

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Financial Statements
For the Year Ended December 31, 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements for the year ended December 31, 2018 are the responsibility of management and have been reviewed and approved by senior management. The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and of necessity, include some amounts that are based on estimates and judgment.

To discharge its responsibility for the integrity and objectivity of financial reporting, management maintains systems of financial management and internal control which give consideration to costs, benefits and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of donations and other revenue.
- safeguard the assets and properties under Habitat for Humanity - Edmonton Society's administration.

Habitat for Humanity - Edmonton Society carries out its responsibility for the financial statements through its Board of Directors. The Board of Directors meets with management and KPMG LLP to review financial matters, and to approve the financial statements upon finalization of the audit. KPMG LLP has free access to the Board of Directors.

KPMG LLP provides an independent audit of the financial statements. Their examination is conducted in accordance with Canadian Generally Accepted Auditing Standards and includes tests and procedures, which allow them to report on the fairness of the financial statements prepared by management.



Karen Stone
President and Chief Executive Officer
Habitat for Humanity – Edmonton Society

March 20th 2019



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INDEPENDENT AUDITORS' REPORT

To the Directors of Habitat for Humanity – Edmonton Society

Qualified Opinion

We have audited the financial statements of Habitat for Humanity – Edmonton Society, which comprise:

- the statement of financial position as at end of December 31, 2018
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the “financial statements”).

In our opinion, except for the possible effects of the matter described in the “***Basis for Qualified Opinion***” section of our auditors’ report, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity – Edmonton Society as at end of December 31, 2018, and its results of operations and its cash for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many not-for-profit organizations, Habitat for Humanity – Edmonton Society derives revenue from in-kind donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verifications of these revenues was limited to the amounts recorded in the records of Habitat for Humanity – Edmonton Society.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets and unrestricted net assets reported in the statement of financial position as at December 31, 2018
- the in-kind donation revenues and excess of revenues over expenses reported in that statement of operations for the year then ended
- the excess of revenues over expenses reported in the statement of cash flows for the year then ended

Our opinion on the financial statements for the year ended December 31, 2018 was qualified accordingly because of the possible effects of this limitation in scope.



We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “**Auditors’ Responsibilities for the Audit of the Financial Statements**” section of our auditors’ report.

We are independent of Habitat for Humanity – Edmonton Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing Habitat for Humanity – Edmonton Society’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Habitat for Humanity – Edmonton Society’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Habitat for Humanity – Edmonton Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Habitat for Humanity – Edmonton Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line.

Chartered Professional Accountants

Edmonton, Canada

March 26, 2019

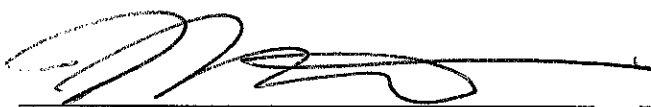
HABITAT FOR HUMANITY – EDMONTON SOCIETY
Table of Contents
December 31, 2018

	<u>PAGE</u>
Statement of Financial Position	1
Statement of Operations	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-17
Schedule 1 - Schedule of Homes Held for Sale	18
Schedule 2 – Schedule of Program Expenses	19
Schedule 3 – Schedule of ReStore Operations	20
Schedule 4 – Schedule of General and Administrative Expenses	21

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Statement of Financial Position
December 31, 2018 with comparative information for 2017

	2018	2017
ASSETS		
Current assets		
Cash	\$ 43,490	\$ 47,901
Accounts receivable (Note 3)	1,176,718	1,753,927
Other current assets (Note 4)	863,165	1,087,334
Mortgages receivable, current portion (Note 5)	1,587,362	1,594,071
Homes held for sale (Note 7)	33,533,229	31,837,167
Construction in progress (Note 7)	6,955,316	11,242,397
Land for future builds (Note 7)	1,300,005	1,381,556
	<u>45,459,285</u>	<u>48,944,353</u>
Mortgages receivable (Note 5)	45,184,422	42,120,169
Capital assets (Note 8)	1,790,036	2,095,773
	<u>\$ 92,433,743</u>	<u>\$ 93,160,295</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Bank overdraft (Note 9)	\$ 3,377,465	\$ 1,984,538
Accounts payable and accrued liabilities	788,523	985,407
Amounts held on behalf of Partner Families	504,560	481,099
Tenancy deposits	858,348	627,073
Due to Habitat for Humanity affiliates (Note 18)	-	164,063
Debt (Note 9)	21,575,836	23,274,685
Deferred contributions (Note 10)	792,708	1,139,672
Deferred capital contributions, current portion (Note 11)	18,882	35,122
	<u>27,916,322</u>	<u>28,691,659</u>
Deferred capital contributions (Note 11)	-	18,882
	<u>27,916,322</u>	<u>28,710,541</u>
NET ASSETS		
Invested in capital assets	1,771,154	2,041,769
Invested in programs	62,746,267	62,407,985
	<u>64,517,421</u>	<u>64,449,754</u>
	<u>\$ 92,433,743</u>	<u>\$ 93,160,295</u>

Commitments (Note 12)
See accompanying notes to the financial statements.



