

**San Diego Habitat for Humanity, Inc.**  
**Consolidated Financial Statements and  
Schedule of Expenditures of Federal Awards and  
Internal Control over Compliance  
and Independent Auditor's Reports**

**June 30, 2016 and 2015**

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# San Diego Habitat for Humanity, Inc.

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## Independent Auditor's Report

To the Board of Directors  
San Diego Habitat for Humanity, Inc.

### *Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of San Diego Habitat for Humanity, Inc., which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Diego Habitat for Humanity, Inc. as of June 30, 2016 and 2015, 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 Matters*

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016, on our consideration of San Diego Habitat for Humanity, 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 our 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 San Diego Habitat for Humanity, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CohnReznick LLP".

San Diego, California  
November 7, 2016

**San Diego Habitat for Humanity, Inc.**

**Consolidated Statements of Financial Position  
June 30, 2016 and 2015**

	<u>Assets</u>	
	2016	2015
Cash and cash equivalents	\$ 1,773,929	\$ 1,171,616
Restricted cash	145,588	245,469
Accounts receivable, net of allowance for doubtful accounts of \$54,631 (2016 and 2015)	65,121	34,777
Unconditional promise to give	-	100,000
Mortgage notes receivable, net of unamortized discount	6,294,577	5,509,589
Inventory - ReStore and other	381,276	374,492
Prepaid expenses and deferred charges	750,808	144,131
Construction-in-process	2,336,987	4,911,509
Finished homes held for sale	1,874,779	1,196,260
Corporate building held for sale	2,134,852	-
Property and equipment, net of accumulated depreciation	122,850	2,248,211
Beneficial interest in assets held by community foundation	323,621	345,689
Deposits and other assets	346,575	168,910
	<hr/>	<hr/>
Total assets	\$ 16,550,963	\$ 16,450,653
	<hr/>	<hr/>
	<u>Liabilities and Net Assets</u>	
Accounts payable, accrued expenses, and other liabilities	\$ 843,700	\$ 687,534
Secured obligations from sale of mortgage notes receivable	3,546,290	1,301,582
Homeowner impounds	86,803	68,682
Deferred revenue	60,000	273,350
Notes payable - governmental agencies, net	551,981	580,364
Forgivable notes payable - governmental agencies	1,037,630	1,482,748
Refundable advances	686,578	723,764
Note payable - Bank	1,850,568	1,891,866
Note payable - HFHI	659,369	791,270
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Total liabilities	9,322,919	7,801,160
	<hr/>	<hr/>
Commitments and contingencies		
Net assets		
Unrestricted	6,904,423	8,303,804
Temporarily restricted	20,562	42,630
Permanently restricted	303,059	303,059
	<hr/>	<hr/>
Total net assets	7,228,044	8,649,493
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Total liabilities and net assets	\$ 16,550,963	\$ 16,450,653
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See Notes to Consolidated Financial Statements.

**San Diego Habitat for Humanity, Inc.**

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2016**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue				
Support				
Contributions	\$ 771,028	\$ 495,783	\$ -	\$ 1,266,811
In-kind contributions	21,500	158,799	-	180,299
Retail store, net	1,476,682	-	-	1,476,682
Special events	162,194	-	-	162,194
Grants	56,389	-	-	56,389
Net assets released from restrictions				
Satisfaction of program/donor restrictions	669,604	(669,604)	-	-
Total support	<u>3,157,397</u>	<u>(15,022)</u>	<u>-</u>	<u>3,142,375</u>
Revenue				
Sales of homes	4,563,906	-	-	4,563,906
Mortgage loan discount amortization	527,683	-	-	527,683
Investment income (loss)	685	(7,046)	-	(6,361)
Other income	88,167	-	-	88,167
Total revenue	<u>5,180,441</u>	<u>(7,046)</u>	<u>-</u>	<u>5,173,395</u>
Total support and revenue	<u>8,337,838</u>	<u>(22,068)</u>	<u>-</u>	<u>8,315,770</u>
Expenses				
Cost of homes sold and program support	8,675,973	-	-	8,675,973
Management and general	459,540	-	-	459,540
Fundraising	601,706	-	-	601,706
Total expenses	<u>9,737,219</u>	<u>-</u>	<u>-</u>	<u>9,737,219</u>
Change in net assets	(1,399,381)	(22,068)	-	(1,421,449)
Net assets at beginning	<u>8,303,804</u>	<u>42,630</u>	<u>303,059</u>	<u>8,649,493</u>
Net assets at end	<u>\$ 6,904,423</u>	<u>\$ 20,562</u>	<u>\$ 303,059</u>	<u>\$ 7,228,044</u>

See Notes to Consolidated Financial Statements.

**San Diego Habitat for Humanity, Inc.**

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2015**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue				
Support				
Contributions	\$ 594,281	\$ 322,975	\$ -	\$ 917,256
In-kind contributions	-	643,538	-	643,538
Retail store, net	1,404,436	-	-	1,404,436
Special events	127,307	-	-	127,307
Grants	187,439	-	-	187,439
Net assets released from restrictions				
Satisfaction of program/donor restrictions	1,428,668	(1,428,668)	-	-
Total support	3,742,131	(462,155)	-	3,279,976
Revenue				
Sales of homes	1,940,000	-	-	1,940,000
Mortgage loan discount amortization	486,688	-	-	486,688
Investment income	1,285	570	-	1,855
Other income	57,757	-	-	57,757
Total revenue	2,485,730	570	-	2,486,300
Total support and revenue	6,227,861	(461,585)	-	5,766,276
Expenses				
Cost of homes sold and program support	4,293,970	-	-	4,293,970
Management and general	443,199	-	-	443,199
Fundraising	545,580	-	-	545,580
Total expenses	5,282,749	-	-	5,282,749
Change in net assets	945,112	(461,585)	-	483,527
Net assets at beginning	7,358,692	504,215	303,059	8,165,966
Net assets at end	\$ 8,303,804	\$ 42,630	\$ 303,059	\$ 8,649,493

See Notes to Consolidated Financial Statements.

**San Diego Habitat for Humanity, Inc.**

**Consolidated Statement of Functional Expenses  
Year Ended June 30, 2016**

	Cost of homes sold and program support	Management and general	Fundraising	Total
Cost of homes sold - construction costs	\$ 3,946,698	\$ -	\$ -	\$ 3,946,698
Cost of homes sold - mortgage discount subsidy	2,013,613	-	-	2,013,613
Salaries	1,040,945	265,673	348,215	1,654,833
Payroll taxes	90,659	21,284	27,211	139,154
Employee benefits	107,549	29,777	22,014	159,340
Advertising and public relations	100,017	-	20,188	120,205
Bank charges and fees	26,002	2,499	8,239	36,740
Conferences, conventions and meetings	3,255	2,430	800	6,485
Depreciation	54,131	5,214	4,613	63,958
Homeowner and homeowner association support	6,060	-	-	6,060
Insurance	99,197	14,477	4,129	117,803
Interest and amortization of loan fees	209,731	20,511	6,002	236,244
Meals and entertainment	2,443	1,551	1,350	5,344
Non-capitalized construction materials and services	500,302	-	-	500,302
Occupancy and utilities	112,881	7,554	4,945	125,380
Office, supplies and other expenses	79,175	14,334	51,689	145,198
Outside services, consulting and volunteer expenses	48,362	26,006	2,309	76,677
Postage and shipping	1,042	1,849	1,630	4,521
Professional services	16,658	40,349	54,740	111,747
Real estate development costs	26,581	-	-	26,581
Taxes and licenses	1,956	626	-	2,582
Telephone	24,403	2,546	3,401	30,350
Tithes to HFHI	40,500	-	-	40,500
HFHI affiliate fee	25,000	-	-	25,000
Special event costs	25,545	-	36,075	61,620
Travel, mileage reimbursements and vehicle operating costs	73,268	2,860	4,156	80,284
Total	<u>\$ 8,675,973</u>	<u>\$ 459,540</u>	<u>\$ 601,706</u>	<u>\$ 9,737,219</u>

See Notes to Consolidated Financial Statements.



