

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Financial Statements

Year Ended December 31, 2013

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Index to Financial Statements

Year Ended December 31, 2013

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Changes in Net Assets	4
Statement of Operations	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 14
Schedule of ReStore Operations (<i>Schedule 1</i>)	15

INDEPENDENT AUDITOR'S REPORT

To the Members of Habitat for Humanity Oxford, Middlesex, Elgin Inc.

We have audited the accompanying financial statements of Habitat for Humanity Oxford, Middlesex, Elgin Inc., which comprise the statement of financial position as at December 31, 2013 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.

Basis for Qualified Opinion


In common with many charitable organizations, the organization derives revenue from donations and fundraising, 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, 2012.

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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 and fundraising referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of Habitat for Humanity Oxford, Middlesex, Elgin Inc. as at December 31, 2013 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, Canada
April 24, 2014

A handwritten signature in black ink that reads "NPT LLP". The letters are stylized and cursive.

NPT LLP
Chartered Accountants
Licensed Public Accountants

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Statement of Financial Position

December 31, 2013

	2013	2012
ASSETS		
CURRENT		
Cash	\$ 481,970	\$ 69,651
Amounts receivable	47,507	61,878
Inventory (Note 4)	453,145	183,021
Current portion of first mortgages receivable (Note 6)	187,042	172,631
HST rebate recoverable	27,005	23,166
Prepaid expenses	25,134	20,730
	1,221,803	531,077
Capital assets (Note 5)	90,360	115,264
First mortgages receivable (Note 6)	1,766,591	1,726,522
	\$ 3,078,754	\$ 2,372,863
LIABILITIES AND NET ASSETS		
CURRENT		
Line of credit (Note 8)	\$ 120,000	\$ 25,000
Accounts payable and accrued liabilities	66,884	63,493
Deferred contributions (Note 9)	554,686	177,105
	741,570	265,598
Deferred contributions related to capital assets (Note 10)	52,500	67,500
	794,070	333,098
NET ASSETS	2,284,684	2,039,765
	\$ 3,078,754	\$ 2,372,863

SUBSEQUENT EVENTS (Note 14)

LEASE COMMITMENTS (Note 12)

SECOND MORTGAGES RECEIVABLE (Note 7)

ON BEHALF OF THE BOARD

_____ Director

_____ Director

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Statement of Changes in Net Assets

Year Ended December 31, 2013

	2013	2012
NET ASSETS - BEGINNING OF YEAR	\$ 2,039,765	\$ 1,915,649
Excess of revenue over expenses	244,919	124,116
NET ASSETS - END OF YEAR	\$ 2,284,684	\$ 2,039,765

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.**Statement of Operations****Year Ended December 31, 2013**

	2013	2012
REVENUE		
Schedule of ReStore Operations (<i>Schedule 1</i>)	\$ 1,365,618	\$ 1,093,536
Donations, grants and other	258,551	60,117
Fundraising	144,185	48,567
Build donations	112,632	190,432
Home sales (<i>Note 3</i>)	102,755	216,542
Accretion income on mortgages (<i>Note 3</i>)	68,631	65,336
Other revenue (<i>Note 3</i>)	53,281	4,737
	2,105,653	1,679,267
EXPENSES		
Schedule of ReStore Operations (<i>Schedule 1</i>)	969,283	763,199
Salaries, wages and benefits	404,517	342,203
Fundraising expenses	107,115	5,959
Home costs - build (<i>Notes 3, 4</i>)	89,773	184,468
Land costs - build (<i>Notes 3, 4</i>)	63,784	79,374
International build	44,000	11,232
Office rent	31,898	30,295
Office	27,707	33,050
Build acquisition and site management	21,707	34,709
Amortization of capital assets	19,750	10,771
Advertising, promotion & public relations	17,103	10,430
Telephone	16,729	18,951
Professional fees	14,063	4,721
Committee	9,097	5,322
Contributions to Habitat for Humanity Canada Inc.	8,023	5,065
Repairs and maintenance	7,222	1,369
Insurance	3,268	3,469
Vehicle	2,964	5,598
Bank charges	1,697	1,599
Volunteer expenses	1,509	3,367
	1,861,209	1,555,151
EXCESS OF REVENUE OVER EXPENSES FROM OPERATIONS	244,444	124,116
OTHER ITEMS		
Gain on disposal of capital assets	475	-
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	\$ 244,919	\$ 124,116

