Operation Homefront

Financial Report
December 31, 2022 and 2021

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Assurance • Tax • Advisory

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Operation Homefront, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Operation Homefront as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Operation Homefront and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, on January 1, 2022, the entity adopted new accounting guidance under ASC 842, *Leases*. In addition, the entity adopted the new accounting guidance under Accounting Standards Update No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* Our opinion is not modified with respect to these matters.

Other Matter

The financial statements of Operation Homefront for the year ended December 31, 2021, before the restatement described in Note 12, were audited by another auditor whose report dated April 19, 2022, expressed an unmodified opinion on those statements. As part of our audit of the December 31, 2022 financial statements, we also audited the adjustments described in Note 12 that were applied to restate the 2021 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2021 financial statements as a whole.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

The Board of Directors of
Operation Homefront

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Operation Homefront's ability to continue as a going concern for one year after the date that the financial statements are issued, or when applicable, one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Operation Homefront's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Operation Homefront's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
June 6, 2023

Operation Homefront

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021 (Restated)
ASSETS		
Cash and cash equivalents, operating	$ 8,868,313	$ 4,625,484
Escrow funds	140,858	297,939
Security deposits	12,000	26,500
Total cash	9,021,171	4,949,923
Investments, at fair value	16,721,923	2,005,520
Contributions receivable, net of discount of $190,656 and $95,287	7,413,339	7,563,181
Other receivables	881,110	816,742
Inventory, houses	5,100,303	7,973,279
Inventory, other	625,962	1,077,935
Prepaid expenses	296,097	289,343
Other current assets	1,818	1,703
Property and equipment, net	10,956,280	6,127,318
TOTAL ASSETS	$ 51,018,003	$ 30,804,944
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 932,268	$ 706,516
Accrued expenses	1,124,868	823,185
Accrued escrow accounts	152,858	441,439
Operating lease liabilities	547,893	-
Finance lease liabilities	1,025,503	160,832
Total liabilities	3,783,390	2,131,972
NET ASSETS		
Without donor restrictions	33,171,864	7,847,919
With donor restrictions	14,062,749	20,825,053
Total net assets	47,234,613	28,672,972
TOTAL LIABILITIES AND NET ASSETS	$ 51,018,003	$ 30,804,944

The Notes to Financial Statements
are an integral part of these statements.

Operation Homefront

Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributed houses	$ -	$ 2,226,535	$ 2,226,535
Contributed goods, services and facilities	12,622,165	177,458	12,799,623
Cash and other financial asset contributions	36,422,698	13,126,745	49,549,443
Special events, net of expenses of $506,254	145,553	-	145,553
Other revenues			
Investment earnings, net	(101,837)	-	(101,837)
Gain on sale of homes	350,808	-	350,808
Other revenues	95,811	-	95,811
Total support and revenues	49,535,198	15,530,738	65,065,936
EXPENSES			
Program services	39,452,077	-	39,452,077
Management and general	2,362,375	-	2,362,375
Fundraising	4,689,843	-	4,689,843
Total expenses	46,504,295	-	46,504,295
CHANGE IN NET ASSETS	3,030,903	15,530,738	18,561,641
Net assets released from restrictions	22,293,042	(22,293,042)	-
NET ASSETS, beginning of year, as restated	7,847,919	20,825,053	28,672,972
NET ASSETS, end of year	$ 33,171,864	$ 14,062,749	$ 47,234,613

The Notes to Financial Statements
are an integral part of this statement.

