

HABITAT FOR HUMANITY SARNIA/LAMBTON

FINANCIAL STATEMENTS

DECEMBER 31, 2017

HUME MCDONOUGH LITTLE TAYLOR LLP
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HABITAT FOR HUMANITY SARNIA/LAMBTON

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INDEPENDENT AUDITOR'S REPORT

To The Members Of The Habitat for Humanity Sarnia/Lambton

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity Sarnia/Lambton, which comprise of the balance sheet as of December 31, 2017, and the statements of operations, changes in net assets 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 accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 judgment, including the assessment of the risks of material misstatements 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 and fair presentation 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 overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Qualified Opinion

In common with many charitable organizations, the organization derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization and we are 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.

H M L T

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Qualified Opinion

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenue from donations and fund raising events referred to in the above paragraph, the financial position of Habitat for Humanity Sarnia/Lambton as at December 31, 2017, and the results of its operations, changes in general surplus and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Hume McDonaldough Little Taylor LLP

Sarnia, Ontario
May 30, 2018

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

HABITAT FOR HUMANITY SARNIA/LAMBTON

BALANCE SHEET

AS AT DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Short term investments	\$ 3,749	\$ 3,749
Accounts receivable	39,330	88,346
Inventory (Note 2)	739,423	727,205
Prepaid expenses	1,089	1,850
Current portion of mortgage receivable	<u>180,537</u>	<u>167,126</u>
	964,128	988,276
CAPITAL ASSETS (Note 3)	1,619,509	1,627,728
MORTGAGE RECEIVABLE (Note 4)	<u>2,348,233</u>	<u>1,986,248</u>
	<u>\$ 4,931,870</u>	<u>\$ 4,602,252</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	\$ 98,675	\$ 47,058
Accounts payable and accrued liabilities (Note 6)	82,584	35,110
Current portion of long term debt (Note 7)	<u>43,897</u>	<u>756,339</u>
	\$ 225,156	\$ 838,507
LONG TERM DEBT (Note 7)	831,340	-
DEFERRED REVENUE (Note 8)	<u>483,958</u>	<u>407,515</u>
	<u>1,540,454</u>	<u>1,246,022</u>
<u>SURPLUS</u>		
GENERAL SURPLUS	<u>3,391,416</u>	<u>3,356,230</u>
	<u>\$ 4,931,870</u>	<u>\$ 4,602,252</u>

APPROVED ON BEHALF OF THE ASSOCIATION:

_____ Board Chairperson

_____ Board Member

HABITAT FOR HUMANITY SARNIA/LAMBTON

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
REVENUE		
House sales	\$ 885,000	\$ 502,000
Restore materials	1,223,484	1,151,947
Donations, Grants, Fund raising	372,589	410,932
Donations - Housing materials	418,445	391,856
Other	<u>41,179</u>	<u>58,389</u>
	<u>2,940,697</u>	<u>2,515,124</u>
EXPENSES		
Advertising and promotion	116,819	116,949
Amortization	43,425	39,018
Bank charges and interest	21,052	48,973
Fund programs	87,437	71,170
Materials - housing	725,469	509,458
Materials - restore	418,445	391,856
Occupancy costs and utilities	46,203	51,797
Office and postage	18,657	23,975
Professional fees	23,844	22,713
Repairs and maintenance	401	1,144
Restore shop costs	19,994	11,675
Supplies	10,945	15,749
Staff development and travel	21,067	13,446
Telephone	6,057	5,731
Tithe for sponsored projects	10,000	10,000
Vehicle	33,220	25,045
Wages and benefits	<u>887,613</u>	<u>746,293</u>
	<u>2,490,648</u>	<u>2,104,992</u>
INCOME FROM OPERATIONS	450,049	410,132
MORTGAGE DISCOUNT (Note 4)	<u>(414,863)</u>	<u>(123,885)</u>
NET INCOME	<u>\$ 35,186</u>	<u>\$ 286,247</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY SARNIA/LAMBTON

STATEMENT OF CHANGES IN GENERAL SURPLUS

YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
BALANCE, BEGINNING OF YEAR	\$ 3,356,230	\$ 3,069,983
NET INCOME	<u>35,186</u>	<u>286,247</u>
BALANCE, END OF YEAR	\$ <u>3,391,416</u>	\$ <u>3,356,230</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY SARNIA/LAMBTON

STATEMENT OF CASH FLOWS

DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Net income	\$ 35,186	\$ 286,247
Items not requiring an outlay of cash:		
Amortization of capital assets	<u>43,425</u>	<u>39,018</u>
	78,611	325,265
Changes in non-cash working capital balances		
Accounts receivable	49,016	(58,023)
Inventories	(12,218)	(274,409)
Prepaid expenses	761	150
Accounts payable and accrued liabilities	<u>47,474</u>	<u>(49,121)</u>
	<u>163,644</u>	<u>(56,138)</u>
FINANCING ACTIVITIES		
Increase (decrease) in long term debt	<u>118,898</u>	<u>(21,617)</u>
INVESTING ACTIVITIES		
Purchase of short term investments	-	(3,749)
Decrease (increase) in mortgage receivable	(375,396)	(143,409)
Increase (decrease) in deferred revenue	76,443	8,000
Purchase of capital assets	<u>(35,206)</u>	<u>(124,132)</u>
	<u>(334,159)</u>	<u>(263,290)</u>
DECREASE IN CASH AND EQUIVALENTS	(51,617)	(341,045)
CASH AND EQUIVALENTS, beginning of year	<u>(47,058)</u>	<u>293,987</u>
CASH AND EQUIVALENTS, end of year	<u>\$ (98,675)</u>	<u>\$ (47,058)</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY SARNIA/LAMBTON

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 and 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

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.

