

**HABITAT FOR HUMANITY
SEATTLE-KING COUNTY
AND AFFILIATES**

Consolidated Financial Statements
and Supplementary Information
for the Year Ended June 30, 2017
and Independent Auditor's Report

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Table of Contents

For the Year Ended June 30, 2017

Independent Auditor’s Report.....	1
Financial Statements:	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities.....	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements.....	10
Supplementary Information:	
Schedule of Expenditures of Federal Awards.....	24
Notes to Schedule of Expenditures of Federal Awards	25
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>	27
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance	29
Schedule of Findings and Questioned Costs.....	31

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity Seattle-King County and Affiliates
Renton, Washington

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Seattle-King County and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2017, the related consolidated statements of activities, functional expenses and cash flows for the year 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 consolidated financial position of Habitat for Humanity Seattle-King County and Affiliates as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in the current year Habitat for Humanity Seattle-King County adopted the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary 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* 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 March 12, 2018, on our consideration of Habitat for Humanity Seattle-King County and Affiliates' 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 Habitat for Humanity Seattle-King County and Affiliates' internal control over financial reporting and compliance.

Watson & McDowell, PLLC

March 12, 2018

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Consolidated Statement of Financial Position
June 30, 2017

ASSETS

Current assets:	
Cash and cash equivalents	\$ 4,186,343
Restricted cash	130
Restricted investments	13,473
Inventory held for sale - Habitat Store	221,626
Grants and other receivables	18,477
Pledges receivable	144,563
Investment in HFHI-SA Leverage V LLC (New Markets Tax Credit)	2,319,276
Mortgage notes receivable, unpledged	646,190
Mortgage notes receivable, pledged	987,070
Prepaid expenses and other	<u>76,563</u>
Total current assets	<u>8,613,711</u>
Non-current assets:	
Restricted cash, net of current portion	265,260
Mortgage notes receivable, unpledged, net of discount and current portion	7,522,614
Mortgage notes receivable, pledged, net of discount and current portion	6,878,109
Construction in progress	5,762,506
Land leased to homeowners	12,481,865
Property and equipment, net	142,130
Investment in leased property, net of accumulated amortization	108,565
Deposits and other	<u>44,450</u>
Total non-current assets	<u>33,205,499</u>
Total assets	<u>\$ 41,819,210</u>

The accompanying notes should be read with these financial statements.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Consolidated Statement of Financial Position, Continued
June 30, 2017

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 96,882
Accrued expenses	267,030
Deferred rent, current portion	29,327
Secured borrowings, current portion	987,070
Note payable to HFHI-SA NMTC III LLC	2,716,565
Notes payable, current portion	<u>77,752</u>
Total current liabilities	<u>4,174,626</u>
Non-current liabilities:	
Deferred rent	39,730
Deferred interest	88,477
Secured borrowings, net of discount and current portion	7,318,620
Notes payable, net of current portion	<u>6,956,030</u>
Total non-current liabilities	<u>14,402,857</u>
Total liabilities	<u>18,577,483</u>
Commitments and contingencies - see Note 14	
Net assets:	
Unrestricted net assets	23,051,819
Temporarily restricted	<u>189,908</u>
Total net assets	<u>23,241,727</u>
Total liabilities and net assets	<u><u>\$ 41,819,210</u></u>

The accompanying notes should be read with these financial statements.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Consolidated Statement of Activities
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions	\$ 2,365,440	\$ 116,079	\$ 2,481,519
Grants	16,000		16,000
In-kind materials donated for resale	1,469,177		1,469,177
In-kind donations for office and construction	393,769		393,769
Sales of homes	2,371,197		2,371,197
Special events	715,182		715,182
Other income	13,269		13,269
Mortgage note discount amortization	836,236		836,236
Gain on sale of land and building	223,235		223,235
NMTC revenue	60,524		60,524
Habitat Store income	1,413,324		1,413,324
Repair and rehabilitation income	20,859		20,859
Net assets released from restriction	<u>391,278</u>	<u>(391,278)</u>	
Total support and revenue	<u>10,289,490</u>	<u>(275,199)</u>	<u>10,014,291</u>
Expenses:			
Program services	7,819,466		7,819,466
Management and administration	734,946		734,946
Fundraising	<u>626,655</u>		<u>626,655</u>
Total expenses	<u>9,181,067</u>		<u>9,181,067</u>
Change in net assets	1,108,423	(275,199)	833,224
Net assets, beginning of year	<u>21,943,396</u>	<u>465,107</u>	<u>22,408,503</u>
Net assets, end of year	<u>\$ 23,051,819</u>	<u>\$ 189,908</u>	<u>\$ 23,241,727</u>

