

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(With Comparative Totals for 2009)

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
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DECEMBER 31, 2010 AND 2009

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Independent Auditors' Report on Financial Statements
and Supplementary Schedules

To the Board of Trustees of
Homeless Solutions, Inc. and Subsidiaries
Morristown, NJ

We have audited the accompanying consolidated statement of financial position of Homeless Solutions, Inc. and Subsidiaries (a nonprofit corporation) (the "Organization") as of December 31, 2010, and the related consolidated statement of activities, consolidated statement of functional expenses and consolidated statement of cash flows for the year then ended. 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 audit. The prior year summarized comparative information has been derived from the Organizations 2009 financial statements and, in our report dated March 22, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Homeless Solutions, Inc. and Subsidiaries, as of December 31, 2010, and the changes in its consolidated statement of net assets and its consolidated statement of cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 5, 2011, on our consideration of Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

To the Board of Trustees of
Homeless Solutions, Inc. and Subsidiaries
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Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of Homeless Solutions, Inc. and Subsidiaries, taken as a whole. The accompanying schedules of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

April 5, 2011
Mt. Arlington, New Jersey

Nisimocia LLP

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>		
	2010	2009
Current assets:		
Cash and cash equivalents	\$ 1,477,044	\$ 2,009,328
Restricted cash and cash equivalents	701,329	626,099
Investments	2,200,516	2,107,575
Due from 38-42 Abbett Avenue, LP	10,816	10,816
Grants and fees receivable	228,259	141,325
Unconditional promises to give, net	148,732	299,406
Prepaid expenses and other assets	67,764	53,621
Total current assets	4,834,460	5,248,170
Property and equipment, less accumulated depreciation and amortization of \$1,367,904 in 2010 and \$1,249,768 in 2009	5,211,899	3,664,127
Other assets:		
Investment in partnerships	478,987	536,645
Due from Morris Shelter Urban Renewal, LP	445,836	152,539
Due from 38-42 Abbett Avenue, LP	1,734,052	1,772,816
Security deposit	33,407	30,176
Loan costs, net accumulated amortization	53,771	34,832
Unconditional promises to give, net	86,752	200,167
Total other assets	2,832,805	2,727,175
Total assets	\$ 12,879,164	\$ 11,639,472
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 112,294	\$ 249,143
Accrued wages and vacation	34,449	90,978
Accrued pension contribution	42,669	41,912
Accrued interest expense	49,429	14,912
Deferred revenue	44,566	201,434
Deferred gain on sale	4,036	4,036
Security deposits	20,797	18,459
Current portion of deferred support	32,661	34,517
Current portion of long-term debt	727,822	364,008
Total current liabilities	1,068,723	1,019,399
Long-term liabilities:		
Deferred gain on sale	103,258	107,294
Deferred support	216,903	249,564
Long-term debt	1,987,263	838,103
Total long-term liabilities	2,307,424	1,194,961
Total liabilities	3,376,147	2,214,360
Net assets:		
Unrestricted:		
Undesignated	3,979,657	4,739,499
Board-designated	132,662	235,618
Net capital assets	5,211,899	3,664,127
Total unrestricted net assets	9,324,218	8,639,244
Temporarily restricted	168,938	776,007
Permanently restricted	9,861	9,861
Total net assets	9,503,017	9,425,112
Total liabilities and net assets	\$ 12,879,164	\$ 11,639,472

