MORRIS HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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Independent Auditors' Report

To the Board of Directors
Morris Habitat For Humanity, Inc.
Randolph, NJ 07869

Report on the Financial Statements

We have audited the accompanying financial statements of Morris Habitat For Humanity, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 opinion.

To the Board of Directors
Morris Habitat For Humanity, Inc.

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014 on our consideration of Morris Habitat For Humanity, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Morris Habitat For Humanity, Inc.'s internal control over financial reporting and compliance.

April 23, 2014
Mt. Arlington, New Jersey

Nisivoccia LLP

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

		2013
ASSETS		
Assets:		
Cash and cash equivalents	$	1,150,684
Contributions receivable		169,976
Mortgages receivable		618,097
ReStore inventory		143,500
Inventory of buildings and construction materials		1,283,305
Prepaids and other assets		21,754
Property and equipment, net		202,933
Security deposits		30,902
Total assets	$	3,621,151
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$	171,455
Notes payable		219,354
Deferred rent		65,654
Deferred revenue		22,605
Total liabilities		479,068
Net assets:		
Unrestricted		2,840,254
Temporarily restricted		301,829
Total net assets		3,142,083
Total liabilities and net assets	$	3,621,151

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	$ 764,418		$ 764,418
Grants from government agencies		$ 117,448	117,448
ReStore activity, net	1,353,130		1,353,130
Sales of homes	239,832		239,832
Donated building materials and services	214,183		214,183
Mortgage interest income	55,468		55,468
Investment income	1,608		1,608
Special event revenue	216,172		216,172
Gain on sale of mortgages receivable	328,600		328,600
Other income	2,204		2,204
Net assets released from program restrictions	108,600	(108,600)	
Total support and revenue	3,284,215	8,848	3,293,063
Expenses:			
Program Services:			
Home building	1,650,848		1,650,848
ReStore	851,412		851,412
	2,502,260		2,502,260
Supporting Services:			
General and administrative	93,644		93,644
Fundraising	263,849		263,849
Total expenses	2,859,753		2,859,753
Loss on mortgage repurchase	23,870		23,870
Loss on asset disposal	9,223		9,223
Total expenses and losses	2,892,846		2,892,846
Change in net assets	391,369	8,848	400,217
Net assets, beginning of year as previously reported	2,577,885	292,981	2,870,866
Prior period adjustment, (see note 15)	(129,000)		(129,000)
Net assets, beginning of year as restated	2,448,885	292,981	2,741,866
Net assets, end of year	$ 2,840,254	$ 301,829	$ 3,142,083

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	Program Services			Supporting Services		
	Home Building Program	ReStore Program	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 434,331	$ 285,336	$ 719,667	$ 43,798	$ 144,466	$ 907,931
Payroll taxes	51,081	27,896	78,977	7,859	6,549	93,385
Fringe benefits	19,262	17,937	37,199	2,963	2,469	42,631
Total salaries and related benefits	504,674	331,169	835,843	54,620	153,484	1,043,947
Professional fees	43,057	19,358	62,415	5,197	6,895	74,507
Occupancy costs	73,912	332,702	406,614	11,370	9,476	427,460
Tithe	85,484		85,484			85,484
Insurance	41,780	25,727	67,507	6,428	5,356	79,291
Telephone	4,994	4,010	9,004	490	408	9,902
Office expense	53,429	66,833	120,262	8,745	10,836	139,843
Office equipment	883	50	933	136	113	1,182
Advertising expense	7,597	30,692	38,289	1,169	974	40,432
Special event expense		3,925	3,925		71,018	74,943
Absorbed construction costs and equipment	20,384		20,384			20,384
Vehicle expense	9,625	33,032	42,657			42,657
Cost of homes sold	710,161		710,161			710,161
Home repair ministry	55,197		55,197			55,197
Education and travel	7,527	2,280	9,807	1,158	965	11,930
Miscellaneous	323	512	835	48	41	924
Total expenses before depreciation	1,619,027	850,290	2,469,317	89,361	259,566	2,818,244
Depreciation	31,821	1,122	32,943	4,283	4,283	41,509
Total expenses	$ 1,650,848	$ 851,412	$ 2,502,260	$ 93,644	$ 263,849	$ 2,859,753