Chair, Board of Directors



Chair, Audit & Risk Committee

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Statement of Operations
Year ended December 31, 2018 with comparative information for 2017

	2018	2017
REVENUE		
Government grants <i>(Note 10, 13)</i>	\$ 3,537,841	\$ 5,222,851
Other donations and fundraising	2,499,766	5,105,135
In kind donations <i>(Note 14)</i>	832,480	4,131,699
Other income	204,294	272,046
	<u>7,074,381</u>	<u>14,731,731</u>
SALES AND COST OF SALES		
Home sales	12,223,315	7,407,690
Mortgage discount income <i>(Note 5)</i>	1,780,614	2,407,953
Cost of home sales and building operations	(14,537,755)	(8,965,116)
Mortgage discount expense <i>(Note 5)</i>	(2,705,561)	(1,836,541)
	<u>(3,239,387)</u>	<u>(986,014)</u>
PROGRAM EXPENSES <i>Schedule 2</i>		
Interest on bank overdraft and debt	(890,887)	(815,509)
Family and community support	(817,951)	(821,333)
Capacity building	(575,357)	(501,141)
Volunteer support	(445,472)	(516,620)
Carter Work Project	-	(1,083,153)
	<u>(2,729,667)</u>	<u>(3,737,756)</u>
NET PROGRAM ACTIVITY	\$ 1,105,327	\$ 10,007,961
RESTORE OPERATIONS <i>Schedule 3</i>		
Revenue	4,609,363	3,720,452
Expenses	(3,129,579)	(2,728,341)
	<u>1,479,784</u>	<u>992,111</u>
PREFAB CONTRIBUTION CENTRE		
Revenue	154,052	133,561
Expenses	(91,954)	(102,210)
	<u>62,098</u>	<u>31,351</u>
GENERAL AND ADMINISTRATIVE <i>Schedule 4</i>	<u>(2,579,542)</u>	<u>(2,344,367)</u>
EXCESS OF REVENUE OVER EXPENSES	\$ 67,667	\$ 8,687,056

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Statement of Changes in Net Assets
Year Ended December 31, 2018 with comparative information for 2017

	Invested in Capital Assets	Invested in Programs	2018	2017
Balance, beginning of year	\$ 2,041,769	\$ 62,407,985	\$ 64,449,754	\$ 55,762,698
Excess of revenue over expenses	35,122	32,545	67,667	8,687,056
Investment in capital assets	16,543	(16,543)	-	-
Amortization of capital assets	(322,280)	322,280	-	-
Balance, end of year	\$ 1,771,154	\$ 62,746,267	\$ 64,517,421	\$ 64,449,754

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Statement of Cash Flows
Year Ended December 31, 2018 with comparative information for 2017

	<u>2018</u>	<u>2017</u>
CASH PROVIDED BY (USED IN):		
OPERATIONS:		
Excess of revenue over expenses	\$ 67,667	\$ 8,687,056
Non-cash items:		
Amortization of capital assets	322,280	358,685
Amortization of deferred capital contributions	(35,122)	(43,827)
	<u>354,825</u>	<u>9,001,914</u>
Change in non-cash working capital:		
Decrease (increase) in accounts receivable	577,209	(661,370)
Decrease in other current assets	224,169	171,419
Increase in homes held for sale	(1,696,062)	(7,561,862)
Decrease (increase) in construction in progress	4,287,081	(5,948,447)
Decrease in land for future builds	81,551	2,377,231
(Decrease) accounts payable and accrued liabilities	(196,884)	(539,868)
Increase in amounts held on behalf of Partner Families	23,461	44,252
Increase in tenancy deposits	231,275	275,162
(Decrease) in due to affiliates	(164,063)	(58,125)
(Decrease) increase in deferred contributions	(346,964)	(1,647,248)
	<u>3,375,598</u>	<u>(4,546,942)</u>
INVESTMENTS:		
(Increase) decrease in mortgage receivable	(3,057,544)	407,767
Purchase of capital assets	(16,543)	(73,073)
	<u>(3,074,087)</u>	<u>334,694</u>
FINANCING:		
Advance (repayment) proceeds of bank overdraft	1,392,927	(1,282,309)
Proceeds from debt	-	5,900,000
Repayments of debt principal	(1,698,849)	(830,851)
	<u>(305,922)</u>	<u>3,786,840</u>
Decrease in cash	(4,411)	(425,408)
Cash, beginning of year	47,901	473,309
Cash, end of year	\$ 43,490	\$ 47,901

