HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016
(with comparative totals for 2015)

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
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Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Homeless Solutions, Inc. and Subsidiaries (a nonprofit corporation) (the "Organization") which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Homeless Solutions, Inc. and Subsidiaries, as of December 31, 2016, and the changes in its consolidated statement of net assets and its consolidated statement of cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Homeless Solutions, Inc. and Subsidiaries 2015 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated April 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedules of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid* are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2017 on our consideration of the Organization's internal control over financial reporting and on 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* in considering Homeless Solutions, Inc. and Subsidiaries internal control over financial reporting and compliance.

Mt. Arlington, New Jersey
May 3, 2017

Nisivoccia LLP

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
Assets:		
Cash and cash equivalents	$ 2,512,051	$ 3,373,278
Restricted cash	920,226	958,525
Investments	2,681,186	2,427,790
Inventory		240,702
Grants and fees receivable	162,428	216,012
Unconditional promises to give, net	553,543	798,446
Due from 38-42 Abbett Avenue, LP	1,830,346	1,751,843
Prepaid expenses and other assets	57,504	80,611
Land, building, furniture and fixtures and equipment, net	11,699,489	11,230,593
Investment in partnership	26,652	26,666
Security deposits	20,345	38,617
Tenant security deposits	46,694	46,469
Total assets	$ 20,510,464	$ 21,189,552

LIABILITIES AND NET ASSETS

	2016	2015
Liabilities:		
Accounts payable and accrued expenses	$ 77,424	$ 99,110
Accrued wages and vacation	81,418	62,451
Accrued pension contribution	47,769	44,771
Accrued interest expense, including imputed interest of $371,932 for 2016 and $317,369 for 2015	592,964	512,225
Deferred revenue	13,637	6,800
Deferred gain on sale	83,078	87,114
Tenant security deposits	46,694	44,564
Deferred rent		46,164
Deferred support	419,331	485,361
Mortgages payable, net of deferred loan costs less accumulated amortization of $36,333 for 2016 and $30,539 for 2015	4,961,352	4,987,197
Total liabilities	6,323,667	6,375,757
Net assets:		
Unrestricted:		
Undesignated	2,219,869	3,284,423
Board-designated	132,662	132,662
Net capital assets	11,699,489	11,230,593
Total unrestricted net assets	14,052,020	14,647,678
Temporarily restricted	134,777	166,117
Total net assets	14,186,797	14,813,795
Total liabilities and net assets	$ 20,510,464	$ 21,189,552

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for 2015)

	Unrestricted		Temporarily		
	Operating	Capital	Restricted	2016	2015
Revenue and other support:					
Government grants	$ 1,022,013			$ 1,022,013	$ 1,029,628
Contributions	1,089,384		$ 146,300	1,235,684	1,470,752
Donated services and supplies	327,652			327,652	371,611
Furnishing Solutions activity, net	(11,693)			(11,693)	523,191
Fundraising	495,039			495,039	357,378
Rental income	596,925			596,925	603,219
Management fees	7,480			7,480	7,281
Investment income	222,978			222,978	35,797
Other income					637
Net assets released from restrictions:					
Satisfaction of use restrictions	177,640		(177,640)		
Total revenue and other support	3,927,418		(31,340)	3,896,078	4,399,494
Expenses:					
Program services:					
Furnishing Solutions	269,498	2,198		271,696	462,341
Emergency shelter and services	1,649,316	26,685		1,676,001	1,708,397
Transitional housing	482,394	81,348		563,742	559,767
Headquarters development	807,381	206,883		1,014,264	1,090,635
Total program services	3,208,589	317,114		3,525,703	3,821,140
Supporting services:					
General and administrative	415,683	5,772		421,455	426,517
Development	543,984	5,773		549,757	417,261
Total supporting services	959,667	11,545		971,212	843,778
Total expenses	4,168,256	328,659		4,496,915	4,664,918
Other income (loss):					
Gain on sale of fixed asset	4,886			4,886	4,036
Loss on abandonment of leasehold improvements	(31,047)			(31,047)	
Total other income (loss)	(26,161)			(26,161)	4,036
Change in net assets	(266,999)	(328,659)	(31,340)	(626,998)	(261,388)
Net assets, beginning of year	3,417,085	11,230,593	166,117	14,813,795	15,075,183
Transfer of net assets	(797,555)	797,555			
Net assets, end of year	$ 2,352,531	$ 11,699,489	$ 134,777	$ 14,186,797	$ 14,813,795

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for 2015)

