

Habitat for Humanity of Tulare/Kings Counties, Inc.

Audited Financial Statements
(With Independent Auditor's Report)

For the Years Ended June 30, 2019 and 2018

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1-2
Financial Statements	
Statements of Financial Position As of June 30, 2019 and 2018	3
Statements of Activities and Changes in Net Assets For the Years Ended June 30, 2019 and 2018	4
Statements of Cash Flows For the Years Ended June 30, 2019 and 2018	5
Notes to Financial Statements	6-16
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 <i>Government Auditing Standards</i>	17-18



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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2019, 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
November 5, 2019

Habitat for Humanity of Tulare/Kings Counties, Inc.

Statements of Financial Position

As of June 30, 2019 and 2018

(See Independent Auditor's Report)

	<u>2019</u>	<u>2018</u>
Assets		
Assets:		
Current Assets		
Cash and cash equivalents	\$ 223,802	378,835
Mortgages receivable, current	127,591	124,894
Notes receivable, current	14,370	17,103
Inventory	102,790	71,030
Prepays and other	27,991	33,775
Construction-in-progress	205,822	56,029
Total Current Assets	<u>702,366</u>	<u>681,666</u>
Noncurrent Assets		
Mortgages receivable, less current	764,277	820,998
Notes receivable, less current	4,628	7,367
Property and equipment, net	559,062	583,774
CalHome secondary loans	138,398	139,008
Habitat secondary loans	55,000	55,000
Total Noncurrent Assets	<u>1,521,365</u>	<u>1,606,147</u>
Total Assets	<u>2,223,731</u>	<u>2,287,813</u>
Liabilities and Net Assets		
Liabilities:		
Current Liabilities		
Accounts payable and accrued expenses	37,324	27,825
Borrower impounds	16,363	18,979
Notes payable, current	37,150	35,518
Total Current Liabilities	<u>90,837</u>	<u>82,322</u>
Long-term Liabilities		
Notes payable, less current	245,154	282,304
Total Long-term Liabilities	<u>245,154</u>	<u>282,304</u>
Total Liabilities	<u>335,991</u>	<u>364,626</u>
Net Assets:		
Unrestricted	1,805,930	1,826,852
Temporarily restricted	81,810	96,335
Total Net Assets	<u>1,887,740</u>	<u>1,923,187</u>
Total Liabilities and Net Assets	<u>\$ 2,223,731</u>	<u>2,287,813</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, 2019 and 2018

(See Independent Auditor's Report)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2019</u>	<u>Total 2018</u>
<u>Support and other revenue:</u>				
Support:				
Contributions	\$ 89,935	76,799	166,734	165,320
Grants	26,754	59,900	86,654	69,548
In-kind donations	68,948		68,948	17,623
Released from restrictions	151,224	(151,224)	-	-
Total Support	<u>336,861</u>	<u>(14,525)</u>	<u>322,336</u>	<u>252,491</u>
Revenues:				
Home sales	17,000		17,000	86,000
ReStore income	413,703		413,703	355,175
Imputed interest income	60,965		60,965	62,747
Developer, participant fees and other	47,504		47,504	111,097
Interest income	659		659	729
Total Revenues	<u>539,831</u>	<u>-</u>	<u>539,831</u>	<u>615,748</u>
Total Support and Revenues:	<u>876,692</u>	<u>(14,525)</u>	<u>862,167</u>	<u>868,239</u>
Expenses:				
Salary, wages and benefits	571,771		571,771	586,357
Cost of sales	23,718		23,718	92,706
Construction programs	27,416		27,416	39,868
Supplies	31,244		31,244	29,441
Occupancy costs	64,052		64,052	24,910
Depreciation	24,711		24,711	24,844
Fundraising	33,535		33,535	23,752
Vehicle rental and maintenance	17,289		17,289	22,563
Affiliate dues	15,500		15,500	17,000
Insurance	14,201		14,201	16,942
Professional fees	16,650		16,650	16,650
Interest expense	12,900		12,900	15,811
Office equipment and supplies	8,458		8,458	9,871
Credit card fees	5,782		5,782	4,553
Advertising	4,577		4,577	4,390
Conferences and education	4,648		4,648	2,549
Loss on sale of asset	21,161		21,161	2,465
Total Expenses:	<u>897,613</u>	<u>-</u>	<u>897,613</u>	<u>934,672</u>
Change in net assets	(20,921)	(14,525)	(35,446)	(66,433)
Net assets, beginning of year	1,826,851	96,335	1,923,186	1,989,620
Net assets, end of year	\$ <u>1,805,930</u>	<u>81,810</u>	<u>1,887,740</u>	<u>1,923,187</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, 2019 and 2018

