

Habitat For Humanity Ontario Gateway North

Financial Statements

December 31, 2017

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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, 2017 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, 2017 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 9, 2018

Bracebridge, Ontario

Habitat For Humanity Ontario Gateway North

Statement of Financial Position

December 31	2017	2016
Assets		
Current		
Cash	\$ 5,686	\$ 219,848
Cash - restricted	397,128	339,031
HST and other accounts receivable	260,574	108,226
Current portion of mortgages receivable	91,279	112,282
Prepaid expenses	106,890	35,783
Homes under construction	999,530	458,677
	<u>1,861,087</u>	<u>1,273,847</u>
Mortgages receivable (Note 2)	2,192,865	2,779,729
Capital assets (Note 3)	145,387	438,884
Land held for development	680,222	686,170
	<u>\$ 4,879,561</u>	<u>\$ 5,178,630</u>

Liabilities

Current		
Bank indebtedness (Note 4)	\$ 195,000	\$ 165,000
Accounts payable and accrued liabilities	151,510	158,880
Government remittances payable	12,294	22,431
Deferred revenues	397,128	339,031
Mortgages and loans payable (Note 5)	17,000	204,201
	<u>772,932</u>	<u>889,543</u>
Deferred contributions relating to capital assets	12,065	90,746
	<u>784,997</u>	<u>980,289</u>

Commitments (Note 6)

Net Assets

Net assets invested in capital assets, properties and mortgages	3,683,090	3,841,764
Unrestricted net assets	411,474	356,577
	<u>4,094,564</u>	<u>4,198,341</u>
	<u>\$ 4,879,561</u>	<u>\$ 5,178,630</u>

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	2017	2016
Revenues		
Donations, grants and fundraising	\$ 291,614	\$ 282,121
ReStore revenues	2,074,197	2,234,247
Less - ReStore expenses	(1,696,661)	(1,741,416)
Wage subsidies, rebates and other income	17,497	86,993
House sales	-	625,000
Present value adjustment on first mortgages (Note 2)		
Current year projects	-	(200,086)
Prior years' projects (deemed interest income)	82,206	66,837
	<u>768,853</u>	<u>1,353,696</u>
Building costs	<u>11,940</u>	<u>383,840</u>
Excess of revenues over expenses before administrative expenses	<u>756,913</u>	<u>969,856</u>
Administrative expenses		
Amortization of capital assets	37,944	40,161
Amortization of capital grants	(5,891)	(26,181)
Fundraising	15,839	19,610
Insurance	6,841	842
Office and general	104,894	58,160
Program expenses	24,095	22,270
Professional fees	44,271	23,587
Public awareness	4,516	12,022
Salaries and benefits	473,793	474,427
Tithing	-	12,500
	<u>706,302</u>	<u>637,398</u>
Excess of revenues over expenses from operations	<u>50,611</u>	<u>332,458</u>
Change in mortgages receivable due to rate changes (Note 2)	(286,854)	2,759
Gain on disposal of capital assets	132,466	-
Excess (deficiency) of revenues over expenses for the year	<u>(103,777)</u>	<u>335,217</u>
Net assets - beginning of year	<u>4,198,341</u>	<u>3,863,124</u>
Net assets - end of year	<u>\$ 4,094,564</u>	<u>\$ 4,198,341</u>
Represented by		
Net assets invested in capital assets, properties and mortgages	\$ 3,683,090	\$ 3,841,764
Unrestricted net assets	411,474	356,577
	<u>\$ 4,094,564</u>	<u>\$ 4,198,341</u>

The accompanying notes are an integral part of these financial statements

Habitat For Humanity Ontario Gateway North

Statement of Cash Flows

For the year ended December 31	2017	2016
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenues over expenses for the year	\$ (103,777)	\$ 335,217
Adjustment for		
Amortization of capital assets	37,944	40,161
Amortization of capital grants	(5,891)	(26,181)
Present value adjustment on first mortgages	204,648	130,490
Gain on disposal of capital assets	(132,466)	-
	<u>458</u>	<u>479,687</u>
Changes in non-cash working capital balances		
HST and other accounts receivables	(152,349)	(10,650)
Prepaid expenses	(71,107)	5,502
Homes under construction	(540,853)	100,334
Accounts payable and accrued liabilities	(7,368)	(138,970)
Government remittances payable	(10,137)	(8,788)
Deferred revenues	58,097	(232,268)
	<u>(723,259)</u>	<u>194,847</u>
Investing activities		
Proceeds on sale of capital assets	450,988	-
Decrease (increase) in land held for development	5,948	(258,590)
Increase in capital assets	(135,760)	(3,431)
	<u>321,176</u>	<u>(262,021)</u>
Financing activities		
Increase in mortgages receivable	-	(569,038)
Repayments on mortgages receivable	403,219	310,321
Decrease in mortgages and loans payable	(187,201)	(18,887)
	<u>216,018</u>	<u>(277,604)</u>
Change in cash and cash equivalents during the year	(186,065)	(344,778)
Cash and cash equivalents - beginning of year	393,879	738,657
Cash and cash equivalents - end of year	\$ 207,814	\$ 393,879
Represented by		
Cash	\$ 5,686	\$ 219,848
Cash - restricted	397,128	339,031
Bank indebtedness	(195,000)	(165,000)
	<u>\$ 207,814</u>	<u>\$ 393,879</u>

The accompanying notes are an integral part of these financial statements

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2017

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.

