

MORRIS HABITAT FOR HUMANITY, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2010 AND 2009

MORRIS HABITAT FOR HUMANITY, INC.

DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Morris Habitat for Humanity, Inc.
Mine Hill, NJ

We have audited the accompanying statements of financial position of Morris Habitat for Humanity, Inc. (the "Organization") as of December 31, 2010 and 2009 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits.

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 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 audits provide 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, 2010 and 2009, and the changes in its net assets and in its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Member of



North
America

An association of legally independent firms

Incorporating the firm of M. I. Grossman Company, L.L.C.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2011 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Organization's basic financial statements. The accompanying schedule of expenditures of federal awards on page 18 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Certified Public Accountants

April 4, 2011
Livingston, New Jersey

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31,	
	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents	\$ 483,621	\$ 398,418
Mortgages receivable, current portion	15,197	13,081
Accounts receivable	77,995	37,205
Inventory of buildings	1,317,359	560,711
Other current assets	12,680	42,466
Total Current Assets	<u>1,906,852</u>	<u>1,051,881</u>
PROPERTY AND EQUIPMENT, Net	<u>65,516</u>	<u>71,826</u>
OTHER ASSETS:		
Mortgages receivable, net of current portion	686,463	583,461
Security deposits	49,655	86,071
Total Other Assets	<u>736,118</u>	<u>669,532</u>
	<u>\$ 2,708,486</u>	<u>\$ 1,793,239</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Notes payable, current portion	\$ 7,378	\$ 7,152
Accounts payable and accrued expenses	102,579	88,785
Deferred revenue	10,896	12,474
Total Current Liabilities	<u>120,853</u>	<u>108,411</u>
LONG-TERM LIABILITIES:		
Notes payable, net of current portion	<u>34,611</u>	<u>41,989</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	2,535,402	1,585,152
Temporarily restricted	17,620	57,687
Total Net Assets	<u>2,553,022</u>	<u>1,642,839</u>
	<u>\$ 2,708,486</u>	<u>\$ 1,793,239</u>

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Contributions	\$ 288,221	\$ 904,255	\$ 1,192,476
Grants from government agencies	-	268,441	268,441
Restore sales	720,937	-	720,937
Sales of homes	117,448	-	117,448
Donated materials, and services	318,420	-	318,420
Mortgage interest income	49,825	-	49,825
Investment income	2,484	-	2,484
Special event revenue	104,187	-	104,187
Other income	32,902	-	32,902
	<u>1,634,424</u>	<u>1,172,696</u>	<u>2,807,120</u>
Net assets released from restrictions	1,212,763	(1,212,763)	-
	<u>2,847,187</u>	<u>(40,067)</u>	<u>2,807,120</u>
EXPENSES:			
Program services	1,604,669	-	1,604,669
General and administrative	54,712	-	54,712
Fundraising	237,557	-	237,557
Total Expenses	<u>1,896,938</u>	<u>-</u>	<u>1,896,938</u>
CHANGES IN NET ASSETS	950,250	(40,067)	910,183
NET ASSETS - Beginning of year	<u>1,585,152</u>	<u>57,687</u>	<u>1,642,839</u>
NET ASSETS - End of year	<u>\$ 2,535,402</u>	<u>\$ 17,620</u>	<u>\$ 2,553,022</u>

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2009

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Contributions	\$ 248,208	\$ 355,912	\$ 604,120
Restore sales	591,545	-	591,545
Sales of homes	94,128	-	94,128
Donated materials, and services	157,199	-	157,199
Mortgage interest income	43,948	-	43,948
Investment income	6,299	-	6,299
Special event revenue	74,809	-	74,809
Other income	1,034	-	1,034
	<u>1,217,170</u>	<u>355,912</u>	<u>1,573,082</u>
Net assets released from restrictions	335,641	(335,641)	-
	<u>1,552,811</u>	<u>20,271</u>	<u>1,573,082</u>
EXPENSES:			
Program services	1,095,799	-	1,095,799
General and administrative	48,393	-	48,393
Fundraising	111,639	-	111,639
Total Expenses	<u>1,255,831</u>	<u>-</u>	<u>1,255,831</u>
CHANGES IN NET ASSETS	296,980	20,271	317,251
NET ASSETS - Beginning of year	<u>1,288,172</u>	<u>37,416</u>	<u>1,325,588</u>
NET ASSETS - End of year	<u><u>\$ 1,585,152</u></u>	<u><u>\$ 57,687</u></u>	<u><u>\$ 1,642,839</u></u>