	2016								2015
	PROGRAM SERVICES					SUPPORTING SERVICES			
	FURNISHING SOLUTIONS	EMERGENCY SHELTER & SERVICES	TRANSITIONAL HOUSING	HEADQUARTERS DEVELOPMENT	TOTAL	GENERAL & ADMINISTRATIVE	DEVELOPMENT	TOTAL	TOTAL
Salaries	$ 75,426	$ 815,436	$ 223,916	$ 252,519	$ 1,367,297	$ 274,493	$ 331,055	$ 1,972,845	$ 1,984,617
Payroll taxes	6,725	70,006	18,546	20,724	116,001	21,369	27,262	164,632	170,527
Health insurance	2,227	84,636	19,289	22,163	128,315	44,195	13,004	185,514	215,870
Workers compensation insurance	5,197	6,306	1,168	5,496	18,167	3,474	1,351	22,992	25,485
Pension plan		21,459	6,631	8,394	36,484	12,668	11,500	60,652	58,398
Total personnel services	89,575	997,843	269,550	309,296	1,666,264	356,199	384,172	2,406,635	2,454,897
Assistance to clients and supplies:									
Food		14,767			14,767			14,767	14,431
Guest supplies		21,293	4,938		26,231			26,231	17,131
Safe haven expenses		107,616			107,616			107,616	107,616
Child care subsidies		14,513	50,410		64,923			64,923	89,357
Facility costs:									
Insurance	1,377	10,107	10,965	49,356	71,805	13,389	1,536	86,730	85,447
Rent expense	105,533	214,674	6,379	42,545	369,131	6,726	3,174	379,031	488,919
Utilities	12,031	110,000	24,169	69,443	215,643			215,643	222,693
Facility maintenance	6,504	14,764	30,048	63,854	115,170	252		115,422	111,649
Garbage removal	489	8,534	1,158	4,314	14,495			14,495	13,349
Snow removal			3,130	21,809	24,939			24,939	43,263
Exterminator			4,200	3,631	7,831			7,831	14,915
Lawn maintenance			8,497	35,410	43,907			43,907	38,376
Cleaning service	2,070	7,235	350	5,001	14,656			14,656	15,929
Real estate expenses			1,039	34,214	35,253			35,253	34,560
Consultants and professional fees:									
Data processing		6,224	2,659	907	9,790	1,080	1,100	11,970	13,278
Accounting		22,029	7,911	9,040	38,980	4,522	3,390	46,892	50,110
Other professional fees	33,024	27,177	12,137	35,820	108,158	12,221	4,673	125,052	148,912
Office expense	13,914	56,199	26,142	28,369	124,624	17,342	10,734	152,700	108,229
Transportation expense	4,981	16,341	6,364	8,720	36,406	1,002	492	37,900	47,055
Interest expense			12,348	85,652	98,000			98,000	102,702
Fundraising expense						2,950	134,713	137,663	108,767
Total expenses before depreciation and amortization	269,498	1,649,316	482,394	807,381	3,208,589	415,683	543,984	4,168,256	4,331,585
Depreciation	2,198	26,685	81,348	206,883	317,114	5,772	5,773	328,659	333,333
Total expenses	$ 271,696	$ 1,676,001	$ 563,742	$ 1,014,264	$ 3,525,703	$ 421,455	$ 549,757	$ 4,496,915	$ 4,664,918

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (626,998)	$ (261,388)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	328,659	333,333
Amortization of loan costs	5,793	5,793
Unamortized mortgage discount	(66,030)	(70,924)
Forgiveness of debt	(31,640)	(31,640)
Net realized and unrealized (gain) loss on investments	(122,462)	62,634
Dividends reinvested in marketable securities	(5,255)	(4,752)
Gain on sale of fixed assets	(4,886)	(4,036)
Loss on abandonment of leasehold improvements	31,047	
Changes in operating assets and liabilities:		
Inventory	240,702	(139,315)
Grants and fees receivable	53,584	48,044
Unconditional promises to give	244,903	471,279
Due from 38-42 Abbett Avenue, LP	(78,503)	10,317
Prepaid expenses and other assets	23,107	(25,134)
Security deposits	18,047	5,186
Accounts payable and accrued expenses	(21,686)	29,573
Accrued wages and vacation	18,967	647
Accrued pension contribution	2,998	(4,291)
Accrued interest expense	92,208	96,908
Deferred revenue	6,837	3,300
Tenant security deposits	2,130	1,355
Deferred rent	(46,164)	(20,699)
Net cash provided by operating activities	65,358	506,190
Cash flows from investing activities:		
Purchases of property and equipment	(829,752)	(986,317)
Purchases of investments	(461,194)	(535,153)
Proceeds from sale of investments	335,515	405,320
Proceeds from disposal of vehicle	2,000	
Restricted cash	38,299	100,353
Investment in partnership	14	13
Net cash used in investing activities	(915,118)	(1,015,784)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		120,000
Principal repayment of long-term debt	(11,467)	(15,117)
Net cash provided by (used in) financing activities	(11,467)	104,883
Net decrease in cash and cash equivalents	(861,227)	(404,711)
Cash and cash equivalents, beginning of year	3,373,278	3,777,989
Cash and cash equivalents, end of year	$ 2,512,051	$ 3,373,278
Supplemental disclosures of noncash activity:		
Unrealized gain (loss) on investments	$ 103,678	$ (96,502)
Forgiveness of debt	$ 31,640	$ 31,640

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 Program 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 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, and adaptive re-use and mixed use buildings. The Organization also operates the Mt. Kemble Home which provides 19 single-room occupancy accommodations to elderly women.

The Organization has fourteen additional wholly owned subsidiaries:

- 1 Jean Street Building Associates Urban Renewal, LLC
- 1 Jean Street Land Associates Urban Renewal, LLC
- 133 Landing Roxbury Twp., LLC
- 16 Morton Street, LLC
- 29 Abbett, LLC
- 34 Abbett, LLC
- 31 Drakestown Road, LLC
- 81 MLK, LLC
- 37 Harrison, LLC
- THP Urban Renewal, LLC
- 38-42 Abbett Avenue, LLC
- 23 Abbett Avenue, LLC
- 24 Walnut Street, LLC
- 88 MLK, LLC

The consolidated financial statements include the accounts of the parent Organization and its wholly owned subsidiaries, collectively referred to as Homeless Solutions, Inc. and Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2- Summary of Significant Accounting Policies

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are described below:

Basis of Presentation

The Organization prepares its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Accounting for Contributions Received and Made*, and *Financial Statements of Not-for-Profit Organizations*. *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.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

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

Basis of Presentation (Cont'd)

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.

