Habitat For Humanity Ontario Gateway North

Financial Statements

December 31, 2016

Dave Stevenson
Chartered Professional Accountant,
Chartered Accountant

1099 Partridge Lane
Bracebridge, Ontario
P1L 1W8

Tel. 705-645-1361
Cell 705-644-0295
Fax 253-252-8793

E-mail - dave@davestevensonCA.com

Independent Auditor's Report

To the Members of Habitat For Humanity Ontario Gateway North

I have audited the accompanying financial statements of Habitat For Humanity Ontario Gateway North which comprise the statement of financial position as at December 31, 2016 and the statements of operations and changes in net assets and cash flows for the year then ended, and notes, comprising 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, Habitat For Humanity Ontario Gateway North derives revenue from donations and fundraising, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, my verification of these revenues was limited to the amounts recorded in the records of the organization, and I was not able to determine whether any adjustments might be necessary to donation and fundraising revenues, excess of revenues over expenses for the year, assets and net assets.

Qualified Opinion

In my opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of Habitat For Humanity Ontario Gateway North as at December 31, 2016 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.

Dave Stevenson

CPA, CA, Licensed Public Accountant

June 24, 2017

Bracebridge, Ontario

Habitat For Humanity Ontario Gateway North

Statement of Financial Position

December 31		2016		2015
Assets				
Current				
Cash	$	**219,848**	$	167,358
Cash - restricted		**339,031**		571,299
HST and other accounts receivable		**108,226**		97,576
Current portion of mortgages receivable		**112,282**		126,070
Prepaid expenses		**35,783**		41,285
Homes under construction		**458,677**		559,011
		1,273,847		1,562,599
Mortgages receivable (Note 2)		**2,779,729**		2,637,714
Capital assets (Note 3)		**438,884**		475,615
Land held for development		**686,170**		427,580
	$	**5,178,630**	$	5,103,508
Liabilities				
Current				
Bank indebtedness (Note 5)	$	**165,000**	$	-
Accounts payable and accrued liabilities		**158,878**		297,846
Government remittances payable		**22,431**		31,218
Deferred revenues		**339,031**		571,299
Mortgages and loans payable (Note 4)		**204,201**		223,088
		889,541		1,123,451
Deferred contributions relating to capital assets		**90,746**		116,927
		980,287		1,240,378
Commitments (Note 6)				
Net Assets				
Net assets invested in capital assets, properties and mortgages		**3,841,764**		3,314,676
Unrestricted net assets		**356,579**		548,454
		4,198,343		3,863,130
	$	**5,178,630**	$	5,103,508

Approved on behalf of the Board:

_______________ Director

_______________ Director

Habitat For Humanity Ontario Gateway North

Statement of Operations and Changes in Net Assets

For the year ended December 31		2016		2015
Revenues				
Donations, grants and fundraising	**$**	**282,121**	$	111,944
ReStore revenues		**2,234,247**		1,722,303
Less - ReStore expenses		**(1,741,420)**		(1,310,436)
Wage subsidies, rebates and other income		**86,993**		30,459
House sales		**625,000**		616,498
Present value adjustment on first mortgages (Note 2)				
Current year projects		**(200,086)**		(154,283)
Prior years' projects		**69,596**		179,893
		1,356,451		1,196,378
Building costs		**383,840**		371,801
Excess of revenues over expenses before administrative expenses		**972,611**		824,577
Administrative expenses				
Amortization of capital assets		**40,161**		48,416
Amortization of capital grants		**(26,181)**		(32,627)
Fundraising		**19,610**		35,527
Insurance		**842**		1,965
Office and general		**70,660**		47,812
Program expenses		**22,270**		38,388
Professional fees		**23,587**		17,873
Public awareness		**12,022**		5,605
Salaries and benefits		**474,427**		510,009
		637,398		672,968
Excess of revenues over expenses for the year		**335,213**		151,609
Net assets - beginning of year		**3,863,130**		3,711,521
Net assets - end of year	**$**	**4,198,343**	$	3,863,130
Represented by				
Net assets invested in capital assets, properties and mortgages	**$**	**3,841,764**	$	3,314,676
Unrestricted net assets		**356,579**		548,454
	$	**4,198,343**	$	3,863,130

