

**HABITAT FOR HUMANITY**

**SARNIA-LAMBTON**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

R. W. Andrews, C.P.A., C.A.  
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Point Edward, Ontario  
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**HABITAT FOR HUMANITY  
SARNIA-LAMBTON**

**DECEMBER 31, 2016**

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# R. W. ANDREWS

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## AUDITOR'S REPORT

To the Members of  
Habitat for Humanity Sarnia-Lambton:

I have audited the accompanying financial statements of Habitat for Humanity Sarnia-Lambton, which comprise the statement of financial position as at December 31, 2016 and the statements of operations and general surplus and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles for not-for-profit organizations, and for such internal control as management and directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion these financial statements present fairly in all material respects, the financial position of the organization as at December 31, 2016 and results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

### Other Matters

In common with many charitable organizations, the organization derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, my verification of these revenues was limited to the amounts recorded in the records of the organization and I am not able to determine whether any adjustments might be necessary to donation revenues, the excess of revenues over expenses, assets, deferred revenues and surplus balances.

Point Edward, Ontario  
March 19, 2017

  
CHARTERED PROFESSIONAL ACCOUNTANT  
LICENSED PUBLIC ACCOUNTANT

**HABITAT FOR HUMANITY  
SARNIA-LAMBTON**

**STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2016**

|  | <u>2016</u>         | <u>2015</u>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>                                      |                     |                     |
| <b>CURRENT</b>                                     |                     |                     |
| Cash   | \$ -                | \$ 293,987          |
| Marketable securities                              | 3,749               | -                   |
| HST receivable                                     | 88,346              | 30,323              |
| Prepaid expenses and deposits                      | 1,850               | 2,000               |
| Inventory (Note 3)                                 | 727,205             | 452,796             |
| Current portion of Mortgage Receivable<br>(Note 5) | <u>167,126</u>      | <u>144,400</u>      |
|  | 988,276             | 923,506             |
| <b>CAPITAL ASSETS (Note 4)</b>                     | 1,627,728           | 1,542,537           |
| <b>MORTGAGE RECEIVABLE (Note 5)</b>                | <u>1,986,248</u>    | <u>1,865,564</u>    |
|  | <u>\$ 4,602,252</u> | <u>\$ 4,331,607</u> |
| <b>LIABILITIES</b>                                 |                     |                     |
| <b>CURRENT</b>                                     |                     |                     |
| Bank operating line (prime plus .75%)              | \$ 47,058           | \$ -                |
| Accounts payable and accrued liabilities (Note 6)  | 35,111              | 84,154              |
| Current portion of long term debt (Note 7)         | <u>756,339</u>      | <u>21,421</u>       |
|  | 838,508             | 105,575             |
| <b>LONG TERM DEBT (Note 7)</b>                     | -                   | 756,534             |
| <b>DEFERRED REVENUE (Note 8)</b>                   | <u>407,515</u>      | <u>399,515</u>      |
|  | <u>1,246,023</u>    | <u>1,261,624</u>    |
| <b>SURPLUS</b>                                     |                     |                     |
| <b>GENERAL SURPLUS</b>                             | <u>3,356,229</u>    | <u>3,069,983</u>    |
|  | <u>\$ 4,602,252</u> | <u>\$ 4,331,607</u> |
| <b>APPROVED ON BEHALF OF THE BOARD:</b>            |                     |                     |
| _____ Director                                     |                     |                     |
| _____ Director                                     |                     |                     |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**HABITAT FOR HUMANITY  
SARNIA-LAMBTON**