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
	<u>Operating</u>	<u>Capital</u>				
Revenue, gains and other support:						
Government grants	\$ 1,247,849				\$ 1,247,849	\$ 1,351,257
Contributions	1,097,390		\$ 89,520		1,186,910	1,363,851
Donated facility	201,307				201,307	270,292
Fundraising	198,033				198,033	200,571
Rental income	253,711				253,711	236,150
Management fees	9,264				9,264	8,900
Investment income	130,995				130,995	183,655
Donated professional services	71,150				71,150	95,046
Development fees	180,271				180,271	24,585
Gain on sale of fixed assets	4,036				4,036	4,036
Other	23,382				23,382	12,136
Net assets released from restrictions:						
Satisfaction of use restrictions, net	696,589		(696,589)			
Total revenue, gains and other support	<u>4,113,977</u>		<u>(607,069)</u>		<u>3,506,908</u>	<u>3,750,479</u>
Expenses:						
Program services	2,580,200	\$ 106,020			2,686,220	2,620,951
Supporting services:						
General and administrative	401,984	19,823			421,807	529,303
Development	315,410	5,566			320,976	314,500
Total supporting services	<u>717,394</u>	<u>25,389</u>			<u>742,783</u>	<u>843,803</u>
Total expenses	<u>3,297,594</u>	<u>131,409</u>			<u>3,429,003</u>	<u>3,464,754</u>
Change in net assets	816,383	(131,409)	(607,069)		77,905	285,725
Net assets, beginning of year	4,975,117	3,664,127	776,007	\$ 9,861	9,425,112	9,139,387
Transfer of net assets	<u>(1,679,181)</u>	<u>1,679,181</u>				
Net assets, end of year	<u>\$ 4,112,319</u>	<u>\$ 5,211,899</u>	<u>\$ 168,938</u>	<u>\$ 9,861</u>	<u>\$ 9,503,017</u>	<u>\$ 9,425,112</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	PROGRAM SERVICES						SUPPORTING SERVICES				TOTAL 2009	
	SINGLE WOMEN	HOSPITALITY LINK	EMERGENCY SHELTER AND SERVICES SAFE HAVEN	FAMILY	MEN'S	TRANSITIONAL HOUSING	HEADQUARTERS DEVELOPMENT	PROGRAM SERVICES	GENERAL & ADMINISTRATIVE	DEVELOPMENT		TOTAL 2010
Salaries	\$ 56,380	\$ 38,179	\$ 367,407	\$ 212,238	\$ 130,210	\$ 269,643	\$ 233,924	\$ 1,307,981	\$ 274,302	\$ 199,792	\$ 1,782,075	\$ 1,757,207
Payroll taxes	5,416	3,469	37,368	16,612	14,715	31,307	14,141	123,028	20,777	15,272	159,077	157,220
Health insurance	3,898	1,625	25,047	15,883	15,107	18,439	7,589	87,588	14,272	5,594	107,454	107,798
Workers compensation insurance	720	505	4,812	1,708	2,038	4,716	909	15,408	2,704	1,516	19,628	19,877
Pension plan	665	36	7,036	5,428	4,425	2,406	6,122	26,118	13,894	6,342	46,354	48,098
Total personnel services	67,079	43,814	441,670	251,869	166,495	326,511	262,685	1,560,123	325,949	228,516	2,114,588	2,120,200
Assistance to clients and supplies:												
Food	2,223	388	4,618	6,560	4,994	2,707	-	18,783	-	-	18,783	15,826
Guest supplies	1,066	500	2,995	3,637	2,736	-	-	13,641	-	-	13,641	14,921
Safe haven expenses	-	-	134,213	-	-	-	-	134,213	-	-	134,213	134,213
Child care subsidies	-	-	-	44,199	-	71,778	-	115,977	-	-	115,977	137,024
Rent subsidies	-	-	-	-	-	-	-	-	-	-	-	1,362
Bus passes	16	500	135	49	138	-	-	838	-	-	838	405
Facility costs:												
Insurance	1,380	564	3,294	1,672	1,818	2,875	21,256	32,859	1,367	583	34,809	38,051
Rent expense	30,755	3,977	59,432	76,354	59,904	7,954	55,909	294,285	17,305	7,954	319,544	316,792
Utilities	-	-	24,041	-	-	-	23,044	47,085	-	-	47,085	56,917
Facility maintenance	2,519	447	3,377	5,747	3,706	23,764	21,089	60,649	157	-	60,806	58,623
Garbage removal	1,036	-	2,157	3,107	2,331	-	-	8,631	-	-	8,631	8,267
Snow removal	-	-	-	-	-	2,335	9,016	11,351	-	-	11,351	12,723
Exterminator	-	-	-	-	-	1,929	2,712	4,641	-	-	4,641	4,440
Lawn maintenance	-	-	-	-	-	5,599	13,435	19,034	-	-	19,034	22,859
Cleaning services	612	3,845	1,150	1,836	1,377	-	-	8,820	-	-	8,820	7,635
Real estate expenses	-	-	-	-	-	-	22,657	22,657	-	-	22,657	29,305
Consultants and professional fees:												
Data processing	504	261	3,079	1,034	1,272	3,058	757	9,965	1,599	982	12,546	5,906
Audit	479	240	2,936	959	1,199	2,936	5,464	14,213	14,705	959	29,877	44,631
Professional fees	4,217	3,371	19,051	12,567	11,030	15,320	8,276	73,832	16,446	3,837	94,115	97,373
Office expense	3,394	4,414	10,836	5,294	5,643	20,964	10,506	61,051	16,308	10,236	87,595	77,851
Transportation expense	4,283	-	8,899	6,106	5,417	7,934	1,125	33,764	1,618	35	35,417	36,570
Interest expense	-	-	-	-	-	-	33,788	33,788	1,500	-	35,288	34,054
Fundraising expense	-	-	-	-	-	-	-	-	5,030	62,308	67,338	55,033
Total expenses before property impairment and depreciation and amortization	119,563	62,321	721,883	420,990	268,060	495,664	491,719	2,580,200	401,984	315,410	3,297,594	3,330,981
Impairment of property	-	-	-	-	-	-	-	-	10,779	-	10,779	20,084
Depreciation and amortization	2,793	1,391	17,045	5,566	6,957	17,045	55,233	106,020	9,044	5,566	120,630	113,689
Total expenses	\$ 122,346	\$ 63,712	\$ 738,928	\$ 426,556	\$ 275,017	\$ 512,709	\$ 546,952	\$ 2,686,220	\$ 421,807	\$ 320,976	\$ 3,429,003	\$ 3,464,754

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 77,905	\$ 285,725
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	120,630	113,689
Impairment of property	10,779	20,084
Imputed interest	(34,517)	(14,912)
Net realized and unrealized gain on investments	(107,274)	(108,133)
Gain on sale of fixed assets	(4,036)	(4,036)
Changes in operating assets and liabilities		
Grants and fees receivable	(86,934)	7,841
Unconditional promises to give	264,089	35,624
Prepaid expenses and other assets	(14,143)	(4,427)
Due from partnerships	(254,533)	382,166
Accounts payable and accrued expenses	(136,849)	(241,025)
Accrued wages and vacation	(56,529)	71,123
Accrued pension contribution	757	41,912
Accrued interest expense	34,517	14,912
Deferred revenue	(156,868)	(13,837)
Deferred gain on sale	(4,036)	(4,036)
Security deposits	2,338	(15,492)
Net cash provided by (used in) operating activities	<u>(344,704)</u>	<u>567,178</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,678,908)	(746,652)
Purchases of investments	(1,047,448)	(1,628,176)
Proceeds from sale of investments	1,064,803	1,210,503
Cash additions to restricted cash	(75,230)	(226,099)
Investment in partnerships	57,658	105
Net cash used in investing activities	<u>(1,679,125)</u>	<u>(1,390,319)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,512,975	1,501,104
Principal repayment of long-term debt	-	(1,109,118)
Loan cost	(21,430)	(36,034)
Net cash provided by financing activities	<u>1,491,545</u>	<u>355,952</u>
Net decrease in cash and cash equivalents	(532,284)	(467,189)
Cash and cash equivalents, beginning of year	<u>2,009,328</u>	<u>2,476,517</u>
Cash and cash equivalents, end of year	<u>\$ 1,477,044</u>	<u>\$ 2,009,328</u>
Supplementary information:		
Cash paid during the year for interest	<u>\$ 2,523</u>	<u>\$ 19,142</u>
Supplemental disclosures of noncash activity:		
Unrealized gain on investments	<u>\$ 90,899</u>	<u>\$ 440,518</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 1- Nature of Operations

