MORRIS HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

MORRIS HABITAT FOR HUMANITY, INC.
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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. (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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, 2017 and 2016, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) *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 11, 2018 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 solely 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.

Nisivoccia LLP

April 11, 2018
Mt. Arlington, New Jersey

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash	$ 667,833	$ 1,096,633
Accounts receivable	121,622	41,240
Grants and contributions receivable	13,769	20,435
Mortgages receivable	1,095,086	321,793
ReStore inventory	228,032	209,681
Inventory of real estate and construction materials	3,131,515	4,191,276
Prepaids and other assets	71,296	19,470
Total current assets	5,329,153	5,900,528
Mortgages receivable, net of current portion	130,476	138,351
Property and equipment, net	216,481	200,794
Security deposits	33,564	32,916
Total assets	$ 5,709,674	$ 6,272,589
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 197,120	$ 242,674
Notes payable	409,569	992,571
Line of credit	757,000	
Deferred rent	16,306	10,601
Deferred revenue		275
Capital lease obligation	1,931	1,355
Total current liabilities	1,381,926	1,247,476
Notes payable, net of current portion	65,838	422,039
Deferred rent, net of current portion	108,514	124,585
Capital lease obligation, net of current portion	3,079	4,624
Total liabilities	1,559,357	1,798,724
Net assets:		
Without donor restrictions	4,083,735	4,364,187
With donor restrictions	66,582	109,678
Total net assets	4,150,317	4,473,865
Total liabilities and net assets	$ 5,709,674	$ 6,272,589

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue:			
Contributions	$ 1,569,646	$ 9,207	$ 1,578,853
Grants from government agencies	217,000		217,000
ReStore revenue, net	1,900,312		1,900,312
Sale of homes	1,760,002		1,760,002
Donated assets and services	126,666		126,666
Amortization of mortgage discounts	11,043		11,043
Special event revenue	178,252		178,252
Gain on sale of mortgages receivable	174,356		174,356
Other income	24,622		24,622
Net assets released from program restrictions	52,303	(52,303)	
Total support and revenue	6,014,202	(43,096)	5,971,106
Expenses:			
Program Services:			
Home building	3,880,249		3,880,249
ReStore	1,654,118		1,654,118
	5,534,367		5,534,367
Supporting Services:			
General and administrative	263,432		263,432
Fundraising	487,239		487,239
Total expenses	6,285,038		6,285,038
Change in net assets from operations	(270,836)	(43,096)	(313,932)
Other expense:			
Loss on write off of assets	9,616		9,616
Total other expense	9,616		9,616
Change in net assets	(280,452)	(43,096)	(323,548)
Net assets, beginning of year	4,364,187	109,678	4,473,865
Net assets, end of year	$ 4,083,735	$ 66,582	$ 4,150,317

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue:			
Contributions	$ 895,912	$ 32,033	$ 927,945
Grants from government agencies	385,611		385,611
ReStore revenue, net	1,877,937		1,877,937
Sale of homes	354,407		354,407
Donated assets and services	231,045		231,045
Amortization of mortgage discounts	25,464		25,464
Special event revenue	202,764		202,764
Gain on sale of mortgages receivable	430,506		430,506
Other income	14,854		14,854
Net assets released from program restrictions	7,205	(7,205)	
Total support and revenue	4,425,705	24,828	4,450,533
Expenses:			
Program Services:			
Home building	1,934,954		1,934,954
ReStore	1,447,355		1,447,355
	3,382,309		3,382,309
Supporting Services:			
General and administrative	144,267		144,267
Fundraising	427,198		427,198
Total expenses	3,953,774		3,953,774
Change in net assets	471,931	24,828	496,759
Net assets, beginning of year	3,892,256	84,850	3,977,106
Net assets, end of year	$ 4,364,187	$ 109,678	$ 4,473,865