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY – EDMONTON SOCIETY

Statement of Cash Flows

Year Ended December 31, 2018 with comparative information for 2017

1. PURPOSE OF THE SOCIETY

Habitat for Humanity – Edmonton Society (the “Society”) is a housing charity operating in affiliation with Habitat for Humanity Canada and Habitat for Humanity International. The Society’s vision is to see a world where everyone has a safe and decent place to live.

The Society operates throughout northern Alberta with a mission to mobilize volunteers and community partners in building affordable housing and promoting home ownership through interest free mortgages as a means to breaking the cycle of poverty. In order to support administrative and fundraising efforts, the Society also sells donated goods and materials at stores called ReStore. During the year, the Society continued using the Prefab Contribution Centre excess capacity to build walls and floors for third parties.

The Society is incorporated under the *Societies Act* of the Province of Alberta, is a registered charity with Canada Revenue Agency and is not subject to income taxes.

The Society’s homeownership program is established as follows:

- a) A family who meets the eligibility criteria is given occupancy to a Society owned home, making them a Partner Family;
- b) A Partner Family is considered a tenant in the first year of occupancy until they complete the requirements to become a home owner. During this phase, monthly tenancy deposits are paid to the Society. Tenancy deposits become Partner Family home equity when all requirements for home ownership are fulfilled and a mortgage is established;
- c) A Partner Family’s monthly payments to the Society include amounts for home insurance, condo fees and property taxes which are remitted annually by the Society;
- d) First and second mortgages are held by the Society and are interest-free for a Partner Family;
- e) If a Partner Family leaves the program, the Society holds a right of first refusal to purchase the home sold to a Partner Family in the cases when the home was purchased in 2006 or later. When a home is repurchased by the Society, all home equity earned (tenancy deposits, mortgage payments and security deposits) is repaid to the Partner Family;
- f) The cumulative payments made by Partner Families either in tenancy or in mortgage are considered to be part of the Fund for Humanity. These funds, less any amounts used to repay Partner Family equity on repurchased homes are reinvested in the program to build or renovate homes.

The Society incurs various costs, which are expensed as incurred, as part of both its construction and complementary programs to support the homeownership mission as follows:

- g) In 2017, 150 Habitat homes were built across Canada to commemorate Canada’s 150th anniversary as part of the 34th annual Carter Work Project. As part of the winning bid, the Society was allocated 75 homes. During the week of July 9 – 14, 2017, the Society, along with former United States President Jimmy Carter and former First Lady Rosalynn Carter, hosted volunteers from around the world at the Carter Work Project build sites in Edmonton and Fort Saskatchewan. The one-time costs associated with this event, including food, tools, gala, opening and closing ceremonies, and the significant required build site accommodations to support the volunteers, resulted in the largest fundraising campaign in the Society’s history. A significant portion of the cost of this event was directly funded by participant fees charged to volunteers and through in-kind donations.

HABITAT FOR HUMANITY – EDMONTON SOCIETY

Notes to Financial Statements

Year ended December 31, 2018

1. PURPOSE OF THE SOCIETY (Continued)

- h) As our primary mission to serve families, the Society operates a Family Services department which supports Partner Families from selection through the duration of the mortgages. This department is responsible for numerous family related services such as family selection, homeownership training (covering budgeting, home maintenance and other related aspects of homeownership) and collection of payments to the Fund for Humanity;
- i) In rural communities, committees are formed to facilitate the family selection process, the day-to-day build activities and local fundraising;
- j) For each family served in a year, \$2,500 is allocated through Habitat for Humanity Canada ("HfHC") as a tithe to build a home elsewhere in the world. The Society uses HfHC's definition of family served which includes new homes and repurchased homes where the original family was in the home for more than two years;
- k) As part of the Society's strategic plan to serve families, the use of debt to help fund the construction of new homes is one of the four funding sources (which also include government funding, business/individual donations and the Fund for Humanity).
- l) Volunteers are mobilized in all facets of the organization including the building of homes, the operation of two social enterprises (Prefab Contribution Centre and ReStore), the Partner Family selection process and other ancillary tasks such as administration;
- m) The Society's Prefab Shop provides a safe and efficient construction environment where trained construction staff lead volunteers in the construction of walls, floors and other wood based home components. Costs of using the facility are directly allocated to builds and any excess capacity is expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The financial statements are prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

b) Controlled Entities

The eleven condominium corporations controlled by the Society are not consolidated in these statements.

c) Cash

Cash consists of cash on hand.