Inventories

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 net realizable value.

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.

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, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

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
Office furniture	- 20% Declining balance
Automotive	- 30% Declining balance

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.

Use of estimates

The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. Actual results could differ from those estimates.

Revenue Recognition

Sales revenue is recognized at the point of sale when the customer assumes the risk of ownership. Grant and contributions are recognized in the year services giving rise to the matching funded expenses are performed.

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 mortgage receivable.

HABITAT FOR HUMANITY SARNIA/LAMBTON

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. INVENTORY

	<u>2017</u>	<u>2016</u>
Properties held for resale	\$ <u>739,423</u>	\$ <u>727,205</u>

3. CAPITAL ASSETS

	<u>Cost</u>	<u>2017 Accumulated Amortization</u>	<u>Net Book Value</u>	<u>2016 Net Book Value</u>
Land	\$ 535,000	\$ -	\$ 535,000	\$ 535,000
Building	1,118,131	103,708	1,014,423	1,025,003
Equipment	47,820	20,944	26,876	16,960
Office furniture	22,007	9,216	12,791	12,925
Vehicles	<u>110,440</u>	<u>80,021</u>	<u>30,419</u>	<u>37,840</u>
	\$ <u>1,833,398</u>	\$ <u>213,889</u>	\$ <u>1,619,509</u>	\$ <u>1,627,728</u>

4. MORTGAGES RECEIVABLE

	<u>2017</u>	<u>2016</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	\$ 3,346,735	\$ 2,592,557
Unamortized mortgage discount	<u>(1,261,560)</u>	<u>(846,698)</u>
	2,085,175	1,745,859
Second mortgages secured by land buildings in Forest, Oil Springs and Sarnia payment is contingent 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>443,595</u>	<u>407,515</u>
	2,528,770	2,153,374
Less: Current portion	<u>180,537</u>	<u>167,126</u>
	\$ <u>2,348,233</u>	\$ <u>1,986,248</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%.

5. BANK INDEBTEDNESS

	<u>2017</u>	<u>2016</u>
RBC chequing account	\$ (100,739)	\$ (47,993)
Petty cash	440	450
ReStore RBC account	<u>1,625</u>	<u>15,485</u>
	\$ <u>(98,675)</u>	\$ <u>(47,058)</u>

HABITAT FOR HUMANITY SARNIA/LAMBTON

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2017</u>	<u>2016</u>
Trade accounts payable	\$ 52,980	\$ 30,880
Accrued charges	7,404	907
Government remittances	<u>22,200</u>	<u>3,323</u>
	<u>\$ 82,584</u>	<u>\$ 35,110</u>

7. LONG-TERM DEBT

	<u>2017</u>	<u>2016</u>
Mortgage payable in monthly principal and interest payments of \$4,690 with interest charges at a rate of 4.5%, due August, 2017, secured by land and building with a current net book value of \$1,549,107.	\$ -	\$ 756,339
Mortgage payable in monthly principal and interest payments of \$2,085 with interest charges at a rate of 3.54%, due August 2022, secured by land and building with a current net book value of \$1,549,107.	730,430	-
Revolving term loan payable in monthly principal payments of \$1,248 plus interest charged at prime plus .75%, due August 2018, secured by land and building with a current net book value of \$1,549,107.	<u>144,807</u>	<u>-</u>
	875,237	756,339
Less: Current portion due within one year	<u>43,897</u>	<u>756,339</u>
	<u>\$ 831,340</u>	<u>\$ -</u>

The long-term debt is repayable in the following years:

2018	\$ 173,723
2019	31,128
2020	31,072
2021	32,188
2022	607,126
Thereafter	<u>-</u>
	<u>\$ 875,237</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.

HABITAT FOR HUMANITY SARNIA/LAMBTON

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 2017 amounted to \$73,066 (2016 - \$69,365). The amount of tithes paid to Habitat for Humanity Canada in 2017 was \$10,000 (2016 - \$10,000).

10. FINANCIAL INSTRUMENTS

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 by economic conditions. The organization's financial instruments that are exposed to concentrations of credit risk relate primarily to mortgages receivable.

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.

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.

11. COMPARATIVE FIGURES

Prior year figures were audited by another licensed chartered professional accountant. Certain balances have been reclassified to conform with the current year's financial statement presentation.