

HABITAT FOR HUMANITY NIAGARA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

PARTRIDGE IGGULDEN



PARTRIDGE IGGULDEN LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

WALLACE PARTRIDGE, CPA, CA
LAWRENCE IGGULDEN, Hons. B.A., FCPA, FCA
ALAN SIMPSON, B.B.A., CPA, CA
ELISEO SINOPOLI, Hons. B. Admin., CPA, CA
TIMOTHY NELLES, B.Acc., CPA, CA

March 20, 2018

To the Board of Directors of
Habitat for Humanity Niagara

We have completed the audit of Habitat for Humanity Niagara for the year ended December 31, 2017 and have attached the following:

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We shall be pleased to provide any further information you may require.

Lawrence A. Iggulden, Hons. B.A., FCPA, FCA, for
PARTRIDGE IGGULDEN LLP
Chartered Professional Accountants
Licensed Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of
 Habitat for Humanity Niagara

We have audited the accompanying financial statements of Habitat for Humanity Niagara, which comprise the statement of financial position as at December 31, 2017 and the statements of operations, 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.

Auditor's 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 audit opinion.


Basis for Qualified Opinion

The Organization derives revenue from donations, fundraising and Restore sales, the completeness of which are not susceptible to satisfactory audit verification. Accordingly, our verification of the receipts from these sources was limited to a comparison of bank deposits with the amounts recorded in the records of the Organization and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenue over expenses, assets and net assets.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Habitat for Humanity Niagara as at December 31, 2017, and its financial performance and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

St. Catharines, Ontario
March 20, 2018



PARTRIDGE IGGULDEN LLP
Chartered Professional Accountants
Licensed Public Accountants

HABITAT FOR HUMANITY NIAGARA
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

| <u>ASSETS</u> | 2017 | | | 2016 |
|--|-------------------------|---------------------------|---------------------|---------------------|
| | Housing Fund | Operating Fund | Total | Total |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 108,775 | \$ 1,851 | \$ 110,626 | \$ 646,122 |
| Accounts receivable | - | 53,305 | 53,305 | 49,699 |
| Sales taxes recoverable | - | 10,711 | 10,711 | - |
| Prepaid expenses | - | 66,371 | 66,371 | 45,799 |
| Current portion of mortgages receivable (Note 2) | <u>221,953</u> | - | <u>221,953</u> | <u>216,314</u> |
| | 330,728 | 132,238 | 462,966 | 957,934 |
| MORTGAGES RECEIVABLE (Note 2) | 4,417,903 | - | 4,417,903 | 3,301,433 |
| PROPERTIES HELD FOR HOME DEVELOPMENT (Note 3) | | | | |
| | 982,300 | - | 982,300 | 664,497 |
| FIXED ASSETS (Note 4) | - | <u>617,646</u> | <u>617,646</u> | <u>333,632</u> |
| | <u>\$ 5,730,931</u> | <u>\$ 749,884</u> | <u>\$ 6,480,815</u> | <u>\$ 5,257,496</u> |
| <u>LIABILITIES</u> | | | | |
| CURRENT LIABILITIES | | | | |
| Bank indebtedness (Note 5) | \$ 551,306 | \$ 94,651 | \$ 645,957 | \$ 265,000 |
| Accounts payable and accrued charges | 67,556 | 117,856 | 185,412 | 166,323 |
| Sales taxes payable | - | - | - | 10,053 |
| Deferred revenue | - | 11,560 | 11,560 | 41,475 |
| Interfund (receivable) payable | (693,463) | 693,463 | - | - |
| Current portion of bank loan (Note 6) | 48,324 | - | 48,324 | 50,004 |
| Current portion of long-term debt (Note 7) | - | 108,333 | 108,333 | - |
| | <u>(26,277)</u> | <u>1,025,863</u> | <u>999,586</u> | <u>532,855</u> |
| Bank loan due on demand (Note 6) | <u>831,676</u> | - | <u>831,676</u> | <u>901,996</u> |
| | 805,399 | 1,025,863 | 1,831,262 | 1,434,851 |
| LONG-TERM DEBT (Note 7) | - | 216,667 | 216,667 | 100,000 |
| COMMITMENTS (Note 8) | - | - | - | - |
| | <u>805,399</u> | <u>1,242,530</u> | <u>2,047,929</u> | <u>1,534,851</u> |
| <u>NET ASSETS</u> | | | | |
| HOUSING FUND | 4,925,532 | - | 4,925,532 | 3,890,749 |
| OPERATING FUND - INVESTED IN FIXED ASSETS | - | 617,646 | 617,646 | 333,632 |
| OPERATING FUND - UNRESTRICTED | - | <u>(1,110,292)</u> | <u>(1,110,292)</u> | <u>(501,736)</u> |
| | <u>4,925,532</u> | <u>(492,646)</u> | <u>4,432,886</u> | <u>3,722,645</u> |
| | <u>\$ 5,730,931</u> | <u>\$ 749,884</u> | <u>\$ 6,480,815</u> | <u>\$ 5,257,496</u> |

