MORRIS HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

MORRIS HABITAT FOR HUMANITY, INC.

DECEMBER 31, 2012 AND 2011

CONTENTS

Sobel & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Morris Habitat for Humanity Inc., (the "Organization"), a New Jersey nonprofit corporation, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 from 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 on page 19 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 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 schedule of expenditures of federal awards 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 May 6, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over reporting and compliance.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
May 6, 2013

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31, 2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 611,956	$ 963,385
Mortgages receivable, current portion	17,753	12,547
Accounts receivable	366,874	225,083
Inventory of buildings	1,282,235	1,864,060
Other current assets	24,445	26,296
Total Current Assets	2,303,263	3,091,371
PROPERTY AND EQUIPMENT, Net	190,375	47,474
OTHER ASSETS:		
Mortgages receivable, net of current portion	748,389	324,237
Security deposits	30,902	71,290
Total Other Assets	779,291	395,527
	$ 3,272,929	$ 3,534,372

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES:		
Line of credit	$ 100,000	$ -
Notes payable, current portion	6,425	6,735
Accounts payable and accrued expenses	127,368	139,433
Deferred rent	53,907	-
Deferred revenue	78,763	42,645
Total Current Liabilities	366,463	188,813
LONG-TERM LIABILITIES:		
Notes payable, net of current portion	35,600	27,876
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	2,577,885	3,088,180
Temporarily restricted	292,981	229,503
Total Net Assets	2,870,866	3,317,683
	$ 3,272,929	$ 3,534,372

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Contributions	$ 316,150	$ 1,034,026	$ 1,350,176
Grants from government agencies	-	116,063	116,063
Restore sales	965,668	-	965,668
Sales of homes	443,963	-	443,963
Donated materials, and services	187,406	-	187,406
Mortgage interest income	36,737	-	36,737
Investment income	1,741	-	1,741
Special event revenue	183,595	-	183,595
Other income	5,705	-	5,705
	2,140,965	1,150,089	3,291,054
Net assets released from restrictions	1,086,611	(1,086,611)	-
Total Support and Revenues	3,227,576	63,478	3,291,054
EXPENSES:			
Program services	3,415,986	-	3,415,986
General and administrative	78,213	-	78,213
Fundraising	243,672	-	243,672
Total Expenses	3,737,871	-	3,737,871
CHANGES IN NET ASSETS	(510,295)	63,478	(446,817)
NET ASSETS - Beginning of year	3,088,180	229,503	3,317,683
NET ASSETS - End of year	$ 2,577,885	$ 292,981	$ 2,870,866

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
	1,836,117	1,053,474	2,889,591
Net assets released from restrictions	841,591	(841,591)	-
Total Support and Revenues	2,677,708	211,883	2,889,591
EXPENSES:			
Program services	1,843,359	-	1,843,359
General and administrative	57,388	-	57,388
Fundraising	224,183	-	224,183
Total Expenses	2,124,930	-	2,124,930
CHANGES IN NET ASSETS	552,778	211,883	764,661
NET ASSETS - Beginning of year	2,535,402	17,620	2,553,022
NET ASSETS - End of year	$ 3,088,180	$ 229,503	$ 3,317,683

