

OPERATION HOMEFRONT, INC.

Audited Financial Statements

December 31, 2017

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, 2017 and 2016, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. 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 risk 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.

MAIN OFFICE

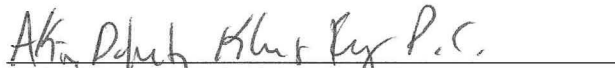
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Opinion

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, 2017 and 2016, and the results of its activities, functional expenses and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



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

San Antonio, Texas

April 6, 2018

OPERATION HOMEFRONT, INC.
Statement of Activities
Year Ended December 31, 2017

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Support and Revenues			
Contributed houses	\$ -	\$ 6,261,323	\$ 6,261,323
Contributed goods, services and facilities	16,372,226	435,417	16,807,643
Contributions	8,993,923	7,752,647	16,746,570
Special events, net of expenses of \$284,516	(7,811)	139,578	131,767
	<u>25,358,338</u>	<u>14,588,965</u>	<u>39,947,303</u>
Other Revenues:			
Investment earnings, net	14,133	-	14,133
Other revenues	64,685	-	64,685
	<u>14,133</u>	<u>-</u>	<u>14,133</u>
	<u>64,685</u>	<u>-</u>	<u>64,685</u>
Total support and revenues	25,437,156	14,588,965	40,026,121
Expenses			
Program services	44,968,790	-	44,968,790
Management and general	2,128,255	-	2,128,255
Fundraising	1,724,694	-	1,724,694
	<u>48,821,739</u>	<u>-</u>	<u>48,821,739</u>
Total expenses	48,821,739	-	48,821,739
Change in Net Assets	(23,384,583)	14,588,965	(8,795,618)
Net assets released from restrictions	21,244,905	(21,244,905)	-
Net assets at beginning of year	3,027,739	36,994,080	40,021,819
	<u>3,027,739</u>	<u>36,994,080</u>	<u>40,021,819</u>
Net Assets at Year End	<u>\$ 888,061</u>	<u>\$ 30,338,140</u>	<u>\$ 31,226,201</u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Activities
Year Ended December 31, 2016

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenues			
Contributed houses	\$ 136,990	\$ 10,390,964	\$ 10,527,954
Contributed goods, services and facilities	17,389,673	413,774	17,803,447
Contributions	9,664,037	7,249,260	16,913,297
Special events, net of expenses of \$297,119	158,203	155,000	313,203
	<u>27,348,903</u>	<u>18,208,998</u>	<u>45,557,901</u>
Other Revenues:			
Investment earnings, net	68,511	-	68,511
Other revenues	35,736	8,583	44,319
	<u> </u>	<u> </u>	<u> </u>
Total support and revenues	27,453,150	18,217,581	45,670,731
Expenses			
Program services	51,516,647	-	51,516,647
Management and general	3,036,184	-	3,036,184
Fundraising	2,251,408	-	2,251,408
	<u>56,804,239</u>	<u> </u>	<u>56,804,239</u>
	<u> </u>	<u> </u>	<u> </u>
Change in Net Assets	(29,351,089)	18,217,581	(11,133,508)
Net assets released from restrictions	26,784,286	(26,784,286)	-
Net assets at beginning of year	5,594,542	45,560,785	51,155,327
	<u> </u>	<u> </u>	<u> </u>
Net Assets at Year End	<u>\$ 3,027,739</u>	<u>\$ 36,994,080</u>	<u>\$ 40,021,819</u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services						Management and general	Fundraising	2017 Total
	Critical Assistance	Hearts of Valor	Field Operations	Homes on the Homefront	Transitional Housing	Total			
Salaries, taxes and employee benefits	\$ 2,804,199	\$ 152,856	\$ 1,712,403	\$ 629,473	\$ 439,331	\$ 5,738,262	\$ 1,362,204	\$ 948,454	\$ 8,048,920
Professional services	1,079,444	4,397	75,935	144,107	65,387	1,369,270	344,223	424,926	2,138,419
Supplies	44,560	1,466	14,317	9,779	11,588	81,710	31,305	1,032	114,047
Communications	67,597	384	48,637	14,765	15,453	146,836	25,340	867	173,043
Postage and shipping	193,911	9,989	13,562	7,630	7,181	232,273	6,787	101,513	340,573
Occupancy	243,593	2,478	218,178	78,559	34,493	577,301	194,140	-	771,441
Rent and maintenance	22,800	97	834	3,794	5,109	32,634	9,279	-	41,913
Printing and publications	223,775	280	5,952	4,339	4,232	238,578	26,893	126,560	392,031
Travel	94,100	357	54,235	8,736	16,199	173,627	32,228	20,997	226,852
Conferences and meetings	31,170	421	4,266	10,799	4,499	51,155	40,474	702	92,331
Specific assistance to individuals	2,136,298	596,363	647,655	640,866	1,030,912	5,052,094	-	-	5,052,094
Memberships and dues	3,085	-	3,052	68	228	6,433	4,129	2,256	12,818
In-kind expenses	480,726	225,777	15,292,558	14,983,278	57,868	31,040,207	-	51,135	31,091,342
Depreciation	12,113	3,162	52,181	56,924	4,744	129,124	12,650	16,349	158,123
Miscellaneous	87,548	157	5,964	3,634	1,983	99,286	38,603	29,903	167,792
Total expenses	\$ 7,524,919	\$ 998,184	\$ 18,149,729	\$ 16,596,751	\$ 1,699,207	\$ 44,968,790	\$ 2,128,255	\$ 1,724,694	\$ 48,821,739
Special events costs not included above:									
Awards								\$ 72,234	
Production costs								147,221	
Value to guests								3,730	
Other direct costs								61,331	
								<u>\$ 284,516</u>	