Net Assets

All financial transactions have been recorded as unrestricted, temporarily restricted or permanently restricted net assets.

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.

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 result from the receipt of funds prior to those amounts being earned.

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 amounts of assets and liabilities, revenue and expenses and changes therein, and disclosures of contingent assets and contingent liabilities and accompanying notes. It is reasonably possible that the Organization's estimates may change in the near term.

Land, Building, Furniture and Fixtures and Equipment

Land, building, furniture and fixtures, 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 FASB ASC, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

Grants, Fees, and Pledges Receivable and Allowances for Uncollectible Accounts

Grants, fees, and pledges receivable are stated at amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings 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. There are no nonaccrual receivables in excess of 90 days and no interest accrual on any receivables as of December 31, 2016.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

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

Cash Equivalents and Restricted Cash

The Organization considers all highly liquid investments purchased 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 statement of cash flows.

Restricted cash and cash equivalents as of December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Repair and replacement reserve - 1 Jean Street Building Associates Urban Renewal, LLC	$ 400,000	413,268
Reserves for 133 Landing Roxbury Twp., LLC	158,927	157,410
Reserves for 34 Abbett Avenue, LLC	57,099	56,416
Reserves for 37 Harrison, LLC	58,067	56,153
Reserves for 31 Drakestown Road, LLC	22,375	18,103
Reserves for THP Urban Renewal, LLC	24,659	61,171
Reserves for 81 MLK, LLC	199,099	196,004
	$ 920,226	$ 958,525

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 tax has been presented in the accompanying financial statements.

The Organization follows the provisions of FASB ASC, *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.

The Organization does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the year ended December 31, 2016. However, the Organization is subject to audit by tax authorities, including a review of its nonprofit status which management believes would be upheld upon examination. The Organization believes 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.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

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

Income Taxes (Cont'd)

As required by law, the Organization files informational returns with both the Federal and New Jersey State governments on an annual basis - Form 990 with the Internal Revenue Service, and Form CRI-300R with the State of New Jersey. These returns are subject to examination by these authorities within certain statutorily defined periods for both Federal and the State of New Jersey.

Functional Expense Allocation

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

Investments

The Organization follows FASB ASC, *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 value 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 realized gains and losses on sale of investments) are included in the statement of activities unless the income or loss is restricted by the 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. That impairment charge would be included in the statement of activities and a new cost basis would be established. For the year ended December 31, 2016, the Organization did not record any impairment charge in the statement of activities related to investments.

Deferred Loan Costs

Costs incurred in connection with obtaining financing, such as origination fees, commitment fees, legal, and other third party costs, are capitalized and amortized over the life of the related debt using a method that approximated the effective interest method.

The Organization follows the provisions of FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the presentation of Debt Issue Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization of these costs have been reported as interest expense in the statement of functional expenses.

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

Reclassification

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

Fair Value Measurements

In accordance with FASB ASC, *Fair Value Measurements and Disclosures*, fair value is defined as a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market (or in its absence, the most advantageous market) for the asset or liability.

Fair Value of Financial Instruments

The Fair Value Measurements Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). An exit price valuation will include margins for risk even if they are not observable. As the Organization is released from risk, the margins for risk will also be released through net realized capital gains (losses) in net income. 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC are described below:

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.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques:

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

Fair Value of Financial Instruments (Cont'd)

- Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost);
- Income approach - Techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information might not be available. When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or settle or otherwise fulfill a liability is not relevant when measuring fair value.

The following is a description of valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

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

Certificates of deposit: The carrying amounts are carried at original cost plus accured interest, which approximates fair value.

Common stocks: The carrying amounts are stated at the closing price value reported in the active market in which the individual securities are traded.

Mutual funds: The carrying amounts are valued at the net asset value (NAV) of shares held by the Organization at year end.

Mortgages: Long-term debt is carried at cost since management believes the Organization can obtain similar loans at similar terms. Accordingly, management of the Organization has determined that cost approximates fair value.

Investment in partnership: The Organization's equity investment in partnership is accounted for under the equity method. Accordingly, the investment in partnership is carried at cost, and adjusted for the Organization's proportionate share of income or losses and changes in ownership.

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

Fair Value of Financial Instruments (Cont'd)

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risk.

Investments - Community Foundation of New Jersey: The carrying amount of this investment is stated at the net asset value of the fund as determined by the Foundation.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Organization's investments and the amounts reported in the statement of financial position.

Inventory

Merchandise inventory is valued at the lower of cost or market. There was no inventory at December 31, 2016, due to the thrift store ceasing operations on July 1, 2016. At December 31, 2015, the Organization's inventory amounted to $240,702.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after December 31, 2016 through the date of the auditors' report and the date the financial statements were available to be issued, May 3, 2017. 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.

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 FDIC insurance limits. Management believes that the Organization has no significant risk of loss on these accounts due to the failure of the institutions.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
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(CONTINUED)

Note 3- Cash, Credit and Funding Risks (Cont'd)

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 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 Organization's funding streams in total.

