

OPERATION HOMEFRONT, INC.

Audited Financial Statements

December 31, 2016

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 statement of financial position as of December 31, 2016, and the related statement of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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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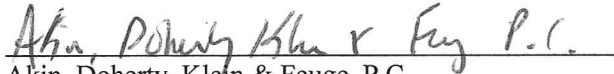
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Opinion

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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Prior Period Financial Statements

The financial statements of Operation Homefront, Inc. as of December 31, 2015, were audited by other auditors whose report dated March 30, 2016, expressed an unmodified opinion on those statements.



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

San Antonio, Texas

March 31, 2017

OPERATION HOMEFRONT, INC.
Statements of Financial Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 2,626,098	\$ 2,953,277
Restricted cash	713,087	882,746
Investments, at fair value	3,293,937	3,268,075
Accounts receivable	-	2,760
Unconditional promises to give	1,184,140	1,687,653
Accrued interest receivable	-	6,301
Contributed houses inventory	32,054,642	40,289,588
Contributed goods inventory	1,285,260	1,369,153
Other inventory	5,170	31,831
Prepaid expenses	248,006	316,139
Other current assets	949	-
Property and equipment, net	161,960	391,176
Real estate held for sale, net	<u>60,000</u>	<u>1,897,728</u>
Total Assets	<u><u>\$ 41,633,249</u></u>	<u><u>\$ 53,096,427</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 289,538	\$ 612,499
Accrued expenses	608,805	295,855
Accrued escrow accounts	713,087	882,746
Deferred revenue	-	150,000
Total liabilities	<u>1,611,430</u>	<u>1,941,100</u>
Net assets:		
Unrestricted	3,027,739	5,594,542
Temporarily restricted	<u>36,994,080</u>	<u>45,560,785</u>
Total net assets	<u>40,021,819</u>	<u>51,155,327</u>
Total Liabilities and Net Assets	<u><u>\$ 41,633,249</u></u>	<u><u>\$ 53,096,427</u></u>

See notes to audited financial statements.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</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	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
Miscellaneous income	<u>35,736</u>	<u>8,583</u>	<u>44,319</u>
 Total support and revenues	 27,453,150	 18,217,581	 45,670,731
 Expenses			
Program services	52,000,959	-	52,000,959
Management and general	2,551,872	-	2,551,872
Fundraising	<u>2,251,408</u>	<u>-</u>	<u>2,251,408</u>
 Total expenses	 <u>56,804,239</u>	 <u>-</u>	 <u>56,804,239</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	<u>5,594,542</u>	<u>45,560,785</u>	<u>51,155,327</u>
 Net Assets at Year End	 <u><u>\$ 3,027,739</u></u>	 <u><u>\$ 36,994,080</u></u>	 <u><u>\$ 40,021,819</u></u>

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statement of Activities
Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenues			
Contributed houses	\$ -	\$ 13,593,778	\$ 13,593,778
Contributed goods, services and facilities	20,242,379	-	20,242,379
Contributions	11,290,371	4,966,637	16,257,008
Special events, net	289,936	-	289,936
	<u>31,822,686</u>	<u>18,560,415</u>	<u>50,383,101</u>
Other Revenues:			
Investment earnings, net	54,008	-	54,008
Miscellaneous income	17,101	-	17,101
	<u>71,109</u>	<u>-</u>	<u>71,109</u>
Total support and revenues	31,893,795	18,560,415	50,454,210
Expenses			
Program services	48,867,936	-	48,867,936
Management and general	2,331,088	-	2,331,088
Fundraising	1,908,176	-	1,908,176
	<u>53,107,200</u>	<u>-</u>	<u>53,107,200</u>
Change in Net Assets	(21,213,405)	18,560,415	(2,652,990)
Net assets released from restrictions	20,806,870	(20,806,870)	-
Net assets at beginning of year	<u>6,001,077</u>	<u>47,807,240</u>	<u>53,808,317</u>
Net Assets at Year End	<u>\$ 5,594,542</u>	<u>\$ 45,560,785</u>	<u>\$ 51,155,327</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	Permanent Housing	Transitional Housing	Volunteer Services	Total			
Salaries, taxes and employee benefits	\$ 1,265,578	\$ 144,872	\$ 2,038,481	\$ 612,978	\$ 540,928	\$ 407,542	\$ 5,010,379	\$ 1,695,330	\$ 977,429	\$ 7,683,138
Professional services	910,860	53,909	218,139	186,654	64,299	45,435	1,479,296	289,719	638,698	2,407,713
Supplies	1,664	1,270	22,587	1,939	5,649	464	33,573	67,765	12,126	113,464
Communications	4,015	491	59,546	9,173	4,459	1,644	79,328	113,556	6,120	199,004
Postage and shipping	119,979	7,293	26,024	7,431	493	1,250	162,470	10,260	101,345	274,075
Occupancy	202,574	6,774	263,946	185,709	6,774	5,437	671,214	115,351	42,857	829,422
Rent and maintenance	-	-	704	-	-	332	1,036	41,335	-	42,371
Printing and publications	207,051	-	3,705	260	65	184	211,265	13,359	217,212	441,836
Travel	10,796	484	82,489	4,590	4,476	2,363	105,198	49,074	98,043	252,315
Conferences and meetings	424	-	1,417	-	-	4,575	6,416	120,385	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	15,086	229,241	5,557	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	\$ 484,312	\$ 52,000,959	\$ 2,551,872	\$ 2,251,408	\$ 56,804,239

