AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Directors
Greater Fox Cities Area Habitat for Humanity, Inc.
Menasha, WI

We have audited the financial statements of Greater Fox Cities Area Habitat for Humanity, Inc. for the year ended June 30, 2017, and have issued our report thereon dated October 27, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated May 15, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Consideration of Internal Control

In planning and performing our audit of the financial statements of the Organization as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiency in the Organization's internal control to be a significant deficiency:

Financial Statement Controls

As your auditors, we are required to specifically consider whether Organization personnel have the necessary knowledge to apply accounting principles generally accepted in the United States of America in recording financial transactions and preparing financial statements (including notes to the financial statements which are an integral part of the financial statements) for the Organization. While we can recommend adjusting journal entries and assist in preparing the draft financial statements as part of our audit, we are prohibited from acting as your internal control. Based upon the extent of our involvement in these processes, we consider this to be a significant deficiency because the potential exists that a misstatement that is more than inconsequential could occur and not be prevented or detected by the Organization's internal control. We understand that the cost of additional training or additional personnel may not be justified to correct this control deficiency. Management did review, approve and accept responsibility for the financial statements prior to issuance.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. As described in Note 1U to the financial statements, during the year ended June 30, 2017, the Organization elected to early adopt ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The update requires that the statement of cash flows explain the change during the year in the total cash and restricted cash. Therefore, amounts described as restricted cash are now included with cash when reconciling the beginning-of-year and end-of-year totals shown on the statement of cash flows.

In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. Under advice from Habitat for Humanity International, Inc., the Organization does not record the subsequent sale of in-kind contributions by ReStore and the offsetting cost of goods sold. Although this practice has no effect on the change in net assets, accounting guidelines recommend that these items be recorded.

In addition, Habitat for Humanity International, Inc. has advised the Organization to only record certain donated specialized services related to the construction of the Habitat homes. According to generally accepted accounting principles, donated services are recognized as contributions if the services (a) create or enhance a nonfinancial asset or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased. Management believes that the Organization is ultimately creating a financial asset with the mortgage loan receivable and thus only records items meeting the requirement under (b) above. An argument could be made that the Organization is creating a nonfinancial asset (the Habitat home), which would meet the recognition requirement under (a) above, in which all donated services (specialized and non-specialized) related to the home construction would be recorded.

We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus.

To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent and clear.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the materials inventory (ReStore inventory and construction materials), which is based on the Organization's experience with the resale value of the donated ReStore inventory and the donated construction materials.
- Management's estimate of the useful lives of property and equipment, which is based on industry and the Organization's experience with the respective assets.
- Management's estimate of the discount rate used to discount contributions and grants receivable, which is based on a risk-adjusted discount rate.
- Management's estimate of the mortgage loans receivable discount and amortization, which is based on rates and formulas provided by Habitat for Humanity International, Inc.
- Management's estimate of allowance for uncollectible mortgage loans receivable, which is based on historic loss levels and an analysis of the collectability of individual accounts.
- Management's estimate of the discount rate for non-interest bearing notes payable, which is based on the Organization's borrowing rate for the year.
- Management's estimate of the value of in-kind contributions, which is based on industry and the Organization's experience with the donated goods and services.
- Management's estimate of the allocation of costs by function, which is based on time and space studies completed by the employees of the Organization.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 27, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and, to the best of our knowledge, our responses were not a condition to our retention.

<u>Conclusion</u>

This communication, which does not affect our report dated October 27, 2017 on the financial statements of the Organization, is intended solely for the information and use of the Board of Directors, management and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Schenck SC
Certified Public Accountants

Appleton, Wisconsin
October 27, 2017

SUMMARY OF UNCORRECTED MISSTATEMENTS

Organization: Greater Fox Cities Area Habitat for Humanity, Inc.   Statement of Financial Position Date: June 30, 2017

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Financial Statement Effect—Amount of Over (Under) Statement of: Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets	Working Capital
Recognize grant expense for Personal Growth Savings Plan, and remove liability (Treat transactions as non-agency).	J		$5,864	($5,864)		($2,478)	$2,478	($5,864)
Adjust year-end value of ReStore In-Kind Inventory which was not adjusted from the prior year.	J	($26,000)			($26,000)		($26,000)	($26,000)
Total		($26,000)	$5,864	($5,864)	($26,000)	($2,478)	($23,522)	($31,864)
Less Audit Adjustments Subsequently Booked								
Unadjusted Audit Differences		($26,000)	$5,864	($5,864)	($26,000)	($2,478)	($23,522)	($31,864)
Financial Statement Caption Totals		$12,253,665	$3,852,663	$8,401,002	$6,557,326	$5,723,821	$833,505	$4,511,314
Audit Differences as % of FS Captions		-0.21%	0.15%	-0.07%	-0.40%	-0.04%	-2.82%	-0.71%