MORRIS HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 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 statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, 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 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 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 auditors' 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, 2014 and 2013, 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

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 16, 2015 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 16, 2015
Mt. Arlington, New Jersey

Nisivoccia LLP

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Assets:		
Cash and cash equivalents	$ 749,164	$ 1,150,684
Contributions receivable	55,888	169,976
Mortgages receivable	1,065,489	618,097
ReStore inventory	130,105	143,500
Inventory of buildings and construction materials	1,652,509	1,703,305
Prepaids and other assets	25,998	21,754
Property and equipment, net	207,764	202,933
Security deposits	42,894	30,902
Total assets	$ 3,929,811	$ 4,041,151
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 158,099	$ 171,455
Notes payable	211,512	219,354
Deferred rent	105,049	65,654
Deferred revenue	34,136	22,605
Total liabilities	508,796	479,068
Net assets:		
Unrestricted	3,148,032	3,260,254
Temporarily restricted	272,983	301,829
Total net assets	3,421,015	3,562,083
Total liabilities and net assets	$ 3,929,811	$ 4,041,151

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	$ 481,619		$ 481,619
Grants from government agencies		$ 300,578	300,578
ReStore revenue, net	1,404,483		1,404,483
Sales of homes	481,199		481,199
Donated assets and services	237,289		237,289
Mortgage interest income	55,526		55,526
Special event revenue	257,375		257,375
Other income	21,873		21,873
Net assets released from program restrictions	329,424	(329,424)	
Total support and revenue	3,268,788	(28,846)	3,239,942
Expenses:			
Program Services:			
Home building	1,952,962		1,952,962
ReStore	922,802		922,802
	2,875,764		2,875,764
Supporting Services:			
General and administrative	112,725		112,725
Fundraising	303,477		303,477
Total expenses	3,291,966		3,291,966
Loss on asset disposal	89,044		89,044
Total expenses and losses	3,381,010		3,381,010
Change in net assets	(112,222)	(28,846)	(141,068)
Net assets, beginning of year	3,260,254	301,829	3,562,083
Net assets, end of year	$ 3,148,032	$ 272,983	$ 3,421,015

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 revenue, net	1,353,130		1,353,130
Sales of homes	239,832		239,832
Donated assets and services	214,183		214,183
Mortgage interest income	55,468		55,468
Special event revenue	216,172		216,172
Gain on sale of mortgages receivable	328,600		328,600
Other income	3,812		3,812
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	2,448,885	292,981	2,741,866
Prior period adjustment, (see note 17)	420,000		420,000
Net assets, beginning of year as restated	2,868,885	292,981	3,161,866
Net assets, end of year	$ 3,260,254	$ 301,829	$ 3,562,083

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services			Supporting Services		
	Home Building Program	ReStore Program	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 494,149	$ 352,080	$ 846,229	$ 48,619	$ 100,816	$ 995,664
Payroll taxes	52,881	35,036	87,917	8,135	6,780	102,832
Fringe benefits	21,595	20,193	41,788	3,621	2,469	47,878
Total salaries and related benefits	568,625	407,309	975,934	60,375	110,065	1,146,374
Professional fees	81,086	26,397	107,483	10,812	94,983	213,278
Occupancy costs	90,818	294,043	384,861	13,973	11,643	410,477
Tithe	90,996		90,996			90,996
Insurance	55,043	35,993	91,036	8,468	7,057	106,561
Telephone	3,623	5,428	9,051	451	376	9,878
Office expense	61,739	79,031	140,770	9,598	10,222	160,590
Office equipment	2,320	412	2,732	357	297	3,386
Advertising expense	4,992	40,273	45,265	768	640	46,673
Special event expense					53,710	53,710
Absorbed construction costs and equipment	7,750		7,750			7,750
Vehicle expense	16,344	29,063	45,407			45,407
Cost of homes sold	853,087		853,087			853,087
Home repair ministry	43,537		43,537			43,537
Education and travel	22,218		22,218	905	755	23,878
Miscellaneous	17,772	2,652	20,424	2,616	9,328	32,368
Total expenses before depreciation	1,919,950	920,601	2,840,551	108,323	299,076	3,247,950
Depreciation	33,012	2,201	35,213	4,402	4,401	44,016
Total expenses	$ 1,952,962	$ 922,802	$ 2,875,764	$ 112,725	$ 303,477	$ 3,291,966