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services			Supporting Services		
	Home Building Program	ReStore Program	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 633,123	$ 708,197	$ 1,341,320	$ 93,011	$ 184,906	$ 1,619,237
Payroll taxes	38,448	58,913	97,361	15,541	31,509	144,411
Fringe benefits	24,736	47,119	71,855	7,728	15,691	95,274
Total salaries and related benefits	696,307	814,229	1,510,536	116,280	232,106	1,858,922
Professional fees	12,521	32,940	45,461	63,013	74,998	183,472
Occupancy costs	74,960	467,433	542,393	11,535	9,610	563,538
Tithe and fees to HFHI		40,316	40,316	15,000	34,344	89,660
Insurance	74,463	40,760	115,223	11,456	9,547	136,226
Telephone	2,498	6,133	8,631	1,849	3,753	14,233
Office expense	82,520	172,341	254,861	11,560	11,026	277,447
Advertising and marketing expense	86,110	27,337	113,447	22,320	11,040	146,807
Special event expense					92,324	92,324
Absorbed construction costs and equipment	24,215		24,215	378	313	24,906
Vehicle expense	18,805	43,997	62,802	240		63,042
Cost of homes sold	2,740,226		2,740,226			2,740,226
Home repair ministry	3,681		3,681			3,681
Education and travel	16,720	7,339	24,059	2,549	2,124	28,732
Miscellaneous	2,958	1,293	4,251	442	379	5,072
Total expenses before depreciation	3,835,984	1,654,118	5,490,102	256,622	481,564	6,228,288
Depreciation	44,265		44,265	6,810	5,675	56,750
Total expenses	$ 3,880,249	$ 1,654,118	$ 5,534,367	$ 263,432	$ 487,239	$ 6,285,038

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services		
	Home Building Program	ReStore Program	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 544,923	$ 595,288	$ 1,140,211	$ 46,281	$ 123,307	$ 1,309,799
Payroll taxes	61,419	49,603	111,022	9,449	7,874	128,345
Fringe benefits	21,066	30,706	51,772	3,242	2,701	57,715
Total salaries and related benefits	627,408	675,597	1,303,005	58,972	133,882	1,495,859
Professional fees	18,756	55,004	73,760	21,500	132,029	227,289
Occupancy costs	74,532	382,952	457,484	11,467	9,556	478,507
Tithe and fees to HFHI		51,120	51,120	15,000	43,546	109,666
Insurance	55,920	27,442	83,362	8,603	7,169	99,134
Telephone	5,413	6,420	11,833	502	418	12,753
Office expense	68,987	159,175	228,162	9,334	9,121	246,617
Advertising and marketing expense	33,677	38,241	71,918	5,181	17,780	94,879
Special event expense					71,981	71,981
Absorbed construction costs and equipment	56,376		56,376			56,376
Vehicle expense	21,808	24,758	46,566			46,566
Cost of homes sold	933,448		933,448			933,448
Home repair ministry	1,595		1,595			1,595
Education and travel	8,619	1,618	10,237	1,234	1,028	12,499
Miscellaneous	5,364	1,977	7,341	948	688	8,977
Total expenses before depreciation	1,911,903	1,424,304	3,336,207	132,741	427,198	3,896,146
Depreciation	23,051	23,051	46,102	11,526		57,628
Total expenses	$ 1,934,954	$ 1,447,355	$ 3,382,309	$ 144,267	$ 427,198	$ 3,953,774

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MORRIS HABITAT FOR HUMANITY, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ (323,548)	$ 496,759
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	56,750	57,628
Unamortized mortgage discount	(11,046)	205,130
Conversion of debt to contribution	(400,000)	(123,176)
Gain on sale of mortgages receivable	(174,356)	(430,506)
Changes in operating assets and liabilities:		
Accounts receivable	(80,382)	(41,240)
Grants and contributions receivable	6,666	(7,935)
Mortgages receivable	(1,723,185)	(509,821)
ReStore inventory	(18,351)	(54,120)
Inventory of real estate and construction materials	1,059,761	(1,874,838)
Prepaids and other assets	(51,826)	23,180
Security deposits	(648)	(2,175)
Accounts payable and accrued expenses	(45,554)	309
Deferred rent	(10,366)	6,702
Deferred revenue	(275)	(1,450)
Net cash used in operating activities	(1,716,360)	(2,255,553)
Cash flows from investing activities:		
Purchase of property and equipment	(32,954)	(38,135)
Net cash used in investing activities	(32,954)	(38,135)
Cash flows from financing activities:		
Proceeds from sale of mortgages receivable	1,143,169	989,559
Proceeds from principal borrowings on notes payable	255,025	1,380,000
Proceeds from principal borrowings on line of credit	757,000	
Principal repayments on notes payable	(833,711)	(170,560)
Repayments of capital lease obligation	(969)	(1,190)
Net cash provided by financing activities	1,320,514	2,197,809
Net decrease in cash	(428,800)	(95,879)
Cash, beginning of year	1,096,633	1,192,512
Cash, end of year	$ 667,833	$ 1,096,633
Supplementary disclosure of cash activity:		
Cash paid during the year for interest	$ 3,852	$ 5,613
Supplemental disclosure of noncash activity:		
Donated materials, supplies and services	$ 126,666	$ 231,045
Acquisition of property and related mortgage note payable	$	$ 60,509
Acquisition of equipment through note payable	$ 39,483	$
Conversion of debt to contribution	$ 400,000	$ 123,176

