Morris Habitat For Humanity, Inc.
and Subsidiaries

Consolidated Financial Statements

December 31, 2021

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Morris Habitat For Humanity, Inc. and Subsidiaries
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Bridgewater, NJ
973.298.8500
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Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Morris Habitat For Humanity, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Morris Habitat For Humanity, Inc. as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Morris Habitat For Humanity, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Morris Habitat For Humanity, Inc. and Subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Morris Habitat For Humanity, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Morris Habitat For Humanity, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2022 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

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

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 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. and Subsidiaries' internal control over financial reporting and compliance.

Nisivoccia LLP
Mt. Arlington, New Jersey
March 7, 2022

Morris Habitat For Humanity, Inc. and Subsidiaries
Consolidated Statement of Financial Position
December 31, 2021

ASSETS	
Current assets:	
Cash	$ 3,168,092
Accounts receivable	51,209
Grants and contributions receivable	10,000
Mortgages receivable, net of unamortized discount	564,544
ReStore inventory	405,209
Inventory of real estate and construction materials	1,601,805
Prepaids and other assets	64,398
Total current assets	5,865,257
Mortgages receivable, net of current portion and unamortized discount	828,140
Inventory of real estate and construction materials, net of current portion	2,230,660
Property and equipment, net	417,890
Security deposits	30,100
Total assets	$ 9,372,047
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	$ 694,256
Notes payable	71,893
Rents held prior to sale	60,060
Deferred rent	25,201
Deferred revenue	15,053
Total current liabilities	866,463
Notes payable, net of current portion	189,191
Total liabilities	1,055,654
Net assets:	
Without donor restrictions	7,363,463
With donor restrictions	952,930
Total net assets	8,316,393
Total liabilities and net assets	$ 9,372,047

See Accompanying Notes to Consolidated Financial Statements

Morris Habitat For Humanity, Inc. and Subsidiaries
Consolidated Statement of Activities
Year Ended December 31, 2021

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue:			
Contributions	$ 3,116,706	$ 916,858	$ 4,033,564
Grants from government agencies	311,938		311,938
ReStore revenue, net	2,895,397		2,895,397
Sale of homes	448,000		448,000
Donated assets and services	517,848		517,848
Amortization of mortgage discounts	44,408		44,408
Special event revenue	343,068		343,068
Other income	65,296		65,296
Net assets released from program restrictions	149,550	(149,550)	
Total support and revenue	7,892,211	767,308	8,659,519
Expenses:			
Program Services:			
Home building	2,133,446		2,133,446
ReStore	2,187,287		2,187,287
	4,320,733		4,320,733
Supporting Services:			
General and administrative	496,013		496,013
Fundraising	692,927		692,927
Total expenses	5,509,673		5,509,673
Change in net assets from operations	2,382,538	767,308	3,149,846
Nonoperating activities:			
Gain on sale of mortgages	199,211		199,211
Bad debt expense	(61,902)		(61,902)
Government assistance - PPP	416,385		416,385
Total nonoperating activities	553,694		553,694
Change in net assets	2,936,232	767,308	3,703,540
Net assets, beginning of year	4,427,231	185,622	4,612,853
Net assets, end of year	$ 7,363,463	$ 952,930	$ 8,316,393

Morris Habitat For Humanity, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services			Supporting Services		
	Home Building Program	ReStore Program	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 912,382	$ 923,480	$ 1,835,862	$ 166,229	$ 414,749	$ 2,416,840
Payroll taxes	75,834	77,135	152,969	12,921	36,397	202,287
Fringe benefits	83,452	87,111	170,563	19,629	11,106	201,298
Total salaries and related benefits	1,071,668	1,087,726	2,159,394	198,779	462,252	2,820,425
Professional fees	81,505		81,505	30,886	45,053	157,444
Occupancy costs	40,094	534,028	574,122	25,289	10,600	610,011
Tithe and fees to HFHI				80,000		80,000
Insurance	95,952	75,437	171,389	26,684		198,073
Telephone	3,259	6,539	9,798	13,948	976	24,722
Office expense	92,210	162,423	254,633	53,970	4,205	312,808
Advertising and marketing expense	1,401	46,771	48,172	6,345	70,590	125,107
Special event expense	9,211		9,211	463	86,540	96,214
Absorbed construction costs and equipment	104,483		104,483	1,319		105,802
Vehicle expense	18,925	44,159	63,084	3,931	1,061	68,076
Cost of homes sold	560,304		560,304			560,304
Cost of goods sold	173	212,048	212,221			212,221
Education and travel	2,895	1,493	4,388	8,229	1,863	14,480
Miscellaneous	1,023	2,505	3,528	23,380	969	27,877
Total expenses before depreciation	2,083,103	2,173,129	4,256,232	473,223	684,109	5,413,564
Depreciation	50,343	14,158	64,501	22,790	8,818	96,109
Total expenses	$ 2,133,446	$ 2,187,287	$ 4,320,733	$ 496,013	$ 692,927	$ 5,509,673