Approved on behalf of the Board:

 _____, Director
 _____, Director

St. Catharines, Ontario
March 20, 2018

HABITAT FOR HUMANITY NIAGARA**STATEMENT OF OPERATIONS****YEAR ENDED DECEMBER 31, 2017**

| | 2017 | | | 2016 |
|---|---------------------|---------------------|-------------------|-------------------|
| | Housing Fund | Operating Fund | Total | Total |
| REVENUE | | | | |
| Home sales | \$ 1,562,880 | \$ - | \$ 1,562,880 | \$ 931,500 |
| Cost of sales | (1,034,331) | - | (1,034,331) | (737,070) |
| Gross margin | 528,549 | - | 528,549 | 194,430 |
| Donations | 516,898 | - | 516,898 | 474,681 |
| Grants and other revenue | 28,000 | 193,205 | 221,205 | 206,610 |
| Restore revenue | - | 2,092,057 | 2,092,057 | 1,735,974 |
| | <u>1,073,447</u> | <u>2,285,262</u> | <u>3,358,709</u> | <u>2,611,695</u> |
| EXPENSES | | | | |
| Advertising and promotion | - | 78,937 | 78,937 | 67,376 |
| Bank charges and interest | 55,826 | 24,738 | 80,564 | 67,876 |
| Computer maintenance and support | - | 28,838 | 28,838 | 35,716 |
| Conferences, meetings and training | - | 48,495 | 48,495 | 45,095 |
| HFHC affiliation fees (Note 9) | 40,000 | 205,928 | 245,928 | 209,648 |
| Occupancy costs | - | 365,221 | 365,221 | 250,583 |
| Office and insurance | - | 90,975 | 90,975 | 46,386 |
| Professional fees | 8,423 | 22,349 | 30,772 | 36,769 |
| Property costs | 33,692 | - | 33,692 | 43,536 |
| Salaries and benefits (Note 10) | - | 1,370,024 | 1,370,024 | 1,160,413 |
| Supplies and equipment | - | 47,340 | 47,340 | 10,125 |
| Telephone and communications | - | 27,741 | 27,741 | 18,034 |
| Vehicle expenses | - | 57,578 | 57,578 | 38,788 |
| Waste disposal | - | 13,798 | 13,798 | 9,838 |
| | <u>137,941</u> | <u>2,381,962</u> | <u>2,519,903</u> | <u>2,040,183</u> |
| OPERATING INCOME (LOSS) | <u>935,506</u> | <u>(96,700)</u> | <u>838,806</u> | <u>571,512</u> |
| OTHER INCOME (EXPENSE) | | | | |
| Amortization | - | (103,159) | (103,159) | (87,263) |
| Start up costs - Grimsby Restore | - | (147,099) | (147,099) | (6,711) |
| Trillium grant | - | 22,416 | 22,416 | 81,025 |
| Donations in-kind | 51,609 | - | 51,609 | 74,508 |
| Net gain (loss) on change in unamortized mortgage discounts | 47,668 | - | 47,668 | (178,488) |
| | <u>99,277</u> | <u>(227,842)</u> | <u>(128,565)</u> | <u>(116,929)</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | <u>\$ 1,034,783</u> | <u>\$ (324,542)</u> | <u>\$ 710,241</u> | <u>\$ 454,583</u> |

HABITAT FOR HUMANITY NIAGARASTATEMENT OF NET ASSETSYEAR ENDED DECEMBER 31, 2017

| | <u>Housing Fund</u> | <u>Operating Fund</u> | | <u>2017</u> | <u>2016</u> |
|---|-------------------------|-------------------------------------|-----------------------|---------------------|---------------------|
| | | <u>Invested in Fixed Assets</u> | <u>Unrestricted</u> | | |
| BALANCE (DEFICIT), BEGINNING OF YEAR | \$ 3,890,749 | \$ 333,632 | \$ (501,736) | \$ 3,722,645 | \$ 3,268,062 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | 1,034,783 | (103,159) | (221,383) | 710,241 | 454,583 |
| INVESTED IN FIXED ASSETS | <u>-</u> | <u>387,173</u> | <u>(387,173)</u> | <u>-</u> | <u>-</u> |
| BALANCE (DEFICIT), END OF YEAR | <u>\$ 4,925,532</u> | <u>\$ 617,646</u> | <u>\$ (1,110,292)</u> | <u>\$ 4,432,886</u> | <u>\$ 3,722,645</u> |

