Operation Homefront, Inc.

Financial Report
Years Ended December 31, 2012 and 2011

Operation Homefront, Inc.

Contents

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Independent Auditor's Report

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

We have audited the accompanying Statements of Financial Position of Operation Homefront, Inc. (the Organization) as of December 31, 2012 and 2011, the related Statements of Activities and Functional Expenses for the year ended December 31, 2012 (with summarized financial information for the year ended December 31, 2011), the Statements of Cash Flows for the years ended December 31, 2012 and 2011, and the related notes to the financial statements. 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 were presented, net assets would be increased by $74,067 as of December 31, 2012, and the change in unrestricted and total net assets would be decreased by $403,059 for the year then ended.

Opinion

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, 2012 and 2011, and the changes in net assets for the year ended December 31, 2012 and cash flows for the years ended December 31, 2012 and 2011, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 11 to the consolidated financial statements, the 2011 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

BDO USA, LLP

June 10, 2013

Operation Homefront, Inc.

Statements of Financial Position

December 31,		2012		RESTATED 2011
Assets				
Cash and equivalents	$	2,503,673	$	2,252,707
Accounts receivable:				
Trade		498,618		76,356
Property management		135,407		--
Grant receivable		--		700,000
Unconditional promises to give		2,180,600		1,471,313
Investments:				
Brokerage account		5,670,000		4,760,667
Common stock in non-public entity		200		200
Accrued interest receivable		14,586		22,972
Inventory		50,001		17,444
Contributed goods inventory		2,177,834		860,840
Contributed houses inventory		10,982,913		--
Prepaid expenses		168,789		80,277
Fixed assets, net		394,887		432,054
Total Assets	$	24,777,508	$	10,674,830
Liabilities and Net Assets				
Liabilities				
Accounts payable	$	861,187	$	144,105
Accrued liabilities		336,866		134,051
Deferred revenue		105,000		--
Total Liabilities		1,303,053		278,156
Net Assets				
Unrestricted		9,261,521		7,536,401
Temporarily restricted		14,212,934		2,860,273
Total Net Assets		23,474,455		10,396,674
Total Liabilities and Net Assets	$	24,777,508	$	10,674,830

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

Operation Homefront, Inc.

Statement of Activities

For the Year Ended December 31, 2012

(With Summarized Financial Information
for the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	2012	RESTATED 2011
Revenue, Support, and Other				
Contributions	$ 9,978,769	3,181,778	**13,160,547**	$ 8,733,487
Contributed goods, services, and facilities	42,733,698	--	**42,733,698**	16,540,156
Contributed houses	--	10,982,913	**10,982,913**	--
Miscellaneous	8,671	--	**8,671**	5,504
Investment income	427,524	--	**427,524**	39,540
Special events				
Gross	250,625	--	**250,625**	190,174
Less: Direct donor benefit expenses	(136,217)	--	**(136,217)**	(104,273)
Net assets released from restrictions	2,812,030	(2,812,030)	**--**	--
Total Revenue, Support, and Other	56,075,100	11,352,661	**67,427,761**	25,404,588
Expenses				
Program services	51,742,075	--	**51,742,075**	23,355,945
Membership and fundraising	1,301,525	--	**1,301,525**	863,758
Management and general	1,306,380	--	**1,306,380**	535,090
Total Expenses	54,349,980	--	**54,349,980**	24,754,793
Change in Net Assets	1,725,120	11,352,661	**13,077,781**	649,795
Net assets, beginning of year	7,536,401	2,860,273	**10,396,674**	9,746,879
Net Assets, End of Year	$ 9,261,521	14,212,934	**23,474,455**	$ 10,396,674