**San Diego Habitat for Humanity, Inc.**

**Consolidated Statement of Functional Expenses  
Year Ended June 30, 2015**

	Cost of homes sold and program support	Management and general	Fundraising	Total
Cost of homes sold - construction costs	\$ 1,907,899	\$ -	\$ -	\$ 1,907,899
Cost of homes sold - mortgage discount subsidy	309,432	-	-	309,432
Salaries	804,534	249,604	273,967	1,328,105
Payroll taxes	70,487	20,185	22,024	112,696
Employee benefits	80,956	36,959	18,196	136,111
Advertising and public relations	89,065	-	6,665	95,730
Bank charges and fees	21,321	5,821	7,319	34,461
Conferences, conventions and meetings	2,290	1,838	1,404	5,532
Depreciation	57,491	6,862	5,643	69,996
Homeowner and homeowner association support	140	-	-	140
Insurance	76,024	20,631	3,098	99,753
Interest and amortization of loan fees	193,350	19,015	8,367	220,732
Meals and entertainment	2,345	1,897	417	4,659
Non-capitalized construction materials and services	201,946	-	-	201,946
Occupancy and utilities	105,031	7,379	4,835	117,245
Office, supplies and other expenses	87,553	15,467	67,681	170,701
Outside services, consulting and volunteer expenses	24,972	6,219	9,333	40,524
Postage and shipping	707	1,767	1,845	4,319
Professional services	18,119	40,053	51,862	110,034
Real estate development costs	8,708	-	-	8,708
Taxes and licenses	2,603	183	-	2,786
Telephone	20,267	2,256	2,482	25,005
Tithes to HFHI	35,000	-	-	35,000
HFHI affiliate fee	16,700	-	-	16,700
Special event costs	74,110	-	54,326	128,436
Travel, mileage reimbursements and vehicle operating costs	82,920	7,063	6,116	96,099
Total	<u>\$ 4,293,970</u>	<u>\$ 443,199</u>	<u>\$ 545,580</u>	<u>\$ 5,282,749</u>

See Notes to Consolidated Financial Statements.

**San Diego Habitat for Humanity, Inc.**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (1,421,449)	\$ 483,527
Adjustments to reconcile change in net assets to net cash used in operating activities		
Origination of non-interest bearing mortgages	(3,101,940)	(398,500)
Discount on origination of non-interest bearing mortgages	2,013,613	309,432
In-kind contributions of property, equipment and construction costs	(120,665)	(573,866)
Change in value - beneficial interest in assets held by community foundation	22,068	12,596
Loss on disposal of fixed assets	3,916	-
Depreciation	63,958	69,996
Mortgage discount amortization	(527,683)	(486,688)
Amortization of loan fees	7,811	10,900
Amortization of discount on notes payable	105,953	52,478
Changes in operating assets and liabilities		
Accounts receivable	(30,344)	65,712
Unconditional promise to give	100,000	(100,000)
Inventory	(6,784)	(118,635)
Prepaid expenses and deferred charges	(582,738)	(110,621)
Finished homes held for sale	(678,519)	(260,439)
Construction-in-process, net in-kind	2,649,748	(734,563)
Deposits and other assets	(185,476)	(109,980)
Accounts payable, accrued expenses and other liabilities	156,166	110,980
Mortgage payments received	831,022	741,928
Homeowner impounds	18,121	(21,982)
Deferred revenue	(213,350)	(127,500)
Refundable advances	(37,186)	(101,153)
	<u>(933,758)</u>	<u>(1,286,378)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Purchases of property and equipment	<u>(55,865)</u>	<u>(13,042)</u>
Net cash used in investing activities	<u>(55,865)</u>	<u>(13,042)</u>

See Notes to Consolidated Financial Statements.

**San Diego Habitat for Humanity, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities		
Proceeds from issuance of notes payable	151,182	3,124,294
Proceeds from issuance of secured obligations, net of discounts	2,366,432	1,227,774
Principal payments on notes payable, including grants forgiven	(832,475)	(3,011,774)
Payments on secured obligations	(193,084)	(51,996)
Restricted cash	99,881	(156,664)
	<u>1,591,936</u>	<u>1,131,634</u>
Net cash provided by financing activities		
	<u>1,591,936</u>	<u>1,131,634</u>
Net increase (decrease) in cash and cash equivalents	602,313	(167,786)
Cash and cash equivalents, beginning	<u>1,171,616</u>	<u>1,339,402</u>
Cash and cash equivalents, end	<u>\$ 1,773,929</u>	<u>\$ 1,171,616</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 122,481</u>	<u>\$ 157,354</u>
Supplemental disclosure of non-cash financing activities		
Notes forgiven - governmental grants	<u>\$ 596,300</u>	<u>\$ 135,000</u>

See Notes to Consolidated Financial Statements.

## **San Diego Habitat for Humanity, Inc.**

### **Notes to Consolidated Financial Statements June 30, 2016 and 2015**

#### **Note 1 - Organization and summary of significant accounting policies**

##### **Nature of activities**

San Diego Habitat for Humanity, Inc. (a nonprofit corporation) is the local affiliate of Habitat for Humanity International, Inc. ("HFHI"), a nonprofit, ecumenical Christian housing ministry. By building homes in partnership with families in need, San Diego Habitat for Humanity, Inc. seeks to eliminate poverty housing and substandard living conditions in San Diego County, and to make decent shelter a matter of conscience and action. San Diego Habitat for Humanity, Inc. invites people of all backgrounds, faiths, or no faith, races and religions to build houses together in partnership with families in need. Although HFHI assists with information resources, training, publications and prayer support, San Diego Habitat for Humanity, Inc. is an independently governed entity.

An equal housing lender and provider, San Diego Habitat for Humanity, Inc. addresses the issues of substandard housing through home ownership. The purpose is to offer families a "hand up" instead of a "hand out," fostering self-sufficiency and independence. To be considered for home ownership, San Diego Habitat for Humanity, Inc. families must demonstrate a need for better housing, an ability to make mortgage payments, and a willingness to work in partnership with San Diego Habitat for Humanity, Inc. This partnership consists, in part, of each family completing 250-500 hours of "sweat equity" and making monthly mortgage payments. San Diego Habitat for Humanity, Inc. acquires the land, finds and qualifies the families, raises the funding, finds and supervises construction volunteers, builds the houses, and provides the mortgages.

##### **Method of reporting**

San Diego Habitat for Humanity, Inc.'s financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### **Principles of consolidation**

The accompanying consolidated financial statements include the accounts of San Diego Habitat for Humanity, Inc. and San Diego HFH Community Housing Corporation (collectively, "SDHFH" or the "Organization"). All material intra-organization transactions have been eliminated in consolidation.

