

HOMEFRONT, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2018



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

HOMEFRONT, INC.

SEPTEMBER 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
HomeFront, Inc.
Lawrenceville, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of HomeFront, Inc. ("Organization"), a New Jersey nonprofit corporation, which comprises the statement of financial position as of September 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HomeFront, Inc. as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of as a whole. The accompanying schedule of expenditures of federal and state awards on pages 23 and 24, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08, are presented for purposes of additional analysis and are not required parts of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 March 4, 2019 on our consideration of HomeFront, Inc.'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 effectiveness of HomeFront, Inc.'s 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 HomeFront, Inc.'s internal control over financial reporting and compliance.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
March 4, 2019

HOMEFRONT, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 366,922
Accounts receivable	398,177
Accounts receivable - Homes by TLC	189,566
Grants and contracts receivable	443,071
Pledges receivable, current portion	270,000
Prepaid expenses	98,363
Total Current Assets	<u>1,766,099</u>

INVESTMENTS	1,577,877
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PLEDGES RECEIVABLE, net of current portion	478,325
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PROPERTY AND EQUIPMENT, NET	<u>6,452,139</u>
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Total Other Assets	<u>8,508,341</u>
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	<u>\$ 10,274,440</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 383,800
Deferred income	31,926
Forgivable mortgages, current maturities	60,000
Total Current Liabilities	<u>475,726</u>

LONG-TERM LIABILITIES:

Forgivable mortgages, net of current maturities	<u>420,000</u>
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Total Liabilities	<u>895,726</u>
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COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted	2,199,506
Temporarily restricted	5,026,208
Permanently restricted (endowment)	2,153,000
Total Net Assets	<u>9,378,714</u>

	<u>\$ 10,274,440</u>
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HOMEFRONT, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Public Support:				
Federal and state grants	\$ 1,727,102	\$ -	\$ -	\$ 1,727,102
Corporate and foundation grants	837,915	-	-	837,915
Program fees	2,192,216	-	-	2,192,216
Contributions	2,104,799	93,544	105,000	2,303,343
Investment income	100,765	-	-	100,765
In-kind contributions	4,003,131	-	-	4,003,131
Other income	758,548	-	-	758,548
Maintenance fees - Homes by TLC, Inc.	110,600	-	-	110,600
Social service fees - Homes by TLC, Inc.	108,560	-	-	108,560
Property management fees - Homes by TLC, Inc.	89,400	-	-	89,400
Subtotal	12,033,036	93,544	105,000	12,231,580
Net Assets Released from Restrictions	333,204	(333,204)	-	-
Total Revenues, Gains and Other Support	12,366,240	(239,660)	105,000	12,231,580
EXPENSES:				
Program services	11,194,426	-	-	11,194,426
Fundraising	393,263	-	-	393,263
Management and general	568,555	-	-	568,555
Total Expenses	12,156,244	-	-	12,156,244
CHANGES IN NET ASSETS	209,996	(239,660)	105,000	75,336
NET ASSETS - Beginning of year	1,989,510	5,265,868	2,048,000	9,303,378
NET ASSETS - End of year	\$ 2,199,506	\$ 5,026,208	\$ 2,153,000	\$ 9,378,714

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

HOMEFRONT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018

	Program Services				Fundraising	Management and General	Total Expenses
	Prevention/ Emergency Services	Client Support Services	Housing	Total			
Personnel							
Salaries and wages	\$ 1,278,345	\$ 1,651,254	\$ 359,551	\$ 3,289,150	\$ 91,695	\$ 391,118	\$ 3,771,963
Payroll taxes and benefits	308,618	553,853	96,994	959,465	25,175	107,383	1,092,023
Total Personnel	1,586,963	2,205,107	456,545	4,248,615	116,870	498,501	4,863,986
Direct client assistance							
Shelter	440,942	4,006	246,913	691,861	-	877	692,738
Food	263,932	66,525	73	330,530	-	-	330,530
Transportation	83,280	95,834	6,175	185,289	2,674	5,794	193,757
Counseling services	22,704	834	174	23,712	45	193	23,950
Direct client needs	15,484	13,377	195	29,056	39	-	29,095
Total Direct Client Assistance	826,342	180,576	253,530	1,260,448	2,758	6,864	1,270,070
In kind services, food, and facilities	-	4,003,131	-	4,003,131	-	-	4,003,131
Repairs and maintenance	324,112	29,506	5,430	359,048	621	2,651	362,320
Supplies - program, office & other	76,155	97,077	12,025	185,257	32,867	13,164	231,288
Utilities	94,028	36,450	3,364	133,842	374	1,356	135,572
Security	159,192	-	-	159,192	-	-	159,192
Consultants	18,607	44,595	24,274	87,476	9,474	10,466	107,416
Insurance	51,929	78,516	6,903	137,348	1,603	6,048	144,999
Printing	1,320	22,330	595	24,245	79,120	659	104,024
Fundraising	-	-	-	-	103,561	-	103,561
Telephone	25,317	43,221	5,057	73,595	1,915	3,489	78,999
Rent to Homes by TLC, Inc.	83,063	16,508	47,944	147,515	128	3,557	151,200
Accounting/legal	7,271	13,282	7,667	28,220	1,990	8,489	38,699
Miscellaneous	7,409	11,078	2,509	20,996	21,190	1,440	43,626
Postage	1,383	7,264	1,461	10,108	18,950	1,617	30,675
Staff development	6,926	7,636	1,385	15,947	1,842	1,384	19,173
Total Before Depreciation	3,270,017	6,796,277	828,689	10,894,983	393,263	559,685	11,847,931
Depreciation	43,332	256,111	-	299,443	-	8,870	308,313
Total Expenses	\$ 3,313,349	\$ 7,052,388	\$ 828,689	\$ 11,194,426	\$ 393,263	\$ 568,555	\$ 12,156,244