Note 4- Land, Building, Furniture and Fixtures and Equipment

Land, building, furniture and fixtures and equipment and their related estimated useful lives at December 31, 2016 and 2015 are as follows:

	Estimated Useful Life (Years)	December 31, 2016	December 31, 2015
Land		$ 2,386,332	$ 2,386,332
Buildings and improvements	39	10,349,591	9,684,116
Leasehold improvements	20	1,395,956	1,423,435
Vehicles	5	148,350	154,350
Furniture and fixtures	5	819,270	784,940
Construction in progress		894,787	779,960
		15,994,286	15,213,133
Less: accumulated depreciation		(4,294,797)	(3,982,540)
		$ 11,699,489	$ 11,230,593

Depreciation expense for the years ended December 31, 2016 and 2015 totaled $328,659 and $333,333, respectively.

Note 5- Office Lease

On April 25, 2012, the Organization renewed its lease agreement for office space for 63 months commencing in August 2012. The lease payments start at an annual rate of $70,300 for the first two years, $72,200 for the third and fourth years, and $74,100 annually for the last fifteen months, expiring October 31, 2017. The lease concedes basic rent in the first, second and thirty-seventh months. The lease also requires the Organization to pay $5,700 per year for electric within their premises, and a proportionate share (25%) of property taxes in excess of $49,019 and common area expenses in excess of $150,000 which are incurred by the landlord in any given year. As of the date of the auditors' report, the Organization is still negotiating a new lease with the landlord, therefore no terms or amounts have been finalized. However, management believes it will be successful in its negotiations with the current landlord or will be able to find alternative space at favorable terms.

Note 5- Office Lease (Cont'd)

During April 2012, the Organization entered into a lease agreement, which expires in June 2017, for retail space for its retail store, Furnishing Solutions. The lease allows the first two calendar months to be rent free and requires an annual lease payment of $100,917 in year one, $121,100 in years two and three, $147,050 in year four, and $173,000 in the final year. The lease also requires the Organization to pay a proportionate share (1/12th) of common area costs incurred by the landlord during the preceding calendar year, and real estate taxes based upon the most current bill for taxes then available. As of July 1, 2016, the Organization is no longer obligated under this lease due to the thrift store ceasing operations and no penalties were incurred as a result of the termination of the lease.

Future minimum annual rental commitments under the office operating lease subsequent to December 31, 2016 are as follows:

Year ending December 31,	Amount
2017	$ 66,500

Note 6- Deferred Gain

During 2007, the Organization entered into an agreement to sell its Jean Street apartment buildings in exchange for two million dollars. 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 annually 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 sale–leaseback transaction and the organization deferred the gain on this sale and amortizes it over the related lease term.

FASB ASC, *Leases* 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 2016 and 2015 was $4,036.

Future minimum rents to be received from the operating leases as of December 31, 2016 are as follows:

Year ending December 31,	Amount
2017	$ 40,000
2018	40,000
2019	40,000
2020	40,000
2021	40,000
Thereafter	620,000
Total	$ 820,000

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
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(CONTINUED)

Note 7- 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, 2016 and 2015 are comprised of the following:

	December 31, 2016			
	Cost	Market Value (Level 1)	Market Value (Level 3)	Unrealized Gain (Loss)
Equities				
Technology	$ 100,063	$ 153,153		$ 53,090
Consumer goods	165,559	256,961		91,402
Financial services	66,066	145,951		79,885
Industrial goods	81,820	139,962		58,142
Basic materials	94,277	112,996		18,719
Healthcare	149,023	216,010		66,987
Services	90,817	126,646		35,829
Total equities	747,625	1,151,679		404,054
Fixed income securities				
Corporate bonds	769,904	784,136		14,232
Total fixed income securities	769,904	784,136		14,232
Mutual Funds				
Fixed income	120,977	118,926		(2,051)
Total mutual funds	120,977	118,926		(2,051)
Other Investments				
Exchange traded funds	288,913	310,676		21,763
Community Foundation of New Jersey	89,102		$ 106,997	17,895
Investment in partnership			26,652	26,652
Total other investments	378,015	310,676	133,649	66,310
Certificates of deposit	200,000	208,772		8,772
	$ 2,216,521	$ 2,574,189	$ 133,649	$ 491,317

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(CONTINUED)

Note 7- Investments (Cont'd)

	December 31, 2015			
	Cost	Market Value (Level 1)	Market Value (Level 3)	Unrealized Gain (Loss)
Equities				
Technology	$ 76,827	$ 125,821		$ 48,994
Consumer goods	147,559	241,207		93,648
Financial services	66,066	124,513		58,447
Industrial goods	104,272	153,310		49,038
Basic materials	94,276	91,684		(2,592)
Healthcare	108,262	158,838		50,576
Services	109,893	139,280		29,387
Total equities	707,155	1,034,653		327,498
Fixed income securities				
Corporate bonds	664,933	671,672		6,739
Total fixed income securities	664,933	671,672		6,739
Mutual Funds				
Fixed income	134,273	127,862		(6,411)
Total mutual funds	134,273	127,862		(6,411)
Other Investments				
Exchange traded funds	284,804	285,527		723
Community Foundation of New Jersey	89,102		$ 102,024	12,922
Investment in partnership			26,666	26,666
Total other investments	373,906	285,527	128,690	40,311
Certificates of deposit	103,997	206,052		102,055
	$ 1,984,264	$ 2,325,766	$ 128,690	$ 470,192

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, 2016 and 2015.