HABITAT FOR HUMANITY NIAGARA**STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2017**

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Excess of revenue over expenses | \$ 710,241 | \$ 454,583 |
| Add (deduct) items not affecting cash | | |
| Amortization | 103,159 | 87,263 |
| Donations in-kind revenue, net of cost of sales | (37,500) | - |
| Mortgage discounts (net) | <u>(47,668)</u> | <u>178,488</u> |
| | 728,232 | 720,334 |
| Effects on cash from changes in operating assets and liabilities | | |
| Accounts receivable | (3,606) | (9,814) |
| Sales taxes recoverable | (20,764) | 144,512 |
| Prepaid expenses | (20,572) | (29,920) |
| Accounts payable and accrued charges | 19,089 | 42,927 |
| Deferred revenue | <u>(29,915)</u> | <u>275</u> |
| Cash flows from operating activities | <u>672,464</u> | <u>868,314</u> |
| FINANCING ACTIVITIES | | |
| Issuance of bank loan | - | 351,763 |
| Repayments of bank loan | (72,000) | (60,450) |
| Issuance of long-term debt | <u>225,000</u> | <u>100,000</u> |
| Cash flows from financing activities | <u>153,000</u> | <u>391,313</u> |
| INVESTING ACTIVITIES | | |
| Decrease (increase) in properties held for home development (net) | (280,303) | 182,241 |
| Issuance of new mortgages receivable | (1,553,938) | (884,611) |
| Mortgage repayments received | 479,497 | 425,892 |
| Purchase of fixed assets | <u>(387,173)</u> | <u>(41,458)</u> |
| Cash flows used in investing activities | <u>(1,741,917)</u> | <u>(317,936)</u> |
| INCREASE (DECREASE) IN CASH FOR YEAR | (916,453) | 941,691 |
| CASH (DEFICIENCY), BEGINNING OF YEAR | <u>381,122</u> | <u>(560,569)</u> |
| CASH (DEFICIENCY), END OF YEAR | <u>\$ (535,331)</u> | <u>\$ 381,122</u> |
| Cash (deficiency) is represented by the following | | |
| Cash and cash equivalents | \$ 110,626 | \$ 646,122 |
| Bank indebtedness | <u>(645,957)</u> | <u>(265,000)</u> |
| | <u>\$ (535,331)</u> | <u>\$ 381,122</u> |

HABITAT FOR HUMANITY NIAGARA**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2017****PURPOSE OF THE ORGANIZATION**

Habitat For Humanity Niagara was incorporated on April 29, 1993 under the Corporations Act of Ontario as a not-for-profit organization and is a registered charity and is exempt from tax under paragraph 149(1)(f) of the Income Tax Act.

The primary objective of the Organization is to aid qualifying economically disadvantaged individuals by constructing or renovating homes and providing financing assistance through non-interest bearing mortgages to enable them to purchase the homes. The Organization also operates three ReStores, which offers new and used building and household materials for sale to the public.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations, and reflect the following policies:

Revenue recognition

Revenue from home sales is recognized upon the occupancy of the home by the partner family.

Unrestricted donations and grants are recorded as revenue when received. Donations and grants received to fund future period expenditures are recorded as deferred revenue.

The Organization records only gifts in kind related to donated fixed assets and property held for development when fair value can be reasonably determined.

Contributed materials for resale are recorded as ReStore revenue at the time those goods are sold as there is no certainty that all goods received of this nature will be sold.

Much of the work in the Organization is dependent on the services of volunteers. Since these services are not normally purchased by the Organization and because of the difficulty in determining the fair value, contributed services are not recognized in the financial statements.

Fund Accounting

The Operating Fund reports the assets, liabilities, revenues and expenses relating to the Organization's two ReStores and accounts for 100% of the Organization's general and administrative costs. The Operating fund also includes the assets, liabilities, revenues and expenses related to the Organization's fixed assets.

