MORRIS HABITAT FOR HUMANITY, INC.

Financial Statements

December 31, 2019 and 2018

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Morris Habitat For Humanity, Inc.
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December 31, 2019 and 2018

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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, 2019 and **2018**, 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, 2019 and **2018**, 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 accompanying 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2020 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 the effectiveness of Morris Habitat for Humanity Inc.'s 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
Mt. Arlington, New Jersey
April 13, 2020

Morris Habitat For Humanity, Inc.
Statement of Financial Position
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 384,730	$ 1,126,020
Accounts receivable	22,838	33,551
Grants and contributions receivable	227,101	119,690
Mortgages receivable, net of unamortized discount	840,465	273,087
ReStore inventory	361,455	239,543
Inventory of real estate and construction materials	536,257	1,237,278
Prepaids and other assets	39,947	54,711
Total current assets	2,412,793	3,083,880
Mortgages receivable, net of current portion and unamortized discount	98,656	122,240
Inventory of real estate and construction materials, net of current portion	930,942	1,152,550
Property and equipment, net	194,321	244,407
Security deposits	32,275	30,275
Total assets	$ 3,668,987	$ 4,633,352
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 229,247	$ 364,181
Notes payable	28,117	481,783
Line of credit	490,000	
Deferred rent	28,061	22,125
Deferred revenue	76,800	27,710
Capital lease obligation	1,104	1,576
Total current liabilities	853,329	897,375
Notes payable, net of current portion	49,915	78,033
Deferred rent, net of current portion	58,811	86,628
Capital lease obligation, net of current portion		1,313
Total liabilities	962,055	1,063,349
Net assets:		
Without donor restrictions	2,513,776	3,145,715
With donor restrictions	193,156	424,288
Total net assets	2,706,932	3,570,003
Total liabilities and net assets	$ 3,668,987	$ 4,633,352

See Accompanying Notes to Financial Statements

Morris Habitat For Humanity, Inc.
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue:			
Contributions	$ 595,548	$ 182,000	$ 777,548
Grants from government agencies	295,907		295,907
ReStore revenue, net	2,671,730		2,671,730
Sale of homes	1,684,259		1,684,259
Donated assets and services	149,769		149,769
Amortization of mortgage discounts	8,909		8,909
Special event revenue	252,374		252,374
Other income	17,673		17,673
Net assets released from program restrictions	413,132	(413,132)	
Total support and revenue	6,089,301	(231,132)	5,858,169
Expenses:			
Program Services:			
Home building	3,541,431		3,541,431
ReStore	2,091,668		2,091,668
	5,633,099		5,633,099
Supporting Services:			
General and administrative	565,785		565,785
Fundraising	502,159		502,159
Total expenses	6,701,043		6,701,043
Change in net assets from operations	(611,742)	(231,132)	(842,874)
Other expense:			
Bad debt expense	(20,197)		(20,197)
Total other expense	(20,197)		(20,197)
Change in net assets	(631,939)	(231,132)	(863,071)
Net assets, beginning of year	3,145,715	424,288	3,570,003
Net assets, end of year	$ 2,513,776	$ 193,156	$ 2,706,932

Morris Habitat For Humanity, Inc.
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue:			
Contributions	$ 1,097,511	$ 399,382	$ 1,496,893
Grants from government agencies	517,674		517,674
ReStore revenue, net	2,231,345		2,231,345
Sale of homes	1,289,382		1,289,382
Donated assets and services	91,239		91,239
Amortization of mortgage discounts	9,659		9,659
Special event revenue	140,390		140,390
Other income	17,537		17,537
Net assets released from program restrictions	41,676	(41,676)	
Total support and revenue	5,436,413	357,706	5,794,119
Expenses:			
Program Services:			
Home building	3,676,500		3,676,500
ReStore	1,867,865		1,867,865
	5,544,365		5,544,365
Supporting Services:			
General and administrative	371,004		371,004
Fundraising	459,764		459,764
Total expenses	6,375,133		6,375,133
Change in net assets from operations	(938,720)	357,706	(581,014)
Other income:			
Gain on sale of assets	700		700
Total other expense	700		700
Change in net assets	(938,020)	357,706	(580,314)
Net assets, beginning of year	4,083,735	66,582	4,150,317
Net assets, end of year	$ 3,145,715	$ 424,288	$ 3,570,003

