

MORRIS HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 AND 2010

MORRIS HABITAT FOR HUMANITY, INC.

DECEMBER 31, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Morris Habitat for Humanity, Inc. (the "Organization") as of December 31, 2011 and 2010 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2012 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 as a whole. The accompanying schedule of expenditures of federal awards is included on page 14 is presented for purposes of additional analysis as required by 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 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.


Certified Public Accountants

Livingston, New Jersey
April 25, 2012

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31,	
	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	\$ 963,385	\$ 483,621
Mortgages receivable, current portion	12,547	15,197
Accounts receivable	225,083	77,995
Inventory of buildings	1,864,060	1,317,359
Other current assets	26,295	12,680
Total Current Assets	3,091,370	1,906,852
PROPERTY AND EQUIPMENT, Net	47,475	65,516
OTHER ASSETS:		
Mortgages receivable, net of current portion	324,237	686,463
Security deposits	71,290	49,655
Total Other Assets	395,527	736,118
	\$ 3,534,372	\$ 2,708,486
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Notes payable, current portion	\$ 6,735	\$ 7,378
Accounts payable and accrued expenses	139,433	102,579
Deferred revenue	42,645	10,896
Total Current Liabilities	188,813	120,853
LONG-TERM LIABILITIES:		
Notes payable, net of current portion	27,876	34,611
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	3,088,180	2,535,402
Temporarily restricted	229,503	17,620
Total Net Assets	3,317,683	2,553,022
	\$ 3,534,372	\$ 2,708,486

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Contributions	\$ 289,207	\$ 881,915	\$ 1,171,122
Grants from government agencies	-	171,559	171,559
Restore sales	852,142	-	852,142
Sales of homes	107,170	-	107,170
Donated materials, and services	127,936	-	127,936
Mortgage interest income	41,189	-	41,189
Investment income	2,702	-	2,702
Special event revenue	174,899	-	174,899
Gain on sale of mortgages	237,310	-	237,310
Other income	3,562	-	3,562
	<u>1,836,117</u>	<u>1,053,474</u>	<u>2,889,591</u>
Net assets released from restrictions	841,591	(841,591)	-
	<u>2,677,708</u>	<u>211,883</u>	<u>2,889,591</u>
EXPENSES:			
Program services	1,843,359	-	1,843,359
General and administrative	57,388	-	57,388
Fundraising	224,183	-	224,183
Total Expenses	<u>2,124,930</u>	<u>-</u>	<u>2,124,930</u>
CHANGES IN NET ASSETS	552,778	211,883	764,661
NET ASSETS - Beginning of year	<u>2,535,402</u>	<u>17,620</u>	<u>2,553,022</u>
NET ASSETS - End of year	<u>\$ 3,088,180</u>	<u>\$ 229,503</u>	<u>\$ 3,317,683</u>

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

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 FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011

	Program Services			General and Administrative	Fundraising	Total
	Home Building Program	ReStore Program	Program Services Total			
Salaries and wages	\$ 367,364	\$ 184,812	\$ 552,176	\$ 25,000	\$ 97,035	\$ 674,211
Payroll taxes	36,973	18,601	55,574	2,516	9,766	67,856
Fringe benefits	11,512	5,791	17,303	783	3,041	21,127
Professional fees	74,365	41,769	116,134	9,915	35,853	161,902
Occupancy costs	35,261	208,186	243,447	5,425	4,521	253,393
Tithe	65,869	-	65,869	-	-	65,869
Insurance	22,398	13,861	36,259	3,446	2,872	42,577
Telephone	4,415	1,947	6,362	313	261	6,936
Office expense	33,098	43,426	76,524	4,786	4,706	86,016
Office equipment	21	-	21	3	3	27
Advertising expense	4,865	38,892	43,757	748	624	45,129
Special event expense	-	763	763	-	61,205	61,968
Absorbed construction costs and equipment	22,911	-	22,911	-	-	22,911
Vehicle expense	2,085	25,037	27,122	-	-	27,122
Cost of homes sold	535,686	-	535,686	-	-	535,686
Home repair ministry	817	-	817	-	-	817
Miscellaneous	65	8,318	8,383	10	9	8,402
Depreciation	26,313	1,754	28,067	3,508	3,508	35,083
Education and travel	6,075	109	6,184	935	779	7,898
	<u>\$ 1,250,093</u>	<u>\$ 593,266</u>	<u>\$ 1,843,359</u>	<u>\$ 57,388</u>	<u>\$ 224,183</u>	<u>\$ 2,124,930</u>