The Housing Fund reports the assets, liabilities, revenues and expenses relating to the Organization's building and renovation activities, including the maintenance of mortgages on previously sold homes. The Housing Fund only includes costs specifically attributed to the construction and renovation of homes and the maintenance of mortgages on previously sold homes as 100% of the Organization's general and administrative costs are reported in the Operating Fund.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and guaranteed income certificates with a maturity within the next twelve months.

Properties Held for Home Development

The properties held for development are recorded at the lower of cost and net realizable value with cost determined on a specific item basis.

HABITAT FOR HUMANITY NIAGARA**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2017****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****Fixed Assets and Amortization**

Fixed assets are stated at cost. Amortization is provided on the diminishing-balance or straight-line method over the estimated useful lives of the assets as follows:

| | |
|-------------------------|-----------------------------|
| Computers | 50% and 100% |
| Furniture and equipment | 20% |
| Leasehold improvements | Straight-line over 10 years |
| Lift truck | 30% |
| Vehicles | 30% |

Additions acquired during the year are amortized at one-half of the above rates.

Financial Instruments

Financial instruments are comprised of cash, accounts receivable, mortgages receivable, bank indebtedness, accounts payable and accrued charges, bank demand loan, and long-term debt.

Financial assets and liabilities are initially measured at their fair market value and are subsequently measured at amortized cost.

Estimates

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

2. MORTGAGES RECEIVABLE

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|-----------------------|
| | <u>Face Value</u> | <u>Amortized Cost</u> |
| 1st mortgages receivable | \$ 5,466,852 | \$ 4,369,389 |
| 2nd and 3rd mortgages receivable (forgivable) | 601,654 | - |
| 2nd and 3rd mortgages receivable (non-forgivable) | 306,077 | 270,467 |
| | <u>6,374,583</u> | <u>4,639,856</u> |
| Current portion of 1st mortgages receivable | <u>(283,227)</u> | <u>(216,314)</u> |
| Balance, end of year | <u>\$ 6,091,356</u> | <u>\$ 4,417,903</u> |

Principal repayments of 1st mortgages and non-forgivable 2nd and 3rd mortgages at face value are expected as follows:

| | |
|--------------------------------|---------------------|
| Years ending December 31, 2018 | \$ 283,227 |
| 2019 | 283,227 |
| 2020 | 280,999 |
| 2021 | 273,831 |
| 2022 | 258,745 |
| Thereafter | <u>4,392,900</u> |
| | <u>\$ 5,772,929</u> |

HABITAT FOR HUMANITY NIAGARANOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 2017**2. MORTGAGES RECEIVABLE (continued)**

Total mortgages receivable represent the aggregate of mortgages on 44 properties (2016: 42 properties).

The 1st mortgages are non-interest bearing and are secured by a charge on specific property, repayable in monthly instalments with terms up to a maximum of 35 years. Monthly payments are set annually based on the partner family's income

Title on the 1st mortgages when registered have been put in the name of the Meridian Credit Union rather than Habitat. The 1st mortgages are an asset of Habitat and have been disclosed on the financial statements as an asset.

The 2nd and 3rd mortgages are non-interest bearing and are secured by a charge on specific property. Repayment is contingent upon the occurrence of certain events and may be forgiven upon full receipt of the 1st mortgage. The forgivable portion of any mortgage is valued at nil as the likelihood of collection is remote considering the forgivable feature. In the year that the forgivable portions are required to be paid, the previously forgivable portion will be recognized as mortgage realization.

Where 3rd mortgages are executed, a 2nd mortgage on the home is held by Niagara Regional Housing.

Mortgages receivable are a financial asset measured at amortized cost using the effective interest rate method. The amortized cost has been calculated using a discount rate equal to the current inflation rate of approximately 2%. As the Organization is not seeking a rate of return on its investment in mortgages receivable, the only concern is the impact of inflation on its future cash receipts from repayment of the mortgages receivable and therefore, the current inflation rate is considered to be an appropriate discount rate.