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

Operation Homefront, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

	Program Services								Supporting Services			Totals	
	Program - General	Program - Deployed	Program - Wounded	Field Operations	Permanent Housing	Transitional Housing	Volunteer Services	Total Program Services	Membership and Fundraising	Management and General	Total Supporting Services	2012	2011
Salaries and benefits	$ 329,226	193,654	198,280	1,752,682	129,664	341,791	55,198	3,000,495	281,458	536,042	817,500	**3,817,995**	$ 2,071,641
Professional and contract fees	681,497	74,463	217,648	148,856	186,742	32,470	6,379	1,348,055	246,968	187,111	434,079	**1,782,134**	1,233,456
Supplies	91,145	38,232	44,981	69,056	1,554	16,164	3,013	264,145	63,890	77,302	141,192	**405,337**	205,259
Communications	20,195	7,085	17,085	17,918	5,882	2,746	30	70,941	27,997	10,542	38,539	**109,480**	81,223
Postage and shipping	283,675	8,009	24,449	26,405	321	1,504	27	344,390	184,893	18,767	203,660	**548,050**	256,291
Occupancy and related	92,639	66	65	77,187	30,270	7,913	--	208,140	3,121	132,497	135,618	**343,758**	235,937
Rent and maintenance of equipment	36,879	--	--	3,549	125	732	--	41,285	--	13,011	13,011	**54,296**	14,616
Printing and publications	424,571	57	21,440	67,374	57	10,198	382	524,079	309,456	32,090	341,546	**865,625**	217,912
Travel	291,759	3,518	14,074	83,025	50,005	4,485	307	447,173	87,468	50,123	137,591	**584,764**	222,781
Training, conferences, and meetings	194,002	395	1,889	32,041	--	485	--	228,812	14,129	39,671	53,800	**282,612**	138,880
Specific assistance to individuals	524,661	92,132	1,252,292	275,301	229,340	1,153,984	30	3,527,740	624	154	778	**3,528,518**	3,563,207
Membership dues	240	60	60	183	--	--	--	543	3,760	780	4,540	**5,083**	5,018
In-kind expenses	19,550,053	--	31,500	22,003,279	--	4,915	--	41,589,747	47,335	21,075	68,410	**41,658,157**	16,317,337
Miscellaneous	10,126	12	--	3,974	7	144	274	14,537	23,861	172,250	196,111	**210,648**	78,949
Total Expenses before Depreciation	22,530,668	417,683	1,823,763	24,560,830	633,967	1,577,531	65,640	51,610,082	1,294,960	1,291,415	2,586,375	**54,196,457**	24,642,507
Depreciation	55,064	17,745	18,175	21,280	3,082	14,370	2,277	131,993	6,565	14,965	21,530	**153,523**	112,286
Total Expenses	$ 22,585,732	435,428	1,841,938	24,582,110	637,049	1,591,901	67,917	51,742,075	1,301,525	1,306,380	2,607,905	**54,349,980**	$ 24,754,793

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

Operation Homefront, Inc.

Statements of Cash Flows

Years Ended December 31,	2012	RESTATED 2011
Change in net assets	$ 13,077,781	$ 649,795
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	153,523	112,286
Change in contributed inventory	(1,316,994)	(217,454)
Change in contributed house inventory	(10,982,913)	--
Net investment realized and unrealized (gains) and losses	(298,313)	54,936
(Increase) Decrease in Assets:		
Accounts Receivable:		
Accounts receivable - trade	(422,262)	(45,402)
Accounts receivable - property management	(135,407)	--
Grant receivable	700,000	(700,000)
Unconditional promises to give	(709,287)	606,579
Accrued interest receivable	8,386	(22,972)
Inventory	(32,557)	11,614
Prepaid expenses	(88,512)	(8,806)
Increase (Decrease) in Liabilities:		
Accounts payable	717,082	(113,507)
Accrued liabilities	202,815	(15,263)
Deferred revenue	105,000	--
Net Cash Provided by Operating Activities	978,342	311,806
Cash Flows (Used in) Provided by Investing Activities		
Purchase of investments	(2,700,840)	(5,777,704)
Proceeds from sales of investments	2,089,820	3,712,890
Purchase of equipment	(116,356)	(187,765)
Net Cash (Used in) Investing Activities	(727,376)	(2,252,579)
Net Increase (Decrease) in Cash	250,966	(1,940,773)
Cash, beginning of year	2,252,707	4,193,480
Cash, End of Year	$ 2,503,673	$ 2,252,707

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

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 (the Board) 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. In June of 2012, the Board of the Organization voted to consolidate the 25 chapters into one national chapter, with the locations becoming field offices. As of December 31, 2012, 21 offices have been absorbed by the national office, 4 offices have been dissolved, and 4 offices are scheduled to be absorbed in 2013.

