

Habitat for Humanity of Tulare/Kings Counties, Inc.

Audited Financial Statements
(With Independent Auditor's Report)

For the Years Ended June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors
Habitat for Humanity of Tulare/Kings Counties, Inc.
Visalia, California

We have audited the accompanying financial statements of Habitat for Humanity of Tulare/Kings Counties, Inc. (a not-for-profit corporation) which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Tulare/Kings Counties, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, on our consideration of Habitat for Humanity of Tulare/Kings Counties, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity of Tulare/Kings Counties, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Shawn Washington". The signature is written in a cursive style with a large initial 'S'.

Moreno Valley, California
October 10, 2016

Habitat For Humanity of Tulare/Kings Counties, Inc.
 Statements of Financial Position
 As of June 30, 2016 and 2015

(See Independent Auditor's Report)

Assets

	2016	2015
Assets:		
Current Assets		
Cash and cash equivalents (Note 1 and 2)	\$ 423,130	679,285
Mortgages receivable, net (Note 3)	134,664	123,208
Bequest Receivable	-	100,000
Notes Receivable, net of allowance for uncollectable accounts of \$5,867	36,146	18,031
Inventory	77,463	70,313
Prepays and other	33,274	29,462
Completed projects held for sale	165,776	-
Construction-in-progress	315,306	89,371
Total Current Assets	1,185,759	1,109,670
Non Current Assets		
Mortgage receivable (Note 3)	910,371	894,840
Property and equipment, net (Note 4)	661,336	656,134
Total Non Current Assets	1,571,707	1,550,974
Total Assets	2,757,466	2,660,644

Liabilities and Net Assets

Liabilities:		
Current Liabilities		
Accounts payable and accrued expenses	24,631	31,937
Borrower impounds	7,996	14,362
Note Payable (Note 5)	288,713	29,221
Total Current Liabilities	321,340	75,520
Long Term Liabilities		
Notes payable, less current (Note 5)	351,780	386,066
Total Long Term Liabilities	351,780	386,066
Total Liabilities	673,120	461,586
Net assets:		
Without donor restrictions	2,013,145	2,060,977
With donor restrictions (Note 8)	71,201	138,081
Total net assets	2,084,346	2,199,058
Total liabilities and net assets	\$ 2,757,466	2,660,644

The accompanying notes are an integral part of these financial statements.

Habitat For Humanity of Tulare/Kings Counties, Inc.
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2016 and 2015

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total 2016	Total 2015
<u>Support and other revenue:</u>				
Support:				
Contributions	\$ 319,579	-	319,579	330,425
Grants	20,000		20,000	87,319
In-kind donations	39,067		39,067	43,447
Released from restrictions	66,880	(66,880)	-	-
Total Support	445,526	(66,880)	378,646	461,191
Revenues:				
Home sales	125,000		125,000	322,075
Re-Store income	302,307		302,307	300,655
Imputed interest income	60,121		60,121	79,727
Developer, participant fees and other	20,175		20,175	3,620
Interest income	762		762	494
Total Revenues	508,365	-	508,365	706,571
Total Support and Revenues:	953,891	(66,880)	887,011	1,167,762
Expenses:				
Cost of Sales	170,183		170,183	482,405
Salary, wages and benefits	553,842		553,842	476,287
Insurance	13,212		13,212	10,852
Fundraising	34,730		34,730	28,529
Advertising	18,086		18,086	18,120
Affiliate Dues	15,000		15,000	10,000
Interest expense	18,053		18,053	24,780
Construction programs	59,755		59,755	18,934
Depreciation	26,417		26,417	22,402
Vehicle rental & maintenance	11,931		11,931	15,811
Professional fees	16,170		16,170	15,375
Occupancy costs	18,443		18,443	13,319
Office expense	6,541		6,541	10,396
Supplies	18,420		18,420	7,479
Computer Support	10,049		10,049	7,543
Credit card fees	6,125		6,125	5,786
Conferences and education	4,765		4,765	5,002
Total expenses	1,001,723	-	1,001,723	1,173,020
Change in net assets	(47,832)	(66,880)	(114,712)	(5,258)
Net assets, beginning of year	2,060,977	138,081	2,199,058	2,204,316
Net assets, end of year	\$ 2,013,145	71,201	2,084,346	2,199,058

The accompanying notes are an integral part of these financial statements.

