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Financial Statements of

**HABITAT FOR HUMANITY -
NATIONAL CAPITAL REGION**

December 31, 2016

Ian W. Hendry, CPA, CA, CFP
Daniel B. Warren, CPA, CA, TEP
Marie Fraser, CPA, CA, CFP
Nancy Nicks, CPA, CA
Jacob Milosek, CPA, CA
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MEMBER
INPACT
INTERNATIONAL ALLIANCE OF
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April 25, 2017

INDEPENDENT AUDITORS' REPORT

To the Members of
Habitat for Humanity - National Capital Region:

We have audited the accompanying financial statements of Habitat for Humanity - National Capital Region, which comprise the statement of financial position as at December 31, 2016 and the statements of revenues and expenses, changes in net assets and cash flow for the year then ended as well as a summary of significant accounting policies, other explanatory information and supplementary 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 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 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 qualified opinion.

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Basis for Qualified Opinion

In common with many not-for-profit organizations, Habitat for Humanity - National Capital Region derives revenues from fundraising activities and from its ReStore operations. The completeness of these revenues are not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Habitat for Humanity - National Capital Region. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, ReStore operations, excess of revenues over expenses and cash flows from operations for the year ended December 31, 2016 and current assets and net assets as at December 31, 2016.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements present fairly, in all material respects, the financial position of Habitat for Humanity - National Capital Region as at December 31, 2016, and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

HENDRY WARREN LLP
Chartered Professional Accountants
Licensed Public Accountants
Ottawa, Ontario

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HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Statement of Financial Position

December 31, 2016, with comparative figures for 2015

	2016	2015
Assets		
Current assets		
Cash	\$ 129,705	\$ 449,373
Restricted cash (Note 2)	2,359	176,923
Accounts receivable	148,897	113,128
Prepaid expenses	44,505	54,764
HST recoverable	127,324	130,181
Current portion of mortgages receivable	197,646	241,417
	650,436	1,165,786
Mortgages receivable (Note 3)	1,592,251	1,574,883
Residential projects (Note 4)	3,426,190	2,883,155
Capital assets (Note 5)	29,825	39,697
	\$ 5,698,702	\$ 5,663,521
Liabilities and Net Assets		
Current liabilities		
Bank indebtedness	\$ 130,000	\$ -
Accounts payable and accrued charges	174,660	362,645
Government remittance payable	33,112	30,361
Interim occupancy payments	209,116	178,297
	546,888	571,303
Lease inducement	16,450	20,650
Deferred contributions (Note 6)	370,600	1,204,275
Long-term debt (Note 7)	382,500	-
	1,316,438	1,796,228
Commitments (Note 8)		
Net assets		
Restricted - cash	2,359	176,923
Restricted - builds and mortgages	3,231,342	2,927,661
Unrestricted	1,148,563	762,709
	4,382,264	3,867,293
	\$ 5,698,702	\$ 5,663,521

Approved on behalf of the Board:

President

Treasurer

See accompanying notes to the financial statements.

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HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Statement of Revenues and Expenses

Year ended December 31, 2016, with comparative figures for 2015

	2016	2015
Revenues		
ReStore operations (Schedule A)	\$ 395,066	\$ 241,914
Residential projects operations	362,314	429,474
Unrestricted donations and fundraising	439,894	399,822
Effective interest on mortgages receivable	106,258	89,329
Grants and other income (loss)	6,804	(14,616)
Interest income	60	2,768
	1,310,396	1,148,691
Expenses		
Advertising and promotion	106,081	61,148
Amortization	6,129	9,866
Bad debts	10,475	-
Bank charges and interest	3,877	9,569
Board and committee expenses	13,943	6,287
Build remedial expenses	12,146	37,158
Fundraising expenses	68,759	110,529
Insurance	5,618	5,594
Mortgage discount for interest free mortgages	134,740	232,016
Office	32,036	38,656
Professional fees	36,748	120,537
Rent and utilities	51,108	37,376
Repairs and maintenance	2,022	4,607
Salaries, wages and benefits	275,990	305,485
Technology	9,841	14,361
Telephone	8,058	9,256
Tithing	10,000	10,000
Vehicle expense	7,854	13,879
	795,425	1,026,324
Excess of revenues over expenses	\$ 514,971	\$ 122,367

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Statement of Changes in Net Assets

Year ended December 31, 2016, with comparative figures for 2015

	Unrestricted	Restricted	2016 Total	2015 Total
Net assets, beginning of year	\$ 762,709	\$ 3,104,584	\$ 3,867,293	\$ 3,744,926
Excess of revenues over expenses	385,854	129,117	514,971	122,367
Net assets, end of year	\$ 1,148,563	\$ 3,233,701	\$ 4,382,264	\$ 3,867,293