The fair value of mortgages can be summarized as follows:

| | <u>2017</u> | | <u>2016</u> |
|------------------------------------|---------------------|------------------------------|-----------------------|
| | <u>Face Value</u> | <u>Unamortized Discounts</u> | <u>Amortized Cost</u> |
| Balance, beginning of year | <u>\$ 5,300,142</u> | <u>\$ (1,782,395)</u> | <u>\$ 3,517,747</u> |
| Add : new 1st mortgages | 1,384,244 | (287,724) | 1,096,520 |
| : new 2nd & 3rd mortgages | 169,694 | (42,895) | 126,799 |
| Less : repayments | (451,047) | 145,940 | (305,107) |
| : recovery of forgivable mortgages | (28,450) | 28,450 | - |
| : changes to payment terms | - | 203,897 | 203,897 |
| | <u>1,074,441</u> | <u>47,668</u> | <u>1,122,109</u> |
| Balance, end of year | <u>\$ 6,374,583</u> | <u>\$ (1,734,727)</u> | <u>\$ 4,639,856</u> |
| | | | <u>\$ 3,517,747</u> |

HABITAT FOR HUMANITY NIAGARANOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 2017**3. PROPERTIES HELD FOR HOME DEVELOPMENT**

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|-------------------|-------------------|
| 4th Avenue, Niagara Falls | \$ 65,335 | \$ - |
| Adams Avenue, Niagara Falls | 223,806 | - |
| Afton Avenue, Welland | 211,657 | 205,897 |
| Baker Road, Grimsby | - | 228,545 |
| Bellevue Street, Niagara Falls | 30,185 | 30,000 |
| Cedar Street, Niagara Falls | 125,235 | - |
| Crescent Road, Fort Erie | - | 35,480 |
| Grey Avenue, Niagara Falls | - | 75,237 |
| Mitchell Street, Port Colborne | 20,093 | 19,152 |
| Pilkington Street, Thorold | 1 | 1 |
| Sauer Avenue, Welland | - | 48,638 |
| Tasker Street, St. Catharines | 291,941 | - |
| Building materials | 14,047 | 21,547 |
| | <u>\$ 982,300</u> | <u>\$ 664,497</u> |

4. FIXED ASSETS

| | <u>December 31, 2017</u> | | | <u>2016</u> |
|-------------------------|--------------------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Computers | \$ 163,097 | \$ 123,339 | \$ 39,758 | \$ 20,935 |
| Furniture and equipment | 89,849 | 68,100 | 21,749 | 19,608 |
| Leasehold improvements | 852,042 | 325,941 | 526,101 | 253,206 |
| Lift truck | 26,764 | 21,314 | 5,450 | 4,757 |
| Vehicles | 118,848 | 94,260 | 24,588 | 35,126 |
| | <u>\$ 1,250,600</u> | <u>\$ 632,954</u> | <u>\$ 617,646</u> | <u>\$ 333,632</u> |

5. BANK INDEBTEDNESS

The Organization has authorized operating lines of credit totalling \$1,050,000 and a demand loan to a maximum of \$1,000,000 with the Meridian Credit Union which bear interest at prime plus 1.0 % and is secured by a general security agreement, assignment of various first mortgages receivable which at December 31, 2017 total \$2,484,809 (Face value = \$3,071,531), collateral mortgages totalling \$235,000 on the properties held for home development at Afton Avenue, Welland, and assignment of comprehensive general liability insurance and fire insurance.

Subsequently on January 23, 2018, a new credit agreement with the Meridian Credit Union became effective with authorized operating lines of credit totalling \$700,000 and a demand loan to a maximum of \$886,000 with the Meridian Credit Union which bear interest at prime plus 1.0 % and is secured by a general security agreement, assignment of various first mortgages receivable which at December 31, 2017 total \$3,791,206 (Face value = \$4,660,201), collateral mortgages totalling \$532,500 on various properties held for home development, and assignment of comprehensive general liability insurance and fire insurance.

An additional operating line of credit of \$1,500,000 will be available upon the Organization satisfying certain conditions, and additional security will be added on newly acquired land purchased with these funds.

HABITAT FOR HUMANITY NIAGARANOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 2017**6. BANK DEMAND LOAN**

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Meridian Credit Union, demand loan, payable in principal monthly instalments totalling \$4,027, plus interest at prime plus 1.0%, due on demand. | \$ 880,000 | \$ 952,000 |
| Less amount due within one year | <u>48,324</u> | <u>50,004</u> |
| | <u>\$ 831,676</u> | <u>\$ 901,996</u> |

The bank demand loan is secured together with the line of credit as described in note 5.