Habitat For Humanity of Tulare/Kings Counties, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

(See Independent Auditor's Report)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (114,712)	(5,258)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
In-kind contributions	(23,958)	(25,000)
Depreciation	26,417	22,402
Change in current assets	(64,877)	(60,735)
Change in current liabilities	(13,674)	14,787
Cash provided (used) by operating activities	(190,805)	(53,804)
Cash flows from investing activities:		
Purchase of equipment	(7,661)	(49,039)
Construction in progress	(366,711)	(64,370)
Collections on mortgages receivable	108,813	153,256
Cash provided (used) by investing activities	(265,559)	39,847
Cash flows from financing activities:		
Principal payments on notes payable	(31,038)	(27,451)
Proceeds from borrowings	231,247	-
Cash provided (used) by financing activities	200,209	(27,451)
Change in cash	(256,155)	(41,408)
Cash, beginning of year	679,285	720,693
Cash, end of year	423,130	679,285
<u>Supplemental Disclosure of Cash Flows Information:</u>		
Cash paid for interest	18,053	24,780
Cash paid for income tax	-	-
<u>Noncash Financing and Investing Activities:</u>		
Disposal of equipment	-	2,955
Donated equipment received	23,958	-
Financing of construction-in-progress	\$ 25,000	-

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Tulare/Kings Counties, Inc.
Notes to Financial Statements

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Organization and Operations:

Habitat for Humanity of Tulare/Kings Counties, Inc. ("Organization" or "Habitat") was formed in July 1994 as a California non-profit corporation and was recognized as an affiliate of Habitat for Humanity International, Inc. of Americus, Georgia ("HFHI"). During FY2016, HFHI authorized the Organization to expand its service area to include Kings County, and the Organization amended its articles of incorporation to reflect this change. The restated Articles were approved by the board of directors on February 24, 2016 and recorded by the California Secretary of State on April 13, 2016. Habitat is a non-profit, ecumenical Christian housing ministry seeking to eliminate poverty housing and to make decent shelter a matter of conscience and action.

Program Services:

The Organization works in partnership with families, volunteers, donors, and God to build, renovate, and repair homes with hardworking, low-income participants. Its partners include businesses, congregations, foundations, non-profit organizations, service clubs, and individuals who contribute money, labor and materials to support the Organization's efforts to build, renovate and repair homes with low-income households.

Program services costs include expenditures for materials, subcontractors and Habitat staff involved in its homeownership and home repair programs; these costs are recognized at the time of the sale of the home (mortgage receivable) or the signing of a promissory note (note receivable).

The Organization operates a ReStore, a thrift store for building materials and supplies. All items in the ReStore are donated by contractors, individuals, and retailers. The focus of the ReStore is to divert useable building materials from the landfill; make those materials available to the public at discounted prices; and use the proceeds to build, renovate, and repair homes of low-income participants.

Basis of Accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Inventory:

Inventory consists of donated building materials, household furniture and fixtures that are sold to the public through the Restore. Inventory is valued at estimated fair market value as of the date received.

Habitat for Humanity of Tulare/Kings Counties, Inc.
Notes to Financial Statements

Note 1 - Nature of Activities and Summary of Significant Accounting Policies, continued

Property and Equipment:

Acquisitions of property and equipment in excess of \$1,000 and an expected life greater than one year are capitalized. Property and equipment are recorded at cost. Donated property and equipment is recorded as contributions at their estimated fair value as of the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range between 3 to 39 years.