See Accompanying Notes to Consolidated Financial Statements

Morris Habitat For Humanity, Inc. and Subsidiaries
Consolidated Statement of Cashflows
December 31, 2021

Cash flows from operating activities:	
Change in net assets	$ 3,703,540
Adjustments to reconcile change in net assets to	
net cash provided by operating activities:	
Depreciation	96,109
Unamortized mortgage discount	(44,408)
Forgiveness of refundable advance	(416,385)
Loss (gain) on sale of mortgages	(199,211)
Bad debt expense	61,902
Changes in operating assets and liabilities:	
Accounts receivable	(71,060)
Grants and contributions receivable	1
Mortgages receivable	(217,424)
Proceeds from sale of mortgages receivable	1,431,968
ReStore inventory	(4,849)
Inventory of real estate and construction materials	(2,370,943)
Prepaids and other assets	(16,198)
Accounts payable and accrued expenses	243,410
Rents held prior to sale	5,760
Deferred rent	(33,860)
Deferred revenue	15,053
Refundable advance	416,385
Net cash provided by operating activities	2,599,790
Cash flows from investing activities:	
Purchase of property and equipment	(20,839)
Net cash provided by (used in) investing activities	(20,839)
Cash flows from financing activities:	
Proceeds from principal borrowings on notes payable	75,875
Proceeds from principal borrowings on line of credit	24,051
Principal repayments on line of credit	(364,087)
Principal repayments on notes payable	(66,833)
Net cash used in financing activities	(330,994)
Net increase in cash	2,247,957
Cash, beginning of year	920,135
Cash, end of year	$ 3,168,092
Supplementary disclosure of cash activity:	
Cash paid during the year for interest	$ 6,406
Supplemental disclosure of noncash activity:	
Donated materials, supplies and services	$ 517,848
Acquisition of equipment through note payable	$ 97,195

See Accompanying Notes to Consolidated Financial Statements

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 low-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, 2021 the home building program resulted in the sale of two (2) homes to lower income families at an amount less than the fair market value and cost to build. 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.

146 Morris Avenue Summit, LLC, a limited liability company, was established by Morris Habitat for Humanity, Inc. for the sole purpose of constructing residential units for sale to low/moderate income families at 146 Morris Avenue, Summit, NJ. Morris Habitat for Humanity, Inc. has a 100% interest in 146 Morris Avenue Summit, LLC.

42 Bennett Avenue Randolph, LLC, a limited liability company, was established by Morris Habitat for Humanity, Inc. for the sole purpose of development and sale of 25 affordable new construction residential condominiums at 42 Bennett Avenue, Randolph, Morris County NJ. Morris Habitat for Humanity, Inc. has a 100% interest in 42 Bennett Avenue Randolph, LLC.

2. Summary of Significant Accounting Policies

These consolidated 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 the Organization in the preparation of the accompanying consolidated financial statements is set forth below:

Principles of Consolidation

The consolidated financial statements include the accounts for Morris Habitat For Humanity, Inc., 146 Morris Avenue Summit, LLC and 42 Bennett Avenue Randolph, LLC, collectively referred to as Morris Habitat For Humanity, Inc. and Subsidiaries (the "Organization"). 146 Morris Avenue Summit, LLC and 42 Bennett Avenue Randolph, LLC are wholly owned subsidiaries of Morris Habitat For Humanity, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The Organization prepares its consolidated 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. *Presentation of Financial Statements of Not-for-Profit Entities* 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 assets without donor restrictions 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 consolidated statement of activities as net assets released from donor restrictions. At December 31, 2021 there was $952,930 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 year ended December 31, 2021:

Satisfaction of purpose restrictions:	
Construction funding	$ 144,000
Home repair vehicle	5,550
	$ 149,550

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

Subject to expenditure for specified purpose:	
Construction funding	$ 916,777
Construction vehicle	23,763
General use	12,390
	$ 952,930

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.