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

HOMEFRONT, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2018

CASH FLOWS PROVIDED BY (USED FOR):

OPERATING ACTIVITIES:

Changes in net assets	\$ 75,336
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	308,313
Forgiven mortgages	(60,000)
Unrealized gain on investments	(91,607)
Changes in certain assets and liabilities:	
Accounts receivable	8,481
Accounts receivable - Homes by TLC	61,242
Grants and contracts receivable	(189,051)
Pledges receivable	274,524
Prepaid expenses	(52,081)
Accounts payable and accrued expenses	32,600
Deferred income	24,820
Net Cash Provided by Operating Activities	<u>392,577</u>

INVESTING ACTIVITIES:

Purchase of property and equipment	(44,993)
Purchase of investments	(355,000)
Net Cash Used for Investing Activities	<u>(399,993)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (7,416)

CASH AND CASH EQUIVALENTS:

Beginning of year	<u>374,338</u>
End of year	<u>\$ 366,922</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash paid during the year for interest	<u>\$ -</u>
Noncash contributions	<u>\$ 4,003,131</u>
Noncash debt forgiveness	<u>\$ 60,000</u>

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ORGANIZATION:

Since its foundation nearly 30 years ago, HomeFront, Inc. (“HomeFront” or “Organization”) has worked to break the cycle of poverty and end homelessness in Central New Jersey and has served tens of thousands of Mercer County families. Started by volunteers providing meals for families living in welfare motels, the Organization has since developed a holistic array of services for clients who are either homeless or at high risk of becoming so.

HomeFront’s mission is to end homelessness in Central New Jersey by harnessing the caring, resources and expertise of the community. The Organization lessens the immediate pain of homelessness and helps families become self-sufficient. HomeFront works to give its clients the skills and opportunities to ensure adequate incomes, and works to increase the availability of adequate, affordable housing. HomeFront helps homeless families advocate for themselves individually and collectively.

HomeFront organizes its work around four core beliefs: 1) that families deserve safe, secure housing; 2) that with the right tools, all families can succeed; 3) that families need basic necessities to live lives with dignity; and 4) that children nurtured by love and support will grow on a path to realizing life’s possibilities.

On any given night, HomeFront provides emergency shelter, transitional housing or permanent service-enriched housing to over 475 people. Two-thirds of them are children. HomeFront’s comprehensive service offerings include case management, homelessness prevention, emergency food, free clothing and household goods at the HomeFront FreeStore, affordable housing searches, family literacy, and job placement and readiness skills. Special programming for children includes a fully licensed early childhood development program, summer camp, after-school tutoring and activities. Client families in the emergency shelter housing programs have access to HomeFront’s full menu of holistic services.