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Cash Flow Statement

Year ended December 31, 2016, with comparative figures for 2015

	2016	2015
Operating activities		
Excess of revenues over expenses	\$ 514,971	\$ 122,367
Non-cash items:		
Residential projects operations	(168,641)	(429,474)
Effective interest on mortgage receivable	(106,258)	(89,329)
Mortgage discount on interest free mortgages	134,740	232,016
Amortization expense	9,872	13,158
Lease inducement adjustment	(4,200)	(4,200)
Deferred contributions - related to property recognized in income	(540)	(300)
Changes in working capital balances (Note 9)	(177,068)	59,049
Cash provided by (used in) operating activities	202,876	(96,713)
Investing activities		
Acquisition of capital assets	-	(15,268)
Repayment of mortgages receivable	223,034	232,500
Expenditures on residential projects	(1,713,519)	(1,391,092)
Cash used in investing activities	(1,490,485)	(1,173,860)
Financing activities		
Cash contributions received for builds	280,877	459,154
Long-term borrowings	382,500	-
Cash provided by financing activities	663,377	459,154
Decrease in cash	(624,232)	(811,419)
Cash, beginning of year	626,296	1,437,715
Cash, end of year	\$ 2,064	\$ 626,296
Cash consists of:		
Unrestricted cash	\$ 129,705	\$ 449,373
Restricted cash	2,359	176,923
Line of credit	(130,000)	-
	\$ 2,064	\$ 626,296
Cash flows from interest are as follows:		
Interest received	\$ 60	\$ 2,768
Interest paid	1,903	-

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

Status and purpose of the Organization

Habitat for Humanity - National Capital Region (the "Organization") was established on March 1, 1993 by letters patent under the Canada Corporations Act. The Organization has been continued under the Canada Not-for-Profit Corporations Act. The Organization is exempt from tax under Section 149(1)(f) the *Income Tax Act*.

The Organization is a not-for-profit organization and registered charity that raises funds and solicits donations of goods and services in order to build simple, decent and affordable homes for low income working families, who pay back an interest-free mortgage and contribute 500 hours of sweat equity. The Organization also operates new and used building supply stores called "ReStores".

1. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting standards for not-for-profit organizations and include the following significant accounting policies:

Net assets

The Organization's net assets are composed of restricted and unrestricted amounts.

The Organization's Board of Director's have restricted net assets arising from transactions relating to mortgages receivable, residential projects, interim occupancy payments and deferred contributions for houses and land. The revenues and expenses arising from these amounts are charged against restricted net assets. The restricted net assets will be used in the future to allow the Organization to continue to build simple, decent and affordable homes for low income working families.

Revenues and expenses arising from the remainder of the Organization's operations are charged against unrestricted net assets and will be used in the future for general operations.

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred or are netted against residential project operations if applicable. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue from residential projects operations is recognized in the period in which title to the house is transferred to the applicable family and the mortgage is registered.

Grants and other income is recognized when received or receivable, if collection is reasonably assured.

Revenues from ReStore operations are recognized at the point of sale, if collection is reasonably assured.

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

Donated materials and services

Part of the activities of the Organization are carried out by volunteers. In addition, the Organization relies on donated materials to help complete its projects. These financial statements do not account for the value of volunteer labour, services or materials for which a donation receipt was not issued. The donations in kind for which the fair market value was known and a donation receipt was issued are recorded at fair market value and recognized as income if the value is greater than \$50,000. Donations in kind received with a fair market value of less than \$50,000 are recognized in income upon the items eventual sale.

Mortgages receivable

The Organization has issued second mortgages on some of the properties transferred, representing the "forgivable" portion of the houses. In addition, second and third mortgages have been issued on certain properties and are held by the City of Ottawa. Since the likelihood of the collection of these amounts cannot be determined, these second and third mortgages have not been recorded in the financial statements.

When new mortgages are issued, they are recorded at amortized cost. This method discounts the face value of the mortgage using the prevailing interest rate over the life of the mortgage. The difference between the face value of the new mortgage and the amortized cost carrying value is recorded on the statement of revenues and expenses as "mortgage discount for interest free mortgages." The non-forgivable portion of mortgages are non-interest bearing. However, due to the application of accounting standards for not-for-profit organizations with respect to financial instruments, interest income on mortgages is recognized each year in the statement of revenues and expenses as "effective interest on mortgages receivable," based on the prevailing interest rate at the inception of the mortgage.