The accompanying notes should be read with these financial statements.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2017

	<u>Program Services</u>	<u>Management & Administration</u>	<u>Fundraising</u>	<u>Total</u>
Program and house building costs	\$ 193,768	\$ 85		\$ 193,853
Cost of homes sold	1,659,407			1,659,407
Mortgage and pledge discounts	1,339,932			1,339,932
Salaries and wages	1,176,056	372,891	\$ 125,428	1,674,375
Payroll taxes and benefits	321,328	62,525	24,654	408,507
Contract labor	227,322	60,100	6,398	293,820
Cost of goods sold	1,393,088			1,393,088
NMTC expenses	62,107			62,107
Tithe to overseas construction	100,000			100,000
Rent and occupancy	545,884	53,434	46,251	645,569
Professional fees	51,115	42,028	165,712	258,855
Public relations and marketing	16,375	19,390	51,412	87,177
Administrative services	126,365	22,722	34,796	183,883
Computer hardware and software	8,143	2,715	27,428	38,286
Interest	38,058	61,865		99,923
Interest - debt issuance costs	3,607			3,607
Training and travel	20,076	13,820	13,600	47,496
Depreciation and amortization	58,843	800	800	60,443
Other program costs	156,836	5,665	9,798	172,299
Americorps and Vista fees	234,173			234,173
Special events			110,857	110,857
Utilities	62,542	9,408	4,869	76,819
Supplies	24,441	7,498	4,652	36,591
	<u>\$ 7,819,466</u>	<u>\$ 734,946</u>	<u>\$ 626,655</u>	<u>\$ 9,181,067</u>
Total expenses	<u>\$ 7,819,466</u>	<u>\$ 734,946</u>	<u>\$ 626,655</u>	<u>\$ 9,181,067</u>

The accompanying notes should be read with these financial statements.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Consolidated Statement of Cash Flows

For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 833,224
Adjustments:	
Depreciation and amortization	60,443
Interest expense - amortization of debt issuance costs	3,607
Amortization of NMTC capitalized fees	14,630
Loss on disposal of land held for development	100,903
Income on investment in HFHI-SA Leverage V LLC	(40,499)
Origination of mortgages	(2,357,964)
Discounts on mortgages	482,569
Changes in assets and liabilities:	
Inventory held for sale - Habitat Store	(37,694)
Grants and other receivables	47,394
Pledges receivable, net	261,526
Construction in progress/completed houses for sale	(339,227)
Prepaid expenses and other	4,379
Deferred rent	21,565
Accounts payable	(234,831)
Deferred interest	15,447
Accrued expenses	99,465
Net cash provided by (used in) operating activities	<u>(1,065,063)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Restricted cash	(52,445)
Investment in HFHI-SA Leverage V LLC - distributions	20,603
Proceeds from receipts on unpledged mortgages	885,292
Proceeds from receipts on pledged mortgages	987,707
Purchases of property and equipment	(19,050)
Net decrease in Fund for Humanity	1,039,384
Sale of land	179,088
Purchases of land held for sale and development	(2,966)
Deposits and other	9,091
Net cash provided by (used in) investing activities	<u>3,046,704</u>

The accompanying notes should be read with these financial statements.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Consolidated Statement of Cash Flows, Continued
For the Year Ended June 30, 2017

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on secured borrowings	\$ (987,707)
Proceeds from notes payable	2,902,822
Repayment of notes payable	<u>(63,330)</u>
Net cash provided by (used in) financing activities	<u>1,851,785</u>
Net change in cash	3,833,426
Cash and cash equivalents, beginning	<u>352,917</u>
Cash and cash equivalents, ending	<u>\$ 4,186,343</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	<u>\$ 82,473</u>
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The accompanying notes should be read with these financial statements.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - NATURE AND PURPOSE OF THE ORGANIZATION

Habitat for Humanity Seattle-King County (Habitat) is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nonprofit organization whose purpose is to create decent affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, publications, and training, Habitat is directly responsible for its own operations.