Note 7- Investments (Cont'd)

Return on investments is comprised of the following for 2016 and 2015:

	December 31, 2016	December 31, 2015
Realized gains	$ 18,784	$ 33,868
Unrealized gains	104,709	(92,797)
Interest and dividend income	114,884	110,347
Advisory fees	(15,399)	(15,621)
Total	$ 222,978	$ 35,797

The following tables provide further details of Level 3 fair value measurements for 2016 and 2015, respectively.

	Community Foundation of New Jersey Level 3	Investment in Partnership Level 3
Balance as of December 31, 2015	$ 102,024	$ 26,666
Realized/Unrealized gains or (losses) included in changes in net assets	3,480	(14)
Interest and dividends	2,535	
Advisory fees	(1,042)	
Balance as of December 31, 2016	$ 106,997	$ 26,652

	Community Foundation of New Jersey Level 3	Investment in Partnership Level 3
Balance as of December 31, 2014	$ 104,670	$ 26,679
Realized/Unrealized gains or (losses) included in changes in net assets	(4,712)	(13)
Interest and dividends	3,052	
Advisory fees	(986)	
Balance as of December 31, 2015	$ 102,024	$ 26,666

There were no transfers of Level 3 assets into or out of Level 1 or 2 for the years ended December 31, 2016 and 2015.

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
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Note 8- Deferred Retirement Savings Plan and Pension Plan

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

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 $60,652 and $58,398 for eligible employees in 2016 and 2015, respectively.

Note 9- Funding Sources

The Organization received a substantial amount of its revenue and support from government contracts and grants (26% and 23% in 2016 and 2015, respectively). 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 10- Unconditional Promises to Give

The Organization has unconditional promises to give, which are considered level 3 assets in accordance with generally accepted accounting principles, at December 31, 2016 and 2015 as follows:

	2016	2015
Pledges expected to be collected in:		
Less than one year	$ 433,481	$ 400,980
One to five years	132,891	418,780
	566,372	819,760
Less: Discount on pledges	(1,302)	(4,919)
Allowance for uncollectible pledges	(11,527)	(16,395)
Net unconditional promises to give	$ 553,543	$ 798,446

The following table provides the activity during 2016 and 2015 of unconditional promises to give:

	2016	2015
Unconditional promises to give, beginning of year	$ 798,446	$ 1,269,725
Unconditional promises to give made during the year, net of discount and allowance for uncollectible amounts	172,349	530,370
Less: receipts received during the year	(417,252)	(1,001,649)
Unconditional promises to give, end of year	$ 553,543	$ 798,446

Note 10- Unconditional Promises to Give (Cont'd)

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

	2016	2015
Annual fund pledges	$ 33,864	$ 49,366
Campaign for the Future	532,508	770,394
Less: Discount on pledges	(1,302)	(4,919)
Allowance for uncollectible pledges	(11,527)	(16,395)
	$ 553,543	$ 798,446

Note 11- Mortgages Payable

Mortgages payable at December 31, 2016 and 2015 are comprised of the following:

	December 31, 2016	December 31, 2015
Property located at 133 Landing Road, Roxbury Township, New Jersey, subject to a $663,538 mortgage which has an interest rate of 0% as of December 31, 2016. NJHMFA Special Needs Housing Trust Fund provided the Organization with the permanent loan which becomes due June 1, 2024. The mortgage requires payments equal to 25% of any positive cash flow as defined by the mortgage agreement which is secured by the property. A cash flow payment of $3,495 was made during the year ended December 31, 2016.	$ 648,235	$ 650,387
Property located at 34 Abbett Avenue, Morristown, New Jersey, subject to a $511,640 mortgage which has an interest rate of 0% as of December 31, 2016. NJHMFA Special Needs Housing Trust Fund provided the Organization with the permanent loan which becomes due July 13, 2024. The mortgage requires payments equal to 25% of any positive cash flow as defined by the mortgage agreement which is secured by the property. A cash flow payment of $2,849 was made during the year ended December 31, 2016.	494,547	496,336

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 11- Mortgages Payable (Cont'd)

	December 31, 2016	December 31, 2015
Property located at 31 Drakestown Road, Washington Township, New Jersey, subject to a $1,860,841 mortgage which accrues interest at a rate of 1% as of December 31, 2016. The New Jersey Department of Community Affairs Balanced Housing Program provided the Organization with a permanent loan which becomes due on November 1, 2041. The mortgage requires payments equal to 50% of any positive cash flow as defined by the mortgage agreement which is secured by the property. No cash flow payment was made during the year ended December 31, 2016.	$1,860,841	$1,860,841
Property located at 37 Harrison Street, Morristown, New Jersey, subject to a $596,496 mortgage which has an interest rate of 0% as of December 31, 2016. 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 as defined by the mortgage agreement which is secured by the property. A cash flow payment of $5,125 was made during the year ended December 31, 2016.	561,009	565,418
Property located at 81 Martin Luther King Boulevard, Morristown, New Jersey, subject to a $1,085,150 mortgage which has an interest rate of 0% as of December 31, 2016. NJHMFA Special Needs Housing Trust Fund provided the Organization with the permanent loan which becomes due October 17, 2026. The mortgage requires payments equal to 25% of any positive cash flow as defined by the mortgage agreement which is secured by the property. No cash flow payment was made during the year ended December 31, 2016.	1,052,899	1,050,221
During 2010, the Organization was subject to a conditional mortgage with the New Jersey Department of Community Affairs Division of Housing Program 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 Organization's emergency shelter located at 540 West Hanover Avenue, Morris Township, New Jersey. Debt forgiveness for the year ended December 31, 2016 amounted to $1,939.	7,754	9,693

