

OPERATION HOMEFRONT, INC.

Audited Financial Statements

December 31, 2020

ADKF, P.C.
Certified Public Accountants

OPERATION HOMEFRONT, INC.
Table of Contents
December 31, 2020

	<u>Page</u>
Audited Financial Statements	
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Audited Financial Statements	9



ADKF

with you
all the way

Member of the AICPA & TXCPA.

Registered with Public Company
Accounting Oversight Board.

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, 2020 and 2019, 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.

- 1 -

MAIN OFFICE:

8610 N. New Braunfels, STE 101
San Antonio, TX 78217

Phone: 210.829.1300
Fax: 210.829.4080

672 Ridge Hill Dr., STE B
New Braunfels, TX 78130

Phone: 830.387.4441

616 E. Blanco, STE 300e
Boerne, TX 78006

Phone: 830.815.1100



WWW.ADKF.CPA

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, 2020 and 2019, 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.

ADKF, PC

ADKF, P.C.

San Antonio, Texas

March 26, 2021

OPERATION HOMEFRONT, INC.
Statements of Financial Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash:		
Operating	\$ 4,797,344	\$ 721,669
Escrow funds	309,407	201,289
Security deposits	41,500	45,500
Total cash	<u>5,148,251</u>	<u>968,458</u>
Investments, at fair value	2,005,317	1,987,932
Contributions receivable	3,334,142	8,020,982
Contributed houses inventory	12,632,116	14,425,860
Contributed goods inventory	971,229	826,447
Prepaid expenses	313,718	327,358
Other current assets	1,701	1,696
Property and equipment, net	<u>4,422,096</u>	<u>2,656,689</u>
Total Assets	<u><u>\$ 28,828,570</u></u>	<u><u>\$ 29,215,422</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 360,567	\$ 732,289
Accrued expenses	912,162	744,802
Accrued escrow accounts	467,907	363,789
Debt	-	197,004
Total liabilities	<u>1,740,636</u>	<u>2,037,884</u>
Net Assets:		
Without donor restrictions:		
Undesignated	4,149,664	2,320,972
Designated for THV & TH-V transitional housing & villages	893,554	362,243
Designated for permanent housing	12,384,791	13,842,855
Designated for critical financial assistance	4,106,401	4,372,395
Designated for field operations	-	107,786
Total without donor restrictions	<u>21,534,410</u>	<u>21,006,251</u>
With donor restrictions, time restrictions	<u>5,553,524</u>	<u>6,171,287</u>
Total net assets	<u><u>27,087,934</u></u>	<u><u>27,177,538</u></u>
Total Liabilities and Net Assets	<u><u>\$ 28,828,570</u></u>	<u><u>\$ 29,215,422</u></u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Activities
Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenues			
Contributed houses	\$ 4,137,297	\$ -	\$ 4,137,297
Contributed goods, services and facilities	18,581,455	-	18,581,455
Contributions	16,129,135	3,043,524	19,172,659
PPP grant	1,607,412	-	1,607,412
Special events, net of expenses of \$168,839	200,257	-	200,257
	<u>40,655,556</u>	<u>3,043,524</u>	<u>43,699,080</u>
Other revenues:			
Investment earnings, net	19,192	-	19,192
(Loss) on disposal of contributed houses	(142,640)	-	(142,640)
Other revenues	6,529	-	6,529
	<u>40,538,637</u>	<u>3,043,524</u>	<u>43,582,161</u>
Expenses			
Program services	39,298,458	-	39,298,458
Management and general	1,690,124	-	1,690,124
Fundraising	2,683,183	-	2,683,183
	<u>43,671,765</u>	<u>-</u>	<u>43,671,765</u>
Change in Net Assets	(3,133,128)	3,043,524	(89,604)
Net assets released from restrictions	3,661,287	(3,661,287)	-
Net assets at beginning of year	<u>21,006,251</u>	<u>6,171,287</u>	<u>27,177,538</u>
Net Assets at Year End	<u>\$ 21,534,410</u>	<u>\$ 5,553,524</u>	<u>\$ 27,087,934</u>

See notes to audited financial statements.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
Gain on disposal of contributed houses	75,329	-	75,329
Other revenues	11,659	-	11,659
	<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	<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 Functional Expenses
Year Ended December 31, 2020