7. LONG-TERM DEBT

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Private loan Payable in three equal annual instalments commencing February 2018, 2019 and 2020, including interest at 2.5% | \$ 325,000 | \$ 100,000 |
| Less principal amounts due within one year | <u>108,333</u> | <u>-</u> |
| | <u>\$ 216,667</u> | <u>\$ 100,000</u> |

8. COMMITMENTS

The Organization leases 16,400 square feet at 150 Bunting Road, St. Catharines, Ontario under a ten (10) year lease that expires on June 30, 2020, 10,000 square feet at 2499 Highway 20 East, Fonthill, Ontario under a ten (10) year lease that expires on February 28, 2025, and 19,100 square feet at 185 South Service Road, Grimsby, Ontario under a ten year lease that expires on November 30, 2026. Minimum lease payments are as follows:

| | |
|------------|---------------------|
| 2018 | \$ 257,017 |
| 2019 | 261,950 |
| 2020 | 214,833 |
| 2021 | 169,725 |
| 2022 | 189,733 |
| Thereafter | <u>631,754</u> |
| | <u>\$ 1,725,012</u> |

Common charges are paid in addition to the minimum lease payments. These payments are estimated to total \$127,603 for the 2018 year.

HABITAT FOR HUMANITY NIAGARA**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2017****8. COMMITMENTS (continued)**

The Organization leases a vehicle from Ryder Truck Rental Canada Ltd. under a five (5) year lease that expires in April, 2020. Minimum lease payments are as follows:

| | | |
|------|----|---------------|
| 2018 | \$ | 14,700 |
| 2019 | | 14,700 |
| 2020 | | <u>3,675</u> |
| | \$ | <u>33,075</u> |

9. HABITAT FOR HUMANITY CANADA

The Organization is an affiliate of Habitat for Humanity Canada ("HFHC"). There is a covenant agreement between HFHC and all Canadian affiliates whereby HFHC provides administrative and marketing support, training opportunities and gift coordination. Pursuant to its affiliate covenant agreement with HFHC, the Organization contributes a tithe for international work. Habitat also pays an affiliation fee consisting of an annual fee, a percentage on all nationally procured gifts in kind used for homebuilding or Restore inventory, and a percentage of gross Restore outlet sales.

10. ALLOCATION OF EXPENSES

During the current year, salaries and benefits expenses have been allocated to the cost of properties held for home development and fixed assets as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|------------------|------------------|
| Baker Road, Grimsby | \$ 17,910 | \$ - |
| Bald Street, Welland | - | 1,255 |
| Bell Street, Port Colborne | - | 26,103 |
| Caledonia Street, Niagara Falls | - | 14,013 |
| Crescent Road, Fort Erie | 12,027 | 17,557 |
| Grey Ave, Niagara Falls | 40,756 | - |
| Martin Street, Welland | - | 18,428 |
| Myrtle Avenue, Welland | - | 202 |
| Sauer Avenue, Welland | 16,467 | - |
| Tasker Street, St. Catharines | - | 729 |
| Allocated to cost of sales | <u>87,160</u> | <u>78,287</u> |
| Leasehold improvements | <u>12,677</u> | <u>-</u> |
| Total salaries and benefits allocated | <u>\$ 99,837</u> | <u>\$ 78,287</u> |

HABITAT FOR HUMANITY NIAGARA**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2017****11. FINANCIAL RISKS**

The significant financial risks to which the Organization is exposed are credit risk, interest rate risk and liquidity risk. There have been no changes to risk exposures from the prior year.

Credit Risk Exposure

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 in the event of non-performance by counterparties in connection with its accounts receivable and mortgages receivable. Management believes that the Organization's first charge mortgage held on the related properties mitigates the risk of financial loss.

Interest Rate Risk Exposure

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 is exposed to interest rate risk on its bank indebtedness and demand loan, which bear interest at variable rates.

Liquidity Risk Exposure

Liquidity risk is the risk that the Organization will not be able to meet its obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Organization's cash requirements. Additional cash requirements are met with the use of available bank borrowings as described in note 5.

HABITAT FOR HUMANITY NIAGARASUPPLEMENTARY CORPORATE INFORMATIONDECEMBER 31, 2017**HEAD OFFICE:**

150 Bunting Road
 St. Catharines, Ontario
 L2P 3G5

DIRECTORS AND OFFICERS:

| | |
|--------------------|---------------|
| Nick Golia | - Chairperson |
| Peter McConnell | - Past Chair |
| Paul Miller | - Vice Chair |
| Jeff McLean | - Treasurer |
| Frank Demizio | - Secretary |
| Jonathan Fast | |
| Cindi Loforti Lepp | |
| Ross McCallum | |
| Carl Ryan | |
| Stephanie Sabourin | |
| Andy Snazyk | |
| Dave Weins | |

CHIEF EXECUTIVE OFFICER:

Alastair Davis

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