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Functional Expenses
Year Ended December 31, 2016

	Program Services						Management and general	Fundraising	2016 Total
	Critical Assistance	Hearts of Valor	Field Operations	Homes on the Homefront	Transitional Housing	Total			
Salaries, taxes and employee benefits	\$ 1,265,578	\$ 144,872	\$ 2,038,481	\$ 612,978	\$ 540,928	\$ 4,602,837	\$ 2,102,872	\$ 977,429	\$ 7,683,138
Professional services	910,860	53,909	218,139	186,654	64,299	1,433,861	335,154	638,698	2,407,713
Supplies	1,664	1,270	22,587	1,939	5,649	33,109	68,229	12,126	113,464
Communications	4,015	491	59,546	9,173	4,459	77,684	115,200	6,120	199,004
Postage and shipping	119,979	7,293	26,024	7,431	493	161,220	11,510	101,345	274,075
Occupancy	202,574	6,774	263,946	185,709	6,774	665,777	120,788	42,857	829,422
Rent and maintenance	-	-	704	-	-	704	41,667	-	42,371
Printing and publications	207,051	-	3,705	260	65	211,081	13,543	217,212	441,836
Travel	10,796	484	82,489	4,590	4,476	102,835	51,437	98,043	252,315
Conferences and meetings	424	-	1,417	-	-	1,841	124,960	333	127,134
Specific assistance to individuals	3,516,289	881,549	738,012	979,290	1,277,270	7,392,410	-	-	7,392,410
Memberships and dues	-	-	2,941	-	-	2,941	11,673	-	14,614
In-kind expenses	546,679	141,600	17,052,651	18,789,910	83,556	36,614,396	-	-	36,614,396
Depreciation	23,222	5,160	85,146	92,886	7,741	214,155	20,643	23,220	258,018
Miscellaneous	-	-	1,000	-	796	1,796	18,508	134,025	154,329
Total expenses	\$ 6,809,131	\$ 1,243,402	\$ 20,596,788	\$ 20,870,820	\$ 1,996,506	\$ 51,516,647	\$ 3,036,184	\$ 2,251,408	\$ 56,804,239
Special events costs not included above:									
Awards							\$	93,355	
Production costs								146,075	
Value to guests								6,591	
Other direct costs								51,098	
								<u>297,119</u>	