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 consolidated 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 year ended December 31 2021:

Performance obligations satisfied at a point in time	$ 3,343,397

Revenue from performance obligations satisfied at a point in time are related to the sale of homes during the year and ReStore sales revenue.

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 consolidated financial statement and/or in the notes to the consolidated 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.

Financial assets at year end:	
Cash	$ 3,168,092
Accounts receivable	51,209
Grants and contributions receivable	10,000
Mortgages receivable, net of unamortized discount	1,294,029
ReStore inventory	405,209
Inventory of real estate and construction materials	1,146,202
Total financial assets:	6,074,741
Less those unavailable for general expenditures within one year:	
Contractual or donor-imposed restrictions:	
Restricted by donor for construction and general use	(952,930)
Financial assets available to meet cash needs for general expenditures within one year	$ 5,121,811

The Organization has a goal to maintain cash on hand to meet 90 days of normal operating expenses. 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 awards, contribution revenue, home and ReStore sales.

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, 2021 deferred rent amounted to $25,201.

Deferred Revenue

Deferred revenue consists of funds received in advance of services being performed and will be recognized as income in future periods when earned. At December 31, 2021 deferred revenue amounted to $15,053.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated 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 consolidated 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, 2021. Bad debt expense amounted to $61,902 for the year ended December 31, 2021.

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 year ended December 31, 2021.

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 consolidated 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 $517,848 for the year ended December 31, 2021, 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 consolidated 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 20,230 hours for the year ended December 31, 2021.

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 consolidated 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 consolidated 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 consolidate 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, 2021. 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 consolidated 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

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, 2021.

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 and line of credit: 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 $125,107 in advertising and marketing expenses for the year ended December 31, 2021.

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, 2021, with early adoption permitted.
The Organization is currently evaluating the impact of the adoption of this guidance on the Organization's consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is effective for fiscal years beginning after June 15, 2021, with early adoption permitted. The FASB ASU requires nonprofits to present contributed nonfinancial assets as a separate line item in the consolidated statement of activities apart from contributions of cash or other financial assets along with expanded disclosure requirements. The FASB issued the update in an effort to improve transparency in reporting nonprofit gifts-in-kind.

Risk and Uncertainty

The ongoing COVID-19 pandemic has caused an economic downturn on a global scale, disrupted global supply chains, and created significant uncertainty, volatility, and disruption across economies and financial markets. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Organization and financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which we operate and the related impact on consumer confidence and spending, all of which are highly uncertain.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after December 31, 2021 through the date of the independent auditors' report and the date the consolidated financial statements were available to be issued, March 7, 2022. The consolidated 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.

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 2051. Mortgages received for the year ended December 31, 2021 were discounted at the HFHI stipulated interest rate of 7.23%.

	2021
Face value of discounted mortgages	$ 1,163,374
Less: Unamortized discount	(614,455)
	548,919
Face value of undiscounted mortgages	843,765
	$ 1,392,684

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 2021 mortgages receivable with an aggregate book value of $1,232,755, net of the unamortized discount, were sold for $1,431,966 resulting in a net gain of $199,211.

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 that is in default for 90 or more days. These contingent liabilities are relieved on a monthly basis and totaled $702,186 as of December 31, 2021.

Mortgages receivable, acquired from Habitat for Humanity of Greater Plainfield and Middlesex County, Inc., amounted to $2,013,292 as of December 31, 2020. The Organization discounted these mortgages at 50%, resulting in a mortgage receivable, net of unamortized discount balance of $1,037,597, at the acquisition date. The Organization plans to sell the mortgages to local banks. The balance is included with mortgages receivable on the consolidated statement of financial position. The following schedule reflects the balance of mortgages receivable acquired through the acquisition at December 31, 2021:

Face value of discounted mortgages	$ 1,014,914
Less: Unamortized discount	(570,111)
	$ 444,803

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, 2021, inventory of real estate and construction materials amounted to $3,832,465. There was no bad debt expense for the year ended December 31, 2021.