Habitat is committed to neighborhood revitalization across King County using a community engagement model that utilizes volunteer labor and donated materials, in addition to paid services and materials. As part of neighborhood revitalization, Habitat builds houses that are sold to qualified homebuyers at no profit with non-interest-bearing mortgages. Prospective homeowners are required to participate in the construction of homes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets at June 30, 2017.

Basis of presentation

Habitat formed HFHSKC Community Housing Development Organization (the CHDO) for the purpose of supporting the development and management of housing for low-income residents of King County. These statements consolidate the accounts of the CHDO because Habitat is its sole member. Transactions and accounts between entities have been eliminated in consolidation.

Habitat formed Nevada Street LLC for the purpose of purchasing property and opening a Habitat store on the site. These statements consolidate the accounts of Nevada Street LLC because Habitat is its sole member. Transactions and accounts between entities have been eliminated in consolidation.

Habitat formed La Fortuna Holding LLC for the purpose of carrying on the business of ground leasing, owning, managing and selling real property assets, and to form and act as declarant of one or more condominiums. These statements consolidate the accounts of La Fortuna Holding LLC because Habitat is its sole member. Transactions and accounts between entities have been eliminated in consolidation.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of presentation, continued

Habitat formed Building Together LLC for the purpose of acquiring and holding land for development of low-income housing. These statements consolidate the accounts of Building Together LLC because Habitat is its sole member. Transactions and accounts between entities have been eliminated in consolidation.

Joint ventures and other equity investments

In 2010 Habitat invested, along with four other Habitat affiliates, in a joint venture (HFHI-SA Leverage V LLC) with 18.6 percent ownership to take advantage of New Markets Tax Credit (NMTC) financing. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. As a result, Habitat invested \$2,068,815 and was able to secure a 15-year loan in the amount of \$2,716,565, payable to a community development entity (an affiliate of the joint venture – see Note 7). The loan proceeds were used solely for the purpose of constructing and selling qualified housing properties to low-income residents. Habitat accounts for its investment in the limited liability company using the equity method of accounting. Investment in HFHI-SA Leverage V LLC was \$2,319,276 at June 30, 2017.

In July 2017, HFHI-SA Investment Fund I LLC (the Fund), the effective owner of HFHI-SA NMTC III LLC (holder of the promissory note due from Habitat), was expected to exercise a put option. Under the terms of the put option agreement, HFHI-SA Leverage V was expected to purchase the ownership interest of the Fund. Exercise of the option would effectively allow Habitat to extinguish its outstanding debt owed to the Fund. The option was exercised in 2017.

Fair value of financial assets and liabilities

Financial Accounting Standards Board Codification, Subtopic 820-10, *Fair Value Measurements and Disclosures*, establishes a hierarchy for measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The valuation methodologies used to measure fair value have been consistently applied. All assets and liabilities measured at fair value on a recurring basis fall in Level 1 at June 30, 2017.

Cash and cash equivalents

Cash and cash equivalents are highly liquid investments with an initial maturity of three months or less.

Cash restricted for program use

Some cash is restricted for program use in compliance with loan or other requirements, and cannot be used for most general operations (see Note 3).

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments

Habitat records its investments at their fair market value in the statement of financial position, and gains and losses, both realized and unrealized, are reported in the statement of activities.

Inventory held for sale - Habitat Stores

Habitat Stores (the Stores) inventory includes furniture, household items, and other materials used for re-sale and operations at the Stores. Habitat estimates the value of donated inventory items are at fair value as determined by management using net sales of the month subsequent to year end, based on an estimated inventory turnover rate of 12 times annually. Inventory held for sale at June 30, 2017, was \$221,626.

Fixed assets

Fixed assets are carried at cost, if purchased, or fair value at the time of donation, if donated. Habitat capitalizes all expenditures for fixed assets in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives ranging from three to thirty years.

Habitat reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. No impairment loss was recognized in the current period.

New accounting standard

In the current year Habitat adopted new authoritative guidance regarding the presentation of debt issuance costs and related amortization. The adoption of this guidance is a change in accounting principle, which has been applied retrospectively. Debt issuance costs are now reported on the balance sheet as a direct deduction from the face amount of the debt (see Note 7, Notes Payable). Previously, Habitat reflected unamortized debt issuance costs as deferred charges in the balance sheet. Amortization is required to be included with interest expense in the statement of operations. The change in accounting principle had no effect on beginning net assets or previously reported changes in net assets and \$28,856 was reclassified from assets to liabilities at June 30, 2017.