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ (141,068)	$ 400,217
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	44,016	41,509
Unamortized mortgage discount	257,568	365,097
Gain on sale of mortgages receivable		(328,600)
Changes in operating assets and liabilities:		
Contributions receivable	114,088	196,898
Mortgages receivable	(704,960)	(528,557)
ReStore inventory	13,395	(73,500)
Inventory of buildings and construction materials	(11,796)	(1,070)
Prepaids and other assets	(4,244)	2,691
Security deposits	11,992	
Accounts payable and accrued expenses	(13,356)	44,087
Deferred rent	39,395	11,747
Deferred revenue	11,531	(56,158)
Net cash provided by (used in) operating activities	(383,439)	74,361
Cash flows from investing activities:		
Purchase of property and equipment	(48,847)	(54,067)
Net cash used in investing activities	(48,847)	(54,067)
Cash flows from financing activities:		
Proceeds from sale of mortgages receivable		769,702
Proceeds from principal borrowings on notes payable	33,750	11,250
Repurchase of mortgages receivable		(129,597)
Principal repayments on line of credit		(100,000)
Principal repayments on notes payable	(2,984)	(32,921)
Net cash provided by financing activities	30,766	518,434
Net increase (decrease) in cash and cash equivalents	(401,520)	538,728
Cash and cash equivalents, beginning of year	1,150,684	611,956
Cash and cash equivalents, end of year	$ 749,164	$ 1,150,684
Supplementary disclosure of cash activity:		
Cash paid during the year for interest	$ 2,061	$ 1,697
Supplemental disclosure of noncash activity:		
Donated materials, supplies and services	$ 237,289	$ 214,183
Aquisition of property and related mortgage note payable	160,000	
Disposal of property and related mortgage note payable	199,000	
	$ 198,289	$ 214,183

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 1 - Organization

Morris Habitat For Humanity, Inc. (the "Organization"), an independent affiliate of Habitat for Humanity International (HFHI) enhances lives by making homeownership affordable to lower income families in the community. The Organization accomplishes this through a partnership program of building and financing simple, decent, energy efficient and affordable homes. In addition, the Organization repairs 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *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 years ended December 31, 2014 and 2013 were comprised of the following:

	2014	2013
Construction funding	$ 308,532	$ 108,600
Other	20,892	
	$ 329,424	$ 108,600

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

At December 31, 2014 and 2013, temporarily restricted net assets were to be used for a specific purpose and are comprised of the following:

	2014	2013
Construction funding	$ 240,399	$ 301,829
Other	32,584	
	$ 272,983	$ 301,829

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, 2014 and 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 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, 2014 and 2013 deferred rent was $105,049 and $65,654, respectively.

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, 2014 and 2013 deferred revenue was $34,136 and $22,605, respectively.

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, 2014 and 2013. There were no nonaccrual receivables in excess of 90 days nor was there any interest accrual on any receivables as of December 31, 2014 and 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 FASB ASC *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.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

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

Property and Equipment (Cont'd)

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 years ended December 31, 2014 and 2013.

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 Assets 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 assets and services are reported at their fair value at the time of donation.

Donated real estate, building materials and professional services have been recorded as contributions at an aggregate estimated fair value of $234,089 and $214,183 at December 31, 2014 and 2013, respectively, with corresponding amounts being reflected as an asset and included in inventory of buildings and construction materials. A donated truck valued at $3,200 and used in the Organization's home building program has been recorded as a contribution with a corresponding amount being reflected as an asset and included in property and equipment at December 31, 2014.