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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. During the year ended December 31, 2017 the home building program resulted in the sale of twelve (12) homes to lower income families at an amount less than the fair market value and cost to build; seven (7) more homes than in 2016. The Organization has been successful in obtaining funding from other sources to offset the cost incurred to build these homes. However, due to the nature of the home building program a deficit could result in any given year.

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 has early adopted and now prepares its financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2016-14, dated August 2016, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities* (FASB Update). In addition, the Organization uses the FASB's *Accounting for Contributions Received and Made*.

The new standard now requires that resources be classified for accounting and reporting purposes into two net asset categories: net assets with donor restrictions and net assets without donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets, if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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. The net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets without donor restrictions include all funds not restricted by a donor or grantor and assets whose use is not restricted through contractual or regulatory control of a third-party payer or under debt agreements.

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

Net Assets with Donor Restrictions (Cont'd)

Net assets with donor restrictions are net assets that represent those amounts which are donor restricted for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions. At December 31, 2017 and 2016 there was $66,582 and $109,678, respectively, of net assets held with donor restrictions.

Net assets released from restrictions during the years ended December 31, 2017 and 2016 were comprised of the following:

	2017	2016
Construction funding	$ 40,897	$ 5,777
Other	11,406	1,428
	$ 52,303	$ 7,205

At December 31, 2017 and 2016, temporarily restricted net assets were to be used for a specific purpose and are comprised of the following:

	2017	2016
Construction funding	$ 39,176	$ 70,866
Other	27,406	38,812
	$ 66,582	$ 109,678

Some net assets with donor restrictions 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. There were no net assets with donor restrictions of this type as of December 31, 2017 and 2016.

Liquidity and Liquidity Risks

The adoption of FASB Update No. 2016-14 requires the presentation of qualitative information on how the Organization manages its liquid available resources and liquidity risks. Quantitative information that communicates the availability of a nonprofit's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statement and/or in the notes to the financial statements. Accordingly, the Organization has presented the statement of financial position utilizing a classified format which presents current and noncurrent assets and liabilities.

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

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

Liquidity and Liquidity Risks (Cont'd)

Financial assets, at December 31, 2017	$ 5,329,153
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(66,582)
Financial assets available to meet cash needs for general expenditures within one year	$ 5,262,571

The Organization has $5,262,571 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures which are comprised of cash in the amount of $667,833, receivables in the amount of $1,230,477, inventory in the amount of $3,359,547, and other assets in the amount of $71,296. The financial assets also include $66,582 that are subject to donor or other contractual restrictions and make them unavailable for general expenditure within one year of the measurement date. The majority of the receivables are from mortgages (Note 3), which will be converted to cash within one year. All other receivables are expected to be collected. The Organization has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses, which on average are approximately $1,050,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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.

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

Deferred Rent

The Organization leases certain real property and, accordingly, recognizes rent on a straight-line basis. All rent concessions and rent increases are taken into account and recognized ratably over the remaining lease term. The difference between the actual rent paid and the expense charged is an increase or decrease to deferred rent. At December 31, 2017 and 2016 deferred rent was $124,820 and $135,186, respectively.

Deferred Revenue

Special event 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, 2016 deferred revenue was $275. There was no deferred revenue as of December 31, 2017.