**STATEMENT OF OPERATIONS AND GENERAL SURPLUS**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

|  | <u>2016</u>                | <u>2015</u>                |
|--|----------------------------|----------------------------|
| <b>REVENUE</b>   |                            |                            |
| House sales  | \$ 502,000                 | \$ 456,000                 |
| Restore materials  | 1,151,947                  | 1,054,495                  |
| Donations, Grants, Fund raising                                | 410,550                    | 250,942                    |
| Donations - Housing materials                                  | 391,856                    | 392,336                    |
| Other  | <u>58,825</u>              | <u>29,726</u>              |
|  | <u>2,515,178</u>           | <u>2,183,499</u>           |
| <b>EXPENSES</b>  |                            |                            |
| Advertising and promotion                                      | 113,616                    | 79,530                     |
| Amortization   | 38,941                     | 33,292                     |
| Bank charges and interest                                      | 45,568                     | 45,481                     |
| Fund programs  | 79,977                     | 68,888                     |
| Materials - housing  | 508,816                    | 474,923                    |
| Materials - restore  | 391,856                    | 392,336                    |
| Occupancy costs and utilities                                  | 43,230                     | 39,893                     |
| Office supplies and postage                                    | 15,869                     | 18,488                     |
| Professional fees  | 22,713                     | 33,802                     |
| Repairs and maintenance  | 1,473                      | 880                        |
| Supplies   | 16,347                     | 13,820                     |
| Restore shop costs   | 21,881                     | 25,276                     |
| Salaries and wages - regular                                   | 746,293                    | 604,324                    |
| Staff development and travel                                   | 20,596                     | 11,489                     |
| Telephone and cable  | 5,565                      | 3,313                      |
| Tithe for sponsored projects                                   | 10,000                     | 10,000                     |
| Vehicle expense  | <u>22,306</u>              | <u>20,525</u>              |
|  | <u>2,105,047</u>           | <u>1,876,260</u>           |
| <b>EXCESS OF REVENUES OVER EXPENSES BEFORE<br/>OTHER ITEMS</b> | <b>410,131</b>             | <b>307,239</b>             |
| <b>OTHER ITEMS</b>   |                            |                            |
| Mortgage discount (Note 5)                                     | <u>(123,885)</u>           | <u>(9,265)</u>             |
| <b>EXCESS OF REVENUE OVER EXPENSES</b>                         | <b>286,246</b>             | <b>297,974</b>             |
| <b>SURPLUS AT BEGINNING OF YEAR</b>                            | <u><b>3,069,983</b></u>    | <u><b>2,772,009</b></u>    |
| <b>SURPLUS AT END OF YEAR</b>                                  | <u><b>\$ 3,356,229</b></u> | <u><b>\$ 3,069,983</b></u> |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**HABITAT FOR HUMANITY  
SARNIA-LAMBTON**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2016**

|   | <u>2016</u>               | <u>2015</u>              |
|---|---------------------------|--------------------------|
| <b>OPERATING ACTIVITIES</b>                                   |                           |                          |
| Excess of revenue over expenses                               | \$ 286,246                | \$ 297,974               |
| Amortization of capital assets                                | <u>38,941</u>             | <u>33,292</u>            |
|   | 325,187                   | 331,266                  |
| Net change in other non-cash operating assets and liabilities |                           |                          |
| Inventory   | (274,409)                 | (128,248)                |
| Prepaid expenses and deposits                                 | 150                       | (2,000)                  |
| Accounts receivable   | (58,023)                  | 12,246                   |
| Accounts payable  | <u>(49,043)</u>           | <u>50,011</u>            |
|   | <u>(56,138)</u>           | <u>263,275</u>           |
| <b>INVESTING ACTIVITIES</b>                                   |                           |                          |
| Purchase of capital assets                                    | (124,132)                 | (29,967)                 |
| Purchase of short term investments                            | (3,749)                   | -                        |
| Decrease (increase) in mortgage receivable                    | (143,409)                 | (93,997)                 |
| Increase (decrease) in deferred revenue                       | 8,000                     | 83,000                   |
| Increase in long term debt                                    | <u>(21,617)</u>           | <u>(20,763)</u>          |
|   | <u>(284,907)</u>          | <u>(61,727)</u>          |
| <b>(DECREASE) INCREASE IN CASH</b>                            | <b>(341,045)</b>          | <b>201,548</b>           |
| <b>CASH, BEGINNING OF YEAR</b>                                | <u><b>293,987</b></u>     | <u><b>92,439</b></u>     |
| <b>CASH, END OF YEAR</b>                                      | <u><b>\$ (47,058)</b></u> | <u><b>\$ 293,987</b></u> |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