Morris Habitat For Humanity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services			Supporting Services		
	Home Building Program	ReStore Program	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 647,039	$ 877,775	$ 1,524,814	$ 195,893	$ 240,649	$ 1,961,356
Payroll taxes	55,124	76,869	131,993	15,964	20,155	168,112
Fringe benefits	45,719	101,508	147,227	12,490	5,348	165,065
Total salaries and related benefits	747,882	1,056,152	1,804,034	224,347	266,152	2,294,533
Professional fees				63,278	26,563	89,841
Occupancy costs	44,523	508,298	552,821	25,769	11,044	589,634
Tithe and fees to HFHI	1,098	2,193	3,291	38,671		41,962
Insurance	50,635	73,467	124,102	15,812		139,914
Telephone	4,907	3,603	8,510	7,415	600	16,525
Office expense	14,551	160,008	174,559	102,775	11,198	288,532
Advertising and marketing expense	1,004	32,381	33,385	31,337	59,242	123,964
Special event expense	1,140		1,140	71	114,930	116,141
Absorbed construction costs and equipment	31,978		31,978			31,978
Vehicle expense	16,926	48,511	65,437	770		66,207
Cost of homes sold	2,576,884		2,576,884			2,576,884
Cost of goods sold	5,198	188,077	193,275			193,275
Home repair ministry	1,907		1,907			1,907
Education and travel	2,906	2,333	5,239	14,057	2,735	22,031
Miscellaneous	1,736	6,239	7,975	23,683	3,214	34,872
Total expenses before depreciation	3,503,275	2,081,262	5,584,537	547,985	495,678	6,628,200
Depreciation	38,156	10,406	48,562	17,800	6,481	72,843
Total expenses	$ 3,541,431	$ 2,091,668	$ 5,633,099	$ 565,785	$ 502,159	$ 6,701,043

See Accompanying Notes to Financial Statements

Morris Habitat For Humanity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services			Supporting Services		
	Home Building Program	ReStore Program	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 660,847	$ 801,327	$ 1,462,174	$ 162,235	$ 215,875	$ 1,840,284
Payroll taxes	42,314	64,626	106,940	39,590	11,365	157,895
Fringe benefits	31,504	79,544	111,048	21,303	4,245	136,596
Total salaries and related benefits	734,665	945,497	1,680,162	223,128	231,485	2,134,775
Professional fees	9,707	2,006	11,713	41,676	39,751	93,140
Occupancy costs	71,960	504,141	576,101	13,396	9,810	599,307
Tithe and fees to HFHI	23,636	31,515	55,151	18,251	23,636	97,038
Insurance	79,250	45,240	124,490	17,899	10,192	152,581
Telephone	2,893	6,006	8,899	3,828	1,600	14,327
Office expense	73,476	182,796	256,272	20,537	15,612	292,421
Advertising and marketing expense	37,552	51,084	88,636	12,517	39,894	141,047
Special event expense					74,744	74,744
Absorbed construction costs and equipment	10,376	831	11,207	204		11,411
Vehicle expense	19,551	53,773	73,324	110		73,434
Cost of homes sold	2,543,712		2,543,712			2,543,712
Cost of goods sold		23,534	23,534			23,534
Home repair ministry	8,455		8,455			8,455
Education and travel	13,152	6,292	19,444	1,048	1,306	21,798
Miscellaneous	8,883	2,013	10,896	11,871	5,255	28,022
Total expenses before depreciation	3,637,268	1,854,728	5,491,996	364,465	453,285	6,309,746
Depreciation	39,232	13,137	52,369	6,539	6,479	65,387
Total expenses	$ 3,676,500	$ 1,867,865	$ 5,544,365	$ 371,004	$ 459,764	$ 6,375,133