Measurement Uncertainty

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 and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The significant estimates within these financial statements include the determination of the discount rate used to present value the mortgages receivable and the estimated lives of the capital assets and the amortization rates used to amortize such assets.

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.

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2017

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.

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2017

1. Significant Accounting Policies (continued)

Financial Instruments

The organization initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The organization subsequently measures its financial assets and financial instruments 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).

Financial assets measured at fair value include mortgages receivable.

Financial assets measured at amortized cost include cash and HST and other accounts receivable.

Financial liabilities measured at amortized cost include bank indebtedness, accounts payable and accrued liabilities, government remittances payable and mortgages and loans payable.

2. Mortgages Receivable

	<u>2017</u>	<u>2016</u>
First mortgages receivable at face values	\$ 3,921,023	\$ 4,324,242
Less present value adjustments on first mortgages	<u>1,636,879</u>	<u>1,432,231</u>
Present value of first mortgages receivable	2,284,144	2,892,011
Less current portion	<u>91,279</u>	<u>112,282</u>
	<u>\$ 2,192,865</u>	<u>\$ 2,779,729</u>

First mortgages receivable are repayable over periods of up to 35 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 December 31, 2017 at 4.99% per annum (2016 - 3.74%) which is based on the estimated interest rate in effect at year-end on similar term, arms-length mortgages.

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2017

2. Mortgages Receivable (continued)

	<u>2017</u>	<u>2016</u>
Second mortgages receivable at face values	\$ 494,118	\$ 563,767
Less present value adjustments on second mortgages	<u>494,118</u>	<u>563,767</u>
Present value of second mortgages receivable	<u>\$ -</u>	<u>\$ -</u>

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

3. Capital Assets

	<u>2017</u>		<u>2016</u>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ -	\$ -	\$ 112,438	\$ -
Building	-	-	332,991	39,980
Computer equipment	15,227	13,754	15,227	13,122
Furniture and equipment	15,240	10,882	13,871	9,965
Leasehold improvements	151,416	28,743	17,027	13,374
Store equipment	2,702	756	2,702	270
Transportation equipment	52,967	38,030	52,967	31,628
	<u>\$ 237,552</u>	<u>\$ 92,165</u>	<u>\$ 547,223</u>	<u>\$ 108,339</u>
Net book value		<u>\$ 145,387</u>		<u>\$ 438,884</u>

4. Bank Indebtedness

	<u>2017</u>	<u>2016</u>
Operating line of credit	<u>\$ 195,000</u>	<u>\$ 165,000</u>

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. The line of credit bears interest at the Royal Bank's prime rate plus 0.75%.

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2017

5. Mortgages and Loans Payable

	<u>2017</u>	<u>2016</u>
Mortgage payable, secured by land and building in Midland, Ontario and a general security agreement	\$ -	\$ 177,201
Mortgage payable, secured by land in Penetanguishene, Ontario	-	10,000
Loan payable, interest free, due on demand	<u>17,000</u>	<u>17,000</u>
	<u>\$ 17,000</u>	<u>\$ 204,201</u>

6. Commitments

The organization has leased its Bracebridge, Ontario premises for a term of ten years ending March 31, 2028. The minimum lease payments are \$147,307 per annum for the first five years and \$161,230 per annum for the last five years. The lease also requires the payment of additional rent in the amount of \$91,788 per annum in the first year.

The organization has leased its Huntsville, Ontario ReStore location for a term of five years ending July 31, 2022. The minimum lease payments are \$108,000 per annum for the first year, \$120,000 per annum for the next two years and \$132,000 per annum for the last two years. The lease also requires the payment of additional rent in the amount of \$49,440 per annum in the first year.

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 per annum. The lease also requires the payment of additional rent in the amount of \$16,560 per annum in the first year.

The organization has leased its Sudbury, Ontario premises for a term of five years ending July 31, 2022. The minimum lease payments are \$118,100 per annum. The lease also requires the payment of additional rent in the amount of \$25,584 per annum in the first year.

The organization has leased its Midland, Ontario ReStore location for a term of five years ending October 31, 2022. The minimum lease payments are \$63,750 per annum for the first year and \$85,000 per annum for the balance of the term. The lease also requires the payment of additional rent for taxes, maintenance and insurance in the amount of \$21,649 per annum in the first year.

HST is payable on all of the above rent amounts. The additional rent amounts on each lease are subject to annual adjustment.

The organization has leased three vehicles for terms ending August 2020, July 2022 and July 2022. The minimum annual payments until expiry of the leases are \$7,003, \$8,295 and \$8,295.

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2017

7. Financial Instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below.

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 their 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

For the year ended December 31	2017	2016
Revenues		
Sales	<u>\$ 2,074,197</u>	<u>\$ 2,234,247</u>
Expenses		
Habitat for Humanity Canada fees	92,031	105,978
Occupancy costs	600,166	591,699
Transportation	96,832	81,702
Wages, benefits and consulting	835,072	880,179
Other	<u>72,560</u>	<u>81,858</u>
	<u>1,696,661</u>	<u>1,741,416</u>
Excess of revenues over expenses for the year	<u>\$ 377,536</u>	<u>\$ 492,831</u>