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, 2012, there were no permanently restricted net assets. When a restriction expires, temporarily restricted net assets are released 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, 2012 and 2011.

Note 1. Organization and Significant Accounting Policies (Continued)

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.

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

Financial instruments which potentially subject the Organization to a concentration of credit risk consist principally of cash.

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. Beginning January 1, 2013, all of a depositor's accounts at an insured depository institution, including all non-interest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of $250,000, for each deposit insurance ownership category. At various times during the year, there were balances in the bank that exceeded the FDIC limit.

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.

Contributed 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.

Contributed Houses Inventory

Contributed houses inventory consists of houses received for distribution in the Organization's programs, and are valued at the estimated fair value as of the date contributed, less the present value of the estimated closing costs to the Organization.

Note 1. Organization and Significant Accounting Policies (Continued)

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 released to unrestricted net assets.

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

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 Statements of Activities.

Note 1. Organization and Significant Accounting Policies (Continued)

Contributed Goods, Services, and Facilities

Contributions of goods, services, and facilities are recognized at fair value. 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 year and period ended December 31, 2012, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Contributed Houses

In 2012, the Organization started a program called *Homes on the Homefront*. The Organization receives donated housing from various banks throughout the United States. The Organization is tasked with identifying and placing eligible candidates in those homes, mortgage free. Contributions of houses are recognized at the fair value, as provided by an appraisal, when deeded, less the present value of the estimated closing costs of transferring the houses.

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.

Income Taxes

The Organization operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the Code) 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 Code, 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 require recognition and disclosure of uncertain tax positions in the financial statements. Under ASC 740-10, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The implementation of ASC 740-10 had no impact on the Organization's financial statements. The Organization's management believes it has no material uncertain tax positions and, accordingly, will not recognize any related liability.

Tax years 2011-2009 remain open to examination by the taxing jurisdictions to which the Organization is subject, and these periods have not been extended beyond the applicable statute of limitations.

Summarized Financial Information

The Statement of Activities and the Statement of Functional Expenses for the year ended December 31, 2012 include certain prior-year summarized comparative information in total, but not by net asset class or function. Such information does not include 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, 2011, from which the summarized information was derived.

Note 2. Unconditional Promises to Give

As of December 31, 2012 and 2011, the Organization received unconditional promises to give with year-end balances of $2,180,600 and $1,471,313, respectively. Unconditional promises to give are to be received in the following years: $1,759,584 in 2013, and $421,016 in 2014.

Note 3. Investments

During fiscal years 2007 and 2006, a donor donated 200,000 shares of common stock of a non-public entity to the Organization with a par value of $.001 per share. It is the Organization's intent to retain the stock certificates until the entity becomes public and the market value increases. Since this stock is not publicly traded, there is no indication that fair value is materially different than par.

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

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and equivalents	$ 248,105	248,105	89,995	$ 89,995
Government Securities:				
FHLMC	169,946	178,712	387,692	396,348
FNMA	485,451	498,557	955,392	972,288
U.S. Treasury bonds	90,983	106,810	217,297	266,541
U.S. Treasury notes	516,948	528,142	362,570	392,566
Corporate bonds	805,367	832,825	806,937	807,041
Equity securities	1,634,889	1,840,432	1,600,173	1,570,696
Mutual Funds:				
Non-traditional bond	535,805	554,470	--	--
High-yield bond	535,804	559,310	--	--
World stock	159,889	161,245	143,316	126,796
Mid-cap value	147,764	161,392	142,359	138,396
	$ 5,330,951	5,670,000	4,705,731	$ 4,760,667

**All investments are considered level 1, as government securities, corporate bonds, equity securities, and mutual funds are valued at the fair value of shares.

