

Habitat for Humanity of Tulare/Kings Counties, Inc.

Audited Financial Statements
(With Independent Auditor's Report)

For the Years Ended June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 16, 2018, 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 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 Habitat for Humanity of Tulare/Kings Counties, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 16, 2018

Habitat for Humanity of Tulare/Kings Counties, Inc.

Statements of Financial Position

As of June 30, 2018 and 2017

(See Independent Auditor's Report)

Assets

	<u>2018</u>	<u>2017</u>
Assets:		
Current Assets		
Cash and cash equivalents	\$ 378,835	340,757
Mortgages receivable, current	124,894	124,344
Notes receivable, current	17,103	15,025
Inventory	71,030	64,312
Prepays and other	33,775	37,561
Construction-in-progress	56,029	84,490
Total Current Assets	<u>681,666</u>	<u>666,489</u>
Noncurrent Assets		
Mortgages receivable, less current	820,998	874,317
Notes receivable, less current	7,367	6,747
Property and equipment, net	583,774	636,157
CalHome secondary loans	139,008	139,568
Habitat secondary loans	55,000	55,000
Total Noncurrent Assets	<u>1,606,147</u>	<u>1,711,789</u>
Total Assets	<u>2,287,813</u>	<u>2,378,278</u>

Liabilities and Net Assets

Liabilities:		
Current Liabilities		
Accounts payable and accrued expenses	27,825	21,031
Borrower impounds	18,979	15,847
Notes payable, current	35,518	33,958
Total Current Liabilities	<u>82,322</u>	<u>70,836</u>
Long-term Liabilities		
Notes payable, less current	282,304	317,822
Total Long-term Liabilities	<u>282,304</u>	<u>317,822</u>
Total Liabilities	<u>364,626</u>	<u>388,658</u>
Net Assets:		
Unrestricted	1,826,852	1,887,594
Temporarily restricted	96,335	102,026
Total Net Assets	<u>1,923,187</u>	<u>1,989,620</u>
Total Liabilities and Net Assets	<u>\$ 2,287,813</u>	<u>2,378,278</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, 2018 and 2017

(See Independent Auditor's Report)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2018</u>	<u>Total 2017</u>
<u>Support and other revenue:</u>				
Support:				
Contributions	\$ 130,274	35,046	165,320	232,027
Grants	14,048	55,500	69,548	113,402
In-kind donations	17,623		17,623	74,522
Released from restrictions	96,237	(96,237)	-	-
Total Support	<u>258,182</u>	<u>(5,691)</u>	<u>252,491</u>	<u>419,951</u>
Revenues:				
Home sales	86,000		86,000	361,370
ReStore income	355,175		355,175	294,331
Imputed interest income	62,747		62,747	64,132
Developer, participant fees and other	111,097		111,097	60,497
Interest income	729		729	531
Total Revenues	<u>615,748</u>	<u>-</u>	<u>615,748</u>	<u>780,861</u>
Total Support and Revenues:	<u>873,930</u>	<u>(5,691)</u>	<u>868,239</u>	<u>1,200,812</u>
Expenses:				
Salary, wages and benefits	586,357		586,357	525,820
Cost of sales	92,706		92,706	509,726
Construction programs	39,868		39,868	61,614
Supplies	29,441		29,441	22,850
Occupancy costs	24,910		24,910	16,655
Depreciation	24,844		24,844	25,179
Fundraising	23,752		23,752	28,429
Vehicle rental and maintenance	22,563		22,563	13,741
Affiliate dues	17,000		17,000	17,000
Insurance	16,942		16,942	17,216
Professional fees	16,650		16,650	16,175
Interest expense	15,811		15,811	16,627
Office equipment and supplies	9,871		9,871	13,422
Credit card fees	4,553		4,553	4,791
Advertising	4,390		4,390	3,063
Conferences and education	2,549		2,549	3,230
Loss on sale of asset	2,465		2,465	-
Total Expenses:	<u>934,672</u>	<u>-</u>	<u>934,672</u>	<u>1,295,538</u>
Change in net assets	(60,742)	(5,691)	(66,433)	(94,726)
Net assets, beginning of year	1,887,594	102,026	1,989,620	2,084,346
Net assets, end of year	\$ <u>1,826,852</u>	<u>96,335</u>	<u>1,923,187</u>	<u>1,989,620</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, 2018 and 2017