Habitat For Humanity Ontario Gateway North

Statement of Cash Flows

For the year ended December 31		2016		2015
Cash provided by (used in)				
Operating activities				
Excess of revenues over expenses for the year	**$**	**335,213**	$	151,609
Adjustment for				
Amortization of capital assets		**40,161**		48,416
Amortization of capital grants		**(26,181)**		(32,627)
Present value adjustment on first mortgages		**130,490**		(25,610)
		479,683		141,788
Changes in non-cash working capital balances				
HST and other accounts receivables		**(10,650)**		(27,173)
Prepaid expenses		**5,502**		(13,348)
Homes under construction		**100,334**		(166,012)
Accounts payable and accrued liabilities		**(138,966)**		170,854
Government remittances payable		**(8,788)**		9,783
Deferred revenues		**(232,268)**		158,730
		194,847		274,622
Investing activities				
Increase in mortgages receivable		**(569,308)**		(413,614)
Repayments on mortgages receivable		**310,591**		304,096
Decrease (increase) in land held for development		**(258,590)**		43,294
Increase in capital assets		**(3,431)**		(1,320)
		(520,738)		(67,544)
Financing activities				
Decrease in mortgages and loans payable		**(18,887)**		(119,894)
Change in cash and cash equivalents during the year		**(344,778)**		87,184
Cash and cash equivalents - beginning of year		**738,657**		651,473
Cash and cash equivalents - end of year	**$**	**393,879**	$	738,657
Represented by				
Cash	**$**	**219,848**	$	167,358
Cash - restricted		**339,031**		571,299
Bank indebtedness		**(165,000)**		-
	$	**393,879**	$	738,657

The accompanying notes are an integral part of these financial statements

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2016

1. Significant Accounting Policies

Nature of Operations

Habitat For Humanity Ontario Gateway North is a not-for-profit organization that was formed to assist in providing affordable housing in the Ontario Gateway North region. The organization is exempt from income tax in Canada as a registered charitable organization under the Income Tax Act.

The organization is an affiliate of Habitat For Humanity Canada (HFHC). There is a covenant agreement between HFHC and all Canadian affiliates setting out the general operating principles for every autonomous affiliate. Currently, HFHC provides affiliates across the country with administrative and marketing support, training opportunities and gift-in-kind coordination.

Basis of Presentation

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

The accrual basis of accounting is followed. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

Use of Estimates

The preparation of financial statements in accordance 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 at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. The principal estimates used in the preparation of these financial statements are the determination of the discount rate used to calculate the present value adjustments on the mortgages receivable and the estimated useful life of the tangible capital assets. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in operations in the year in which they become known.

Properties Under Development

Land held for development and homes under construction, including property taxes and interest, are capitalized on a project by project basis until the project is complete and the house is sold. Land held for development and homes under construction are recorded at the lower of cost and net realizable value. Net realizable value is defined as the estimated costs to be recovered from partner families upon the sale of the property.

1. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances, investments in money market instruments with maturities of three months or less and bank indebtedness.

Capital Assets

Capital assets are recorded at cost. Amortization based on the estimated useful life of the asset is as follows:

Building	- 5%	diminishing balance
Computer equipment	- 30%	diminishing balance
Furniture and equipment	- 20%	diminishing balance
Transportation equipment	- 30%	diminishing balance

Leasehold improvements are recorded at cost and amortized on a straight line basis over the term of the premises lease.

Capital Grants

Grants received for the purchase of capital assets are deferred and amortized in the statement of operations on the same basis as the related assets.

Revenue Recognition

Contributions received for specific building projects are deferred and recognized as revenue upon completion of the project. Operating grants received are deferred and recognized as revenue as the related expenses are incurred. Unrestricted contributions are recognized as revenue in the year received.

House sales are recognized as revenue on the date that title to the home is transferred to the partner family.

Sale of products at the ReStore are on a non-credit basis only. Revenues are recognized at the time payment is received.

Interest income is recognized as revenue when earned.

Contributed Materials

Donations in kind received by the organization for the purpose of constructing homes and for sale in the ReStores are not recognized in the financial statements.

Contributed Services

A number of volunteers contribute a significant amount of time each year to the organization. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

1. Significant Accounting Policies (continued)

Financial Instruments

The organization's financial instruments consist of cash, HST and other accounts receivable, mortgages receivable, accounts payable, government remittances payable and mortgages and loans payable. Financial instruments are recorded at fair value on initial recognition. The carrying values of the mortgages receivable are adjusted annually as explained in Note 2. HST and other accounts receivable, accounts payable, government remittances payable and mortgages and loans payable are subsequently measured at amortized cost. Financial instruments measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of any write down or subsequent recovery is recognized in net revenue (expense).

2. Mortgages Receivable

	2016	2015
First mortgages receivable at face values	**$ 4,324,242**	$ 4,065,525
Less present value adjustments on first mortgages	**1,432,231**	1,301,741
Present value of first mortgages receivable	**2,892,011**	2,763,784
Less current portion	**112,282**	126,070
	$ 2,779,729	$ 2,637,714

First mortgages receivable are repayable over periods of up to 30 years. The first mortgages are interest-free. Monthly repayments are reviewed annually and adjusted accordingly based on a means test. The first mortgages receivable have been discounted for accounting presentation purposes at 3.74% (2015 - 3.75%) which is based on the estimated interest rate in effect at year-end on similar term, arms-length mortgages.