Operation Homefront

Statement of Activities

Year Ended December 31, 2021

	Without Donor Restrictions (Restated)	With Donor Restrictions (Restated)	Total (Restated)
SUPPORT AND REVENUES			
Contributed houses	$ -	$ 1,627,141	$ 1,627,141
Contributed goods, services and facilities	16,665,828	258,600	16,924,428
Cash and other financial asset contributions	11,536,714	14,851,154	26,387,868
Employee retention credit	814,791	-	814,791
Special events, net of expenses of $222,740	160,144	-	160,144
Other revenues			
Investment earnings, net	4,211	-	4,211
Other revenues	83,091	-	83,091
Total support and revenues	29,264,779	16,736,895	46,001,674
EXPENSES			
Program services	38,995,457	-	38,995,457
Management and general	2,071,210	-	2,071,210
Fundraising	3,349,969	-	3,349,969
Total expenses	44,416,636	-	44,416,636
CHANGE IN NET ASSETS	(15,151,857)	16,736,895	1,585,038
Net assets released from restrictions	19,641,979	(19,641,979)	-
NET ASSETS, beginning of year	3,357,797	23,730,137	27,087,934
NET ASSETS, end of year	$ 7,847,919	$ 20,825,053	$ 28,672,972

The Notes to Financial Statements
are an integral part of this statement.

Operation Homefront

Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services								
	Critical Assistance	**Veteran Caregiver Support**	**Field Operations**	**Permanent Homes for Veterans**	**Transitional Housing and Villages**	**Total**	**Management and General**	**Fundraising**	**Total**
Salaries, taxes and employee benefits	$ 2,058,910	$ 148,798	$ 3,764,893	$ 991,875	$ 874,927	$ 7,839,403	$ 1,557,258	$ 1,707,466	$ 11,104,127
Professional services	281,036	22,573	689,330	285,539	119,104	1,397,582	401,087	840,459	2,639,128
Supplies	18,097	1,732	69,091	18,952	9,269	117,141	19,687	29,588	166,416
Communications	24,851	2,183	64,408	18,751	11,973	122,166	28,072	7,741	157,979
Postage and shipping	168,540	18,110	364,510	147,663	61,869	760,692	10,224	888,998	1,659,914
Occupancy	94,017	7,810	343,596	96,904	40,065	582,392	205,500	264	788,156
Equipment rental and maintenance	3,147	261	7,936	3,244	1,409	15,997	6,313	24	22,334
Printing and publications	169,179	14,054	421,588	174,373	72,095	851,289	6,233	958,274	1,815,796
Travel	25,210	983	70,078	12,201	12,147	120,619	20,501	77,400	218,520
Conferences and meetings	11,076	920	34,269	11,416	4,735	62,416	37,900	26,070	126,386
Specific assistance to individuals	4,147,323	113,523	1,729,759	74,967	1,722,459	7,788,031	-	-	7,788,031
Memberships and dues	2,466	474	11,948	2,419	1,052	18,359	3,198	6,732	28,289
In-kind expenses	872,566	122,684	11,603,049	6,281,281	222,928	19,102,508	11,779	86,589	19,200,876
Depreciation	9,777	73,440	210,307	10,077	182,989	486,590	25,495	1,590	513,675
Miscellaneous	6,694	128,112	20,035	5,546	26,505	186,892	29,128	58,648	274,668
TOTAL EXPENSES	$ 7,892,889	$ 655,657	$ 19,404,797	$ 8,135,208	$ 3,363,526	$ 39,452,077	$ 2,362,375	$ 4,689,843	$ 46,504,295

The Notes to Financial Statements
are an integral part of this statement.

