

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Financial Statements

Year Ended December 31, 2016

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.
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Year Ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Members of Habitat for Humanity Heartland Ontario Inc.

We have audited the accompanying financial statements of Habitat for Humanity Heartland Ontario Inc., which comprise the statement of financial position as at December 31, 2016 and the statements of operations, changes in 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.

(continues)

Basis for Qualified Opinion

In common with many charitable organizations, the organization derives revenue from donations and contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, current assets and net assets. This issue also resulted in a qualification on the financial statements for the year ended December 31, 2015.

Qualified Opinion

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of Habitat for Humanity Heartland Ontario Inc. 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.

London, Ontario

BDO Canada LLP

Chartered Professional Accountants
Licensed Public Accountants

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Statement of Financial Position

December 31, 2016

	2016	2015
ASSETS		
CURRENT		
Cash	\$ 340,177	\$ 324,144
Amounts receivable	235,831	268,820
HST rebate recoverable	3,138	-
Prepaid expenses and deposits	41,609	25,268
Inventory (Note 4)	1,102,704	1,229,044
Current portion of first mortgages receivable (Note 6)	410,157	308,100
	2,133,616	2,155,376
Capital assets (Note 5)	255,249	267,563
First mortgages receivable (Note 6)	3,486,486	3,170,234
	\$ 5,875,351	\$ 5,593,173
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable and accrued liabilities	\$ 208,026	\$ 157,127
Taxes other than income taxes payable	-	10,103
Deferred contributions (Note 9)	383,449	536,241
Current portion of long term debt (Note 11)	-	8,012
Demand loans (Note 8)	622,380	801,954
	1,213,855	1,513,437
Deferred contributions related to capital assets (Note 10)	68,738	101,457
Long term debt (Note 11)	-	92,810
	1,282,593	1,707,704
NET ASSETS	4,592,758	3,885,469
	\$ 5,875,351	\$ 5,593,173

LEASE COMMITMENTS (Note 13)

SECOND MORTGAGES RECEIVABLE (Note 7)

ON BEHALF OF THE BOARD

Director

Director

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Statement of Changes in Net Assets

Year Ended December 31, 2016

	2016	2015
NET ASSETS - BEGINNING OF YEAR	\$ 3,885,469	\$ 3,447,854
Excess of revenue over expenses	707,289	437,615
NET ASSETS - END OF YEAR	\$ 4,592,758	\$ 3,885,469

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.**Statement of Operations****Year Ended December 31, 2016**

	2016	2015
REVENUE		
Schedule of ReStore Operations <i>(Schedule 1)</i>	\$ 2,661,817	\$ 2,127,628
Home sales <i>(Note 3)</i>	783,682	373,709
Build donations	271,205	342,003
Fundraising revenue	210,394	319,991
Donations, grants and other	343,804	319,648
Accretion income on mortgages <i>(Note 3)</i>	136,530	111,119
Other revenue <i>(Note 3)</i>	112,425	64,707
City of Woodstock Community Grant	-	10,000
	4,519,857	3,668,805
EXPENSES		
Schedule of ReStore Operations <i>(Schedule 1)</i>	1,897,325	1,435,132
Salaries, wages and benefits	716,377	733,672
House costs - build <i>(Notes 3, 4)</i>	561,378	446,312
Land costs - build <i>(Notes 3, 4)</i>	265,540	129,911
Fundraising expenses	123,733	252,210
Professional fees	45,943	28,175
Office rent	36,866	32,744
Advertising, promotion & public relations	36,285	29,685
Office	28,457	33,659
Amortization of capital assets	24,941	26,329
Telephone	22,596	18,916
Vehicle	20,801	9,526
Contributions to Habitat for Humanity Canada Inc.	15,000	19,009
Build acquisition and site management	11,800	29,233
Committee	7,819	9,946
Repairs and maintenance	6,739	7,209
Volunteer expenses	6,388	2,588
Interest and bank charges	3,149	2,227
Insurance	2,903	2,888
	3,834,040	3,249,371
EXCESS OF REVENUE OVER EXPENSES FROM OPERATIONS	685,817	419,434
OTHER ITEMS		
Contribution of net assets received from Habitat for Humanity Stratford Perth	21,472	18,181
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	\$ 707,289	\$ 437,615