(See Independent Auditor's Report)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (66,433)	(94,726)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
In-kind Contributions	3,783	(77,000)
Loss on sale of assets	2,465	-
Depreciation	24,844	25,179
Change in current assets	(66,010)	189,553
Change in current liabilities	9,926	4,251
Cash provided (used) by operating activities	(91,425)	47,257
Cash flows from investing activities:		
Proceeds from sale of land	27,753	-
Purchase of equipment	(2,678)	-
Proceeds from sale of home	81,135	-
Construction-in-progress	(58,264)	(290,220)
Collections on mortgages receivable	115,515	108,671
Cash provided (used) by investing activities	163,461	(181,549)
Cash flows from financing activities:		
Principal payments on notes payable	(33,958)	(32,466)
Proceeds from borrowings	-	84,385
Cash provided (used) by financing activities	(33,958)	51,919
Change in cash	38,078	(82,373)
Cash, beginning of year	340,757	423,130
Cash, end of year	378,835	340,757
<u>Supplemental Disclosure of Cash Flows Information:</u>		
Cash paid for interest	15,811	16,627
Cash paid for income tax	-	-
<u>Noncash Financing and Investing Activities:</u>		
Donated property and equipment received	-	77,000
Financing of construction-in-progress	-	317,000

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

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

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 1 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.

Contributions:

All contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

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

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.

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, 2018, the Organization had not exceeded the insured limit.

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".

Notes receivable are comprised as follows:

	<u>2018</u>	<u>2017</u>
Notes receivable	\$ 29,980	33,224
Less: allowance for doubtful accounts	<u>(5,510)</u>	<u>(11,452)</u>
Notes receivable, net	<u>\$ 24,470</u>	<u>21,772</u>
Notes receivable - current	\$ 17,103	15,025
Notes receivable - noncurrent	<u>7,367</u>	<u>6,747</u>
	<u>\$ 24,470</u>	<u>21,772</u>

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

Notes Receivable, continued

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

<u>Year Ending June 30,</u>	
2019	17,103
2020	5,467
2021	1,331
2022	569
Total \$	<u>24,470</u>

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:

	2018	2017
Mortgages receivable at face value, payable in aggregate monthly installments of \$10,572 with no interest, due through March 2046, secured by deeds of trust.	\$ 1,546,808	1,662,324
Less: unamortized discount at 7%	<u>(600,916)</u>	<u>(663,663)</u>
Mortgages receivable, net	<u>\$ 945,892</u>	<u>998,661</u>
Mortgages receivable - current	\$ 124,894	124,344
Mortgages receivable - noncurrent	<u>820,998</u>	<u>874,317</u>
	<u>\$ 945,892</u>	<u>998,661</u>

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

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>	
2019	124,894
2020	124,144
2021	117,915
2022	115,504
2023	113,083
2024 and thereafter	<u>951,268</u>
Total \$	<u>1,546,808</u>

<u>Delinquency Period</u>	<u>Borrowers</u>		<u>Delinquent Amount</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
30 days	8	5	\$ 1,064	600
60 days	7	5	1,645	1,067
90 days	6	5	<u>41,634</u>	<u>34,341</u>
			<u>\$ 44,343</u>	<u>36,008</u>

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

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

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. The amount of deferred CalHome funds as of June 30, 2018 included in the statement of financial position was \$139,008.