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

	Program Services					
	Home Building Program	ReStore Program	Program Services Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 412,082	$ 227,631	$ 639,713	$ 26,888	$ 125,872	$ 792,473
Payroll taxes	44,813	21,599	66,412	6,894	5,745	79,051
Fringe benefits	13,192	12,592	25,784	2,030	1,691	29,505
Professional fees	41,231	19,823	61,054	5,364	7,145	73,563
Occupancy costs	50,742	302,558	353,300	12,783	8,855	374,938
Tithe	62,600	-	62,600	-	-	62,600
Insurance	46,914	21,895	68,809	7,217	6,015	82,041
Telephone	4,503	2,914	7,417	402	335	8,154
Office expense	70,586	67,717	138,303	11,306	13,215	162,824
Office equipment	684	-	684	105	88	877
Advertising expense	9,798	57,717	67,515	1,507	1,256	70,278
Special event expense	-	2,422	2,422	-	69,837	72,259
Absorbed construction costs and equipment	23,341	-	23,341	-	-	23,341
Vehicle expense	3,007	28,620	31,627	-	-	31,627
Cost of homes sold	1,825,807	-	1,825,807	-	-	1,825,807
Home repair ministry	9,796	-	9,796	-	-	9,796
Miscellaneous	157	3	160	21	17	198
Depreciation	23,414	1,561	24,975	3,122	3,122	31,219
Education and travel	3,762	2,505	6,267	574	479	7,320
	$ 2,646,429	$ 769,557	$ 3,415,986	$ 78,213	$ 243,672	$ 3,737,871

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011

	Program Services					
	Home Building Program	**ReStore Program**	**Program Services Total**	**General and Administrative**	**Fundraising**	**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
	$ 1,250,093	$ 593,266	$ 1,843,359	$ 57,388	$ 224,183	$ 2,124,930

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2012	2011
CASH FLOWS (USED FOR) PROVIDED BY :		
OPERATING ACTIVITIES:		
Changes in net assets	$ (446,817)	$ 764,661
Adjustments to reconcile changes in net assets to net cash (used for) provided by operating activities:		
Depreciation	31,219	35,083
Donated equipment	(13,700)	(3,000)
Unamortized mortgage discount	640,280	(554,985)
Transfers of homes in return for mortgages	(1,120,982)	(278,000)
Cost of homes sold	1,825,807	535,686
Changes in certain assets and liabilities:		
Inventory of buildings	(1,243,982)	(1,082,387)
Accounts receivable	(141,791)	(147,088)
Proceeds from mortgages sold to the bank	-	1,138,915
Other current assets	1,851	(13,615)
Security deposits	40,388	(21,635)
Accounts payable and accrued expenses	(12,065)	36,854
Deferred rent	53,907	-
Deferred revenue	36,118	31,749
Net Cash (Used for) Provided by Operating Activities	(349,767)	442,238
INVESTING ACTIVITIES:		
Mortgage payments received	51,343	58,945
Purchases of equipment and leasehold improvements	(160,419)	(14,041)
Net Cash (Used for) Provided by Investing Activities	(109,076)	44,904
FINANCING ACTIVITIES:		
Proceeds from line of credit	100,000	-
Proceeds from notes payable	14,150	-
Payments on notes payable	(6,736)	(7,378)
Net Cash Provided by (Used for) Investing Activities	107,414	(7,378)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(351,429)	479,764
CASH AND CASH EQUIVALENTS:		
Beginning of year	963,385	483,621
End of year	$ 611,956	$ 963,385
SUPPLEMENTAL CASH FLOWS DISCLOSURE:		
Donated materials, supplies and services	$ 187,406	$ 127,936
Interest paid	$ 1,527	$ 1,764

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

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 a Christian ecumenical housing program working in partnership with low-income and moderate-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.

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.

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, 2012 and 2011 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 Rent:
The Organization recognizes rent on a straight-line basis. All rent concessions and rent increases are taken into account and recognized ratably over the years. The difference between the actual rent paid and the expense charged is an increase or decrease to deferred rent.

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.

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 $187,406 and $127,936 have been recorded as contributions at estimated fair value at December 31, 2012 and 2011, respectively.

Included in property and equipment are donated assets of $13,700 and $3,000 at December 31, 2012 and 2011, respectively. The Organization intends to keep these donated assets 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 65,000 and 71,000 hours for the years ended December 31, 2012 and 2011, 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.

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 2012 and 2011. The tax years subject to audit by federal and state jurisdictions are the years ended December 31, 2009 and forward. At December 31, 2012 and 2011, there are no significant income tax uncertainties.