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.**Statement of Cash Flows****Year Ended December 31, 2016**

	2016	2015
OPERATING ACTIVITIES		
Cash receipts from customers, donors and other operations	\$ 3,818,864	\$ 3,379,251
Cash paid to suppliers, employees and others	(3,466,575)	(3,761,385)
Cash flow from (used by) operating activities	352,289	(382,134)
INVESTING ACTIVITIES		
Purchase of capital assets	(55,861)	(83,178)
Proceeds on disposal of capital assets	-	2,500
Cash flow used by investing activities	(55,861)	(80,678)
FINANCING ACTIVITIES		
Repayment of line of credit assumed from Stratford Perth	-	(20,000)
(Repayments) advances from demand loan	(179,573)	369,791
Repayment of long term debt	(100,822)	(7,723)
Cash flow from (used by) financing activities	(280,395)	342,068
INCREASE (DECREASE) IN CASH	16,033	(120,744)
CASH - BEGINNING OF YEAR	324,144	444,888
CASH - END OF YEAR	\$ 340,177	\$ 324,144

Cash Flows - Supplemental Information**Cash receipts from customers, donors and other operations**

Donations received	\$ 401,676	\$ 821,015
ReStore income received	2,661,816	2,127,628
Mortgage payments and downpayments received	646,970	273,752
HST rebates received	108,402	156,856
	\$ 3,818,864	\$ 3,379,251

Cash paid to suppliers, employees and others

Expenses from operations	\$ 2,945,243	\$ 2,540,140
Purchase of land and development charges incurred	139,073	576,984
Costs incurred in construction	279,500	486,465
Interest paid	7,599	9,055
HST paid on expenses	95,160	148,741
	\$ 3,466,575	\$ 3,761,385

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Notes to Financial Statements

Year Ended December 31, 2016

1. ORGANIZATION

The organization is incorporated, without share capital, under the Corporations Act of Ontario. On January 30, 2014 the organization filed an Application for Supplementary Letters Patent amending its name from Habitat for Humanity Oxford, Middlesex, Elgin Inc. to Habitat for Humanity Heartland Ontario Inc.

The primary objective of Habitat for Humanity Heartland Ontario Inc. is to advance the interest of the economically disadvantaged by providing, through constructing or renovating, safe, decent and affordable homes with an interest free mortgage. The prospective homeowners contribute "sweat equity" rather than a normal down payment.

The organization also operates 5 stores, with each operating under the name ReStore, for the sale of donated building materials and household furnishings the net proceeds of which are deployed to assist in the above objective.

Habitat for Humanity Heartland Ontario Inc. is a charitable organization registered under the Income Tax Act and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

2. BASIS OF PRESENTATION

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO). ASNPO are part of Canadian generally accepted accounting principles (GAAP).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition - Home Sales

Revenue is recognized on the sale of the house at the net present value of the expected future cash flows from the mortgage at that time. For homes sold in 2009 and beyond, the new homeowner provides a first mortgage at the time the house is sold. The first mortgage value is determined based on the selling price of the home (based on appraised value) less any downpayments made by the new homeowner.

For homes sold prior to 2009, revenue was recognized as follows: at the time a house is sold, the new homeowner provides a first mortgage, which is based on a formula that uses the cost of construction of the home. The home is then appraised and the difference between the appraised value and the first mortgage is the amount of value assigned to the second mortgage given by the homeowner at that time. As repayment of the second mortgage is contingent upon the occurrence of certain events, no revenue or asset is recorded in the accounts of the organization with respect to the second mortgages at the time of sale. Any amount that is subsequently realized will be recorded as income in the period received.

On an annual basis the deemed income earned (accretion), which is based upon the discount rate used to calculate the net present value, is included in income. The organization also recognizes changes in the net present value of each mortgage on an annual basis, based upon any changes to the expected future mortgage payment schedules.