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 are 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, 2017 and 2016.

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.

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

Property and Equipment (Cont'd)

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 years ended December 31, 2017 and 2016.

Inventory of Real Estate 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 capitalized costs to expense when the determination is made.

The Organization follows the provisions of FASB ASU 2015-11, "*Inventory (Topic 330)*" which provides guidance on the simplification to the measurement of inventory. An entity should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This amendment applies to entities who value their inventory using the first-in, first-out or average cost basis.

Inventory is valued as follows:

Construction Materials: Inventory is valued at lower of cost or net realizable value, utilizing the first-in, first out method and is comprised of construction materials and supplies.

ReStore: Inventory is comprised of donated building materials, furniture, appliances and other household goods. These items are recorded 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 $126,666 (of which $45,000 was real estate) and $226,113 (of which $135,000 was real estate) at December 31, 2017 and 2016, respectively, with corresponding amounts being reflected as an asset and included in inventory of real estate and construction materials.

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

Donated Assets and Services (Cont'd)

A donated truck with an estimated value of $4,932, used in the Organization's home building program, was recorded as a contribution with a corresponding amount reflected as an asset and included in property and equipment at December 31, 2016. There were no donated vehicles received during the year ended December 31, 2017.

Numerous volunteers donate their time to the Organization's program services and fundraising activities during the year. The value of this contributed time is not reflected in these financial statements since it does not meet the criteria for recognition under U.S. generally accepted accounting principles. However, this volunteer time is critical to the Organization and these hours are measured and monitored. Volunteers worked approximately 86,000 and 73,000 hours for each of the years ended December 31, 2017 and 2016, respectively.

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 Habitat for Humanity International (HFHI). Mortgages sold within 12 months from the origination are not discounted. 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 for uncollectible amounts provided in the financial statements.

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, 2017. However, the Organization is subject to regular 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.

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

Income Taxes (Cont'd)

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 in the United States federal and New Jersey state jurisdictions. The Organization is subject to income tax examinations for returns within the statutory periods established by the respective jurisdictions.

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 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, 2017.

Cash, accounts receivable, grants and contributions receivable, mortgages 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 and capital lease obligation: 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.

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

Advertising and Marketing

The Organization expenses the costs of advertising and marketing as incurred. The Organization incurred $146,807 and $94,879 in advertising and marketing expenses for the years ended December 31, 2017 and 2016, respectively.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to conform to the current year's presentation.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after December 31, 2017 through the date of the independent auditors' report and the date the financials were available to be issued on April 11, 2018. 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 noninterest-bearing notes which are secured by properties sold through the home building program. These notes have original maturities of twenty or thirty years with the latest maturing in December 2048.

Mortgages received for the years ended December 31, 2017 and 2016 were discounted at the HFHI stipulated interest rate of 7.47% and 7.48%, respectively.

	2017	2016
Face value of mortgages	$ 1,304,449	$ 740,894
Less: Unamortized discount	(78,887)	(280,750)
	$ 1,225,562	$ 460,144

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.

The Organization sells mortgages receivable to local banks. In 2017 mortgages receivable with an aggregate book value of $968,813, net of the unamortized discount, were sold for $1,143,169 resulting in a net gain of $174,365. In 2016 mortgages receivable with an aggregate book value of $559,052, net of the unamortized discount, were sold for $989,559 resulting in a net gain of $430,506. The gains have been included as gain on sale of mortgages receivable in the statement of activities.

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. These contingent liabilities are relieved on a monthly basis and totaled $2,175,744 and $2,136,535 as of December 31, 2017 and 2016, respectively.

Note 4 - Property and Equipment

Property and equipment and their related estimated useful lives at December 31, 2017 and 2016 are as follows:

Assets	Estimated Useful Life (Years)	2017	2016
Leasehold improvements	5 to 10	$ 219,908	$ 202,036
Furniture, fixtures, and equipment	3 to 10	242,296	190,511
Vehicles	5 to 7	78,881	76,099
		541,085	468,646
Less: accumulated depreciation		(324,604)	(267,852)
		$ 216,481	$ 200,794

Depreciation expense for the years ended December 31, 2017 and 2016 totaled $56,750 and $57,628, respectively.