Morris Habitat For Humanity, Inc.
Statement of Cash Flows
December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (863,071)	$ (580,314)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	72,843	65,387
Unamortized mortgage discount	(8,909)	(9,659)
Loss on sale of mortgages receivable	11,748	21,618
Gain on sale of assets		(700)
Bad debt expense	20,197	
Changes in operating assets and liabilities:		
Accounts receivable	(758)	88,071
Grants and contributions receivable	(107,411)	(105,921)
Mortgages receivable	(1,656,508)	(1,288,994)
Proceeds from sale of mortgages receivable	1,109,875	2,107,271
ReStore inventory	(121,912)	(11,511)
Inventory of real estate and construction materials	913,903	741,687
Prepaids and other assets	14,764	16,585
Security deposits	(2,000)	3,289
Accounts payable and accrued expenses	(134,934)	167,061
Deferred rent	(21,881)	(16,067)
Deferred revenue	49,090	27,710
Net cash provided by (used in) operating activities	(724,964)	1,225,513
Cash flows from investing activities:		
Purchase of property and equipment	(22,757)	(44,188)
Proceeds from the sale of property and equipment		700
Net cash used in investing activities	(22,757)	(43,488)
Cash flows from financing activities:		
Proceeds from principal borrowings on notes payable		595,837
Proceeds from principal borrowings on line of credit	490,000	
Principal repayments on notes payable	(481,784)	(560,554)
Principal repayments on line of credit		(757,000)
Repayments of capital lease obligation	(1,785)	(2,121)
Net cash provided by (used in) financing activities	6,431	(723,838)
Net increase (decrease) in cash	(741,290)	458,187
Cash, beginning of year	1,126,020	667,833
Cash, end of year	$ 384,730	$ 1,126,020
Supplementary disclosure of cash activity:		
Cash paid during the year for interest	$ 7,319	$ 13,831
Supplemental disclosure of noncash activity:		
Donated materials, supplies and services	$ 149,769	$ 91,239
Acquisition of equipment through note payable		$ 49,125

See Accompanying Notes to Financial Statements

1. <u>Organization</u>

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, 2019 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; three (3) more homes than in 2018. 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.

2. <u>Summary of Significant Accounting Policies</u>

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:

<u>Basis of Presentation</u>

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.

Net Assets with Donor Restrictions

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, 2019 and 2018 there was $193,156 and $424,288, respectively, of net assets held with donor restrictions.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Satisfaction of purpose restrictions:		
Construction funding	$ 386,268	$ 39,176
General use	26,864	2,500
	$ 413,132	$ 41,676

Net assets with donor restrictions are restricted for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose:		
Construction funding	$ 182,000	$ 386,268
General use	11,156	38,020
	$ 193,156	$ 424,288

Adoption of New Accounting Standards

In May 2014, the FASB issued guidance, Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Organization adopted ASC 606 with a date of the initial application of January 1, 2019.

The Organization applied ASC 606 using the modified retrospective method, which resulted in recognizing the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets at January 1, 2019. Because the Organization's primary source of revenue is from building and financing affordable homes and related services, which is recognized after the service has been performed, there is no impact on the opening net asset balance.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

As part of the adoption of ASC 606, the Organization elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because there are no contract modifications, there is not a significant impact as a result of electing these practical expedients.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the Organization's implementation of ASU 2018-08.

