

OPERATION HOMEFRONT
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2021 AND 2020



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Operation Homefront
San Antonio, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Operation Homefront, which comprise the balance sheets as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation Homefront as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Operation Homefront and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of Operation Homefront as of and for the year ended December 31, 2020, were audited by other auditors, whose report dated March 26, 2021 expressed an unmodified opinion on those financial statements. As discussed in Note 13 to the financial statements, Operation Homefront has adjusted its 2020 financial statements to retrospectively apply the change in accounting for correction of an error. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2021 financial statements, we also audited the adjustment to the 2020 financial statements to retrospectively apply the change in accounting as described in Note 13. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Operation Homefront's 2020 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2020 financial statements as a whole.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Operation Homefront's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Operation Homefront's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Operation Homefront's ability to continue as a going concern for a reasonable period of time.

Board of Directors
Operation Homefront

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

San Antonio, Texas
April 19, 2022

**OPERATION HOMEFRONT
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash:		
Operating	\$ 4,625,484	\$ 4,797,344
Escrow Funds	297,939	309,407
Security Deposits	26,500	41,500
Total Cash	<u>4,949,923</u>	<u>5,148,251</u>
Investments, at Fair Value	2,005,520	2,005,317
Contributions Receivable, Net of Discount of \$95,287 and \$-0-	7,563,181	3,334,142
Employee Retention Credits Receivable - See Note 5	816,742	-
Contributed Houses Inventory	7,973,279	12,732,616
Contributed Goods Inventory	1,077,935	971,229
Prepaid Expenses	289,343	313,718
Other Current Assets	1,703	1,701
Property and Equipment, Net	6,127,318	4,422,096
Total Assets	<u><u>\$ 30,804,944</u></u>	<u><u>\$ 28,929,070</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 706,516	\$ 360,567
Accrued Expenses	823,185	1,012,662
Accrued Escrow Accounts	441,439	467,907
Capital Lease Payable	160,832	-
Total Liabilities	<u>2,131,972</u>	<u>1,841,136</u>
NET ASSETS		
Without Donor Restrictions:		
Undesignated	7,472,960	4,149,664
Designated for Thv & Th-V Transitional Housing & Villages	-	893,554
Designated for Permanent Housing	7,682,502	12,384,791
Designated for Critical Financial Assistance	4,802,086	4,106,401
Total Without Donor Restrictions	<u>19,957,548</u>	<u>21,534,410</u>
With Donor Restrictions, Time Restrictions	8,715,424	5,553,524
Total Net Assets	<u><u>28,672,972</u></u>	<u><u>27,087,934</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 30,804,944</u></u>	 <u><u>\$ 28,929,070</u></u>

See accompanying Notes to Financial Statements.

**OPERATION HOMEFRONT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributed Houses	\$ 1,627,141	\$ -	\$ 1,627,141
Contributed Goods, Services And Facilities	16,924,428	-	16,924,428
Contributions	19,183,673	7,204,195	26,387,868
Employee Retention Credit (See Note 5)	814,791	-	814,791
Special Events, Net of Expenses of \$222,740	160,144	-	160,144
	<u>38,710,177</u>	<u>7,204,195</u>	<u>45,914,372</u>
Other Revenues:			
Investment Earnings, Net	4,211	-	4,211
Other Revenues	83,091	-	83,091
Total Support and Revenues	<u>38,797,479</u>	<u>7,204,195</u>	<u>46,001,674</u>
EXPENSES			
Program Services	38,995,457	-	38,995,457
Management And General	2,071,210	-	2,071,210
Fundraising	3,349,969	-	3,349,969
Total Expenses	<u>44,416,636</u>	<u>-</u>	<u>44,416,636</u>
CHANGE IN NET ASSETS	(5,619,157)	7,204,195	1,585,038
Net Assets Released From Restrictions	4,042,295	(4,042,295)	-
Net Assets - Beginning of Year	<u>21,534,410</u>	<u>5,553,524</u>	<u>27,087,934</u>
NET ASSETS - END OF YEAR	<u>\$ 19,957,548</u>	<u>\$ 8,715,424</u>	<u>\$ 28,672,972</u>

See accompanying Notes to Financial Statements.