# HABITAT FOR HUMANITY SARNIA-LAMBTON

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

### 1. PURPOSE OF THE ORGANIZATION

The primary objective of Habitat for Humanity Sarnia/Lambton is to work within the city of Sarnia and Lambton County to advance the interest of the economically disadvantaged by constructing or renovating homes at cost for the working poor, and to provide interest free loans to enable them to pay for such homes or renovations. Habitat for Humanity Sarnia/Lambton is a charitable organization registered under the Income Tax Act of Canada. As such, it is exempt from income taxes and able to issue donation receipts for income tax purposes.

The organization also operates a restore operation that sells donated building materials and household items.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations

#### (b) Functional Accounting

Revenue and expenses are recorded on the accrual basis of accounting. Under this method all non-restricted revenue is recorded when earned, and expenses are recorded when incurred, whether or not such transactions have been finally settled by the receipt or payment of money. The deferral method of accounting is used in recording restricted contributions.

#### (c) Inventories

##### (i) Properties held for resale

Properties held for resale, which include land and building materials, both purchased and donated are recorded at the lower of cost and/or net realizable value.

##### (ii) Restore operation inventories

Materials held for resale by the restore operation are expensed during the year at the value assigned for receipted donations issued. Non-receipted donated materials are not recorded. Restore inventory on hand at the end of the year is not recorded.

#### (d) Second mortgage receivable

At the time a house is sold or renovation is complete, Habitat for Humanity Sarnia/Lambton holds a first mortgage which is based on a formula using the cost of construction of the home. The home is then appraised, and the difference between the appraised value and the first mortgage is the amount assigned to the second mortgage held by Habitat for Humanity Sarnia/Lambton. As payment of the second mortgage is contingent upon the occurrence of certain events, a corresponding amount has been recognized as deferred revenue. A portion of the mortgage may be forgiven based on criteria set out in the mortgage document.

**HABITAT FOR HUMANITY  
SARNIA-LAMBTON**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(e) Capital Assets

Purchased capital assets are recorded at cost. Contributed capital assets and capital assets purchased for less than fair value are recorded at their fair value at the time of contribution. Amortization is provided over the estimated useful lives of the assets, at the following rates:

|            |                         |
|------------|-------------------------|
| Building   | -2% Straight Line       |
| Equipment  | -20% declining balance  |
| Automotive | - 30% declining balance |

(f) Contributed non-capital goods and services

Because of the difficulty of determining their fair market value, contributed non-capital goods and services are not recognized in the financial statements.

(g) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(h) Revenue Recognition

Sales revenue is recognized at the point of sale when the customer assumes the risk of ownership. Grant and contributions are recognized when received.

(i) Financial Instruments

The organization measures its financial assets and financial liabilities at cost or amortized cost.

Financial assets and liabilities measured at amortized cost on a straight-line basis include cash, term deposits, accounts receivable, accounts payable and mortgages receivable

**3. INVENTORY**

|                            |                   |                   |
|----------------------------|-------------------|-------------------|
|                            | <u>2016</u>       | <u>2015</u>       |
| Properties held for resale | \$ <u>727,205</u> | \$ <u>452,796</u> |



**HABITAT FOR HUMANITY  
SARNIA-LAMBTON**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**4. CAPITAL ASSETS**

|                  | <u>Cost</u>         | <u>Accumulated<br/>Amortization</u> | <u>Net<br/>2016</u> | <u>Net<br/>2015</u> |
|------------------|---------------------|-------------------------------------|---------------------|---------------------|
| Land             | \$ 535,000          | \$ -                                | \$ 535,000          | \$ 535,000          |
| Building         | 1,108,430           | 83,427                              | 1,025,003           | 958,789             |
| Office furniture | 17,410              | 4,485                               | 12,925              | 1,367               |
| Equipment        | 33,560              | 16,600                              | 16,960              | 19,469              |
| Vehicles         | <u>104,996</u>      | <u>67,156</u>                       | <u>37,840</u>       | <u>27,912</u>       |
|                  | <u>\$ 1,799,396</u> | <u>\$ 171,668</u>                   | <u>\$ 1,627,728</u> | <u>\$ 1,542,537</u> |