Operation Homefront

Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services								
	Critical Assistance	Veteran Caregiver Support	Field Operations	Permanent Homes for Veterans	Transitional Housing and Villages	Total	Management and General	Fundraising	Total
Salaries, taxes and employee benefits	$ 1,518,163	$ 99,771	$ 3,541,689	$ 967,549	$ 652,933	$ 6,780,105	$ 1,297,995	$ 1,541,133	$ 9,619,233
Professional services	173,798	11,246	704,662	319,800	90,702	1,300,208	363,707	842,185	2,506,100
Supplies	13,928	1,162	73,474	25,094	7,961	121,619	18,503	8,083	148,205
Communications	14,184	1,470	69,074	20,380	11,269	116,377	26,648	7,865	150,890
Postage and shipping	61,718	10,003	207,803	91,631	27,487	398,642	7,824	480,493	886,959
Occupancy	57,974	3,807	374,329	107,767	30,705	574,582	192,144	1,181	767,907
Equipment rental and maintenance	1,894	124	7,930	3,521	1,135	14,604	5,651	-	20,255
Printing and publications	38,756	2,545	161,943	72,043	20,526	295,813	4,385	358,803	659,001
Travel	2,700	80	15,885	2,276	1,594	22,535	5,849	14,903	43,287
Conferences and meetings	1,164	74	8,129	2,106	639	12,112	3,263	504	15,879
Specific assistance to individuals	2,180,232	115,722	1,226,329	417,218	1,407,451	5,346,952	-	-	5,346,952
Memberships and dues	2,607	322	13,695	4,647	1,309	22,580	2,546	8,217	33,343
In-kind expenses	1,062,139	43,932	14,424,358	7,507,500	327,826	23,365,755	76,305	29,083	23,471,143
Depreciation	19,823	48,728	256,950	53,993	127,362	506,856	23,393	4,757	535,006
Miscellaneous	18,846	389	58,276	11,024	28,182	116,717	42,997	52,762	212,476
TOTAL EXPENSES	$ 5,167,926	$ 339,375	$ 21,144,526	$ 9,606,549	$ 2,737,081	$ 38,995,457	$ 2,071,210	$ 3,349,969	$ 44,416,636

The Notes to Financial Statements are an integral part of this statement.

Operation Homefront

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 18,561,641	$ 1,585,038
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	513,675	535,006
Right-of-use asset amortization	975,726	-
Bad debt expenses	-	57,861
Realized/unrealized (gain) loss on investments	457,351	1,395
Contributed houses	(2,226,535)	(1,627,141)
Contributed goods, services and facilities	(12,799,623)	(16,924,428)
In-kind expenses	19,200,876	23,471,139
Loss (gain) on disposal of contributed houses	(221,822)	-
Changes in operating assets and liabilities:		
Contributions receivable	149,842	(4,286,900)
Grants receivable	(64,368)	(816,742)
Prepaid expenses	(6,754)	24,375
Inventory	(849,769)	(266,939)
Other current assets	(115)	(2)
Operating lease right-of-use asset	(1,388,113)	-
Accounts payable	225,752	345,949
Accrued expenses	301,683	(189,477)
Accrued escrow accounts	(288,581)	(26,468)
Operating lease liabilities	547,893	-
Net cash provided by operating activities	23,088,759	1,882,666
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,515,717)	(2,035,368)
Proceeds from the sale of houses	861,245	-
Purchases of investments	(64,324,459)	(326,458)
Proceeds from sale of investments	49,150,705	324,860
Net cash used in investing activities	(18,828,226)	(2,036,966)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on finance lease obligations	(189,285)	(44,028)
Net cash used in financing activities	(189,285)	(44,028)
Net change in cash and cash equivalents	4,071,248	(198,328)
CASH AND CASH EQUIVALENTS, beginning of year	4,949,923	5,148,251
CASH AND CASH EQUIVALENTS, end of year	$ 9,021,171	$ 4,949,923
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 21,888	$ 8,749
SUPPLEMENTAL DISCLOSURES OF NONCASH FLOW INFORMATION		
Property and equipment obtained through finance lease	$ 1,053,956	$ 204,860

The Notes to Financial Statements
are an integral part of these statements.

Operation Homefront

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of Presentation and Description of Business

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, foundations and individual donations and also participates in numerous fundraising events throughout the year. The Organization provides financial and other assistance/services to military families and wounded warriors across the United States through its 2 headquarter offices (San Antonio, TX and McLean, VA) and its 20 field offices that serve all 50 states and territories.