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
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Note 11- Mortgages Payable (Cont'd)

	December 31, 2016	December 31, 2015
During 2010, the Organization was subject to a conditional mortgage with the New Jersey Department of Community Affairs Division of Housing Program 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 the rehabilitation of transitional housing units located at 3 Jean Street, Morris Township, New Jersey. Debt forgiveness for the year ended December 31, 2016 amounted to $29,701.	$ 118,806	$ 148,507
In 2012 NJHMFA modified a mortgage agreement originally entered into with Morris Shelter Urban Renewal, L.P. such that THP Urban Renewal LLC, the successor to Morris Shelter Urban Renewal L.P., became the mortgagee under an interest-free loan of $225,524 on property located at 3 Jean Street, Morris Township. Principal on the loan is due in full at maturity on October 1, 2027.	225,524	225,524
During 2011, the Organization was subject to a conditional mortgage with Federal Home Loan Bank of New York in the amount of $200,000. The conditional mortgage will be forgiven once all conditions are satisfied over a period of ten years for the property located at 31 Drakestown Road, Washington Township, New Jersey.	200,000	200,000
THP Urban Renewal LLC has an outstanding loan to the County of Morris, State of New Jersey, in the amount of $343,000, the proceeds of which were used to construct certain buildings. Under the terms of the underlying agreement, no interest will be charged and the principal will be forgiven in January 2017 as long as the THP Urban Renewal Limited Liability Company continues to utilize the buildings to provide housing for families with low income through this period. As of the date of the auditors' report, the County of Morris is still in the process of discharging the mortgage.	343,000	343,000

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Note 11- Mortgages Payable (Cont'd)

	December 31, 2016	December 31, 2015
During 2011, the Organization was subject to a conditional mortgage with Federal Home Loan Bank of New York in the amount of $40,000. The conditional mortgage will be forgiven once all conditions are satisfied over a period of ten years for property located at 34 Abbett Avenue, Morristown, New Jersey.	$ 40,000	$ 40,000
During 2013, the Organization was subject to a conditional mortgage with Federal Home Loan Bank of New York in the amount of $80,000. The conditional mortgage will be forgiven once all conditions are satisfied over a period of ten years for property located at 37 Harrison Street, Morristown, New Jersey.	80,000	80,000
During 2015, the Organization was subject to a conditional mortgage with Federal Home Loan Bank of New York in the amount of $120,000. The conditional mortgage will be forgiven once all conditions are satisfied over a period of ten years for the property located at 81 Martin Luther King Boulevard, Morristown, New Jersey.	120,000	120,000
	5,752,615	5,789,927
Less: current portion	(1,601,747)	(1,090,396)
Long term portion	$4,150,868	$4,699,531

Mortgages from NJHMFA are reported in the statement of financial position net of unamortized deferred support in the amount of $419,331 and $485,361 at December 31, 2016 and 2015, respectively. The discount on the loans is being amortized to interest expense over the lives of the loans. In addition, mortgages payable includes imputed forgiven interest in the amounts of $371,932 and $317,369, included in accrued interest in the statement of financial position for the years ended December 31, 2016 and 2015, respectively.

Deferred loan costs incurred in connection with the related debt liability are being amortized using the effective interest method over the life of the loans. Deferred loan costs are presented net of accumulated amortization of $61,280 as of December 31, 2016 and are reported in the consolidated statement of financial position as a direct deduction from the carrying amount of the related debt liability. Amortization of these costs amounted to $5,793 for the year ended December 31, 2016 and is reported as interest expense in the consolidated statement of functional expenses.

Note 11- Mortgages Payable (Cont'd)

The following is a schedule of the Organization's legal obligations, by years, of future minimum payments under the mortgage payable agreement, net of deferred loan costs:

Year ending December 31,	Future Minimum Payments	Deferred Loan Costs	Total
2017	$ 1,607,540	$ (5,793)	$ 1,601,747
2018	222,676	(5,793)	216,883
2019	222,675	(5,793)	216,882
2020	222,677	(5,793)	216,884
2021	191,036	(5,793)	185,243
Thereafter	3,347,291	(32,315)	3,314,976
Total	$ 5,813,895	$ (61,280)	$ 5,752,615

Interest expense of $98,000 and $102,702 was reported in the accompanying statement of functional expenses, including amortization expense for deferred loan costs for the years ended December 31, 2016 and 2015, respectively.

Note 12- Related Entity

The Organization is a less-than-one-percent general partner in 38-42 Abbett Avenue, LP. As of December 31, 2016 the Organization had invested $26,652 in 38-42 Abbett Avenue, LP. This investment is being accounted for under the equity method of accounting. During 2008, the Organization transferred title in the underlying low income housing project to the 38-42 Abbett Avenue, LP along with all related expenses associated with this entity.