Revenue and Support Recognition

The Organization recognizes revenue from building and financing affordable homes when the services are provided. The performance obligation consists of the completion of the home and sale to eligible individuals. The Organization records special events revenue equal to the fair value of direct benefits to donors, and then contribution revenue for the excess received when the event takes place.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Our state contracts and grants are conditioned upon certain performance requirements.
A portion of the Organization's revenue is derived from cost-reimbursable federal contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

ReStore revenue is recognized at the point of sale and revenue from the sale of homes is recognized upon the execution of mortgage notes.

Disaggregation of Revenue

In the following table, revenue is disaggregated by timing of satisfaction of performance obligations for the years ended December 31:

	2019	2018
Performance obligations satisfied at a point in time	$ 4,355,989	$ 3,542,345

Revenue from performance obligations satisfied at a point in time is related to building and financing simple, decent, energy efficient and affordable homes.

Liquidity and Availability

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 statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

	2019
Financial assets at year end:	
Cash	$ 384,730
Accounts receivable	22,838
Grants and contributions receivable	227,101
Mortgages receivable, net of unamortized discount	840,465
ReStore inventory	361,455
Inventory of real estate and construction materials	536,257
Total financial assets:	2,372,846
Less those unavailable for general expenditures within one year:	
Contractual or donor-imposed restrictions:	
Restricted by donor for construction and general use	(193,156)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,179,690

The Organization has a goal to maintain cash and cash equivalents on hand to meet 60 days of normal operating expenses, which on average are approximately $526,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit in the amount of $800,000 which it could draw from, with board approval. In addition to these available financial assets, a significant portion of the Organization's annual expenditures will be funded by current year operating revenues including federal and state grant awards and contribution revenue.

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, 2019 and 2018 deferred rent was $86,872 and $108,753, respectively.

Deferred Revenue

Fees received in advance are reported as deferred revenue and are recognized in the period in which the revenue is earned. At December 31, 2019 and 2018 deferred revenue was $76,800 and $27,710, respectively.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The financial statements report certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

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, Grants and Contributions Receivable and Allowance for Doubtful Accounts

Accounts, grants and contributions 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, grants or contributions receivable. There was no allowance for bad debts as of December 31, 2019 and 2018. Bad debt expense amounted to $11,471 for the year ended December 31, 2019. There was no bad debt expense for the year ended December 31, 2018.

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 net assets without donor restrictions, unless there are explicit restrictions that specify how the assets are to be used. Proceeds from the sale of fixed assets, if not restricted, are transferred to net assets without donor restrictions, or, if restricted, to net assets with donor restrictions for fixed asset acquisitions.

In accordance with *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Organization periodically evaluates property and equipment for impairment, relying on a number of factors including operating results, and future business plans. Recoverability of property is evaluated by a comparison of the carrying amount of an asset or asset group to estimated future recoverability of the carrying amount of the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the estimated fair value. There were no impairment charges recorded for the years ended December 31, 2019 and 2018.

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 lower of thrift shop value or net realizable 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 $149,769 and $91,239 (of which $22,500 was real estate) at December 31, 2019 and 2018, respectively, with corresponding amounts being reflected as an asset and included in inventory of real estate and construction materials.

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 78,287 and 73,141 hours for each of the years ended December 31, 2019 and 2018, 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, 2019. 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. 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, 2019.

Cash, accounts receivable, grants and contributions receivable, 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, line of credit, 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.

Advertising and Marketing

The Organization expenses the costs of advertising and marketing as incurred. The Organization incurred $123,964 and $141,047 in advertising and marketing expenses for the years ended December 31, 2019 and 2018, respectively.

Reclassifications

Certain reclassifications have been made to the 2018 financial statement presentation to conform to the current year's presentation.

New Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires all lessees to record a lease liability at lease inception, with a corresponding right of use asset, except for short-term leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The Organization is currently evaluating the impact of the adoption of this guidance on the Organization's consolidated financial statements.

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, 2019 and 2018 were discounted at the HFHI stipulated interest rate of 7.66% and 7.57%, respectively.