Homeless Solutions, Inc. and Subsidiaries (the "Organization") provides emergency shelters for single men and women, families and a safe haven for mentally ill persons in Morristown, New Jersey. These shelters offer meals, case management, life skills training, access to childcare, educational programs and job searches that lead to independent living. The Transitional Housing Program provides apartments with case management, life skills and resident programs. The Hospitality Link Program manages a drop-in service for community members and links them to housing, employment and health resources. The Headquarters Development Division of Homeless Solutions, Inc. develops and manages supportive housing for low-income families such as the 12 unit 38-42 Abbett Avenue project which was completed and occupied during 2008. Headquarters Development is committed to delivering the highest quality affordable rental housing through new construction, renovation, adaptive re-use and mixed use buildings.

The Organization has eight additional wholly owned subsidiaries:

- 1 Jean Street Building Associates Urban Renewal, LLC
- 133 Landing Road, Inc.
- 16 Morton Street, LLC
- 29 Abbett, LLC
- 34 Abbett, LLC
- 31 Drakestown Road, LLC
- 81 MLK, LLC
- 37 Harrison, LLC

The consolidated financial statements include the accounts of the Organization and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2- Summary of Significant Accounting Policies

A summary of the significant accounting policies followed by the Organization in the preparation of the accompanying financial statements is set forth below.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization prepares its financial statements in accordance with *Accounting for Contributions Received and Made*, and, *Financial Statements of Not-for-Profit Organizations*. *Accounting for Contributions Received and Made* requires that unconditional promises to give be recorded as receivables and revenue and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 2- Summary of Significant Accounting Policies (Cont'd)

Basis of Presentation (Cont'd)

Financial Statements of Not-for-Profit Organizations establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets are resources representing the portion of expendable funds available for support of the Organization's programs and general operations. These resources are not subject to donor-imposed restrictions.

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either 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.

Permanently restricted net assets are net assets subject to donor-imposed stipulations to 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.

Revenue and Support Recognition

Contributions are recognized as revenue and receivables when they are received or unconditionally pledged. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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. However, if the donor restriction is satisfied during the accounting period in which the gift was received, the gifts are reported as unrestricted contributions in the statement of activities. Restricted gains and investment income whose restrictions are satisfied in the same accounting period are reported as unrestricted income.

The Organization accounts for contract and grant revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All amounts not expended in accordance with the grant or contracts are recorded as a liability to the grantor as the Organization does not maintain any equity in the grant or contract. Additionally, funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 2- Summary of Significant Accounting Policies (Cont'd)

Revenue and Support Recognition (Cont'd)

Revenue is recognized from tenants' basic rental payments when due in accordance with lease agreements entered into between the tenant and the Organization. Housing subsidies are recognized when earned.

Contributions of services and facilities are recorded at their estimated fair values on the date of contribution.

Deferred Revenue and Gain on Sale

Deferred revenue and gain on sale results from the receipt of funds prior to those amounts being earned.

Use of Estimates

Management of the Organization uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and contingent liabilities, and the reported revenues and expenses. Actual results could vary from the estimates used by management.

Fair Value Measurements

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures of investments in debt and equity securities that are classified as available-for-sale and derivatives financial instruments on a recurring basis.

The Fair Value Measurements Topic of the FASB Accounting Standards Codification defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. The disclosures required under this topic have been included in this note.

Fair Value Hierarchy

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 2- Summary of Significant Accounting Policies (Cont'd)

Fair Value Measurements (Cont'd)

Determination of Fair Value

Under the Fair Value Measurements Topic of the FASB Accounting Standards Codification, the Organization bases its fair value on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Organization's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value.

The carrying amounts of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short term maturity of these instruments.

Long-term debt is carried at cost. However, management believes the Organization can obtain similar loans at similar terms, therefore the Organization has determined it approximates fair value.

Cash Equivalents and Restricted Cash

The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash restricted for long term purposes (replacement reserve for Jean St. building lease) or cash received with donor-imposed restrictions limiting its use to long term purposes is not considered cash for purposes of the statements of cash flows.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 2- Summary of Significant Accounting Policies (Cont'd)

Restricted cash and cash equivalents as of December 31, 2010 and 2009 are comprised of the following:

	2010	2009
Repair and replacement reserve -Jean Street		
Building Associates Urban Renewal, LLC	\$ 400,000	\$ 400,000
Reserves for 133 Landing Road, Inc.	150,086	148,847
Reserves for 34 Abbett Avenue, LLC	77,575	77,252
Reserves for 37 Harrison Street, LLC	73,668	
	\$ 701,329	\$ 626,099

Accounts Receivable and Pledges Receivable and Allowances for Uncollectible Accounts

Accounts receivable and pledges receivable are stated at amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment

Land, building and equipment are recorded at cost when purchased, or at fair value at date of gift, when donated. Depreciation is provided for by the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as costs are incurred. Proceeds from the sale of fixed assets, if unrestricted, are transferred to the unrestricted net assets, or, if restricted, to temporarily restricted net assets for fixed asset acquisitions.

Gifts of long-lived assets are reported as an increase in unrestricted net assets, unless there are explicit restrictions that specify how the assets are to be used.

