

MORRIS HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2008

MORRIS HABITAT FOR HUMANITY, INC.

DECEMBER 31, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Morris Habitat for Humanity, Inc.

We have audited the accompanying statement of financial position of Morris Habitat for Humanity, Inc. (the "Organization") as of December 31, 2008 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Morris Habitat for Humanity, Inc. as of December 31, 2008, and the changes in its net assets and in its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sobel & Co. LLC

Certified Public Accountants

May 4, 2009
Livingston, New Jersey

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 606,607
Inventory of buildings	245,908
Mortgages receivable, current portion	11,231
Note receivable	512
Other current assets	39,049
Total Current Assets	<u>903,307</u>

PROPERTY AND EQUIPMENT, Net	<u>54,626</u>
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OTHER ASSETS:

Mortgages receivable, net of current portion	504,922
Security deposit	5,908
Total Other Assets	<u>510,830</u>

\$ 1,468,763

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Notes payable, current portion	\$ 6,073
Accounts payable and accrued expenses	76,857
Deferred revenue	13,740
Total Current Liabilities	<u>96,670</u>

LONG-TERM LIABILITIES:

Notes payable, net of current portion	<u>46,505</u>
Total Long-Term Liabilities	<u>46,505</u>

COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted	1,288,172
Temporarily restricted	37,416
Total Net Assets	<u>1,325,588</u>

\$ 1,468,763

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Contributions	\$ 279,253	\$ 387,148	\$ 666,401
Restore sales	322,973	6,000	328,973
Sales of homes	313,916	-	313,916
Donated services and materials	121,600	-	121,600
Mortgage interest income	35,773	-	35,773
Investment income	10,564	-	10,564
Special event revenue	102,557	-	102,557
Gain on sale of mortgages	67,548	-	67,548
Miscellaneous income	1,735	-	1,735
	<u>1,255,919</u>	<u>393,148</u>	<u>1,649,067</u>
Net assets released from restrictions	405,163	(405,163)	-
	<u>1,661,082</u>	<u>(12,015)</u>	<u>1,649,067</u>
EXPENSES:			
Program services	1,612,536	-	1,612,536
General and administrative	43,251	-	43,251
Fundraising	123,598	-	123,598
Total Expenses	<u>1,779,385</u>	<u>-</u>	<u>1,779,385</u>
CHANGES IN NET ASSETS	(118,303)	(12,015)	(130,318)
NET ASSETS - Beginning of year	<u>1,406,475</u>	<u>49,431</u>	<u>1,455,906</u>
NET ASSETS - End of year	<u><u>\$ 1,288,172</u></u>	<u><u>\$ 37,416</u></u>	<u><u>\$ 1,325,588</u></u>

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008

	Program Services			General and		Total
	Home Building Program	ReStore Program	Program Services Total	Administrative	Fundraising	
Salaries	\$ 291,859	\$ 73,751	\$ 365,610	\$ 24,160	\$ 61,437	\$ 451,207
Payroll taxes	25,697	6,493	32,190	2,127	5,409	39,726
Fringe benefits	13,197	3,335	16,532	1,092	2,778	20,402
Professional fees	18,911	5,000	23,911	2,008	1,673	27,592
Occupancy costs	34,733	133,836	168,569	5,344	4,453	178,366
Tithe	27,925	-	27,925	-	-	27,925
Insurance	22,159	12,718	34,877	3,409	2,841	41,127
Telephone	3,396	1,705	5,101	239	199	5,539
Office expense	26,100	27,577	53,677	2,205	2,348	58,230
Office equipment	643	400	1,043	99	82	1,224
Special event expense	-	-	-	-	40,022	40,022
Absorbed construction costs and equipment	30,862	-	30,862	-	-	30,862
Vehicle expense	-	7,263	7,263	-	-	7,263
Cost of homes sold	818,668	-	818,668	-	-	818,668
Loss on disposal of equipment	5,897	-	5,897	-	-	5,897
Home Repair Ministry	1,348	-	1,348	-	-	1,348
Miscellaneous	2,702	-	2,702	413	346	3,461
Depreciation	9,626	642	10,268	1,284	1,284	12,836
Education and travel	5,871	222	6,093	871	726	7,690
	\$ 1,339,594	\$ 272,942	\$ 1,612,536	\$ 43,251	\$ 123,598	\$ 1,779,385

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008

CASH FLOWS PROVIDED BY (USED FOR):

OPERATING ACTIVITIES:

Change in net assets	\$ (130,318)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	12,836
Loss on disposal of equipment	5,867
Amortization of discounts on mortgages, net	499,550
Sales of homes in return for mortgages	(849,000)
Gain on sale of mortgages	(67,548)
Cost of homes sold	818,668
Changes in certain assets and liabilities:	
Inventory of buildings	(555,992)
Payments on mortgages from homeowners	47,819
Proceeds from sale of mortgages	281,885
Accounts payable and accrued expenses	7,638
Deferred income	140
Other current assets	(29,835)
Net Cash Provided by Operating Activities	<u>41,710</u>

INVESTING ACTIVITIES:

Payments on notes receivable	1,402
Purchases of equipment	(17,525)
Net Cash Used for Investing Activities	<u>(16,123)</u>

FINANCING ACTIVITIES:

Proceeds from notes payable	7,500
Payments on notes payable	(4,933)
Net Cash Provided by Financing Activities	<u>2,567</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 28,154

CASH AND CASH EQUIVALENTS:

Beginning of year	<u>578,453</u>
End of year	<u>\$ 606,607</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Donated materials, supplies and services	<u>\$ 121,600</u>
Interest paid	<u>\$ 2,410</u>

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 - NATURE OF ORGANIZATION:

Morris Habitat for Humanity, Inc. (the "Organization"), established in 1985, is a New Jersey not-for-profit organization and an affiliate of Habitat for Humanity International, Inc. ("HHI"). The Organization is an ecumenical housing program working in partnership with low-income families and individuals to build or renovate houses, which are then sold on a no-interest, no-profit basis. The housing projects are developed mainly by volunteers and significant sources of revenue are received as contributions from individuals, congregations, corporations, sales of donated assets through the ReStore program, foundations and other organizations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The accompanying financial statements of Morris Habitat for Humanity, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents:

The Organization considers all cash balances and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Mortgages Receivable:

Mortgages from homeowners do not bear interest and generally have a maximum life of 30 years. Required monthly repayments are calculated on a level payment basis. The Organization discounts the mortgages received each accounting period using an interest rate stipulated by HHI. This practice facilitates the combining of all affiliated financial statements by HHI. Discounting has no effect on the cash flows of the Organization. Mortgage discounts are amortized to income on a straight-line basis over the life of the underlying mortgages.

The Organization reviews mortgages receivable for collectability based on previous experience and determinations by the Board of Directors. In management's opinion, the collateral is sufficient to enable the Organization to realize the mortgages receivable without any allowance.

Inventory of Buildings:

Acquisition and construction costs incurred in connection with the Organization's home building program are capitalized as inventory of buildings until construction is completed. At the time of sale, the total cost is reflected in program service expenses as cost of homes sold on a specific identification basis. Occasionally, when development is deemed not to be feasible, the Organization charges these costs to expense.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

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

Property and Equipment:

All equipment is stated at cost. Significant additions, renewals, and betterments greater than \$500 are capitalized while replacements, maintenance, and repairs which do not improve or extend the life of an asset are expensed. Depreciation is provided using the straight-line method over the estimated useful lives ranging from 5 to 7 years. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support.

Net Asset Classes:

In accordance with SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, 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 that are not subject to donor-imposed stipulations.

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 are recorded as temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities 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.

The Organization does not currently have any permanently restricted net assets.

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with restrictions that are met in the same reporting period as they are received are reported as unrestricted support.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

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

Contributions: (Continued)

Other unrestricted revenues are obtained from various fundraising projects, ReStore sales, investment earnings and in-kind donations from individuals, congregations, corporations and foundations. These revenues are not restricted in their use and are used to finance construction and offset program, general and administrative and fundraising expenses. Revenues from these sources are recognized at the time of receipt.

Donated Services and Materials:

Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. Donated materials are reported at their fair market value at the time of donation. In accordance with SFAS No. 157, *Fair Value Measurements*, fair value is 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. SFAS 157 defined three hierarchical levels that directly relate to the amount of subjectivity associated with the determination of fair value. The Organization used "Level 2" inputs, based on market value of similar services or materials, to estimate fair value of the donated services and materials.

Donated professional fees and building materials of \$121,600 have been recorded as contributions at estimated fair market value at December 31, 2008.

Numerous volunteers donate their time to the Organization's program services and fund raising activities during the year. These services are not reflected in the financial statements since these services do not require specialized skills. Volunteers worked approximately 31,000 hours for the year ended December 31, 2008.

Functional Expenses:

Expenses are charged to each program based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to a program based on related salaries.

Use of Estimates:

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

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

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

Income Tax Status:

The Organization qualifies as a tax-exempt Organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not liable for federal and state income taxes. At December 31, 2008, all required tax returns were filed.

FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, allows deferral of FIN 48 for certain nonpublic enterprises. The Organization has elected to defer the adoption of FIN 48. The Organization does not expect that the adoption of FIN 48 will have a material effect on its financial position, results of operations or cash flows. The determination of uncertain tax positions uses tax judgments which are based on the requirements for filing the returns.

