

To  
Board of Directors  
HABITAT for Humanity International, Inc.

## LETTER TO THE MANAGEMENT

From the registered auditor responsible for the audit - Stoyan Donev

Subject: Annual financial statement for 2016.

Dear Sirs,

Based on a contract signed we have made an audit of the current accounting and annual financial statement for 2016 of the company represented by you.

You should be familiar with the fact that the responsibility for compiling the financial statement is entirely borne by the company's management. This responsibility includes: establishing, implementing and maintaining internal control system corresponding to the preparation of reliable representation of financial statements that are free of material misrepresentation due to fraud or error; selecting and applying acceptable accounting policies and making accounting assessments that are appropriate for the occasion.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Auditing Standards. These standards require that we should comply with the ethical standards and to plan and execute the audit so as to obtain reasonable assurance that financial statements are free of material misrepresentation.

An audit includes performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risk of material misrepresentation in financial statements due to fraud or error. In assessing the risk the auditor gives an estimate of internal control in the company associated with the preparation and reliable presentation of financial statements in order to plan appropriate audit procedures and not to express an opinion on the effectiveness of company's internal control. The audit also includes evaluating the appropriateness of application of accounting policies and acceptability of rough accounting estimates made by the management and the overall financial statement presentation.

Our opinion on the reliability of the financial statements is expressed in the Auditor's report, which represents an officially adopted form of publicity of auditor's opinion in accordance with the International Auditing Standard No. 700 - Independent Auditor's Report on the overall financial statement of general use.

In this letter we have specified our findings, based on which we have formed our opinion on the annual financial statement. The same should not be considered to evaluate the work of the company's management.

Led by the requirements of professional standards, and the main objective of the audit, and namely - expressing an independent opinion on the reliability of the information from the annual financial statement and its compliance with the International Financial Reporting Standards, we have evaluated the risks of significant errors in the financial statement and made enough in our opinion auditing procedures so as to respond to this risk. These

procedures include testing of a base of accounting records stipulated in the basis of the accounting report. The same provide evidence supporting the amounts and disclosures in the financial statements. The audit also includes an assessment of the suitability of: accepted accounting policies and significant estimates for the overall presentation of information in the financial statement.

The audit provides a reasonable, but not absolute certainty, because it is based rather on convincing than comprehensive evidence. Errors due to fraud are difficult to be detected because fraud is deliberate, and often involves collusion and concealment. Since the company's future performance is influenced by future events and conditions, the audit does not guarantee the ability of the company to continue its operating.

We have requested of the management and it has provided us with their statements, by which acknowledges its responsibility for compiling the annual financial statement and declares that it has taken all measures to prevent fraud and abuse. Furthermore, we have received declarations that there were no events after the balance sheet date, which require adjustments in the annual financial statement and that the company has sufficient rights to their property. Management has also declared that there were no situations and cases of irregularities and violations, which involve directors or employees with significant responsibilities towards the accounting system and internal control system or which could have a significant impact on the financial statement. We would like to inform you that the audit has a representative nature and is consistent with the time constraints for implementing it under the terms of the contract. Therefore, there is a risk some significant weaknesses, omissions and errors to be not detected by us. Our opinion on the annual financial statement is based upon our representative checks.

In the examination we have relied on the assumption of "operating enterprise" under the International Auditing Standards. A reason for this is the following several factors:

The company continues to operate and does not provide any termination in the near foreseeable future; it retains its main customers and suppliers and carries out current payments to them;

- Makes regular calculations for its personnel, budget and social security;
- The Company reserves the registered activity as a major and implements revenue from it.

Company applies the National Financial Reporting Standards for Small and Medium Enterprises (NFRSSME).

During the audit we have carried out analytical procedures, which gave us the opportunity to evaluate the company's financial condition. For purposes of analysis we have used data from the balance sheet and income statement for three consecutive reporting periods – 2014, 2015 and 2016.

## **I. ORGANIZATION OF INTERNAL CONTROL AND ACCOUNTING**

The internal control system of the company should provide reliable protection of assets and division of responsibilities in order not to create opportunities for abuse. In accordance with the audit program we have conducted coordinated auditing procedures through which to examine the existence of an internal control system in the company and its performance. As a result we found the following:

There is a reliable system established for monitoring the movement of inventory. A primary requisite documentation is also created. An inventory of claims should be carried out by sending letters or comments by phone.

Reporting on the entity's operations is carried out using accounting software. The accounting system provides: application of individual draft of accounts, comprehensive chronological record of accounting transactions, systematic accounting records to summarize accounting information, opened at the beginning of the reporting period and closed at the end of this period, systematic and analytical accounting records and equality between them, interim and annual ending of accounting records, preparation of trial balance, changes in accounting records

made by making adjusting journal entries.

Based on our review, analysis and findings, we believe that the internal control system works and is at average level.

