

Habitat for Humanity of Tulare/Kings Counties, Inc.

Audited Financial Statements
(With Independent Auditor's Report)

For the Years Ended June 30, 2017 and 2016

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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 nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 a basis for our audit 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2017, 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, flowing style.

Riverside, California
August 9, 2017

Habitat for Humanity of Tulare/Kings Counties, Inc.

Statements of Financial Position

As of June 30, 2017 and 2016

(See Independent Auditor's Report)

	<u>2017</u>	<u>2016</u>
Assets		
Assets:		
Current Assets		
Cash and cash equivalents (Note 1 and 2)	\$ 340,757	423,130
Mortgages receivable, current (Note 4)	124,344	108,671
Notes receivable, current (Note 3)	15,025	21,986
Inventory	64,312	77,463
Prepays and other	37,561	33,274
Completed projects held for sale	-	165,776
Construction-in-progress	84,490	315,306
Total Current Assets	<u>666,489</u>	<u>1,145,606</u>
Noncurrent Assets		
Mortgages receivable, less current (Note 4)	874,317	801,364
Notes receivable, less current (Note 3)	6,747	14,160
Property and equipment, net (Note 7)	636,157	661,336
CalHome secondary loans (Note 5)	139,568	80,000
Habitat secondary loans (Note 6)	55,000	55,000
Total Noncurrent Assets	<u>1,711,789</u>	<u>1,611,860</u>
Total Assets	<u>2,378,278</u>	<u>2,757,466</u>
Liabilities and Net Assets		
Liabilities:		
Current Liabilities		
Accounts payable and accrued expenses	21,031	24,631
Borrower impounds	15,847	7,996
Notes payable, current (Note 8)	33,958	288,713
Total Current Liabilities	<u>70,836</u>	<u>321,340</u>
Long-term Liabilities		
Notes payable, less current (Note 8)	317,822	351,780
Total Long-term Liabilities	<u>317,822</u>	<u>351,780</u>
Total Liabilities	<u>388,658</u>	<u>673,120</u>
Net Assets:		
Without donor restrictions	1,887,594	2,013,145
With donor restrictions (Note 9)	102,026	71,201
Total Net Assets	<u>1,989,620</u>	<u>2,084,346</u>
Total Liabilities and Net Assets	<u>\$ 2,378,278</u>	<u>2,757,466</u>

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, 2017 and 2016

(See Independent Auditor's Report)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2017</u>	<u>Total 2016</u>
<u>Support and other revenue:</u>				
Support:				
Contributions	\$ 227,071	41,455	268,526	319,579
Grants	113,402		113,402	20,000
In-kind donations	74,522		74,522	39,067
Released from restrictions	26	(26)	-	-
Total Support	<u>415,021</u>	<u>41,429</u>	<u>456,450</u>	<u>378,646</u>
Revenues:				
Home sales	361,370		361,370	125,000
ReStore income	294,331		294,331	302,307
Imputed interest income	64,132		64,132	60,121
Developer, participant fees and other	23,994		23,994	20,175
Interest income	531		531	762
Total Revenues	<u>744,358</u>	<u>-</u>	<u>744,358</u>	<u>508,365</u>
Total Support and Revenues:	<u>1,159,379</u>	<u>41,429</u>	<u>1,200,808</u>	<u>887,011</u>
Expenses:				
Salary, wages and benefits	525,820		525,820	553,842
Cost of sales	517,240		517,240	170,183
Construction programs	51,009	10,605	61,614	59,755
Fundraising	28,429		28,429	34,730
Depreciation	25,179		25,179	26,417
Insurance	17,216		17,216	13,212
Affiliate dues	17,000		17,000	15,000
Occupancy costs	16,655		16,655	18,443
Interest expense	16,627		16,627	18,053
Professional fees	16,175		16,175	16,170
Supplies	15,332		15,332	18,420
Vehicle rental and maintenance	13,741		13,741	11,931
Office equipment and supplies	13,422		13,422	16,590
Credit card fees	4,791		4,791	6,125
Conferences and education	3,230		3,230	4,765
Advertising	3,063		3,063	18,086
Total Expenses:	<u>1,284,929</u>	<u>10,605</u>	<u>1,295,534</u>	<u>1,001,723</u>
Change in net assets	(125,551)	30,825	(94,726)	(114,712)
Net assets, beginning of year	2,013,145	71,201	2,084,346	2,199,058
Net assets, end of year	<u>\$ 1,887,594</u>	<u>102,026</u>	<u>1,989,620</u>	<u>2,084,346</u>