5. Property and Equipment

Property and equipment and their related estimated useful lives at December 31, 2021 are as follows:

Assets	Estimated Useful Life (Years)	2021
Land		$ 99,963
Leasehold improvements	5 to 10	228,953
Furniture, fixtures, and equipment	3 to 10	407,531
Vehicles	5 to 7	313,055
		1,049,502
Less: accumulated depreciation		(631,612)
		$ 417,890

Depreciation expense for the year ended December 31, 2021 totaled $96,109.

6. Bank Line of Credit

The Organization has a $800,000 line of credit with a financial institution that expires in July 2023. The line has a sublimit of up to $200,000 for letters of credit. As of December 31, 2021 there was no outstanding balance on the line of credit. As of December 31, 2021 there was a $48,000 letter of credit issued 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 event profits to one or more international affiliates. The tithe for the year ended December 31, 2021 was $60,000.

10. Operating Leases

At December 31, 2021, the Organization was obligated under operating leases for its ReStore and office space, and for certain office equipment. The leases expires in August 2022 and July 2025. 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,	
2022	$ 292,740
2023	12,372
2024	12,372
2025	7,217
	$ 324,701

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 year ended December 31, 2021 amounted to $416,570 and $408,687, respectively.

Total equipment lease expense for the year ended December 31, 2021 amounted to $16,001.

11. Rents Held Prior to Sale

In July 2011, the acquired Organization entered into an agreement with a client to allow the client the right to use and occupy a home owned by the Organization on a month-to-month basis. The agreement stipulated that the client make monthly payments of $620 to the Organization.

The monthly payments increased to $720 a month, effective June 1, 2018. Per the agreement, monthly payments are held by the Organization as a liability until the date the property is sold to the client, at which point the liability will be applied against the mortgage receivable, reducing the amount owed by the client. As part of the acquisition agreement, this account was transferred to the books of Morris Habitat for Humanity, Inc. on November 3, 2020. As of December 31, 2021, rents held prior to sale amounted to $60,060.

12. Notes Payable

The Organization has 5 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, 2021:

SHOP 211041	$ 1,980
SHOP 221032	4,690
SHOP 222008	23,438
SHOP 223001	9,380
SHOP 231045	22,641
Total	$ 62,129

The Organization finances vehicles in the normal course of operations. The loans bear interest at rates between 3.99% and 5.99%, with maturity dates between October 2022 and October 2026. Repayment of the loans are due in monthly principal and interest payments ranging from $765 to $1,800. Each loan is secured by the related vehicle. As of December 31, 2021 there was an outstanding balance on the loans of $198,990.

In December 2020, the Organization was awarded partial forgiveness on their Paycheck Protection Program funding, resulting in a $10,525 note payable as of December 31, 2020. The loan bears interest at 1% and matures two years after the date of the first payment, which is to be determined by the lending institution. In July 2021, the Organization repaid the loan in full.

Principal amounts under the above obligations, maturing subsequent to December 31, 2021, are as follows:

Years ended December 31,	
2022	$ 71,893
2023	64,590
2024	61,619
2025	42,873
2026	20,109
Total	$ 261,084

13. Paycheck Protection Program

As part of the acquisition, the Organization assumed a liability in the amount of $59,562 related to the acquired Organization's PPP loan. In December 2020 the Organization received partial forgiveness of the PPP in the amount of $49,038. The remaining balance was recorded in notes payable on the consolidated statement of financial position. In July 2021 the Organization repaid the loan in full, satisfying the terms of the agreement.

In January 2021, the Organization applied and received an advance through the SBA for the second round of the Paycheck Protection Program ("PPP") in an amount of $416,385. In January 2022, the Organization received full forgiveness of the PPP in the amount of $416,385 in principal and $4,129 in interest. The amount is recognized as income on the consolidated statement of activities for the year ended December 31, 2021.

