

OPERATION HOMEFRONT, INC.

Audited Financial Statements

December 31, 2018

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, 2018 and 2017, 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.

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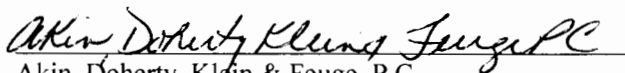
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Other Matter

As discussed in Note I, during the current year, management determined contributions received and designated for a specific program within the Organization's mission should be reported as net assets without donor restriction since the contributions are not more restrictive than the Organization's mission. Accordingly, the December 31, 2017 Statement of Financial Position and Statement of Activities have been restated to report such contributions received with no time restrictions as net assets without donor restrictions. The restatement had no impact to the prior year assets, total net assets or Statement of Cash Flows.

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, 2018 and 2017, 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 5, 2019

OPERATION HOMEFRONT, INC.
Statements of Financial Position
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <i>(As Restated)</i>
ASSETS		
Cash, operating	\$ 1,728,211	\$ 1,753,184
Cash, escrow funds	70,283	402,015
Cash, security deposits	52,000	79,500
Total cash	<u>1,850,494</u>	<u>2,234,699</u>
Investments, at fair value	1,945,056	2,561,187
Contributions receivable	6,225,354	1,887,026
Contributed houses inventory	16,637,864	23,792,139
Contributed goods inventory	2,239,231	1,993,297
Other inventory	-	5,170
Prepaid expenses	406,989	213,660
Other current assets	1,665	10,660
Property and equipment, net	<u>1,343,815</u>	<u>440,858</u>
Total Assets	<u><u>\$ 30,650,468</u></u>	<u><u>\$ 33,138,696</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 684,788	\$ 675,137
Accrued expenses	642,353	537,647
Accrued escrow accounts	347,283	631,515
Debt	34,806	68,196
Total liabilities	<u>1,709,230</u>	<u>1,912,495</u>
Net Assets:		
Without donor restrictions:		
Undesignated	2,886,582	888,061
Designated for THCR and transitional housing	3,998,790	323,193
Designated for permanent housing	16,217,269	23,904,524
Designated for critical financial assistance	4,902,892	4,960,423
Designated for field operations	185,705	-
Total without donor restrictions	<u>28,191,238</u>	<u>30,076,201</u>
With donor restrictions:		
Time restrictions	750,000	1,150,000
Total with donor restrictions	<u>750,000</u>	<u>1,150,000</u>
Total net assets	<u><u>28,941,238</u></u>	<u><u>31,226,201</u></u>
Total Liabilities and Net Assets	<u><u>\$ 30,650,468</u></u>	<u><u>\$ 33,138,696</u></u>

See notes to audited financial statements.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenues			
Contributed houses	\$ 6,093,888	\$ -	\$ 6,093,888
Contributed goods, services and facilities	17,749,939	-	17,749,939
Contributions	21,231,664	750,000	21,981,664
Special events, net of expenses of \$376,258	105,019	-	105,019
	<u>45,180,510</u>	<u>750,000</u>	<u>45,930,510</u>
Other revenues:			
Investment earnings, net	35,407	-	35,407
Other revenues	18,655	-	18,655
	<u>54,069</u>	<u>-</u>	<u>54,069</u>
Total support and revenues	45,234,572	750,000	45,984,572
Expenses			
Program services	43,800,360	-	43,800,360
Management and general	2,478,935	-	2,478,935
Fundraising	1,990,240	-	1,990,240
	<u>48,269,535</u>	<u>-</u>	<u>48,269,535</u>
Total expenses	48,269,535	-	48,269,535
Change in Net Assets	(3,034,963)	750,000	(2,284,963)
Net assets released from restrictions	1,150,000	(1,150,000)	-
Net assets at beginning of year	30,076,201	1,150,000	31,226,201
	<u>31,226,201</u>	<u>1,150,000</u>	<u>32,376,201</u>
Net Assets at Year End	<u>\$ 28,191,238</u>	<u>\$ 750,000</u>	<u>\$ 28,941,238</u>

See notes to audited financial statements.