	2019	2018
Face value of discounted mortgages	$ 184,181	$ 201,555
Less: Unamortized discount	(60,319)	(69,228)
	123,862	132,327
Face value of undiscounted mortgages	815,259	263,000
	$ 939,121	$ 395,327

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 2019 mortgages receivable with an aggregate book value of $1,121,623, net of the unamortized discount, were sold for $1,109,875 resulting in a net loss of $11,748. In 2018 mortgages receivable with an aggregate book value of $2,128,889, net of the unamortized discount, were sold for $2,107,271 resulting in a net loss of $21,618. The losses have been included in other income 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 $1,023,567 and $1,095,400 as of December 31, 2019 and 2018, respectively.

4. 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, 2019 and 2018, inventory of buildings and construction materials amounted to $1,467,199 and $2,389,828, respectively. Bad debt expense amounted to $8,726 for the year ended December 31, 2019. There was no bad debt expense for the year ended December 31, 2018.

5. Property and Equipment

Property and equipment and their related estimated useful lives at December 31, 2019 and 2018 are as follows:

Assets	Estimated Useful Life (Years)	2019	2018
Leasehold improvements	5 to 10	$ 228,953	$ 226,953
Furniture, fixtures, and equipment	3 to 10	310,249	328,563
Vehicles	5 to 7	117,952	78,881
		657,154	634,397
Less: accumulated depreciation		(462,833)	(389,990)
		$ 194,321	$ 244,407

Depreciation expense for the years ended December 31, 2019 and 2018 totaled $72,843 and $65,387, respectively.

6. Bank Line of Credit

The Organization has a $800,000 line of credit with a financial institution that expires in August 2020. The line has a sublimit of up to $200,000 for letters of credit. As of December 31, 2019 there was an outstanding balance on the line of credit of $490,000. There was no outstanding balance on the line of credit at December 31, 2018. As of December 31, 2019 and 2018 there was a $48,000 letter of credit outstanding under the sublimit (See Note 7).

7. Letters of Credit

The Organization has a $48,000 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. The Organization 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.

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.

9. Tithe

As an independent affiliate of HFHI, the Organization covenants with HFHI to contribute 10% of its cash contributions without donor restrictions and ReStore and events profits to one or more international affiliates. The tithe for the years ended December 31, 2019 and 2018 was $19,462 and $82,038, respectively.

10. Operating Leases

At December 31, 2019, 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 2023, 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,	
2020	$ 422,832
2021	430,988
2022	157,335
2023	14,952
	$ 1,026,107

Pursuant to the terms of its office lease, as security the Organization has given its landlord a $30,000 cash deposit and a $48,000 letter of credit from a local bank.

Total rent expense for the years ended December 31, 2019 and 2018 amounted to $400,327 and $358,604, respectively.

Total equipment lease expense for the years ended December 31, 2019 and 2018 amounted to $16,169 and $15,984, respectively.

11. 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, 2019 and 2018. Accumulated depreciation on this equipment was $6,092 and $4,569 for the years ended December 31, 2019 and 2018, respectively.

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

Year ended December 31,	
2020	$ 1,104

12. 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, 2019 and 2018:

	2019	2018
SHOP 171056		$ 3,750
SHOP 172018	$ 474	1,410
SHOP 173018	2,826	5,634
SHOP 191017	4,425	9,705
SHOP 211041	9,390	14,070
Total	$ 17,115	$ 34,569

In October 2016 the Organization borrowed $980,000 from a local financial institution to acquire a semi-constructed condominium project. The Organization received $146,337 in additional draws during 2018. The loan bore interest at the rate of the Wall Street Journal Prime + .25% per annum and was repayable upon completion and sellout of the condominium units. The loan was secured by a mortgage on the project. Completion of the project and sellout of the condominium units occurred in January 2018, when the loan was paid in full.

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, 2019 and 2018 there was an outstanding balance on the loan of $23,761 and $31,270, respectively.