One of HomeFront’s defining characteristics is the centrality of community collaboration. Volunteers and partners are not just helpers; HomeFront has carefully nurtured invaluable community connections that play a key role in helping our homeless families become - and remain - independent. HomeFront has established wonderful collaborations with a wide range of congregations, corporations and organizations who assist in HomeFront’s mission of returning families to independence. More than 1,600 volunteers work with HomeFront each year to provide families with everything from food, goods and services to assistance in locating jobs and housing. Without these dedicated and caring volunteers, many of HomeFront’s programs, such as the weeknight tutoring program, would not be possible. Over 52,000 hours are volunteered each year by individuals, community and corporate groups. HomeFront staff is well-acquainted with all community agencies and the services available and they are frequently consulted for any available benefits or services that HomeFront is unable to provide.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

In 2015, HomeFront opened its Family Campus, a centralized social services campus where the Organization can both lessen the immediate pain of homelessness by providing shelter and sustenance and also offer families access to a comprehensive suite of tools to enable them to move on to self-sufficiency and economic and personal sustainability. HomeFront has created a village of healing and hope that features a state-of-the-art family shelter, a technology-equipped education and workforce development center, a licensed childcare center, our healing therapeutic art program, ArtSpace, a well-stocked and well-loved library for young and old, a fully-equipped teaching kitchen, a wellness center, and regularly scheduled life-enhancing and enriching activities available through our community partners, such as music, theater, yoga and physical fitness programs.

HomeFront is supported primarily through donor, financial and in-kind contributions, together with government, corporation and foundation grants. HomeFront, Inc.'s expenditures related to providing various programs have been classified into functional cost categories as follows:

Prevention/Emergency Services

It is HomeFront's commitment to low-income families and their emerging needs that has created the following programs:

Emergency Shelter

- Family Preservation Center - short-term program at the HomeFront Family Campus for up to 38 families (including single mothers, fathers, and two-parent families) where parents learn the skills to enable them to be self-sufficient and gain permanent housing.
- FreshStart - Short-term housing for homeless working poor families. Help is given to locate and secure permanent housing while also providing intensive case management.

Homelessness Prevention

This program provides funds for back rent/mortgage/utilities and security deposits to enable Mercer County residents at risk of eviction to maintain their housing and to be spared the trauma of homelessness.

The Resource Network

This program provides very low-income families with the tools they need to establish a life with dignity.

Donated goods and services provided include:

- Furnish The Future – donated furniture and appliances, available at no cost to clients.
- FreeStore – donated clothing and household items, available at no cost to clients.
- Diaper Resource Center – donated diapers, wipes, and feminine hygiene products, available at no cost to clients.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

Special Needs

HomeFront provides emergency and ongoing housing support for families in which one member is HIV-positive, is mentally or physically disabled or is battling an opioid addiction. This housing comes with intensive case management and a rich array of support services that are tailored to address the medical and social challenges the residents are facing.

Client Support Services

HomeFront has developed the following programs and services to assist low-income and/or homeless families to strengthen their personal safety nets and build successful and stable families. HomeFront builds long-term relationships with these families, who utilize HomeFront's holistic array of wrap-around services as indicated by their individual needs. With the addition of the HomeFront Family Campus, many of these programs have been expanded and new ones added. This new "village of healing and hope" offers a one-stop approach to services and is unlike anything in the Northeast. Services include:

Employment -Focused Skills Building

HomeFront recognizes that the basic foundation for independence is education and employment. The opportunities for clients are always growing and today include:

- High School Equivalency classes and testing
- Training and certifications including Microsoft Office, ServSafe, customer service and SORA security officer training
- Employment Readiness training and job placement counseling
- Entrepreneurship training through the ArtSpace and SewingSpace programs
- Family Literacy programs
- Parenting, nutrition and personal finance classes

Children's Programs

HomeFront recognizes that the long-term effects of homelessness and extreme poverty on children can be crippling - physically, emotionally and educationally. The HomeFront enrichment and protection system for children is all-encompassing and includes free services such as:

- Atkinson Child Development Center with Early HeadStart program
- Year-round tutoring and mentoring
- The Joy, Hopes and Dreams after-school and weekend enrichment program
- The Children's Champion Team for assessing physical, developmental and emotional issues
- 8-week summer camp for children of all ages
- Boys' Basketball team
- A Back-to-School drive to ensure kids start school the right way

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

- Year-round field trips
- Family holiday events
- Christmas and birthday presents - over 3,500 children receive specific personal gifts.

Emergency Food Panty

HomeFront prepares and provides food bags for hungry families in Mercer County. Anyone in need can come to HomeFront and receive a food bag. Over 23,000 individuals were fed this year and over 3,000 families receive Christmas and Thanksgiving food baskets each year.

Housing

It became clear to HomeFront that providing services and programs alone only addressed one side of the crisis faced by the homeless and low-income families of Mercer County. Without access to safe and affordable housing, there can be no home. HomeFront is dedicated to the development of affordable service-enriched housing for low income families as well as to the provision of transitional housing, where families can build their skills as they prepare to move into permanent housing.