Restricted and unrestricted revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases to temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Revenue and cost recognition

At the time a home is sold to a qualified buyer, the sale is recorded as revenue and the cost of the home is recorded as program services expense on the accompanying statement of activities. Habitat finances the purchase of its homes by offering no-interest loans to qualified, low-income homeowners secured by a deed of trust on the related property. At the time of sale, Habitat recognizes revenue and the related mortgages receivable. In accordance with generally accepted accounting principles, revenue is recognized by discounting the future payments to be received from the homeowners using an interest rate based on term loans collateralized by mortgages receivable.

To promote current and future affordability to homeowners arising from disparities in land values, Habitat currently retains title to some of the underlying land, while other sales include the land. In lieu of selling the land, Habitat enters into a long-term land lease arrangement with the homeowners at a nominal annual amount. Concurrent with the recognition of the sale, the cost of the land and related improvements is transferred from construction in progress to “land leased to homeowners” on the accompanying statement of financial position.

Expenses

The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Program services include construction, family support, volunteer management and Habitat Stores operations. The cost of home building is charged to program services as homes are sold.

When costs of homes are known to exceed sales prices prior to sales, costs in excess of sales prices are recorded. No losses were recognized in the current period.

In-kind donations for office and construction

Habitat receives significant donated services from unpaid volunteers who assist in home building and administrative tasks. Donated services are recorded at fair value if they create or enhance non-financial assets or if they consist of specialized skills that would have to be purchased if they were not donated. Financial institutions contributed mortgage services for the homeowners; the value of this contributed time is not reflected in the financial statements since Habitat would not have otherwise purchased it. During the year ended June 30, 2017, volunteers contributed 23,588 hours of labor which have not been recorded in the financial statements since this labor did not require a specialized skill.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In-kind materials donated for resale

Habitat estimates the value of donated goods received based upon net revenues generated from the sales of the donated goods. Using this method, management has estimated that the value of all goods donated to Habitat throughout the year is equal to the revenue realized by the sale of these goods plus the ending inventory less the beginning inventory. The total estimated value of items donated to the stores for the year ended June 30, 2017, was \$1,469,177.

Equity agreements

Certain completed homes were sold to beneficiary homeowners at cost when possible, but in all cases at or below appraised value. Habitat obtained a deed of trust for any difference between the agreed-upon purchase price and the current fair value of the property. This difference (referred to as “the equity”) is payable to Habitat should the homeowner sell the property. However, the equity accrues to the benefit of the homeowner ratably over the life of the mortgage, as long as the homeowner continues to occupy the property as primary residence and maintains the property in good condition. The equity agreements are not reflected in the financial statements. During the year ended June 30, 2017, no equity from those agreements was paid to Habitat.

Income tax status

Habitat for Humanity Seattle-King County and the CHDO received exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code. Habitat’s wholly-owned subsidiaries, Nevada Street LLC and La Fortuna Holding LLC, are disregarded entities for tax purposes. Habitat qualifies for the charitable contribution deduction under section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under section 509(a)(1). Sales tax from Habitat Store sales collected and remitted to the State of Washington and local entities was \$81,406 for the year ended June 30, 2017. Habitat’s income tax filings are subject to examination by various taxing authorities. Habitat believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

Use of estimates in preparation of financial statements

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

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

As a condition of the loan with HFHI-SA NMTC III LLC, Habitat established, for a segregated portion of the business, two cash accounts, a reserve account and an operating account, which are under the control of the lender and in which the lender has a lien and security interest. The accounts are for the benefit of the lender and are maintained and administered for the lender for the purpose of receiving and disbursing certain amounts related to the New Markets Tax Credit transactions (see Note 2). The balance in the reserve account at June 30, 2017, was \$2,600. The balance in the operating account at June 30, 2017, was \$130.

Cash is restricted for principal payments on homes sold in both the Kent and Federal Way Neighborhood Stabilization Programs. The balances in these accounts were \$40,508 and \$218,491 respectively, at June 30, 2017.

Habitat maintains a cash account for a University of Washington campus chapter; the balance of that account was \$3,161 at June 30, 2017. Habitat also maintains a restricted cash account as required by a SHOP grant. The balance of the account was \$500 at June 30, 2017.

Interest income for the period ended June 30, 2017, was insignificant.

Habitat maintains an assigned certificate of deposit as required by the Washington State Department of Labor and Industries in lieu of a bond for Habitat's contractor license. The value of the certificate of deposit was \$13,473 at June 30, 2017.