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Notes to Financial Statements
Year ended December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Mortgages Receivable

Interest free first mortgages are provided to Partner Families.

First mortgages are originally recognized at fair market value based on the Society's borrowing rate in the year of inception. In subsequent years, first mortgage receivables are recognized at amortized cost by means of the recognition of a deemed interest income, calculated using a declining balance method over the life of the mortgage.

Second mortgages include terms for forgiveness, which are contingent upon the occurrence of certain future events, including the length of occupancy by the Partner Family. Due to the uncertainty of collection, second mortgages are originally recognized at a fair value of zero. If conditions arise that require forgivable portions to be repaid, or the right to forgiveness has been forfeited, the previously forgivable portion will be recognized as revenue.

e) Homes Held for Sale

Homes held for sale are reported at the lower of cost or net realizable value. Net realizable value is determined as market value (appraised value). Any excess costs over net realizable value is expensed in the year in which the impairment is identified.

f) Construction in Progress

Construction in progress comprises land, materials, labour, and other manufacturing costs accumulated to date for homes not yet completed. Construction in progress is valued at the lower of cost or net realizable value and any excess costs over net realizable value is expensed in the year in which the impairment is identified.

g) Land for Future Builds

Land for future builds includes fully serviced lots and raw land purchased for development. Land is valued at the lower of cost or net realizable value and includes lot costs, undeveloped land costs, underground servicing, and rezoning fees.

h) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over the assets' estimated useful lives as follows:

Building, Habitat Centre	25 years
Construction equipment	5 years
Leasehold improvements	lease term
Automotive equipment	5 years
Office equipment	5 years
Retail equipment	5 years

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Notes to Financial Statements
Year ended December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Amounts Held on Behalf of Partner Families

Property tax and home insurance premiums are collected monthly in advance from Partner Families and remitted annually by the Society.

j) Tenant Deposits

Security deposits and monthly tenancy payments received from Partner Families while in the tenancy phase are offset against the sales price of the home at the time a first mortgage is granted by the Society.

k) Net Assets Invested in Programs

In accordance with the Society's mission, all net assets not invested in capital assets are invested in program delivery.

l) Revenue Recognition

The Society follows the deferral method of accounting for contributions, which include donations and government grants. Restricted contributions are recognized as revenue during the year in which the related construction costs are incurred for projects under development. Unrestricted contributions and pledges are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted capital contributions are deferred and amortized into revenue at the corresponding amortization rate of the related capital assets.

Home sales are recognized at the date of the first mortgage, at which time all the rights and responsibilities of ownership are transferred to partner families.

ReStore sales consist entirely of donated merchandise. Revenue is recognized when the merchandise is sold.

Prefab Contribution Centre sales are recognized when the merchandise is sold.

m) Donated Goods and Services

Goods donated to ReStore are not recorded as inventory in these financial statements because fair value cannot be reasonably determined.

Other donated goods or services are recorded when fair value can be reasonably estimated.

A substantial number of volunteers make significant contributions of their time to the Society; the fair value of this contributed time is not quantifiable and thus is not reflected in these financial statements.

n) Financial Instruments

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted

HABITAT FOR HUMANITY – EDMONTON SOCIETY

Notes to Financial Statements

Year ended December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment at the end of the fiscal year. Where an impairment is identified, the Society determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

o) Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the year. Actual results could differ from these estimates.

p) Future Accounting Standards Changes

The following summarizes some of the current developments in the Canadian accounting standards for not-for-profit organizations that are relevant to the Society. In 2019, the Society will continue to assess impact and prepare for the adoption of these standards.

Standard	Name	Effective date*
4433	Tangible capital assets held by not-for-profit organizations	January 1, 2019
4434	Intangible assets held by not-for-profit organizations	January 1, 2019
4441	Collections held by not-for-profit organizations	January 1, 2019

*Fiscal years beginning on or after

3. ACCOUNTS RECEIVABLE

	2018	2017
Grants receivable	\$ 862,663	\$ 1,309,284
Trade receivables	178,771	226,602
Other receivables	103,637	210,605
Due from Condominium Corporations (Note 17)	31,647	7,436
	<u>\$ 1,176,718</u>	<u>\$ 1,753,927</u>

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Notes to Financial Statements
Year ended December 31, 2018

4. OTHER CURRENT ASSETS

	2018	2017
Consumable inventory	\$ 380,162	\$ 516,879
Prepaid rent and insurance	200,856	182,308
Laurel land deposit	200,000	200,000
Other deposits	82,147	188,147
	<u>\$ 863,165</u>	<u>\$ 1,087,334</u>