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013

		2013
Cash flows from operating activities:		
Change in net assets	$	400,217
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		41,509
Unamortized mortgage discount		365,097
Gain on sale of mortgages receivable		(328,600)
Changes in operating assets and liabilities:		
Contributions receivable		196,898
Mortgages receivable		(528,557)
ReStore inventory		(73,500)
Inventory of buildings and construction materials		(1,070)
Prepaids and other assets		2,691
Accounts payable and accrued expenses		44,087
Deferred rent		11,747
Deferred revenue		(56,158)
Net cash provided by operating activities		74,361
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements		(54,067)
Net cash used in investing activities		(54,067)
Cash flows from financing activities:		
Proceeds from sale of mortgages receivable		769,702
Proceeds from principal borrowings on notes payable		11,250
Repurchase of mortgages receivable		(129,597)
Principal repayments on line of credit		(100,000)
Principal repayments on notes payable		(32,921)
Net cash provided by financing activities		518,434
Net increase in cash and cash equivalents		538,728
Cash and cash equivalents, beginning of year		611,956
Cash and cash equivalents, end of year	$	1,150,684
Supplementary information:		
Cash paid during the year for interest	$	1,697
Supplemental disclosure of noncash activity:		
Donated materials, supplies and services	$	214,183

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 1 - Organization

Morris Habitat For Humanity, Inc. (the "Organization"), an affiliate of Habitat for Humanity International (HFHI) enhances lives by making homeownership affordable to lower income families in the community. We accomplish this through a partnership program of building and financing simple, decent, energy efficient and affordable homes. In addition, we repair existing homes of low-income homeowners so they can continue to preserve their homes and keep them safe. To accomplish its work, the Organization partners with homeowners and volunteers as well as donors of materials, services and funding. In working together to build and repair homes, hope is restored, lives are changed and the devastating cycle of poverty is broken.

Note 2 - Summary of Significant Accounting Policies

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

A summary of the significant accounting policies followed by Morris Habitat For Humanity, Inc. in the preparation of the accompanying financial statements is set forth below:

Basis of Presentation

The Organization prepares its financial statements in accordance with *Accounting for Contributions Received and Made*, and *Financial Statements of Not-for-Profit Organizations. Accounting for Contributions Received and Made* requires that unconditional promises to give be recorded as receivables and revenue and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. *Financial Statements of Not-for-Profit Organizations* establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets are resources representing the portion of expendable funds available for support of the Organization's programs and general operations. These resources are not subject to donor-imposed stipulations.

Temporarily restricted net assets are 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. Net assets released from restrictions during the year ended December 31, 2013 were comprised of the following:

	2013
Construction funding	$ 108,600

At December 31, 2013, temporarily restricted net assets were to be used for a specific purpose and are comprised of the following:

	2013
Construction funding	$ 301,829

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Permanently restricted net assets are assets subject to donor-imposed stipulations to 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 investment for general or specific purposes. The Organization had no permanently restricted net assets as of December 31, 2013.

Revenue and Support Recognition

Contributions are recognized as revenue and receivables when they are received or unconditionally pledged. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

The Organization accounts for funds received in advance of their usage as deferred revenue in the statement of financial position.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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. However, if the donor restriction is satisfied during the accounting period in which the gift was received, the gifts are reported as unrestricted contributions in the statement of activities.

The Organization accounts for contract and grant revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All amounts not expended in accordance with the grant or contract are recorded as a liability to the grantor as the Organization does not maintain any equity in the grant or contract.

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. At December 31, 2013 deferred rent was $65,654.

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. At December 31, 2013 deferred revenue was $22,605.

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to a program based on units of service, and support costs are allocated to a program based on total program costs. Program expenses are those related to operation of the home building and ReStore programs. Support costs relate to administrative expenses associated with those programs. The allocation of indirect costs such as employee's salaries and other costs are based on methods considered by management to be reasonable. Fundraising includes the direct cost of special events and the allocation of employees' salaries, when applicable, as well as other costs involved in fundraising and special events.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no allowance for bad debts as of December 31, 2013. There were no nonaccrual receivables in excess of 90 days nor was there any interest accrual on any receivables as of December 31, 2013.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of the gift, when donated. Significant additions, renewals, and betterments are capitalized while replacements, maintenance, and repairs which do not improve or extend the life of an asset are expensed. Depreciation is provided for by the straight-line method over the estimated useful lives of the assets. Gifts of long-lived assets are reported as an increase in unrestricted net assets, unless there are explicit restrictions that specify how the assets are to be used.