(See Independent Auditor's Report)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (35,446)	(66,433)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
In-kind Contributions	(56,976)	3,783
Loss on sale of assets	23,932	2,465
Depreciation	24,712	24,844
Change in current assets	(60,093)	(66,010)
Change in current liabilities	6,883	9,926
Cash provided (used) by operating activities	(96,988)	(91,425)
Cash flows from investing activities:		
Proceeds from sale of asset	-	27,753
Purchase of equipment	-	(2,678)
Proceeds from sale of home	-	81,135
Construction-in-progress	(148,509)	(58,264)
Collections on mortgages receivable	125,982	115,515
Cash provided (used) by investing activities	(22,527)	163,461
Cash flows from financing activities:		
Principal payments on notes payable	(35,518)	(33,958)
Cash provided (used) by financing activities	(35,518)	(33,958)
Change in cash	(155,033)	38,078
Cash, beginning of year	378,835	340,757
Cash, end of year	223,802	378,835
<u>Supplemental Disclosure of Cash Flows Information:</u>		
Cash paid for interest	12,900	15,811
Cash paid for income tax	-	-
<u>Noncash Financing and Investing Activities:</u>		
Donated property and equipment received	18,000	-
Financing of construction-in-progress	-	-

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 in need of decent housing to build, renovate and repair homes. Its partners include businesses, congregations, foundations, non-profit organizations, service clubs, and individuals who contribute money, labor and materials to support Habitat’s efforts to build homes and hope in Tulare County, Kings County and through its affiliation with HFHI around the world.

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).

Habitat also operates a ReStore, a thrift store for building materials and supplies. All items in the ReStore are donated by contractors, retailers, and individuals. 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 for 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

ReStore:

Donated:

Donated inventory consists of building materials, and 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 that having an expected life greater than one year are capitalized. Property and equipment are recorded at cost. Donated property and equipment are 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 because specialized skills are generally not required.

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:

Habitat 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, 2019, the Organization had not exceeded the insured limit.

Notes Receivable

Notes receivable consist of future payments for home improvement and rehabilitation projects under Habitat's "Home Repair/A Brush with Kindness" program. Homeowners sign promissory notes committing to these payments and 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

Notes Receivable, continued

Notes receivable are comprised as follows:

	<u>2019</u>	<u>2018</u>
Notes receivable	\$ 24,508	29,980
Less: allowance for doubtful accounts	<u>(5,510)</u>	<u>(5,510)</u>
Notes receivable, net	<u>\$ 18,998</u>	<u>24,470</u>
Notes receivable - current	\$ 14,370	17,103
Notes receivable - noncurrent	<u>4,628</u>	<u>7,367</u>
	<u>\$ 18,998</u>	<u>24,470</u>

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

<u>Year Ending June 30,</u>	
2020	14,370
2021	3,840
2022	773
2023	<u>15</u>
Total \$	<u>18,998</u>

Mortgages Receivable

Mortgages receivable represent the amounts financed for homeowners upon purchase of the houses built by Habitat. 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.

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

Mortgages Receivable, continued

	2019	2018
Mortgages receivable at face value, payable in aggregate monthly installments of \$10,672 with no interest, due through March 2046, secured by deeds of trust.	\$ 1,437,435	1,546,808
Less: unamortized discount at 7%	<u>(545,567)</u>	<u>(600,916)</u>
Mortgages receivable, net	<u>\$ 891,868</u>	<u>945,892</u>
Mortgages receivable - current	\$ 127,591	124,894
Mortgages receivable - noncurrent	<u>764,277</u>	<u>820,998</u>
	<u>\$ 891,868</u>	<u>945,892</u>

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

<u>Year Ending June 30,</u>	
2020	127,591
2021	121,136
2022	118,726
2023	116,306
2024	112,279
thereafter	<u>841,397</u>
Total \$	<u>1,437,435</u>

Delinquency Period	Borrowers		Delinquent Amount	
	2019	2018	2019	2018
30 days	11	8	\$ 1,183	1,064
60 days	8	7	1,923	1,645
90 days	7	6	<u>47,030</u>	<u>41,634</u>
			<u>\$ 50,136</u>	<u>44,343</u>

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

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

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 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.

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, 2019 and 2018 included in the statement of financial position was \$138,398 and \$139,008, respectively.

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, 2019 and 2018 was \$1,602 and \$992, respectively.

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, 2019 was \$55,000.

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

Property and Equipment

Property and equipment are comprised as follows:

	<u>2019</u>	<u>2018</u>
Building	\$ 287,586	287,586
Land	312,120	312,120
Vehicles	91,903	91,903
Furniture, machinery and equipment	84,049	84,049
Building improvements	<u>21,414</u>	<u>21,414</u>
Total property and equipment	797,072	797,072
Less: accumulated depreciation	<u>(238,010)</u>	<u>(213,298)</u>
Property and equipment, net	<u>\$ 559,062</u>	<u>583,774</u>

Depreciation expense was \$24,711 and \$24,844 for the years ended June 30, 2019 and 2018, 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>	
2020	<u>38,500</u>
Total \$	<u>38,500</u>

Operating lease expense for the year ended June 30, 2019 and 2018 was \$35,000 and \$1,500, respectively.

