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Financial Statements of

**HABITAT FOR HUMANITY -  
NATIONAL CAPITAL REGION**

December 31, 2017

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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May 31, 2018

## 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, 2017 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.

Ian W. Hendry, CPA, CA, CFP  
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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, 2017 and December 31, 2016 and current assets and net assets as at December 31, 2017 and 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, 2017, 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, 2017, with comparative figures for 2016

	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 124,749	\$ 129,705
Restricted cash (Note 2)	2,359	2,359
Accounts receivable	120,793	148,897
Prepaid expenses	144,233	44,505
Government remittances receivable	1,145	-
HST recoverable	170,814	127,324
Current portion of mortgages receivable	247,016	197,646
	811,109	650,436
Mortgages receivable (Note 3)	2,132,778	1,592,251
Residential projects (Note 4)	5,025,599	5,357,242
Capital assets (Note 5)	79,380	29,825
	\$ 8,048,866	\$ 7,629,754
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 6)	\$ 365,000	\$ 130,000
Accounts payable and accrued charges	167,926	174,660
Government remittance payable	35,169	33,112
Interim occupancy payments	137,416	209,116
Current portion of long-term debt	10,000	-
	715,511	546,888
Lease inducement	82,780	16,450
Deferred contributions (Note 7)	1,570,926	2,301,652
Long-term debt (Note 8)	382,436	382,500
	2,751,653	3,247,490
Commitments (Note 9)		
<b>Net assets (deficiency)</b>		
Restricted - cash	2,359	2,359
Restricted - builds and mortgages	5,739,543	4,636,172
Unrestricted	(444,689)	(256,267)
	5,297,213	4,382,264
	\$ 8,048,866	\$ 7,629,754

Approved on behalf of the Board:

\_\_\_\_\_  
President

\_\_\_\_\_  
Treasurer

See accompanying notes to the financial statements.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Statement of Revenues and Expenses

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
Restricted operations:		
Residential projects operations		
Proceeds from sales	\$ 1,972,219	\$ 515,086
Contributions recognized	1,170,800	195,673
Cost of goods sold	(1,747,023)	(355,277)
	1,395,996	355,482
Effective interest on mortgages receivable	119,696	106,258
Mortgage discount for interest free mortgages	(727,810)	(134,740)
Build remedial expenses	(13,748)	(5,314)
Restricted excess of revenues over expenses	774,134	321,686
Unrestricted revenues		
ReStore operations (Schedule A)	268,737	395,066
Unrestricted donations and fundraising	550,878	439,894
Grants and other income	12,343	6,804
Interest income	-	60
	831,958	841,824
Unrestricted expenses		
Advertising and promotion	95,862	106,081
Amortization	6,767	6,129
Bad debts	-	10,475
Bank charges and interest	3,556	3,877
Board and committee expenses	15,277	13,943
Fundraising expenses	98,053	68,759
Insurance	5,708	5,618
Office	25,400	32,036
Professional fees	23,628	36,748
Rent and utilities	51,139	51,108
Repairs and maintenance	4,591	2,022
Salaries, wages and benefits	317,768	275,990
Technology	15,189	9,841
Telephone	10,328	8,058
Tithing	10,000	10,000
Vehicle expense	7,877	7,854
	691,143	648,539
Unrestricted excess of revenues over expenses	140,815	193,285
Combined excess of revenues over expenses	\$ 914,949	\$ 514,971

See accompanying notes to the financial statements.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Statement of Changes in Net Assets

Year ended December 31, 2017, with comparative figures for 2016

	Unrestricted	Restricted	2017 Total	2016 Total
Net assets (deficiency), beginning of year	\$ (256,267)	\$ 4,638,531	\$ 4,382,264	\$ 3,867,293
Excess of revenues over expenses	140,815	774,134	914,949	514,971
Interfund transfers	(329,237)	329,237	-	-
Net assets (deficiency), end of year	\$ (444,689)	\$ 5,741,902	\$ 5,297,213	\$ 4,382,264

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Cash Flow Statement

Year ended December 31, 2017, with comparative figures for 2016

	2017	2016
Operating activities		
Excess of revenues over expenses	\$ 914,949	\$ 514,971
Non-cash items:		
Residential projects operations	(1,395,996)	(355,482)
Effective interest on mortgage receivable	(119,696)	(106,258)
Mortgage discount on interest free mortgages	727,810	134,740
Amortization expense	12,729	9,872
Lease inducement adjustment	66,330	(4,200)
Deferred contributions - related to property recognized in income	(7,131)	(540)
Loss on disposal of capital assets	1,410	-
Changes in working capital balances (Note 10)	(49,841)	(177,068)
Cash provided by operating activities	150,564	16,035
Investing activities		
Acquisition of capital assets	(63,694)	-
Proceeds from sale of residential projects	228,383	216,264
Repayment of mortgages receivable	408,731	223,034
Expenditures on residential projects	(1,421,081)	(1,742,942)
Cash used in investing activities	(847,661)	(1,303,644)
Financing activities		
Cash contributions received for builds	447,205	280,877
Long-term borrowings	10,000	382,500
Repayment of long-term debt	(64)	-
Cash provided by financing activities	457,141	663,377
Decrease in cash	(239,956)	(624,232)
Cash, beginning of year	2,064	626,296
(Bank indebtedness) cash, end of year	\$ (237,892)	\$ 2,064
(Bank indebtedness) cash consists of:		
Unrestricted cash	\$ 124,749	\$ 129,705
Restricted cash	2,359	2,359
Line of credit	(365,000)	(130,000)
	\$ (237,892)	\$ 2,064