Proceeds from the sale of fixed assets, if unrestricted, are transferred to unrestricted net assets, or, if restricted, to temporarily restricted net assets for fixed asset acquisitions.

In accordance with *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Organization periodically evaluates property and equipment for impairment, relying on a number of factors including operating results, and future business plans. Recoverability of property is evaluated by a comparison of the carrying amount of an asset or asset group to estimated future recoverability of the carrying amount of the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the estimated fair value. There were no impairment charges recorded for the year ended December 31, 2013.

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Inventory of Buildings and Construction Materials

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 when the determination of feasibility is ascertained.

Inventory is valued as follows:

Construction Materials: Inventory is valued at lower of cost (first-in, first out) or market, and is comprised of construction materials and supplies.

ReStore: Inventory is comprised of donated building materials, household appliances and other household goods. These items are valued at thrift shop value.

Donated Building 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 building materials and services are reported at their fair value at the time of donation.

Donated professional fees and building materials of $214,183 have been recorded as contributions at estimated fair value with an offsetting charge to the appropriate expense category in the statement of functional expenses at December 31, 2013.

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. However, this volunteer time is critical to the Organization and such hours are measured and monitored. Volunteers worked approximately 72,000 hours for the year ended December 31, 2013.

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 HFHI. This practice facilitates the combining of all affiliated financial statements by HFHI. 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 (Cont'd)

Income Taxes

The Organization is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Organization is also exempt under Title 15 of the State of New Jersey, *Corporations and Associations Not-for-Profit Act*. Accordingly, no provision for federal or state income taxes has been presented in the accompanying financial statements.

The Organization follows the provisions of FASB Accounting Standards Codification *Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition as they relate to those tax positions.

The Organization does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the year ended December 31, 2013. However, the Organization is subject to audit by tax authorities, including a review of its nonprofit status which management believes would be upheld upon examination. The Organization believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

As required by law, the Organization files informational returns with both the Federal and New Jersey State governments on an annual basis - Form 990 with the Internal Revenue Service, and Form CRI-300R with the State. These returns are subject to examination by these authorities within three years from the latest filing date for Federal and four years from the latest filing date for New Jersey.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities, revenues and expenses and changes therein, and disclosures of contingent assets and contingent liabilities and accompanying notes. It is reasonably possible that the Organization's estimates may change in the near term.

Fair Value Measurements

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Fair Value Measurements and Disclosures*, fair value is defined as a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the assets or owes the liability).

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Fair Value Measurements (Cont'd)

A fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market (or in its absence, the most advantageous market) for the asset or liability.

The following is a description of valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2013.

Cash and cash equivalents, accounts receivable, and other assets, accounts payable and accrued expenses and other liabilities: the carrying amounts approximate fair value due to the short term maturity of these instruments.

Mortgages receivable: are carried at amortized cost. The mortgages are discounted at stipulated interest rates established by HFHI. 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.

Notes payable: Long-term debt is carried at cost. Management believes the Organization can obtain similar loans at similar terms, therefore the Organization has determined it approximates fair value.

Advertising

The Organization expenses the costs of advertising as incurred. The Organization incurred $40,432 in advertising expenses for the year ended December 31, 2013.