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.**Statement of Cash Flows****Year Ended December 31, 2013**

	2013	2012
OPERATING ACTIVITIES		
Cash receipts from customers, donors and other operations	\$ 2,474,029	\$ 1,799,139
Cash paid to suppliers, employees and others	(2,151,009)	(1,744,688)
Cash flow from operating activities	323,020	54,451
INVESTING ACTIVITIES		
Purchase of capital assets	(6,701)	(91,749)
Proceeds on disposal of capital assets	1,000	-
Cash flow used by investing activities	(5,701)	(91,749)
FINANCING ACTIVITY		
Line of credit advances (net)	95,000	25,000
INCREASE (DECREASE) IN CASH	412,319	(12,298)
CASH - BEGINNING OF YEAR	69,651	81,949
CASH - END OF YEAR	\$ 481,970	\$ 69,651

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

Donations received	\$ 865,248	\$ 407,861
ReStore income received	1,365,618	1,093,536
Mortgage payments and downpayments received	170,542	167,479
HST rebates received	72,621	130,263
	\$ 2,474,029	\$ 1,799,139

Cash paid to suppliers, employees and others

Expenses from operations	\$ 1,676,314	\$ 1,291,804
Purchase of land	147,855	111,765
Costs incurred in construction	248,691	240,623
Interest paid	1,689	1,597
HST paid on expenses	76,460	98,899
	\$ 2,151,009	\$ 1,744,688

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Notes to Financial Statements

Year Ended December 31, 2013

1. ORGANIZATION

The organization is incorporated, without share capital, under the Corporations Act of Ontario. On April 17, 2013 the organization filed an Application for Supplementary Letters Patent amending its name from Habitat for Humanity London Inc. to Habitat for Humanity Oxford, Middlesex, Elgin Inc.

The primary objective of Habitat for Humanity Oxford, Middlesex, Elgin Inc. is to work within Oxford, Middlesex and Elgin counties 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 3 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. Its third ReStore began operating in February 2013.

Habitat for Humanity Oxford, Middlesex, Elgin 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 home 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 payments.

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HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Notes to Financial Statements

Year Ended December 31, 2013

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

Revenue recognition - ReStore

The organization operates 3 retail stores known as the ReStore. Revenue from sales at the ReStore is recognized when the customer takes possession of the goods and payment is received.

Revenue recognition - Contributions

The organization uses the deferral method of accounting for contributions. In accordance with this method, the organization recognizes donations, fundraising 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 land and building 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:

Computer equipment	1-3 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 the organization, 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.

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.

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HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Notes to Financial Statements

Year Ended December 31, 2013

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

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.

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

	2013	2012
Land inventory (5 lots; 2012 - 2 lots)	\$ 183,206	\$ 89,136
Homes under construction (5 homes; 2012 - 1 home)	269,939	93,885
	\$ 453,145	\$ 183,021

Included in expenses are the costs associated with the construction of 1 home (2012 - 2 homes) sold during the year as well as the land cost for those homes.

Inventory includes build in progress costs associated with builds on Major Street, London; Tecumseh Avenue, London (2 homes); Main Street, Woodstock and Westlake Drive, St. Thomas.

5. CAPITAL ASSETS

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Computer equipment	\$ 47,679	\$ 44,236	\$ 3,443	\$ 5,076
Leasehold improvements	101,140	37,392	63,748	78,240
Office equipment	34,144	13,293	20,851	26,986
Store equipment	32,171	29,853	2,318	4,338
Vehicles	23,113	23,113	-	624
	\$ 238,247	\$ 147,887	\$ 90,360	\$ 115,264

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Notes to Financial Statements

Year Ended December 31, 2013

6. FIRST MORTGAGES RECEIVABLE

The organization has a number of first mortgages on the homes 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 mortgage.