**5. MORTGAGES RECEIVABLE**

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Non-interest bearing first mortgages with monthly principal payments secured by land and buildings in Forest, Oil Springs and Sarnia. Amortization periods are determined on an individual basis.   | \$ 2,592,557        | \$ 2,333,262        |
| Unamortized mortgage discount   | <u>(846,698)</u>    | <u>(722,813)</u>    |
|   | 1,745,859           | 1,610,449           |
| Second mortgages secured by land and buildings in Forest, Oil Springs and Sarnia payment is contingent upon the occurrence of certain events and may be forgiven as follows: 25% at the end of twelve years from the date of mortgage, the balance at the later of twenty years from the date of mortgage or when the first mortgage is fully paid. | <u>407,515</u>      | <u>399,515</u>      |
|   | 2,153,374           | 2,009,964           |
| Less: Current portion   | <u>167,126</u>      | <u>144,400</u>      |
|   | <u>\$ 1,986,248</u> | <u>\$ 1,865,564</u> |

Mortgages receivable are measured at amortized cost using the effective interest method. The present value of future cash receipts of the mortgages receivable was discounted at a rate of 4%.

**HABITAT FOR HUMANITY  
SARNIA-LAMBTON**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                        | <u>2016</u>      | <u>2015</u>      |
|------------------------|------------------|------------------|
| Trade                  | \$ 30,883        | \$ 49,613        |
| Accrued charges        | 907              | 16,929           |
| Government remittances | <u>3,323</u>     | <u>17,614</u>    |
|                        | <u>\$ 35,113</u> | <u>\$ 84,156</u> |

**7. LONG TERM DEBT**

|   | <u>2016</u>      | <u>2015</u>       |
|---|------------------|-------------------|
| Mortgage payable in monthly principal and interest payments of \$4,690 with interest charged at a rate of 4.5%, due August, 2017, secured by land and building at 1787 London Line, Sarnia, Ontario | \$ 756,339       | \$ 777,957        |
| Less: Current portion   | <u>(756,339)</u> | <u>(21,421)</u>   |
|   | <u>\$ -</u>      | <u>\$ 756,536</u> |

**8. DEFERRED REVENUE**

Deferred revenue represents the difference between the appraisal value and the first mortgage on a specific property. This amount is also assigned to the second mortgage. Payment of the second mortgage held by Habitat for Humanity Sarnia/Lambton is contingent upon the occurrence of certain events. A corresponding amount is recognized as deferred revenue. Any amount subsequently realized will be recorded as income in the period received.

**9. RELATED PARTY TRANSACTIONS**

Habitat for Humanity Sarnia-Lambton is an affiliate member of Habitat for Humanity Canada. Affiliate members jointly fund the national organization through annual contributions that are based on fixed and operational formulas. Affiliation fees paid to Habitat for Humanity Canada in 2016 amounted to \$69,365 (2015 - \$62,631). The amount of tithes paid to Habitat for Humanity Canada in 2016 was \$10,000 (2015 - \$10,000).

**HABITAT FOR HUMANITY  
SARNIA-LAMBTON**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**10. FINANCIAL RISKS**

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization's exposure to this risk is limited because mortgages receivable are non-interest bearing. The mortgage payable has exposure to interest rate fluctuation.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk resulting from the possibility that a mortgage holder, customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligation which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The organization's financial instruments that are exposed to concentrations of credit risk relate primarily to mortgages receivable.

**Liquidity risk**

Liquidity risk is the risk that the company encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities and long term debt.