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

	Without Donor Restrictions <i>(As Restated)</i>	With Donor Restrictions <i>(As Restated)</i>	Total
Support and Revenues			
Contributed houses	\$ 6,261,323	\$ -	\$ 6,261,323
Contributed goods, services and facilities	16,807,643	-	16,807,643
Contributions	15,596,570	1,150,000	16,746,570
Special events, net of expenses of \$284,516	131,767	-	131,767
	<u>38,797,303</u>	<u>1,150,000</u>	<u>39,947,303</u>
Other revenues:			
Investment earnings, net	14,133	-	14,133
Other revenues	64,685	-	64,685
	<u> </u>	<u> </u>	<u> </u>
Total support and revenues	38,876,121	1,150,000	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>
Change in Net Assets	(9,945,618)	1,150,000	(8,795,618)
Net assets released from restrictions	1,000,000	(1,000,000)	-
Net assets at beginning of year	39,021,819	1,000,000	40,021,819
	<u> </u>	<u> </u>	<u> </u>
Net Assets at Year End	<u>\$ 30,076,201</u>	<u>\$ 1,150,000</u>	<u>\$ 31,226,201</u>

See notes to audited financial statements.

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

	Program Services							2018 Total
	Critical Assistance	Hearts of Valor	Field Operations	Homes on the Homefront	Transitional Housing	Total	Management and General	
Salaries, taxes and employee benefits	\$ 2,157,804	\$ 88,730	\$ 2,037,944	\$ 1,210,906	\$ 449,977	\$ 5,945,361	\$ 1,486,400	\$ 8,590,457
Professional services	636,747	14,455	41,671	446,623	77,007	1,216,503	396,854	2,077,106
Supplies	17,851	1,034	18,280	12,547	4,198	53,910	24,953	79,566
Communications	32,689	890	46,632	26,007	8,452	114,670	39,877	156,739
Postage and shipping	133,865	7,698	17,222	86,292	9,836	254,913	7,344	397,978
Occupancy	175,949	2,831	245,122	120,594	13,519	558,015	284,699	842,714
Rent and maintenance	11,720	189	1,170	8,022	1,041	22,142	18,972	41,114
Printing and publications	169,142	2,723	3,645	115,774	13,002	304,286	16,516	509,140
Travel	62,927	854	42,151	37,213	10,386	153,531	33,844	206,407
Conferences and meetings	41,076	661	11,189	28,093	3,235	84,254	55,068	143,485
Specific assistance to individuals	2,205,062	143,527	807,036	183,187	1,102,416	4,441,228	-	4,441,228
Memberships and dues	6,728	108	3,161	4,605	851	15,453	263	19,606
In-kind expenses	17,041,622	61,103	-	13,216,296	51,310	30,370,331	-	30,370,331
Depreciation	62,308	1,003	5,538	42,649	4,790	116,288	100,869	217,157
Miscellaneous	38,999	41,233	3,420	63,321	2,502	149,475	13,276	176,507
Total expenses	\$ 22,794,489	\$ 367,039	\$ 3,284,181	\$ 15,602,129	\$ 1,752,522	\$ 43,800,360	\$ 2,478,935	\$ 48,269,535

Special events costs not included above:

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

See notes to audited financial statements.