	2013
The expected repayments are as follows:	
2014	\$ 187,042
2015	179,250
2016	173,335
2017	169,452
2018	169,452
2019	163,330
2020	158,873
2021	147,449
2022	139,502
2023	134,484
2024	126,040
2025	120,078
2026	111,166
2027	92,959
2028	79,035
2029	72,813
2030	82,340
2031	53,911
2032	29,887
2033	114,568
2034	94,695
2035	79,977
Total face value of mortgages	2,679,638
Less: Present value discount	(726,005)
Net book value of first mortgages receivable	1,953,633
Less: Current portion of first mortgages receivable	(187,042)
Long term portion of first mortgages receivable	\$ 1,766,591

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Notes to Financial Statements

Year Ended December 31, 2013

7. SECOND MORTGAGES RECEIVABLE

The organization holds a number of second mortgages on the homes 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 2008, "provided the mortgagors have completed the 'sweat equity' required and has 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 2 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 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."

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:

2016	\$	8,750
2018		8,750
2019		30,000
2021		45,533
2023		59,438
Thereafter		<u>444,572</u>
	\$	<u>597,043</u>

8. LINE OF CREDIT

The organization has available to it a line of credit in the amount 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, 2013 was \$120,000 (2012 - \$25,000), and was subsequently repaid during January 2014. The line of credit is secured by a general security agreement covering amounts receivable, inventory, and equipment as well as an assignment of certain of the first mortgages receivable with a carrying value of \$280,730 (face value of \$374,252).

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Notes to Financial Statements

Year Ended December 31, 2013

9. DEFERRED CONTRIBUTIONS

	2013	2012
Deferred build donations	\$ 355,714	\$ 177,105
Deferred revenue - Jeans and Classics	31,472	-
Deferred grant revenue	167,500	-
	\$ 554,686	\$ 177,105

10. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

	2013	2012
Balance - beginning of year	\$ 67,500	\$ -
Contributions received during the year	-	75,000
Amounts amortized to revenue during the year	(15,000)	(7,500)
Balance - end of year	\$ 52,500	\$ 67,500

11. 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, 2013. 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 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 OXFORD, MIDDLESEX, ELGIN INC.

Notes to Financial Statements

Year Ended December 31, 2013

11. 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 operations 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 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.

12. LEASE COMMITMENTS

The organization has 4 leases with respect to its premises (Pacific Court administrative offices, Pacific Court ReStore, Adelaide St. ReStore and Woodstock ReStore), which expire in November 2016, February 2020 and August 2021. Future minimum lease payments as at December 31, 2013 are as follows:

2014	\$ 253,263
2015	253,263
2016	249,555
2017	163,317
2018	163,317
Thereafter	<u>327,512</u>
	<u>\$ 1,410,227</u>

13. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.

Notes to Financial Statements

Year Ended December 31, 2013

14. SUBSEQUENT EVENTS

On January 1, 2014, the organization consolidated operations with the Habitat for Humanity Stratford Perth (HFH SP) affiliate. As a result of the consolidation, the organization has assumed HFH SP's operations and all mortgages receivable.

During fiscal year 2014, the organization filed an Application for Supplementary Letters Patent amending its name to Habitat for Humanity Heartland Ontario Inc.

HABITAT FOR HUMANITY OXFORD, MIDDLESEX, ELGIN INC.**Schedule of ReStore Operations***(Schedule 1)***Year Ended December 31, 2013**

	2013	2012
REVENUE		
Sales	\$ 1,355,390	\$ 1,078,412
Other revenue	10,228	15,124
	1,365,618	1,093,536
EXPENSES		
Salaries, wages and benefits	542,664	437,139
Rent	199,602	141,894
Vehicle	63,691	59,096
Repairs and maintenance	36,448	26,098
Contributions to Habitat for Humanity Canada Inc.	28,223	26,450
Utilities	28,078	21,264
Office	21,374	15,956
Advertising, promotion & public relations	13,201	5,280
Telephone	11,844	11,121
Amortization of capital assets	11,329	12,203
Volunteer expenses	5,890	4,961
Delivery and transportation	4,511	648
Insurance	2,252	877
Bank charges	176	212
	969,283	763,199
EXCESS OF REVENUE OVER EXPENSES	\$ 396,335	\$ 330,337

See accompanying notes to the financial statements.