The Organization continually evaluates whether current events or circumstances warrant adjustments to the carrying value or estimated useful lives of fixed assets in accordance with the provisions of Accounting Standards Codification (ASC) 360-10-05, *Accounting for the Impairment or Disposal of Long-Lived Assets*. During 2009, the Organization permanently removed software from operations. The Organization conducted an impairment evaluation, which resulted in impairment charges of \$10,779 and \$20,084 for the years ended December 31, 2010 and 2009, respectively.

Income Taxes

The Organization is a not-for-profit association as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501 (a) of the Code. The Organization is also exempt under Title 15 of the State of New Jersey, *Corporations and Associations Not-for-Profit Act*. Accordingly, no provision for federal or state income taxes has been presented in the accompanying financial statements.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 2- Summary of Significant Accounting Policies (Cont'd)

Income Taxes (Cont'd)

Effective December 15, 2009, the Organization adopted, *Accounting for Uncertainty in Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition as they relate to those tax positions. There was no cumulative effect associated with this change in accounting principle.

The Organization does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the fiscal year ended December 31, 2010. However, the Organization is subject to regular audit by tax authorities. The Organization believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes its nonprofit status would be upheld upon examination.

The Organization files income tax returns in the United States federal and in New Jersey state jurisdictions. The Organization is subject to income tax examinations at any time within three years from the latest filing date for federal and four years from the latest filing date for the State of New Jersey.

Functional Expense

Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to a program based on level of activity. Support costs are allocated to a program based on total program costs. Program expenses are those related to emergency shelters, transitional housing, and development and management of low income family and supported housing apartments. Supporting services related to finance and administrative expenses related to those programs.

Development includes the direct costs of special events and the allocation of employees' salaries and other costs involved in fund-raising and special events based on methods considered by management to be reasonable.

Total Columns

Total columns are presented to facilitate financial analysis. Data in these columns do not present financial position, results of operations and changes in net assets in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's 2009 financial statements from which the summarized information was derived.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 2- Summary of Significant Accounting Policies (Cont'd)

Investments

The Organization follows, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. In accordance with this accounting standard, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair values in the statement of financial position.

Unrealized gains and losses are included in the change in net assets. Investment income or loss (including interest and dividends) and gain on sale of investments are included in the statement of activities unless the income or loss is restricted by donor or law. A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after December 31, 2010 through the date of the auditors' report and the date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 3- Cash, Credit and Funding Risks

The Organization deposits its cash in accounts with major banking institutions. At times, such amounts may be in excess of federal insurance limits. Management believes that the Organization has no significant risk of loss on these accounts due to the failure of the institutions.

Concentration of credit risk associated with investments is considered low due to the credit quality of the financial institutions holding these investments

As reflected in the Statement of Activities, the Organization has several funding sources including the government grants, individual foundations and the United Way. Although no funding source is guaranteed, the Organization believes that based upon past history and the continued monitoring of the diverse funding sources by management, there is not a significant risk to the agency's funding streams in total.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED).

Note 4- Building and Equipment

Building and equipment and their related estimated useful lives at December 31, 2010 and 2009, are as follows:

	Estimated Useful Life (Years)	December 31,	
		2010	2009
Land		\$ 602,582	\$ 491,582
Buildings and improvements	39	1,026,702	1,024,702
Construction in progress		3,121,089	1,645,106
Leasehold improvements	20	1,264,970	1,193,731
Vehicles	5	98,805	98,805
Furniture and fixtures	5	465,655	459,969
		<u>6,579,803</u>	<u>4,913,895</u>
Less: accumulated depreciation		<u>(1,367,904)</u>	<u>(1,249,768)</u>
		<u>\$ 5,211,899</u>	<u>\$ 3,664,127</u>

Depreciation expense for the years ended December 31, 2010 and 2009 totaled \$118,136 and \$112,485, respectively.

Note 5- Investments- Donor-designated Endowments (UPMIFA state)-after implementation of FASB Accounting Standards Codification (ASC) 958-205-45

The Organization's endowment consists of individual funds established for a variety of purposes. Its endowment is comprised of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. All permanently restricted net assets are comprised of endowment funds.

The Board of Trustees of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 5- Investments- Donor-designated Endowments (UPMIFA state)-after implementation of FASB Accounting Standards Codification (ASC) 958-205-45 (Cont'd)

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution at the board's discretion, while growing the funds, if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: The Organization makes distributions each year in the amount the board deems necessary of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current endowment funds to grow annually, which is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Note 6- Investments

The value initially recognized for investments purchased is cost. The value initially assigned to investments received by gift is the market value on the date of donation. Thereafter, investments are carried at market value. Investments at December 31, 2010 and 2009 are comprised of the following:

	December 31, 2010			Unrealized Gain/(Loss)
	Cost	Fair Value (Level 1)	Fair Value (Level 3)	
Stocks	\$ 587,421	\$ 685,156		\$ 97,735
Corporate Bonds	672,369	683,023		10,654
Exchange Traded Funds	78,350	85,263		6,913
Certificates of Deposit	303,997	307,501		3,504
Community Foundation of New Jersey	34,886		\$ 85,020	50,134
Summit Private Investment, Inc.	350,000		354,553	4,553
	<u>2,027,023</u>	<u>1,760,943</u>	<u>439,573</u>	<u>173,493</u>
Investment in Partnerships	536,750		478,987	(57,763)
Total	<u>\$ 2,563,773</u>	<u>\$ 1,760,943</u>	<u>\$ 918,560</u>	<u>\$ 115,730</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 6- Investments (Cont'd)