**OPERATION HOMEFRONT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributed Houses	\$ 4,137,297	\$ -	\$ 4,137,297
Contributed Goods, Services And Facilities, As Restated	20,691,455	-	20,691,455
Contributions	16,129,135	3,043,524	19,172,659
PPP Grant	1,607,412	-	1,607,412
Special Events, Net of Expenses of \$168,839	200,257	-	200,257
	<u>42,765,556</u>	<u>3,043,524</u>	<u>45,809,080</u>
Other Revenues:			
Investment Earnings, Net	19,192	-	19,192
Loss on Disposal of Contributed Houses	(142,640)	-	(142,640)
Other Revenues	6,529	-	6,529
Total Support and Revenues	<u>42,648,637</u>	<u>3,043,524</u>	<u>45,692,161</u>
EXPENSES			
Program Services, As Restated	41,408,458	-	41,408,458
Management And General	1,690,124	-	1,690,124
Fundraising	2,683,183	-	2,683,183
Total Expenses	<u>45,781,765</u>	<u>-</u>	<u>45,781,765</u>
CHANGE IN NET ASSETS	(3,133,128)	3,043,524	(89,604)
Net Assets Released From Restrictions	3,661,287	(3,661,287)	-
Net Assets - Beginning of Year	<u>21,006,251</u>	<u>6,171,287</u>	<u>27,177,538</u>
NET ASSETS - END OF YEAR	<u>\$ 21,534,410</u>	<u>\$ 5,553,524</u>	<u>\$ 27,087,934</u>

See accompanying Notes to Financial Statements.

**OPERATION HOMEFRONT
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021**

	Program Services					Total	Management and General	Fundraising	Total
	Critical Assistance	Veteran Caregiver Support	Field Operations	Permanent Homes for Veterans	THV and TH-V Trans. Housing & Villages				
Salaries, Taxes and Employee Benefits	\$ 1,518,163	\$ 99,771	\$ 3,541,689	\$ 967,549	\$ 652,933	\$ 6,780,105	\$ 1,297,995	\$ 1,541,133	\$ 9,619,233
Professional Services	173,798	11,246	704,662	319,800	90,702	1,300,208	363,707	842,185	2,506,100
Supplies	13,928	1,162	73,474	25,094	7,961	121,619	18,503	8,083	148,205
Communications	14,184	1,470	69,074	20,380	11,269	116,377	26,648	7,865	150,890
Postage and Shipping	61,718	10,003	207,803	91,631	27,487	398,642	7,824	480,493	886,959
Occupancy	57,974	3,807	374,329	107,767	30,705	574,582	192,144	1,181	767,907
Equipment Rental and Maintenance	1,894	124	7,930	3,521	1,135	14,604	5,651	-	20,255
Printing and Publications	38,756	2,545	161,943	72,043	20,526	295,813	4,385	358,803	659,001
Travel	2,700	80	15,885	2,276	1,594	22,535	5,849	14,903	43,287
Conferences and Meetings	1,164	74	8,129	2,106	639	12,112	3,263	504	15,879
Specific Assistance to Individuals	2,180,232	115,722	1,226,329	417,218	1,407,451	5,346,952	-	-	5,346,952
Memberships and Dues	2,607	322	13,695	4,647	1,309	22,580	2,546	8,217	33,343
In-Kind Expenses	1,062,139	43,932	14,424,358	7,507,500	327,826	23,365,755	76,305	29,083	23,471,143
Depreciation	19,823	48,728	256,950	53,993	127,362	506,856	23,393	4,757	535,006
Miscellaneous	18,846	389	58,276	11,024	28,182	116,717	42,997	52,762	212,476
Total Expenses	\$ 5,167,926	\$ 339,375	\$ 21,144,526	\$ 9,606,549	\$ 2,737,081	\$ 38,995,457	\$ 2,071,210	\$ 3,349,969	\$ 44,416,636
Special Events Costs Not Included Above:									
Awards								\$ 81,653	
Production Costs								28,485	
Value to Guests								29,532	
Other Direct Costs								83,070	
Total								\$ 222,740	

See accompanying Notes to Financial Statements.