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

	Program Services							2017 Total	
	Critical Assistance	Hearts of Valor	Field Operations	Homes on the Homefront	Transitional Housing	Total	Management and General		
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.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ (2,284,963)	\$ (8,795,618)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	217,157	158,123
Loss on investments	1,602	9,709
Contributed houses	(6,093,888)	(6,261,323)
Contributed goods, services and facilities	(17,749,939)	(16,807,643)
Contributed investments	(46,147)	(50,846)
In-kind expenses	30,370,331	31,091,342
Loss on disposal of computers	807	-
Loss on disposal of houses and land	70,367	9,000
Gain on disposal of contributed real estate	-	(22,890)
Change in operating assets and liabilities:		
Contributions receivable	(4,338,328)	(702,886)
Prepaid expenses	(193,329)	34,346
Inventory	217,007	(467,910)
Accounts payable	9,651	385,599
Accrued expenses	104,706	(71,158)
Accrued escrow accounts	(284,232)	(81,572)
Other current assets and liabilities	8,995	(9,711)
Net cash provided (used) by operating activities	<u>9,797</u>	<u>(1,583,438)</u>
Investing Activities		
Purchase of property and equipment	(1,120,921)	(457,021)
Proceeds from the sale of houses and land	99,633	11,000
Proceeds from the sale of real estate held for sale	-	82,890
Net investment activity	<u>660,676</u>	<u>773,887</u>
Net cash (used) provided by investing activities	<u>(360,612)</u>	<u>410,756</u>
Financing Activities		
Borrowings on debt	900,000	251,021
Payments on debt	(933,390)	(182,825)
Net cash (used) provided by financing activities	<u>(33,390)</u>	<u>68,196</u>
Change in cash and cash equivalents	(384,205)	(1,104,486)
Cash and cash equivalents at beginning of year	<u>2,234,699</u>	<u>3,339,185</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,850,494</u>	<u>\$ 2,234,699</u>
Supplemental Disclosures		
Cash paid for interest	\$ 11,714	\$ 5,087
Cash paid for income taxes	-	-

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Operation Homefront, Inc. (Organization or Operation Homefront), was incorporated in 2002 as CincHouse.com, Inc., an Arizona not-for-profit, for the purpose of providing assistance to deployed military troops and their families. The Organization changed its name to Operation Homefront, Inc. in 2006. The Organization receives its funding from community sponsorships, corporate and individual donations and also participates in numerous fundraising events throughout the year. The Organization provides emergency financial and other assistance/services to military families and wounded warriors across the United States through its 2 headquarter offices (San Antonio, TX and Arlington, VA) and its 19 field offices that serve all 50 states.

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

- Financial assistance (rent/mortgage payments, home/car repairs, utility/grocery bills and other essential items);
- Transitional and permanent housing; and
- Recurring family support (back-to-school supplies, holiday meals, holiday toys and other essential items).

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

Operation Homefront also operates a program called Homes on the Homefront (Homefront), which receives donated houses from certain financial institutions. These homes are located throughout the United States and are made available to eligible military families and veteran candidates. Operation Homefront is tasked with identifying and placing eligible candidates in those homes, mortgage free. Contributions of these homes are recognized at the estimated fair value as provided by an appraisal less the present value of the estimated closing costs of transferring these homes to the deserving candidate when deeded to Operation Homefront.

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

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

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

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2018 and 2017

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.

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, 2018 and 2017.

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 or net realizable value, using the first-in, first out method. Inventories consist of promotional items for field office use and for resale to the public.

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

Accrued Escrow Accounts: Operation Homefront's accrued escrow accounts consists of funds collected from the military families or veterans for escrowed deposits, real estate taxes, home insurance and homeowners' association fees that are participating in Homes on the Homefront.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 \$182,000 in 2018 and \$147,000 in 2017.

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.

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

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

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Concentrations of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and investments. The Organization places its cash and investments with financial institutions, and limits the amount of credit exposure, although it may from time to time have cash balances or investments in excess of that insured by the FDIC. The Organization periodically assesses the financial condition of the institutions and believes the risk of loss is minimal. At December 31, 2018 and 2017, the Organization had cash accounts that exceeded federally insured limits by approximately \$1,479,000 and \$1,499,000, 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, 2018 and 2017

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 does not expect the new standard to have a significant impact on its financial position, results of operations, and related disclosures.

In June 2018, the FASB issued a new accounting pronouncement clarifying the scope and guidance for contributions received, effective for periods beginning after December 15, 2018 with early adoption permitted. The update assists organizations in 1) evaluating whether transactions should be accounted for as contributions or exchange transactions and 2) determine whether contributions are conditional. Management does not expect the new standard to have a significant impact to its financial position, activities and related disclosures.

