

Habitat for Humanity Heartland Ontario Inc.

Financial Statements
December 31, 2022



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 Organization) as at December 31, 2022 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 Organization's financial statements comprise:

- the statement of financial position as at December 31, 2022;
- 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 Organization 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.

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

PricewaterhouseCoopers LLP
465 Richmond Street, Suite 400, London, Ontario, Canada N6A 5P4
T: +1 519 640 8000, F: +1 519 640 8015, ca_london_main_fax@pwc.com

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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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 Organization'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 Organization'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 Organization 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
September 5, 2023

Habitat for Humanity Heartland Ontario Inc.

Statement of Financial Position

As at December 31, 2022

	2022 \$	2021 \$
Assets		
Current assets		
Cash	863,210	893,692
Accounts receivable	406,729	272,600
HST recoverable	137,697	81,816
Prepaid expenses and deposits	184,182	150,020
Inventory (note 4)	4,390,084	3,987,468
Current portion of first mortgages receivable (note 6)	393,261	362,704
	6,375,163	5,748,300
Capital assets (note 5)	54,631	357,470
Loan receivable	4,000	-
Mortgages receivable (note 6)	5,051,894	5,015,837
	11,485,688	11,121,607
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,080,985	510,265
Deferred contributions	1,474,873	768,596
Operating loan (note 8)	-	686,979
Leasehold improvement loan (note 8)	291,756	359,975
CEBA loan (note 9)	40,000	40,000
	2,887,614	2,365,815
Lease inducements (note 10)	92,327	140,604
	2,979,941	2,506,419
Net Assets	8,505,747	8,615,188
	11,485,688	11,121,607
Lease commitments (note 11)		
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, 2022

	2022 \$	2021 \$
Net Assets – Beginning of year	8,615,188	8,137,500
(Deficiency) excess of revenue over expenses	<u>(109,441)</u>	<u>477,688</u>
Net Assets – End of year	<u>8,505,747</u>	<u>8,615,188</u>

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, 2022

	2022 \$	2021 \$
Revenue		
ReStore operations	5,249,095	4,009,515
Home sales (note 3)	2,234,412	929,000
Gifts-in-kind	97,694	30,831
Donations, grants and fundraising	1,030,966	891,871
	<u>8,612,167</u>	<u>5,861,217</u>
Direct expenses		
ReStore operations	4,561,902	3,701,399
Gifts-in-kind	97,694	30,831
Direct building costs (notes 3 and 4)	1,385,642	106,095
	<u>6,045,238</u>	<u>3,838,325</u>
Excess of revenue over direct expenses	<u>2,566,929</u>	<u>2,022,892</u>
Discount (accretion income) on mortgages	739,785	(132,792)
Mortgage valuation allowance	300,761	-
Inventory valuation allowance	70,740	-
General administrative expenses	<u>1,565,084</u>	<u>1,677,996</u>
	<u>2,676,370</u>	<u>1,545,204</u>
(Deficiency) excess of revenue over expenses for the year	<u>(109,441)</u>	<u>477,688</u>

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, 2022

	2022 \$	2021 \$
Cash provided by (used in)		
Operating activities		
Cash receipts from customers, donors and other operations	7,538,109	6,378,417
Cash paid to suppliers, employees and others	(6,801,127)	(6,772,091)
	<u>736,982</u>	<u>(393,674)</u>
Investing activities		
Purchase of capital assets	(12,266)	(163,675)
Proceeds on disposal of capital assets	-	3,600
	<u>(12,266)</u>	<u>(160,075)</u>
Financing activities		
Repayments on demand loans	(755,198)	-
Proceeds from demand loans	-	499,497
	<u>(755,198)</u>	<u>499,497</u>
Decrease in cash during the year	(30,482)	(54,252)
Cash – Beginning of year	893,692	947,944
Cash – End of year	<u>863,210</u>	<u>893,692</u>

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

Habitat for Humanity Heartland Ontario Inc.

Notes to Financial Statements

December 31, 2022

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.

On January 8, 2021, Habitat for Humanity Heartland Ontario Inc. and Habitat for Humanity Brant-Norfolk (together, Chapters) entered into an amalgamation agreement to form one organization under the name of Habitat for Humanity Heartland Ontario Inc. The amalgamation was effective January 1, 2021.

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 interest-free mortgages.

The Organization also operates nine 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 (Canada) 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 homes at the net present value of the expected future cash flows from the related mortgages (which is calculated using the Organization's bank borrowing rate at the time the mortgage is issued). Mortgage values are determined based on the selling price of the home (based on appraised value) less any down payments made by the new homeowner.

On an annual basis, the present value discount of mortgages is amortized as accretion income and included in income. The Organization also recognizes changes in the net present value of each mortgage on an annual basis, based on any changes to the expected future mortgage payment schedules.

Revenue recognition – other

The Organization operates nine retail stores known as ReStores. Revenue from ReStores is recognized when the customer takes possession of the goods and payment is received.

Habitat for Humanity Heartland Ontario Inc.

Notes to Financial Statements

December 31, 2022

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 or internally restricted. Restricted donations or grants are recognized as revenue when the expenses that the donation or grant is intended to fund are 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 the estimated useful lives as follows:

Building	20 years
Computer equipment	3 years
Fencing	10 years
Leasehold improvements	term of lease
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 value. The value of new and used materials donated to the ReStore is 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 financial statements.

Habitat for Humanity Heartland Ontario Inc.