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give; all of which were receivable within one year. A discount has not been provided for pledges that are expected to be realized in a timeframe greater than one year since the amount is considered immaterial. An allowance for uncollectible pledges represents management's estimate of losses inherent in promises to give. No allowance was considered necessary at June 30, 2017. The balance of pledges receivable was \$144,563 at June 30, 2017.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 5 - MORTGAGE NOTES RECEIVABLE

As part of Habitat’s efforts to foster affordability, Habitat homeowner mortgages do not bear interest. Such non-interest-bearing mortgages are secured by homes sold. Generally accepted accounting principles in the United States require that interest be imputed on below-market interest instruments. The effect is to discount each note with an offsetting charge to program expense. The discount is then amortized over the life of each note as income.

The resulting carrying value of the mortgages approximates fair value. The notes are due upon the earlier of the sale of the home, refinance or at maturity. Uncollectible notes are expected to be insignificant; accordingly no provision for doubtful accounts has been included in the financial statements.

Unpledged notes at June 30, 2017, have been discounted at an average rate of 4.34 percent:

Face value	\$ 12,680,479
Less: discount	<u>(4,511,675)</u>
	<u>\$ 8,168,804</u>

Those notes pledged by Habitat to banks and credit unions have been transferred with recourse. Because the notes were transferred with recourse, Habitat accounts for transactions related to the notes in accordance with FASB Accounting Standards Codification Topic 860, *Accounting for Transfers and Servicing of Financial Assets*, whereby the transferor and transferee account for the transfer as a secured borrowing with a pledge of collateral. See discussion of the related liability in Note 8.

Pledged notes at June 30, 2017, have been discounted at an average rate of 5.62 percent:

Face value	\$ 11,628,968
Less: discount	<u>(3,763,789)</u>
	<u>\$ 7,865,179</u>

Following are disclosures related to financing receivables for the period ended June 30, 2017:

Ending balances, June 30, 2017	<u>\$ 24,296,635</u>
Ending balances, individually evaluated for impairment	<u>\$ 24,296,635</u>

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 5 - MORTGAGE NOTES RECEIVABLE, CONTINUED

Age Analysis of Past Due Financing Receivables

<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Financing Receivables</u>
\$ 717,483	\$ 66,549	\$ 115,105	\$ 899,137	\$ 23,397,498	\$ 24,296,635

Credit Quality Indicators

Credit Risk Profile by Internally Assigned Grade

Good	\$ 24,114,981
Substandard	<u>181,654</u>
Total	<u>\$ 24,296,635</u>

Credit Risk Profile Based on Payment Activity

Performing	\$ 24,114,981
Nonperforming	<u>181,654</u>
Total	<u>\$ 24,296,635</u>

A delinquent mortgage is considered non-performing if no payment has been received in the previous 60 days and no attempt has been made by the homeowner to contact Habitat to work out a payment plan.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2017:

Buildings and improvements	\$ 122,399
Furnishings and equipment	<u>737,439</u>
	859,838
Less: accumulated depreciation and amortization	<u>(717,708)</u>
	<u>\$ 142,130</u>

Depreciation and amortization expense, including amortization on investment in leased property, was \$60,443 for the year ended June 30, 2017.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 7 - NOTES PAYABLE AND OTHER DEBT

Issaquah Highlands

Note payable to King County, Washington; secured by deed of trust; no interest unless in default; principal is due December 31, 2089 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property \$ 500,000

Note payable to the Habitat for Humanity International, Inc., no interest, principal of \$1,433 is due monthly until loan is fully repaid 15,875

Coal Creek Terrace

Note payable to King County, Washington; secured by deed of trust; no interest unless in default; principal is due May 1, 2051 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property 369,464

Overlake Park

Non-interest bearing note payable to King County, Washington; forgiven in 2070 provided compliance with terms and conditions of the loan agreement; otherwise, outstanding balance and accrued interest of maximum rate allowable by law is due at the option of the holder of the note 89,775

La Fortuna

Note payable to King County, Washington; secured by deed of trust; interest at one percent is compounded annually; principal and interest is due December 31, 2088 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property 494,643

Note payable to Washington State Housing Finance Commission; interest at 1% and principal payments deferred until maturity on April 30, 2019; secured by a deed of trust on land in King County, Washington 858,000

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 7 - NOTES PAYABLE AND OTHER DEBT, CONTINUED