See notes to audited financial statements.

Program Services

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Change in net assets	\$ (11,133,508)	\$ (2,652,990)
Adjustments to reconcile change in net assets to cash (used) by operating activities:		
Depreciation	258,018	206,900
Net (gain) loss on investments	(47,799)	17,105
Loss on disposal of equipment	-	70,054
Contributed houses	(10,527,954)	(13,593,778)
Contributed goods, services and facilities	(17,697,603)	(18,344,651)
Contributed investments	(4,837)	(76,621)
In-kind expenses	36,614,396	33,680,594
Net disposal (contributed) real estate	1,767,728	(1,897,728)
Change in operating assets and liabilities:		
Accounts receivable	2,760	458
Accrued interest receivable	6,301	1,341
Unconditional promises to give	503,513	1,492,985
Prepaid expenses	68,133	(74,244)
Inventory	26,661	1,403
Accounts payable	(322,961)	59,862
Accrued expenses	312,950	(773,041)
Deferred revenue	(150,000)	(20,000)
Other current assets and liabilities	(949)	162,413
Net cash (used) by operating activities	<u>(325,151)</u>	<u>(1,739,938)</u>
Investing Activities		
Purchase of property and equipment	(28,802)	(42,858)
Proceeds from sale of investments, net with purchase	26,774	1,216,928
Proceeds from house fire	-	205,000
Net cash (used) provided by investing activities	<u>(2,028)</u>	<u>1,379,070</u>
Change in cash and cash equivalents	(327,179)	(360,868)
Cash and cash equivalents at beginning of year	<u>2,953,277</u>	<u>3,314,145</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,626,098</u></u>	<u><u>\$ 2,953,277</u></u>
Supplemental Disclosures		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	-	-

See notes to audited financial statements.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

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. 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 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, when deeded over to Operation Homefront, less the present value of the estimated closing costs of transferring these homes to the deserving candidate.

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:

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

Temporarily Restricted Net Assets: Net assets subject to donor-imposed restrictions, that are more restrictive than Operation Homefront's mission and purpose, that will be met by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with restrictions, and whose restrictions are met in the same fiscal year, are reported as unrestricted in the statement of activities.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Permanently Restricted Net Assets: Net assets subject to donor-imposed restrictions that require they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. As of December 31, 2016 and 2015, Operation Homefront had no permanently restricted net assets.

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.

Restricted Cash / Accrued Escrow Accounts: Operation Homefront's restricted cash and 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. These funds are not considered to be cash and cash equivalents; thus, they are classified separately in the statements of financial position.

Investments: Investments are reported at fair market value determined by quoted market prices. Gains and losses (realized and unrealized) are reported as investment income, 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, 2016 and 2015. Interest is not charged on the receivables.

Unconditional Promises to Give/Contributions: Unconditional promises to give 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.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 market. 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. In 2016, the Organization change the estimated useful lives of their assets from five to three years, except for two vehicles left at five years.

Real Estate Held for Sale: Real estate held for sale consists of real estate in Crescent Lake, Oregon that is being held for sale and valued at the property's estimated net realizable value as of December 31, 2016.

Employee Benefit Plan: The Organization has a 401(k) employee benefit covering all 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 \$138,000 in 2016 and \$109,000 in 2015.

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, and totaled approximately \$297,000 in 2016 and \$238,000 in 2015.