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010

	Program Services			General and Administrative	Fundraising	Total
	Home Building Program	ReStore Program	Program Services Total			
Salaries and wages	\$ 350,804	\$ 134,435	\$ 485,239	\$ 29,509	\$ 110,723	\$ 625,471
Payroll taxes	30,981	11,873	42,854	2,606	9,779	55,239
Fringe benefits	12,228	4,687	16,915	1,029	3,860	21,804
Professional fees	35,991	11,517	47,508	2,611	31,577	81,696
Occupancy costs	33,703	193,515	227,218	5,143	4,286	236,647
Tithe	28,822	-	28,822	-	-	28,822
Insurance	29,440	-	29,440	4,603	3,836	37,879
Telephone	4,652	1,893	6,545	324	270	7,139
Office expense	32,477	30,730	63,207	3,772	2,948	69,927
Office equipment	350	-	350	54	45	449
Advertising expense	3,032	52,542	55,574	466	389	56,429
Special event expense	60	763	823	-	48,945	49,768
Absorbed construction costs and equipment	11,132	-	11,132	-	-	11,132
Vehicle expense	3,194	15,966	19,160	-	-	19,160
Cost of homes sold	531,821	-	531,821	-	-	531,821
Home repair ministry	2,211	-	2,211	-	-	2,211
Miscellaneous	-	6	6	-	-	6
Depreciation	29,017	1,934	30,951	3,869	3,869	38,689
Education and travel	4,741	152	4,893	726	604	6,223
Loss on sale of donated building	-	-	-	-	16,426	16,426
	<u>\$ 1,144,656</u>	<u>\$ 460,013</u>	<u>\$ 1,604,669</u>	<u>\$ 54,712</u>	<u>\$ 237,557</u>	<u>\$ 1,896,938</u>

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009

	Program Services			General and Administrative	Fundraising	Total
	Home Building Program	ReStore Program	Program Services Total			
Salaries and wages	\$ 290,270	\$ 112,526	\$ 402,796	\$ 26,088	\$ 51,719	\$ 480,603
Payroll taxes	26,175	9,921	36,096	2,353	4,664	43,113
Fringe benefits	11,198	4,341	15,539	1,006	1,995	18,540
Professional fees	46,404	-	46,404	5,237	4,362	56,003
Occupancy costs	34,127	156,159	190,286	5,250	4,375	199,911
Tithe	24,821	-	24,821	-	-	24,821
Insurance	25,131	2,905	28,036	3,866	3,222	35,124
Telephone	3,577	2,328	5,905	256	213	6,374
Office expense	27,796	25,125	52,921	2,235	2,068	57,224
Office equipment	171	84	255	26	22	303
Advertising expense	1,840	33,174	35,014	282	236	35,532
Special event expense	-	-	-	-	37,027	37,027
Absorbed construction costs and equipment	19,633	-	19,633	-	-	19,633
Vehicle expense	5,436	8,153	13,589	-	-	13,589
Cost of homes sold	208,961	-	208,961	-	-	208,961
Home repair ministry	1,027	-	1,027	-	-	1,027
Miscellaneous	21	7	28	-	-	28
Depreciation	10,829	722	11,551	1,444	1,444	14,439
Education and travel	2,594	343	2,937	350	292	3,579
	\$ 740,011	\$ 355,788	\$ 1,095,799	\$ 48,393	\$ 111,639	\$ 1,255,831

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS

CASH FLOWS PROVIDED BY (USED FOR):	Year Ended December 31,	
	2010	2009
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 910,183	\$ 317,251
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation	38,689	14,439
Loss on sale of donated building	16,426	-
Amortization of discounts on mortgages, net	137,388	102,105
Sales of homes in return for mortgages	(304,661)	(240,000)
Cost of homes sold	531,821	208,961
Donated building	-	25,000
Changes in certain assets and liabilities:		
Inventory of buildings	(1,288,469)	(523,764)
Payments on mortgages from homeowners	62,154	57,505
Accounts receivable	(40,790)	(37,205)
Other current assets	(10,264)	(28,417)
Security deposits	36,416	(80,162)
Accounts payable and accrued expenses	13,795	11,928
Deferred revenue	(1,578)	(1,266)
Net Cash Provided by (Used for) Operating Activities	<u>101,110</u>	<u>(173,625)</u>
<u>INVESTING ACTIVITIES:</u>		
Payments on notes receivable	-	512
Proceeds from sale of donated building	23,625	
Purchases of equipment	(32,380)	(31,639)
Net Cash Used for Investing Activities	<u>(8,755)</u>	<u>(31,127)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds from notes payable	-	3,500
Payments on notes payable	(7,152)	(6,937)
Net Cash Used for Financing Activities	<u>(7,152)</u>	<u>(3,437)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	85,203	(208,189)
CASH AND CASH EQUIVALENTS:		
Beginning of year	398,418	606,607
End of year	<u>\$ 483,621</u>	<u>\$ 398,418</u>
SUPPLEMENTAL CASH FLOWS DISCLOSURE:		
Donated materials, supplies and services	\$ 318,420	\$ 157,199
Interest paid	\$ 1,990	\$ 2,200