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 nor do they enhance the Organization's nonfinancial assets. However, this volunteer time is critical to the Organization and such hours are measured and monitored. Volunteers worked approximately 72,000 hours for each of the years ended December 31, 2014 and 2013.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

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

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.

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 ASC *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, 2014. 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 certain statutorily defined periods for both Federal and the State of 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.

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

Fair Value Measurements

In accordance with FASB 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 asset or owes the liability). 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, 2014.

Cash and cash equivalents, contribution and mortgage receivables, 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 $46,673 and $40,432 in advertising expenses for the years ended December 31, 2014 and 2013.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after December 31, 2014 through the date of the auditors' report and the date the financials were available to be issued on April 16, 2015. 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 - 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 twenty or thirty years with the latest maturing in December 2044.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

Note 3 - Mortgages Receivable (Cont'd)

Mortgages received for the years ended December 31, 2014 and 2013 were discounted at the HFHI stipulated interest rate of 7.58% and 7.39%, respectively.

	2014	2013
Face value of mortgages	$ 2,024,507	$ 1,319,547
Less: Unamortized discount	(959,018)	(701,450)
	$ 1,065,489	$ 618,097

No provision for uncollectible mortgages receivable has been established as management believes that in all cases the collateral is sufficient to enable full realization of these receivables.

Note 4 - Property and Equipment

Property and equipment and their related estimated useful lives at December 31, 2014 and 2013 are as follows:

Assets	Estimated Useful Life (Years)	2014	2013
Leasehold improvements	5 to 10	$ 142,086	$ 133,934
Furniture, fixtures, and equipment	3 to 10	164,005	165,930
Vehicles	5 to 7	61,170	18,550
		367,261	318,414
Less: accumulated depreciation		(159,497)	(115,481)
		$ 207,764	$ 202,933

Depreciation expense for the years ended December 31, 2014 and 2013 totaled $44,016 and $41,509, respectively.

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 and construction materials 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 2014 five homes were sold and during 2013 four homes were sold.

Note 6 - Inventory of Buildings and Construction Materials

Inventory of buildings and construction materials represent homes in progress which are under construction. For the years ended December 31, 2014 and 2013, inventory of buildings and construction materials amounted to $1,652,509 and $1,703,305, respectively.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

Note 7 - Bank Line of Credit

The Organization has a $350,000 line of credit with a financial institution that expires in August 2015. The line has a sublimit of up to $200,000 for letters of credit. As of December 31, 2014 and 2013, there was no outstanding balance on the line of credit. As of December 31, 2014 there was a $43,000 letter of credit outstanding under the sublimit.

The Organization entered into an agreement for a $500,000 Construction Guidance line of credit that expired in October 2014 and, due to delays caused by the lender, was not renewed until February 10, 2015. If used, the facility 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. The facility has not been used as of December 31, 2014 and 2013, and the Organization had no borrowings outstanding on this line of credit.

Note 8 - Letters of Credit

The Organization has a $43,000 letter of credit that was issued under the sublimit of the $350,000 line of credit described in Note 7 above from a financial institution that is used as security for its office lease. It also has a $77,765 letter of credit from a financial institution that is used as a performance bond related to one of its construction projects. That letter of credit is secured by a mortgage on real estate held for future development.

Note 9 - 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 10 - Related Party Transactions

A partner of a law firm that represents the Organization as legal counsel on real estate transactions is a member of the Organization's board of directors. In 2014 and 2013, there were no legal fees paid to this firm.

A principal in an architectural firm that provides professional services to the Organization is also a member of the Organization's board of directors. In 2014 and 2013, there were no fees paid to this firm.

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

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 11 - Leases

At December 31, 2014, 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.