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.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

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 is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. Generally, leases with terms in excess of 12 months will be recognized on the balance sheet as an asset (right to use leased asset) and a liability (lease liability). Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

In August 2016, the FASB issued a new accounting pronouncement regarding reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017, with early application permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

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 (including restricted assets) 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, 2016 and 2015, the Organization had cash accounts that exceeded federally insured limits by approximately \$2,223,000 and \$2,358,000, 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.

Reclassifications: Certain prior year amounts have been reclassified for comparative purposes to the current year. These reclassifications were not significant and did not affect the previously reported change in net assets.

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

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>2016</u>	<u>2015</u>
Interest and dividends	\$ 33,653	\$ 107,248
Net realized and unrealized gains (losses) on change in market value	47,799	(17,105)
Investment fees	<u>(12,941)</u>	<u>(36,135)</u>
Investment earnings, net	<u>\$ 68,511</u>	<u>\$ 54,008</u>

NOTE C – UNCONDITIONAL PROMISES TO GIVE

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

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 684,140	\$ 1,587,653
Due in one to five years	<u>500,000</u>	<u>100,000</u>
	<u>\$ 1,184,140</u>	<u>\$ 1,687,653</u>

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 20,000	\$ 20,000
Computers	340,917	325,525
Furniture	249,635	237,350
Office equipment	12,896	11,771
Communication equipment	1,994	1,994
Vehicles	<u>37,821</u>	<u>37,821</u>
Total property and equipment	663,263	634,461
Less accumulated depreciation	<u>(501,303)</u>	<u>(243,285)</u>
Property and equipment, net	<u><u>\$ 161,960</u></u>	<u><u>\$ 391,176</u></u>

NOTE E – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Transitional housing	\$ 156,943	\$ 245,638
Permanent housing	32,474,800	41,649,905
Critical assistance	4,349,317	3,615,788
Field operations	<u>13,020</u>	<u>49,454</u>
	<u><u>\$36,994,080</u></u>	<u><u>\$45,560,785</u></u>

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

NOTE F – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary 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>2016</u>	<u>2015</u>
Transitional housing	\$ 757,445	\$ 387,522
Permanent housing	19,601,069	15,662,271
Critical assistance	5,929,641	4,716,943
Field operations	<u>496,131</u>	<u>40,134</u>
	<u>\$26,784,286</u>	<u>\$20,806,870</u>

NOTE G – GIFTS IN-KIND

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

	<u>2016</u>	<u>2015</u>
Gift cards	\$ 628,713	\$ 488,128
Facilities	144,033	1,954,475
Goods	16,706,594	17,746,749
Services	<u>324,107</u>	<u>53,027</u>
	<u>\$17,803,447</u>	<u>\$20,242,379</u>

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

NOTE F – 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 \$300 to \$15,280 with varying expiration dates through April 2021. 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 \$40 to \$1,560.

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 \$893 to \$3,080 with varying expiration dates through June 2017.

Rent expense amounted to \$633,435 and \$580,839 for the years ended December 31, 2016 and 2015, respectively.

The aggregate minimum future lease payments on noncancellable leases at December 31, 2016, are as follows:

Year Ending December 31,

2017	\$ 487,955
2018	370,592
2019	370,459
2020	343,425
2021	260,930
Thereafter	91,360

OPERATION HOMEFRONT, INC.
Notes to Audited Financial Statements
December 31, 2016 and 2015

NOTE G – 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 money market funds (MMFs): 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.

Common/Preferred Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Mutual Funds: Valued at the daily closing price (net asset value) as reported by the fund.

U.S. Government Securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

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 G – FAIR VALUE MEASUREMENTS - continued

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

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
<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>
<i>December 31, 2015</i>				
Cash and cash equivalents	\$ 137,190	\$ -	\$ -	\$ 137,190
Government securities:				
FHLMC	-	65,913	-	65,913
FNMA	-	236,833	-	236,833
U.S. Treasury bonds	-	70,247	-	70,247
U.S. Treasury notes	-	197,556	-	197,556
Corporate bonds	-	379,251	-	379,251
European investments	9,763	-	-	9,763
Equity securities	1,261,240	-	-	1,261,240
Mutual Funds:				
Non-traditional bond	466,048	-	-	466,048
High-yield bond	147,620	-	-	147,620
World stock	149,820	-	-	149,820
Mid-cap value	146,394	-	-	146,394
Other	200	-	-	200
Total investments at fair value	<u>\$2,318,275</u>	<u>\$ 949,800</u>	<u>\$ -</u>	<u>\$3,268,075</u>