##### **Use of estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from these estimates.

##### **Net assets**

SDHFH's net assets, revenues, gains, expenses and losses are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions. These classifications are defined as follows:

*Unrestricted net assets* - Net assets that do not contain donor restrictions or the donor-imposed restrictions have expired due to the Organization's fulfillment of the restrictions and/or the passage of time.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

*Temporarily restricted net assets* - Net assets that contain donor-imposed restrictions that permit the Organization to use or expend the donated net assets as specified and are satisfied either by the passage of time and/or by the actions of SDHFH.

*Permanently restricted net assets* - Net assets that contain donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

**Cash and cash equivalents**

SDHFH considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

**Restricted cash**

Restricted cash represents Community Housing Development Organization proceeds to be used to acquire, rehabilitate or develop additional real properties located in the respective city for resale to low-income households.

**Accounts receivable**

Accounts receivable consist primarily of amounts due from homeowners for property taxes and insurance premiums; pursuant to the homeowners' impound agreements. The Organization has evaluated these accounts and has recorded an allowance for doubtful accounts based on the estimated eventual collection of these impound account deficits. There was no bad debt expense recorded for the fiscal years ended June 30, 2016 and 2015.

It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

**Mortgage notes receivable**

Mortgage notes receivable consist of non-interest bearing residential home loans made to qualified borrowers that are secured by a deed of trust, payable in monthly installments over the term of the note, generally ranging from 10 to 35 years. These non-interest bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of each mortgage as calculated by HFHI. SDHFH's portfolio of mortgage notes receivable includes first trust deeds for direct loans made by SDHFH and second trust deeds funded by Cal Home Program First-Time Homebuyer loans. The Cal Home Program loans are non-interest bearing loans with a balloon payment due in 30 years.

Additionally, homes may be encumbered with a second, third and/or fourth trust deed in favor of either SDHFH or a local governmental agency to ensure compliance with the terms of the Organization's homeownership programs. These mortgage notes receivable are referred to as "silent." The primary purpose of these silent mortgages is to allow SDHFH or the agency to capture a portion of any equity appreciation over and above a specified amount if the home is sold or transferred to a nonqualified homeowner before a certain number of years have elapsed since the original sale to the qualified homeowner, usually 25 to 55; and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowner with an onerous new mortgage. These silent mortgage notes receivable typically bear no interest and are forgiven if the homeowner lives in the home for the required period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, since these silent mortgage notes receivable have no value unless or until a homeowner fails to comply with the covenants and restrictions of the terms of the home sale, SDHFH does not record a value for these silent mortgage notes receivable.

## **San Diego Habitat for Humanity, Inc.**

### **Notes to Consolidated Financial Statements June 30, 2016 and 2015**

#### **Allowance for mortgage notes receivable losses**

SDHFH uses established underwriting criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and receive a non-interest bearing mortgage loan from SDHFH. This includes, but is not limited to, a thorough review of each prospective homeowner's credit report, sources of income and financial history.

SDHFH regularly reviews its portfolio of mortgage notes receivable and monitors the accounts for delinquencies. Homeowners whose mortgages are more than 30 days past due are considered to be in an early stage of default. During the period of delinquency of 16 to 60 days past due, the Organization contacts the homeowner using collection efforts and establishes a payment plan with the homeowner, if necessary. Thereafter, if forgoing collection efforts are not successful, the Organization attempts to enter into a mutually agreed-upon deed-in-lieu of foreclosure with the homeowner. Homeowners whose mortgages are more than 60 days past due, who have not made satisfactory payment arrangements or reached a deed-in-lieu of foreclosure agreement with SDHFH are subject to foreclosure proceedings. As of the date of these consolidated financial statements, there are no mortgages subject to foreclosure proceedings.

Non-interest bearing mortgages originated are discounted based on prevailing market rates at the time of sale, which results in the net mortgage receivable balances being generally less than 50% of the home's fair market value. Therefore, SDHFH believes that losses resulting from non-payment of mortgage notes receivable, given its collateral value, are not likely. Accordingly, SDHFH has not recorded an allowance for mortgage notes receivable losses.

#### **Contributions**

Unconditional promises to give are recognized as support when the underlying promises are received by SDHFH and are recorded at fair value, based on management's initial estimate of the present value of future cash flows expected to be received. Subsequent changes in estimates are recorded as an allowance for uncollectible promises to give.

Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that specify the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

#### **Donated services**

Donated services are recognized as contributions in accordance with Accounting Standards Codification ("ASC") 958-605 and subsections, *Not-for-profit Entities - Revenue Recognition*, if the services (a) create or enhance nonfinancial assets or (b) require licensed skills, are performed by people with those skills, and would otherwise be purchased by SDHFH. A substantial number of volunteers have contributed their time during the years ended June 30, 2016 and 2015 to SDHFH's construction program and supporting services. The value of this contributed time is not reflected in the consolidated financial statements since it does not require a licensed skill.

#### **Donated construction materials, property and equipment and other donated goods**

Donations of construction materials, property and equipment, and other goods are recorded as in-kind contributions at their estimated fair value at the date of donation.

## **San Diego Habitat for Humanity, Inc.**

### **Notes to Consolidated Financial Statements June 30, 2016 and 2015**

Various companies and individuals have provided licensed labor and materials for current projects. During the years ended June 30, 2016 and 2015, the Organization recognized \$132,621 and \$472,844, respectively, of in-kind materials and licensed labor as contribution revenue. The estimated value of these materials and services was capitalized into construction-in-process and allocated accordingly to the projects receiving benefit. The Organization also recognized \$21,500 and \$125,000 of donated fixed assets and land during the fiscal years ended June 30, 2016 and 2015, respectively.

In addition to the construction-related in-kind contributions, SDHFH recognized \$26,178 and \$45,694 for donated goods and services supporting various programs and fundraising activities during the fiscal years ended June 30, 2016 and 2015, respectively. Accordingly, the Organization recognized total in-kind contributions of \$180,299 and \$643,538 during the fiscal years ended June 30, 2016 and 2015, respectively.

#### **Government funding**

SDHFH receives funds from various governmental agencies for land acquisition, development and construction costs pursuant to various types of agreements. The following are details on the various types of funding agreements:

*Grants* - SDHFH receives grants from various sources to assist in purchasing and developing properties. These grants include various compliance requirements to be followed by SDHFH. These funds are recognized as grants in the consolidated statements of activities and changes in net assets.

*Forgivable loans* - SDHFH enters into various funding agreements that result in receiving funds to acquire and develop qualified properties, where funding received is considered a forgivable loan. The loans are typically forgiven after homes have been sold to qualified borrowers. Certain forgivable loans are transferred to the qualified home buyer at the time of purchase and the loans with the borrowers require the homeowner to continue to comply with certain provisions for specified periods of time. SDHFH records these forgivable loans as notes payable until they are forgiven.

*Refundable advances* - SDHFH enters into certain agreements that result in the receipt of funds that require SDHFH to continue to utilize these funds for specified low-income housing purposes until a certain number of units have been sold. These advances are often sourced from federal funds and require ongoing compliance with certain specified federal requirements. Once related compliance requirements are satisfied, SDHFH will recognize these as unrestricted grants. SDHFH records these funds as refundable advances until the compliance requirements are satisfied.