Residential projects

Land is recorded at the purchase price plus carrying costs or at fair market value at the time of the donation. Houses are recorded at cost plus the receipted value of donated goods and services.

Donated assets

Donated assets are recorded at the lower of cost and net realizable value. Cost represents the fair market value of the donated assets.

Interest capitalization

Interest is capitalized on debts incurred during the construction phase of a residential project and is expensed as part of the cost of the house when the project is complete and the mortgage is closed.

Cash and cash equivalents

The Organization's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate from being positive to overdrawn, and restricted cash.

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

Lease inducement

The lease inducement is amortized over the term of the lease.

Capital assets

Capital assets are accounted for at cost. Amortization is based on the assets' respective useful lives using the following method and rates:

Asset	Method	Rate
Computer equipment	Declining balance	30%
Computer software	Declining balance	50%
Furniture and fixtures	Declining balance	20%
Leasehold improvements	Declining balance	4%
Vehicles	Declining balance	30%

One-half of the annual amount is claimed in the year of acquisition except on computer software.

Deferred contributions - related to property

Contributed capital assets are accounted for in deferred contributions and amortized on the same basis as the related capital assets.

Allocation of expenses

The Organization separately discloses a statement of operations (Schedule A) for its ReStore locations. The Organization allocates general support expenses by identifying the appropriate basis of allocating each component expense, and applies that basis each year. Allocations are based on the proportion of use and time between the ReStores and general organizational purposes.

Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Significant items subject to such estimates and assumptions include the estimated useful lives of capital assets, the valuation of mortgages receivable including the appropriateness of the discount rate used on mortgages, allocation of expenses and the valuation of accounts payable and accrued charges. These estimates are reviewed periodically and adjustments are made to the statement of revenues and expenses as appropriate in the year they become known.

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

Financial instruments

Measurement of financial instruments

The Organization initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, restricted cash, accounts receivable and mortgages receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued charges and interim occupancy payments.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in statement of revenues and expenses. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in statement of revenues and expenses.

Transaction costs

The Organization recognizes its transaction costs in the statement of revenues and expenses in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Interim occupancy payments

Interim occupancy payments represent payments from families during the the interim occupancy agreement, typically the first year after occupying their home. Once the mortgage has been transferred to the families, these payments will be credited towards their mortgage balance.

2. Restricted cash

Restricted cash represents amounts relating specifically to housing project builds.

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

3. Mortgages receivable

The mortgages receivable are non-interest bearing and have repayment terms ranging from 1 to 35 years. Mortgages receivable are classified as held to maturity and are measured at amortized cost using the effective interest method. Although the mortgages are non-interest bearing, they are accounted for using the effective interest rate determined on the initial issuance of the mortgage. These rates range from 3.59% to 6.00%. The carrying value of the mortgages approximates their fair value given the decline in interest rates and increase in credit spreads for higher risk assets during the year.

At December 31, 2016, there were twelve (2015: ten) families living in homes in which the transfer of title was not complete and as such, these mortgages have not been recognized. These families pay monthly advances towards the future mortgage balance. These advances are recognized as interim occupancy payments on the statement of financial position.

4. Residential projects

	2016	2015
Land and housing projects under development	\$ 3,426,190	\$ 2,883,155

Since the beginning of its operations, the Organization has completed 49 houses and 9 retrofits.

5. Capital assets

	2016		2015	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 41,838	\$ 37,472	\$ 4,366	\$ 6,237
Computer software	28,461	24,904	3,557	7,115
Furniture and fixtures	23,800	9,473	14,327	17,909
Leasehold improvements	6,968	803	6,165	6,422
Vehicles	6,908	5,498	1,410	2,014
	\$ 107,975	\$ 78,150	\$ 29,825	\$ 39,697

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

6. Deferred contributions

Deferred contributions represent resources which, subject to external restrictions, are to be used to cover expenses in subsequent years. Details of the deferred contributions balance are as follows:

	2016	2015
House and land contributions:		
Women build contributions	\$ 55,489	\$ 109,901
ReStore cans contributions	18,345	17,682
Faith build contributions	32,095	32,095
Youth build contributions	13,737	45,541
Adopt-a-day contributions	62,645	83,397
Nantes contributions	33,600	695,768
Perth contributions	13,569	-
Cousineau contributions	130,770	213,004
Carleton Place contributions	4,003	-
Jeanne D'Arc contributions	4,187	4,187
	368,440	1,201,575
Other contributions:		
Contributed capital assets	2,160	2,700
Balance, end of year	\$ 370,600	\$ 1,204,275

During the year, the Organization received deferred contributions totalling \$280,877 (2015: \$462,154), recognized in revenue \$540 (2015: \$300), and charged the balance of \$1,114,012 (2015: \$195,245) to residential projects.