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

Notes Payable

Notes payable are comprised as follows:

	2019	2018
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 \$515,354.	\$ 282,304	317,822
Total	282,304	317,822
Less current	(37,150)	(35,518)
Notes payable - noncurrent	\$ 245,154	282,304

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

Year Ending June 30,	
2020	37,150
2021	38,856
2022	40,641
2023	42,508
2024	44,461
2025 and thereafter	78,688
Total	\$ 282,304

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>2019</u>	<u>2018</u>
Porterville Building Projects	\$ -	52,934
Kings County Building Projects	51,617	30,675
Homeownership Program	11,000	10,000
"A Brush With Kindness" Home Repair Program	17,593	1,161
CallHome Reuse Fund	1,601	992
Kings United Way	-	573
Total	<u>\$ 81,810</u>	<u>96,335</u>

Functional Expenses

The Organization's expenses by function for the year ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Program services:		
Construction programs	\$ 189,346	247,973
ReStore	415,801	325,116
Home repair program/ABWK	87,056	138,481
Total program services	<u>692,202</u>	<u>711,570</u>
Supporting services:		
Managerial and general	94,390	91,749
Fundraising	111,121	131,353
Total supporting services	<u>205,511</u>	<u>223,102</u>
Total expenses	<u>\$ 897,613</u>	<u>934,672</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

Contingencies, continued

Augusta Communities - Pursuant to an agreement dated October 1, 2017, Augusta Communities, a California nonprofit public benefit corporation ("Augusta"), provided Habitat with \$13,000 to fund a revolving loan fund. These funds were to be used by Habitat, along with additional funding from Habitat, to recondition two mobile home units ("Habitat Homes") which would then be sold to qualified purchasers identified by Habitat and approved by Augusta. Habitat also committed to replenishing the Augusta revolving loan fund from the portion of the purchasers' payments attributed to the Augusta contribution. Use of the revolving loan fund was restricted by the agreement to financing the purchase prices and the costs of rehabilitation of future Habitat Homes and related space improvements.

The agreement provides that the Revolving Loan Fund may be terminated at the discretion of either Party with 30 days written notice. In the event of a termination of the agreement, Habitat committed to return any unused funds in the Revolving Loan Fund to Augusta Communities within 30 days and forward subsequent loan payments related to Augusta's financing of Habitat Homes to Augusta Communities.

All the funds received from Augusta were expended for their intended purpose in the renovation of two units. After significant renovation work was completed on the second Habitat Home (unit D-160), the agreement was terminated by the parties on March 12, 2019. Habitat's obligation to repay Augusta for the \$6,500 utilized on the second Habitat Home (unit D-160) was cancelled.

The renovation of the initial Habitat Home (unit D-149) was completed at a cost to Habitat of \$24,242 and sold for \$17,000 resulting in a loss of \$(7,242). Habitat's requirement to repay \$6,500 to the revolving fund was not addressed in the termination agreement.

Retirement Plan

Habitat 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, 2019 and 2018, the Organization contributed \$11,555 and \$12,123, respectively, in employer-matching contributions.

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

Related-Party Transactions

During the fiscal year, Habitat completed the rehabilitation of a mobile home (Augusta Communities, Lot D-149, Visalia) that had been donated the previous year by Augusta. After several unsuccessful attempts to identify a qualified purchaser, the son of a Habitat employee and his partner applied and were determined to be income eligible. The Executive Director recommended that the unit be sold to these applicants, and the Executive Committee of the Board of Directors agreed. The related Habitat employee had no input in the sale negotiations, purchase terms or the decision to proceed with the sale. The sale of the property was settled on November 21, 2018 for \$17,000. This price was consistent with the estimated value provided by Augusta Communities.

Subsequent Events

The Organization has evaluated subsequent events for recognition and disclosure through November 5, 2019 which is the date the financial statements were available to be issued.

Indian Wells Valley Habitat for Humanity mortgage transfer:

Effective July 1, 2019, the Organization received an assignment of sixteen mortgages from Indian Wells Valley Habitat for Humanity in Ridgecrest, California ("IWW HFH"), in connection with IWW HFH's decision to dissolve. This transfer was mandated by HFHI policies for local affiliated organizations that cease operations.

This portfolio of mortgage receivables had a collective face value of \$806,397 as of the date of transfer with maturity dates ranging from two years to twenty-two years.

In addition, the Organization received the accumulated balance of the escrow/impound accounts being held by IWW HFH on behalf of the sixteen mortgagors.

There were no financial obligations or debt associated with the assets received from IWW HFH. Habitat for Humanity of Tulare/Kings Counties will assume the responsibility for managing the escrow/impound accounts for these mortgagors.

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, 2019, 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 November 5, 2019.

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
November 5, 2019