## II. CURRENT ACCOUNTING REPORTS

### 1. Report on capital

Prior Period Fund Balance	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Capital	232	232	232
Prior Year and Period Fund Balance	813	576	359
Total Income less Total Expenses	14	237	217
<b>Total Prior Period Fund Balance</b>	<b>1 059</b>	<b>1 045</b>	<b>808</b>

During the inspection we carried out analytic procedures in connection with examining the movement of the capital and we established the following:

The annual financial result is correctly accounted for, after reorganization of the accounting financial result for tax purposes and for accrual of the corporate taxes due.

On the grounds of the analyses made and the established facts we consider that the structure of the company's Own capital is reported credibly in the balance as of 31.12.2016.

### 2. Report on non-current (fixed) assets

As of 31.12.2016 the company presents fixed assets of balance amount for BGN thousand. This includes:

Fixed Assets	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
<b>Property and Equipment</b>			
Buildings	439	236	236
Other Fixed Assets	5	9	15
Construction in progress	236	366	325
<b>Total Net Property and Equipment</b>	<b>680</b>	<b>611</b>	<b>576</b>
<b>Intangible assets</b>	<b>11</b>	<b>12</b>	
<b>Total fixed assets</b>	<b>691</b>	<b>623</b>	<b>576</b>

Analytic accountancy is kept for the fixed and intangible assets. It provides information for their accounting and balance value.

During the inspection we established, that the implemented base for initial and successive evaluation of the assets' value on the basis of a test we have prepared for examination of the way newly acquired assets are accounted for, is adhered to. We have analyzed all newly acquired assets during the current year. We have not ascertained differences in the value of newly acquired machines and equipment.

On the grounds of the analysis, checkups and tests made we can make a statement that the fixed assets of the company are reliably reported in their essential aspect, having in mind the remarks we have made regarding the reporting of investments in subsidiaries and associated companies and the ascertained insignificant differences, for the audit's purposes.

### 3. Reports on commercial and other receivables

Receivables — Short term	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
HFHI Designated Receivable	1	5	-
Other Short-Term Receivable	99	170	146
<b>Total receivables — Short - term</b>	<b>100</b>	<b>175</b>	<b>146</b>

During the inspection we established that these assets are analytically accounted for according to contractors, together with information for the income they generate. We tested the information from the operational accounting for tracking of transactions on the basis of contracts concluded with clients and we found that contracts' terms are adhered to. The primary documents and, respectively, their accompanying documents contain the requisites as required by the law. The arising of receivables on sales, advance payments or other types of receivables are entered in the respective accounts in compliance with the accounting principle of «current actual». During the inspection we established insignificant omissions, some of which were duly eliminated.

We have established that the current receivables from contractors are reliably reported as receivables and liabilities. On the basis of our tests we checked: the conformity between the synthetic and analytic accounting and the contractors' confirmation of the balances. We established a conformity between synthetic and analytic accounting, as well as the existence of these assets in the form of receivables from contractors on the grounds of the confirmation letters received by the, and the payments made until 21.04.2017.

On the grounds of the analyses, checkups and tests made we can make the statement that the company's receivables are reliably reported in their essential aspect.

### 4. Reporting of finances

Cash and Cash Equivalents	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Cash - Current Account in BGN	210	268	199
<b>Total Cash and Cash Equivalents</b>	<b>210</b>	<b>268</b>	<b>199</b>

In connection with the checkup of the authenticity of the information reported in the balance regarding the available finances on checking accounts and cash desk we have established that there is a conformity between the remaining balances in checking accounts, accounting for the finances in cash and in checking accounts, and the balances reported in the bank statements and cash desks as of 31.12.2016.

As of 31.12.2016 the finances in checking accounts of the company amount to BGN 210 thousand. The existence of these finances is 100 % confirmed on the grounds of confirmation letters received from the servicing banks and the first bank statement for 2016. The remaining balances according to the bank statements correspond to the data contained in the trial balance. The currency amounts are reevaluated according to a closing rate.

### 5. Reporting of long-term liabilities

Long-term liabilities	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Long-term Liabilities	-	-	1 222
<b>Total Long-term Liabilities</b>	<b>-</b>	<b>-</b>	<b>1 222</b>

The reliable presentation of these liabilities was inspected with the help of our tests and we established that the values of the remaining part of the capital amounts for the received credits are correctly reported.

On the grounds of the analyses, checkups and tests made we can make the statement that the long-term liabilities of the company are correctly reported. .

#### 6. Reporting of current liabilities

<b>Current liabilities</b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>
Payables to suppliers	-	-	4
Taxes Payable	-	-	4
Wages Payable	-	11	12
Social security	3	22	42
Other Current Liabilities	-	16	-
<b>Total Current Liabilities</b>	<b>3</b>	<b>49</b>	<b>62</b>

The correct reporting of account balances, accounting for the current liabilities of the company in conformity with the respective balance entries have been inspected via our conformity tests and analyses, as well as on the grounds of checkups made of representatively chosen primary documents.