In March 2018, the Organization borrowed $449,500 from a local financial institution to fund the construction and rehab of 4 single family homes. The loan bears interest at the rate of Wall Street Journal Prime - 1% per annum and is repayable upon completion and sale of the homes. The loan is secured by property located at 52-56 Randall Ave in Mine Hill, NJ. As of December 31, 2018 there was an outstanding balance on the loan of $449,500. The loan was repaid in full during 2019.

In May 2018, the Organization financed $49,125 for the purchase of a vehicle. The loan bears interest at a rate of 5.85% and matures in April 2024. Repayment of the loan is due in monthly principal and interest installments of $811. The loan is secured by the vehicle. As of December 31, 2019 and 2018 there was an outstanding balance on the loan of $37,156 and $44,477, respectively.

Principal amounts under the above obligations, maturing subsequent to December 31, 2019, are as follows:

Years ended December 31,	
2020	$ 28,117
2021	16,686
2022	16,052
2023	9,245
Thereafter	7,932
Total	$ 78,032

13. ReStore Activity

The ReStore had the following activity for the year ended December 31, 2019 and 2018:

	2019	2018
Sales	$ 2,671,730	$ 2,231,344
Beginning inventory	239,543	228,032
Add: estimated value of new donations	2,289,459	2,100,000
Less: ending inventory	(361,455)	(239,543)
Estimated value of sold goods	2,167,547	2,088,489
Estimated value of sold goods in excess of sales value	504,183	142,855
Estimated value of new donations	2,289,459	2,100,000
Total revenue, net	$ 2,793,642	$ 2,242,855

14. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after December 31, 2019 through the date of the independent auditor's report and the date the financial statements were available to be issued, April 13, 2020. 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. However, the COVID-19 coronavirus outbreak has caused business disruption through government mandated and voluntary closings. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Organization expects this matter may have an impact on its future operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Supplementary Information

Morris Habitat For Humanity, Inc.
Schedule of Expenditures of Federal Awards
December 31, 2019

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									
10 Willow Street, Morristown	14.247	N/A	SH15-008	7/20/16-7/20/19	25,000	$ 25,000	-	-	$ -
43-47 MLK Avenue, Morristown	14.247	N/A	SH15-008	7/20/16-7/20/19	125,000	125,000	-	-	-
121 Main Street, Succasunna	14.247	N/A	SH16-008	2/20/17-2/20/20	300,000	103,500	$ 103,500	$ 103,500	-
Capacity Building Grant (CB)									
Leadership and Management	14.252	N/A	38-3055548	10/1/16-9/30/19	85,000	75,021	9,231	9,231	-
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	100,000	-	-	-
Harding Avenue, Dover	14.239	N/A	M-05-DC-340226	6/30/15-6/30/19	259,702	259,702	-	-	-
10 Willow Street, Morristown	14.239	N/A	M-05-DC-340226	7/1/16-6/30/20	100,000	100,000	-	-	-
27 Monmouth Road, Dover	14.239	N/A	M-05-DC-340226	2/1/18-6/30/23	90,581	90,581	52,451	52,451	-
232 Howe Avenue, Passaic	14.239	N/A	M-05-DC-340226	6/18/18-6/30/19	140,000	140,000	-	-	-
352 Howe Avenue, Passaic	14.218	N/A	M-05-DC-340226	1/1/19-12/31/19	289,795	127,100	127,100	-	-
Total Expenditures						$ 1,195,904	$ 295,907	$ 168,807	$ -

1. <u>Basis of Presentation</u>

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.

2. <u>Summary of Significant Accounting Policies</u>

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.

3. <u>Relationship to Federal Financial Reports</u>

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, 2019, 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 13, 2020.

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 13, 2020

Morris Habitat For Humanity, Inc.
Schedule of Findings and Responses
December 31, 2019

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.

Status of Prior Year Findings

There were no audit findings in the prior year.