5. MORTGAGES RECEIVABLE

	2018	2017
Gross mortgages receivable	\$ 59,499,711	\$ 55,517,219
Unamortized mortgage discount	<u>(12,727,927)</u>	<u>(11,802,979)</u>
Present value of mortgages receivable	46,771,784	43,714,240
Less: Current portion	<u>(1,587,362)</u>	<u>(1,594,071)</u>
Long-term portion	<u>\$ 45,184,422</u>	<u>\$ 42,120,169</u>

During 2018, 42 new mortgages (2017 - 29 new mortgages) were signed with associated home costs of \$10,652,032 (2017 – \$7,088,377).

At December 31, 2018, 302 (2017 - 280) first mortgages remain outstanding.

A mortgage discount expense of \$2,705,561 (2017 - \$1,836,541) was recognized on new mortgages during the year. Mortgage interest income during the year is \$1,780,614 (2017 - \$2,407,953).

In 2018 the Society sold 6 (2017 – 0) homes on the open market for \$1,427,000 (2017 – \$0) with associated cost of sales of \$1,507,000 (2017 – \$0).

6. SECOND MORTGAGES

Second mortgages, representing 20% of the appraised value of homes sold, relate to properties sold by the Society from 1998 to 2005. Repayments of second mortgages, based on the resale of the home, are governed by the following terms: within the first 12 years of issuance, full repayment is required; from 12 years to 25 years a predetermined discounted repayment is required; and after 25 years the mortgage is fully forgiven.

In 2017, additional second mortgages were acquired, totaling \$791,666 where repayment is forgiven between 30 to 50 years, or when the first mortgage balance is completely repaid.

At December 31, 2018, 41 (2017 - 44) second mortgages remain totaling \$1,498,094 (2017 - \$1,546,444). These balances are reflected at a fair value of \$0.

During 2018 there were 0 (2017 - 0) second mortgage repayments and 3 (2017 – 0) forgiven second mortgage.

HABITAT FOR HUMANITY – EDMONTON SOCIETY

Notes to Financial Statements

Year ended December 31, 2018

7. HOME ASSET INVENTORY

	2018	2017
Houses held for sale (<i>Schedule 1</i>)	138 units	133 units
Homes under construction	30 units	61 units
Land for future builds	21 units	22 units

8. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
			2018	2017
Land	\$ 235,000	\$ -	\$ 235,000	\$ 235,000
Building, Habitat Centre	2,220,105	859,057	1,361,048	1,441,060
Construction equipment	673,962	625,862	48,100	169,525
Leasehold improvements	464,456	421,717	42,739	100,338
Automotive equipment	544,607	508,835	35,772	70,294
Office equipment	487,301	457,347	29,954	41,672
Retail equipment	197,313	159,890	37,423	37,884
	<u>\$ 4,822,744</u>	<u>\$ 3,032,708</u>	<u>\$ 1,790,036</u>	<u>\$ 2,095,773</u>

Amortization of construction equipment and equipment under capital lease during the year of \$73,672 (2017 - \$87,479) is recognized as part of the total cost of home sales and building operations and thus is not separately reflected in the Statement of Operations. Total amortization recognized during the year is \$322,280 (2017 - \$358,685).

9. BANK OVERDRAFT AND DEBT

Amounts outstanding on authorized loan facilities with Canadian Western Bank ("CWB"), totaling \$34,000,000 (2017 - \$34,000,000) are as follows:

	2018	2017
Demand revolving reducing fixed term loan, authorized \$27,500,000, interest at 0.50% per annum above CWB's prime lending rate, amortization to a maximum of 20 years, secured by demand promissory notes and assignment of specific Partner Family mortgages and by a General Security Agreement covering all property.	\$ 21,575,836	\$ 23,274,685
Demand overdraft, authorized \$6,500,000, interest at 0.50% per annum above CWB's prime lending rate paid monthly, secured assignment of specific Partner Family mortgages and by a General Security Agreement covering all property.	3,377,465	1,984,538
	<u>\$ 24,953,301</u>	<u>\$ 25,259,223</u>

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Notes to Financial Statements
Year ended December 31, 2018

9. BANK OVERDRAFT AND DEBT (Continued)

	<u>2018</u>	<u>2017</u>
Bank overdraft	\$ 3,377,465	\$ 1,984,538
Current portion of debt	<u>21,575,836</u>	<u>23,274,685</u>
	<u>\$ 24,953,301</u>	<u>\$ 25,259,223</u>

The funds available under the demand overdraft facility are reduced by any outstanding letters of credit issued pursuant to this facility agreement. At December 31, 2018, the Society had outstanding letters of credit, totaling \$1,098,435 (2017 - \$1,184,000).

