

# **Operation Homefront, Inc.**

## **Financial Report December 31, 2011**

# **Operation Homefront, Inc.**

## **Contents**

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	<b>Page</b>
<b>Independent Auditors' Report</b>	<b>1</b>
<b>Financial Statements</b>	
<b>Statements of Financial Position</b>	<b>2</b>
<b>Statement of Activities</b>	<b>3</b>
<b>Statement of Functional Expenses</b>	<b>4</b>
<b>Statements of Cash Flows</b>	<b>5</b>
<b>Notes to Financial Statements</b>	<b>6</b>



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## Independent Auditors' Report

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

We have audited the accompanying Statement of Financial Position of Operation Homefront, Inc. (the Organization) as of December 31, 2011, and the related Statements of Activities and Functional Expenses for the year ended December 31, 2011 (with summarized financial information for the year ended December 31, 2010), and Statements of Cash Flows for the year ended December 31, 2011. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year's summarized financial information has been derived from the financial statements of the Organization as of December 31, 2010, which were audited by Carneiro, Chumney & Co., L.C. whose practice has been combined with our firm, and whose report dated March 28, 2011 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

This report does not present the consolidation of Operation Homefront, Inc. with its affiliated organization, Army Homefront Fund, Inc., as required by accounting standards generally accepted in the United States of America. If the consolidation had been presented, net assets would be increased by \$477,126 as of December 31, 2011, and the change in unrestricted and total net assets would be increased by \$477,126 for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, except for the effects of not consolidating Army Homefront Fund, Inc. as explained in the preceding paragraph, the financial position of Operation Homefront, Inc. as of December 31, 2011, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*BDO USA, LLP*

March 3, 2012

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# Operation Homefront, Inc.

## Statements of Financial Position

<u>December 31,</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and equivalents	\$ 2,252,707	\$ 4,193,480
Accounts receivable	76,356	30,954
Unconditional promises to give	1,471,313	2,077,892
Investments:		
Brokerage account	4,760,667	2,750,789
Common stock in non-public entity	200	200
Accrued interest receivable	22,972	--
Inventory	17,444	29,058
Prepaid expenses	80,277	71,471
In-kind goods inventory	860,840	643,386
<b>Total Current Assets</b>	<b>9,542,776</b>	<b>9,797,230</b>
<b>Fixed assets, net</b>	<b>432,054</b>	<b>356,575</b>
<b>Total Assets</b>	<b>\$ 9,974,830</b>	<b>\$ 10,153,805</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 144,105	\$ 257,612
Accrued liabilities	134,051	149,314
<b>Total Current Liabilities</b>	<b>278,156</b>	<b>406,926</b>
<b>Net Assets</b>		
Unrestricted	7,536,401	8,467,853
Temporarily restricted	2,160,273	1,279,026
<b>Total Net Assets</b>	<b>9,696,674</b>	<b>9,746,879</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 9,974,830</b>	<b>\$ 10,153,805</b>

The accompanying notes are an integral part of these financial statements.

# Operation Homefront, Inc.

## Statement of Activities

*For the Year Ended December 31, 2011*

(With Summarized Financial Information  
for the Year Ended December 31, 2010)

	Unrestricted	Temporarily Restricted	Totals	
			2011	2010
<b>Revenue, Support, and Other</b>				
Contributions	\$ 5,941,457	2,092,030	8,033,487	\$ 8,795,831
In-kind contributions	16,540,156	--	16,540,156	15,675,766
Miscellaneous	5,504	--	5,504	24,768
Interest income	74,345	--	74,345	14,120
Special events, net	85,901	--	85,901	--
Sponsorships	--	--	--	5,000
Net assets released from restrictions	1,210,783	(1,210,783)	--	--
<b>Total Revenue, Support, and Other</b>	<b>23,858,146</b>	<b>881,247</b>	<b>24,739,393</b>	<b>24,515,485</b>
<b>Expenses</b>				
Program services	23,355,945	--	23,355,945	19,648,139
Membership and fundraising	863,758	--	863,758	587,264
Management and general	569,895	--	569,895	717,118
<b>Total Expenses</b>	<b>24,789,598</b>	<b>--</b>	<b>24,789,598</b>	<b>20,952,521</b>
<b>Change in Net Assets</b>	<b>(931,452)</b>	<b>881,247</b>	<b>(50,205)</b>	<b>3,562,964</b>
<b>Net assets, beginning of year</b>	<b>8,467,853</b>	<b>1,279,026</b>	<b>9,746,879</b>	<b>6,183,915</b>
<b>Net Assets, End of Year</b>	<b>\$ 7,536,401</b>	<b>2,160,273</b>	<b>9,696,674</b>	<b>\$ 9,746,879</b>