Traditional Housing

HomeFront's programs provide intensive case management which focuses each family on becoming independent:

- Transitional Living Commitment – 3 - 6 months of housing for homeless families
- Rapid Rehousing – families receive ongoing rent subsidies and support services.

Permanent Service-Enriched Affordable Housing

HomeFront provides case management and support services for over 125 working poor families living in permanent, affordable housing in Mercer County (rents are no more than 30% of income).

Management and General

Management and General consists of activities related to policy development, planning, design and implementation of agency programs and services. These activities include administrative functions, financial functions, and personnel management functions.

Fundraising

Fundraising is defined as activities related to agency efforts to attract and increase financial support.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation:

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations and currently available for use by Organization's Board of Trustees.

Temporarily Restricted Net Assets

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 statements of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents:

Cash consists of funds maintained in bank accounts. Cash equivalents include short-term, highly liquid money market investments with maturity dates of three months or less on the date of acquisition.

Accounts Receivable:

Accounts receivable consist primarily of program fees. The Organization utilizes the reserve method of accounting for doubtful accounts. The reserves are based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. At September 30, 2018, no allowance was deemed necessary.

Grants Receivable:

Grants receivable are recorded at the amount billed to funding agencies. The Organization utilizes the reserve method of accounting for doubtful accounts. The reserves are based on historical experience and management's evaluation of outstanding grants receivable at the end of each year. At September 30, 2018, no allowance was deemed necessary.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fair Value:

Fair value measurements are defined as the amount 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. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value. The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3:** Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless the use was restricted by explicit donor stipulations or by law.

The fair value of investments are as follows:

Princeton Area Community Foundation – Valued on a monthly basis by the Princeton Area Community Foundation based upon underlying values on each fund within the portfolio.

Property and Equipment:

Fixed assets are recorded at cost on the date of acquisition or at the fair market value of the asset based on values of comparable assets at the date of gift for donations. Depreciation is computed using the straight-line method over estimated useful lives ranging from 3 to 40 years. When assets are retired or otherwise disposed of, the costs and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments greater than \$1,000 that extend the useful lives of the assets are capitalized.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Valuation of Long-Lived Assets:

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Management has determined that no adjustment was required for the period presented in these financial statements.

Refundable Advances:

Refundable advances represent amounts due back to agencies for expenses from contracts that were not fulfilled.

Deferred Revenue:

The Organization records amounts received from funding sources in advance of performing the required services as deferred revenue.

Revenue and Support Recognition:

Revenue is derived principally from grants from government agencies, corporations, foundations, and individuals.

The Organization recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as unrestricted or restricted support according to donor stipulations that limit the use of these assets due to time or purpose restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities and changes in net assets as net assets released from restrictions. However, the receipt of restricted contributions whose restrictions expire or are otherwise satisfied within the period of receipt are reported as unrestricted revenues in the statement of activities and changes in net assets.

The Organization generally accounts for those grant revenues that are determined to be exchange transactions in the statement of activities and changes in net assets 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 contract are used as guidance.

Unrestricted revenues are obtained from various fundraising projects, fees, and investment income. These revenues are not restricted in their use and are used to offset program, management and general and fundraising expenses that are not funded by contract budgets. Revenues from these sources are recognized as earned.

Contributions of Donated Services and Gifts In-Kind:

Contributed services and gifts in-kind are recorded as contributions at a fair value as of the date of donation. Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Functional Allocation of Expenses:

Program services, management and general and fundraising expenses have been recorded in the statement of activities and changes in net assets and on the statement of functional expenses based on both a direct costing method for those expenses directly attributable to a particular program or special event or on an allocation basis for joint costs attributable to all functions.

Income Taxes:

The Organization is a not-for-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law.

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the year ended September 30, 2018. At September 30, 2018, there are no significant income tax uncertainties.

Use of Estimates:

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements:

The Financial Accounting Standards Board issued an accounting pronouncement *Presentation of Financial Statements of Not-for-Profit Entities*, which will require net assets to be presented in two classes, instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. It also requires the entity to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date. The pronouncement is effective for annual reporting periods beginning after December 15, 2017. It will be effective for the year ending September 30, 2019. The Organization is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Subsequent Events:

The Organization has evaluated its subsequent events and transactions occurring after December 31, 2018 through March 4, 2019 the date the financial statements were available to be issued.

NOTE 3 - PLEDGES RECEIVABLE:

Pledges receivable represent unconditional promises to give, which have been made by donors but have not yet been received by the Organization. Pledges that will not be received in the subsequent year have been discounted using an estimated rate of return that could be earned if such contributions had been made in the current year. The Organization considers contributions receivable fully collectible; accordingly, no allowance for uncollectible pledges has been provided.