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

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America under the *FASB Accounting Standards Codification*.

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

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets are those currently available for use by the Organization's Board of Directors.

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 statement 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.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

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.

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 with 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.

The Organization values donated buildings, services and materials using quoted prices in inactive markets (Level 2).

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.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

Mortgages Receivable: (Continued)

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.

Accounts Receivable:

The Organization charges uncollectible accounts receivable to operations when they are determined to be uncollectible. Accounts receivable have been reviewed by management and it has been determined that an allowance for doubtful accounts as of December 31, 2010 and 2009 is not necessary.

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.

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.

Notes Payable:

The Organization does not discount below market notes from governmental agencies.

Deferred Revenue:

Special events fees received in advance are reported as deferred revenue and are recognized in the period in which the special event is held.

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, 2010 AND 2009

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 Buildings, Materials and Services:

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, buildings, materials and services are reported at their fair value at the time of donation. The Organization used "Level 2" inputs, based on market value of similar buildings, services or materials, to estimate fair value.

Donated professional fees and building materials of \$318,420 and \$157,199 have been recorded as contributions at estimated fair value at December 31, 2010 and 2009, respectively.

Included in other current assets is a donated building with an estimated fair value of \$25,000 at December 31, 2009. During the year ended December 31, 2010, the Organization sold this building at a loss of approximately \$16,000.

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 45,000 and 22,000 hours for the years ended December 31, 2010 and 2009, respectively.

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. The Organization's management allocated general and administrative expenses based upon management's best estimates.

Use of Estimates:

In preparing 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. These estimates and assumptions are based on management's best estimates and judgment. Actual results could differ from those estimates.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

Income Tax Status:

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization follows accounting 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 financial statements 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. Informational returns for certain years are subject to audit by federal and state jurisdictions. At December 31, 2010 and 2009, there are no significant income tax uncertainties that are expected to have a material impact on the Organization's 2010 financial statements.

Reclassifications:

Certain amounts have been reclassified in the 2009 financial statements to conform to the 2010 presentation.

Subsequent Events:

The Organization has evaluated events subsequent to the statement of financial position date as of December 31, 2010 through April 4, 2011, the date that the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 3 - MORTGAGES RECEIVABLE:

Mortgages receivable consist of non-interest bearing mortgage notes which are secured by properties sold through the home building program and mature in 6-30 years, through November 2040. Mortgages on houses sold during the years ended December 31, 2010 and 2009 were discounted at the HHI stipulated interest rate of 7.85% and 7.77%, respectively.

	December 31,	
	2010	2009
Face value of mortgages	\$1,601,594	\$1,359,088
Less: Unamortized discount	899,934	762,546
	<u>701,660</u>	<u>596,542</u>
Less: Current portion	15,197	13,081
	<u>\$ 686,463</u>	<u>\$ 583,461</u>

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 3 - MORTGAGES RECEIVABLE: (Continued):

Maturities of mortgages receivable are as follows:

<u>Year</u>	
2011	\$ 15,197
2012	16,490
2013	17,795
2014	19,254
2015	20,858
Thereafter	612,066
	<u>\$ 701,660</u>

NOTE 4 - INVENTORY OF BUILDINGS:

Inventory of buildings at December 31, 2010 and 2009 includes completed homes which have not been sold and those under construction.