Operation Homefront provides direct services to military families to alleviate financial burdens as well as financial counseling and disaster 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 two programs called Permanent Homes for Veterans (formally known as Homes on the Homefront) and Transitional Homes for Veterans, that receive donated houses from certain financial institutions and national home builders. 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.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U. S. generally accepted accounting principles.

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 financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

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. 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, 2022 and 2021.

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, included in Inventory, houses on the statement of financial position, consists of in-kind contributions of houses from various financial institutions and national home builders 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 on the statement of activities 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, included in Inventory, other on the statement of financial position, 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 on the statement of activities 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.

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 the Permanent Homes for Veterans program.

Net Assets

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:

Net assets without donor restrictions – Net assets for use in general operations and not subject to donor-imposed stipulations or grantor restrictions.

Net assets 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 stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

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.

Special events revenue consists of donations received by the Organization during the Military Child of the Year annual gala and golf events. Revenue from these events is recognized when cash or an unconditional promise to give is made. These amounts are netted against their related expenses on the statement of activities, which consist of the following direct costs:

	2022	2021
Awards	$ 84,483	$ 81,653
Production costs	24,404	28,485
Value to guests	35,064	29,532
Other direct costs	362,303	83,070
Total	$ 506,254	$ 222,740

The Organization does not have any material contract assets or contract liabilities as of December 31, 2022 and 2021.

Employee Benefit Plan

The Organization has a 401(k) employee benefit plan covering all 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's contributions to the Plan were approximately $256,000 and $237,000, respectively, in the years ended December 31, 2022 and 2021.

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

The statements of functional expenses report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include all expenses, which are allocated on the basis of estimates of time and effort, except specific assistance to individuals.

Advertising

Advertising, printing and publication costs are expensed as incurred.

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 $1,000 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 ten years for furniture, equipment, and software, and forty years for buildings.

Concentrations of Credit Risk and Contributions

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 $3,256,000 and $3,793,000 at December 31, 2022 and 2021, respectively.

In-kind contributions totaling $7,871,475 and $10,021,682 were received from one donor for the years ended December 31, 2022 and 2021, which represent 12% and 22% of total support and revenues. Should these contribution levels decrease, the Organization may be adversely affected.

Cash contributions totaling $20,000,000 were received from one donor for the year ended December 31, 2022, which represents 31% of total support and revenues.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, including subsequent related ASU amendments, that supersedes Accounting Standards Codification (ASC) 840 *Leases* and replaces it with ASC 842 *Leases*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

The Organization has elected the package of practical expedients to account for any existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under ASC Topic 842, (b) whether the classification of capital leases or operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022 lease liabilities of approximately $2,442,000, which represents the net present value of the remaining lease payments, and ROU assets of approximately $2,442,000.

The standard had a material impact on the statement of financial position, but did not have an impact on the statement of activities, nor statements of cash flows. The most significant impact was the recognition of ROU and lease liabilities for operating leases, while the accounting for finance leases remained substantially unchanged.

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new standard increases transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. As a result of the adoption of the new accounting guidance, the Organization enhanced disclosures surrounding contributed non-financial assets at a disaggregated level.

Subsequent Events

Management has evaluated subsequent events through June 6, 2023, which is the date the financial statements were available to be issued. During this period, there were no material subsequent events that required recognition or additional disclosure in these financial statements, except for an agreement entered into on January 3, 2023 with another nonprofit organization. Within this agreement, the Organization has committed to fund up to $2,120,000 of construction costs for a residential unit for the purpose of hosting veterans who are training to be fitness and wellness professionals.

Note 2. Fair Value Measurements

In accordance with accounting principles generally accepted in the United States, 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 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.

Fixed Income – Valued based on quoted prices of securities with similar characteristics or independent asset pricing services and pricing models that use market-based inputs or independently sourced market parameters, including, but not limited to yield curves, matrix pricing, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows.

Equities – 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.

