



Chartered Accountants

881 Lady Ellen Place,  
Suite 200  
Ottawa, ON K1Z 5L3  
Tel: (613) 235-2000  
Fax: (613) 235-2643  
[www.hwllp.ca](http://www.hwllp.ca)

Financial Statements of

**HABITAT FOR HUMANITY -  
NATIONAL CAPITAL REGION**

December 31, 2013



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Fax: (613) 235-2643  
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June 17, 2014

## 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 statements of financial position as at December 31, 2013 and the statements of revenues and expenses and changes in net assets and cash flows for the year then ended as well as 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 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 revenue from fundraising activities, the completeness of which is 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, excess of revenues over expenses, and cash flows from operations for the year ended December 31, 2013, and current assets and net assets as at December 31, 2013.

*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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*Hendry Warren* <sup>LLP</sup>

HENDRY WARREN LLP  
Chartered Accountants  
Licensed Public Accountants  
Ottawa, Ontario

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Statement of Financial Position

December 31, 2013, with comparative figures for 2012

|   | 2013         | 2012         |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| Current assets  |              |              |
| Cash  | \$ 777,245   | \$ 719,544   |
| Restricted cash (Note 3)                                    | 681,540      | 949,431      |
| Accounts receivable   | 92,726       | 94,311       |
| Prepaid expenses  | 19,479       | 16,986       |
| HST recoverable   | 32,652       | 70,336       |
| Current portion of mortgages receivable due within one year | 191,618      | 197,931      |
|   | 1,795,260    | 2,048,539    |
| Mortgages receivable (Note 4)                               | 1,586,460    | 1,364,657    |
| Residential projects (Note 5)                               | 1,202,641    | 2,076,670    |
| Capital assets (Note 6)                                     | 48,827       | 20,488       |
|   | \$ 4,633,188 | \$ 5,510,354 |
| <b>Liabilities and Net Assets</b>                           |              |              |
| Current liabilities   |              |              |
| Accounts payable and accrued charges                        | \$ 283,202   | \$ 198,119   |
| Government remittance payable                               | 6,479        | 7,139        |
| Funds held in trust   | 50,795       | 56,642       |
|   | 340,476      | 261,900      |
| Deferred contributions (Note 7)                             | 756,510      | 1,995,250    |
|   | 1,096,986    | 2,257,150    |
| Commitments (Note 8)  |              |              |
| Net assets  |              |              |
| Restricted - cash   | 681,540      | 949,431      |
| Restricted - builds and mortgages                           | 2,173,415    | 1,587,366    |
| Unrestricted  | 681,247      | 716,407      |
|   | 3,536,202    | 3,253,204    |
|   | \$ 4,633,188 | \$ 5,510,354 |

Approved on behalf of the Board:

\_\_\_\_\_  
Director

See accompanying notes to the financial statements.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Statement of Revenues and Expenses

Year ended December 31, 2013, with comparative figures for 2012

|   | 2013              | 2012              |
|---|-------------------|-------------------|
| <b>Revenues</b>                               |                   |                   |
| ReStore Operations (Schedule A)               | \$ 341,229        | \$ 330,833        |
| Residential projects operations               | 647,945           | 415,563           |
| Unrestricted donations and fundraising        | 340,263           | 264,322           |
| Effective interest on mortgage receivable     | 120,167           | 188,525           |
| Grants and other income                       | 19,814            | 11,041            |
| Interest income                               | 12,662            | 13,482            |
|   | <b>1,482,080</b>  | <b>1,223,766</b>  |
| <b>Expenses</b>                               |                   |                   |
| Advertising and promotion                     | 1,690             | 3,279             |
| Amortization                                  | 4,600             | 3,508             |
| Bank charges and interest                     | 3,779             | 2,893             |
| Board and committee expenses                  | 6,427             | 14,326            |
| Fundraising expenses                          | 71,637            | 70,838            |
| Insurance                                     | 2,637             | 2,483             |
| Mortgage discount for interest free mortgages | 415,670           | 267,563           |
| Office  | 34,662            | 34,393            |
| Professional fees                             | 40,289            | 25,729            |
| Rent and utilities                            | 39,151            | 44,040            |
| Repairs and maintenance                       | 12,433            | 12,116            |
| Salaries, wages and benefits                  | 523,959           | 482,245           |
| Telephone                                     | 9,759             | 10,357            |
| Tithing                                       | 23,000            | 9,000             |
| Vehicle expense                               | 9,389             | 11,083            |
|   | <b>1,199,082</b>  | <b>993,853</b>    |
| <b>Excess of revenues over expenses</b>       | <b>\$ 282,998</b> | <b>\$ 229,913</b> |

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Statement of Changes in Net Assets