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31,	
	<u>2010</u>	<u>2009</u>
Equipment	\$ 56,241	\$ 30,149
Leasehold improvements	60,225	57,425
Vehicle	16,946	16,946
	<u>133,412</u>	<u>104,520</u>
Less: Accumulated depreciation	67,896	32,694
Property and Equipment, Net	<u>\$ 65,516</u>	<u>\$ 71,826</u>

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 6 - LEASES:

The Organization has a lease agreement with an unrelated party for the rental of its ReStore and office space that expires January 31, 2012. Rent expense under this lease amounted to \$165,281 and \$138,344 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010, future minimum lease payments are as follows:

<u>Year</u>	
2011	\$ 169,469
2012	14,151
	<u>\$ 183,620</u>

The Organization also has a lease agreement for office equipment expiring August 31, 2013. Rent expense under this lease amounted to approximately \$4,275 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010, future minimum lease payments are as follows:

<u>Year</u>	
2011	\$ 4,275
2012	4,275
2013	2,848
	<u>\$ 11,398</u>

NOTE 7 - 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 years ended December 31, 2010 and 2009 was \$28,822 and \$24,821, respectively.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 8 - NOTES PAYABLE:

Notes payable consist of the following:

	December 31,	
	2010	2009
Loan payable to HHI, in monthly payments of \$534, including interest at 1%, adjusted to 5% to reflect fair value, due December 2017; collateralized by certain mortgages receivable.	\$ 37,397	\$ 41,813
Interest free note payable to HUD/SHOP, due in June 2012 payable in monthly installments of \$156.	2,820	4,692
Interest free note payable to HUD/SHOP, due in December 2012 payable in monthly installments of \$72.	1,772	2,636
Total Notes Payable	41,989	49,141
Less: Current Portion	7,378	7,152
Notes Payable, Net of Current Portion	<u>\$ 34,611</u>	<u>\$ 41,989</u>

At December 31, 2010 notes payable mature as follows:

<u>Year</u>	
2011	\$ 7,378
2012	6,736
2013	5,129
2014	5,392
2015	5,667
Thereafter	11,687
	<u>\$ 41,989</u>

NOTE 9 - LINE OF CREDIT:

The Organization has unsecured revolving lines of credit with two banks to fund temporary deficits in its working capital. The total amount available under these lines of credit is \$350,000. The revolving lines of credit mature on May 14, 2011 and August 1, 2012, respectively, unless extended. Interest on the lines is payable based on the prime rate (3.25% at December 31, 2010). At December 31, 2010 and 2009, the Organization has no borrowings on the lines.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 10 - RELATED PARTY TRANSACTIONS:

A partner of a law firm that represents the Organization as legal counsel on real estate transactions is a member of the Organization's board of directors. During 2010 and 2009, there were no legal fees paid to this firm.

NOTE 11 - 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.

NOTE 12 - COMMITMENTS AND CONTINGENCIES:

The Organization is involved with certain claims and other routine litigation matters in the normal course of operations. In the opinion of management, after consultation with legal counsel, the outcome of such matters is not expected to have a material adverse effect on the Organization's financial position or results of operations.

NOTE 13 - TAX RETURNS:

At December 31, 2010 and 2009, all required tax returns have been filed.

MORRIS HABITAT FOR HUMANITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

Federal 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 Community Development Agencies:					
Home Investment Partnership Program:	14.239	7/1/08 - 6/30/13	M-08-CD-34-0226	\$ 90,000	\$ 90,000
		1/1/10 - 12/31/15	M-09-CD-34-0226	200,000	178,441
Total Federal Awards				<u>\$ 290,000</u>	<u>\$ 268,441</u>

MORRIS HABITAT FOR HUMANITY, INC.
NOTE TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**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 Directors
Morris Habitat for Humanity
Mine Hill, New Jersey

We have audited the financial statements of Morris Habitat for Humanity, Inc. (the "Organization") as of and for the year ended December 31, 2010, and have issued our report thereon dated April 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or 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.

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

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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the board of directors, management, and the relevant governmental agencies, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

April 4, 2011
Livingston, New Jersey

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued (unqualified, qualified, adverse, or disclaimer)

Internal control over financial reporting:

- Material weakness(es) identified: Yes No

- Significant deficiency(ies) identified
that are not considered to be
material weaknesses Yes No

- Noncompliance material to
financial statements noted Yes No

Auditee did not qualify as a low-risk auditee because this is an initial audit under *Government Auditing Standards*.

II. FINANCIAL STATEMENTS AND COMPLIANCE FINDINGS:

NONE

III. STATUS OF PRIOR YEAR AUDIT FINDINGS:

NONE