Total pledges receivable at September 30, 2018 were as follows:

Receivable in less than one year	<u>\$ 270,000</u>
Receivable in one to five years:	
Total	500,000
Less: discount to net present value	<u>(21,675)</u>
Net long-term pledges receivable	<u>478,325</u>
Total Pledges receivable	<u>\$ 748,325</u>

NOTE 4 - INVESTMENTS:

Fair value measurements of investments as of September 30, 2018, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Princeton Area Community Foundation Pooled Funds	\$ -	\$ -	\$ 1,577,877	<u>\$ 1,577,877</u>

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4 - INVESTMENTS: (Continued)

The following table provides further details of Level 3 fair value measurements as of September 30, 2018:

	<u>Total</u>
Balance, Beginning of year	\$ 1,131,270
Contributions	355,000
Interest and dividend income	16,150
Unrealized gains	84,646
Investment fees	<u>(9,189)</u>
Balance, End of year	<u><u>\$ 1,577,877</u></u>

NOTE 5 - ENDOWMENT FUNDS:

Endowment 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 endowment funds, are classified and reported based on the existence or absence of any restrictions. Its endowment includes funds restricted by donors. The Organization maintains one fund at PACF. The HomeFront Endowment Fund was established by the Board of Trustees in April 2017. This fund is used to support the mission of HomeFront.

Interpretations of Relevant Law:

Management of the Organization has interpreted state law as requiring the preservation of the 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 and (b) the original value of subsequent gifts to the permanent endowment. 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 state law. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5 - ENDOWMENTS: (Continued)

Under the provisions of the Uniform Prudent Management of Institutional Funds Act and accounting principles generally accepted in the United States of America, losses in the market value of donor-restricted endowment funds are required to be offset by reductions in temporarily restricted net assets or unrestricted net assets, or both. An endowment fund that has become “underwater” will therefore result in decreases in temporarily restricted or unrestricted net assets, despite the absence of any legal obligation to restore the endowment fund for such losses. Unrestricted net assets that have been reduced because of this requirement will be restored from future gains for that reduction.

Return Objectives and Risk Parameters:

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods, as well as funds designated by the Board of Trustees.

Strategies Employed for Achieving Objectives:

To satisfy its long-term, rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy:

The Organization has an investment objective to provide sufficient liquidity to meet operating, distribution, and spending requirements. The Organization will draw no more than 4% of the funds value each year into the current operating budget. For the year ended September 30, 2018, no amounts were drawn.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5 - ENDOWMENTS: (Continued)

The following table provides information regarding the change in endowment net assets for the year ended September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2017	\$ 83,270	\$ -	\$ 1,048,000	\$ 1,131,270
Endowment contributions	-	-	355,000	355,000
Investment Return:				
Investment income - net of expenses	-	6,961	-	6,961
Net (depreciation) appreciation (realized and unrealized)	-	84,646	-	84,646
Total investment (loss) gain	-	91,607	-	91,607
Amounts appropriated for expenditure	91,607	(91,607)	-	-
Endowment net assets, September 30, 2018	\$ 174,877	\$ -	\$ 1,403,000	\$ 1,577,877

Endowment investments in unrestricted, temporarily restricted and permanently restricted net assets consist of the following at September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Princeton Area Community Foundation Pooled Funds	\$ 174,877	\$ -	\$ 1,403,000	\$ 1,577,877

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6 - PROPERTY AND EQUIPMENT:

Property and equipment are comprised of the following at September 30, 2018:

Building and building improvements	
– HomeFront family campus	\$ 6,042,107
Leasehold improvements	659,818
Vehicles	655,831
Office furniture and equipment	871,098
	<hr/>
	8,228,854
Less: Accumulated depreciation	1,776,715
	<hr/>
Property and Equipment, Net	<u>\$ 6,452,139</u>

In a quitclaim deed, dated September 30, 2013, between HomeFront, Inc. and the Federal government, HomeFront, Inc. agreed to renovate and maintain the former Navy Base located in Ewing, NJ as its new HomeFront Family Campus homeless shelter. If HomeFront, Inc. ceases to use the property as a homeless shelter, the property will revert back to the federal government.

The capital costs for this project have been classified as temporarily restricted net assets. Net assets will be released from the restriction annually in amounts equal to the depreciation of all capitalized costs associated with the property.