Note 5 - Inventory of Real Estate and Construction Materials

Property acquisition and construction costs incurred in connection with the Organization's home building program are capitalized as inventory of real estate 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.

Inventory of real estate and construction materials represent homes in progress which are under construction. As of December 31, 2017 and 2016, inventory of buildings and construction materials amounted to $3,131,515 and $4,191,276, respectively.

Note 6 - Bank Line of Credit

The Organization has a $800,000 line of credit with a financial institution that expires in August 2019. The line has a sublimit of up to $200,000 for letters of credit. As of December 31, 2017 there was an outstanding balance on the line of credit of $757,000. There was no outstanding balance on the line of credit at December 31, 2016. As of December 31, 2017 and 2016 there was a $43,000 letter of credit outstanding under the sublimit.

The Organization had an agreement with another financial institution for a $500,000 Construction Guidance line of credit that expired in February 2016 and the Organization elected not to request that it be renewed. The facility, available since 2010, had never been used. Thus, there was no outstanding borrowings as of December 31, 2016.

Note 7 - Letters of Credit

The Organization has a $43,000 letter of credit that was issued under the sublimit of the $800,000 line of credit described in Note 6 above. The letter of credit is being utilized in support of its security deposit for its office lease. It also has a $29,943 letter of credit from a financial institution that is being used as a performance bond related to one of its construction projects. That letter of credit is secured by real estate held for future development.

MORRIS HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Continued)

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 real estate. 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 member of senior management of a local bank in which the Organization has a regular banking relationship (letter of credit and deposits) is a trustee of the Organization's board of directors and is its Vice President.

Note 10 - Tithe

As an independent affiliate of HFHI, 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, 2017 and 2016 was $94,666 and $92,820, respectively.

Note 11 - Operating Leases

At December 31, 2017, 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 May 2022, respectively.

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

Years ended December 31,	
2018	$ 351,502
2019	342,402
2020	349,251
2021	356,235
2022	121,917
	$ 1,521,307

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, 2017 and 2016 amounted to $369,586 and $268,169, respectively.

Total equipment lease expense for the years ended December 31, 2017 and 2016 amounted to $16,243 and $16,006, respectively.

Note 12 - Capital Lease Obligation

In September 2015, the Organization entered into a capital lease to acquire a new telephone system. The lease requires monthly payments of $173 and matures in August 2020 when the Organization has the option to purchase the equipment for $1. The telephone system under this capital lease is included in property and equipment and amounted to $7,615 as of December 31, 2017 and 2016. Accumulated depreciation on this equipment was $3,046 and $1,523 for the years ended December 31, 2017 and 2016, respectively.

Obligation for the capital lease maturing in each of the subsequent years are as follows:

Years ended December 31,		
2018	$	1,931
2019		1,766
2020		1,313
	$	5,010

Note 13 - Notes Payable

The Organization has six interest-free notes payable to the U.S. Department of Housing and Urban Development (HUD), which are comprised of the following as of December 31, 2017 and 2016:

	2017		2016	
SHOP 171056	$	11,250	$	18,750
SHOP 172018		2,346		3,282
SHOP 173018		8,442		11,250
SHOP 161038				1,328
SHOP 191017		14,985		
SHOP 211041		18,750		
Total	$	55,773	$	34,610

The Organization received $60,509 and $62,667 in 2016 and 2015, respectively, from a State agency grant to help fund one of its projects. These funds were initially recorded as a liability and the State agency held a first mortgage on the project. The project has been completed and in 2016 the obligation was converted to a contribution and the mortgage released per the grant agreement. Such funds, totaling $123,176, were moved from liabilities to revenue in 2016 and are included in grants from government agencies in the statement of activities.

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% were paid monthly until maturity. The note was secured by a mortgage on the property. In July 2016, the mortgage was paid in full.

In October 2016 the Organization borrowed $980,000 from a local financial institution to acquire a semi-constructed condominium project. The Organization received $221,290 in additional draws during 2017. The loan bears interest at the rate of the Wall Street Journal Prime + .25% per annum and is repayable upon completion and sellout of the condominium units. The loan is secured by a mortgage on the project.

