESTMENTS

Investments are stated at fair value. Investment earnings (including interest earned on accounts classified as cash and cash equivalents) are summarized as follows at December 31:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 42,763	\$ 37,159
Net realized and unrealized (losses) on change in market value	(1,282)	(1,602)
Investment fees	<u>(294)</u>	<u>(150)</u>
Investment earnings, net	<u>\$ 41,187</u>	<u>\$ 35,407</u>

NOTE C – CONTRIBUTIONS RECEIVABLE

The contributions receivable are due as follows at December 31:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 5,520,982	\$ 6,025,354
Due in one to five years	<u>2,500,000</u>	<u>200,000</u>
	<u>\$ 8,020,982</u>	<u>\$ 6,225,354</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 288,587	\$ 155,354
Buildings	1,687,890	589,901
Computers and equipment	500,613	496,465
Furniture and fixtures	251,089	251,089
Vehicles	37,821	37,821
Software	1,076,655	616,568
Construction in progress	<u>49,344</u>	<u>67,236</u>
Total property and equipment	3,891,999	2,214,434
Less accumulated depreciation	<u>(1,235,310)</u>	<u>(870,619)</u>
Property and equipment, net	<u>\$ 2,656,689</u>	<u>\$ 1,343,815</u>

OPERATION HOMEFRONT, INC.
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NOTE E – DEBT

The Organization has a line of credit with Merrill Lynch, which is secured by their investment account with Merrill Lynch, with interest at LIBOR plus 1.25%. The available credit is based on various percentages of the assets in their investment account. As of December 31, 2019, \$197,004 is drawn on the line of credit. No borrowings were advanced under this line of credit at December 31, 2018.

As of December 31, 2018, the Organization had debt of \$34,806 for a computer equipment (capital) lease from Hewlett-Packard Financial Services with interest of 5.41% and installments of \$3,023. The lease was paid in full in 2019.

NOTE F – GIFTS IN-KIND

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

	<u>2019</u>	<u>2018</u>
Gift cards	\$ 650,014	\$ 1,014,005
Facilities	121,465	110,526
Goods	16,752,181	16,402,361
Services	4,109,275	223,047
Vehicles	<u>65,653</u>	<u>-</u>
	<u>\$ 21,698,588</u>	<u>\$ 17,749,939</u>

NOTE G – JOINT COSTS

In accordance with accounting standards, Operation Homefront conducts activities that include a fundraising appeal. Those activities include direct mail campaigns. For the year ending December 31, 2019, the costs of conducting these activities included a total of \$2,494,722 of joint costs. Of these costs, \$1,372,097 was allocated to program expenses and \$1,122,625 was allocated to fundraising expenses. For the year ending December 31, 2018, the costs of conducting these activities included a total of \$1,963,940 of joint costs. Of these costs, \$981,970 was allocated to program expenses and \$981,970 was allocated to fundraising expenses.

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NOTE H – FAIR VALUE MEASUREMENTS

In accordance with U.S. generally accepted accounting principles, the Organization utilizes a fair value hierarchy that prioritizes the inputs for the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets
 - quoted prices for identical or similar assets or liabilities in inactive markets
 - inputs other than quoted prices that are observable for the asset or liability
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used.

Cash and cash equivalents: Valued at its carrying amount due to short-term maturity of the instrument.

Certificates of deposit: Valued at its cost plus accrued interest which approximates fair value.

Mutual fund: Valued at the daily closing price reported on the active market.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTE H – FAIR VALUE MEASUREMENTS - continued

The following table sets forth, by level within the fair value hierarchy, the Organization’s investments measured at fair value:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
<i>December 31, 2019</i>				
Cash and cash equivalents	\$ 897,957	\$ -	\$ -	\$ 897,957
Certificates of deposit	1,087,892	-	-	1,087,892
Mutual fund	2,083	-	-	2,083
	<u>\$ 1,987,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,987,932</u>
<i>December 31, 2018</i>				
Cash and cash equivalents	\$ 996,611	\$ -	\$ -	\$ 996,611
Certificates of deposit	948,445	-	-	948,445
	<u>\$ 1,945,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,945,056</u>

NOTE I – LEASES

Operation Homefront leases office space in various cities where its field offices and headquarters are located under noncancelable operating leases with monthly payments ranging from \$300 to \$16,697 with varying expiration dates through May 2022. The Organization also leases warehouse and storage facilities in multiple locations which are used for the storage of the inventories of in-kind donations. The agreements are month-to-month with payments ranging from \$50 to \$2,275.

In addition, the Organization leases apartment units for disabled service members discharged from military service who are transitioning from military base housing to permanent housing. These agreements have monthly payments ranging from \$1,229 to \$3,650 with varying expiration dates through May 2021.

Rent expense amounted to \$681,142 in 2019 and \$685,895 in 2018.

The aggregate minimum future lease payments on noncancelable leases at December 31, 2019, are as follows:

<u>Year Ending December 31,</u>	
2020	480,151
2021	301,522
2022	92,788

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NOTE J – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

Accounting standards require management to discuss its financial resources that are available as of year-end which may be utilized for operations over the next 12-month period. The Organization has approximately \$11 million of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure. This consists primarily of cash, investments, and contributions receivable. The Organization also has a line of credit which is available in the event of unanticipated liquidity needs. The Organization believes it has sufficient financial assets available with normal levels of operations to meet its financial obligations for general expenditures for the next year.