NOTE 7 - LINE OF CREDIT:

The Organization has a line of credit agreement with a local bank in the amount of \$400,000. The agreement calls for monthly payments of interest only at the rate of prime (5.25% at September 30, 2018) plus 1.25% on principal amounts borrowed for the year ended September 30, 2018. The line matures on May 31, 2019. There was no outstanding balance as of September 30, 2018.

NOTE 8 - FORGIVEABLE MORTGAGES PAYABLE:

The Organization has executed two contractual agreements in the form of mortgage notes with the New Jersey Department of Community Affairs. Funds in the original amount of \$600,000 have been recognized as a loan payable.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 - FORGIVEABLE MORTGAGES PAYABLE: (Continued)

The agreements include a provision for annual forgiveness of debt at the rate of 10% per year, provided the shelter is still being used for such purpose. Debt forgiveness occurs on the anniversary date of the issuance of the certificate of occupancy, and for nine years thereafter. The shelter became operational in August 2015 with a certificate of occupancy issued October 2015; therefore, loan forgiveness began during the year ended September 30, 2017. The unforgiven balance at September 30, 2018 was \$480,000.

Mortgage forgiveness is as follows:

2019	\$ 60,000
2020	60,000
2021	60,000
2022	60,000
2023	60,000
Thereafter	<u>180,000</u>
	<u>\$ 480,000</u>

NOTE 9 - RETIREMENT PLAN:

The Organization maintains a retirement plan under Internal Revenue Code Section 401(k) covering all employees meeting certain eligibility requirements. The plan is funded by employee contributions with matching funds contributed by the Organization up to a maximum of 3% of participating employees' eligible compensation. Contributions made by the Organization during the year ended September 30, 2018 were \$76,848.

NOTE 10 - RESTRICTIONS ON NET ASSETS:

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2018:

HomeFront Family Campus	\$4,932,664
Contributions related to programs	<u>93,544</u>
	<u>\$5,026,208</u>

Temporarily restricted net assets of \$333,204 were released from restrictions during the year ended September 30, 2018, when the time and/or purpose restrictions were accomplished. These amounts are shown in the accompanying statement of activities and changes in net assets.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10 - RESTRICTIONS ON NET ASSETS: (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets consist of \$2,153,000 in donations to set up an endowment fund, of which \$750,000 is an outstanding pledge. Investment income derived from the endowment is recorded in temporarily restricted net assets until expended or appropriated in accordance with the endowment guidelines. The original donation remains permanently restricted.

NOTE 11 - DONATED SERVICES AND FACILITIES:

HomeFront's mission to end homelessness in Central New Jersey is supported through securing pro-bono or in-kind goods and services for clients. Recorded in the financial statements is \$2,347,531 of meals, food, diapers, personal care products, clothing and toys that are received by HomeFront and distributed to clients, and \$197,400 of professional services and postage costs, for the year ended September 30, 2018. The office and warehouse leases were negotiated at less than fair market value. The difference between the fair market rental and the rent paid, which has not been recorded as in-kind facilities in the statement of activities, is \$237,800 for the year ended September 30, 2018.

In addition, vehicles, computers, household furnishings, and other supplies were received and promptly donated to needy recipients. Because of the difficulty in valuing these items, many of which are secondhand, they have not been recorded in the financial statements. An estimate is that these items exceeded \$1,220,400 for the year ended September 30, 2018.

Also, not recorded in the financial statements are approximately \$1,260,000 of contributed services that have not met the requirements for recognition under Generally Accepted Accounting Principles.

The administrative effort needed to coordinate the logistics of such programs must be considered when attempting to understand the functioning of HomeFront.

HOMEFRONT, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 12 - RELATED PARTY TRANSACTIONS:

Homes by TLC, Inc. and HomeFront Inc. are separate entities that operate separately. They share management, staff and limited expenses to gain operating efficiencies.

Homes by TLC, Inc. pays fees to HomeFront, Inc. for the services performed by HomeFront Inc. employees. These services are provided based on agreements approved by both organizations on an annual basis. During the year ended September 30, 2018, these amounts totaled approximately \$309,000.

Homes by TLC, Inc. also rents space at its properties to HomeFront, Inc. During the year ended September 30, 2018, these amounts totaled \$151,200. The terms of the rental leases between HomeFront, Inc. and Homes by TLC, Inc. are for the fiscal year October 1, 2017 to September 30, 2018. All of the leases between HomeFront, Inc. and Homes by TLC, Inc. have been renewed until September 30, 2019.