Borrower Impounds:

Trust funds are collected monthly from homeowners to pay for their property taxes and insurance on the properties financed by the Organization.

Financial Statements Presentation:

Under Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, Habitat for Humanity of Tulare/Kings Counties, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: *unrestricted, temporarily and permanently restricted net assets*.

Contributions:

Under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Contributed Services:

A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these financial statements since it does not require a specialized skill.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status:

The Organization is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and applicable California Revenue and Taxation Codes. The Organization has been granted exempt status as a subordinate entity of Habitat for Humanity International, Inc. ("HFHI") and is included in the HFHI group tax exemption.

Habitat for Humanity of Tulare/Kings Counties, Inc.
Notes to Financial Statements

Note 1 - Nature of Activities and Summary of Significant Accounting Policies, continued

Reclassifications:

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note 2 - Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. Amounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2016, the Organization had approximately \$4,630 on deposit exceeding the insured limit.

Note 3 - Mortgages Receivable

Mortgages receivable represent the amounts financed for homeowners upon purchase of the houses built by the Organization. The Organization's mortgages are non-interest bearing and are typically due in monthly installments over 15 to 30 years. The mortgages have been discounted using an effective interest rate of 7%. The discount is recognized as interest income using the effective interest method over the life of the loans. The mortgages are secured by deeds of trust on the underlying real estate located in Tulare and Kings Counties.

Mortgages are considered past due and a \$10 delinquent payment penalty is assessed if the payment is not made within 15 days after the due date. Management performs periodic reviews of the mortgage loan status.

Mortgages receivable are comprised as follows:

	2016	2015
Mortgages receivable at face value, payable in aggregate monthly installments of \$10,986 with no interest, due through 2044, secured by deeds of trust.	\$ 1,581,323	1,508,104
Less unamortized discount at 7%	(536,288)	(490,056)
Net	\$ 1,045,035	1,018,048
 Mortgage Receivable - Current	 \$ 134,664	 123,208
Mortgage Receivable - Non Current	910,371	894,840
	\$ 1,045,035	1,018,048

Habitat for Humanity of Tulare/Kings Counties, Inc.
Notes to Financial Statements

Note 3 - Mortgages Receivable, continued

Maturities of mortgages receivable for the next five years and in the aggregate are as follows:

<u>Year Ending June 30,</u>	
2017	134,669
2018	131,933
2019	126,293
2020	123,796
2021	115,240
2022 and thereafter	<u>949,392</u>
Total	<u>\$ 1,581,323</u>

<u>Delinquency Period</u>	<u>Borrowers</u>		<u>Delinquent Amount</u>	
	2016	2015	2016	2015
30 days	5	5	\$ 1,194	712
60 days	4	1	961	300
90 days	4	1	<u>25,933</u>	<u>18,949</u>
			<u>\$ 28,088</u>	<u>19,961</u>

There are a total of five unduplicated borrowers who are delinquent 30 days or more on their Habitat mortgage payments.

Note 4 - Property and Equipment

	2016	2015
Building	\$ 287,586	287,586
Land	342,338	342,338
Vehicles	91,903	67,945
Furniture, machinery and equipment	85,446	79,211
Building Improvements	<u>18,737</u>	<u>18,737</u>
Total	826,010	795,817
Less: accumulated depreciation	<u>(164,674)</u>	<u>(139,683)</u>
Property and equipment, net	<u>\$ 661,336</u>	<u>656,134</u>

Depreciation expense was \$ 26,417 and 22,402 for the years ended June 30, 2016 and 2015, respectively.