The following financial covenants must be maintained:

- i. Cash flow coverage ratio of not less than 1.30X
- ii. Debt to tangible net worth ratio not greater than 0.75:1:00
- iii. Tangible net worth (net assets) of not less than \$35,000,000

The level of financing under the demand revolving loan and the demand overdraft shall at no time exceed the aggregate of the following:

- i. 60% of the value (lesser of mortgage amount or appraised value) of all assigned, current mortgages receivable in the Greater Edmonton Area;
- ii. 50% of the value (lesser of mortgage amount or appraised value) of all assigned, current mortgages receivable outside of the Greater Edmonton Area.
- iii. 50% of the appraised value of land held for future builds
- iv. 65% of the appraised value of houses held for sale in the Greater Edmonton Area
- v. 50% of the appraised value of houses held for sale outside the Greater Edmonton Area
- vi. 65% of the appraised value of the Habitat Centre

As at December 31, 2018, the Society is in compliance with the terms and covenants in relation to its debt.

Management does not believe that the demand features of the demand revolving reducing fixed term loan will be exercised. Assuming payment of the demand revolving fixed term loan is not demanded, scheduled principal payments required for the next five years are due as follows:

2019	\$ 927,234
2020	969,348
2021	1,013,374
2022	1,059,401
2023	1,107,517
Thereafter	<u>16,498,962</u>
	<u>\$ 21,575,836</u>

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Notes to Financial Statements
Year ended December 31, 2018

9. BANK OVERDRAFT AND DEBT (Continued)

Subsequent to year-end, the Society has signed a contract to move its existing CWB debt facility to The Toronto-Dominion Bank. The aggregate facility size remains at \$34,000,000 comprised of a \$6,500,000 demand overdraft and a \$27,500,000 demand revolving fixed term loan, with interest rates at 0.15% per annum above TD Bank's prime lending rate.

10. DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted contributions and grants that were unspent at the year-end.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,139,672	\$ 2,786,920
Contributions	3,220,877	3,575,603
Recognized as revenue (government grants) (Note 13)	(3,537,841)	(5,222,851)
Recognized as revenue (other donations and fundraising)	<u>(30,000)</u>	<u>-</u>
Balance, end of year	<u>\$ 792,708</u>	<u>\$ 1,139,672</u>

11. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent designated donations and grants for capital purchases that were unamortized at the year-end.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 54,004	\$ 97,831
Recognized as other revenue	<u>(35,122)</u>	<u>(43,827)</u>
Balance, end of year	18,882	54,004
Less: Current portion	<u>(18,882)</u>	<u>(35,122)</u>
Long-term portion	<u>\$ -</u>	<u>\$ 18,882</u>

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Notes to Financial Statements
Year ended December 31, 2018

12. COMMITMENTS

Minimum annual base lease payments on five facilities are as follows:

2019	\$	745,755
2020		487,102
2021		490,078
2022		270,107
2023		201,204
Thereafter		<u>720,981</u>
	\$	<u>2,915,227</u>

Subsequent to year-end, the Society entered into a new prefab lease with minimum lease payments starting in July 2019 for \$319,254 per year, with an annual donation back of \$130,000.

13. GOVERNMENT GRANT PROGRAM REVENUE

	<u>2018</u>	<u>2017</u>
Government of Alberta grants signed after 2016	\$ 3,527,078	\$ 4,010,333
Government of Alberta grants signed prior to 2016	8,964	119,977
Municipal Grants	1,799	1,029,727
Federal grants	<u>-</u>	<u>62,814</u>
	<u>\$ 3,537,841</u>	<u>\$ 5,222,851</u>

14. IN KIND DONATIONS

	<u>2018</u>	<u>2017</u>
Build and CWP event donations	\$ 832,480	\$ 1,698,402
HfHL asset transfer	<u>-</u>	<u>2,433,297</u>
	<u>\$ 832,480</u>	<u>\$ 4,131,699</u>

At the end of 2018, the Society received in kind donations of \$832,480 (2017 - 11 mortgages and 6 homes held for sale at a total value of \$2,433,297 from the Habitat for Humanity "On The Border" Lloydminster Society (HfHL) which was located in Lloydminster, Saskatchewan. Ten of these homes are located in Saskatchewan, while the remaining 7 are located in Alberta).

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Notes to Financial Statements
Year ended December 31, 2018

15. RIGHT OF FIRST REFUSAL

Beginning in 2006, the Society included a clause in mortgage agreements which allows the Society the right of first refusal to repurchase homes should the Partner Family decide to sell their home. The required buyback payment is calculated as the difference between the original sale price of the home to the Partner Family less any outstanding balances on the related mortgage.