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

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Equities	$ 2,538,384	$ -	$ -	$ 2,538,384
Fixed income	-	12,490,388	-	12,490,388
Certificates of deposit	-	1,693,151	-	1,693,151
Total investments, at fair value	$ 2,538,384	$ 14,183,539	$ -	$ 16,721,923
December 31, 2021				
Cash and cash equivalents	$ 2,005,520	$ -	$ -	$ 2,005,520
Total investments, at fair value	$ 2,005,520	$ -	$ -	$ 2,005,520

Note 3. Contributions Receivable

Contributions receivable are due as follows at December 31:

	2022	2021
Due within one year	$ 6,242,778	$ 5,592,168
Due in one to five years	1,361,217	1,791,300
Due in more than five years	-	275,000
Total contributions receivable, gross	7,603,995	7,658,468
Less discount at 5.2% and 1.6%, respectively	(190,656)	(95,287)
Total contributions receivable, net of discounts	$ 7,413,339	$ 7,563,181

Note 4. Employee Retention Credit

Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. For the year ended December 31, 2021, the Organization complied with the conditions of Employee Retention Credit (ERC) funding as established by the CARES Act in the amount of $814,791 in compliance with the program.

The Organization recognized $814,791 of ERC revenue and grants receivable related to performance requirements being met and costs being incurred in compliance with the program during the year ended December 31, 2021. The receivable balance is included in Other receivables on the statement of financial position as of December 31, 2022.

Note 5. Property and Equipment

Property and equipment consist of the following at December 31:

	2022	2021
Land	$ 1,320,109	$ 819,387
Buildings	7,992,701	4,656,186
Computers and equipment	390,568	707,672
Furniture and fixtures	259,120	259,120
Vehicles	54,006	43,611
Software	1,598,135	1,697,650
Operating lease right-of-use asset	547,893	-
Finance lease right-of-use asset	918,451	-
Software development in progress	105,073	149,202
Total property and equipment	13,186,056	8,332,828
Less accumulated depreciation	(2,229,776)	(2,205,510)
Property and equipment, net	$ 10,956,280	$ 6,127,318

Note 6. Line of Credit

The Organization had a line of credit with Merrill Lynch, which was secured by their investment account with Merrill Lynch, with both fixed and variable interest rates. The available credit is based on various percentages of the assets in their investment account. As of December 31, 2021, no borrowings were advanced under the line of credit. The line of credit account was closed in June 2022.

Note 7. Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31, 2022 and 2021:

	2022	2021 (Restated)
Subject to expenditure for specified purpose		
Critical financial assistance	$ 5,437,540	$ 8,175,821
Transitional housing	897,910	335,896
Transitional homes for veterans	970,259	1,214,328
Permanent homes for veterans	1,452,257	6,518,006
Field programs	506,444	730,705
Program growth and innovation	2,621,600	1,377,638
Subject to time restrictions	2,176,739	2,472,659
Total net assets with donor restrictions	$ 14,062,749	$ 20,825,053

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors, as shown below for the years ended December 31, 2022 and 2021:

	2022	2021 (Restated)
Satisfaction of program restriction		
Critical financial assistance	$ 7,311,363	$ 4,349,072
Transitional housing	1,232,287	1,594,161
Transitional homes for veterans	1,286,416	1,598,611
Permanent homes for veterans	8,000,279	8,395,689
Field programs	2,605,740	2,004,063
Program growth and innovation	1,561,037	597,362
Satisfaction of time restriction	295,920	1,103,021
Total net assets released from donor restrictions	$ 22,293,042	$ 19,641,979

Note 8. Leases

Operation Homefront leases office space in various cities where its field offices and headquarters are located under non-cancelable operating leases with monthly payments ranging from $450 to $18,272 and expiration dates through August 2029. In addition, the Organization leases apartment units for service members discharged from military service who are transitioning from military base housing to permanent housing. These agreements have monthly payments ranging from $1,266 to $3,870 with varying expiration dates through February 2024.