Note 13 - Notes Payable (Cont'd)

As of December 31, 2017 and 2016 there was an outstanding balance on the loan of $381,290 and $980,000, respectively. Completion of the project and sellout of the condominium units occurred in January 2018, whereas the loan was subsequently paid in full.

Also in October 2016, to assist in the acquisition of that project, the Organization borrowed $400,000 from a local real estate developer. The loan bears a fixed interest rate of 10% per annum until April 2017 when the rate reduces to 7% per annum. Principal is repayable in quarterly installments from 2018 to 2021. However, under certain circumstances the loan will be forgiven and converted to a donation. The loan is secured by several properties held for future development. During 2017, the loan was converted to a lender's charitable contribution and forgiven, and the Organization was discharged from the debt.

In October 2017, the Organization financed $39,483 for the purchase of a vehicle. The loan bears interest at a rate of 5.99% and matures in October 2022. Repayment of the loan is due in monthly principal and interest installments of $765. The loan is secured by the vehicle. As of December 31, 2017 there was an outstanding balance on the loan of $38,344.

Principal amounts under the above obligations, maturing subsequent to December 31, 2017, are as follows:

Years ended December 31,	
2018	$ 409,569
2019	24,963
2020	25,085
2021	8,459
2022	7,331
Total	$ 475,407

Note 14 - ReStore Activity

The ReStore had the following activity for the year ended December 31, 2017 and 2016:

	2017	2016
Sales	$ 1,881,961	$ 1,823,817
Beginning inventory	209,681	155,561
Add: estimated value of new donations	2,077,000	1,898,976
Less: ending inventory	(228,032)	(209,681)
Estimated value of sold goods	2,058,649	1,844,856
Estimated value of sold goods in excess of sales value	(176,688)	(21,039)
Estimated value of new donations	2,077,000	1,898,976
Total revenue, net	$ 1,900,312	$ 1,877,937

Supplementary Information

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity ID#	Grantor's Number	Grant Period	Grant Awards	Cumulative Program Disbursements	Current Year Program Disbursements	Current Year Cash Received	Current Year Provided to Subrecipients
U.S. Department of Housing and Urban Development									
Passed through Habitat for Humanity International, Inc.									
SHOP Grants									
Harding Avenue, Dover	14.247	N/A	SH14-001	1/26/15-1/31/17	$ 50,000	$ 50,000	$ -	$ -	$ -
Wallman Way, Mt. Olive	14.247	N/A	SH14-001	1/26/15-1/31/17	25,000	25,000			
10 Willow Street, Morristown	14.247	N/A	SH15-008	7/20/16-7/20/19	25,000	25,000			
Capacity Building Grant (CB)									
Leadership and Management	14.252	N/A	38-3055548	10/1/16-9/30/19	85,000	51,251	42,482	41,790	
Passed through Community Development Agencies									
Home Investment Partnership Program									
Wallman Way, Mt. Olive	14.239	N/A	M-05-DC-340226	6/30/15-6/30/19	100,000	91,951	71,516	71,516	
Harding Avenue, Dover	14.239	N/A	M-05-DC-340226	6/30/15-6/30/19	259,702	251,977	71,977	71,977	
Community Development Block Grant (CDBG)									
27 Chatham Road, West Mildford	14.218	N/A	B-13-UC-34-0112	12/21/15-8/31/17	75,000	75,000	31,025	31,025	
Total Expenditures						$ 570,179	$ 217,000	$ 216,308	$ -

SEE INDEPENDENT AUDITORS' REPORT AND 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, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards present the activity of all federal financial assistance programs of Morris Habitat For Humanity, Inc. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. All federal state financial assistance received directly from federal agencies is included on the schedule of federal awards. Because the schedule present only a selected portion of the operations of the Organization, they are not intended to and do not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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., (a nonprofit organization) (the "Organization") which comprise the statements of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the years 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 11, 2018.

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 Morris Habitat For Humanity, Inc.'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 from 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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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.

Nisivoccia LLP

Mt. Arlington, New Jersey
April 11, 2018

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017

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 required to be reported under Generally Accepted Government Auditing Standards.

MORRIS HABITAT FOR HUMANITY, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2017

Status of Prior Year Findings

There were no audit findings in the prior year.