Reclassifications:
Certain amounts have been reclassified in the 2011 financial statements to conform to the 2012 presentation.

Subsequent Events:
The Organization has evaluated events subsequent to the statement of financial position date as of December 31, 2012 through May 6, 2013, the date that the financial statements were available to be issued. The Organization is not aware of any additional subsequent events (other than an increased line of credit see Note 10) 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 December 2042. Mortgages on houses sold during the years ended December 31, 2012 and 2011 were discounted at the HHI stipulated interest rate of 7.50% and 7.81%, respectively.

	December 31, 2012	December 31, 2011
Face value of mortgages	$ 1,751,373	$ 681,735
Less: Unamortized discount	985,231	344,951
	766,142	336,784
Less: Current portion	17,753	12,547
	$ 748,389	$ 324,237

NOTE 3 - MORTGAGES RECEIVABLE: (Continued)

Maturities of mortgages receivable are as follows:

Year	
2013	$ 17,753
2014	18,866
2015	20,726
2016	22,398
2017	24,192
Thereafter	662,207
	$ 766,142

NOTE 4 - COSTS OF HOMES SOLD:

Property acquisition and construction costs incurred in connection with the Organization's home building program are capitalized as inventory of buildings until construction is completed and the property is sold. In the year the property is sold, the total cost is reflected in program service expenses as cost of homes sold. While construction activity is relatively constant over the course of each year, the number of properties completed can vary significantly year to year and this can produce variations in the Organization's annual change in net assets.

NOTE 5 - INVENTORY OF BUILDINGS:

Inventory of buildings at December 31, 2012 and 2011 includes completed homes which have not been sold and those under construction.

NOTE 6 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31,	
	2012	**2011**
Equipment	$ 113,763	$ 71,678
Leasehold improvements	132,034	60,225
Vehicle	18,550	18,550
	264,347	150,453
Less: Accumulated depreciation	73,972	102,979
Property and Equipment, Net	$ 190,375	$ 47,474

NOTE 6 - PROPERTY AND EQUIPMENT: (Continued)

The Organization disposed of $60,226 in leasehold improvements, which were fully depreciated at the time of disposal, during 2012 based on the relocation of their offices. This transaction had no effect on cash flows.

NOTE 7 - LEASES:

The Organization has a lease agreement with an unrelated party for the rental of its ReStore and office space that expired March 31, 2012. Rent expense under this lease amounted to $63,682 and $169,469 for the years ended December 31, 2012 and 2011, respectively.

The Organization entered into lease agreement for a new location. The commencement date for the new agreement began May 1, 2012. Rent expense amounted to $205,355 for the year ended December 31, 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 $5,077 for the year ended December 31, 2011.

The Organization signed a new equipment lease agreement for five years, expiring December 31, 2016. Rent expense under this lease amounted to $7,827 for the year ended December 31, 2012.

At December 31, 2012, future minimum lease payments are as follows:

Year	
2013	$ 271,499
2014	232,627
2015	260,074
2016	287,629
2017	285,242
Thereafter	1,381,358
	$ 2,718,429

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, including ReStore and events profits, to an international affiliate. The tithe for the years ended December 31, 2012 and 2011 was $62,600 and $65,869, respectively.

NOTE 9 - NOTES PAYABLE:

Notes payable consist of the following:

	December 31, 2012	December 31, 2011
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.	$ 27,875	$ 32,755
Interest free note payable to HUD/SHOP, due in June 2012 payable in monthly installments of $156 and a final payment of $168.	-	948
Interest free note payable to HUD/SHOP, due in December 2012 payable in monthly installments of $72 and final payment of $116.	-	908
Interest free note payable to HUD/SHOP, due in June 2019 payable in monthly installments of $78 and final payment of $84.	3,750	-
Interest free note payable to HUD/SHOP, due in June 2017 payable in monthly installments of $216 and final payment of $248.	10,400	-
Total Notes Payable	42,025	34,611
Less: Current Portion	6,425	6,735
Notes Payable, Net of Current Portion	$ 35,600	$ 27,876