New Pronouncements

In October 2012, the FASB issued ASU 2012-05 which provides guidance on the classification of the sale proceeds of donated financial assets in the statement of cash flows in the financial statements of a not-for-profit organization. The cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurements. The provisions of the guidance result in applying common fair value measurement and disclosure requirements in both United States generally accepted accounting principles and International Financial Reporting Standards. The amendments primarily change the wording used to describe many of the requirements in generally accepted accounting principles for measuring and disclosing information about fair value measurements. The guidance is effective for annual periods beginning after December 15, 2011. The adoption of the guidance did not have a material effect on the Company's business, financial position, results of operations or liquidity.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after December 31, 2013 through the date of the auditors' report and the date of issuance on April 23, 2014. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Note 3 - Property and Equipment

Property and equipment and their related estimated useful lives at December 31, 2013 are as follows:

Assets	Estimated Useful Life (Years)	2013
Leasehold improvements	5 to 10	$ 133,934
Furniture, fixtures, and equipment	3 to 10	165,930
Vehicles	7	18,550
		318,414
Less: accumulated depreciation		(115,481)
		$ 202,933

Depreciation expense for the year ended December 31, 2013 totaled $41,509.

Note 4 - Mortgages Receivable

Mortgages receivable are comprised of non-interest bearing notes which are secured by properties sold through the home building program. Notes have original maturities of 20-30 years with the latest maturing in October 2043. Mortgages received in the year ended December 31, 2013 were discounted at the HFHI stipulated interest rate of 7.39%.

	2013
Face value of mortgages	$ 1,319,547
Less: Unamortized discount	(701,450)
	$ 618,097

Note 5 - 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. During 2013 four homes were sold.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

Note 6 - Inventory of Buildings and Construction Materials

Inventory of buildings and construction materials represent homes in progress which are under construction. At December 31, 2013, inventory of buildings and construction materials amounted to $1,283,305.

Note 7 - Bank Line of Credit

The Organization has a $350,000 line of credit with a financial institution that expires in August 2014. As of December 31, 2013, there was no outstanding balance on the line of credit.

The Organization entered into an agreement for a $500,000 Construction Guidance line of credit that expires in October 2014, which would 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 the cost of real estate acquired and 90% against construction invoices submitted. Aggregate advances are not to exceed 80% of fair market value. At December 31, 2013, the Organization had no borrowings outstanding on this line of credit.

Note 8 - Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to cash. Also, the Organization is subject to credit risk through 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 9 - 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. In 2013, there were no legal fees paid to this firm.

A member of senior management of a local bank in which the Organization has a regular banking relationship (sale of mortgages receivable, 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 10 - Leases

At December 31, 2013, the Organization was obligated under operating leases for its ReStore and office space and for certain office equipment. These leases expire in August 2022 and December 2018, respectively. During 2013, the operating lease for office equipment which expires in December 2016 was terminated, and the Organization entered into a new lease agreement which expires in December 2018.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

Note 10 - Leases (Cont'd)

The following is a schedule, by years, of future minimum lease payments required under the noncancellable operating lease agreements which have an initial lease term in excess of one year:

Years ended December 31,	
2014	$ 239,686
2015	267,130
2016	295,123
2017	300,716
2018	306,421
Thereafter	1,091,284
	$ 2,500,360

Pursuant to the terms of its office lease, as security the Organization has given its landlord a $22,000 cash deposit and a $43,000 letter of credit from a local bank.

Total rent expense for the year ended December 31, 2013 was $263,520.

Total equipment lease expense for the year ended December 31, 2013 was $11,076.

Note 11 - Notes Payable

Interest free note payable to HUD/SHOP. Principal of the loan is due in full at maturity in June 2019. The outstanding balance of the loan at December 31, 2013, was $11,250.

Interest free note payable to HUD/SHOP. Principal of the loan is due in full at maturity in June 2017. The outstanding balance of the loan at December 31, 2013, was $9,104.

In 2011 the Organization issued a mortgage payable to the Town of Denville for $199,000 to purchase land for development. In accordance with the terms of the mortgage the Organization was obligated to develop the land, at which time the mortgage would be discharged. Due to its inability to obtain necessary permits from the municipality, the Organization determined it could not develop the land and intends to exercise its contractual right to convey title to the property to the municipality in satisfaction of the mortgage payable. There are no stated repayment terms on the mortgage.

Principal amounts under the above obligations, maturing subsequent to December 31, 2013, are as follows:

Years ended December 31,	
2014	$ 199,000
2015	
2016	
2017	9,104
2018	
Thereafter	11,250
Total	$ 219,354

Note 12 - Tithe

HFHI is a global partnership and in recognition of that commitment, the Organization covenants with HFHI to contribute 10% of its unrestricted cash contributions and ReStore and events profits to one or more international affiliates. The tithe for the year ended December 31, 2013 was $85,484.