	December 31, 2009			
	Cost	Fair Value (Level 1)	Fair Value (Level 3)	Unrealized Gain/(Loss)
Stocks	\$ 621,659	\$ 674,056		\$ 52,397
Corporate Bonds	275,656	278,191		2,535
Government Bonds	254,817	287,120		32,303
Exchange Traded Funds	75,655	78,665		3,010
Certificates of Deposit	492,000	497,200		5,200
Community Foundation of New Jersey	34,886		\$ 76,524	41,638
Summit Private Investment, Inc.	250,000		215,819	(34,181)
Total	<u>2,004,673</u>	<u>1,815,232</u>	<u>292,343</u>	<u>102,902</u>
Investment in Partnerships	536,750		536,645	(105)
Total	<u>\$ 2,541,423</u>	<u>\$ 1,815,232</u>	<u>\$ 828,988</u>	<u>\$ 102,797</u>

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets for identical assets and liabilities. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets and liabilities in active or inactive markets. Financial assets and liabilities valued using level 3 inputs are based on estimates using present value or other valuation techniques where quoted market prices are not available. Financial assets of the Organization have been valued using levels 1 and 3 inputs for the years ended December 31, 2010 and 2009, respectively.

Return on investments is comprised of the following for 2010 and 2009:

	December 31,	
	2010	2009
Realized gains (losses)	\$ (41,284)	\$ (331,869)
Unrealized gains	90,899	440,518
Interest and dividend income	90,413	83,246
Advisory fees	(9,033)	(8,240)
Total	<u>\$ 130,995</u>	<u>\$ 183,655</u>

The following table provides further details of Level 3 fair value measurements.

	Community Foundation of New Jersey	Summit Private Investment, Inc.	Investment in Partnerships
	Level 3	Level 3	Level 3
Balance as of December 31, 2009	\$ 76,524	\$ 215,819	\$ 536,645
Total gains or losses (realized and unrealized) included in changes in net assets	7,596		(57,658)
Interest and dividends	1,644	38,734	
Advisory fees	(744)		
Purchases, sales, issuances, and settlements (net)		100,000	
Balance as of December 31, 2010	<u>\$ 85,020</u>	<u>\$ 354,553</u>	<u>\$ 478,987</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)

Note 6- Investments (Cont'd)

	Community Foundation of New Jersey Level 3	Summit Private Investment, Inc. Level 3	Investment in Partnerships Level 3
Balance as of December 31, 2008	\$ 59,033	\$ 183,589	\$ 536,750
Total gains or losses (realized and unrealized) included in changes in net assets	16,094	32,230	(105)
Interest and dividends	2,060		
Advisory fees	(663)		
Balance as of December 31, 2009	<u>\$ 76,524</u>	<u>\$ 215,819</u>	<u>\$ 536,645</u>

Note 7- Promises to Give

The Organization has unconditional promises to give, which is considered a level 3 asset per the definition in the previous note, at December 31, 2010 and 2009 as follows:

	2010	2009
Pledges expected to be collected in:		
Less than one year	\$ 159,356	\$ 310,792
One to five years	97,596	230,425
	<u>256,952</u>	<u>541,217</u>
Less: Discount to net present value	(16,329)	(33,620)
Allowance for uncollectible pledges	(5,139)	(8,024)
Net unconditional promises to give	<u>\$ 235,484</u>	<u>\$ 499,573</u>

The following table provides further details of Level 3 fair value measurements.

	2010	2009
Unconditional promises, beginning of year	\$ 541,217	\$ 579,572
Unconditional promises made during year	19,500	148,425
Less: Payments made during year	(303,765)	(186,780)
Unconditional promises, end of year	<u>\$ 256,952</u>	<u>\$ 541,217</u>

Unconditional promises to give are presented in the financial statements by restriction as follows:

	2010	2009
Restricted for workforce housing	\$ 178,104	\$ 262,549
Annual fund pledges	38,713	78,352
Restricted for capital assets	18,667	158,672
	<u>\$ 235,484</u>	<u>\$ 499,573</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 8- Mortgages Payable

Property located on Landing Road, Roxbury Township, New Jersey was subject to a \$670,935 mortgage which has an interest rate of 0% as of December 31, 2010 and 2009. NJHMFA Special Needs Housing Trust Fund provided the Organization with the permanent loan which becomes due July 14, 2024. The mortgage requires payments equal to 25% of any positive cash flow from the property. There were no payments made during the years ended December 31, 2010 and 2009.

Property located at 34 Abbett Avenue, Morristown, New Jersey was subject to a \$530,169 mortgage which has an interest rate of 0% as of December 31, 2010 and 2009. NJHMFA Special Needs Housing Trust Fund provided the Organization with the permanent loan which becomes due July 14, 2024. The mortgage requires payments equal to 25% of any positive cash flow from the property. There were no payments made during the years ended December 31, 2010 and 2009.

Property located on Drakestown Road, Washington Township, New Jersey was subject to a conditional mortgage to Washington Township in the amount of \$300,000, as of December 31, 2009. The conditional mortgage will be forgiven once all conditions are satisfied and the project is complete. During 2010, New Jersey Department of Community Affairs provided the Organization with a permanent loan which will begin to be amortized upon completion of the Drakestown Road housing project in 2011. As of December 31, 2010, total draw downs on the mortgage amounted to \$584,308. As per the agreement no interest shall accrue during the construction period.

Property located at 37 Harrison Street, Morristown, New Jersey was subject to a \$612,267 mortgage which has an interest rate of 0% as of December 31, 2010. NJHMFA Special Needs Housing Trust Fund provided the Organization with the permanent loan which becomes due November 14, 2040. The mortgage requires payments equal to 25% of any positive cash flow from the property. According to the mortgage agreement the amortization date of the mortgage was February 15, 2011.