At December 31, 2012 notes payable mature as follows:

Year	
2013	$ 6,425
2014	7,984
2015	9,196
2016	9,486
2017	7,992
Thereafter	942
	$ 42,025

NOTE 10 - LINE OF CREDIT:

The Organization had revolving lines of credit with two banks secured by a lien on the Organization's assets (excluding real property assets) to fund temporary deficits in its working capital during 2011 and through August 2012. The total amount available under these lines of credit was $350,000. The revolving lines of credit matured on May 31, 2012 and August 1, 2012, respectively. Interest on the lines was payable based on the prime rate (3.25% at December 31, 2012).

As of August 1, 2012, the Organization renewed the line of credit with one bank. The total available under this line of credit was $100,000 through December 31, 2012. This amount was subsequently increased to $350,000 as of January 30, 2013. The revolving line of credit matures on August 1, 2014. Interest on the line is payable based on the prime rate.

At December 31, 2012 and 2011, the Organization had outstanding borrowings on the lines of credit of $100,000 and -0-, respectively.

The Organization entered into agreement for a $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, 2012 and 2011, the Organization has no borrowings on this line of credit.

NOTE 11 - GAIN ON SALE OF MORTGAGES:

During 2011, the Organization sold several mortgages to a local bank with aggregate book 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. No mortgages were sold during 2012.

Mortgages sold to others are subject to the requirement that upon default of a loan, the Organization may have to substitute a performing loan for such defaulted loan. No provision has been recorded in these financial statements related to potential defaults on sold mortgages.

NOTE 12 - 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 2012 and 2011, there were no legal fees paid to this firm.

NOTE 12 - RELATED PARTY TRANSACTIONS: (Continued)

A member of senior management of a local bank in which the Organization has a regular banking relationship (sale of mortgages, letters of credit and deposits) is a member of the Organization's board of directors.

Another member of the Organization's board of directors is the executive director of a local housing authority with which the Organization has co-developed property.

NOTE 13 - 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 14 - 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 15 - TAX RETURNS:

At December 31, 2012, all required tax returns have been filed.

MORRIS HABITAT FOR HUMANITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

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					
Pass- through from Habitat for Humanity International, Inc.:					
Non-major Program:					
SHOP Grants:	14.247	1/1/11 - 05/31/2013	SH09001	$ 41,600	$ 10,334
		08/21/12 - 12/31/13	SHOP 2011	15,000	15,000
Pass-through from Community Development Agencies:					
Home Investment Partnership Program:	14.239	12/9/10 - 11/30/12	D-12-56-872-011919	150,000	50,000
Community Development Block Grants:	14.218	12/01/12 - 02/01/13	B-12-UC-34-0105	40,729	40,729
Total Federal Awards					$ 116,063

MORRIS HABITAT FOR HUMANITY, INC.
NOTE TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

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.

Sobel & Co., LLC
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Morris Habitat for Humanity
Randolph, 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 Morris Habitat for Humanity, Inc. ("the Organization"), which comprise the statement of financial position as of December 31, 2012, 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 May 6, 2013.

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 and compliance and other matters. Accordingly, this communication is not suitable for any other purpose.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
May 6, 2013

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

I. Summary of Auditors' Results

Financial Statements

The auditors' report issued on the financial statements of Morris Habitat for Humanity was an unmodified opinion.

Internal control over financial reporting:

• Material weaknesses identified	____ Yes	X No
• Significant deficiencies identified that are not considered to be material weaknesses	____ Yes	X No
• Noncompliance material to financial statements noted	____ Yes	X No

II. Findings – Financial Statement Audit

NONE

III. Findings and Questions Costs – Federal Awards

NONE

IV. Status of Prior Audit Findings:

NONE