The accompanying notes are an integral part of these financial statements.

# Operation Homefront, Inc.

## Statement of Functional Expenses

For the Year Ended December 31, 2011

(With Summarized Financial Information for the Year Ended December 31, 2010)

	Program Services								Supporting Services			Totals	
	Program - General	Program - Deployed	Program - Wounded	Program - Education	Chapter Development	Transitional Housing	Volunteer Services	Total Program Services	Membership and Fundraising	Management and General	Total Supporting Services	2011	2010
Salaries and benefits	\$ 424,207	320,967	329,800	51,843	273,739	266,086	34,581	1,701,223	179,372	191,046	370,418	2,071,641	\$ 1,896,858
Professional and contract fees	650,949	86,090	66,726	10,751	6,099	5,137	9,235	834,987	296,364	136,910	433,274	1,268,261	657,715
Supplies	108,697	--	33	--	42,771	11,166	8	162,675	19,952	22,632	42,584	205,259	115,547
Communications	29,068	807	607	1,275	1,821	5,207	121	38,906	8,802	33,515	42,317	81,223	66,501
Postage and shipping	67,452	5,209	4,309	--	1,093	2,704	241	81,008	161,972	13,311	175,283	256,291	152,002
Occupancy and related	64,575	59,053	55,947	--	--	11,877	373	191,825	6,007	38,105	44,112	235,937	150,753
Rent and maintenance of equipment	4,761	3,790	4,105	--	--	--	--	12,656	--	1,960	1,960	14,616	11,080
Printing and publications	109,384	525	5,386	--	2,648	2,757	78	120,778	78,063	19,071	97,134	217,912	96,029
Travel	117,078	--	3,109	--	6,269	12,056	1,035	139,547	54,531	28,703	83,234	222,781	150,437
Training, conferences, and meetings	3,332	--	--	--	122,888	--	938	127,158	1,875	9,847	11,722	138,880	169,361
Specific assistance to individuals	2,103,074	206,973	143,755	--	49,529	1,058,612	--	3,561,943	100	1,164	1,264	3,563,207	2,456,969
Membership dues	2,926	--	--	--	--	--	--	2,926	2,092	--	2,092	5,018	1,787
In-kind expenses	15,980,500	97,099	187,359	--	--	17,091	--	16,282,049	35,288	--	35,288	16,317,337	14,956,124
Miscellaneous	1,170	29	95	--	--	3,080	--	4,374	9,016	65,559	74,575	78,949	19,535
Total Expenses before Depreciation	19,667,173	780,542	801,231	63,869	506,857	1,395,773	46,610	23,262,055	853,434	561,823	1,415,257	24,677,312	20,900,698
Depreciation	21,563	6,759	15,808	4,983	14,265	27,963	2,549	93,890	10,324	8,072	18,396	112,286	51,823
Total Expenses	\$ 19,688,736	787,301	817,039	68,852	521,122	1,423,736	49,159	23,355,945	863,758	569,895	1,433,653	24,789,598	\$ 20,952,521

The accompanying notes are an integral part of these financial statements.