#### **Concentrations of credit risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents, and investments. The Organization places its cash, cash equivalents and investments with high credit quality financial institutions. At times, such amounts may exceed federally insured limits. At June 30, 2016, the Organization had approximately \$1,423,000 in excess of federally insured limits.

#### **Inventories**

Inventories consist primarily of donated building materials, which are used in the construction of homes, or are sold in the ReStore. SDHFH believes that the inventory of donated goods and

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**Notes to Consolidated Financial Statements  
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materials does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine an inventory value at the time of donation.

Accordingly, donated inventory is valued at zero prior to being offered for sale. At the end of its fiscal year, SDHFH generally estimates the value of donated goods on hand and records the amount as merchandise inventory with corresponding adjustments to cost of sales. It is not practical to determine the fair value of donated merchandise inventory during the course of the year.

**Pre-acquisition costs**

The Organization capitalizes costs related to properties, generally including costs of surveying, zoning studies, design, engineering and legal, that are incurred for the express purpose of, but prior to, obtaining the properties. These costs are reported as prepaid expenses and deferred charges.

**Property, equipment and depreciation**

Property and equipment are recorded at acquisition cost, including costs necessary to ready the asset for its intended use, or at fair market value, if donated. Expenses that materially increase property lives are capitalized. The cost of maintenance and repairs are charged to expenses as incurred. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the respective assets, currently ranging from 3 to 7 years for equipment and vehicles and from 5 to 39 years for buildings and building improvements. When depreciable property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the consolidated statements of activities and changes in net assets.

**Construction-in-process and finished homes held for sale**

Construction-in-process represents costs incurred to build or rehabilitate single-family homes and condominiums for eventual sale to SDHFH partner families. The Organization's projects consist of new single-family home and condominium developments and major rehabilitations of existing homes acquired by SDHFH. Since the purpose and mission of SDHFH is to build affordable housing for low-income families, the Organization does not generally write down the value of construction-in-process to estimated sales value, because any excess cost over sales value is a component of program services. Projects are classified as construction-in-process until the build/rehabilitation project is substantially completed, at which time they are reclassified as "finished homes held for sale."

Finished homes held for sale may include homes purchased from SDHFH partner families, acquired as part of a deed-in-lieu of foreclosure or as part of a foreclosure. These homes usually require repairs or rehabilitation and then are resold to a qualifying family.

**Corporate building held for sale**

SDHFH recorded the corporate building as held for sale in anticipation of being sold within one year of June 30, 2016 and will no longer depreciate it going forward. Total land, buildings and improvements related to the corporate building were \$2,134,852 (net of \$291,626 accumulated depreciation) as of June 30, 2016.

**Revenue and costs on homes sold**

Revenue is recognized on the sale of homes when title passes to eligible purchasers. The amount of home sale revenue SDHFH records is the total of the cash down payment, the face value of the non-interest bearing mortgage receivable, and the value of any government funding, such as notes payable forgiven and/or transferred to the homeowner at the time of sale (see *Government funding* above).



**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
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Cost of homes sold and program support consists of capitalized home construction costs and certain other related costs associated with the sale of a home. A mortgage discount subsidy, which is the discount on the non-interest mortgage with the borrower, is recognized as a cost of sale at the closing of the same. Cost of homes sold and program support is considered a program expense in the consolidated statements of functional expenses.

**Deferred revenue**

Deferred revenue consists of amounts advanced to SDHFH pursuant to two down payment assistance grants (the "Grants") from the State of California Department of Housing and Community Development ("Cal Home"). The Grants allow SDHFH to receive a maximum of \$1,860,000 in funds to provide down payment assistance to eligible low and moderate income homeowners. Actual assistance to each homeowner is limited based on a calculated gap between the price of the home and the financial resources available to the homeowner, but cannot exceed \$60,000 per eligible family. During the year ended June 30, 2016, the Organization recognized Grant revenue of \$471,350 as sales of homes revenue and an additional \$12,000 in Cal Home loan monitoring fees. At June 30, 2016, SDHFH reported deferred revenue of \$60,000, which all came from Cal Home funds, representing Grant draws in excess of down payment assistance and expenses incurred. At June 30, 2015, SDHFH reported deferred revenue of \$273,350, which all came from Cal Home funds, representing Grant draws in excess of down payment assistance and expenses incurred.

**Homeowner impounds**

As part of the mortgage servicing process, SDHFH collects monthly payments for property taxes and insurance from homeowners, along with their monthly mortgage payments. SDHFH then remits the property taxes and insurance, when due, directly to the County Tax Collector and insurance providers, using the impounded funds. The homeowner impounds balance at June 30, 2016 and 2015 represents amounts collected by SDHFH for property taxes and insurance that has not yet been paid to the County Tax Collector and insurance providers.

**Retirement plan**

During the fiscal year ended June 30, 2013, SDHFH adopted a 403(b) plan. SDHFH does not contribute to the plan. All employees are eligible to participate in the plan commencing upon their date of hire.

**Income taxes**

SDHFH, a California nonprofit public benefit corporation, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and the Revenue and Taxation Code of the State of California.

For the years ended June 30, 2016 and 2015, management of SDHFH believes it has adequate support for all material tax positions and that it is more likely than not, based on the technical merits, that the positions will be sustained upon examination. SDHFH has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. SDHFH believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the SDHFH's financial condition, results of operations or cash flows. Accordingly, SDHFH has not recorded any reserves, or related accruals for interest and penalties, for uncertain income tax positions at June 30, 2016 and 2015.

The Organization's federal and state income tax returns prior to fiscal years 2013 and 2012, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

## San Diego Habitat for Humanity, Inc.

### Notes to Consolidated Financial Statements June 30, 2016 and 2015

#### Functional expenses

Expenses related to more than one functional expense category are allocated based on reasonable estimates by the Organization. Salaries, benefits and other related expenses are allocated based on job function. Directly identifiable expenses are charged to construction and program support, management and general, or fundraising as applicable.

#### Subsequent events

Subsequent events have been evaluated through November 9, 2016, which is the date the consolidated financial statements were available to be issued.

#### Note 2 - Prepaid expenses and deferred charges

Prepaid expenses and deferred charges are summarized as follows:

	2016	2015
Prepaid expenses	\$ 34,180	\$ 36,568
Pre-acquisition costs		
Veteran project - Poway	529,730	93,991
Comm22 project - San Diego	178,263	12,887
Other	8,635	685
Total	<u>\$ 750,808</u>	<u>\$ 144,131</u>

The Veteran project is under review pending a public hearing scheduled for November 15, 2016. The Organization anticipates the project will be approved.

#### Note 3 - Mortgage notes receivable

Mortgage notes receivable consist primarily of non-interest bearing residential home loans made to qualified borrowers that are secured by a deed of trust and payable in monthly installments over the term of the note, generally ranging from 10 to 35 years. These non-interest bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of each mortgage as calculated by HFHI. The discount on each mortgage is amortized using the effective interest rate method. During the years ended June 30, 2016 and 2015, mortgages originated were discounted at an interest rate of 7.48% and 7.51%, respectively, per annum. Accordingly, mortgage loan discount amortization for the years ended June 30, 2016 and 2015 of \$527,683 and \$486,688, respectively, was included as revenue in the consolidated statements of activities and changes in net assets.