Revenue recognition - Other

The organization operates five retail stores known as the ReStore. Revenue from the ReStore is recognized when the customer takes possession of the goods and payment is received.

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HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Notes to Financial Statements

Year Ended December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition - Contributions

The organization uses the deferral method of accounting for contributions. In accordance with this method, the organization recognizes donations and other revenue at the time it is received, unless the donation is externally restricted. Restricted donations or grants are recognized as revenue when the expenses to which the donation or grant is intended to fund is incurred. Restricted contributions related directly to capital assets are deferred and amortized into revenue on the same basis as the related capital asset.

Cash

Cash consists of cash on hand and on deposit, less cheques issued and outstanding at the reporting date.

Inventory

Inventory of land held for development and under development is valued at the lower of cost and net realizable value. Cost is determined as the acquisition cost of the property, plus carrying charges and development and construction expenses. Net realizable value is the estimated selling price of the property less selling expenses.

Capital assets

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized on a straight line basis over their estimated useful lives as follows:

Building	20 years
Computer equipment	3 years
Fencing	10 years
Leasehold improvements	5 years
Office equipment	5 years
Store equipment	3 years
Vehicles	3-5 years

Donated land, building materials and services

Donated land and building materials for constructing homes, which would otherwise be paid for by Habitat for Humanity Heartland Ontario Inc., are included in the cost of the project at fair market value. The value of new and used materials donated to ReStore are not reflected in these financial statements. Net assets received from Habitat for Humanity Stratford Perth affiliate have been recognized at fair value.

A substantial number of volunteers have made significant contributions of their time to the organization's program and supporting services. The value of this contributed time is not reflected in these statements.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian ASNPO requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in operations in the period in which they become known. Actual results could differ from these estimates.

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HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Notes to Financial Statements

Year Ended December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in revenue. All other financial instruments are reported at amortized cost and tested for impairment at each reporting date. Transaction costs on the acquisition, sale or issue of financial instruments are expensed when incurred.

4. INVENTORY

	2016	2015
Land inventory (15 lots; 2015 - 19 lots)	\$ 462,726	\$ 558,429
Subdivision development and site servicing costs	271,644	298,408
Homes under construction (3 homes; 2015 - 5 homes)	368,334	372,207
	\$ 1,102,704	\$ 1,229,044

Included in expenses are the costs associated with the construction of 5 homes (2015 - 3 homes) sold during the year as well as the land cost for those homes.

Inventory includes build in progress costs associated with builds on Forbes Street, London (2 homes) and Elma Street, Listowel.

5. CAPITAL ASSETS

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Land	\$ 29,853	\$ -	\$ 29,853	\$ 29,853
Building	182,305	43,299	139,006	147,086
Computer equipment	53,570	51,056	2,514	2,005
Fencing	5,655	3,771	1,884	3,141
Leasehold improvements	122,990	100,794	22,196	33,404
Office equipment	37,160	31,881	5,279	8,892
Store equipment	53,458	40,735	12,723	9,236
Vehicles	86,185	44,391	41,794	33,946
	\$ 571,176	\$ 315,927	\$ 255,249	\$ 267,563

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Notes to Financial Statements

Year Ended December 31, 2016

6. FIRST MORTGAGES RECEIVABLE

The organization has a number of first mortgages on the houses they have sold. These mortgages are provided to the mortgagors on an interest free basis. The organization reviews the payment terms on an annual basis based on the mortgagor's income and may adjust the payments accordingly. However, mortgages are fully open without penalty for prepayment at the option of the mortgagor. The payments and dates below reflect the current payment by each mortgagor. The annual adjustments to the payments based on income will effect the actual term of the mortgages.