# Operation Homefront, Inc.

## Statements of Cash Flows

<i>Years Ended December 31,</i>	<b>2011</b>	<b>2010</b>
Change in net assets	\$ (50,205)	\$ 3,562,964
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:</b>		
Depreciation	112,286	51,823
Change in in-kind inventory	(217,454)	(557,074)
(Increase) Decrease in Assets:		
Accounts Receivable:		
Accounts receivable	(45,402)	--
Unconditional promises to give	606,579	1,408,742
Accrued interest receivable	(22,972)	--
Inventory	11,614	35,110
Prepaid expenses	(8,806)	(13,005)
(Decrease) in Liabilities:		
Accounts payable	(113,507)	(132,305)
Accrued liabilities	(15,263)	(23,895)
<b>Net Cash Provided by Operating Activities</b>	<b>256,870</b>	<b>4,332,360</b>
<b>Cash Flows (Used in) Provided by Investing Activities</b>		
Purchase of investments	(5,722,768)	(2,750,789)
Proceeds from sales of investments	3,712,890	--
Purchase of equipment	(187,765)	(179,180)
<b>Net Cash (Used in) Investing Activities</b>	<b>(2,197,643)</b>	<b>(2,929,969)</b>
<b>Net (Decrease) Increase in Cash</b>	<b>(1,940,773)</b>	<b>1,402,391</b>
<b>Cash, beginning of year</b>	<b>4,193,480</b>	<b>2,791,089</b>
<b>Cash, End of Year</b>	<b>\$ 2,252,707</b>	<b>\$ 4,193,480</b>

The accompanying notes are an integral part of these financial statements.

# Operation Homefront, Inc.

## Notes to Financial Statements

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### **Note 1. Organization and Significant Accounting Policies**

#### ***Organization and Nature of Operations***

Operation Homefront, Inc. (the Organization) 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. During the year ended December 31, 2006, the Organization's Board of Directors changed the name of the Organization to Operation Homefront, Inc. The Organization receives funding from community sponsorships and donations and also participates in fundraising events. Operation Homefront, Inc. is a national organization, with 25 and 21 subchapters as of December 31, 2011 and 2010, respectively. The subchapters operate independently from the Organization.

#### ***Basis of Presentation***

The accompanying financial statements present only the accounts of the Organization and do not include the accounts of any of the subchapters.

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

#### ***Net Assets***

The net asset classifications shown on the Statements of Financial Position are defined as follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted - Net assets that are subject to donor-imposed restrictions that either expire by the passage of time or can be fulfilled by actions of the Organization pursuant to those restrictions.

#### ***Unconditional Promises to Give, Contributions Received and Revenue Recognition***

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. As of December 31, 2011, there were no permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. This allowance is based on prior years' experience and management's analysis of specific promises made. All receivables are considered collectible as of December 31, 2011 and 2010.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.



# Operation Homefront, Inc.

## Notes to Financial Statements

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### **Note 1. Organization and Significant Accounting Policies (Continued)**

#### ***Cash and Cash Equivalents***

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments available for current use, with an initial maturity of three months or less, to be cash equivalents.

#### ***Concentration of Credit Risk***

The Organization maintains multiple bank accounts in San Antonio, Texas. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and without limit for non-interest-bearing transaction accounts. At various times during the year, there were balances in the bank that were over the FDIC limit. Cash at the 2011 and 2010 year-ends exceeded federally insured limits by approximately \$719,037 and \$2,464,005, respectively.

#### ***Contributed Goods, Services, and Facilities***

Contributions of goods, services, and facilities are recognized at fair market value, as provided by donor when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses, other current assets, and fixed assets. During the years ended December 31, 2011 and 2010, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

#### ***Inventory***

Inventories are valued at cost determined by the first-in, first-out (FIFO) method. Inventories consist of promotional items for resale to the subchapters.

#### ***In-Kind Goods Inventory***

In-kind goods consist of contributed goods, including such items as gift cards, children's toys, and household items for use and distribution in the Organization's programs, and are valued at the estimated fair value as of the date contributed.

#### ***Expenses, Gains, and Losses***

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law.

#### ***Investments***

The majority of investments are reported at fair value in the Statements of Financial Position. A small, immaterial portion of investments consists of common stock of a non-public entity and is carried at par value.

Unrestricted investment income includes income from funds where no restriction has been placed by the donor on its use. Unrealized and realized gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Once the restriction is met, the related temporarily restricted net asset amount is reclassified to unrestricted net assets.