Note 4. Fixed Assets

Fixed assets at December 31 consisted of the following:

	2012	2011
Land	$ 20,000	$ --
Computers	262,278	436,113
Furniture	212,443	184,377
Office equipment	35,496	28,835
Communication equipment	32,757	32,758
Vehicles	38,416	--
	601,390	682,083
Less: Accumulated depreciation	(206,503)	(250,029)
	$ 394,887	$ 432,054

Note 5. Temporarily Restricted Net Assets

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

	2012	2011
Transitional housing	$ 12,545	$ 464,401
Permanent housing	12,019,338	376,852
Program - General	455,954	1,313,724
Program - Wounded	1,725,097	705,296
	$14,212,934	$2,860,273

Note 6. Net Assets Released from Restrictions

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

	2012	2011
Transitional housing	$ 653,816	$ --
Permanent housing	376,852	--
Program - General	1,536,163	293,637
Program - Wounded	245,199	35,542
	$ 2,812,030	$1,210,783

Note 7. In-Kind Contributions

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

	2012	2011
Toys	$ 16,436,696	$ 7,893,831
Cosmetics	380	552,850
Infant clothing and furniture	1,004,937	208,113
Advertising	18,274	30,128
School supplies	12,992,562	2,400,837
Computers and equipment	61,258	393,521
Miscellaneous products	11,790,634	2,041,742
Facilities	17,410	81,480
Furniture	137,558	2,423,461
Vehicles	3,937	48,534
Other	270,052	465,659
	$ 42,733,698	$16,540,156

Note 8. Investment Income

Investment Income consists of the following:

	2012	2011
Dividends and interest	$ 182,096	$ 89,211
Realized gains (losses) on sales of securities	14,203	(69,802)
Unrealized gains on securities	284,113	54,936
Investment fees	(52,888)	(34,805)
	$ 427,524	$ 39,540

Note 9. Operating Leases

Operation Homefront leases office space in various cities where field offices and headquarters are located, under operating leases, with monthly payments ranging from $300 to $11,706, with varying expiring dates through November 2015. Warehouses and storage units in multiple locations, used for storage of in-kind goods, are leased with monthly payments ranging from $50 to $1,000, with varying expiring dates through December 31, 2013.

Operation Homefront 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 $867 to $2,278, with varying expiring dates through June 2014.

Minimum future rental payments under non-cancellable operating leases, having remaining terms in excess of one year as of December 31, 2012 for each of the next five years and in the aggregate, are:

2012	$ 863,723
2013	286,080
2014	104,183
2015	56,950
2016	--
Total Minimum Future Rental Payments	$ 1,307,936

Operation Homefront leases phone equipment for their office space. This operating lease has monthly payments of $75 with expiring dates through January 2015.

Minimum future lease payments under non-cancellable operating leases, having remaining terms in excess of one year as of December 31, 2012 for each of the next five years and in the aggregate, are:

2012	$ 900
2013	900
2014	--
2015	--
2016	--
Total Minimum Future Lease Payments	$ 1,800

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, 2012 and 2011. The Organization's 2012 and 2011 plan expense totaled $51,004 and $28,888, respectively.

Note 11. Reclassifications and Restatement

Certain financial statement items from the December 31, 2011 statements have been reclassified in this presentation in order to enhance comparability with the December 31, 2012 financial statements. Temporarily restricted contributions for 2011 have been restated to reflect a grant awarded in 2011 in the amount of $700,000. The grant receivable balance was increased on the Statement of Financial Position, and changes are also reflected in the Statement of Cash Flows for the same amount. The net effect of this restatement is to increase temporarily restricted revenue, net assets, and grants receivable by $700,000.

Note 12. Subsequent Events

Subsequent events have been evaluated through June 10, 2013, which is the date the financial statements were available to be issued.