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

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>

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

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2011	2010
CASH FLOWS PROVIDED BY (USED FOR) :		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 764,661	\$ 910,183
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	35,083	38,689
Donated equipment	(3,000)	-
Loss on sale of donated building	-	16,426
Amortization of discounts on mortgages, net	(554,985)	137,388
Transfers of homes in return for mortgages	(278,000)	(304,661)
Cost of homes sold	535,686	531,821
Changes in certain assets and liabilities:		
Inventory of buildings	(1,082,387)	(1,288,469)
Accounts receivable	(147,088)	(40,790)
Proceeds from mortgages sold to the bank	1,138,915	-
Other current assets	(13,615)	(10,264)
Security deposits	(21,635)	36,416
Accounts payable and accrued expenses	36,854	13,795
Deferred revenue	31,749	(1,578)
Net Cash Provided by Operating Activities	<u>442,238</u>	<u>38,956</u>
<u>INVESTING ACTIVITIES:</u>		
Proceeds from sale of donated building	-	23,625
Mortgage payments received	58,945	62,154
Purchases of equipment	(14,041)	(32,380)
Net Cash Provided by Investing Activities	<u>44,904</u>	<u>53,399</u>
<u>FINANCING ACTIVITIES:</u>		
Payments on notes payable	<u>(7,378)</u>	<u>(7,152)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	479,764	85,203
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>483,621</u>	<u>398,418</u>
End of year	<u>\$ 963,385</u>	<u>\$ 483,621</u>
<u>SUPPLEMENTAL CASH FLOWS DISCLOSURE:</u>		
Donated materials, supplies and services	<u>\$ 127,936</u>	<u>\$ 318,420</u>
Interest paid	<u>\$ 1,764</u>	<u>\$ 1,990</u>

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

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 households 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, 2011 AND 2010

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.

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.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Accounts Receivable:

The Organization charges uncollectible accounts receivable to operations when they are determined to be uncollectible based on historical trends. Accounts receivable have been reviewed by management and it has been determined that an allowance for doubtful accounts as of December 31, 2011 and 2010 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, 2011 AND 2010

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 \$127,936 and \$318,420 have been recorded as contributions at estimated fair value at December 31, 2011 and 2010, respectively.

Included in property and equipment is a donated vehicle with an estimated fair value of \$3,000 at December 31, 2011, that the Organization intends to keep for its own use.

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 71,000 and 45,000 hours for the years ended December 31, 2011 and 2010, 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, 2011 AND 2010

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 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 years ended 2011 and 2010. The tax years subject to audit by federal and state jurisdictions are the years ended December 31, 2008 and forward. At December 31, 2011 and 2010, there are no significant income tax uncertainties.

Reclassifications:

Certain amounts have been reclassified in the 2010 financial statements to conform to the 2011 presentation.

Subsequent Events:

The Organization has evaluated events subsequent to the statement of financial position date as of December 31, 2011 through April 25, 2012, 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, 2011 and 2010 were discounted at the HHI stipulated interest rate of 7.81% and 7.85%, respectively.