The investment in 38-42 Abbett Avenue, LP reflected in these financial statements approximates the Organization's capital in the partnership. 38-42 Abbett Avenue, LP is indebted to the Organization in the amount of $1,830,346 and $1,751,843 payable under various terms of the partnership for mortgages, developer fee, accrued interest and miscellaneous expenses as of December 31, 2016 and 2015, respectively. During the year ended December 31, 2016 the limited partnership repaid $11,850 to the organization.

Note 13- Rental Income

The Organization leases four apartments at the 133 Landing Road location, 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 $777 per month in 2016. This amount is augmented by $1,723 and $757 per month in 2016, from the Morristown Housing Authority and Morris County Housing Authority, respectively, for a monthly total of $3,257 in 2016. One unit was vacant at December 31, 2016.

The Organization purchased 16 Morton Street, Morristown, NJ during 2007 for the purpose of relocating the tenants in 38-42 Abbett Avenue. Rental income from this property is approximately $2,633 per month in 2016. All units were occupied at December 31, 2016.

Note 13- Rental Income (Cont'd)

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 $7,250 per month in 2016. This amount is augmented by $2,762 per month, from the Morris County Housing Authority and $290 per month in 2016 from the State of New Jersey's Rental Assistance Program for a monthly total of $10,302 in 2016. Four units were vacant at December 31, 2016.

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 34 Abbett Avenue project is expected to be $1,888 per month in 2016. This amount is augmented by $634 per month in 2016 from the State of New Jersey's Rental Assistance Program for a monthly total of $2,522 in 2016. All units were occupied at December 31, 2016.

During 2011, construction of property at 31 Drakestown Road, Hackettstown, NJ was completed. The Organization began accepting tenants for the project's ten units in September 2011. Basic rent is set each year at levels appropriate to each unit. Under current leases, tenant rental income from the 10 apartments at the 31 Drakestown project is expected to be $4,220 per month in 2016. Three units were vacant at December 31, 2016.

During 2011, construction of property at 37 Harrison Street, Morristown, NJ was completed. The Organization began accepting tenants for the project's four units in February 2011. Basic rent is set each year at levels appropriate to each unit. Under current leases, tenant rental income from the 4 apartments at the 37 Harrison project is expected to be $1,629 per month in 2016. This amount is augmented by $2,433 per month in 2016 from the State of New Jersey's Rental Assistance Program for a monthly total of $4,062 in 2016. All units were occupied at December 31, 2016.

During 2012, construction of property at 29 Abbett Avenue, Morristown, NJ was completed. The Organization accepted tenants for the project's two units in August 2012. Under current leases, tenant rental income from the 2 apartments at 29 Abbett Avenue project is expected to be $1,060 per month in 2016. This amount is augmented by $1,150 per month in 2016 from the State of New Jersey's Rental Assistance Program for a monthly total of $2,210 in 2016. All units were occupied at December 31, 2016.

Since 1997, the Organization has operated the Transitional Housing Program (THP) in an apartment complex on Jean Street. From 1997 until 2011, the Organization operated THP as the general partner in a limited partnership called Morris Shelter Urban Renewal Associates L.P. In January, 2012, the assets of the partnership were transferred into THP Urban Renewal LLC, which is wholly owned by the Organization. THP consists of ten units of supportive housing for families. The families pay rent subject to certain income limits. At December 31, 2016, monthly rental income was $5,988 and all units were occupied.

Note 13- Rental Income (Cont'd)

During 2013, construction of property at 81 Martin Luther King Avenue, Morristown, NJ was completed. The Organization accepted tenants for the project's six units in May 2013. Basic rent is set each year at levels appropriate to each unit. Under current leases, tenant rental income from the six apartments at the 81 Martin Luther King Avenue project is expected to be $4,002 per month in 2016. This amount is augmented by $1,587 per month in 2016 from the State of New Jersey's Rental Assistance Program for a monthly total of $5,589 in 2016. All units were occupied at December 31, 2016.

During 2013, I Mt. Kemble Home was acquired. Mt. Kemble Home provides 15 single-room occupancy accommodations to elderly women. Under current leases, tenant rental income from the 15 single-rooms at 1 Mt. Kemble Home is expected to be $5,463 per month in 2016. This amount is augmented by $240 per month, from the Morris County Housing Authority for a monthly total of $5,703 in 2016. One unit was vacant at December 31, 2016

Note 14- Unrestricted Net Assets – Board Designated

As of December 31, 2016, the Board of Trustees had designated $132,662 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.

Board designated net assets included in unrestricted net assets is comprised of the following as of December 31, 2016 and 2015:

	2016	2015
16 Morton Street, LLC reserve	$ 132,662	$ 132,662

There were no transfers to/from unrestricted non-designated net assets during the years ended December 31, 2016 and 2015.

There were no amounts released from the reserves for the years ended December 31, 2016 and 2015.

Note 15- Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following as of December 31, 2016 and 2015:

	2016	2015
Capital Improvements	$ 134,777	$ 166,117

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Note 15- Temporarily Restricted Net Assets (Cont'd)

Temporarily restricted net assets released from time and use restrictions specified by donor for the years ended December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Capital improvements	$ 114,828	$ 283,883
Summer camps	5,000	
Program expenses	57,812	
	$ 177,640	$ 283,883

Note 16- Permanently Restricted Net Assets

The Organization had no permanently restricted net assets as of December 31, 2016 and 2015.