Snoqualmie Ridge

Note payable to King County, Washington; secured by deed of trust; no interest unless in default; principal is due June 1, 2107 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property

\$ 649,886

Westway

Non-interest bearing note payable to King County, Washington; forgiven on December 31, 2022, provided compliance with terms and conditions of the loan agreement; otherwise, interest at 12% starting at time of default; interest and outstanding balance may be due at the option of the holder of the note

20,000

Non-interest bearing note payable to King County, Washington; forgiven on December 31, 2022, provided compliance with terms and conditions of the loan agreement; otherwise, interest at 12% starting at time of default; interest and outstanding balance may be due at the option of the holder of the note

20,000

Patterson Park

Non-interest bearing note payable to King County, Washington; forgiven in 2047 provided compliance with terms and conditions of the loan agreement; otherwise, accrued interest of maximum rate allowable by law is due monthly and outstanding balance is due at the option of the holder of the note

436,683

City of Federal Way

Note payable to the City of Federal Way; secured by deed of trust; interest at one percent is compounded annually unless there is a default, after which interest at 12% or highest allowable by law; principal and interest is due October 13, 2035 or at the option of the holder of the note upon default, sale or other conveyance of all or any portion of the property

165,000

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 7 - NOTES PAYABLE AND OTHER DEBT, CONTINUED

Sammamish

Non-interest bearing note payable to Community Frameworks; forgiven in 2026 provided compliance with terms and conditions of the loan agreement; otherwise, accrued interest of 1 ½% is due monthly and outstanding balance is due at the option of the holder of the note \$ 150,000

La Fortuna

Non-interest bearing note payable to State of Washington Department of Commerce Housing Trust Fund; total available of \$450,000, forgiven May 31, 2041 provided compliance with terms and conditions of the loan agreement 450,000

ARCH

Non-interest bearing note payable to ARCH Sammamish, forgiven July 15, 2090 provided compliance with terms and conditions of the loan agreement, secured by a deeds of trust on land in King County, Washington 400,000

Habitat for Humanity – State of Washington

Note payable to the Habitat for Humanity – State of Washington; secured by participating interest in a pool of mortgage loans; interest at three percent; loan is amortizing over 25 years, all principal and interest due August 12, 2026, with a balloon payment due at that time 2,443,312

Subtotal 7,062,638

New Markets

Note payable to HFHI-SA NMTC III LLC; interest only payments at 0.759% to be paid semi-annually from December 2010 through December 2017, an option was exercised to retire the note on July 6, 2017 (see Note 2) 2,716,565

Total notes payable 9,779,203

Less unamortized debt issuance costs (28,856)

Total notes payable less unamortized issuance costs \$ 9,750,347

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 7 - NOTES PAYABLE AND OTHER DEBT, CONTINUED

Future payments required on loans payable, excluding issuance costs, for the years ending June 30, are as follows:

2018	\$ 2,794,317
2019	934,544
2020	76,602
2021	77,678
2022	78,823
Thereafter	<u>5,817,239</u>
	<u>\$ 9,779,203</u>

Interest has not been imputed on any of the above notes payable that carry below-market rate interest as they are payable to entities whose policies are affected by tax attributes or legal restrictions prescribed by a governmental agency. The restrictions require Habitat to use the loan to fund rehabilitation and construction of homes for low-income families in compliance with programs as provided by provisions of the Internal Revenue Code.

NOTE 8 - SECURED BORROWINGS

As discussed in Note 5, Habitat has transferred, with recourse, mortgage notes to financial institutions. Under the terms of transfer and servicing agreements, Habitat retains full responsibility for any defaults or delinquencies. Under FASB Accounting Standards Codification Topic 860, *Accounting for Transfers and Servicing of Financial Assets*, the transfers are accounted for as secured borrowings and are included in the liability section of the statement of financial position. The present value of the liability for these transferred mortgage notes receivable at June 30, 2017, was \$8,305,690.

Future principal payments of transferred mortgage notes for fiscal periods ending June 30 are as follows:

2018	\$ 987,070
2019	927,105
2020	880,003
2021	853,940
2022	791,881
Thereafter	7,188,969
Discount on pledged notes	<u>(3,323,278)</u>
	<u>\$ 8,305,690</u>

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 9 - LEASES

Habitat has an operating lease for office space in Renton, Washington, which expires November 30, 2022. Habitat also leases space for a retail outlet in Bellevue, Washington, which expires July 31, 2021, and for a retail outlet in Tukwila, Washington which expires December 31, 2020. Habitat also receives in-kind warehouse space. Rental expense under these leases was \$645,569 for the year ended June 30, 2017. Habitat also maintains copier leases; related rent was insignificant.