Future minimum lease payments to Homes by TLC, Inc are:

2019	<u>\$ 151,000</u>
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As of September 30, 2018, the balance due from Homes by TLC, Inc. was \$189,566, which related to transactions with the Siloam Homes properties.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially expose the Organization to concentrations of credit risk and market risk consist of cash and cash equivalents. The Organization maintains its cash and cash equivalents in accounts with federally insured institutions. At times, the balances in these accounts may be in excess of federally insured limits.

NOTE 14 - VULNERABILITY OF CONCENTRATIONS OF GRANT CONTRACTS:

The Organization received approximately 14% of its total support from federal and state government agencies during the year ended September 30, 2018. The Organization is also subject to audits by certain federal and state departments, which may result in findings based on various issues. Anticipation of potential audit results is currently not determinable. Accordingly, no accruals have been recorded in the financial statements for any adjustments that might be required based on potential future audits.

NOTE 15 - TAX RETURNS:

At September 30, 2018, all required tax returns have been filed.

HOMEFRONT, INC.
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2018

Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Grant Period	Grant ID Number	Program Award Amount	Current Year Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Passed through NJ Department of Community Affairs					
Emergency Solutions Grant	14.231	11/01/16 - 06/15/18	2017-02149-0086	\$ 88,783	\$ 42,466
City of Trenton - Emergency Solutions Grant		07/01/17 - 06/30/19	RESOL 17-534	10,000	10,000
Mercer County Leasing 2011	14.267	08/01/17 - 07/31/18	NJ0368L2F141604	160,738	134,758
Mercer County Leasing 2011	14.267	08/01/18 - 07/31/19	NJ0368L2F141705	164,757	27,622
				325,495	162,380
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Passed through NJ Department of Community Affairs					
Community Services Block Grant - Opportunity Knocks	93.569	03/01/18 - 09/30/18	2017-05136-0320-00	50,000	50,000
Mercer County - LCC / CSBG	93.569	10/01/15 - 12/31/17	RESOL2016-51	222,467	33,029
Mercer County - LCC / CSBG	93.569	01/01/18 - 12/31/18	RESOL2018-119	100,000	75,000
				372,467	158,029
U.S. DEPARTMENT OF LABOR					
Mercer County - WIB/CWEB Program	17.258	07/01/17 - 06/30/18	PY2016-298	126,500	98,172
	17.258	07/01/18 - 06/30/19	PY2018-271	240,000	40,850
	17.258	07/01/17 - 06/30/18	PY2016-297	192,500	173,193
	17.258	07/01/17 - 06/30/19	PY2018-270	225,000	50,614
				784,000	362,829
U.S. DEPARTMENT OF EDUCATION					
Passed through New Jersey Department of Education					
Camden County Education Services Commission	84.196	07/01/17 - 06/30/18	17-BR21-H02	26,705	26,705
Pemberton Township School District	84.196	07/01/18 - 06/30/19	19-BR23-H02	8,424	8,424
				35,129	35,129
Total Federal Awards				1,615,874	770,833

See independent auditors' report and notes to the schedule of expenditures of federal and state awards.

HOMEFRONT, INC.
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
YEAR ENDED SEPTEMBER 30, 2018

Grantor / Pass Through Grantor / Program Title	Grant Period	Grant ID Number	Program Award Amount	Current Year Expenditures
NEW JERSEY DEPARTMENT OF CHILDREN & FAMILIES				
Division of Prevention and Community Partnerships Homelessness Prevention Leasing Program	11/01/16 - 10/31/17	2017-02150-0100-00	113,302	9,720
Division of Prevention and Community Partnerships Rapid Rehousing Program	12/01/16 - 06/30/18	2017-02156-0166-00	400,000	300,308
Division of Prevention and Community Partnerships Resource Network and Family Preservation Center Children's Program	10/01/17 - 09/30/18	#18CSLC	36,510	36,510
			549,812	346,538
NEW JERSEY DEPARTMENT OF HUMAN SERVICES				
Mercer County Department of Human Services Homelessness Prevention	07/01/18 - 12/31/18	RES #2015-332 Amend#1	25,000	12,623
NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES				
Mercer County Department of Human Services Homelessness Prevention	01/01/18 - 12/31/19	RES #2018-118	145,338	40,853
Division of HIV/AIDS Services HIV/AIDS Housing	07/01/17 - 06/30/18	AIDS18CTR020	156,967	118,803
HIV/AIDS Housing	07/01/18 - 06/30/19	AIDS19CTR020	156,967	47,821
			459,272	207,477
NEW JERSEY DEPARTMENT OF HEALTH				
Capital Health Systems Integrated Opioid Treatment	01/01/18 - 09/30/18	DFHS18IO5005	214,118	214,118
NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS				
Homelessness Prevention Rental Assistance	02/01/18 - 01/31/19	2018-02150-0196-02	335,587	104,108
Shelter Support - 2014	12/09/15 - 12/09/25	2014-02149-0129-00	300,000	30,000
Shelter Support - 2015	12/09/15 - 12/09/25	2015-02149-0199-00	300,000	30,000
			935,587	164,108
NEW JERSEY DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT				
New Jersey On-the-Job Training	N/A	N/A	663	663
New Jersey On-the-Job Training	N/A	N/A	10,742	10,742
			11,405	11,405
Total State Awards			2,195,194	956,269
Total Federal and State Awards			\$ 3,811,068	\$ 1,727,102