	2016
The expected repayments are as follows:	
2017	\$ 410,157
2018	407,150
2019	374,736
2020	345,734
2021	331,190
2022	312,862
2023	294,950
2024	262,371
2025	253,618
2026	238,347
2027	206,019
2028	181,392
2029	168,935
2030	225,603
2031	143,003
2032	107,146
2033	348,567
2034 and thereafter	450,609
Total face value of mortgages	5,062,389
Less: Present value discount	(1,165,746)
Net book value of first mortgages receivable	3,896,643
Less: Current portion of first mortgages receivable	(410,157)
Long term portion of first mortgages receivable	\$ 3,486,486

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Notes to Financial Statements

Year Ended December 31, 2016

7. SECOND MORTGAGES RECEIVABLE

The organization holds a number of second mortgages on the houses they have sold. These second mortgages are non-interest bearing and have no set monthly repayment terms. The mortgage may be reduced if certain conditions are met as per the following terms listed from each mortgage:

For mortgages entered into prior to 2009, "provided the mortgagors have completed the 'sweat equity' required and have not been in default of any conditions of the mortgage during the term of the mortgage, 25% of the original principal amount will be forgiven after a period of 12 years. Thereafter mortgage balances outstanding are forgiven in one of two ways as specified in their individual mortgage documents:

1. An additional 12.5% of the mortgage is forgiven each year thereafter until the full amount of the mortgage is forgiven, so long as the mortgagors have not defaulted at any point during this time and they have continued to occupy the mortgaged premises as their principal place of residence; or
2. At maturity, the balance of the original principal amount then outstanding shall be deducted and the mortgage deemed to be paid in full at the maturity date provided the mortgagor have not defaulted at any point during this time and they have continued to occupy the mortgaged premises as their principal place of residence.

For 2009 and beyond, no new second mortgages will be issued.

As the cash flow to be received from these second mortgages cannot be reasonably determined given the nature of the terms of these mortgages, no revenue or asset is recognized at the time the mortgage is issued. Revenue, if any, from a second mortgage would be realized at such time as it is determined that the mortgage is or will be collected, and it is likely that the amount is collectible from the mortgagor.

Maturity dates and outstanding balances of the second mortgages are as follows:

2017	\$ 30,599
2018	54,849
2019	90,298
2020	124,435
2021	26,949
Thereafter	<u>393,906</u>
	<u>\$ 721,036</u>

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Notes to Financial Statements

Year Ended December 31, 2016

8. DEMAND LOANS

The organization has the following credit facilities with Libro Credit Union:

1. A commercial term loan to finance development of 15 lot building sites on Forbes Street. It can be drawn to a maximum of \$750,000 over 5 draws, bearing interest at Libro prime plus 1.75%, repayable on demand. The organization has further agreed to make principal payment for \$60,000 per lot sold. The loan matures in December 2019. At December 31, 2016, \$622,380 (2015 - \$750,000) was outstanding on this facility.
2. A commercial term loan to finance development of 15 lot building sites on Forbes Street. It can be drawn to a maximum of \$150,000 over 5 draws, bearing interest at Libro prime plus 1.75%, repayable on demand. The loan matures in February 2016. At December 31, 2016, NIL (2015 - \$51,954) was outstanding on this facility.
3. An operating line of credit which can be drawn to a maximum of \$250,000. Interest is charged on any funds utilized at prime rate plus 1% per annum. The amount of the line of credit outstanding at December 31, 2016 was \$Nil (2015 - \$Nil).

The above Libro credit facilities are secured by a \$800,000 first collateral charge registered against certain land inventory (carrying value of \$462,726), a general security agreement covering amounts receivable, inventory, motor vehicles and equipment as well as an assignment of certain of the first mortgages receivable with a carrying value of \$275,320 (face value of \$348,524).

4. An operating line of credit which can be drawn to a maximum of \$275,000. Interest is charged on any funds utilized at prime rate plus 2% per annum. The amount of the line of credit outstanding at December 31, 2016 was \$Nil (2015 - \$NIL).

The above credit facility is secured by a first collateral charge against the land and building (jointly with the mortgage disclosed in note 11, a general security agreement covering amounts receivable, inventory, motor vehicles and equipment as well as an assignment of certain of the first mortgages receivable with a carrying value of \$648,627 (face value of \$846,312).