Note 17- Transfer of Net Assets

During the years ended December 31, 2016 it was determined by the Board of Trustees that a transfer was required in the amount of $797,555 from the unrestricted operating to the unrestricted capital fund to reflect the Organization's investment in capital project related activities as of December 31, 2016.

Note 18- Furnishing Solutions Activity

Furnishing Solutions had the following activity for the years ended December 31, 2016 and 2015:

	2016	2015
Sales	$ 229,009	$ 383,876
Beginning inventory	240,702	101,387
Add: estimated value of new donations	184,557	520,548
Less: ending inventory	-	(240,702)
Estimated value of sold goods	425,259	381,233
Estimated value of sold goods in excess of carrying value	(196,250)	2,643
Estimated value of new donations	184,557	520,548
Total revenue (loss)	$ (11,693)	$ 523,191

Furnishing Solutions ceased operations on July 1, 2016.

SUPPLEMENTARY INFORMATION

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity ID#	Grantor's Number	Grant Period	Grant Awards	Cumulative Program Disbursements	Current Year Program Disbursements	Current Year Cash Received	Current Year Provided to Subrecipients
U.S. Department of Housing and Urban Development:									
Safe Haven Program	14.235	N/A	NJ0114L2F091407	7/1/15-6/30/16	$ 358,692	$ 358,692	$ 150,608	$ 150,608	$ -
Safe Haven Program	14.235	N/A	NJ0114L2F091508	7/1/16-6/30/17	358,692	220,907	220,907	185,140	-
Transitional Housing Program	14.235	N/A	NJ0117L2F091407	9/1/15-8/31/16	198,245	198,245	104,696	104,696	-
Transitional Housing Program	14.235	N/A	NJ0117L2F091508	9/1/16-8/31/17	198,245	94,472	94,472	75,355	-
Child Care Access	14.235	N/A	NJ0113L2F091407	9/1/15-8/31/16	38,000	38,000	28,462	28,462	-
					1,151,874	910,316	599,145	544,261	-
Pass-Through The Morris County Board of Chosen Freeholders Emergency Solutions Grant Program	14.231	N/A	E-15-UC-34-0019	7/1/16-6/30/17	35,000	35,000	35,000	-	-
Pass-Through The Morris County Division of Community Development Community Development Block Grant	14.218	N/A	B-15-UC-34-0105	7/1/15-6/30/17	50,000	50,000	33,554	33,554	-
Subtotal- U.S. Department of Housing and Urban Development					1,236,874	995,316	667,699	577,815	-
Total Federal Awards					$ 1,236,874	$ 995,316	$ 667,699	$ 577,815	$ -

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

State Grantor/Pass-Through Grantor/Program	Grant ID#	State Account Number	Grant Period	Grant Awards	Cumulative Program Disbursements	Current Year Program Disbursements	Current Year Cash Received
New Jersey Department of Human Services:							
Morris County Board of Chosen Freeholders:							
Family Shelter Program	SSH-1601	N/A	7/1/15-6/30/16	$ 64,462	$ 64,462	$ 6,335	$ 6,335
Family Shelter Program	SSH-1701	N/A	7/1/16-6/30/17	64,462	60,070	60,070	38,871
Grant-in-Aid Program	GIA-1610	N/A	1/1/16-12/31/16	58,695	58,695	58,695	56,432
				187,619	183,227	125,100	101,638
The Morris County Department of Human Services							
Division of Employment and Temporary Assistance:							
Emergency Shelter	N/A	N/A	1/1/16-12/31/16	156,223	156,223	156,223	140,581
Total State Awards				$ 343,842	$ 339,450	$ 281,323	$ 242,219

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE CONSOLIDATED SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED
SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2016

Note 1- Basis of Presentation

The accompanying consolidated schedules of expenditures of federal and state awards presents the activity of all federal and state financial assistance programs of Homeless Solutions, Inc. and Subsidiaries. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements. All federal and state financial assistance received directly from federal and state agencies is included on the consolidated schedules of federal and state awards. Because these schedules present only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2- Summary of Significant Accounting Policies

The accompanying consolidated schedules of expenditures of federal and state awards are presented using the accrual basis of accounting which is described in Note 2 to the consolidated financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and New Jersey State Circular 15-08-OMB, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3- Relationship to Federal and State Financial Reports

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

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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, 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, the consolidated financial statements of Homeless Solutions, Inc. and Subsidiaries (a nonprofit organization) (the "Organization") which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statement of activities, consolidated statement of functional expenses and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic consolidated financial statements, and have issued our report thereon dated May 3, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Homeless Solutions, Inc. and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mt. Arlington, New Jersey
May 3, 2017

Nisivoccia LLP

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016

Summary of Auditors' Results:

- An unmodified report was issued on Homeless Solutions, Inc. and Subsidiaries consolidated financial statements.

- The audit did not disclose any material weaknesses or significant deficiencies relating to the audit of the consolidated financial statements of Homeless Solutions, Inc. and Subsidiaries.

- The audit did not disclose any noncompliance which is material in relation to the consolidated financial statements of Homeless Solutions, Inc. and Subsidiaries.

Findings Relating to the Consolidated 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 Response for Federal and State Awards:

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

HOMELESS SOLUTIONS, INC. AND SUBSIDIARIES
SUMMARY CONSOLIDATED SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

Status of Prior Audit Findings:

There were no audit findings in the prior year.