By the terms of the Agreement, the CalHome-funded homeowner loans are repaid to Habitat, segregated in a CalHome Reuse fund and utilized for secondary financing for future Habitat homeowners. The amount held in the CalHome reuse fund as of June 30, 2018 was \$992.

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, no additional secondary loans were provided by Habitat; the amount of deferred secondary loans held by Habitat as of June 30, 2018 was \$55,000.

Property and Equipment

Property and equipment are comprised as follows:

	<u>2018</u>	<u>2017</u>
Building	\$ 287,586	287,586
Land	312,120	342,338
Vehicles	91,903	91,903
Furniture, machinery and equipment	84,049	84,049
Building improvements	<u>21,414</u>	<u>18,737</u>
Total property and equipment	797,072	824,611
Less: accumulated depreciation	<u>(213,298)</u>	<u>(188,454)</u>
Property and equipment, net	<u>\$ 583,774</u>	<u>636,157</u>

Depreciation expense was \$24,844 and \$25,179 for the years ended June 30, 2018 and 2017, respectively.

Commitments

Minimum future rental payments associated with Habitat's ReStore operation in Hanford under a non-cancelable operating lease are as follows:

	<u>June 30,</u>
	2019 35,000
	2020 <u>38,500</u>
Total \$	<u>73,500</u>

Operating lease expense for the year ended June 30, 2018 and 2017 was \$1,500 and \$0, respectively.

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

Notes Payable

Notes payable are comprised as follows:

	2018	2017
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 \$512,179.	317,822	351,780
Total	\$ 317,822	351,780
Less current	(35,518)	(33,958)
Notes payable - noncurrent	\$ 282,304	317,822

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

Year Ending June 30,	
2019	35,518
2020	37,150
2021	38,856
2022	40,641
2023	42,508
2024 and thereafter	123,149
Total	\$ 317,822

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 these 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, and 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. The final project for which Habitat utilized these funds was completed as of June 30, 2017. Funding under this program expired December 31, 2017.

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

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised as follows:

	<u>2018</u>	<u>2017</u>
Porterville Building Projects	\$ 52,934	22,508
Kings County Building Projects	30,675	71,926
Homeownership Program	10,000	-
"A Brush With Kindness" Home Repair Program	1,161	7,160
CalHome Reuse Fund	992	432
Kings United Way	573	-
Total	<u>\$ 96,335</u>	<u>102,026</u>

Functional Expenses

The Organization's expenses by function for the year ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Program services:		
Construction programs	\$ 247,973	646,503
ReStore	325,116	268,689
Home repair program/ABWK	138,481	117,257
Total program services	<u>711,570</u>	<u>1,032,449</u>
Supporting services:		
Managerial and general	91,749	116,684
Fundraising	131,353	146,405
Total supporting services	<u>223,102</u>	<u>263,089</u>
Total expenses	<u>\$ 934,672</u>	<u>1,295,538</u>

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.

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

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, 2018 and 2017, the Organization contributed \$12,123 and \$11,418, respectively, in employer-matching contributions.

Related-Party Transactions

During the fiscal year, Habitat completed the rehabilitation of a house (1724 North Court Street, Visalia) that had been donated the previous year. After several unsuccessful attempts to identify an income-eligible purchaser, the Executive Director recommended that the house be sold to any buyer to meet current cash flow needs; the Executive Committee of the Board of Directors agreed. The first buyer to secure the necessary purchase financing was the son of a Habitat employee. This relationship was disclosed to the board, and the employee had no input in the sale negotiations, purchase terms or the decision to proceed with the sale. Wells Fargo Home Mortgage provided the purchase loan, and a real estate broker was retained to complete the transaction documents. The sale of the property was settled on September 12, 2017 for \$86,000, which was the appraised value.

Subsequent Events

The Organization has evaluated subsequent events for recognition and disclosure through August 16, 2018 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 and 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, 2018, 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 16, 2018.

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, flowing style.

Riverside, California
August 16, 2018