The organization is subject to externally imposed capital requirement related to the above financing. Specifically, the organization must maintain a minimum Debt Service Ratio of 1.5: 1, defined as current assets over current liabilities less demand loan. At December 31, 2016, the organization was in compliance with this covenant.

9. DEFERRED CONTRIBUTIONS

	2016	2015
Deferred build revenue	\$ 383,449	\$ 487,353
Deferred fundraising revenue - Jeans and Classics	-	48,888
	<u>\$ 383,449</u>	<u>\$ 536,241</u>

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Notes to Financial Statements

Year Ended December 31, 2016

10. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

	2016	2015
Opening balance	\$ 101,457	\$ 37,500
Contributions received during the year	-	87,400
Amounts amortized to revenue during the year	(32,718)	(23,443)
Balance - end of the year	\$ 68,739	\$ 101,457

11. LONG TERM DEBT

	2016	2015
Libro Credit Union mortgage bearing interest at 5.37% per annum, repayable in monthly blended payments of \$1,098. The loan was repaid in full during the year.	\$ -	\$ 100,822
Amounts payable within one year	-	(8,012)
	\$ -	\$ 92,810

12. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments. The following analysis provides information about the organization's risk exposure and concentration at December 31, 2016. There have been no significant changes in the nature or concentration of the risk exposures from the prior year, unless otherwise noted.

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 from customers and mortgagors. In order to reduce its credit risk, the organization reviews a new customer's or mortgagor's credit history before extending credit and conducts regular reviews of its existing customers' credit performance and monitors its mortgagors' monthly payment history and their annual incomes. The organization also reduces credit risk by securing the mortgages receivable against the property that the mortgage was issued for, which allows the organization to recover the property in the case that the mortgagor defaults.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The organization manages its liquidity risk by forecasting its cash needs on a regular basis and seeking additional information based on those forecasts. The organization also has additional credit available to draw on as required in the short-term, as disclosed in note 8.

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HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

Notes to Financial Statements

Year Ended December 31, 2016

12. FINANCIAL INSTRUMENTS *(continued)*

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk to the organization's earnings that arise from fluctuations of foreign exchange rates. The organization is not exposed to significant currency risk as it does not hold any financial instruments denominated in a foreign currency.

Interest rate risk

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 primarily through its mortgage receivables, mortgage payable, term loans and line of credit.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. In management's opinion, the organization is not exposed to significant other price risk.

13. LEASE COMMITMENTS

The organization has 6 leases with respect to its premises (Adelaide St. ReStore, Woodstock ReStore, Pacific Court building and St. Thomas ReStore), which expire in February 2020, April 2020, November 30 2020 and August 2021. Future minimum lease payments as at December 31, 2016 are as follows:

2017	\$ 288,874
2018	294,665
2019	299,887
2020	200,148
2021	<u>70,653</u>
	<u>\$ 1,154,227</u>

HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.**Schedule of ReStore Operations***(Schedule 1)***Year Ended December 31, 2016**

	2016	2015
REVENUE		
Sales	\$ 2,521,432	\$ 2,095,019
Other revenue	140,385	30,109
Gains on disposal of capital assets	-	2,500
	2,661,817	2,127,628
EXPENSES		
Salaries, wages and benefits	1,079,222	795,479
Rent	265,382	223,634
Contributions to Habitat for Humanity Canada Inc.	120,984	68,550
Vehicle	98,866	96,042
Supplies and direct costs	69,983	37,271
Utilities	56,210	46,439
Repairs and maintenance	47,160	51,302
Advertising, promotion & public relations	46,355	15,254
Amortization of capital assets	43,232	37,621
Office	32,763	27,129
Telephone	11,960	15,482
Delivery and transportation	8,471	3,071
Volunteer expenses	6,789	5,839
Insurance	5,499	5,189
Interest on long term debt	4,142	5,480
Interest and bank charges	307	1,350
	1,897,325	1,435,132
EXCESS OF REVENUE OVER EXPENSES	\$ 764,492	\$ 692,496

See accompanying notes to the financial statements.