14. ReStore Activity

The ReStore had the following activity for the year ended December 31, 2021:

Sales	$ 2,895,397
Beginning inventory	400,360
Add: estimated value of new donations and purchased products	2,358,900
Less: ending inventory	(405,209)
Estimated value of sold goods	2,354,051
Estimated value of sold goods in excess of sales value	541,346
Total revenue, net	$ 2,895,397

15. Acquisition of Habitat for Humanity of Greater Plainfield and Middlesex County, Inc.

The following table summarizes the November 3, 2020 acquisition date fair values of the assets acquired and liabilities assumed:

Cash	$ 145,026
Grants and contributions receivable, net	10,000
Mortgages receivable, net of unamortized discount	1,037,597
Inventory of real estate and construction materials	461,328
Property and equipment, net	161,502
Accounts payable and accrued expenses	(8,500)
Rents held prior to sale	(52,861)
Refundable advance	(59,562)
Contribution of net assets of Habitat for Humanity Greater Plainfield and Middlesex Counties , Inc.	$ 1,694,530
Without donor restrictions	$ 1,602,530
With donor restrictions	92,000
	$ 1,694,530

It was determined that the fair value of assets and liabilities at the date of acquisition equaled the net book value; therefore, the recognition of goodwill or a charge to the consolidated statement of activities was not required. In accordance with FASB ASC, *Not-for-Profit Entities: Mergers and Acquisitions*, an inherent contribution in the amount of $1,694,530 was recorded in the consolidated statement of activities as of the acquisition date, representing the excess of the fair value of assets over the fair value of liabilities at the date of the acquisition.

The Organization did not transfer any consideration as part of the acquisition of Habitat for Humanity of Greater Plainfield and Middlesex County, Inc.

16. <u>Deferred Payroll Tax</u>

The Coronavirus, Aid, Relief and Economic Security Act (CARES Act) allows employers to defer the deposit and payment of the employer's share of Social Security taxes from March 27, 2020 through December 31, 2020. The Organization elected to adopt this provision of the CARES Act. 50% of the deferred payment of the employer's share of Social Security tax must be repaid by December 31, 2021, with the remaining 50% due by December 31, 2022. Deferred payroll taxes amounted to $50,284 as of December 31, 2021, and is included in accounts payable and accrued expenses line on the consolidated statement of financial position.

Supplementary Information

Morris Habitat For Humanity, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
December 31, 2021

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.									
Capacity Building Grant (CB) Leadership and Management	14.252	N/A	38-3055548	7/1/2020-9/30/2021	$ 50,000	$ 50,000	$ 50,000	$ 40,000	-
Passed through Community Development Agencies									
Home Investment Partnership Program									-
121 Main St.	14.239	N/A	12/19-1448	7/1/2019- 6/30/2022	300,000	300,000	21,385	21,385	-
412 Spruce St.	14.239	N/A	879-005-3981/3982	8/1/2017-8/19/2021	280,000	140,000	140,000	140,000	-
352 Howe Ave	14.239	N/A	19-10-308	1/20/2019-12/31/21	289,795	289,795	54,232	54,232	
2018 Perth Amboy 662 Cortland St	14.239	N/A	21-01013	6/1/2018-12/31/21	72,828	72,828	238	10,238	-
Community Development Block Grant (CDBG)									
2019 - Morris County- Home Repair	14.218	N/A	05/19-1444	7/1/2019-12/31/21	50,000	50,000	46,083	46,083	
Total Expenditures					$ 1,042,623	$ 902,623	$ 311,938	$ 311,938	$ -

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying consolidating 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).* Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements. All federal financial assistance received directly from federal agencies is included on the consolidated schedule of federal awards. Because the schedule presents 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. Summary of Significant Accounting Policies

The accompanying consolidated schedule of expenditures of federal awards is presented using the accrual basis of accounting which is described in Note 2 to the consolidated 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. 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 consolidated Schedule of Expenditures of Federal Awards, which is prepared on the accrual basis of accounting explained in Note 2.

4. Subrecipients

No federal awards were provided to subrecipients.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Consolidated 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 consolidated financial statements of Morris Habitat For Humanity, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated March 7, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Morris Habitat For Humanity, Inc. and Subsidiaries' internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morris Habitat For Humanity, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Morris Habitat For Humanity, Inc. and Subsidiaries' 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 or significant deficiencies may exist that were not identified.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morris Habitat For Humanity, Inc. and Subsidiaries' consolidated 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 consolidated financial statements. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nisivoccia LLP
Mt. Arlington, New Jersey
March 7, 2022

Summary of Auditors' Results:

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

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

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

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

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

Findings and Response for Federal Awards:

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

Morris Habitat For Humanity, Inc.
Schedule of Prior Year Audit Findings
December 31, 2021

Status of Prior Year Findings

There were no audit findings in the prior year.