During 2018, there were 20 (2017 – 35) homes repurchased from Partner Families with total accumulated equity of \$837,169 (2017 - \$1,437,591) paid to Partner Families.

16. FUND FOR HUMANITY

The Fund for Humanity represents funds collected from Partner Families through mortgage payments and tenancy prepayments. These funds are reinvested in building or acquiring additional homes. The following amounts were paid into the Fund for Humanity during the year:

	2018	2017
Mortgage payments	\$ 2,679,558	\$ 2,384,576
Rental payments recognized as income	55,300	49,200
Tenancy payments	854,700	651,246
	\$ 3,589,558	\$ 3,085,022

17. CONTROLLED ENTITIES

The revenue and expenses of the eleven condominium corporations controlled by the Society are collected and paid respectively by the Society and reimbursed by each condominium corporation. If one of the condominium corporations does not have sufficient cash to reimburse the Society, the balance remains until sufficient funds exist; interest of 1% is payable on designated balances.

Required maintenance work performed by the Society's construction employees is recorded at cost.

At December 31, 2018, the Society's receivables include \$31,647 due from condominium corporations (2017 - \$7,436).

Combined financial summaries of these controlled entities as at December 31, 2018 and 2017 and for the years then ended are as follows:

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Notes to Financial Statements
Year ended December 31, 2018

17. CONTROLLED ENTITIES (Continued)

	2018	2017
Financial Position		
Total assets	\$ 573,667	\$ 531,235
Total liabilities	31,647	37,076
Total net assets	542,020	494,159
	\$ 573,667	\$ 531,235
Results from Operations		
Total revenue	\$ 682,911	\$ 589,221
Total expenses	(635,050)	(578,850)
Excess of revenue over expenses	\$ 47,861	\$ 10,371
	2018	2017
Cash Flows		
Cash from operations	\$ 387,084	\$ 101,080
Cash used in financing and investing activities	-	-
Increase (decrease) in cash	\$ 387,084	\$ 101,080

18. DUE TO HABITAT FOR HUMANITY AFFILIATES

Government of Alberta - *Affordable Housing Program* funding is administered by the Society for all Habitat for Humanity affiliates in Alberta. Other than the acting as administrator of these funds, there are no financial transactions between the Society and other Habitat for Humanity affiliates in Alberta. The assets, liabilities, net assets, and results of operations for affiliates are not included in these financial statements.

19. GOVERNMENT REMITTANCES

Included in accounts payable and accrued liabilities at year-end are government remittances payable of \$55,528 (2017 - \$36,205).

HABITAT FOR HUMANITY – EDMONTON SOCIETY

Notes to Financial Statements

Year ended December 31, 2018

20. HABITAT FOR HUMANITY CANADA FEES

The Society remits payments for national programs and initiatives based on the number of builds, ReStore sales and nationally administrated gifts in kind. The Society expensed a tithe fee of \$2,500 for 53 (2017 - 51) families served. Fees incurred during the year consists of the following:

	2018	2017
ReStore fees	\$ 198,757	\$ 167,799
Tithe fees	132,500	127,500
Build gift in kind fees	108,665	145,523
Annual fee	50,000	50,000
	<u>\$ 489,922</u>	<u>\$ 490,822</u>

Construction related gift in kind fees are included in the cost of the builds and are not reflected in the Statement of Operations.

21. FINANCIAL RISK

a) Credit Risk

The Society is exposed to credit risk in the event of non-payment of mortgages by Partner Families or from non-collection of accounts receivable. Management believes that the credit risk from non-collection of mortgages is mitigated as the carrying value of the mortgages is secured by the value of the underlying homes. Further, the credit risk arising from non-payment of accounts receivable balances is minimal as the amounts are due primarily from government bodies.

The Society is exposed to real estate fluctuation risks on repurchased homes. The repurchase price is based on the fair market value at the time of the original Partner Family's move in date, while the subsequent sales price to the new Partner Family is based on the current market value.

b) Liquidity Risk

The Society manages its liquidity risk by monitoring forecasted and actual cash flows and financial liabilities.

c) Market Rate Risk

Market risk is comprised of currency risk, interest rate risk and other price risk. The Society is exposed to fluctuations in interest rates as the banking facilities bear interest at variable rates. The mortgages receivable do not bear interest rate risk given that they are non-interest bearing. The Society is not exposed to significant currency risk or other price risk.

22. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform to the current year's presentation.