**OPERATION HOMEFRONT
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020**

	Program Services					Total	Management and General	Fundraising	Total
	Critical Assistance	Veteran Caregiver Support	Field Operations	Permanent Homes for Veterans	THV and TH-V Trans. Housing & Villages				
Salaries, Taxes and Employee Benefits	\$ 1,522,502	\$ 76,655	\$ 3,570,894	\$ 999,246	\$ 600,049	\$ 6,769,346	\$ 1,202,151	\$ 1,305,215	\$ 9,276,712
Professional Services	226,263	8,288	850,659	319,667	95,316	1,500,193	324,881	632,672	2,457,746
Supplies	7,414	525	43,199	11,223	4,684	67,045	12,463	1,444	80,952
Communications	15,575	1,107	84,185	22,922	10,118	133,907	13,475	8,215	155,597
Postage and Shipping	67,266	9,116	222,728	81,188	24,534	404,832	4,235	306,347	715,414
Occupancy	86,603	3,243	519,095	123,960	37,155	770,056	88,015	84	858,155
Equipment Rental and Maintenance	2,802	105	10,905	4,011	1,330	19,153	3,803	-	22,956
Printing and Publications	66,631	2,495	256,055	95,372	28,587	449,140	1,289	338,911	789,340
Travel	5,088	72	24,372	2,981	1,379	33,892	6,024	10,747	50,663
Conferences and Meetings	2,248	84	16,686	3,218	965	23,201	10,956	1,021	35,178
Specific Assistance to Individuals	2,066,828	76,197	1,036,702	623,543	1,297,616	5,100,886	-	-	5,100,886
Memberships and Dues	950	32	4,151	1,217	579	6,929	1,767	9,651	18,347
In-Kind Expenses, As Restated	1,977,454	51,971	16,710,155	6,438,803	417,066	25,595,449	2,621	18,728	25,616,798
Depreciation	92,159	53	182,865	62,382	115,215	452,674	4,256	-	456,930
Miscellaneous	11,955	407	49,130	15,582	4,681	81,755	14,188	50,148	146,091
Total Expenses	\$ 6,151,738	\$ 230,350	\$ 23,581,781	\$ 8,805,315	\$ 2,639,274	\$ 41,408,458	\$ 1,690,124	\$ 2,683,183	\$ 45,781,765
Special Events Costs Not Included Above:									
Awards								\$ 77,318	
Production Costs								60,264	
Value to Guests								11,023	
Other Direct Costs								20,234	
Total								\$ 168,839	

See accompanying Notes to Financial Statements.

**OPERATION HOMEFRONT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,585,038	\$ (89,604)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	535,006	456,933
Bad Debt Expense	57,861	-
Realized/Unrealized (Gain) Loss on Investments	1,395	(19,192)
Contributed Houses	(1,627,141)	(4,137,297)
Contributed Goods, Services and Facilities	(16,924,428)	(18,581,455)
Contributed Investments	-	(48,898)
In-Kind Expenses	23,471,139	23,506,792
Loss (Gain) on Disposal of Contributed Houses	-	142,640
Changes in Operating Assets and Liabilities:		
Contributions Receivable	(4,286,900)	4,686,840
Grants Receivable	(816,742)	-
Prepaid Expenses	24,375	13,640
Inventory	(266,939)	(36,875)
Other Current Assets	(2)	(5)
Accounts Payable	345,949	(371,722)
Accrued Expenses	(189,477)	167,360
Accrued Escrow Accounts	(26,468)	104,118
Net Cash Provided by Operating Activities	<u>1,882,666</u>	<u>5,793,275</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(2,035,368)	(1,682,340)
Proceeds from the Sale of Houses	-	215,157
Purchase of investments	(326,458)	-
Proceeds from sale of investments	324,860	-
Net Investment Activity	<u>-</u>	<u>50,705</u>
Net Cash Used by Investing Activities	<u>(2,036,966)</u>	<u>(1,416,478)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Capital Lease Obligations	(44,028)	-
Payments on Debt	<u>-</u>	<u>(197,004)</u>
Net Cash Used by Financing Activities	<u>(44,028)</u>	<u>(197,004)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(198,328)	4,179,793
Cash and Cash Equivalents - Beginning of Year	<u>5,148,251</u>	<u>968,458</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,949,923</u>	<u>\$ 5,148,251</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	<u>\$ 8,749</u>	<u>\$ 800</u>
Property and Equipment Obtained through Capital Lease	<u>\$ 204,860</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Operation Homefront, Inc. (Organization or Operation Homefront), was incorporated in 2002 as CinchHouse.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 McLean, VA) and its 20 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 Permanent Homes for Veterans (formally known as Homes on the 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.

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.

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2021 and 2020.

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 on the statement of activities 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 on the statement of activities 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.

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 \$1,000 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, equipment, and software, and forty years for buildings.

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Escrow Accounts

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

Net Assets

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:

Net Assets 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.

Net Assets 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.

Revenue Recognition

The Organization recognizes contributions and grants either when a valid promise to give (generally in writing) is received or as collected in the case of most smaller denomination gifts. Contributions and grants are reported as without or with donor restriction, depending on the existence and/or nature of any restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor- restricted support is reported as an increase in net assets with donor restriction depending on the nature of the restriction. When a restriction expires, the net assets are reclassified to net assets without donor restriction.