Note 13 - ReStore Activity

The ReStore had the following activity for the year ended December 31, 2013:

	2013
Gross sales	$ 1,279,630
Implicit cost of donated materials	(1,277,928)
	1,702
In-kind contributions	1,351,428
ReStore activity, net	$ 1,353,130

Note 14 - Gain on Sale of Mortgages Receivable

During 2013 the Organization sold several mortgages receivable to local banks with an aggregate book value of $441,080, net of the unamortized discount, for $769,702, resulting in a net gain of 328,600. The amount has been included as gain on sale of mortgages receivable on the statement of activities and the change in net assets for the year ended December 31, 2013.

In accordance with the terms of its agreement with its banks, for a stipulated number of years after sale, the Organization may be obligated to repurchase or substitute a new mortgage receivable for any previously sold mortgage receivable that is in default for 90 or more days. During 2013 the Organization repurchased two loans for $129,597 as a result of the mortgages defaulting. No provision for uncollectible mortgages receivable has been established as management believes the collateral is sufficient to enable realization of these mortgages receivable. One is no longer in default and the other is in the process of being restructured.

Note 15 - Prior Period Adjustment

Net assets as of December 31, 2012 have been restated due to the prior period recording of a note payable as a restricted contribution. See Note 11. As a result of this correction, net assets have decreased by $199,000 and a note payable has been recorded as a liability of the Organization.

Prior to 2013, the Organization did not estimate the value of its ReStore inventory prior to sale and thus no inventory value was reflected as an asset or included in net assets on its Statement of Financial Position. Net assets at December 31, 2012 have been restated to reflect the balance of inventory on hand at the measurement date for the ReStore program. As a result of the restatement, net assets have increased by $70,000 and inventory in the amount of $70,000 has been recorded.

Supplementary Information

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Period	Grantor's Number	Awarded Amount	Expenditures
U.S. Department of Housing and Urban Development					
Passed through Habitat for Humanity International, Inc.					
SHOP Grants					
Lozier Road, Mt. Olive	14.247	9/15/2011-3/31/2015	SH10-001	15,000	10,336
Hazel Street, Morristown	14.247	9/15/2011-3/31/2015	SH10-001	30,000	11,336
Willow Street, Morristown	14.247	9/15/2011-3/31/2015	SH10-001	30,000	5,071
Strickland Place, Madison	14.247	9/15/2011-3/31/2015	SH10-001	45,000	45,000
Lawrie Street, Perth Amboy	14.247	9/15/2011-3/31/2015	SH10-001	15,000	2,261
Passed through Community Development Agencies					
Home Investment Partnership Program					
Spring Street, Dover	14.239	8/15/2013-6/30/2014	M-05-DC-3402:	216,512	38,000
Total Expenditures					$ 112,004

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2013

Note 1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Morris Habitat For Humanity, Inc. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies is included in the schedule of expenditures of federal awards.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting which is described in Note 2 to the financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts in the accompanying Schedule of Expenditures of Federal Awards, which is prepared on the accrual basis of accounting explained in note 2.

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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*

To the Board of Directors of
Morris Habitat For Humanity, Inc.
Randolph, NJ 07869

We have audited, 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, the financial statements of Morris Habitat For Humanity, Inc., (the "Organization") which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, statement of functional expenses and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated April 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morris Habitat For Humanity, Inc.'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 Morris Habitat For Humanity, Inc.'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 entity'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.

To the Board of Directors of
Morris Habitat For Humanity, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morris Habitat For Humanity, Inc.'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 and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

April 23, 2014
Mt. Arlington, New Jersey

Nisivoccia LLP

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

Summary of Auditors' Results:

- An unmodified report was issued on Morris Habitat For Humanity, Inc.'s financial statements.

- The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of Morris Habitat For Humanity, Inc.

- The audit did not disclose any noncompliance which is material in relation to the financial statements of Morris Habitat For Humanity, Inc.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Response for Federal Awards:

The audit did not disclose any findings or responses for federal award programs.

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2013

Status of Prior Year Findings

There were no audit findings in the prior year.