See accompanying notes to the financial statements.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

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## **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 applied 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 applied 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 when the mortgage for the residential project is transferred, 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, 2017, with comparative figures for 2016

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### **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, 2017, with comparative figures for 2016

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### 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, 2017, with comparative figures for 2016

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## 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 bank indebtedness, accounts payable and accrued charges, long-term debt 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 interim occupancy agreement, typically the first year of 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, 2017, with comparative figures for 2016

## 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, 2017, there were eight (2016: twelve) 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

	2017	2016
Land and housing projects under development	\$ 5,025,599	\$ 5,357,242

Since the beginning of its operations, the Organization has completed 51 houses and 9 retrofits.

## 5. Capital assets

	2017		2016	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 41,838	\$ 38,782	\$ 3,056	\$ 4,366
Computer software	28,461	26,683	1,778	3,557
Furniture and fixtures	23,800	12,338	11,462	14,327
Leasehold improvements	29,586	1,417	28,169	6,165
Vehicles	41,076	6,161	34,915	1,410
	\$ 164,761	\$ 85,381	\$ 79,380	\$ 29,825

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

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## 6. Credit facility

At December 31, 2017, short-term bank credit facilities consisted of an operating line of credit in the amount of \$750,000 (2016: \$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.

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, 2017, 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 (2016: \$154,878).

## 7. 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:

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	2017	2016
House and land contributions:		
Nantes contributions	\$ 530,101	\$ 1,171,597
Cousineau contributions	451,843	451,843
Jeanne D'Arc contributions	188,064	4,187
Build sponsorship contributions	110,688	130,768
Adopt-a-day contributions	97,959	62,645
Perth contributions	56,811	13,569
Faith build contributions	32,095	32,095
Youth build contributions	26,950	13,737
ReStore cans contributions	19,382	18,345
Law build contributions	5,606	-
Carleton Place contributions	4,627	4,003
Women build contributions	989	55,489
Bride build contributions	960	-
Sarah contributions	-	195,673
Tulip contributions	-	145,541
	1,526,075	2,299,492
Other contributions:		
Contributed capital assets	39,851	2,160
Other deferred revenue	5,000	-
Balance, end of year	\$ 1,570,926	\$ 2,301,652

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During the year, the Organization received deferred contributions totalling \$447,205 (2016: \$280,877) and recognized in revenue \$1,177,931 (2016: \$196,213).

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

## 8. Long-term debt

	2017	2016
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.	\$ 382,436	\$ 382,500
CMHC interest free loan, no fixed terms of repayment, repaid February 2018	10,000	-
	392,436	382,500
Current portion of long-term debt	10,000	-
	\$ 382,436	\$ 382,500

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

2018	\$ 10,000
2019	29,747
2020	31,347
2021	33,033
2022	34,809
After	253,500
	\$ 392,436

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

## 9. Commitments

Future minimum rental payments required under operating leases for services and equipment, premises and vehicles that have initial or remaining lease terms in excess of one year at December 31, 2017 are as follows:

	Services and Equipment	Premises	Vehicles	Total
2018	\$ 7,464	\$ 477,766	\$ 23,808	\$ 509,038
2019	7,464	515,603	23,808	546,875
2020	7,464	442,716	23,392	473,572
2021	5,986	283,775	21,312	311,073
2022	-	289,834	17,760	307,594
After	-	1,593,583	-	1,593,583
	\$ 28,378	\$ 3,603,277	\$ 110,080	\$ 3,741,735

## 10. Changes in working capital balances

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

	2017	2016
Accounts receivable	\$ 28,104	\$ (35,769)
Prepaid expenses	(99,728)	10,259
Government remittances receivable	(1,145)	-
HST recoverable	(43,490)	2,857
Accounts payable and accrued charges	(6,734)	(187,985)
Government remittances payable	2,057	2,751
Interim occupancy payments	71,095	30,819
	\$ (49,841)	\$ (177,068)

## 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, 2017.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2017, with comparative figures for 2016

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## 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.

## 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, included in accounts receivable was an amount due from HFHC of \$45,589 (2016: \$21,643) and included in accounts payable and accrued charges was an amount due to HFHC of \$17,772 (2016: \$16,277).

## **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, 2017, with comparative figures for 2016

	2017	2016
<b>ReStore operations</b>		
Sales	\$ 1,458,693	\$ 1,420,035
Expenses		
Advertising and promotion	20,232	23,365
Amortization	5,962	3,742
Bank charges and interest	23,716	22,931
Office and miscellaneous expenses	29,434	32,422
Professional fees	13,159	10,296
Rent and utilities	476,110	356,586
Repairs and maintenance	31,248	31,227
Salaries and benefits	545,944	502,498
Telephone	10,377	10,575
Vehicle expenses	33,774	31,327
	1,189,956	1,024,969
Net ReStore operations	\$ 268,737	\$ 395,066