During 2010, the Organization was subject to a conditional mortgage with the New Jersey Department of Community Affairs Division of Housing in the amount of \$19,388. The conditional mortgage will be forgiven at a rate of ten percent per year over a period of ten years for maintaining the organizations' emergency shelter located at 540 West Hanover Avenue, Morris Township, New Jersey.

During 2010, the Organization was subject to a conditional mortgage with the New Jersey Department of Community Affairs Division of Housing in the amount of \$297,012. The conditional mortgage will be forgiven at a rate of ten percent per year over a period of ten years for providing transitional housing units located at 3 Jean Street, Morris Township, New Jersey.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(CONTINUED)

Note 8- Mortgages Payable (Cont'd)

NJHMFA has provided two unsecured, interest-free loans totaling \$1,201,104 for the Organization's operations. Principal on the loans is due in full at maturity in fiscal 2024. When the loan proceeds were advanced, the Organization recorded contribution revenue and a mortgage discount using a rate of 4%. The mortgage is reported in the statement of financial position net of unamortized deferred support in the amount of \$249,564 and \$284,081 at December 31, 2010 and 2009, respectively. The discount on the loans is being amortized to interest expense over the lives of the loans. Imputed interest expense of \$34,517 and \$14,912 was reported in the accompanying statements of activities for the years ended December 31, 2010 and 2009, respectively.

Principal payment requirements on the mortgage obligations which become due in each of the five years subsequent to December 31, 2010 and thereafter are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2011	\$ 1,077,820
2012	78,995
2013	78,951
2014	78,905
2015	78,857
Thereafter	<u>1,620,550</u>
Total	<u>\$ 3,014,078</u>

Note 9- Office Lease

Effective July 2007, the Organization entered into a lease agreement, which expires in July 2012, for office space that requires annual lease payments of \$70,300, increasing to \$76,000 in the final year. The lease also requires the Organization to pay \$5,750 per year for electric within their premises and a proportionate share (25%) of common area expenses in excess of \$150,000 incurred by the landlord in any given year.

Future minimum annual rental commitments under such operating leases subsequent to December 31, 2010 is as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2011	\$ 80,800
2012	<u>43,750</u>
Total	<u>\$ 124,550</u>

Note 10- Deferred Retirement Savings Plan and Pension Plan

The Organization maintains a tax deferred retirement savings plan qualified under section 403(b) of the Internal Revenue Code. The plan covers full-time employees and allows employees to contribute a percentage of their gross salaries up to the maximum amount allowed by the Internal Revenue Code.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(CONTINUED)

Note 10- Deferred Retirement Savings Plan and Pension Plan (Cont'd)

Effective January 1, 2004, the Organization adopted a defined contribution pension plan to allow for employer contributions. Employees that meet certain age and service requirements are eligible to receive contributions determined annually by the Organization. Pension expense charged to operations was \$46,354 and \$78,098 for eligible employees in 2010 and 2009, respectively.

Note 11- Funding Sources

The Organization received a substantial amount of its revenue and support from government contracts and grants (35% in 2010 and 37% in 2009). A significant reduction in the level of this support, if this were to occur, could have an adverse impact on the Organization's programs and activities.

Note 12- Sale of Jean Street and Related Lease

During 2007, the Organization entered into an agreement to sell its Jean Street apartment buildings in exchange for \$2 million. The Organization retained ownership of the land and continues to manage the property for its original purpose. The sale agreement requires the organization to pay \$40,000 rent per year and to maintain a reserve account in order to keep the buildings in good condition. The building owner rents the land from the Organization under a lease agreement. A promissory note in the amount of \$199,589 from the Federal Home Loan Bank of New York – Affordable Housing Program was repaid from the sale proceeds. This transaction qualified as a sales-leaseback transaction and the organization deferred the gain on this sale and will amortize it over the related lease term.

Future minimum annual rental commitments under such operating leases subsequent to December 31, 2010 are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2011	\$ 40,000
2012	40,000
2013	40,000
2014	40,000
2015	40,000
Thereafter	860,000
Total	<u>\$ 1,060,000</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(CONTINUED)

Note 13- Related Entity

The Organization is a less-than-one percent general partner in Morris Shelter Urban Renewal Assoc., L.P. (the Partnership). As of December 31, 2010 and 2009 the Organization was invested into the Partnership for \$452,253. This investment is being accounted for under the equity method of accounting. The Organization transferred title in the underlying low income housing project to the Partnership effective September 30, 1997 along with the related mortgages and other syndication and operating expenses. The investment in the Partnership reflected in these financial statements approximates the Organization's capital in the Partnership. In addition, there is a receivable from the Partnership of \$445,836 and \$152,539 at December 31, 2010 and 2009, respectively. The Partnership collects rent from the tenants subject to certain income limitations.

Homeless Solutions, Inc. and Subsidiaries has guaranteed to pay the Partnership the difference between the rent paid by the tenants and the operating expenses incurred by the Partnership. Rent expense under this agreement was \$0 and \$0 during 2010 and 2009, respectively. The Partnership paid the Organization \$3,000 for each of the years 2010 and 2009 for managing the property.

The Organization is also a less-than-one-percent general partner in 38-42 Abnett Avenue, LP. As of December 31, 2010 and 2009 the Organization was invested in 38-42 Abnett Avenue, LP for \$26,734. This investment is being accounted for under the equity method of accounting. In 2008, the Organization transferred title in the underlying low income housing project to the 38-42 Abnett Avenue, LP effective April 10, 2008 along with related expenses. The investment in 38-42 Abnett Avenue, LP reflected in these financial statements approximates the Organization's capital in the partnership. 38-42 Abnett Avenue, LP is indebted to the Organization in the amount of \$1,734,052 and \$1,772,816 payable under various terms from the partnership as of December 31, 2010 and 2009. In addition, there is a receivable of \$10,816 and \$10,816 from the partnership at December 31, 2010 and 2009, respectively. This amount has been presented as a current asset as it is the intent of the Organization to collect the amount owed during the current year.