Notes to Financial Statements

December 31, 2022

Lease inducements

Lease inducements are amortized on a straight-line basis over the term of the lease.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 those 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

	2022 \$	2021 \$
Land inventory (5 locations; 2021 – 6 locations)	1,580,139	1,690,110
Homes under construction (5 locations; 2021 – 4 locations)	2,809,945	2,297,358
	<u>4,390,084</u>	<u>3,987,468</u>

Included in direct building costs are the costs associated with the construction of homes sold during the year as well as the land cost for those homes.

5 Capital assets

	2022		2021	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer equipment	130,998	129,735	1,263	11,838
Leasehold improvements	824,539	786,663	37,876	202,784
Office equipment	98,034	92,798	5,236	16,805
Store equipment	264,592	255,633	8,959	10,455
Vehicles	181,658	181,658	-	-
Stratford ReStore building	7,410	6,113	1,297	115,588
	<u>1,507,231</u>	<u>1,452,600</u>	<u>54,631</u>	<u>357,470</u>

Habitat for Humanity Heartland Ontario Inc.

Notes to Financial Statements

December 31, 2022

6 Mortgages receivable

First mortgages

The Organization has a number of first mortgages on the houses it has 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:

	\$
2023	393,261
2024	393,261
2025	393,261
2026	393,261
2027	393,261
2028	393,261
2029	393,261
2030	393,261
2031	391,899
2032	391,899
2033	389,448
2034	382,061
2035	372,063
2036	372,063
2037	357,160
2038	352,137
2039	348,026
2040	326,262
2041	312,576
2042	306,726
2043	272,124
2044	256,577
2045	200,026
2046	173,151
2047	90,882
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Total face value of mortgages	8,441,168
Less: Present value discount	2,996,013
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Net book value of first mortgages receivable	5,445,155
Less: Current portion of first mortgages receivable	393,261
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Long-term portion of first mortgages receivable	5,051,894
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Habitat for Humanity Heartland Ontario Inc.

Notes to Financial Statements

December 31, 2022

7 Second mortgages

The Organization holds a number of second mortgages on the houses it has sold. These second mortgages are non-interest bearing and have no set monthly repayment terms. The mortgage may be reduced or forgiven if certain conditions are met.

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.

8 Demand loans

The Organization has the following credit facilities relating to leasehold improvement loans with Libro Credit Union (Libro):

- a) a commercial term loan bearing interest at 4.60% due on demand; as at December 31, 2022, \$186,791 (2021 – \$193,498) was outstanding on this facility; and
- b) a commercial term loan bearing interest at Libro prime plus 1.00% due on demand; as at December 31, 2022, \$104,965 (2021 – \$166,477) was outstanding on this facility.

The Organization has the following credit facilities relating to the operating loan with Libro:

- c) a line of credit that can be drawn to a maximum of \$1,250,000 (2021 – \$750,000) bearing interest at the Libro prime plus 1.00% repayable on demand; as at year-end, no amount was owing on this line of credit (2021 – \$560,319); and
- d) a commercial term loan bearing interest at Libro prime plus 1.45% due on demand was wound down in 2022; as at December 31, 2022, \$nil (2021 – \$126,660) was outstanding on this facility.

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 eight properties located in London, first loss payee on the fire insurance policy over the mortgaged real estate that is secured and a general security agreement covering amounts receivable, inventory, motor vehicles and equipment.

The Organization is subject to externally imposed capital requirements 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. The Organization must also maintain a debt service ratio of 1.5:1, defined as the sum of the excess of revenue over expenses for the year, plus amortization plus interest expense divided by the sum of loan amounts due within one year, plus interest. As at December 31, 2022, the Organization was in compliance with these covenants.

Habitat for Humanity Heartland Ontario Inc.

Notes to Financial Statements

December 31, 2022

9 CEBA loan

During the year 2021, the Organization received a Canada Emergency Business Account (CEBA) loan for \$60,000. This is an interest-free loan and, if repaid on or before December 31, 2023, will result in a loan forgiveness of up to \$20,000. No repayments had been made up to December 31, 2022 and as a result the debt was presented as long-term. The loan is expected to be repaid in full by the December 31, 2023 year-end.

10 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 free rent. As at year-end, the unamortized lease inducement was \$6,333 (2021 – \$19,000).
- The Organization entered into a lease for the London Wonderland Road ReStore that included an incentive equal to approximately 6.5 months free rent. As at year-end, the unamortized lease inducement was \$85,994 (2021 – \$121,604).

11 Lease commitments

The Organization has nine leases with respect to its premises (Adelaide Street ReStore, London; Pacific Court Buildings, London; St. Thomas ReStore; Wonderland Road ReStore, London; Woodstock ReStore; Stratford ReStore, Stratford; Roacher Road, Listowel; Morton Avenue, Brantford; and Park Road, Simcoe), which expire between January 2023 and March 2030. As at December 31, 2022, future minimum lease payments were as follows:

	\$
2023	1,357,564
2024	956,911
2025	446,160
2026	332,724
2027 and thereafter	875,776
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	3,969,135

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 as at December 31, 2022. There were no significant changes in the nature or concentration of the risk exposures from the prior year, unless otherwise noted.

Habitat for Humanity Heartland Ontario Inc.

Notes to Financial Statements

December 31, 2022

Credit risk

Credit risk is the risk 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 for which the mortgage was issued, which allows the Organization to recover the property in the case that the mortgagor defaults.

Liquidity risk

Liquidity risk is the risk 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 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 arises from fluctuations in 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 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 mortgages receivable and term loan.

Other price risk

Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest 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.

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13 Comparative Information

Prior period numbers have been restated for presentation adopted in the current year.