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, 2017 and 2016

(See Independent Auditor's Report)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (94,726)	(114,712)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
In-kind contributions	(77,000)	(23,958)
Depreciation	25,179	26,417
Change in current assets	189,553	(64,877)
Change in current liabilities	4,251	(13,674)
Cash provided (used) by operating activities	47,257	(190,805)
Cash flows from investing activities:		
Purchase of equipment	-	(7,661)
Construction-in-progress	(290,220)	(366,711)
Collections on mortgages receivable	108,671	108,813
Cash provided (used) by investing activities	(181,549)	(265,559)
Cash flows from financing activities:		
Principal payments on notes payable	(32,466)	(31,038)
Proceeds from borrowings	84,385	231,247
Cash provided (used) by financing activities	51,919	200,209
Change in cash	(82,373)	(256,155)
Cash, beginning of year	423,130	679,285
Cash, end of year	340,757	423,130
<u>Supplemental Disclosure of Cash Flows Information:</u>		
Cash paid for interest	16,627	18,053
Cash paid for income tax	-	-
<u>Noncash Financing and Investing Activities:</u>		
Donated property and equipment received	77,000	23,958
Financing of construction-in-progress	\$ 317,000	25,000

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.

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

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

Inventory:

Donated:

Donated inventory consists of 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.

Purchased:

Purchased inventory consists of limited items purchased for sale that are recorded at the lower of cost or market value.

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.

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

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

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.

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, 2017, the Organization had not exceeded the insured limit.

Note 3 - Notes Receivable

Notes receivable consist of future payments for contracted home improvement and rehabilitation projects under Habitat's "Home Repair/A Brush with Kindness" program. Homeowners sign promissory notes committing to these payments; the notes carry an interest rate of zero (0%) with maturities generally ranging up to 60 months. The promissory notes are typically not secured against the homeowner's property.

The statuses of the notes receivable are reviewed monthly. Seriously delinquent accounts are reserved and categorized as "doubtful" or "uncollectible".

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

Note 3 - Notes Receivable, continued

Notes receivable are comprised as follows:

	<u>2017</u>	<u>2016</u>
Notes receivable	\$ 33,224	41,834
Less: allowance for doubtful accounts	<u>(11,452)</u>	<u>(5,688)</u>
Notes receivable, net	<u>\$ 21,772</u>	<u>36,146</u>
Notes receivable - current	\$ 15,025	21,986
Notes receivable - noncurrent	<u>6,747</u>	<u>14,160</u>
	<u>\$ 21,772</u>	<u>36,146</u>

The following is a summary of notes receivable for the next four years:

<u>Year Ending June 30,</u>	
2018	15,025
2019	4,712
2020	1,244
2021	791
Total \$	<u>21,772</u>

Note 4 - 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 deed 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:

	<u>2017</u>	<u>2016</u>
Mortgages receivable at face value, payable in aggregate monthly installments of \$10,362 with no interest, due through March 2046, secured by deeds of trust.	\$ 1,662,324	1,446,323
Less: unamortized discount at 7%	<u>(663,663)</u>	<u>(536,288)</u>
Mortgages receivable, net	<u>\$ 998,661</u>	<u>910,035</u>
Mortgages receivable - current	\$ 124,344	108,671
Mortgages receivable - noncurrent	<u>874,317</u>	<u>801,364</u>
	<u>\$ 998,661</u>	<u>910,035</u>

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

Note 4 - 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>	
2018	124,344
2019	124,344
2020	121,851
2021	115,395
2022	112,984
2023 and thereafter	<u>1,063,406</u>
Total \$	<u><u>1,662,324</u></u>

<u>Delinquency Period</u>	<u>Borrowers</u>		<u>Delinquent Amount</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
30 days	5	5	\$ 600	1,194
60 days	5	4	1,067	961
90 days	5	4	<u>34,341</u>	<u>25,933</u>
			<u>\$ 36,008</u>	<u>28,088</u>

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

Note 5 - CalHome Program

On September 5, 2012, Habitat entered into an Agreement with the California Department of Housing and Community Development (HCD), Division of Financial Assistance-CalHome Program. The amount to be provided to Habitat by the agreement was not to exceed \$140,000, and funding under this program was to expire April 5, 2015. Habitat was awarded this funding pursuant to Chapter 6, Part 2, Division 31 of the Health and Safety Code, commencing with Section 50650 (the "CalHome Statutes") and regulations found in Title 25 of the California Code of Regulation, Division 1, Chapter 7, Subchapter 9 commencing with Section 7715 ("CalHome Regulations"), all as amended and in effect from time to time. Under this program, Habitat would utilize the funds to provide down payment assistance for at least seven qualified first-time homebuyers. Homebuyer qualifications included (although were not limited to) the following: low to very-low income families working with Habitat's "sweat equity" first-time homeowner program with housing and total debt ratios of not more than 30% and 40%, respectively, and an acceptable credit history. The funds were to be used to assist in the purchase of single-family dwellings. The CalHome funds were to be loaned by Habitat to the homeowner on a zero-interest deferred promissory note due at the time the homeowner transfers title or no longer resides in the dwelling. Periodic draw requests were submitted by Habitat to HCD with the final \$60,000 dispersed to Habitat in during fiscal year ending June 30, 2017. During the period of the Agreement, HCD approved three extensions of the CalHome Agreement (April 5, 2016, April 5, 2017 and May 31, 2017, respectively) to allow time for the full utilization of the funds.