	December 31,	
	2011	2010
Face value of mortgages	\$ 681,735	\$1,601,594
Less: Unamortized discount	344,951	899,934
	<u>336,784</u>	<u>701,660</u>
Less: Current portion	12,547	15,197
	<u>\$ 324,237</u>	<u>\$ 686,463</u>

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 3 - MORTGAGES RECEIVABLE: (Continued)

Maturities of mortgages receivable are as follows:

<u>Year</u>	
2012	\$ 12,547
2013	13,582
2014	14,685
2015	15,880
2016	17,174
Thereafter	<u>262,916</u>
	<u>\$ 336,784</u>

NOTE 4 - INVENTORY OF BUILDINGS:

Inventory of buildings at December 31, 2011 and 2010 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,	
	2011	2010
Equipment	\$ 70,282	\$ 56,241
Leasehold improvements	60,225	60,225
Vehicle	19,946	16,946
	<u>150,453</u>	<u>133,412</u>
Less: Accumulated depreciation	102,979	67,896
Property and Equipment, Net	<u>\$ 47,474</u>	<u>\$ 65,516</u>

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 6 - LEASES:

The Organization has a lease agreement with an unrelated party for the rental of its ReStore and office space that expires March 31, 2012. Rent expense under this lease amounted to \$169,469 and \$165,281 for the years ended December 31, 2011 and 2010, respectively.

The Organization entered into lease agreement for a new location. The commencement date for the new agreement is expected to be May 1, 2012.

The Organization also has a lease agreement for office equipment expiring August 31, 2013. During 2011, the Organization bought out the office equipment. Rent expense under this lease amounted to \$5,077 and \$4,275 for the years ended December 31, 2011 and 2010, respectively.

The Organization signed a new equipment lease agreement for five years, expiring December 31, 2016.

At December 31, 2011, future minimum lease payments are as follows:

<u>Year</u>	
2012	\$ 179,375
2013	271,067
2014	232,185
2015	259,624
2016	287,170
Thereafter	<u>1,690,892</u>
	<u>\$ 2,920,313</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, 2011 and 2010 was \$65,869 and \$28,822, respectively.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 8 - NOTES PAYABLE:

Notes payable consist of the following:

	December 31,	
	2011	2010
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.	\$ 32,755	\$ 37,397
Interest free note payable to HUD/SHOP, due in June 2012 payable in monthly installments of \$156.	948	2,820
Interest free note payable to HUD/SHOP, due in December 2012 payable in monthly installments of \$72 and final payment of \$116.	908	1,772
Total Notes Payable	34,611	41,989
Less: Current Portion	6,735	7,378
Notes Payable, Net of Current Portion	<u>\$ 27,876</u>	<u>\$ 34,611</u>

At December 31, 2011 notes payable mature as follows:

<u>Year</u>	
2012	\$ 6,735
2013	5,130
2014	5,392
2015	5,668
2016	5,958
Thereafter	5,728
	<u>\$ 34,611</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 31, 2012 and August 1, 2012, respectively, unless extended. Interest on the lines is payable based on the prime rate (3.25% at December 31, 2011). At December 31, 2011 and 2010, the Organization has no borrowings on the lines.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 9 - LINE OF CREDIT: (Continued)

The Organization entered into agreement for \$500,000 Construction Guidance line of credit, which will be secured by the specific real estate under development. Interest on the line is based on the prime rate, subject to a floor of 4.5%. Advances will be limited to 65% of cost of real estate acquired and 90% against construction invoices submitted. Aggregate advances not to exceed 80% of fair market value. At December 31, 2011, the Organization has no borrowings on this line of credit.

NOTE 10 - GAIN ON SALE OF MORTGAGES:

During 2011, the Organization sold several mortgages to a local bank with the face values of \$454,290, net of unamortized discount, for \$691,600, resulting in a net gain of \$237,310. Such gain is included as gain on sale of mortgages on the statement of activities and changes in net assets for the year ended December 31, 2011.

NOTE 11 - 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 2011 and 2010, there were no legal fees paid to this firm.

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 residential 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.

NOTE 13 - 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 14 - TAX RETURNS:

At December 31, 2011, all required tax returns have been filed.

MORRIS HABITAT FOR HUMANITY, INC.
NOTE TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011

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, 2011, and have issued our report thereon dated April 25, 2012. 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

Management of the Organization is responsible for establishing and maintaining effective 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 the Organization's internal control over financial reporting.


A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the Organization, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Livingston, New Jersey
April 25, 2012