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

7. Long-term debt

	2016	2015
Community Forward Fund Mortgage, repayable in interest only payments until January 2019, commencing in 2019 repayable in blended monthly payments of principal and interest of \$4,093, interest calculated at a rate of 5.25%, maturing in December 2021. The loan is secured by a general security agreement including land and building located at 2675 Mac Street, Ottawa with a net book value of \$449,007.	\$ 382,500	\$ -

Principal repayments required in the next five years and after are as follows:

2017	\$ -
2018	-
2019	29,747
2020	31,347
2021	33,033
After	288,373
	<u>\$ 382,500</u>

8. Commitments

Future minimum rental payments required under operating leases for IT services, premises and vehicle that have initial or remaining lease terms in excess of one year at December 31, 2016 are as follows:

	IT Services	Premises	Vehicle	Total
2017	\$ 7,000	\$ 249,760	\$ 12,870	\$ 269,630
2018	-	249,760	-	249,760
2019	-	243,947	-	243,947
2020	-	165,000	-	165,000
	<u>\$ 7,000</u>	<u>\$ 908,467</u>	<u>\$ 12,870</u>	<u>\$ 928,337</u>

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

9. Changes in working capital balances

Changes in working capital balances have provided (used) cash as follows:

	2016	2015
Accounts receivable	\$ (35,769)	\$ (42,524)
Prepaid expenses	10,259	(21,027)
Government remittances receivable	-	9,276
HST recoverable	2,857	(16,269)
Accounts payable and accrued charges	(187,985)	43,591
Government remittances payable	2,751	23,192
Interim occupancy payments	30,819	62,810
	\$ (177,068)	\$ 59,049

10. Credit facility

At December 31, 2016, short-term bank credit facilities consisted of an operating line of credit in the amount of \$750,000 (2015: \$750,000). The line of credit bears interest at Royal Bank of Canada prime plus 1.7% per annum and is secured by a general security agreement. At December 31, 2016, there was \$130,000 (2015: \$Nil) outstanding under this line of credit.

The credit facility includes covenants requiring a debt service coverage of not less than 1:25:1:00 and net assets of at least \$1,500,000. These covenants are to be calculated annually. At December 31, 2016, the Organization has met these covenants.

Additionally, the Organization was granted a letter of credit from the Royal Bank of Canada for work and service to be done at 6208 Jeanne D'Arc Boulevard in the amount of \$154,878.

11. Financial instruments

Risk and concentrations

The Organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the risk exposures and concentrations at the statement of financial position date, December 31, 2016.

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 with respect to the accounts receivable and mortgages receivable. Credit is granted as a normal part of operations. Mortgages receivable are secured by the land and homes on which they are issued.

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2016, with comparative figures for 2015

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to this risk mainly in respect of its accounts payable and accrued charges, interim occupancy payments and long-term debt.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization is exposed to interest rate risk on its fixed and floating interest rate financial instruments. The variable rate line of credit exposes the Organization to a cash flow risk, while the fixed rate long-term debt subjects the Organization to a fair value risk.

It is management's assessment that the risk levels have increased over the prior year as a result of the increased leverage.

12. Habitat for Humanity Canada Foundation

Habitat for Humanity - National Capital Region is an affiliate of Habitat for Humanity Canada ("HFHC"). HFHC provides administrative, marketing and training support to the individual affiliates across the country. HFHC also coordinates gifts in kind to affiliates. In exchange for these services and support, the Organization pays a base affiliation fee of \$25,000. The Organization also pays a quarterly affiliation fees and a percentage of gross ReStore outlet sales. Annually, the Organization contributes a tithe for international work in the amount of \$10,000. At year end, amounts due to HFHC amounted to \$16,277 (2015: \$23,584).

13. Comparative figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.

HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Supplementary Financial Information

Schedule A

Year ended December 31, 2016, with comparative figures for 2015

	2016	2015
ReStore operations		
Sales	\$ 1,420,035	\$ 1,128,967
Expenses		
Advertising and promotion	23,365	39,538
Amortization	3,742	3,292
Bank charges and interest	22,931	19,648
Office and miscellaneous expenses	32,422	22,669
Professional fees	10,296	11,694
Rent and utilities	356,586	294,767
Repairs and maintenance	31,227	24,722
Salaries and benefits	502,498	431,985
Telephone	10,575	6,383
Vehicle expenses	31,327	32,355
	1,024,969	887,053
Net ReStore operations	\$ 395,066	\$ 241,914