Gifts of houses or other tangible goods are reported as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as with donor restrictions. Absent explicit donor stipulations about how long those long- lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Organization does not have any material contract assets or contract liabilities as of December 31, 2021 and 2020.

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee Benefit Plan

The Organization has a 401(k) employee benefit plan 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's contributions to the Plan were approximately \$237,000 and \$231,000, respectively, in the years ended December 31, 2021 and 2020.

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

The statements of functional expenses report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include all expenses, which are allocated on the basis of estimates of time and effort, except specific assistance to individuals.

Advertising

Advertising, printing and publication costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The Organization had cash accounts that exceeded federally insured limits by approximately \$3,793,000 and \$4,500,000 at December 31, 2021 and 2020, respectively.

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk (continued)

In-kind contributions totaling \$10,021,682 and \$10,403,806 were received from one donor for the years ended December 31, 2021 and 2020, which represent 22% and 23% of total support and revenues. Should these contribution levels decrease, the Organization may be adversely affected.

New Accounting Pronouncements

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2021. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with terms of more than 12 months. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

In September 2020, the FASB issued ASU No. 2020-07 *Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets*, which requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. Contributed nonfinancial assets include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. This ASU is effective for periods beginning after June 15, 2021 with early adoption permitted. The Organization is evaluating the impact on its financial statements.

Reclassification

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Management has evaluated subsequent events through April 19, 2022, which is the date the financial statements were available to be issued.

On February 18, 2022 and March 17, 2022, the Organization closed on the sale of two homes for a total estimated gain on sale of approximately \$374,000.

On March 24, 2022, the Organization announced receipt of a momentous gift of \$20 million from MacKenzie Scott, the largest single donation in the Organization's 20-year history.

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 2 FAIR VALUE MEASUREMENTS

In accordance with accounting principles generally accepted in the United States, 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.

Mutual Fund – Valued at the daily closing price reported on the active market.

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

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
<u>December 31, 2021</u>				
Cash and Cash Equivalents	\$ 2,005,520	\$ -	\$ -	\$ 2,005,520
Total Investments, at Fair Value	<u>\$ 2,005,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,005,520</u>
<u>December 31, 2020</u>				
Cash and Cash Equivalents	\$ 1,702,067	\$ -	\$ -	\$ 1,702,067
Certificates of Deposit	300,581	-	-	300,581
Mutual Fund	2,669	-	-	2,669
Total Investments, at Fair Value	<u>\$ 2,005,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,005,317</u>

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows at December 31:

	2021	2020
Due Within One Year	\$ 5,592,168	\$ 3,274,142
Due in One to Five Years	1,791,300	60,000
Due in More Than Five Years	275,000	-
Total Contributions Receivable, Gross	7,658,468	3,334,142
Less Discount at 1.6%	(95,287)	-
Total Contributions Receivable, Net of Discount	<u>\$ 7,563,181</u>	<u>\$ 3,334,142</u>

NOTE 4 EMPLOYEE RETENTION CREDIT

Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. On December 6, 2021, the Organization complied with the conditions of Employee Retention Credit (ERC) funding as established by the CARES Act in the amount of \$814,791 in compliance with the program.

Grants related to this program are classified as other income and employee retention credit receivable. The Organization recognized \$814,791 of ERC revenue and grants receivable related to performance requirements being met and costs being incurred in compliance with the program during the year ended December 31, 2021.

OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2021	2020
Land	\$ 819,387	\$ 611,237
Buildings	4,656,186	3,229,828
Computers and Equipment	707,672	500,613
Furniture and Fixtures	259,120	251,089
Vehicles	43,611	37,821
Software	1,697,650	1,380,332
Software Development in Progress	149,202	103,419
Total Property and Equipment	8,332,828	6,114,339
Less: Accumulated Depreciation	(2,205,510)	(1,692,243)
Property and Equipment, Net	<u>\$ 6,127,318</u>	<u>\$ 4,422,096</u>

NOTE 6 LINE OF CREDIT

The Organization 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 based on various percentages of the assets in their investment account. As of December 31, 2021 and 2020, no borrowings were advanced under the line of credit.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2021 and 2020:

	2021	2020
Subject to the Passage of Time:		
Campaign - Ready Reserve Fund	\$ 3,014,724	\$ 215,000
Campaign - Program Growth Fund	1,298,550	-
Campaign - Future Needs Fund	75,000	-
Future Programs	4,327,150	5,338,524
Total Net Assets With Donor Restrictions	<u>\$ 8,715,424</u>	<u>\$ 5,553,524</u>

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 8 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 \$800 to \$18,272 with expiration dates through May 2024. 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 with payments ranging from \$50 to \$2,275. 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 \$1,229 to \$3,650 with varying expiration dates through May 2022. For the years ended December 31, 2021 and 2020, rent expense totaled \$592,023 and \$690,034, respectively.