	Program Services					Total	Management and General	Fundraising	2020 Total
	Critical Assistance	Veteran Caregiver Support	Field Operations	Permanent Homes for Veterans	THV and TH-V Trans. Housing & Villages				
Salaries, taxes and employee benefits	\$ 1,522,502	\$ 76,655	\$ 3,570,894	\$ 999,246	\$ 600,049	\$ 6,769,346	\$ 1,202,151	\$ 1,305,215	\$ 9,276,712
Professional services	226,263	8,288	850,659	319,667	95,316	1,500,193	324,881	632,672	2,457,746
Supplies	7,414	525	43,199	11,223	4,684	67,045	12,463	1,444	80,952
Communications	15,575	1,107	84,185	22,922	10,118	133,907	13,475	8,215	155,597
Postage and shipping	67,266	9,116	222,728	81,188	24,534	404,832	4,235	306,347	715,414
Occupancy	86,603	3,243	519,095	123,960	37,155	770,056	88,015	84	858,155
Equipment rental and maintenance	2,802	105	10,905	4,011	1,330	19,153	3,803	-	22,956
Printing and publications	66,631	2,495	256,055	95,372	28,587	449,140	1,289	338,911	789,340
Travel	5,088	72	24,372	2,981	1,379	33,892	6,024	10,747	50,663
Conferences and meetings	2,248	84	16,686	3,218	965	23,201	10,956	1,021	35,178
Specific assistance to individuals	2,066,828	76,197	1,036,702	623,543	1,297,616	5,100,886	-	-	5,100,886
Memberships and dues	950	32	4,151	1,217	579	6,929	1,767	9,651	18,347
In-kind expenses	1,663,988	40,233	15,508,527	5,990,121	282,580	23,485,449	2,621	18,728	23,506,798
Depreciation	92,159	53	182,865	62,382	115,215	452,674	4,256	-	456,930
Miscellaneous	11,955	407	49,130	15,582	4,681	81,755	14,188	50,148	146,091
Total expenses	\$ 5,838,272	\$ 218,612	\$ 22,380,153	\$ 8,356,633	\$ 2,504,788	\$ 39,298,458	\$ 1,690,124	\$ 2,683,183	\$ 43,671,765

Special events costs not included above:

Awards	\$ 77,318
Production costs	60,264
Value to guests	11,023
Other direct costs	20,234
	<u>\$ 168,839</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	Veteran Caregiver Support	Field Operations	Permanent Homes for Veterans	THV and TH-V Trans. Housing & Villages				
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.
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Activities		
Change in net assets	\$ (89,604)	\$ (1,763,700)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	456,933	366,221
(Gain) on investments	(19,192)	(41,187)
Contributed houses	(4,137,297)	(5,793,126)
Contributed goods, services and facilities	(18,581,455)	(21,698,588)
Contributed investments	(48,898)	(37,068)
In-kind expenses	23,506,792	30,914,711
Loss on disposal of property and equipment	-	7,199
Loss (gain) on disposal of contributed houses	142,640	(75,329)
Change in operating assets and liabilities:		
Contributions receivable	4,686,840	(1,795,628)
Prepaid expenses	13,640	79,631
Inventory	(36,875)	(28,299)
Accounts payable	(371,722)	47,501
Accrued expenses	167,360	102,449
Accrued escrow accounts	104,118	16,506
Other current assets and liabilities	<u>(5)</u>	<u>(31)</u>
Net cash provided by operating activities	<u>5,793,275</u>	<u>301,262</u>
Investing Activities		
Purchase of property and equipment	(1,682,340)	(1,831,449)
Proceeds from the disposal of property and equipment	-	145,155
Proceeds from the sale of houses	215,157	305,419
Net investment activity	<u>50,705</u>	<u>35,379</u>
Net cash (used) by investing activities	<u>(1,416,478)</u>	<u>(1,345,496)</u>
Financing Activities		
Borrowings on debt	-	1,205,156
Payments on debt	<u>(197,004)</u>	<u>(1,042,958)</u>
Net cash (used) provided by financing activities	<u>(197,004)</u>	<u>162,198</u>
Change in cash and cash equivalents	4,179,793	(882,036)
Cash and cash equivalents at beginning of year	<u>968,458</u>	<u>1,850,494</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,148,251</u>	<u>\$ 968,458</u>
Supplemental Disclosures		
Cash paid for interest	\$ 800	\$ 9,730
Cash paid for income taxes	-	-

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2020 and 2019

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 20 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 Permanent Homes for Veterans (formally known as Homes on the 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, 2020 and 2019

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 as of December 31, 2020.

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, 2020 and 2019.

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, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 Permanent Homes for Veterans.

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 \$231,000 in 2020 and \$211,000 in 2019.

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. The Organization had cash accounts that exceeded federally insured limits by approximately \$4,500,000 at December 31, 2020 and \$456,000 at December 31, 2019.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2020 and 2019

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.