	2016	2015
Second mortgages receivable at face values	**$ 563,767**	$ 588,579
Less present value adjustments on second mortgages	**563,767**	588,579
Present value of second mortgages receivable	**$ -**	$ -

The second mortgages are also interest-free and the principal amounts are forgivable in the future provided certain conditions are met.

3. Capital Assets

	2016		2015	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 112,438**	**$ -**	$ 112,438	$ -
Building	**332,991**	**39,980**	332,991	24,558
Computer equipment	**15,227**	**13,122**	14,498	12,375
Furniture and equipment	**13,871**	**9,965**	13,871	8,988
Leasehold improvements	**17,027**	**13,374**	44,111	26,857
Store equipment	**2,702**	**270**	-	-
Transportation equipment	**52,967**	**31,628**	52,967	22,483
	$ 547,223	**$ 108,339**	$ 570,876	$ 95,261
Net book value		**$ 438,884**		$ 475,615

4. Mortgages and Loans Payable

	2016	2015
Mortgage payable, secured by land and building in Midland, Ontario and a general security agreement, repayable $1,472 monthly including interest at the TD Bank's prime rate + 1.75%, due on demand	**$ 177,201**	$ 186,088
Mortgage payable, secured by land in Penetanguishene, Ontario, bearing interest at 5% per annum, due on demand	**10,000**	20,000
Loan payable, interest free, due on demand	**17,000**	17,000
	$ 204,201	$ 223,088

5. Bank Indebtedness

	2016	2015
Operating line of credit	**$ 165,000**	$ -

The line of credit, in the maximum amount of $250,000, is secured by a general security agreement constituting a first ranking security interest in all personal property of the organization plus a collateral mortgage in the amount of $305,000 constituting a first fixed charge on the land and improvements at 253 Whitefield Crescent, Midland, Ontario. The line of credit bears interest at the Royal Bank's prime rate plus 0.75%.

6. Commitments

The organization has leased its Bracebridge, Ontario premises for a term of ten years ending March 31, 2018. The minimum lease payments are $121,000 plus HST per annum.

The organization has leased its Huntsville, Ontario ReStore location for a term of five years ending July 31, 2017. The minimum lease payments are $52,052 plus HST per annum. The organization is currently negotiating the renewal of this lease.

The organization has leased its Orillia, Ontario ReStore location for a term of ten years ending June 30, 2026. The minimum lease payments are $62,100 plus HST per annum. The lease also requires the payment of additional rent for taxes, maintenance and insurance in the amount of $16,560 plus HST per annum in the first year subsequent to annual adjustment thereafter. The organization can renew the lease for an additional five year term at the fair market rent rate in effect at the time of renewal.

The organization has leased its Sudbury, Ontario premises for a term of five years ending July 31, 2017. The minimum lease payments are $44,772 plus HST per annum. The lease also requires the payment of additional rent in the amount of $25,584 plus HST per annum in the first year subsequent to annual adjustment thereafter.

The organization has arranged for the lease of different premises in Sudbury, Ontario for a five year term ending July 31, 2022. The minimum lease lease payments on the new lease are $118,100 plus HST per annum. The lease also requires the payment of additional rent for taxes, maintenance and insurance. The organization can renew the lease for an additional five year term at the fair market rent rate in effect at the time of renewal.

The organization has leased a vehicle for a term of sixty months ending March 23, 2018. The minimum annual lease payments until expiry of the lease are $7,892.

7. Financial Instrument Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk arising from its cash and mortgages receivable. The organization reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. The organization reduces its credit risks on mortgages receivable by regularly meeting with the mortgagors and adjusting the mortgage payments based on the mortgagors incomes and ability to pay. There has been no change in the risk from the prior year.

Liquidity Risk

Liquidity risk is the risk that the organization will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements the organization will not have sufficient funds to settle a transaction on the due date or will be forced to sell financial assets at amounts less than there worth or may be unable to settle or recover a financial asset. The organization is exposed to liquidity risk arising from its accounts payable, government remittances payable and mortgages payable. There has been no change in the risk from the prior year.

Cash Flow Risk

The organization receives a substantial portion of its cash flow from various donors and fundraisers and can be subject to significant fluctuations in cash flow. The organization manages these cash flow fluctuations by maintaining adequate cash reserves and by following approved budgets. There has been no change in the risk from the prior year.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest on one of the organization's mortgages payable is variable based on bank prime rates. This exposes the organization to the risk of changing interest rates that may have an effect on its cash flows in future periods. The organization does not use derivative investments to reduce its exposure to interest rate risk. There has been no change in the risk from the prior year.