Year ended December 31, 2013, with comparative figures for 2012

|                                  | Unrestricted | Restricted   | 2013<br>Total | 2012<br>Total |
|----------------------------------|--------------|--------------|---------------|---------------|
| Net assets, beginning of year    | \$ 716,407   | \$ 2,536,797 | \$ 3,253,204  | \$ 3,023,291  |
| Excess of revenues over expenses | 282,998      | -            | 282,998       | 229,913       |
| Allocation between funds         | (318,158)    | 318,158      | -             | -             |
| Net assets, end of year          | \$ 681,247   | \$ 2,854,955 | \$ 3,536,202  | \$ 3,253,204  |

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Cash Flow Statement

Year ended December 31, 2013, with comparative figures for 2012

|   | 2013                | 2012                |
|---|---------------------|---------------------|
| <b>Operating activities</b>   |                     |                     |
| Excess of revenues over expenses  | \$ 282,998          | \$ 229,913          |
| Non cash items:   |                     |                     |
| Amortization expense  | 6,704               | 5,960               |
| Effective interest on mortgage receivable   | (120,167)           | (188,525)           |
| Mortgage discount on interest free mortgages  | 415,670             | 267,563             |
| Increase (decrease) in deferred contributions   | -                   | 100,424             |
| Decrease in deferred contributions net of change in residential projects and cash contributions | (750,560)           | -                   |
| Changes in working capital balances (Note 9)  | 115,352             | 80,634              |
| <b>Cash (used in) provided by operating activities</b>  | <b>(50,003)</b>     | <b>495,969</b>      |
| <b>Investing activities</b>   |                     |                     |
| Acquisition of capital assets, net of disposals   | (35,043)            | (11,562)            |
| Advance of mortgages receivable in the year   | (852,870)           | (485,937)           |
| Repayment of mortgages receivable   | 237,769             | 225,914             |
| Buyout costs for repurchased homes  | 103,464             | -                   |
| Decrease (increase) in residential projects, net of donations in kind                           | -                   | (231,697)           |
| <b>Cash used in investing activities</b>  | <b>(546,680)</b>    | <b>(503,282)</b>    |
| <b>Financing activities</b>   |                     |                     |
| Cash contributions received for builds  | 386,493             | -                   |
| <b>Cash provided by financing activities</b>  | <b>386,493</b>      | <b>-</b>            |
| Decrease in cash  | (210,190)           | (7,313)             |
| Cash, beginning of year   | 1,668,975           | 1,676,288           |
| <b>Cash, end of year</b>  | <b>\$ 1,458,785</b> | <b>\$ 1,668,975</b> |
| <b>Cash consists of:</b>  |                     |                     |
| Cash  | \$ 777,245          | \$ 719,544          |
| Restricted cash   | 681,540             | 949,431             |
|   | <b>\$ 1,458,785</b> | <b>\$ 1,668,975</b> |
| <b>Cash flows from interest are as follows:</b>   |                     |                     |
| Interest received   | \$ 12,662           | \$ 13,482           |

See accompanying notes to the financial statements.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2013, with comparative figures for 2012

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## 1. 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 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."

## 2. 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:

### 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.

Revenue from ReStore sales is recognized at the point of sale.

### 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 sale.

Donations in kind at the ReStore are not recorded until time of sale, at which time they are recorded at fair market value and a donation receipt is issued.



# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Notes to the Financial Statements

December 31, 2013, with comparative figures for 2012

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### **Mortgages receivable**

The Organization has issued second mortgages on some of the properties transferred, representing the "forgivable" portion of the houses. As well, 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 operations 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 frequently from being positive to overdrawn, guaranteed investment certificates with a maturity period of twelve months or less from the date of acquisition, and restricted cash.

Restricted cash represents amounts collected specifically for housing project builds.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Notes to the Financial Statements

December 31, 2013, with comparative figures for 2012

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### Capital assets

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

| Asset                   | Method            | Rate |
|-------------------------|-------------------|------|
| Computer equipment      | Declining balance | 30%  |
| Computer software       | Declining balance | 50%  |
| Furniture and fixtures  | Declining balance | 20%  |
| Machinery and equipment | Declining balance | 30%  |
| Vehicles                | Declining balance | 30%  |

One-half of the annual amount is claimed in the year of acquisition.

The computer software was purchased and paid for in 2013. Amortization of the software will start in 2014, when it started being used, to correspond with the Organization's useful life policy of amortization.

### Allocation of expenses

The Organization separately discloses a Statement of Operations 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, and the valuation of mortgages receivable including the appropriateness of the discount rate used on mortgage. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2013, with comparative figures for 2012

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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 the accounts payable and accrued charges and funds held in trust.

### 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 net income. 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 net income.

### Transaction costs

The Organization recognizes its transaction costs in net income 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.

## **3. Restricted cash**

Restricted cash represents amounts collected specifically for housing project builds.

## **4. 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 3.945% to 6.000%. 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. The value of second and third mortgages issued as at December 31, 2013 for the "forgivable" portion of the houses, but not recognized in these financial statements, was \$861,396 (2012: \$867,279).