In 2019, 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, 2021. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with terms of more than 12 months. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on financial Instruments* which requires the application of a current expected credit loss (CECL) impairment model to financial assets measured at amortized cost, including trade accounts receivable. Under the CECL model, lifetime expected credit losses on such financial assets are measured and recognized at each reporting date based on historical, current, and forecasted information. Furthermore, financial assets with similar risk characteristics are analyzed on a collective basis. This ASU, as amended, is effective for periods beginning after December 15, 2022 with early adoption permitted. The Organization is evaluating the impact on its financial statements.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2020 and 2019

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>2020</u>	<u>2019</u>
Interest and dividends	\$ 26,976	\$ 42,763
Net realized and unrealized (losses) on change in market value	(7,577)	(1,282)
Investment fees	<u>(207)</u>	<u>(294)</u>
Investment earnings, net	<u>\$ 19,192</u>	<u>\$ 41,187</u>

NOTE C – CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows at December 31:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 3,274,142	\$ 5,520,982
Due in one to five years	<u>60,000</u>	<u>2,500,000</u>
	<u>\$ 3,334,142</u>	<u>\$ 8,020,982</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 611,237	\$ 288,587
Buildings	3,229,828	1,687,890
Computers and equipment	500,613	500,613
Furniture and fixtures	251,089	251,089
Vehicles	37,821	37,821
Software	1,380,332	1,076,655
Construction in progress	<u>103,419</u>	<u>49,344</u>
Total property and equipment	6,114,339	3,891,999
Less accumulated depreciation	<u>(1,692,243)</u>	<u>(1,235,310)</u>
Property and equipment, net	<u>\$ 4,422,096</u>	<u>\$ 2,656,689</u>

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2020 and 2019

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, 2020, no borrowings were advanced under the line of credit. As of December 31, 2019, \$197,004 was drawn on the line of credit.

NOTE F – GIFTS IN-KIND

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

	<u>2020</u>	<u>2019</u>
Gift cards	\$ 435,384	\$ 650,014
Facilities	109,320	121,465
Goods	13,605,651	16,752,181
Media and other services	4,222,947	4,109,275
Vehicles	<u>208,153</u>	<u>65,653</u>
	<u>\$ 18,581,455</u>	<u>\$ 21,698,588</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, 2020, the costs of conducting these activities included a total of \$2,497,824 of joint costs, with \$1,373,803 allocated to program expenses and \$1,124,021 allocated to fundraising expenses. For the year ending December 31, 2019, the costs of conducting these activities included a total of \$2,494,722 of joint costs, with \$1,372,097 allocated to program expenses and \$1,122,625 allocated to fundraising expenses.

NOTE H – PAYCHECK PROTECTION PROGRAM

The Organization received funding under the Paycheck Protection Program (PPP) in the amount of \$1,607,412 as part of the Coronavirus Aid Relief, and Economic Security Act (CARES Act), administered by the U.S. Small Business Administration (SBA). The funding was subject to loans administered by the SBA under the CARES Act.

All proceeds were used for payroll costs and other permitted expenses during 2020. Prior to year end the Organization received notification from the SBA the loan was forgiven in full; accordingly, the Organization recognized the proceeds as grant income in 2020.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2020 and 2019

NOTE I – 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.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2020 and 2019

NOTE I – 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, 2020</i>				
Cash and cash equivalents	\$ 1,702,067	\$ -	\$ -	\$ 1,702,067
Certificates of deposit	300,581	-	-	300,581
Mutual fund	2,669	-	-	2,669
	<u>2,005,317</u>	<u>-</u>	<u>-</u>	<u>2,005,317</u>
Total investments, at fair value	<u>\$ 2,005,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,005,317</u>
<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>
Total investments, at fair value	<u>\$ 1,987,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,987,932</u>

NOTE J – 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 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 totaled \$690,034 in 2020 and \$681,142 in 2019.

The aggregate minimum future lease payments on noncancelable leases at December 31, 2020, are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 421,886
2022	125,020

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2020 and 2019

NOTE K – 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 \$10.5 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.

NOTE L – COVID – 19

The coronavirus outbreak (pandemic) has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations of a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering certain nonessential businesses.

The pandemic has impacted the operational and financial performance of the Organization and there is uncertainty in the nature and degree of its continued effects on our business over time. The extent to which it will impact business going forward, either positively or negatively, will depend on a variety of factors including the duration and continued spread of the outbreak, impact on our customers, employees and vendors, as well as governmental, regulatory and private sector responses. Further, the pandemic may have a significant impact on management's accounting estimates.