Mortgage notes receivable and the related discount at June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Mortgage notes receivable	\$ 13,947,068	\$ 11,676,150
Less unamortized discount	<u>(7,652,491)</u>	<u>(6,166,561)</u>
Net present value of mortgage notes receivable	<u>\$ 6,294,577</u>	<u>\$ 5,509,589</u>

**San Diego Habitat for Humanity, Inc.**

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In previous years, SDHFH was a party to transactions in which it sold, with recourse, ten non-interest bearing mortgage notes receivable to Northern Trust Company and seven to Pacific Premier Bank. During the year ended June 30, 2016, SDHFH sold five additional non-interest bearing mortgage notes receivable to Northern Trust Company for \$631,959, five more to Pacific Premier Bank for \$664,639 and eleven to Pacific Western Bank for \$1,908,897. In accordance with ASC 860, *Transfers and Servicing*, the Organization treats the sale of mortgage notes receivable in which it retains an interest as a secured obligation. The mortgage receivables for the notes sold continue to be included as assets in the consolidated statements of financial position with a corresponding liability in the form of secured obligations from the sale of mortgage notes receivable. At June 30, 2016 and 2015, the book value of these secured obligations was \$3,546,290 and \$1,301,582, respectively. See Note 10.

The Organization services these mortgages by collecting the monthly payments and remitting the principal portion of these payments to the applicable bank. If a mortgage were to default, SDHFH may be required to re-purchase the mortgage at its discounted value and would in turn re-acquire all of the rights and obligations as the note holder.

SDHFH has pledged various mortgage notes receivable as collateral to secure notes payable and obligations to its creditors. These arrangements may restrict SDHFH's ability to sell, transfer or re-pledge these mortgages.

Scheduled mortgage notes receivable collections for five years subsequent to June 30, 2016 and thereafter are summarized as follows:

2017	\$	730,153
2018		716,391
2019		686,442
2020		662,227
2021		647,685
Thereafter		<u>10,504,170</u>
Total	\$	<u><u>13,947,068</u></u>

**Note 4 - Construction-in-process**

Construction-in-process and real estate development costs are summarized by project as follows:

	<u>2016</u>	<u>2015</u>
El Cajon - Foundation Lane II	\$ 1,983,745	\$ 1,207,632
Escondido - Citracado Parkway	60,967	59,457
Escondido - Elm Street	-	2,239,717
Imperial Beach - 10th & Donax	-	1,196,772
Oceanside - Libby Village Way	600	-
National City - Melrose Street	-	207,931
National City - Rachael Ave	<u>291,675</u>	<u>-</u>
Total	<u><u>\$ 2,336,987</u></u>	<u><u>\$ 4,911,509</u></u>

# San Diego Habitat for Humanity, Inc.

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

The following is a summary of home building activity for the years ended June 30, 2016 and 2015:

	2016		2015	
	Number of homes	Cost	Number of homes	Cost
Home construction-in-process, beginning	25	\$ 4,911,509	29	\$ 3,603,080
Costs incurred on homes New and existing projects	1	1,993,277	2	3,354,661
Costs transferred to finished homes	(18)	(4,567,799)	(6)	(2,046,232)
Total	8	\$ 2,336,987	25	\$ 4,911,509

### Note 5 - Finished homes held for sale

Finished homes held for sale consist of the following developments:

	2016	2015
Lakeside - Lakeshore Drive	\$ 300,956	\$ 1,196,260
Imperial Beach - 10th & Donax	1,573,823	-
Total	\$ 1,874,779	\$ 1,196,260

Following is a summary of finished homes activity for the years ended June 30, 2016 and 2015:

	2016		2015	
	Number of homes	Cost	Number of homes	Cost
Finished homes, beginning	4	\$ 1,196,260	3	\$ 935,821
Costs transferred to finished homes from construction-in-process	18	4,567,799	6	2,046,232
Homes sold to new owners	(15)	(3,889,280)	(5)	(1,785,793)
Total	7	\$ 1,874,779	4	\$ 1,196,260

### Note 6 - Property and equipment, net

Property and equipment consist of the following:

	2016	2015
Land	\$ -	\$ 1,146,349
Buildings and improvements	-	1,280,129
Vehicles	222,289	175,848
Equipment	227,648	204,067
Total	449,937	2,806,393
Less accumulated depreciation	(327,087)	(558,182)
Property and equipment, net	\$ 122,850	\$ 2,248,211

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
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The buildings, improvements and land in San Diego owned by SDHFH, which house SDHFH's corporate headquarters and its San Diego ReStore, are under contract to be sold. See Note 7.

Depreciation expense for the years ended June 30, 2016 and 2015 was \$63,958 and \$69,996, respectively.

**Note 7 - Corporate building held for sale**

In March 2015, SDHFH received a \$115,000 deposit for the sale of its corporate building (containing land, buildings and improvements). SDHFH received a second deposit of \$100,000 in March 2016 from the buyer to extend the purchase date to March 2017. Both deposits are recorded as accounts payable, accrued expenses and other liabilities on the consolidated statements of financial position. As of March 2016, SDHFH anticipated the building to be sold within one year and classified the building as held for sale on the consolidated statement of financial position. Total land, buildings and improvements were \$2,134,852 (net of \$291,626 accumulated depreciation) as of June 30, 2016.

**Note 8 - Retail store, net**

SDHFH operates two home improvement stores (the "ReStores") in San Diego and Escondido, California. The ReStores sell new and used home furnishings and building and home improvement materials to the general public. Donations to the ReStores are made by contractors and other businesses, organizations and individuals that have surplus or discontinued merchandise.

The purpose of the ReStores is to raise funds to support SDHFH programs. Accordingly, expenses of operating the ReStores are reported as program expenses in the consolidated statements of functional expenses. The amount of revenue reported from the ReStores includes cash receipts plus the fair market value of donated goods sold, net of the cost of purchased inventory sold. As most revenue earned by the ReStores is from the sale of donated goods, ReStore revenue is classified as support in the consolidated statements of activities and changes in net assets.

Net ReStore revenue is summarized as follows:

	2016	2015
Donations to retail store	\$ 1,543,108	\$ 1,493,049
Sales of donated and purchased items	1,536,324	1,374,414
Delivery contributions and other income	34,806	39,142
Fair market value of donated items sold and cost of purchased inventory sold	<u>(1,637,556)</u>	<u>(1,502,169)</u>
Net revenue from retail store	<u>\$ 1,476,682</u>	<u>\$ 1,404,436</u>

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

**Note 9 - Accounts payable, accrued expenses and other liabilities**

Accounts payable, accrued expenses, and other liabilities consist of the following:

	<u>2016</u>	<u>2015</u>
Accounts payable and other		
accrued expenses	\$ 440,889	\$ 328,915
Accrued compensation	129,317	185,125
Deposit on sale of building	215,000	115,000
Contingent liability - project	<u>58,494</u>	<u>58,494</u>
Total	<u>\$ 843,700</u>	<u>\$ 687,534</u>

The contingent liability - project relates to estimated costs for a completed construction project in El Cajon, California (see Note 17).