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

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>2018</u>	<u>2017</u>
Interest and dividends	\$ 37,159	\$ 23,096
Net realized and unrealized (losses) on change in market value	(1,602)	(9,709)
Investment fees	<u>(150)</u>	<u>746</u>
Investment earnings, net	<u>\$ 35,407</u>	<u>\$ 14,133</u>

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2018 and 2017

NOTE C – CONTRIBUTIONS RECEIVABLE

The contributions receivable are due as follows at December 31:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 6,025,354	\$ 1,637,026
Due in one to five years	<u>200,000</u>	<u>250,000</u>
	<u>\$ 6,225,354</u>	<u>\$ 1,887,026</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 155,354	\$ -
Buildings	589,901	-
Computers and equipment	496,465	496,741
Furniture and fixtures	251,089	249,635
Vehicles	37,821	37,821
Software	616,568	-
Construction in progress	<u>67,236</u>	<u>316,086</u>
Total property and equipment	2,214,434	1,100,283
Less accumulated depreciation	<u>(870,619)</u>	<u>(659,425)</u>
Property and equipment, net	<u>\$ 1,343,815</u>	<u>\$ 440,858</u>

NOTE E – DEBT

Debt of \$34,806 consists of a computer equipment (capital) lease from Hewlett-Packard Financial Services with interest of 5.41%, installments of approximately \$3,023 and maturing November 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, 2018 and 2017.

OPERATION HOMEFRONT, INC.
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NOTE F – GIFTS IN-KIND

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

	<u>2018</u>	<u>2017</u>
Gift cards	\$ 1,014,005	\$ 904,343
Facilities	110,526	126,739
Goods	16,402,361	15,434,454
Services	<u>223,047</u>	<u>342,107</u>
	<u>\$17,749,939</u>	<u>\$16,807,643</u>

NOTE G – LEASES

Operation Homefront leases office space in various cities where its field offices and headquarters are located under noncancelable operating leases with monthly payments ranging from \$300 to \$16,697 with varying expiration dates through May 2022. The Organization also leases warehouse and storage facilities in multiple locations which are used for the storage of the inventories of in-kind donations. The agreements are month-to-month and have monthly payments ranging from \$50 to \$5,600.

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 \$1,249 to \$3,560 with varying expiration dates through May 2020.

Rent expense amounted to \$685,895 and \$609,113 for the years ended December 31, 2018 and 2017, respectively.

The aggregate minimum future lease payments on noncancelable leases at December 31, 2018, are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 473,000
2020	442,000
2021	288,000
2022	91,000

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NOTE H – FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Equity securities: Valued at the closing price reported on an active market.

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

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NOTE H – FAIR VALUE MEASUREMENTS - continued

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

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
<i>December 31, 2018</i>				
Cash and cash equivalents	\$ 996,611	\$ -	\$ -	\$ 996,611
Certificates of deposit	948,445	-	-	948,445
Total investments, at fair value	<u>\$1,945,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,945,056</u>
<i>December 31, 2017</i>				
Cash and cash equivalents	\$2,174,771	\$ -	\$ -	\$2,174,771
Certificates of deposit	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>

NOTE I – RESTATEMENT FOR NET ASSETS WITHOUT DONOR RESTRICTIONS

During 2018, management determined contributions received and designated for a specific program within the Organization’s mission should be reported as net assets without donor restriction since the contributions are not more restrictive than the Organization’s mission. Accordingly, the December 31, 2017 Statement of Financial Position and Statement of Activities have been restated to report such contributions received with no time restrictions as net assets without donor restrictions. The restatement increased net assets without donor restrictions by \$29,188,140 and decreased net assets with donor restrictions by \$29,188,140. The restatement had no impact to the prior year total assets, total net assets or Statement of Cash Flows.

NOTE J – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

Accounting standards require management to discuss its financial resources that are available as of year-end which may be utilized for operations over the next 12-month period. The Organization has approximately \$10 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.