HOMEFRONT, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Organization and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - SUBRECIPIENTS:

During the year ended September 30, 2018, the Organization did not provide any funds relating to their federal and state programs to subrecipients.

NOTE 3 - INDIRECT COSTS:

During the year ended September 30, 2018, the Organization did not elect to use the de minimis cost rate when allocating indirect costs to federal and state programs.

NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:

As of September 30, 2018, the Organization did not have any federal loan or loan guarantee programs.

HOMEFRONT, INC.

SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETED AND INCURRED COSTS - GRANT #AIDS18CTR020

NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES

YEAR ENDED SEPTEMBER 30, 2018

Category	Final Budget	Report Results	Audited Results	Questioned Costs
Personnel:				
Salary	\$ 58,156	\$ 58,156	\$ 58,156	\$ -
Fringe benefits	16,109	16,109	16,109	-
	<u>74,265</u>	<u>74,265</u>	<u>74,265</u>	<u>-</u>
Consultants	-	-	-	-
Other costs:				
Office expense and related cost	1,000	1,000	1,000	-
Program expense	77,511	77,511	77,511	-
Staff training and education cost	899	899	899	-
Travel, conferences and meetings	292	150	150	-
Equipment and other capital expenses	-	-	-	-
Facilities	3,000	3,000	3,000	-
Subtotal	<u>82,702</u>	<u>82,560</u>	<u>82,560</u>	<u>-</u>
Total Direct Cost	156,967	156,825	156,825	-
Indirect costs	-	-	-	-
Total Costs	156,967	156,825	156,825	-
Less: Program income	-	-	-	-
Net Grant Funds	<u>\$ 156,967</u>	<u>\$ 156,825</u>	<u>\$ 156,825</u>	<u>\$ -</u>

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
HomeFront, Inc.
Lawrenceville, New Jersey

We have audited, in accordance with the 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 of America, the financial statements of HomeFront, Inc. ("Organization"), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's 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 Organization'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 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 over financial reporting and on compliance and other matters, and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting 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 over financial reporting, compliance and other matters. Accordingly, this communication is not suitable for any other purpose.

Livingston, New Jersey
March 4, 2019

Sobel & Co, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND NJOMB CIRCULAR LETTER 15-08

To the Board of Trustees
HomeFront, Inc.
Lawrenceville, New Jersey

Report on Compliance for Each Major Program

We have audited HomeFront, Inc.'s ("Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* and the New Jersey Office of Management and Budget ("NJOMB") Circular Letter 15-08 that could have a direct and material effect on each of the Organization's major programs for the year ended September 30, 2018. The Organization's major programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major programs based on our audit of the types of compliance requirements referred to above. 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and NJOMB Circular Letter 15-08. Those standards, the Uniform Guidance, and NJOMB Circular Letter 15-08 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 program occurred. An audit includes examining, on a test basis, evidence about the Organization's 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 on compliance for each major program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance and NJOMB Circular Letter 15-08, 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 the Organization's 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 or state 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and NJOMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

Sobel & Co, LLC

Certified Public Accountants

Livingston, New Jersey
March 4, 2019

HOMEFRONT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2018

I. Summary of Auditors' Results

Financial Statements

The auditors' report issued on financial statements of HomeFront, Inc. was an unmodified opinion.

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Award

Internal control over the major federal program:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X No

Type of auditors' report issued on compliance for the major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance or NJOMB Circular Letter 15-08? _____ Yes X No

Identification of Major Programs

<u>Major Program Number</u>	<u>Name of Program or Cluster</u>
17.258	U.S. Department of Labor – Mercer County – WIB/CWEB Program
2017-02156-0166-00	New Jersey Department of Children and Families – Division of Prevention and Community Partnerships – Rapid Rehousing Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? X Yes _____ No

II. Financial Statement Findings NONE

III. Compliance Findings NONE

IV. Follow-up of Prior Year Audit Findings NONE