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

**Note 10 - Secured obligations from sale of mortgage notes receivable**

The Organization has entered into agreements with several financial institutions in which SDHFH sold a portion of its mortgage notes receivable with recourse (see Note 3). Secured obligations from the sale of mortgage notes receivable consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Four non-interest mortgage notes with Northern Trust Company, entered into on December 18, 2014, originally in the amount of \$651,130, payable in monthly installments, due in July 2040.	\$ 609,448	\$ 637,236
Seven non-interest mortgage notes with Pacific Premier Bank, entered into on April 9, 2015, originally in the amount of \$971,654, payable in monthly installments, due in July 2043.	920,212	964,305
Five non-interest mortgage notes with Pacific Premier Bank, entered into on October 23, 2015, originally in the amount of \$664,639, payable in monthly installments, due in April 2043.	643,523	-
Five non-interest mortgage notes with Northern Trust Company, entered into on October 29, 2015, originally in the amount of \$631,959, payable in monthly installments, due in May 2043.	608,728	-
Eleven non-interest mortgage notes with Pacific Western Bank, entered into on December 23, 2015, originally in the amount of \$1,908,897, payable in monthly installments, due in December 2045.	1,876,803	-
Five non-interest mortgage notes with Northern Trust Company, entered into on various dates between September 25, 1996 and December 27, 2002, originally in the amount of \$468,494, payable in monthly installments, due in various periods through June 2021.	<u>52,632</u>	<u>97,394</u>
Secured obligations from sale of mortgage notes receivable, gross	4,711,346	1,698,935
Less unamortized discount	<u>(1,165,056)</u>	<u>(397,353)</u>
Net present value of secured obligations from the sale of mortgage notes receivable	<u>\$ 3,546,290</u>	<u>\$ 1,301,582</u>

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
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The following table summarizes the payments due for secured obligations from the sale of mortgage notes receivable for five years subsequent to June 30, 2016 and thereafter:

2017	\$	223,431
2018		218,990
2019		218,989
2020		213,615
2021		213,180
Thereafter		<u>3,623,141</u>
	\$	<u><u>4,711,346</u></u>

**Note 11 - Note payable - Bank**

Note payable - Bank consists of the following:

	<u>2016</u>	<u>2015</u>
The mortgage note with California Bank & Trust originally in the amount of \$1,925,000 bears interest at 4.933% per annum and is payable in 119 monthly installments of \$11,270, with a final balloon payment of approximately \$1,433,000 due in August 2024. The mortgage note is secured by a deed of trust on the Organization's corporate headquarters and retail store in San Diego, California.	<u>\$ 1,850,568</u>	<u>\$ 1,891,866</u>
Total	<u><u>\$ 1,850,568</u></u>	<u><u>\$ 1,891,866</u></u>

At June 30, 2016, the Organization was in compliance with its loan covenants with California Bank & Trust.

The Organization also had a line of credit with California Bank & Trust, which expired on August 1, 2015, which accrued interest at the prime rate and which was secured by substantially all the Organization's assets. The line of credit with California Bank & Trust was not renewed. At June 30, 2016 and 2015, the Organization had no outstanding balance owed.

The following table summarizes the principal payments due for note payable - Bank for five years subsequent to June 30, 2016 and thereafter:

2017	\$	43,670
2018		45,905
2019		48,255
2020		50,491
2021		53,308
Thereafter		<u>1,608,939</u>
Total	\$	<u><u>1,850,568</u></u>



**San Diego Habitat for Humanity, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

**Note 12 - Notes payable - governmental agencies**

Notes payable - governmental agencies as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Notes payable, San Diego Housing Commission, require payments of \$248 per month through 2021. The notes have been discounted using imputed interest rates from 9.75% to 11.50%.	\$ 14,434	\$ 17,410
Note payable, City of Oceanside, secured by certain mortgage receivables. The note bears no interest, requires monthly payments of \$5,000 and matures in August 2029. The note has been discounted using a 6.0% imputed interest rate.	<u>780,000</u>	<u>840,000</u>
Total	794,434	857,410
Less unamortized discount	<u>(242,453)</u>	<u>(277,046)</u>
Net present value of notes payable - governmental agencies	<u><u>\$ 551,981</u></u>	<u><u>\$ 580,364</u></u>

Notes payable to the San Diego Housing Commission and City of Oceanside require monthly payments. The following table summarizes the scheduled principal payments on these three notes for five years subsequent to June 30, 2016 and thereafter:

2017	\$ 62,976
2018	62,976
2019	62,976
2020	62,976
2021	62,530
Thereafter	<u>480,000</u>
Total	<u><u>\$ 794,434</u></u>

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

**Note 13 - Forgivable notes payable - governmental agencies**

Forgivable notes payable - governmental agencies as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Note payable, City of Imperial Beach, secured by the development at 10th and Donax with no interest or payments, forgivable and transferrable to the purchaser of each home.	\$ 755,304	\$ 755,304
Note payable, City of Escondido, pursuant to Home Investment Partnership Program Funds from HUD, secured by the development at Elm Street, with no interest or payments, forgivable and transferrable to the purchaser of each home.	-	562,776
Notes payable, City of El Cajon, pursuant to Home Investment Partnership Program Funds from HUD, secured by deeds of trust on land acquired for construction of low-income housing. These loans require no payments and will be transferred to the purchasers of the homes in the Foundation Lane Phase II development. The promissory notes bear no interest unless SDHFH defaults under the terms of the note.	<u>282,326</u>	<u>164,668</u>
Total	<u>\$ 1,037,630</u>	<u>\$ 1,482,748</u>

SDHFH is awarded funding by various governmental agencies, generally in the form of a loan to finance, in part, the acquisition and/or development of specific housing projects. These loans are secured by deeds of trust on the related project property. The loans generally are non-interest bearing and have a maturity date of the earlier of one to two years or the sale/transfer of the property. Upon project completion, if SDHFH sells/transfers the property to a qualified buyer, the proportionate debt owed by SDHFH on the property is forgiven and transfers to the buyer as a mortgage on the property.

The grant/loan agreements usually require a written disposition and development agreement ("DDA") between SDHFH and the city. These agreements require SDHFH to comply with a number of requirements, including a promise to complete the project within a reasonable period of time and an agreement to sell the home or homes to moderate to low-income families as defined in the DDA. If SDHFH were to fail to comply with the terms of the DDA, it could be required to repay principal and interest as specified in the DDA. As of June 30, 2016 and 2015, management believes that SDHFH is in material compliance with all DDAs and related grant/loan agreements.