At December 31, 2013, there were eight (December 31, 2012: six) 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.

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

## Notes to the Financial Statements

December 31, 2013, with comparative figures for 2012

### 5. Residential projects

|   | 2013         | 2012        |
|---|--------------|-------------|
| Land and housing projects under development | \$ 1,202,641 | \$2,076,670 |

Since the beginning of its operations, the Organization has completed 40 houses and 9 retrofits.

### 6. Capital assets

|                         | Cost      | Accumulated Amortization | Net Book Value | Net Book Value |
|-------------------------|-----------|--------------------------|----------------|----------------|
| Computer equipment      | \$ 41,838 | \$ 29,110                | \$ 12,728      | \$ 11,283      |
| Computer software       | 22,394    | -                        | 22,394         | -              |
| Furniture and fixtures  | 5,533     | 3,182                    | 2,351          | 2,939          |
| Machinery and equipment | 14,714    | 7,470                    | 7,244          | 394            |
| Vehicles                | 6,908     | 2,798                    | 4,110          | 5,872          |
|                         | \$ 91,387 | \$ 42,560                | \$ 48,827      | \$ 20,488      |

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2013, with comparative figures for 2012

## 7. Deferred contributions

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

|                              | 2013       | 2012         |
|------------------------------|------------|--------------|
| House and land contributions |            |              |
| Carp contributions           | \$ -       | \$ 187,743   |
| Esquimault contributions     | 56,669     | 757,536      |
| King contributions           | -          | 277,691      |
| Hampstead contributions      | -          | 185,832      |
| Nantes contributions         | 545,077    | 302,327      |
| Sarah contributions          | -          | 125,380      |
| Tulip contributions          | -          | 145,541      |
| Walton Street                | 10,000     | -            |
| Eve Street                   | 144,764    | -            |
|                              | 756,510    | 1,982,050    |
| Other contributions          |            |              |
| Retrofit contribution        | -          | 13,200       |
| Balance, end of year         | \$ 756,510 | \$ 1,995,250 |

During the year, the Organization received deferred contributions totalling \$521,494 (2012: \$316,669), recognized in revenue \$534,365 (2012: \$269,235), and charged the balance of \$1,225,869 to residential projects.

## 8. Commitments

Future minimum rental payments required under operating leases for premises and vehicle that have initial or remaining lease terms in excess of one year at December 31, 2013 are as follows:

|       | Premises   | Vehicle   | Total      |
|-------|------------|-----------|------------|
| 2014  | \$ 143,794 | \$ 14,040 | \$ 157,834 |
| 2015  | 139,258    | 14,040    | 153,298    |
| 2016  | 69,760     | 12,870    | 82,630     |
| 2017  | 69,760     | -         | 69,760     |
| 2018  | 69,760     | -         | 69,760     |
| After | 63,947     | -         | 63,947     |
|       | \$ 556,279 | \$ 40,950 | \$ 597,229 |

# HABITAT FOR HUMANITY - NATIONAL CAPITAL REGION

Notes to the Financial Statements

December 31, 2013, with comparative figures for 2012

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## 9. Changes in working capital balances

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

|                                      | 2013       | 2012      |
|--------------------------------------|------------|-----------|
| Accounts receivable                  | \$ 1,585   | \$ (113)  |
| Prepaid expenses                     | (2,493)    | 2,798     |
| HST recoverable                      | 37,684     | 31,806    |
| Accounts payable and accrued charges | 85,083     | 35,491    |
| Government remittances payable       | (660)      | (14,293)  |
| Funds held in trust                  | (5,847)    | 24,945    |
|                                      | <hr/>      | <hr/>     |
|                                      | \$ 115,352 | \$ 80,634 |

## 10. 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, 2013.

### Credit risk

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.

### 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 and funds held in trust.

## 11. 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, 2013, with comparative figures for 2012

|                                   | 2013         | 2012         |
|-----------------------------------|--------------|--------------|
| <b>ReStore Operations</b>         |              |              |
| Sales                             | \$ 1,059,214 | \$ 1,069,617 |
| Expenses                          |              |              |
| Advertising and promotion         | 34,821       | 58,932       |
| Amortization                      | 2,104        | 2,452        |
| Bank charges and interest         | 17,339       | 18,483       |
| Office and miscellaneous expenses | 25,586       | 18,579       |
| Professional fees                 | 17,560       | 19,194       |
| Rent and utilities                | 192,199      | 208,403      |
| Repairs and maintenance           | 29,933       | 20,753       |
| Salaries and benefits             | 356,147      | 348,339      |
| Telephone                         | 9,356        | 10,051       |
| Vehicle expenses                  | 32,940       | 33,598       |
|                                   | 717,985      | 738,784      |
| Earnings                          | \$ 341,229   | \$ 330,833   |