Note 14- Rent Income

The Organization leases four apartments at the 133 Landing Road location (See note 12), three of the four apartments have annual leases and one of the apartments is leased on a month-to-month basis. All four leases total approximately \$4,117 per month.

The Organization purchased 16 Morton Street, Morristown, NJ during 2007 for the purposes of relocating the tenants in 38-42 Abnett Avenue. Rental income from this property is approximately \$2,140 per month.

Tenants at the Jean Street apartment project are charged rent based upon income as certified by management. Basic rent is set each year at levels appropriate to each unit. Under current leases, tenant rental income from the 15 apartments at our Jean Street project is expected to be \$12,470 per month. This amount is augmented by \$1,740 per month from the Morristown Housing Authority for a monthly total of \$14,210. Leases renew annually with 3% increases. No units were vacant at year end.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Continued)

Note 14- Rent Income (Cont'd)

In 2008, the Organization closed on the purchase of property at 34 Abbett Avenue, Morristown, NJ. The Organization began accepting tenants for the project's two units in December 2008. Basic rent is set each year at levels appropriate to each unit. Under current leases, tenant rental income from the 2 apartments at our 34 Abbett Avenue project is expected to be \$806 per month. This amount is augmented by \$1,752 per month from the State of New Jersey's Rental Assistance Program for a monthly total of \$2,558. No units were vacant at year end.

Note 15- Deferred Gain

In 2007, the Organization entered into a sale-leaseback agreement with IAT Urban Renewal, LLC to sell its Jean Street apartment buildings in exchange for \$2 million. FASB Accounting Standards Codification (ASC) 840-40-20 defines sale-leaseback accounting as a method of accounting for a sale leaseback transaction in which the seller-lessee records the sale, removes all property and related liabilities from its balance sheet, and recognizes gain or loss from the sale in accordance with generally accepted accounting principles. As a result of the exchange there was a total gain of \$121,084.

The gain will be amortized over the life of the new lease agreement at the rate of \$4,036 per year for 30 years. The gain recognized during 2010 and 2009 was \$4,036, respectively. Homeless Solutions, Inc. and Subsidiaries retained ownership of the land and continues to manage the property for its original purpose. IAT Urban Renewal, LLC rents the land from Homeless Solutions, Inc. and Subsidiaries under a lease agreement.

Note 16- Unrestricted Net Assets – Board Designated

As of December 31, 2010 and 2009, the Board of Trustees had designated \$132,662 and \$253,618 of unrestricted net assets as a general fund to support the reserves of the Organization's projects. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

Composition of and changes in net assets for the year ended December 31, 2010 were as follows:

	<u>2010</u>	<u>2009</u>
Board-designated net assets, beginning of year	\$ 235,618	\$ 235,300
Transfers to/from unrestricted non-designated net assets	(102,956)	318
Board-designated net assets, end of year	<u>\$ 132,662</u>	<u>\$ 235,618</u>

Board designated net assets included in unrestricted net assets is comprised of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
16 Morton Street, LLC reserve	\$ 132,662	\$ 132,662
133 Landing Road, Inc. reserve		102,956
	<u>\$ 132,662</u>	<u>\$ 235,618</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)

Note 16- Unrestricted Net Assets – Board designated (Cont'd)

During the year ended December 31, 2010, the board released reserves in the amount of \$102,956. There were no board designated net assets released during the year ended December 31, 2009.

Note 17- Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 2,016	\$ 1,916
Programs	38,000	100,364
Profit sharing	128,922	173,727
Work Force Housing Fund		500,000
	<u>\$ 168,938</u>	<u>\$ 776,007</u>

Temporarily restricted net assets released from time and use restrictions specified by donor for the year ended December 31, 2010 and 2009 are comprised of the following:

	<u>2010</u>	<u>2009</u>
Salaries	\$ 55,619	\$ 137,500
Workforce housing development	500,000	
Hospitality link	46,818	
Profit sharing	44,805	76,273
Property and equipment	34,570	21,295
Child Care and Camp	14,000	5,000
Program expenses	777	7,500
Insurance		4,000
Community Team Works		1,872
	<u>\$ 696,589</u>	<u>\$ 253,440</u>

Note 18- Permanently Restricted Net Assets

Net assets were permanently restricted from the following sources at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Community Foundation of New Jersey	<u>\$ 9,861</u>	<u>\$ 9,861</u>

During the year ended December 31, 2010, there were no net assets released from the permanently restricted net assets. During the year ended December 31, 2009, net assets released from permanent restriction in accordance with the donor's request amounted to \$250,000.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note 19- Transfer of Net Assets

During the year ended December 31, 2010 it was determined by the Board of Trustees that a transfer was required in the amount of \$1,679,181 to be transferred from unrestricted operating to unrestricted capital net assets to adjust unrestricted net asset balances as of December 31, 2010..

During the year ended December 31, 2009 it was determined by the Board of Trustees that two transfers were required, \$250,000 was to be transferred from permanently restricted net assets to temporarily restricted net assets at the donor's request during 2009, and \$539,773 was to be transferred from unrestricted operating to unrestricted capital net assets in the Organization to adjust net assets balances as of December 31, 2009.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Homeless Solutions, Inc. and Subsidiaries
Morristown, NJ

We have audited the financial statements of Homeless Solutions, Inc. and Subsidiaries (a nonprofit organization) for the year ended December 31, 2010, and have issued our report thereon dated April 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Homeless Solutions, Inc. and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Homeless Solutions, Inc. and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees of
Homeless Solutions, Inc. and Subsidiaries
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Homeless Solutions, Inc. and Subsidiaries' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Trustees of Homeless Solutions, Inc. and Subsidiaries, management, the State of New Jersey and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.