# Operation Homefront, Inc.

## Notes to Financial Statements

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### Note 1. Organization and Significant Accounting Policies (Continued)

#### *Fixed Assets*

Property, plant, and equipment are stated at cost if purchased, or at fair value at the date of the gift if donated, less accumulated depreciation. It is the Organization's policy to capitalize property and equipment over \$500. Depreciation is computed on a straight-line basis over the estimated useful lives of furniture and equipment (5 to 10 years). At the time property, plant, and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation are adjusted, and any gain or loss on disposal is included in the Statement of Activities.

#### *Income Taxes*

The Organization operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (IRC) and, as such, is not subject to federal or state income tax. The Organization is classified as an organization that is not a private foundation under Section 509(a)(1) of the IRC, and the corresponding provisions of the state revenue codes. The Organization adopted the provisions of FASB ASC Topic 740-10-25, *Income Taxes - Overall - Recognition*, which requires recognition and disclosure of uncertain tax positions in the financial statements and footnotes. Management of the Organization believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

#### *Fair Value of Financial Instruments*

The Fair Value Measurements and Disclosures Topic of the FASB ASC, 820-10, defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets that the Organization has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

#### *Summarized Financial Information*

The Statements of Activities and Functional Expenses include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

# Operation Homefront, Inc.

## Notes to Financial Statements

### Note 2. Unconditional Promises to Give

As of December 31, 2011 and 2010, the Organization received unconditional promises to give with year-end balances of \$1,471,313 and \$2,077,892, respectively. All unconditional promises to give are to be received in the year ended December 31, 2012.

### Note 3. Investments

The cost and fair value of the remaining investments by major type at December 31 were as follows:

	2011		2010	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and equivalents	\$ 89,995	89,995	2,750,789	\$ 2,750,789
Government securities	1,922,951	2,027,742	--	--
Corporate bonds	806,937	807,041	--	--
Equity securities	1,600,173	1,570,696	--	--
Mutual funds	<u>285,675</u>	<u>265,193</u>	<u>--</u>	<u>--</u>
	<u>\$ 4,705,731</u>	<u>4,760,667</u>	<u>2,750,789</u>	<u>\$ 2,750,789</u>

### Note 4. Fair Values of Financial Instruments

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities, to determine fair value disclosures. For additional information on how the Organization measures fair value, refer to Note 1.

The following methods and assumptions were used by the Organization in estimating the fair value of the financial assets. There have been no changes in methodologies used at December 31, 2011 and 2010:

Cash and Equivalents, Government Securities, Corporate Bonds, Equity Securities, and Mutual Funds are valued at the fair value as reported by publically traded markets.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2011				
Cash and equivalents	\$ 89,995	--	--	\$ 89,995
Government securities	2,027,742	--	--	2,027,742
Corporate bonds	807,041	--	--	807,041
Equity securities	1,570,696	--	--	1,570,696
Mutual funds	<u>265,193</u>	<u>--</u>	<u>--</u>	<u>265,193</u>
	<u>\$ 4,760,667</u>	<u>--</u>	<u>--</u>	<u>\$ 4,760,667</u>

# Operation Homefront, Inc.

## Notes to Financial Statements

### Note 4. Fair Values of Financial Instruments (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2010:				
Cash and equivalents	\$ <u>2,750,789</u>	--	--	\$ <u>2,750,789</u>
	\$ <u>2,750,789</u>	<u>--</u>	<u>--</u>	\$ <u>2,750,789</u>

### Note 5. Fixed Assets

Fixed assets at December 31 consisted of the following:

	<u>2011</u>	<u>2010</u>
Computers	\$ 436,113	\$ 379,800
Furniture	184,377	59,058
Office equipment	28,835	27,588
Communication equipment	32,758	24,803
Vehicles	--	--
	<u>682,083</u>	<u>491,249</u>
Less: Accumulated depreciation	<u>(250,029)</u>	<u>(134,674)</u>
	\$ <u>432,054</u>	\$ <u>356,575</u>

### Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Transitional housing	\$ 464,401	\$1,237,684
Permanent housing	376,852	--
Program - General	1,313,724	41,342
Program - Wounded	<u>5,296</u>	<u>--</u>
	\$ <u>2,160,273</u>	\$ <u>1,279,026</u>

### Note 7. Net Assets Released from Restrictions

Net assets were released in 2011 and 2010 from temporary donor restrictions, by incurring expenses satisfying the restricted purposes, or by the occurrence of other events specified by donors as follows:

	<u>2011</u>	<u>2010</u>
Program - General	\$ 293,637	\$ 40,800
Program - Wounded	35,542	--
Transitional housing	<u>881,604</u>	<u>--</u>
	\$ <u>1,210,783</u>	\$ <u>40,800</u>

# Operation Homefront, Inc.

## Notes to Financial Statements

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### Note 8. In-Kind Contributions

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

	<u>2011</u>	<u>2010</u>
Toys	\$ 7,893,831	\$ 9,368,862
Cosmetics	552,850	1,524,955
Infant clothing and furniture	208,113	496,441
Advertising	30,128	43,913
School supplies	2,400,837	3,063,543
Computers and equipment	393,521	180,234
Miscellaneous products	1,991,742	292,387
Facilities	81,480	366,750
Furniture	2,423,461	11,739
Vehicles	48,534	14,180
Other	<u>465,659</u>	<u>312,762</u>
	<u>\$ 16,490,156</u>	<u>\$ 15,675,766</u>

### Note 9. Operating Leases

The Organization leases office space in San Antonio, Texas under an operating lease, with monthly payments of \$8,369 expiring May 31, 2014. A warehouse in San Antonio, Texas, used for storage of in-kind goods, is leased with monthly payments ranging from \$800 to \$1,000 expiring December 31, 2013. The Organization also leases office space in Rockville, Maryland, with monthly payments of \$5,289 through December 31, 2011.

The Organization leases apartment units for disabled service members discharged from military service who are transitioning from military base housing to more permanent housing. These operating leases have varying units and monthly payments ranging from \$739 to \$1,525, with varying expiring dates through February 2012.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of December 31, 2011 for each of the next five years, and in the aggregate, are:

2012	\$ 313,578
2013	190,568
2014	67,162
2015	--
2016	<u>--</u>
Total Minimum Future Rental Payments	<u>\$ 571,308</u>

The Organization leases copy machines for their office spaces. These operating leases have varying monthly payments ranging from \$174 to \$331, including both rental and maintenance fees, with varying expiring dates through December 2013.

# Operation Homefront, Inc.

## Notes to Financial Statements

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### Note 9. Operating Leases (Continued)

Minimum future lease payments under non-cancellable operating leases having remaining terms in excess of one year as of December 31, 2011 for each of the next five years, and in the aggregate, are:

2012	\$ 7,732
2013	6,060
2014	--
2015	--
2016	<u>--</u>
Total Minimum Future Lease Payments	\$ <u>13,792</u>

### Note 10. Retirement Plan

The Organization adopted a defined contribution 401(k) employee benefit plan covering employees who have attained the age of 18 and have completed at least three months of service. In accordance with the plan, the Organization elected to match the employee contribution at 4% for the years ended December 31, 2011 and 2010. The Organization's 2011 and 2010 plan expense totaled \$28,888 and \$17,969, respectively.

### Note 11. Reclassifications

Certain financial statement items have been reclassified in this presentation in order to enhance comparability with the December 31, 2011 financial statements.

### Note 12. Subsequent Events

During fiscal year 2011, the Organization entered into an agreement with JP Morgan Chase Bank to provide a number of permanent housing units for qualifying veterans using the donated housing units. The agreement states that the bank will deed each home over to the Organization, which will then approve a qualifying veteran to occupy the property. The Organization will provide case management for a period of up to two years. At the end of the transition period, if the family has met the requirements, the property will be deeded to the veteran. Management estimates it will receive approximately 300 houses over the course of the next two years. Subsequent events have been evaluated through March 23, 2012, which is the date the financial statements were available to be issued.