As set forth herein, the terms and conditions do not require SDHFH to utilize cash to repay the obligation. Moreover, there are no scheduled maturities of the related debt, since SDHFH is relieved of an obligation to repay the loan upon transfer of the property to a qualified buyer. Accordingly, SDHFH does not believe a table setting forth scheduled maturities of this debt would be meaningful.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

**Note 14 - Refundable advances**

Refundable advances as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Home funds - City of National City - refundable advances to be utilized for purchase and development of qualifying properties. Utilization of these funds must continue to meet compliance requirements during compliance period. After compliance activities and periods are met, these funds shall become unrestricted.	\$ 406,173	\$ 443,359
Home funds - City of El Cajon - refundable advances to be utilized for purchase and development of qualifying properties. Utilization of these funds must continue to meet compliance requirements during compliance period. After compliance activities and periods are met, these funds shall become unrestricted.	<u>280,405</u>	<u>280,405</u>
Total	<u><u>\$ 686,578</u></u>	<u><u>\$ 723,764</u></u>

**Note 15 - Note payable - HFHI**

Note payable - HFHI as of June 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
On December 12, 2013, SDHFH entered into a Loan and Security Agreement (the "FlexCap Note") with HFHI under which SDHFH borrowed \$980,000 with a maturity date of December 31, 2020. This loan represented a refinancing of two existing FlexCap notes, resulting in lower quarterly payments. The new FlexCap Note is payable in quarterly installments of \$40,026 including interest at 3.80% per annum. SDHFH was required to establish a reserve fund of \$40,026, reported herein as "deposits and other assets."	<u>\$ 659,369</u>	<u>\$ 791,270</u>
Totals	<u><u>\$ 659,369</u></u>	<u><u>\$ 791,270</u></u>

SDHFH is required to comply with the following covenants, which apply to the FlexCap Note:

- At all times, maintain minimum net assets of \$250,000.
- Have at least 10 mortgage loans in its performing mortgage pool.
- Own free and clear of all liens and encumbrances at least 40% of the total of mortgage loans in the performing mortgage pool.
- The mortgage receivables pledged by SDHFH must have aggregate mortgage payments equal to or greater than 105% of the quarterly payment and have aggregate values equal to or greater than 125% of the outstanding note balance.

## San Diego Habitat for Humanity, Inc.

### Notes to Consolidated Financial Statements June 30, 2016 and 2015

As of June 30, 2016 and 2015, management believes SDHFH was in compliance with the terms and conditions of the FlexCap Note.

The following table summarizes the principal payments due for note payable – HFHI for the five years subsequent to June 30, 2016:

2017	\$	136,985
2018		142,265
2019		147,749
2020		153,444
2021		<u>78,926</u>
Total	\$	<u><u>659,369</u></u>

#### Note 16 - Related party transactions

SDHFH remits a discretionary portion of its unrestricted contributions (excluding in-kind contributions) to HFHI on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2016 and 2015, SDHFH remitted \$40,500 and \$35,000, respectively, in tithes to HFHI.

In addition, during the years ended June 30, 2016 and 2015, SDHFH paid a U.S. Stewardship and Organizational Sustainability Fee of \$25,000 and \$16,700, respectively, to HFHI. Furthermore, for the years ended June 30, 2016 and 2015, SDHFH paid HFHI approximately \$30,000 and \$38,000, respectively, for services provided by Americorps on behalf of SDHFH.

As described in Note 15, SDHFH is party to the FlexCap Note with HFHI. Total amounts due under this note payable as of June 30, 2016 and 2015 were \$659,369 and \$791,270, respectively.

#### Note 17 - Commitments and contingencies

At June 30, 2016 and 2015, the Organization had certain contingent liabilities related to Phase I of its Foundation Lane project in the City of El Cajon ("El Cajon"). Pursuant to an agreement with El Cajon, SDHFH was permitted to finalize and sell the four-unit development on Foundation Lane prior to the completion of two required infrastructure improvements - the construction of a masonry fence ("Fence Improvement") and the construction of street access to an adjacent arterial street. SDHFH accrued \$58,494 to record the estimated cost of the Fence Improvement at June 30, 2011 and expensed it as a component of cost of homes sold. During the year ended June 30, 2013, SDHFH acquired property adjacent to the Foundation Lane site. SDHFH believes that it will not be required to complete the improvements. However, until a formal release is received from El Cajon's City Council, SDHFH will maintain its existing reserve and as a result retains a liability for \$58,494 as of June 30, 2016 and 2015.

SDHFH leases various systems and equipment under noncancellable leases running through April 2020. Equipment rental expense for the years ended June 30, 2016 and 2015 was \$16,714 and \$15,058, respectively.

In January 2014, SDHFH entered into a lease agreement for its new ReStore located in Escondido, California for a 27-month term. In December 2015, SDHFH executed an amendment, extending the original lease term by an additional five years. The rent expense for the years ended June 30, 2016 and 2015 was \$67,274 and \$64,132.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

Future minimum rental payments under these leases for the five years subsequent to June 30, 2016 are as follows:

2017	\$	99,789
2018		92,355
2019		80,064
2020		82,227
2021		<u>62,487</u>
Total	\$	<u><u>416,922</u></u>

**Note 18 - Temporarily restricted net assets**

Temporarily restricted net assets as of June 30, 2016 and 2015 consist of amounts restricted by donor-imposed stipulations as follows:

	<u>2016</u>	<u>2015</u>
Unappropriated investment income	<u>\$ 20,562</u>	<u>\$ 42,630</u>
Total	<u><u>\$ 20,562</u></u>	<u><u>\$ 42,630</u></u>

**Note 19 - Permanently restricted net assets**

Permanently restricted net assets as of June 30, 2016 and 2015 consist of a beneficial interest in assets held by The San Diego Foundation (the "Foundation") which is holding them as an endowed component fund ("Fund") for the benefit of the Organization. The Fund is subject to the Foundation's investment and spending policies, which currently result in a distribution to the Organization of 5%, annually, of the 36-month average principal market value of the Fund. Distributions are generally made semi-annually. The Organization reports the fair value of the Fund as a beneficial interest in assets held at a community foundation in the consolidated statements of financial position and reports distributions received as a reduction to the Fund balance. Changes in the value of the Fund are reported as temporarily restricted investment income in the consolidated statements of activities and changes in net assets.

**Interpretation of relevant law**

The Organization has interpreted the State of California's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization has classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The earnings of the donor-restricted endowment fund are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization; and
- (7) The investment policies of the Organization.

The following is a summary of changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Fund balance, beginning	\$ -	\$ 42,630	\$ 303,059	\$ 345,689
Fund appreciation	-	(5,456)	-	(5,456)
Investment expenses	-	(1,590)	-	(1,590)
Distributable grants approved	-	(15,022)	-	(15,022)
Fund balance, end	<u>\$ -</u>	<u>\$ 20,562</u>	<u>\$ 303,059</u>	<u>\$ 323,621</u>

The following is a summary of changes in endowment net assets for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Fund balance, beginning	\$ -	\$ 55,226	\$ 303,059	\$ 358,285
Fund appreciation	-	2,293	-	2,293
Investment expenses	-	(1,723)	-	(1,723)
Distributable grants approved	-	(13,166)	-	(13,166)
Fund balance, end	<u>\$ -</u>	<u>\$ 42,630</u>	<u>\$ 303,059</u>	<u>\$ 345,689</u>

**Funds with deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no deficiencies of this nature that were reported in unrestricted net assets as of June 30, 2016 and 2015.

**Return objectives and risk parameters**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that follows the policies of the Foundation. Actual returns in any given year may vary from this expected return. See Note 20.

## **San Diego Habitat for Humanity, Inc.**

### **Notes to Consolidated Financial Statements June 30, 2016 and 2015**

#### **Strategies for achieving objectives**

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization uses a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk parameters.

#### **Spending policy and how the investment objectives relate to the spending policy**

The Organization follows the policies of the Foundation in determining the distribution amount to be appropriated each year. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average annual rate equal to the general inflation rate. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

#### **Note 20 - Assets and liabilities measured at fair value on a recurring basis**

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level 1 include listed equities, bond instruments, and mutual funds held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.
- Level 2: Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3: Pricing inputs are unobservable for the investment, including situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

The inputs and methodology used for valuing the Organization's financial assets and liabilities are not indicators of the risks associated with those instruments.