Habitat for Humanity of Tulare/Kings Counties, Inc.
Notes to Financial Statements

Note 5 - Notes Payable

Notes payable are comprised as follows:

	2016	2015
Note payable, City of Visalia dated August 18, 2015, Department of Housing and Urban Development (HUD), Home Program. The note is non-interest bearing and is secured by deed of trust in honor of the City of Visalia.	\$ 25,000	-
Notes payable, City of Visalia, under the Community Development Block Grant (CDBG), Neighborhood Stabilization Program (NSP), pursuant to Title 1 of the Housing and Community Development Act of 1974, as amended, 24 CFR Part 570 of the regulations of the US Department of Housing and Urban Development (HUD). The note is non-interest bearing. Funding under this program is available through December 31, 2016.	\$ 231,247	-
Note payable to the Petersen Trust bearing interest at 4.5% per annum commencing March 14, 2011. Monthly payments of principal and interest are due in the amount of \$4,091. The note matures February 12, 2026 and is secured by a first deed of trust on real property with a book value of \$538,235. On April 15, 2015, the note was modified reducing the interest rate from 6% to 4.5% and the principal and interest payment from \$4,404 to \$4,091.		
Total	\$ <u>384,246</u> <u>640,493</u>	<u>415,287</u> <u>415,287</u>
Less current	<u>(288,713)</u>	<u>(29,221)</u>
Note Payable non current	\$ <u>351,780</u>	<u>386,066</u>

Habitat for Humanity of Tulare/Kings Counties, Inc.
Notes to Financial Statements

Note 5 - Notes Payable, continued

The following is a summary of principal maturities of notes payable during the next five years and in the aggregate.

<u>Year Ending June 30,</u>	
2017	288,713
2018	33,958
2019	35,518
2020	37,150
2021	38,856
2022 and thereafter	<u>206,298</u>
Total \$	<u>640,493</u>

Note 6 - Retirement Plan

The Organization adopted a SIMPLE IRA Plan (the "Plan") as of July 1, 2013, whereby all eligible employees can defer up to the lesser of 100% of their compensation up to the legal limit as defined by the Internal Revenue Code. Employees are eligible to participate in the Plan once they have received at least \$500 in compensation in the current year. The Organization is obligated to match employee contributions to their SIMPLE IRA account up to 3% of each employee's compensation. During the year ended June 30, 2016 and 2015, the Organization contributed \$11,436 and \$9,233, respectively, in employer-matching contributions.

Note 7 - With donor restrictions

Temporarily restricted net assets are comprised as follows:

	<u>2016</u>	<u>2015</u>
Estate of Mary Williams	\$ 71,203	75,000
"A Brush With Kindness" Home Repair Program	-	39,708
Hanford Building Projects	-	15,176
Porterville Building Projects	-	<u>8,197</u>
Total	<u>\$ 71,203</u>	<u>138,081</u>

Habitat for Humanity of Tulare/Kings Counties, Inc.
Notes to Financial Statements

Note 8 - Functional Expenses

The Organization's expenses by function for the year ended June 30, 2016 and 2015 are as follows:

	2016	2015
Program Services:		
Construction programs	\$ 250,585	552,960
Restore	306,211	233,960
Other	153,906	68,665
Total program services	710,702	855,585
Supporting Services:		
Managerial and general	147,326	219,723
Fund raising	143,695	97,712
Total supporting services	291,021	317,435
Total expenses	\$ 1,001,723	1,173,020

Note 9 - Contingencies

The Organization's programs are funded, in part, by various grants. These programs may be subject to financial and compliance audits by the granting agency, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Management believes that any liability for reimbursement, which may arise as a result from these audits, is not material.

Note 10 - Subsequent Events

The Organization has evaluated subsequent events for recognition and disclosure through October 10, 2016 which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



Independent Auditor's Report On Internal Control Over Financial Reporting
And on Compliance with Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Habitat for Humanity of Tulare/Kings Counties, Inc.
Visalia, California

We have audited, in accordance with the 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 Habitat for Humanity of Tulare/Kings Counties, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity of Tulare/Kings Counties, 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 Habitat for Humanity of Tulare/Kings Counties, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Tulare/Kings Counties, 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity of Tulare/Kings Counties, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Shawn Washington". The signature is written in a cursive, flowing style.

Moreno Valley, California
October 10, 2016