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ (8,795,618)	\$ (11,133,508)
Adjustments to reconcile change in net assets to cash (used) by operating activities:		
Depreciation	158,123	258,018
(Gain) loss on investments	9,709	(47,799)
Contributed houses	(6,261,323)	(10,527,954)
Contributed goods, services and facilities	(16,807,643)	(17,697,603)
Contributed investments	(50,846)	(4,837)
In-kind expenses	31,091,342	36,614,396
Loss on disposal of land	9,000	-
Loss (gain) on disposal of contributed real estate	(22,890)	21,532
Change in operating assets and liabilities:		
Accounts receivable	-	2,760
Accrued interest receivable	-	6,301
Pledges receivable	(702,886)	503,513
Prepaid expenses	34,346	68,133
Inventory	(467,910)	26,661
Accounts payable	385,599	(322,961)
Accrued expenses	(71,158)	312,950
Accrued escrow accounts	(81,572)	(169,659)
Deferred revenue	-	(150,000)
Other current assets and liabilities	(9,711)	(949)
Net cash (used) by operating activities	<u>(1,583,438)</u>	<u>(2,241,006)</u>
Investing Activities		
Purchase of property and equipment	(457,021)	(28,802)
Proceeds from the sale of land	11,000	-
Proceeds from the sale of real estate held for sale	82,890	1,746,196
Net investment activity	<u>773,887</u>	<u>26,774</u>
Net cash provided by investing activities	<u>410,756</u>	<u>1,744,168</u>
Financing Activities		
Borrowings on debt	251,021	-
Payments on debt	<u>(182,825)</u>	<u>-</u>
Net cash provided by financing activities	<u>68,196</u>	<u>-</u>
Change in cash and cash equivalents	(1,104,486)	(496,838)
Cash and cash equivalents at beginning of year	<u>3,339,185</u>	<u>3,836,023</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,234,699</u>	<u>\$ 3,339,185</u>
Supplemental Disclosures		
Cash paid for interest	\$ 5,087	\$ -
Cash paid for income taxes	-	-

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2017 and 2016

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 17 field offices that serve all 50 states.

Operation Homefront provides direct services to military families to alleviate emergency financial burdens as well as counseling and/or recovery support. Key service areas include:

- Financial assistance
- Emergency food assistance
- Emergency home and appliance repairs
- Critical baby items
- Furniture and household items
- Housing assistance
- Transitional family housing for wounded warriors

These key service areas are provided through the contribution of goods, gift cards and other services which are recognized at fair value and reflected in the accompanying financial statements as in-kind contributions which are offset by a like amount included as expenses of the Organization.

Operation Homefront also operates a program called Homes on the Homefront (Homefront), which receives donated houses from certain financial institutions. These homes are located throughout the United States and are made available to eligible military families and veteran candidates. Operation Homefront is tasked with identifying and placing eligible candidates in those homes, mortgage free. Contributions of these homes are recognized at the estimated fair value as provided by an appraisal 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 gifts 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. For contributed houses, the restriction is met once a house is transferred to a recipient.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Accounts Receivable: Accounts receivable are reported at outstanding principal, net of an allowance for doubtful accounts if deemed necessary. The allowance is generally determined based on an account-by-account review and historic trends. Accounts are charged off when collection efforts have failed and the account is deemed uncollectible. An allowance was not required at December 31, 2017 and 2016. Interest is not charged on the receivables.

Pledges Receivable: Pledges receivable are recorded at the estimated collectible amount. Conditional promises to give are not included as support until the conditions are substantially met. An allowance for uncollectible unconditional promises to give has not been established, as management does not deem one necessary based on past collection history.

Contributed property and equipment are recorded at fair value at the date of donation. Operation Homefront records contributed property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. If a donor stipulates how long the assets must be used, the contribution is recorded as restricted support.

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.

Other Inventory: Inventory is stated at the lower of cost (on a first-in, first out basis) or net realizable value. 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.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 at 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 \$147,000 in 2017 and \$138,000 in 2016.

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.

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

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, 2017 and 2016, the Organization had cash accounts that exceeded federally insured limits by approximately \$1,499,000 and \$2,223,000, respectively.

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.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact on its financial position, results of operations, and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. 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 is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Recently Adopted Accounting Pronouncements: In August 2016, the FASB issued Accounting Standard Update 2016-14, regarding the reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017 with early adoption encouraged. The pronouncement replaces the three classes of net assets with two new classes, requires the reporting of expense by function and natural classification, enhances disclosures on liquidity and availability of resources, and includes several other less significant reporting enhancements. The Organization has early adopted this new pronouncement effective January 1, 2017.

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. Some of the reclassifications are due to the adoption of Accounting Standards Update 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as “unrestricted” of are now classified as “without donor restriction”. Net assets previously classified as “temporarily restricted” and “permanently restricted” are now classified as net assets “with donor restrictions”.