The Organization also entered into a capital lease for equipment, which expires in March 2024. As of December 31, 2021 and 2020, the cost of this leased equipment was \$204,860 and \$-0-, respectively and accumulated depreciation was \$56,906 and \$-0-, respectively. The aggregate minimum future lease payments on noncancelable operating and capital leases at December 31, 2021, are as follows:

<u>Year Ending December 31,</u>	Operating Leases	Capital Leases
2022	\$ 271,814	\$ 74,241
2023	162,297	74,241
2024	105,542	18,560
Total Minimum Lease Payments	539,653	167,042
Less Amounts Representing Interest	-	(6,210)
Present Value of Net Minimum Lease Payments	<u>\$ 539,653</u>	<u>\$ 160,832</u>

NOTE 9 GIFTS IN-KIND

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

	2021	2020
Gift Cards	\$ 555,081	\$ 435,384
Facilities	115,877	109,320
Goods	11,679,557	13,605,651
Media and Other Services	4,208,487	6,332,947
Vehicles	365,426	208,153
Total	<u>\$ 16,924,428</u>	<u>\$ 20,691,455</u>

**OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 10 JOINT COSTS

In accordance with accounting standards, Operation Homefront conducts activities that include a fundraising appeal. Those activities include direct mail campaigns. For the year ending December 31, 2021, the costs of conducting these activities included a total of \$2,434,497 of joint costs, with \$1,022,489 allocated to program expenses and \$1,412,008 allocated to fundraising expenses. For the year ending December 31, 2020, the costs of conducting these activities included a total of \$2,497,824 of joint costs, with \$1,373,803 allocated to program expenses and \$1,124,021 allocated to fundraising expenses.

NOTE 11 PAYCHECK PROTECTION PROGRAM

The Organization received funding under the Paycheck Protection Program (PPP) in the amount of \$1,607,412 as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), administered by the U.S. Small Business Administration (SBA). The funding was subject to loans administered by the SBA under the CARES Act.

All proceeds were used for payroll costs and other permitted expenses during 2020. Prior to year end the Organization received notification from the SBA the loan was forgiven in full; accordingly, the Organization recognized the proceeds as grant income in 2020.

NOTE 12 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2021	2020
Cash	\$ 4,949,923	\$ 5,148,251
Investments	2,005,520	2,005,317
Contributions Receivable, Current	5,592,168	3,274,142
Employee Retention Credits Receivable, Current	816,742	-
Less: Escrow Funds	(297,939)	(309,407)
Less: Security Deposits	(26,500)	(41,500)
Less: Donor Restricted Net Assets	(8,715,424)	(5,553,524)
Total financial assets available for general expenditures in the next 12 months	<u>\$ 4,324,490</u>	<u>\$ 4,523,279</u>

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.

OPERATION HOMEFRONT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 13 CORRECTION OF ERROR

During the year ended December 31, 2021, management determined that certain contributed media and other services totaling \$2,110,000 in 2020 was not recognized. As such, the Organization restated its 2020 financial statements as noted in the table below.

	<u>Original</u>	<u>Restatement</u>	<u>As Restated</u>
<u>Statement of Activities</u>			
Contributed goods, services and facilities	\$ 18,581,455	\$ 2,110,000	\$ 20,691,455
Total support and revenues	40,538,637	2,110,000	42,648,637
Program services	39,298,458	2,110,000	41,408,458
Total expenses	43,671,765	2,110,000	45,781,765
<u>Statement of Functional Expenses</u>			
In-Kind Expenses:			
Critical Assistance	\$ 1,663,988	\$ 313,466	\$ 1,977,454
Veteran Caregiver Support	40,233	11,738	51,971
Field Operations	15,508,527	1,201,628	16,710,155
Permanent Homes for Veterans	5,990,121	448,682	6,438,803
THV and TH-V Transitional Housing and Villages	282,580	134,486	417,066
Total Program	23,485,449	2,110,000	25,595,449
Total	23,506,798	2,110,000	25,616,798