Future minimum payments due under the leases are as follows at June 30:

2018	\$ 337,035
2019	377,704
2020	389,507
2021	327,368
2022	97,203
Thereafter	<u>36,843</u>
	<u>\$ 1,565,660</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

As a Habitat for Humanity affiliate, Habitat is expected to tithes an amount to Habitat for Humanity International, to be used for international housing construction. Total tithes to Habitat for Humanity International for the year ended June 30, 2017, were \$100,000.

NOTE 11 - CONCENTRATION OF CREDIT RISK

Habitat maintains cash, certificates of deposits and money market balances at several financial institutions. Interest bearing accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000; there is no insurance limit on non-interest bearing accounts with balances in excess of \$250,000. Habitat may occasionally have cash balances on deposit with financial institutions in excess of insured limits. Habitat has not experienced any losses in such accounts. Cash in excess of insured limits was \$4,021,171 at June 30, 2017.

Habitat provides mortgage assistance primarily to low and moderate-income individuals living in King County. Loans receivable with an undiscounted balance of \$24,296,635 are secured by the property purchased.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2017

NOTE 12 - RESTRICTIONS/LIMITATIONS ON NET ASSETS

Temporarily restricted net assets

At June 30, 2017, temporarily restricted net assets consisted of \$45,345 restricted for future construction activities and \$144,563 in pledges receivable.

NOTE 13 - PENSION PLAN

Habitat adopted a 401(k) contribution retirement plan, effective January 1, 2014. Employees are eligible to participate in the 401(k) plan with one month of service. Habitat matches 50 percent of employee elective deferrals up to a maximum of 6 percent. Habitat contributed \$22,395 to the plan for the year ended June 30, 2017. Habitat also maintains a 457(b) deferred compensation plan for highly compensated employees. No contributions were made to the plan for the year ended June 30, 2017.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for Habitat. The amounts, if any, of expenditures that may be disallowed by the grantor are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. During the year ended June 30, 2017, no such adjustments were made.

Habitat provides one to six-year warranties for home buyers purchasing homes through Habitat. Amounts paid on warranty for the year ended June 30, 2017, were insignificant.

NOTE 15 - SUBSEQUENT EVENTS

Subsequent to year end, on July 6, 2017, an option was exercised to retire the New Markets note payable, as described in Notes 2 and 7.

Habitat has evaluated subsequent events through March 12, 2018, which is the date the financial statements were available to be issued, and has determined that, except as noted above, there are no subsequent events that require recognition or additional disclosure.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Federal Grantor / Pass-Through Grantor Number	Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block Grant Program			
Pass-Through Programs From:			
King County			
Coal Creek Terrace	14.218	D28048E	\$ 110,464
Overlake Park Townhomes	14.218	D05814E	18,775
Patterson Park	14.218	D23686E	<u>216,683</u>
Total Passed-through King County			<u>345,922</u>
City of Federal Way			
Federal Way	14.218	AG15-211	<u>165,000</u>
Total Passed-through City of Federal Way			<u>165,000</u>
Total Community Development Block Grant Program			<u>510,922</u>
HOME Investment Partnerships Program			
Pass-Through Programs From:			
King County			
La Fortuna	14.239	D39877D	494,643
Snoqualmie Ridge	14.239	D36650D	649,886
Coal Creek Terrace	14.239	D28048D	259,000
Overlake Park Townhomes	14.239	D05814D	71,000
Patterson Park	14.239	D23686D	<u>220,000</u>
Total HOME Investment Partnerships Program			<u>1,694,529</u>
Self-Help Homeownership Opportunity Program (SHOP)			
Pass-Through Programs From:			
Habitat for Humanity International			
SHOP 2008	14.247	152042	2,504
SHOP 2010	14.247	171046	10,557
SHOP 2010	14.247	172034	<u>9,456</u>
Total Passed-through Habitat for Humanity International			<u>22,517</u>
Community Frameworks			
SHOP 2013	14.247	HSKC-13-1	<u>150,000</u>
Total Passed-through Community Frameworks			<u>150,000</u>
Total Self-Help Homeownership Opportunity Program			<u>172,517</u>
Total U.S. Department of Housing and Urban Development			<u>2,377,968</u>
Total Expenditures of Federal Awards			<u>\$ 2,377,968</u>