NOTE 3 - INVENTORY OF BUILDINGS:

Inventory of buildings at December 31, 2008, includes completed homes, which have not been sold and those under construction.

NOTE 4 - PROPERTY AND EQUIPMENT:

At December 31, 2008, property and equipment consist of:

Equipment	\$ 25,859
Leasehold improvements	33,325
Vehicle	13,696
	<hr/>
	72,880
Less: Accumulated depreciation	18,254
Property and Equipment, Net	<hr/>
	\$ 54,626

Depreciation expense amounted to \$12,836 for the year ended December 31, 2008.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 5 - MORTGAGES RECEIVABLE:

Mortgages receivable consist of non-interest bearing mortgage notes which are secured properties sold through the home building program and mature in 9-30 years, through November 2038. Mortgages on houses sold during the year ended December 31, 2008 were discounted at the HHI stipulated interest rate of 8.38% as follows:

Face value of mortgages	\$1,176,591
Less: Unamortized discount	660,438
	<u>516,153</u>
Less: Current portion	11,231
	<u>\$ 504,922</u>

Maturities of mortgages receivable are as follows:

<u>Year</u>	
2009	\$ 11,231
2010	12,249
2011	13,213
2012	14,392
2013	15,478
Thereafter	449,590
	<u>\$ 516,153</u>

NOTE 6 - NOTES RECEIVABLE:

The Organization executed one non-interest, bearing note receivable with participants of the home building program. The note receivable is payable in monthly installments through October 2010. The note is shown net of an unamortized discount resulting from imputed interest at 8.5% and is secured by property.

NOTE 7 - LEASES:

The Organization entered into a lease agreement with an unrelated party in 2007 for the rental of its ReStore/office/construction space that expires January 31, 2012. Rent expense under this lease amounted to \$115,567 for the year ended December 31, 2008.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 7 - LEASES: (Continued)

At December 31, 2008, future minimum lease payments are as follows:

<u>Year</u>	
2009	\$ 122,094
2010	126,281
2011	130,469
2012	10,901
	<u>\$ 389,745</u>

The Organization entered into a lease agreement for office equipment expiring August 31, 2013. Rent expense under this lease amounted to approximately \$1,800 for the year ended December 31, 2008.

At December 31, 2008, future minimum lease payments are as follows:

<u>Year</u>	
2009	\$ 4,275
2010	4,275
2011	4,275
2012	4,275
2013	2,848
	<u>\$ 19,948</u>

NOTE 8 - TITHE:

HHI is a global partnership and in recognition of that commitment, the Organization covenants with HHI to contribute at least 10% of its unrestricted cash contributions to an international affiliate. The tithe for the year ended December 31, 2008 was \$27,925.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 9 - NOTES PAYABLE:

Notes payable at December 31, 2008 was comprised of the following:

Loan payable to HHI, in monthly payments of \$534, including interest at 1%, adjusted to 5% to reflect fair market value, due December 2017; collateralized by certain mortgages receivable.	\$ 46,014
Interest free note payable to HUD/SHOP, due in June 2012 payable in monthly installments of \$156.	<u>6,564</u>
Total Notes Payable	52,578
Less: Current Portion	<u>6,073</u>
Notes Payable, Net of Current Portion	<u>\$ 46,505</u>

At December 31, notes payable mature as follows:

<u>Year</u>	
2009	\$ 6,073
2010	6,288
2011	6,514
2012	5,828
2013	5,129
Thereafter	<u>22,746</u>
	<u>\$ 52,578</u>

NOTE 10 - LINES OF CREDIT:

The Organization has a total of \$450,000 available through lines of credit with two banks. The lines are unsecured and carry interest at prime (3.25% at December 31, 2008) and 6% and expire in July 2010 and September 2009, respectively. At December 31, 2008, there were no amounts outstanding on these lines.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 11 - GAIN ON SALE OF MORTGAGES:

During the year ended December 31, 2008, the Organization sold several mortgages to a local bank with face values of approximately \$214,000, including the unamortized discount, for approximately \$282,000, resulting in a net gain of approximately \$68,000. Such gain is included as gain on sale of mortgages on the statement of activities and changes in net assets.

NOTE 12 - CONCENTRATIONS OF CREDIT RISK:

Financial instruments that expose the Organization to concentrations of credit and market risk consist primarily of mortgages receivable due from homeowners and inventory of buildings. Although the Organization does not currently foresee a credit risk associated with the amounts due, repayment of the amounts is dependent upon the financial stability of the obligors and upon the overall local real estate market in Morris County, New Jersey.