8. Comparative Figures

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

Habitat For Humanity Ontario Gateway North

Schedule 1 - ReStore Operations - Bracebridge

For the year ended December 31	2016	2015
Revenues		
Sales	$ 732,609	$ 677,259
Other	10,704	11,523
	743,313	688,782
Expenses		
Advertising	24	1,538
Bank charges and credit card fees	4,265	5,131
Habitat for Humanity Canada fees	31,138	23,844
Insurance	4,300	2,370
Office and general	15,527	7,888
Rent	125,768	125,768
Repairs and maintenance	23,581	15,581
Telephone and utilities	17,316	15,536
Transportation	29,511	17,885
Wages, benefits and consulting	232,203	213,069
	483,633	428,610
Excess of revenues over expenses for the year	$ 259,680	$ 260,172

Schedule 2 - ReStore Operations - Huntsville

For the year ended December 31	2016	2015
Revenues		
Sales	$ 501,841	$ 383,262
Other	2,437	1,996
	504,278	385,258
Expenses		
Advertising	113	1,473
Bank charges and credit card fees	2,414	2,501
Habitat for Humanity Canada fees	24,997	12,509
Insurance	1,818	1,775
Office and general	9,649	5,744
Rent	76,120	76,954
Repairs and maintenance	17,979	8,979
Telephone and utilities	40,331	30,469
Transportation	8,103	5,303
Wages, benefits and consulting	168,069	143,131
	349,593	288,838
Excess of revenues over expenses for the year	$ 154,685	$ 96,420

Habitat For Humanity Ontario Gateway North

Schedule 3 - ReStore Operations - Orillia

For the year ended December 31	2016	2015
Revenues		
Sales	$ 377,318	$ 218,541
Other	901	2,164
	378,219	220,705
Expenses		
Advertising	8,014	890
Bank charges and credit card fees	2,240	2,328
Habitat for Humanity Canada fees	20,691	5,318
Insurance	619	639
Office and general	11,303	5,453
Relocation costs	35,158	-
Rent	84,995	72,971
Repairs and maintenance	7,779	1,628
Telephone and utilities	14,908	11,241
Transportation	12,375	4,216
Wages, benefits and consulting	190,742	96,829
	388,824	201,513
Excess (deficiency) of revenues over expenses for the year	$ (10,605)	$ 19,192

Schedule 4 - ReStore Operations - Sudbury

For the year ended December 31	2016	2015
Revenues		
Sales	$ 297,703	$ 202,596
Other	4,134	22,641
	301,837	225,237
Expenses		
Advertising	377	669
Bank charges and credit card fees	1,716	2,083
Habitat for Humanity Canada fees	15,027	6,788
Insurance	1,454	1,744
Office and general	8,907	4,717
Rent	75,638	73,142
Repairs and maintenance	752	11,531
Telephone and utilities	3,027	3,358
Transportation	13,421	8,612
Utilities	10,023	7,648
Wages, benefits and consulting	140,873	111,243
	271,215	231,535
Excess (deficiency) of revenues over expenses for the year	$ 30,622	$ (6,298)

Habitat For Humanity Ontario Gateway North

Schedule 5 - ReStore Operations - Midland

For the year ended December 31	2016	2015
Revenues		
Sales	$ 299,268	$ 199,637
Other	7,332	2,684
	306,600	202,321
Expenses		
Advertising	342	2,902
Bank charges and credit card fees	1,745	2,702
Habitat for Humanity Canada fees	14,125	6,566
Insurance	2,418	2,766
Interest on long-term debt	7,290	4,001
Office and general	7,932	4,623
Property taxes	8,654	6,246
Repairs and maintenance	26,170	11,802
Telephone and utilities	5,644	5,054
Transportation	18,293	6,059
Utilities	7,249	6,131
Wages, benefits and consulting	148,293	101,088
	248,155	159,940
Excess of revenues over expenses for the year	$ 58,445	$ 42,381

Schedule 6 - ReStore Operations - Total

For the year ended December 31	2016	2015
Revenues		
Bracebridge	$ 743,313	$ 688,782
Huntsville	504,278	385,258
Orillia	378,219	220,705
Sudbury	301,837	225,237
Midland	306,600	202,321
	2,234,247	1,722,303
Expenses		
Bracebridge	483,633	428,610
Huntsville	349,593	288,838
Orillia	388,824	201,513
Sudbury	271,215	231,535
Midland	248,155	159,940
	1,741,420	1,310,436
Excess of revenues over expenses for the year	$ 492,827	$ 411,867