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,	
2015	$ 266,905
2016	283,643
2017	300,716
2018	306,421
2019	305,802
Thereafter	770,008
	$ 2,233,495

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 years ended December 31, 2014 and 2013 amounted to $235,468 and $263,520, respectively.

Total equipment lease expense for the years ended December 31, 2014 and 2013 amounted to $17,457 and $11,076, respectively.

Note 12 - Notes Payable

The Organization has four interest-free notes payable to HUD/SHOP. The aggregate principal outstanding on such loans was $51,512 and $20,354 at December 31, 2014 and 2013, respectively. The loans are repayable on a monthly basis and mature between June 30, 2017 and June 30, 2020.

In September 2014 the Organization gave a $160,000 note to the seller of property it purchased for development. Interest-only payments at the per annum rate of 5% are paid monthly until maturity in July 2016 when the full principal balance is due. The note is secured by a mortgage on the property.

In November 2014 the Organization exercised its contractual right to convey title to a property to a local municipality in satisfaction of a $199,000 mortgage payable to the municipality. The mortgage had been given to the municipality in consideration of its previous transfer to the Organization.

Note 12 - Notes Payable (Cont'd)

Principal amounts under the above obligations, maturing subsequent to December 31, 2014, are as follows:

Years ended December 31,	
2015	$ 6,342
2016	171,964
2017	12,572
2018	11,244
2019	7,494
Thereafter	1,896
Total	$ 211,512

Note 13 - 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 years ended December 31, 2014 and 2013 amounted to $90,996 and $85,484, respectively.

Note 14 - ReStore Activity

The ReStore had the following activity for the year ended December 31, 2014 and 2013:

	2014	2013
Sales	$ 1,417,878	$ 1,279,630
Beginning inventory	143,500	70,000
Add: estimated value of new donations	1,600,444	1,277,928
Less: ending inventory	(130,105)	(143,500)
Estimated value of sold goods	1,613,839	1,204,428
Estimated value of sold goods in excess of (or below) sales value	(195,961)	75,202
Estimated value of new donations	1,600,444	1,277,928
Total revenue, net	$ 1,404,483	$ 1,353,130

Note 15 - 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. No mortgages receivable were sold in 2014.

Note 16 - Contingent Liability

In accordance with the terms of older agreements 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 such loans with aggregate face value of $129,597, which included an aggregate unamortized discount of $58,122. Both loans have since been restructured and are now performing.

Note 17 - Prior Period Adjustment

Two real estate properties were donated to the Organization prior to 2013 and recorded at zero cost rather than fair market value. These properties, received in 2011 and 2012, had fair market values at the time of donation aggregating $420,000. To record their fair value, both inventory of buildings and construction materials and net assets have been increased by $420,000 as of January 1, 2013.

Supplementary Information

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

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	14,352
Hazel Street, Morristown	14.247	9/15/2011-3/31/2015	SH10-001	30,000	6,810
Willow Street, Morristown	14.247	9/15/2011-3/31/2015	SH10-001	30,000	31,025
Strickland Place, Madison	14.247	9/15/2011-3/31/2015	SH10-001	45,000	38,899
Lawrie Street, Perth Amboy	14.247	9/15/2011-3/31/2015	SH10-001	15,000	11,240
Passed through Community Development Agencies					
Home Investment Partnership Program					
Spring Street, Dover	14.239	8/15/2013-6/30/2014	M-05-DC-340226	216,512	134,345
Willow Street, Morristown	14.218	7/01/2013-6/30/2017	B-12-UC-34-0105	51,407	51,407
Lawrie Street, Perth Amboy	14.218	8/30/2013	H-20-56-904-866	50,000	12,500
Total Expenditures					$ 300,578

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2014 AND 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, 2014, 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 16, 2015.

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. We identified an other matter that was considered to be an other control deficiency, which has been communicated with management in our management report dated April 16, 2015.

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 16, 2015
Mt. Arlington, New Jersey

Nisivoccia LLP

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2014 AND 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 or responses 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.