We checked the statement for existence of the announced liabilities to suppliers and we established that they have been confirmed by the contractors. We also established a conformity between the synthetic and analytic accounting, as well as the fact that among the liabilities there are contractors which are related-parties.

We also prepared a test to check the liabilities to employees and established that they are correctly reported in the appendix to the company's report. We have established as well that operational information exists for each official, provided by the software used for calculation of the employees' remuneration. The company has duly deposited throughout the year its liabilities regarding social and health insurance within the respective deadlines according to the enactments.

On the grounds of the analyses, checkups and tests made, we can make the statement that the current liabilities are reported correctly in the company's balance.

#### 7. Income report

<b>Income</b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>
<b>Contributions and Transfers</b>			
Cash received from donation	393	553	638
Interest Revenue	2	4	2
Gain on Foreign Currency	2	2	-
Others Income / Profit from business /	-	18	18
Others	5	11	-
<b>Total Income</b>	<b>402</b>	<b>588</b>	<b>658</b>

The reliable reporting of income from grants and the receipts from the company's business activity has been inspected via our conformity tests. We have not established significant discrepancies.

During the audit we inspected the successive application of the accounting principles of "Current accrual" and "Conformity between income and expenses". We established that there is a sequence in the application of these principles. On the basis of a representative excerpt non primary documents we inspected the existence of all requisites connected to the requirements of art. 7 of the Accountancy act. We established that the documents contain the requisites required by the law. With the help of this test we have also established that the transactions

were made on the grounds of concluded contracts and duly issued primary documents - invoices.

On the grounds of the analyses, checkups and tests made we can make the statement that the accrued income is correctly represented in the Comprehensive Income Report.

#### 8. Expenses report

Expenses	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Costs for program activities	307	286	395
Administrative costs	77	62	40
Interest Expenses	1	-	
Bank Charges - Admin	1	2	2
Loss on Foreign Currency	2	1	4
Total Expenses	<u>388</u>	<u>351</u>	<u>441</u>

The expenses for the business activity are accounted for according to economic elements and are documented in compliance with the requirements of art. 7 of the Accountancy act.

We have inspected the reliability of the reports for some of the expenses according to economic elements. We have carried out the checkup with the help of our tests for comparison in annual amount of the expenses for: monthly remunerations and social and health insurances. We have not established significant discrepancies.

The expenses for: materials, external services and other expenses were inspected via our tests. Having made analyses and specifications regarding the reliable representation of the quoted types of expenses, we have not established incorrect accounting.

As a result of the inspections, analyses and checkups, as well as on the grounds of the insignificant deviations we have established, we make the statement that the information regarding the expenses is correctly represented in the Comprehensive Income Report.

#### 9. Financial result reporting

<i>Total Income Less Total Expenses</i>	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
	14	237	217

The financial result is converted to tax under the Corporate Income Tax Act. We have studied the proper conversion of the gross financial result. In the examination we have found significant deviations. After transformation of the result for tax purposes, the financial result remained positive. The corporate tax due was charged based on the taxable base. After deduction of the corporate income tax charged, the financial result of the company is a net profit amounting to BGN 14 thousand.

### III. ANNUAL ACCOUNTING STATEMENT AND ITS COMPLIANCE WITH THE FINANCIAL STATEMENT

Items in the company's financial status statement correspond to balances on accounts reporting assets and liabilities. We express this opinion based on the tests drawn for the study of balances on respective synthetic and analytical accounts that are included in the balance-sheet items disclosed by the company as at 31.12.2016.

Items of comprehensive income statement correspond to the turnover in accounts reporting income and expenses. We express this opinion based on the tests drawn for the study of the turnover in respective synthetic and

analytical accounts that are included in the components of this statement and disclosed by the company as at 31.12.2016.

The cash flow statement is prepared in accordance with the National Financial Reporting Standards for Small and Medium Enterprises (NFRSSME). We express this opinion based on the test drawn for the study of the cash flow on synthetic accounts reporting revenues and payments and which are included in the components of this statement disclosed by the company as at 31.12.2016.

The annual accounting statement has been made in compliance with the requirements of the National Financial Reporting Standards for Small and Medium Enterprises (NFRSSME), which the company applies.

#### IV. CONCLUSION

Taking into consideration the audits made, tests held and conclusions drawn on their basis, as well as assessment of the materiality of errors detected, we would like to express our opinion that the annual financial statement of FOUNDATION HABITAT FOR HUMANITY for 2016 reliably reflects in all material aspects the financial condition, financial result and cash flows for the year in the presence of our observations and recommendations.

Date: 27.04.2017

With regards,

Stoyan Donev

