

**HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.**

**Financial Statements**

**Year Ended December 31, 2017**

**HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.**

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**Year Ended December 31, 2017**

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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, 2017 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 audit opinion.

*(continues)*

Independent Auditor's Report to the Members of Habitat for Humanity Heartland Ontario Inc. *(continued)*

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Habitat for Humanity Heartland Ontario Inc. 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.

London, Ontario  
April 26, 2018

*BDO Canada LLP*

Chartered Professional Accountants  
Licensed Public Accountants

**HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.**

**Statement of Financial Position**

**December 31, 2017**

	2017	2016
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 549,252	\$ 340,177
Amounts receivable	116,394	235,831
HST rebate recoverable	25,037	3,138
Prepaid expenses and deposits	37,140	41,609
Inventory (Note 4)	1,029,850	1,102,704
Current portion of first mortgages receivable (Note 6)	440,764	410,157
	2,198,437	2,133,616
Capital assets (Note 5)	223,769	255,249
First mortgages receivable (Note 6)	3,614,502	3,486,486
	\$ 6,036,708	\$ 5,875,351
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 243,868	\$ 208,026
Deferred contributions (Note 9)	220,311	383,449
Demand loans (Note 8)	382,380	622,380
	846,559	1,213,855
Deferred contributions related to capital assets (Note 10)	43,758	68,738
	890,317	1,282,593
<b>NET ASSETS</b>	<b>5,146,391</b>	<b>4,592,758</b>
	<b>\$ 6,036,708</b>	<b>\$ 5,875,351</b>

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 HEARTLAND ONTARIO INC.**

**Statement of Changes in Net Assets**

**Year Ended December 31, 2017**

	<u>2017</u>	<u>2016</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>\$ 4,592,758</b>	<b>\$ 3,885,469</b>
Excess of revenue over expenses	553,633	707,290
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 5,146,391</b>	<b>\$ 4,592,759</b>

See accompanying notes to the financial statements.

**HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.****Statement of Operations****Year Ended December 31, 2017**

	2017	2016
<b>REVENUE</b>		
Restore operations	\$ 3,007,870	\$ 2,661,816
Home sales (Note 3)	775,050	783,682
Donations, grants and other	385,685	343,804
Build donations	284,881	271,206
Accretion income on mortgages (Note 3)	222,484	136,531
Fundraising revenue	209,888	210,394
Other revenue (Note 3)	37,953	112,425
	<b>4,923,811</b>	<b>4,519,858</b>
<b>EXPENSES</b>		
Restore operations	2,359,006	1,897,325
Salaries, wages and benefits	767,036	716,377
House costs - build (Notes 3, 4)	689,051	561,378
Land costs - build (Notes 3, 4)	260,606	265,540
Office	63,966	28,457
Office rent	62,818	36,866
Fundraising expenses	30,091	123,733
Telephone	25,855	22,596
Contributions to Habitat for Humanity Canada Inc.	25,000	15,000
Vehicle	21,793	20,801
Professional fees	21,076	45,943
Amortization of capital assets	19,405	24,941
Advertising, promotion & public relations	17,282	36,285
Volunteer expenses	6,202	6,388
Repairs and maintenance	5,609	6,739
Insurance	4,177	2,903
Committee	3,155	7,819
Interest and bank charges	1,787	3,149
Build acquisition and site management	-	11,800
	<b>4,383,915</b>	<b>3,834,040</b>
<b>EXCESS OF REVENUE OVER EXPENSES FROM OPERATIONS</b>	<b>539,896</b>	<b>685,818</b>
<b>OTHER ITEMS</b>		
Gain on disposal of capital assets	3,737	-
Contribution of net assets received from Habitat for Humanity Stratford Perth	10,000	21,472
	<b>13,737</b>	<b>21,472</b>
<b>EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR</b>	<b>\$ 553,633</b>	<b>\$ 707,290</b>

See accompanying notes to the financial statements.

**HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.****Statement of Cash Flows****Year Ended December 31, 2017**

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers, donors and other operations	\$ 4,448,422	\$ 3,818,864
Cash paid to suppliers, employees and others	(3,974,036)	(3,466,575)
Cash flow from operating activities	474,386	352,289
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(39,567)	(55,861)
Proceeds on disposal of capital assets	14,256	-
Cash flow used by investing activities	(25,311)	(55,861)
<b>FINANCING ACTIVITIES</b>		
Repayments on demand loan	(240,000)	(179,573)
Repayment of long term debt	-	(100,822)
Cash flow used by financing activities	(240,000)	(280,395)
<b>INCREASE IN CASH</b>	<b>209,075</b>	<b>16,033</b>
<b>CASH - BEGINNING OF YEAR</b>	<b>340,177</b>	<b>324,144</b>
<b>CASH - END OF YEAR</b>	<b>\$ 549,252</b>	<b>\$ 340,177</b>

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

Donations received	\$ 461,454	\$ 401,676
ReStore income received	3,007,488	2,661,816
Mortgage payments and downpayments received	880,735	646,970
HST rebates received	98,745	108,402
	<u>\$ 4,448,422</u>	<u>\$ 3,818,864</u>

**Cash paid to suppliers, employees and others**

Expenses from operations	\$ 3,413,239	\$ 2,945,243
Purchase of land and development charges incurred	67,205	139,073
Costs incurred in construction	414,950	279,500
Interest paid	1,795	7,599
HST paid on expenses	76,847	95,160
	<u>\$ 3,974,036</u>	<u>\$ 3,466,575</u>

See accompanying notes to the financial statements.



## HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

### Notes to Financial Statements

Year Ended December 31, 2017

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#### 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 6 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, 2017

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### 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	3-5 years
Store equipment	3 years
Vehicles	3-5 years

When a tangible capital asset no longer has any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any unamortized deferred contribution amount related to the tangible capital asset is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

#### 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.

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## HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

### Notes to Financial Statements

Year Ended December 31, 2017

#### 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

	2017	2016
Land inventory (11 lots; 2016 - 15 lots)	\$ 335,101	\$ 462,726
Subdivision development and site servicing costs	205,867	271,644
Homes under construction (2 homes; 2016 - 3 homes)	488,882	368,334
	<b>\$ 1,029,850</b>	<b>\$ 1,102,704</b>

Included in expenses are the costs associated with the construction of 5 homes (2016 - 5 homes) sold during the year as well as the land cost for those homes.

Inventory includes build in progress costs associated with builds on Alma Street, St Thomas (2 builds).

#### 5. CAPITAL ASSETS

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	\$ 29,853	\$ -	\$ 29,853	\$ 29,853
Building	298,558	174,480	124,078	139,006
Computer equipment	58,853	56,252	2,601	2,514
Fencing	12,569	11,941	628	1,884
Leasehold improvements	131,750	114,354	17,396	22,196
Office equipment	38,198	35,650	2,548	5,279
Store equipment	72,146	54,217	17,929	12,723
Vehicles	78,426	49,690	28,736	41,794
	<b>\$ 720,353</b>	<b>\$ 496,584</b>	<b>\$ 223,769</b>	<b>\$ 255,249</b>

\$41,123 of amortization has been grouped into the restore operations expense on the Statement of Operations.

## HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

### Notes to Financial Statements

Year Ended December 31, 2017

#### 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 annual payment amounts listed below reflect the updated current payment schedules for each mortgagor. The annual adjustments to the payments based on income will effect the actual term of the mortgages.

	2017
<b>The expected repayments are as follows:</b>	
2018	\$ 441,098
2019	409,987
2020	389,553
2021	376,413
2022	344,912
2023	314,156
2024	292,275
2025	284,234
2026	277,064
2027	255,074
2028	212,115
2029	203,798
2030	181,058
2031	155,761
2032	148,105
2033	160,275
2034	136,979
2035	129,763
2036	145,969
2037	66,105
2038	39,554
2039	36,426
2040	54,093
2041	53,513
2042 and thereafter	159,245
Total face value of mortgages	5,267,525
Less: Present value discount	(1,212,259)
Net book value of first mortgages receivable	4,055,266
Less: Current portion of first mortgages receivable	(440,764)
Long term portion of first mortgages receivable	\$ 3,614,502

## HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

### Notes to Financial Statements

Year Ended December 31, 2017

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#### 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:

2018	\$	54,849
2019		79,585
2020		113,746
2021		26,949
2022		19,519
Thereafter		<u>309,436</u>
	\$	<u>604,084</u>

## HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

### Notes to Financial Statements

Year Ended December 31, 2017

#### 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, 2017, \$382,380 (2016 - \$622,380) was outstanding on this facility. As of December 31, 2017, 8 lots remain in inventory (2016 - 12).

2. 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, 2017 was \$Nil (2016 - \$Nil).

The above Libro credit facilities are secured by a \$800,000 first collateral charge registered against certain land inventory (carrying value of \$335,101), 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 \$250,759 (face value of \$307,873).

3. 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, 2017 was \$Nil (2016 - \$Nil).

The above credit facility is secured by a first collateral charge against the land and building (jointly with the mortgage disclosed in note 6, 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 \$501,676 (face value of \$608,101).

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, 2017, the organization was in compliance with this covenant.

#### 9. DEFERRED CONTRIBUTIONS

	2017	2016
Deferred build revenue	\$ 220,311	\$ 383,449

#### 10. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

	2017	2016
Opening balance	\$ 68,739	\$ 101,457
Amounts amortized to revenue during the year	(24,981)	(32,718)
Balance - end of the year	\$ 43,758	\$ 68,739

## HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

### Notes to Financial Statements

Year Ended December 31, 2017

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#### 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, 2017. 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.

##### 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 and term loan.

##### 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.

## HABITAT FOR HUMANITY HEARTLAND ONTARIO INC.

### Notes to Financial Statements

Year Ended December 31, 2017

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#### 12. LEASE COMMITMENTS

The organization has 5 leases with respect to its premises (Adelaide St. ReStore, Woodstock ReStore, Pacific Court building and St. Thomas ReStore), which expire between February 2020 and June 2023. Future minimum lease payments as at December 31, 2017 are as follows:

2018	\$	281,361
2019		356,947
2020		276,457
2021		146,139
2022		104,500
Thereafter		52,250
		<u>\$ 1,217,654</u>

#### 13. SUBSEQUENT EVENT

On January 25, 2018, the organization entered into a purchase and sale agreement to sell their land and building located at 245 Griffith Road, Stratford. The consideration to be received on the closing date of May 30, 2018 is \$450,000.