Habitat for Humanity Heartland Ontario Inc.

Financial Statements
December 31, 2020

Independent auditor's report

To the Members of Habitat for Humanity Heartland Ontario Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity Heartland Ontario Inc. (the Company) as at December 31, 2020 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.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2020;
- the statement of changes in net assets for the year then ended;
- the statement of operations for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Comparative information

The financial statements of the Company for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on May 27, 2020.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Ontario
June 22, 2021

Habitat for Humanity Heartland Ontario Inc.

Statement of Financial Position

As at December 31, 2020

	2020 $	2019 $
Assets		
Current assets		
Cash	912,269	340,173
Accounts receivable	151,743	102,598
HST rebate recoverable	89,496	31,932
Prepaid expenses and deposits	92,515	157,859
Inventory (note 4)	1,288,935	1,183,631
Current portion of first mortgages receivable (note 6)	299,807	422,912
	2,834,765	2,239,105
Capital assets (note 5)	423,693	412,639
First mortgages receivable (note 6)	4,093,342	3,950,907
	7,351,800	6,602,651
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	372,879	207,688
Deferred contributions (note 9)	172,705	230,270
Demand loans (note 8)	420,798	293,512
	966,382	731,470
Deferred contributions related to capital assets (note 10)	-	8,798
Lease inducements (note 11)	188,880	70,792
	1,155,262	811,060
Net Assets	6,196,538	5,791,591
	7,351,800	6,602,651

Lease commitments (note 12)
Second mortgages receivable (note 7)

Approved by the Board of Directors

_______________________ Director _______________________ Director

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity Heartland Ontario Inc.

Statement of Changes in Net Assets

For the year ended December 31, 2020

	2020 $	2019 $
Net Assets – Beginning of year	5,791,591	5,565,519
Excess of revenue over expenses	404,947	226,072
Net Assets – End of year	6,196,538	5,791,591

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity Heartland Ontario Inc.

Statement of Operations

For the year ended December 31, 2020

	2020 $	2019 $
Revenue		
Restore operations	3,535,706	3,500,950
Home sales (note 3)	656,500	874,643
Donations, grants and other	710,103	545,101
Build donations	567,646	357,930
Accretion income on mortgages (note 3)	69,732	137,338
Fundraising revenue	39,932	75,883
Other revenue (note 3)	-	9,979
	5,579,619	5,501,824
Expenses		
Restore operations (note 14)	3,264,879	2,849,402
House costs – build (notes 3 and 4)	742,605	841,140
Salaries, wages and benefits (note 14)	733,721	831,244
Land costs – build (notes 3 and 4)	118,607	376,235
Office rent	77,224	73,331
Fundraising expenses	20,796	60,922
Office	54,270	47,620
Amortization of capital assets	14,023	33,993
Contributions to Habitat for Humanity Canada Inc.	27,500	28,549
Professional fees	32,078	26,766
Advertising, promotion and public relations	5,179	25,573
Telephone	27,953	24,891
Vehicle	19,187	20,203
Committee	8,955	11,514
Repairs and maintenance	10,785	9,411
Volunteer expenses	8,470	8,001
Insurance	5,559	3,963
Interest and bank charges	2,881	2,294
	5,174,672	5,275,052
Excess of revenue over expenses from operations	404,947	226,772
Other item		
Loss on disposal of capital assets	-	(700)
Excess of revenue over expenses for the year	404,947	226,072

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity Heartland Ontario Inc.

Statement of Cash Flows

For the year ended December 31, 2020

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Cash receipts from customers, donors and other operations	5,350,075	4,676,087
Cash paid to suppliers, employees and others	(4,713,246)	(5,115,364)
	636,829	(439,277)
Investing activities		
Purchase of capital assets	(192,019)	(138,693)
Proceeds on disposal of capital assets	-	2,800
	(192,019)	(135,893)
Financing activities		
Repayments on demand loans	(324,714)	(694,978)
Proceeds from demand loans	452,000	702,110
	127,286	7,132
Increase (decrease) in cash	572,096	(568,038)
Cash – Beginning of year	340,173	908,211
Cash – End of year	912,269	340,173
Supplementary information		
Cash receipts from customers, donors and other operations		
Donations received	668,737	588,539
ReStore income received	3,535,706	3,500,950
Mortgage payments and down-payments received	740,539	465,255
HST rebates received	405,093	121,343
	5,350,075	4,676,087
Cash paid to suppliers, employees and others		
Expenses from operations	3,386,496	3,922,723
Purchase of land and development charges and costs incurred in construction	861,212	1,054,368
Interest paid	2,881	2,294
HST paid on expenses	462,657	135,979
	4,713,246	5,115,364

The accompanying notes are an integral part of these financial statements.

1 Organization

Habitat for Humanity Heartland Ontario Inc. (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 the Organization 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 seven 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.

The Organization 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).

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 down payments 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 accretion income earned (which is calculated using the discount rate of average bank prime rates in the year the mortgage is issued), 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 seven retail stores known as the Restore. Revenue from 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 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.

First mortgages receivable

The Organization initially measures first mortgages at the present value (using average annual bank prime rate in the year of issuance) of the appraised home value, less down payments. All first mortgages are issued under a 25 year amortization. Interest is accreted on an annual basis for the remaining mortgages, assuming balances will be repaid equally over the remaining amortization period of the mortgage.

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 re stated at cost less accumulated amortization. Capital assets are amortized on a straight-line basis over the 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 the Organization, are included in the cost of the project at fair market value. The value of new and used materials donated to the 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.

Lease inducement

Lease inducements are amortized straight line over the term of the lease as a reduction of rent expense.