NOTE B – INVESTMENTS

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 23,096	\$ 33,653
Net realized and unrealized gains (losses) on change in market value	(9,709)	47,799
Investment fees	<u>746</u>	<u>(12,941)</u>
Investment earnings, net	<u>\$ 14,133</u>	<u>\$ 68,511</u>

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE C – PLEDGES RECEIVABLE

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

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 1,637,026	\$ 684,140
Due in one to five years	<u>250,000</u>	<u>500,000</u>
	<u>\$ 1,887,026</u>	<u>\$ 1,184,140</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ -	\$ 20,000
Computers	480,602	340,917
Furniture	249,635	249,635
Office equipment	14,145	12,896
Communication equipment	1,994	1,994
Vehicles	37,821	37,821
Construction in progress	<u>316,086</u>	<u>-</u>
Total property and equipment	1,100,283	663,263
Less accumulated depreciation	<u>(659,425)</u>	<u>(501,303)</u>
Property and equipment, net	<u>\$ 440,858</u>	<u>\$ 161,960</u>

NOTE E – DEBT

Debt of \$68,196 consists of a computer equipment (capital) lease from Hewlett-Packard Financial Services of \$100,281, with interest of 5.41%, installments of approximately \$3,023 and maturing November 2019. As of December 31, 2017, \$33,390 in principal payments are due in 2018 and \$34,806 in principal payments are due in 2019.

The Organization also 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 limited to 50% of their investment account balance. No borrowings were advanced under this line of credit at December 31, 2017.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2017 and 2016

NOTE F – DONOR RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions were available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Transitional housing	\$ 473,193	\$ 156,943
Permanent housing	23,904,524	32,474,800
Critical assistance	5,960,423	4,349,317
Field operations	<u>-</u>	<u>13,020</u>
	<u>\$30,338,140</u>	<u>\$36,994,080</u>

NOTE G – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, for the years ending December 31:

	<u>2017</u>	<u>2016</u>
Transitional housing	\$ 768,680	\$ 757,445
Permanent housing	15,754,602	19,601,069
Critical assistance	3,108,725	5,929,641
Field operations	<u>1,612,898</u>	<u>496,131</u>
	<u>\$21,244,905</u>	<u>\$26,784,286</u>

NOTE H – GIFTS IN-KIND

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

	<u>2017</u>	<u>2016</u>
Gift cards	\$ 904,343	\$ 628,713
Facilities	126,739	144,033
Goods	15,434,454	16,706,594
Services	<u>342,107</u>	<u>324,107</u>
	<u>\$16,807,643</u>	<u>\$17,803,447</u>

OPERATION HOMEFRONT, INC.
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NOTE I – LEASES

Operation Homefront leases office spaces in various cities where its field offices and headquarters are located under noncancellable operating leases with monthly payments ranging from \$400 to \$16,553 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 and have monthly payments ranging from \$50 to \$2,738.

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 \$1,223 to \$3,230 with varying expiration dates through May 2019.

Rent expense amounted to \$609,113 and \$633,435 for the years ended December 31, 2017 and 2016, respectively.

The aggregate minimum future lease payments on noncancellable leases at December 31, 2017, are as follows:

Year Ending December 31,

2018	\$ 458,755
2019	383,611
2020	354,477
2021	264,614
2022	91,360

NOTE J – 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.

OPERATION HOMEFRONT, INC.
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NOTE J – FAIR VALUE MEASUREMENTS - continued

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 carry amount due to short-term maturity of the instrument.

Certificate of Deposits: Valued at its cost plus accrued interest which approximates fair value.

Equity Securities: Valued at the 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 at fair value as follows:

	<u>Fair Value Measurements Using</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<i>December 31, 2017</i>				
Cash and cash equivalents	\$2,174,771	\$ -	\$ -	\$2,174,771
Certificate of deposits	384,974	-	-	384,974
Equity securities	1,442	-	-	1,442
Total investments at fair value	<u>\$2,561,187</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,561,187</u>
<i>December 31, 2016</i>				
Cash and cash equivalents	\$1,577,486	\$ -	\$ -	\$1,577,486
Certificate of deposits	1,693,284	-	-	1,693,284
Equity securities	23,167	-	-	23,167
Total investments at fair value	<u>\$3,293,937</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,293,937</u>

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NOTE K – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

Accounting Standards Update 2016-14 requires 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 \$4.8 million of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure. This consists of cash of \$2.2 million, investments of \$2.6 million and pledges receivable of \$1.9 million, net of liabilities of \$1.9 million at year end. The Organization also has a line of credit which is available in the event of an unanticipated liquidity needs.