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

Note 5 - CalHome Program, continued

As of the end of the fiscal year ending June 30, 2017, the entire amount of the grant had been drawn and utilized for its intended purpose.

By the terms of the Agreement, the CalHome-funded homeowner loans are repaid to Habitat, segregated in a CalHome Reuse fund and utilized for future secondary financing for future Habitat homeowners. The amount of deferred CalHome funds as of June 30, 2017 included in the statement of financial position was \$139,568.

Note 6 - Habitat Secondary Loans

In order to maintain affordability for its homeowners, Habitat on occasion offers zero interest deferred payment secondary loans. Payments on these loans are due when the homeowner sells, refinances or at maturity of the primary loan. During the fiscal year ended June 30, 2017, Habitat has provided four (4) secondary loans in the amount of \$55,000.

Note 7 - Property and Equipment

Property and equipment are comprised as follows:

	<u>2017</u>	<u>2016</u>
Building	\$ 287,585	287,586
Land	342,338	342,338
Vehicles	91,903	91,903
Furniture, machinery and equipment	84,048	85,446
Building improvements	<u>18,737</u>	<u>18,737</u>
Total property and equipment	824,611	826,010
Less: accumulated depreciation	<u>(188,454)</u>	<u>(164,674)</u>
Property and equipment, net	<u>\$ 636,157</u>	<u>661,336</u>

Depreciation expense was \$25,179 and 26,417 for the years ended June 30, 2017 and 2016, respectively.

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

Note 8 - Notes Payable

Notes payable are comprised as follows:

	2017	2016
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
Note payable, City of Visalia, under the Community Development Block Grant (CDBG), Neighborhood Stabilization Program (NSP) (See program description below).	\$ -	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 \$530,609.		
	351,780	384,246
Total	\$ 351,780	640,493
Less current	(33,958)	(288,713)
Notes payable - noncurrent	\$ 317,822	351,780

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

Year Ending June 30,	
2018	33,958
2019	35,518
2020	37,150
2021	38,856
2022	40,641
2023 and thereafter	165,657
Total	\$ 351,780

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

Note 8 - Notes Payable, continued

City of Visalia, Community Development Block Grant Program:

On December 30, 2011 Habitat entered into an Affordable Housing Loan Agreement with the City of Visalia. The City was awarded funds under the Community Development Block Grant for the Neighborhood Stabilization Program (NSP) pursuant to Title I of the Housing and Community Development Act of 1974, as amended, 24 CFR Part 570 of the regulations of the United States Department of Housing and Urban Development ("HUD") as the same has been amended. Under this program, Habitat acts as project developer, which includes acquiring and rehabilitating approved, vacant, single-family houses that are foreclosed located in qualifying neighborhoods in the City of Visalia, ultimately, selling the homes to Eligible Purchasers as defined by the NSP program guidelines. The NSP funds are initially loaned to Habitat to reimburse project expenses. When Habitat sells the completed home, the Eligible Purchaser assumes the loan and Habitat's obligation is discharged. Under the program guidelines Habitat is able to charge a Developer fee in the amount of 5% of acquisition cost and 15% of rehabilitation cost. Funding under this program expires December 31, 2017.

Note 9 - With Donor Restrictions

Temporarily restricted net assets are comprised as follows:

	<u>2017</u>	<u>2016</u>
Kings County Building Projects	\$ 71,926	71,201
Porterville Building Projects	22,508	-
"A Brush With Kindness" Home Repair Program	7,160	-
CalHome Reuse Fund	432	-
Total	<u>\$ 102,026</u>	<u>71,201</u>

Note 10 - Functional Expenses

The Organization's expenses by function for the year ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Program services:		
Construction programs	\$ 646,499	250,585
ReStore	268,689	306,211
Home repair program/ABWK	117,257	153,906
Total program services	<u>1,032,445</u>	<u>710,702</u>
Supporting services:		
Managerial and general	116,684	147,326
Fundraising	146,405	143,695
Total supporting services	<u>263,089</u>	<u>291,021</u>
Total expenses	<u>\$ 1,295,534</u>	<u>1,001,723</u>

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

Note 11 - 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 12 - Retirement Plan

The Organization adopted a SIMPLE IRA Plan (the "Plan") as of July 1, 2013, whereby all eligible employees can defer up to 100% of their compensation up to the legal limit as defined by the Internal Revenue Code. Employees are eligible to participate in the Plan if they are expected to receive at least \$3,300 in compensation in the current year. The Organization is obligated to match employee contributions to the SIMPLE IRA account up to 3% of each employee's compensation. During the year ended June 30, 2017 and 2016, the Organization contributed \$11,418 and \$11,462, respectively, in employer-matching contributions.

Note 13 - Subsequent Events

The Organization has evaluated subsequent events for recognition and disclosure through August 9, 2017 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, 2017, 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 August 9, 2017.

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 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.

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

Riverside, California
August 9, 2017