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 year. Such estimates are periodically reviewed and any adjustments necessary are reported in operations in the year 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

	2020 $	2019 $
Land inventory (26 lots; 2019 – 25 lots)	900,046	747,039
Homes under construction (2 homes; 2019 – 2 homes)	388,889	436,592
	1,288,935	1,183,631

Included in expenses are the costs associated with the construction of 2 homes (2019 – 6 homes) sold during the year as well as the land cost for those homes.

Land inventory includes Highbury Avenue, London (23 lots (2019 – 23 lots)), Hiawatha Street, St. Thomas (2 lots (2019 – 2 lots)), and Powell Street, Drumbo (1 lot, (2019 – none)).

5 Capital assets

			2020	2019
	Cost $	Accumulated amortization $	Net $	Net $
Computer equipment	105,536	(75,284)	30,253	14,434
Leasehold improvements	670,439	(369,548)	300,892	308,234
Office equipment	81,675	(45,866)	35,809	6,885
Store equipment	200,526	(162,709)	37,818	58,070
Vehicles	86,929	(68,007)	18,922	25,016
	1,145,105	(721,414)	423,677	412,639

$166,959 (2019 – $121,591) of amortization has been grouped into the ReStore operations expense on the Statement of Operations.

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 affect the actual term of the mortgages.

The expected repayments are as follows:

	$
2021	299,807
2022	299,807
2023	299,807
2024	299,807
2025	299,807
2026	299,807
2027	299,807
2028	299,807
2029	298,589
2030	298,589
2031	292,655
2032	290,998
2033	284,171
2034	275,645
2035	257,684
2036	253,518
2037	232,972
2038	227,702
2039	215,419
2040	193,321
2041	171,688
2042	150,229
2043	113,809
2044	89,829
2045	27,718
Total face value of mortgages	6,072,989
Less: Present value discount	(1,679,840)
Net book value of first mortgages receivable	4,393,149
Less: Current portion of first mortgages receivable	(299,807)
Long-term portion of first mortgages receivable	4,093,342

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:

- An additional 12.2% 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
- 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:

	$
2021	23,188
2022	15,759
2023	41,807
2024	42,791
Thereafter	221,901
	345,446

8 Demand loans

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

a) A commercial term loan bearing interest at 4.6% due on demand. At December 31, 2020, $199,905 (2019 – $nil) was outstanding on this facility.

b) A commercial term loan bearing interest at Libro prime plus 1% due on demand. At December 31, 2020, $217,126 (2019 – $nil) was outstanding on this facility.

c) A line of credit which can be drawn to a maximum of $750,000, bearing interest at Libro prime plus 1.00% repayable on demand. The amount of the line of credit drawn at December 31, 2020 was $9,562 (2019 – $202,110).

d) A line of credit which can be drawn to a maximum of $150,000, bearing interest at the Libro prime plus 1.00% repayable on demand. No amount is owing on this line of credit (2019 – $nil).

The above Libro credit facilities are secured by a first collateral charge against lands and premises located at 1697 Highbury Avenue North in London in the amount of $800,000 and an existing assignment of first mortgages held by the Organization on 8 properties located in London, first loss payee on the fire insurance policy over the mortgaged real estate that are secured and a general security agreement covering amounts receivable, inventory, motor vehicles and equipment.

The Organization is subject to externally imposed capital requirement related to the above financing. Specifically, the Organization must maintain a minimum Current Ratio of 1.5: 1, defined as current assets over current liabilities less callable debt. At December 31, 2020, the organization was in compliance with this covenant.

9 Deferred contributions

	2020 $	2019 $
Deferred build revenue	172,705	217,770
Deferred grant revenue	-	12,500
	172,705	230,270

10 Deferred contributions related to capital assets

	2020 $	2019 $
Opening balance	8,798	26,278
Amounts amortized to revenue during the year	(8,798)	(17,480)
Balance – End of year	-	8,798

11 Lease inducements

The Organization has two lease inducements:

- The Organization entered into a lease for the Stratford ReStore that included an incentive equal to eight months rent free. The result is an amount of $31,667 being recognized as a lease inducement.

- The Organization entered into a lease for the London Wonderland Road ReStore that included an incentive equal to approximately 6.5 months free rent. The result is an amount of $157,214 being recognized as a lease inducement.

12 Lease commitments

The Organization has seven leases with respect to its premises (London, Adelaide Street ReStore, Woodstock ReStore, London, Pacific Court Buildings, St. Thomas ReStore, Stratford ReStore, London, Wonderland Road ReStore), which expire between February 2020 and May 2025. Future minimum lease payments as at December 31, 2020 are as follows:

	$
2021	644,848
2022	522,317
2023	442,643
2024	409,109
2025	229,350
Thereafter	40,793
	2,289,061

13 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, 2020. 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.

14 COVID-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. The impact of COVID-19 on the general economy has been significant and far-reaching. Economic conditions remain challenged and uncertain. As a response, the Ontario government announced a state of emergency and imposed lockdowns, which required non-essential retail stores (such as Restores) to close. This led to decreased Restore revenues during lockdowns, however, Restore sales increased in the periods they were allowed to be open. The Organization also applied for $246,276 from the Canadian Employment Wage Subsidy (CEWS) program. This amount was recorded against Restore operations and Salaries, wages and benefits on the Statement of Operations. Management continues to actively monitor the effect on its financial condition, liquidity, operations, suppliers, industry, and workforce.

15 Subsequent Event

On January 8, 2021, Habitat for Humanity, Heartland Ontario Inc. and Habitat for Humanity Brant-Norfolk Chapter entered into an amalgamation agreement to form one organization under the name of Habitat for Humanity, Heartland Ontario Inc.