April 5, 2011
Mt. Arlington, New Jersey

Nisiroccia LLP

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
Homeless Solutions, Inc. and Subsidiaries
Morristown, NJ

Compliance

We have audited Homeless Solutions, Inc. and Subsidiaries compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Homeless Solutions, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2010. Homeless Solutions, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Homeless Solutions, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on Homeless Solutions, Inc. and Subsidiaries' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Homeless Solutions, Inc. and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Homeless Solutions, Inc. and Subsidiaries' compliance with those requirements.

In our opinion, Homeless Solutions, Inc. and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

To the Board of Trustees of
Homeless Solutions, Inc. and Subsidiaries
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Internal Control Over Compliance

Management of Homeless Solutions, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Homeless Solutions, Inc. and Subsidiaries' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Homeless Solutions, Inc. and Subsidiaries' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Trustees of Homeless Solutions, Inc. and Subsidiaries, the State of New Jersey and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.

April 5, 2011
Mt. Arlington, New Jersey

Nisiroccia LLP

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010

Summary of Auditors' Results:

- An unqualified report was issued on Homeless Solutions, Inc. and Subsidiaries' financial statements.
- The audit did not disclose any reportable conditions in the internal controls of Homeless Solutions, Inc. and Subsidiaries
- The audit did not disclose any noncompliance which is material in relation to the financial statements of Homeless Solutions, Inc. and Subsidiaries
- The audit did not disclose any significant deficiencies in the internal controls of Homeless Solutions, Inc. and Subsidiaries' major federal programs.
- An unqualified report was issued on Homeless Solutions, Inc. and Subsidiaries' compliance for major federal and state programs.
- The audit did not disclose any audit findings which are required to be reported under section 510(a) of federal OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.
- The programs tested as major federal programs included:

U.S. Department of Housing and Urban Development:

Safe Haven Program CFDA #14.235
Transitional Housing CFDA #14.235
Child Care Access CFDA #14.235

- A risk-based approach to the determination of major programs was utilized for the audit for the year ended December 31, 2010. Major programs were determined as all "Type A" programs with total program expended funds of \$300,000 or more and those "Type B" programs necessary to meet the percentage of coverage rule as required in the Circulars.
- Homeless Solutions, Inc. and Subsidiaries qualified as a "low-risk" auditee under the provisions of section 530 of the Circulars.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Questioned Costs for Major Federal Award Programs:

- The audit did not disclose any finding or questioned costs for major federal award programs as defined in section 510(a) of the federal Circulars.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2010

Status of Prior Year Findings:

There were no audit findings in the prior year.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Period</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Safe Haven Program	14.235	7/1/09-6/30/10	\$ 202,151
Safe Haven Program	14.235	7/1/10-6/30/11	213,749
Transitional Housing Program	14.235	9/1/09-8/31/10	149,040
Transitional Housing Program	14.235	9/1/10-8/31/11	83,892
Child Care Access	14.235	9/1/09-8/31/10	30,930
Child Care Access	14.235	9/1/10-8/31/11	32,513
			<u>712,275</u>
Pass-Through The Morris County Board of Chosen Freeholders Emergency Shelter Grant Program	14.231	9/1/10-8/31/11	25,260
Pass-Through The Morris Division of Community Development Case Manager/House Manager - Womens' Shelter	14.856	8/1/09-7/31/10	12,663
Pass-Through The Morris County Department of Housing Authority of the County of Morris: Tenant Assistance Program	14.856	1/1/10-12/31/10	14,428
Subtotal- U.S. Department of Housing and Urban Development			<u>764,626</u>
<u>Federal Emergency Management Agency Passed Through United Way of Morris County:</u>			
Emergency Food and Shelter Program	97.024	1/1/10-12/31/10	25,167
Total Federal Expenditures			<u>\$ 789,793</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>State Grantor/Pass-Through Grantor/ Program Title</u>	<u>Grant Number</u>	<u>Grant Period</u>	<u>Current Year's Expenditures</u>
<u>New Jersey Department of Human Services:</u>			
<u>Morris County Board of Chosen Freeholders:</u>			
Family Shelter Program	SSH-1001	1/1/10-12/31/10	\$ 87,799
Grant-in-Aid Program	GIA-1010	1/1/10-12/31/10	51,382
Grant-in-Aid Program-Transitional Housing Program	GIA-1056	1/1/10-12/31/10	2,159
			<u>141,340</u>
<u>The Morris County Department of Human Services</u>			
<u>Division of Employment and Temporary Assistance:</u>			
Emergency Shelter		1/1/10-12/31/10	286,632
<u>State of New Jersey Administrative Office of the Courts:</u>			
Intensive Supervision Program			14,513
<u>State of New Jersey Department of Community Affairs:</u>			
Office of Housing Adequacy	2010-2110-0276-00	7/1/09-6/30/2010	30,000
Total			<u>\$ 472,485</u>

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2010

Note 1 - General

The accompanying schedule of expenditures of federal and state awards presents the activity of all federal and state financial assistance programs of Homeless Solutions, Inc. and Subsidiaries. All federal and state awards received directly from federal and state agencies, as well as federal and state awards passed through other government agencies are included on the schedules of expenditures of federal and state awards.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal and state awards is presented using the accrual basis of accounting which is described in Note 2 to the financial statements.

Note 3 - Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal and state financial reports.

Note 4 - Single Audit – Type A/Type B Program Threshold

Dollar threshold used to distinguish between Type A and Type B programs is \$300,000. Single audit requirement is \$500,000.