There have been no changes in methodology during the year.

# San Diego Habitat for Humanity, Inc.

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

The following table sets forth by level, within the fair value hierarchy, SDHFH's assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by community foundation	\$ -	\$ -	\$ 323,621	\$ 323,621
Total assets at fair value	\$ -	\$ -	\$ 323,621	\$ 323,621

The following table sets forth by level, within the fair value hierarchy, SDHFH's assets at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by community foundation	\$ -	\$ -	\$ 345,689	\$ 345,689
Total assets at fair value	\$ -	\$ -	\$ 345,689	\$ 345,689

The following table sets forth a summary of changes in the fair value of SDHFH's Level 3 assets for the years ended June 30, 2016 and 2015:

	2016	2015
Balance, beginning	\$ 345,689	\$ 358,285
Investment return	(7,046)	570
Distributed to SDHFH	(15,022)	(13,166)
Balance, end	\$ 323,621	\$ 345,689

The following table represents SDHFH's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2016:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interest in assets held by community foundation	\$ 323,621	Valuation of underlying assets as provided by trustee	Investment period (liquidity)	N/A	N/A

The following table represents SDHFH's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2015:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interest in assets held by community foundation	\$ 345,689	Valuation of underlying assets as provided by trustee	Investment period (liquidity)	N/A	N/A

The Organization's investments consist entirely of the beneficial interest in assets held at the Foundation and are classified as Level 3 investments as described above. Accordingly, the changes in the value of Level 3 financial instruments are set forth in the tables above.



**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

The beneficial interest in assets held at the Foundation has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of June 30, 2016 and 2015. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which include private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The Foundation's target asset allocation for the Fund is 22% domestic (U.S.) equities, 19% fixed income instruments (domestic and international), 20% alternative investments, 6% global equities, 22% international equities and 11% real assets. The beneficial interest in assets held at the Foundation is not redeemable by the Organization.

**Note 21 - Subsequent event**

On September 28, 2016, the Organization sold 19 mortgage notes receivable to City National Bank for \$1,850,566 before transaction costs. These mortgage notes receivable, which had balances of \$2,339,077 as of June 30, 2016 and projected balances of \$2,293,067 as of the cut-off date for the transaction, had previously been used as collateral for the Organization's FlexCap Note payable to HFHI. As part of this transaction, SDHFH paid off the FlexCap Note and accrued interest totaling \$638,949 and recovered its FlexCap deposit of \$40,026. The net cash generated by this transaction after transaction costs and the FlexCap payoff was \$1,174,055.

## **Supplementary Information**

**San Diego Habitat for Humanity, Inc.**

**Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development				
Home investment partnerships program:				
Pass-through HOME Funds - City of El Cajon	14.239	N/A	\$ -	\$ 562,731
Pass-through HOME Funds - City of National City	14.239	N/A	-	406,173
Total - Home Investment Partnerships Program Funds			<u>\$ -</u>	<u>\$ 968,904</u>
Total - Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 968,904</u>

See Notes to Schedule of Expenditures of Federal Awards.

**San Diego Habitat for Humanity, Inc.**

**Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016**

**(1) Basis of presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of San Diego Habitat for Humanity, Inc. and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements of San Diego Habitat for Humanity, Inc.

**(2) Relationship to consolidated financial statements and federal financial reports**

Information reported in the Schedule agrees with the amounts reported in both the consolidated financial statements and the related federal financial reports in all material respects.

**(3) Expenditures, loans and refundable advances**

Net federal program expenditures include refundable advances, loans, funds expended in the current fiscal year, and restricted Community Housing Development Organization proceeds, which are required to be presented on the Schedule for the life of the project.

**(4) Indirect cost rate**

The Company has not been assigned an indirect cost rate by the granting agency, nor has it elected the de minimus indirect cost rate of 10%. Accordingly, the Company did not submit indirect costs for reimbursement during the year ended June 30, 2016.

**(5) Amount provided to subrecipients**

During the year ended June 30, 2016, the Company did not provide any funds to subrecipients.

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  
San Diego Habitat for Humanity, Inc.

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 consolidated financial statements of San Diego Habitat for Humanity, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 7, 2016

*Internal Control over Financial Reporting*

In planning and performing our audits of the consolidated financial statements, we considered San Diego Habitat for Humanity, 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Diego Habitat for Humanity, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of San Diego Habitat for Humanity, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits, 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 San Diego Habitat for Humanity, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 San Diego Habitat for Humanity, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Diego Habitat for Humanity, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CohnReznick LLP*

San Diego, California  
November 7, 2016

Independent Auditor's Report on Compliance for Each  
Major Federal Program and on Internal Control over  
Compliance Required by the Uniform Guidance

To the Board of Directors  
San Diego Habitat for Humanity, Inc.

*Report on Compliance for Each Major Federal Program*

We have audited San Diego Habitat for Humanity, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on San Diego Habitat for Humanity, Inc.'s major federal program for the year ended June 30, 2016. San Diego Habitat for Humanity, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for San Diego Habitat for Humanity, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Diego Habitat for Humanity, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of San Diego Habitat for Humanity, Inc.'s compliance.

*Opinion on Each Major Federal Program*

In our opinion, San Diego Habitat for Humanity, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

## *Report on Internal Control over Compliance*

Management of San Diego Habitat for Humanity, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Diego Habitat for Humanity, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Diego Habitat for Humanity, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *the Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



San Diego, California  
November 7, 2016



**San Diego Habitat for Humanity, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

**Part I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified  
Internal control over financial reporting:  
Material weaknesses identified? \_\_\_\_\_yes    X\_\_\_\_\_no  
  
Significant deficiencies identified? \_\_\_\_\_yes    X\_\_\_\_\_none reported  
  
Noncompliance material to financial statements noted? \_\_\_\_\_yes    X\_\_\_\_\_no

**Federal Awards**

Internal control over major programs:  
Material weaknesses identified? \_\_\_\_\_yes    X\_\_\_\_\_no  
  
Significant deficiencies identified? \_\_\_\_\_yes    X\_\_\_\_\_none reported  
  
Type of auditor's report issued on compliance for major programs: Unmodified  
  
Any audit findings disclosed that are required to be reported in accordance with  
2 CFR 200.516(a)? \_\_\_\_\_yes    X\_\_\_\_\_no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Amount</u>
14.239	HOME Investments Partnerships Program	\$ 968,904

Dollar threshold used to distinguish between  
Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_yes    X\_\_\_\_\_no

**San Diego Habitat for Humanity, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

**Part II - Financial Statement Findings Section**

None noted

**Part III - Federal Award Findings and Questioned Costs Section**

None noted

**San Diego Habitat for Humanity, Inc.**

**Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2015**

**Summary of Prior Year Finding and Questioned Costs Relating to Federal Awards**

The current status of action of the finding reported for the year ended June 30, 2015 is noted below:

**Finding 2015-001**

Condition

In accordance with the regulatory agreements, SDHFH is required to submit a performance report to National City, El Cajon, and Escondido no later than 30 days after the end of each calendar quarter, describing the progress during the previous quarter and outlining anticipated upcoming key steps.

Two out of six selections for reporting testing were not filed with National City and two selections (El Cajon and Escondido) did not submit their reports on a timely basis in the 2015 fiscal year.

Current Status

Finding has been adequately addressed.



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