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant and loan activity of Habitat for Humanity Seattle-King County and its affiliate, HFHSKC Community Housing Development Organization. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Agency has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C - LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS

Habitat for Humanity Seattle-King County and Affiliates received the following funding through loans from the U.S. Department of Housing and Urban Development. Loan documents require compliance with program regulations until the maturity date of the loan or the period of affordability expires. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The grant and loan balances outstanding at June 30, 2017, are included in the accompanying schedule of expenditures of federal awards and are as follows:

<u>HOME Investment Partnerships Program</u>	<u>Contract Number</u>	<u>Maturity Date</u>	<u>Outstanding Balance</u>
Passed through King County:			
La Fortuna	D39877D	December 2088	\$ 494,643
Snoqualmie Ridge	D36650D	June 2107	649,886
Coal Creek Terrace	D28048D	May 2051	259,000
Overlake Park Townhomes	D05814D	June 2070	71,000
Patterson Park	D23686D	September 2047	220,000

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Notes to Schedule of Expenditures of Federal Awards, Continued
For the Year Ended June 30, 2017

NOTE C - LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS, CONTINUED

	<u>Contract Number</u>	<u>Maturity Date</u>	<u>Outstanding Balance</u>
<u>Community Development Block Grant Program</u>			
Passed through King County:			
Coal Creek Terrace	D28048E	May 2051	\$ 110,464
Overlake Park Townhomes	D05814E	June 2070	18,775
Patterson Park	D23686E	September 2047	216,683
Passed through City of Federal Way:			
Federal Way	AG15-211	October 2035	165,000
<u>Self-Help Homeownership Opportunity Program</u>			
Passed through Habitat for Humanity International:			
SHOP 2008	152042	June 2018	1,256
SHOP 2010	171046	December 2019	6,345
SHOP 2010	172034	July 2020	8,274
Passed through Community Frameworks:			
SHOP 2013	HSKC-13-1	January 2026	<u>150,000</u>
Total loans			<u>\$ 2,371,326</u>

The total loan balances under the HOME Investment Partnerships and Community Development Block Grant Programs for the period ended June 30, 2017, were awarded to HFHSCC Community Housing Development Organization.

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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*

Board of Directors
Habitat for Humanity Seattle-King County and Affiliates
Renton, Washington

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 Habitat for Humanity Seattle-King County and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2017, the related consolidated statements of activities, functional expenses and cash flows for year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Habitat for Humanity Seattle-King County and Affiliates' 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 Habitat for Humanity Seattle-King County and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity Seattle-King County and Affiliates' 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. 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 Seattle-King County and Affiliates' 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watson & McDowell, PLLC

March 12, 2018

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Habitat for Humanity Seattle-King County and Affiliates
Renton, Washington

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity Seattle-King County and Affiliates' (Habitat) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Habitat's major federal program for the year ended June 30, 2017. Habitat'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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Habitat'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* (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 Habitat'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 the major federal program. However, our audit does not provide a legal determination of Habitat's compliance.

Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity Seattle-King County and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Habitat for Humanity Seattle-King County and Affiliates 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 Habitat for Humanity Seattle-King County and Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each of its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of its major federal programs 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 Habitat for Humanity Seattle-King County and Affiliates' 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Watson & McDowell, PLLC

March 12, 2018

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

The auditor's report expresses an unmodified opinion on the financial statements of Habitat for Humanity Seattle-King County and Affiliates.

Internal control over financial reporting:

- Material weaknesses identified: _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses: _____ Yes X No

Noncompliance material to financial statements noted: _____ Yes X No

Federal Awards

Internal control over major program:

- Material weaknesses identified: _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses: _____ Yes X No

The auditor's report on compliance for its major federal program for Habitat for Humanity Seattle-King County and Affiliates expresses an unmodified opinion.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major program:

CFDA	Name of Federal Program or Cluster
14.239	Home Investment Partnerships Program

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

Auditee qualified as a low-risk auditee? X Yes _____ No

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2017

Section II - Financial Statement Findings

No matters related to the financial statements were reported.

Section III - Findings and Questioned Costs – Major Federal Award Programs Audit

No matters related to the major federal awards program were reported.

Section IV - Prior Audit Finding

No matters related to the prior year were reported.