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Schedule of Homes Held for Sale
Year ended December 31, 2018

SCHEDULE 1

	Number of Homes	2018
NEW HOMES COMPLETED IN 2018		
Edmonton	25	\$ 6,779,675
Fort Saskatchewan	6	2,052,532
Leduc	1	355,877
4910 -54 Ave., Cold Lake	1	270,000
Rocky Mountain House	1	272,000
	<u>34</u>	<u>9,730,084</u>
OTHER HOMES		
Edmonton	28	7,319,523
Fort Saskatchewan	8	2,522,903
Cold Lake	16	2,257,020
St Albert	9	2,184,128
Stony Plain	9	1,676,673
East Prairie	6	1,313,637
Edson	6	1,305,000
Lloydminster	4	810,000
Gift Lake Metis Settlement	3	726,860
Elizabeth Metis Settlement, Cold Lake	3	588,000
Sherwood Park	2	560,093
Leduc	2	513,605
Kikino Metis Settlement	2	422,377
Slave Lake	1	314,000
Spruce Grove	1	310,000
Whitecourt	1	260,168
Vermillion	1	255,000
Hinton	1	241,158
Wetaskiwin	1	223,000
	<u>104</u>	<u>23,803,145</u>
	138	\$ 33,533,229

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Schedule of Program Expenses
Year ended December 31, 2018

SCHEDULE 2

	<u>2018</u>	<u>2017</u>
INTEREST ON BANK OVERDRAFT AND DEBT		
Interest on debt	\$ 819,247	\$ 713,785
Interest on bank overdraft	<u>71,640</u>	<u>101,724</u>
	<u>890,887</u>	<u>815,509</u>
FAMILY AND COMMUNITY SUPPORT		
Salaries and benefits	549,824	557,578
Habitat for Humanity Canada tithe	132,500	127,500
Partner Family home expenses	105,444	109,867
Other	14,971	16,843
Contracted Services	-	10,250
Travel	10,660	5,555
Amortization	4,552	1,240
Allocations to builds	<u>-</u>	<u>(7,500)</u>
	<u>817,951</u>	<u>821,333</u>
CAPACITY BUILDING		
Facilities	438,062	438,365
Salaries and benefits	216,611	252,091
Amortization	69,230	93,991
Allocations to builds	<u>(148,546)</u>	<u>(283,306)</u>
	<u>575,357</u>	<u>501,141</u>
VOLUNTEER SUPPORT		
Salaries and benefits	330,209	388,830
Volunteer meals and other expenses	<u>115,263</u>	<u>127,790</u>
	<u>445,472</u>	<u>516,620</u>
CARTER WORK PROJECT	<u>-</u>	<u>1,083,153</u>
	<u>\$ 2,729,667</u>	<u>\$ 3,737,756</u>

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Schedule of ReStore Operations
Year ended December 31, 2018

	SCHEDULE 3	
	<u>2018</u>	<u>2017</u>
REVENUE		
Sales	\$ 4,524,042	\$ 3,625,115
Donation revenue	46,483	284
STEP Grant Revenue	24,875	-
Other income	<u>13,963</u>	<u>95,053</u>
	<u>4,609,363</u>	<u>3,720,452</u>
EXPENSES		
Salaries and benefits	1,894,477	1,610,869
Facilities	806,153	713,285
Fees and dues	200,765	170,105
Amortization	77,009	68,094
Other	57,233	63,242
Bank charges	48,805	41,402
Travel	25,396	29,260
Advertising and promotion	<u>19,741</u>	<u>32,084</u>
	<u>3,129,579</u>	<u>2,728,341</u>
RESTORE CONTRIBUTION	<u>\$ 1,479,784</u>	<u>\$ 992,111</u>
GROSS MARGIN	<u>32%</u>	<u>27%</u>

HABITAT FOR HUMANITY – EDMONTON SOCIETY
Schedule of General and Administrative Expenses
Year ended December 31, 2018

	SCHEDULE 4	
	<u>2018</u>	<u>2017</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	\$ 1,745,366	\$ 1,721,363
Contracted services	177,504	57,671
Advertising and promotion	166,695	71,495
Professional fees	105,394	72,668
Amortization	97,817	107,881
Facilities	79,931	96,309
Office	64,866	79,612
Habitat for Humanity Canada fees	50,000	50,000
Bank charges	43,897	33,733
Travel	26,644	37,634
Insurance	<u>21,428</u>	<u>16,001</u>
	<u>\$ 2,579,542</u>	<u>\$ 2,344,367</u>

Total 2018 costs of fundraising, exclusive of the Carter Work Project Event Expense of \$551,411 \$ (2017 - \$456,128) are included in General and Administrative Expenses. Excluding wages, a portion of these costs represent in-kind donations.