The Organization determines if an arrangement is a lease at inception. Operating leases are included in property and equipment, net and operating lease liabilities on the statements of financial position. Finance leases are included in property and equipment, net and finance lease liabilities on the statements of financial position. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Organization uses the incremental borrowing rate or a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if it can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

None of the Organization's lease agreements contain contingent rental payments, material residual value guarantees or material restrictive covenants. The Organization has no sublease agreements and no lease agreements in which it is named as a lessor. The Organization performs interim reviews of its long-lived assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable, and the Organization did not recognize an impairment expense associated with operating lease assets during 2022.

The Organization has elected to apply the short-term lease exemption to apartments with initial lease agreements of 12 months or less and to warehouse and storage facilities that are rented on a month-to-month basis for the storage of inventories of in-kind donations. The short-term lease cost recognized and disclosed for those leases for the year ended December 31, 2022 was approximately $613,000. The remaining lease payments due in 2023 are approximately $142,000.

The Company has also made an accounting policy election as a private entity to use a risk-free discount rate for its leases when the rate implicit in the lease is not readily determinable for any individual lease.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. However, by electing by class of underlying asset the available practical expedient, the Company has elected to account for the lease and non-lease components as a single lease component, which may cause variability in future lease payments as the amount of non-lease components is revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, and real estate taxes that are passed on from the lessor, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

	Year Ending December 31, 2022
Lease cost	
Finance lease cost	
Amortization of right-of-use assets	$ 135,506
Interest of lease liabilities	15,220
Operating lease cost	843,918
Short-term lease cost	613,438
Total lease cost	$ 1,608,082
Other information	
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 1,388,113
Weighted-average remaining lease term - finance leases	6.6 years
Weighted-average remaining lease term - operating leases	0.9 years
Weighted-average discount rate - finance leases	1.6%
Weighted-average discount rate - operating leases	3.0%

Future minimum lease payments under non-cancellable leases as of December 31, 2022 were as follows:

Year Ending December 31,	Operating Leases	Finance Leases
2023	$ 521,498	$ 211,556
2024	26,521	153,810
2025	1,746	145,682
2026	1,746	150,052
2027	291	154,554
Thereafter	-	260,948
Total future minimum lease payments	551,802	1,076,602
Less imputed interest	(3,909)	(51,099)
Present value of net minimum lease payments	$ 547,893	$ 1,025,503

Prior Disclosures under ASC 840

Operation Homefront leases office space in various cities where its field offices and headquarters are located under non-cancelable operating leases with monthly payments ranging from $800 to $18,272 with expiration dates through May 2024. 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 2022. For the year ended December 31, 2021, rent expense totaled $592,023.

The Organization also entered into a capital lease for equipment, which expires in March 2024. As of December 31, 2021, the cost of this leased equipment was $204,860 and accumulated depreciation was $56,906. The aggregate minimum future lease payments on non-cancelable operating and capital leases at December 31, 2021, were as follows:

Year Ending December 31,	Operating Leases	Capital Leases
2022	$ 271,814	$ 74,241
2023	162,297	74,241
2024	105,542	18,560
Total minimum lease payments	539,653	167,042
Less amounts representing interest	-	(6,210)
Present value of net minimum lease payments	$ 539,653	$ 160,832

Note 9. Contributed Nonfinancial Assets

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the statement of activities included:

	2022	2021
Gift cards	$ 329,994	$ 555,081
Facilities	137,165	115,877
Goods	9,725,563	11,679,557
Media and other services	2,344,782	4,208,487
Vehicles	262,119	365,426
Houses	2,226,535	1,627,141
Total	$ 15,026,158	$ 18,551,569

The nonfinancial assets listed above were recognized within support and revenues. Contributed houses were restricted for the permanent housing program. Contributed gift cards were restricted for various field programs, critical financial assistance, or the permanent housing program. All other contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed nonfinancial assets were utilized in the following programs:

Contributed Items	Programs
Gift cards	Back to school program and holiday meals
Facilities	Regional offices
Goods	Back to school program, holiday meals, and other direct community assistance
Media and other services	Various program events and development
Vehicles	Various program events and supporting services
Houses	Permanent homes for veterans

The following basis was used for valuing contributed items:

Contributed Items	Valuation Basis
Gift cards	Face value of the individual gift cards
Facilities	Estimates of market value for similar spaces
Goods	Estimates of retail values
Media and other services	Estimates of market value for similar services
Vehicles	Estimates of market value for similar products and services
Houses	Broker price opinion or county assessed value

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the services would typically need to be purchased if not donated.

Note 10. 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, 2022, the costs of conducting these activities included a total of $4,423,149 of joint costs, with $1,946,186 allocated to program expenses and $2,476,963 allocated to fundraising expenses. For the year ending December 31, 2021, the costs of conducting these activities included a total of $2,434,497 of joint costs, with $1,022,489 allocated to program expenses and $1,412,008 allocated to fundraising expenses.

Note 11. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2022	2021
Cash	$ 9,021,171	$ 4,949,923
Investments	16,721,923	2,005,520
Contributions receivable, current	6,242,778	5,592,168
Other receivables, current	881,110	816,742
Less, escrow funds	(140,858)	(297,939)
Less, security deposits	(12,000)	(26,500)
Less, donor restricted cash and contributions receivable	(7,997,552)	(11,067,557)
Total financial assets available for general expenditures in the next 12 months	$ 24,716,572	$ 1,972,357

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 12. Prior Period Adjustment

During the year ended December 31, 2022, management determined that donor restricted contributions, releases of donor restrictions, and net assets were not properly reported for the year ended December 31, 2021. As such, the Organization restated its 2021 financial statements as noted in the table below.

	Original			Restatement			As Restated		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES									
Contributed houses	$ 1,627,141	$ -	$ 1,627,141	$ (1,627,141)	$ 1,627,141	$ -	$ -	$ 1,627,141	$ 1,627,141
Contributed goods, services and facilities	16,924,428	-	16,924,428	(258,600)	258,600	-	16,665,828	258,600	16,924,428
Cash and other financial asset contribution	19,183,673	7,204,195	26,387,868	(7,646,959)	7,646,959	-	11,536,714	14,851,154	26,387,868
Employee retention credit	814,791	-	814,791	-	-	-	814,791	-	814,791
Special events, net of expenses of $222,740	160,144	-	160,144	-	-	-	160,144	-	160,144
Other revenues									
Investment earnings, net	4,211	-	4,211	-	-	-	4,211	-	4,211
Other revenues	83,091	-	83,091	-	-	-	83,091	-	83,091
Total support and revenues	38,797,479	7,204,195	46,001,674	(9,532,700)	9,532,700	-	29,264,779	16,736,895	46,001,674
EXPENSES									
Program services	38,995,457	-	38,995,457	-	-	-	38,995,457	-	38,995,457
Management and general	2,071,210	-	2,071,210	-	-	-	2,071,210	-	2,071,210
Fundraising	3,349,969	-	3,349,969	-	-	-	3,349,969	-	3,349,969
Total expenses	44,416,636	-	44,416,636	-	-	-	44,416,636	-	44,416,636
CHANGE IN NET ASSETS	(5,619,157)	7,204,195	1,585,038	(9,532,700)	9,532,700	-	(15,151,857)	16,736,895	1,585,038
Net assets released from restrictions	4,042,295	(4,042,295)	-	15,599,684	(15,599,684)	-	19,641,979	(19,641,979)	-
NET ASSETS, beginning of year	21,534,410	5,553,524	27,087,934	(18,176,613)	18,176,613	-	3,357,797	23,730,137	27,087,934
NET ASSETS, end of year	$19,957,548	$8,715,424	$28,672,972	$(12,109,629)	$12,109,629	$ -	$ 7,847,919	$20,825,053	$28,672,972