Habitat for Humanity Thousand Islands

Financial Statements

December 31, 2018

Independent Auditor's Report

MNP LLP

To the Members of Habitat for Humanity Thousand Islands:

Qualified Opinion

We have audited the financial statements of Habitat for Humanity Thousand Islands (the "Organization"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, Habitat for Humanity Thousand Islands derives revenue from donations, fundraising and the sale of donated goods, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of Habitat for Humanity Thousand Islands. Therefore we were not able to determine whether any adjustments might be necessary to donations, fundraising and the sale of donated goods, excess of revenue over expenses and cash flows from operations for the years ended December 31, 2018 and 2017, current assets as at December 31, 2018 and 2017, and net assets as at January 1 and December 31 for both the 2018 and 2017 years. Our audit opinion on the financial statements for the year ended December 31, 2017 was modified accordingly because of the possible effects of this limitation in scope.

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 are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter - Restated Comparative Information

We draw attention to Note 15 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2017 has been restated. Our opinion is not modified in respect of this matter.

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 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.

PO BOX 459, 200 7 KING STREET W, BROCKVILLE ON, K6V 5V6
T: 613.342.8424 F: 613.342.1714 MNP.ca

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.

MNP LLP

Brockville, Ontario | Chartered Professional Accountants

January 28, 2021 | Licensed Public Accountants

Habitat for Humanity Thousand Islands
Statement of Financial Position
As at December 31, 2018

	2018	2017 (Restated) Note 15
Assets		
Current		
Cash	**181,373**	157,849
Guaranteed investment certificates	**100,000**	25,000
Accrued interest	**1,081**	-
Sales taxes recoverable	**-**	15,521
Prepaid expenses	**2,882**	2,530
Current portion of mortgages receivable *(Note 4)*	**59,454**	55,476
	344,790	256,376
Mortgages receivable *(Note 4)*	**998,946**	892,525
Land and housing projects under development *(Note 5)*	**764,145**	877,420
Capital assets *(Note 6)*	**29,104**	31,496
	2,136,985	2,057,817
Liabilities		
Current		
Accounts payable and accrued liabilities *(Note 13)*	**105,781**	70,894
Government remittances payable	**16,624**	7,076
Sales taxes payable	**1,525**	-
Deposits received	**8,400**	3,800
	132,330	81,770
Deferred contributions related to capital assets *(Note 7)*	**22,769**	30,358
	155,099	112,128
Contingencies *(Note 9) (Note 14)*		
Subsequent event *(Note 16)*		
Net Assets		
Investment in housing *(Note 8)*	**1,814,145**	1,821,621
Investment in capital assets	**6,335**	1,138
Unrestricted	**161,406**	122,930
	1,981,886	1,945,689
	2,136,985	2,057,817

Approved on behalf of the Board

[signature] Little
Director

[signature] Spencer
Director

The accompanying notes are an integral part of these financial statements

Habitat for Humanity Thousand Islands
Statement of Operations
For the year ended December 31, 2018

	2018	2017 (Restated) Note 15
Revenue		
ReStore sales	**828,383**	895,532
Contributions from Habitat for Humanity Canada *(Note 13)*	**27,091**	25,083
Amortization of mortgage discounts	**23,184**	13,803
Donations	**16,168**	49,266
Grants	**14,377**	-
Amortization of deferred contributions for capital assets *(Note 7)*	**7,589**	7,589
Fundraising	**3,339**	6,043
Interest	**1,595**	1,008
Miscellaneous	**60**	1,604
	921,786	999,928
Expenses		
ReStore operations *(Note 13)*	**486,254**	429,499
ReStore occupancy	**158,286**	172,968
Administration	**67,972**	80,115
ReStore vehicle operations	**25,315**	20,785
Professional fees	**14,002**	11,838
Amortization of capital assets	**7,991**	7,694
Insurance	**3,132**	3,660
Promotion	**1,266**	1,850
	764,218	728,409
Excess of revenue over expenses before other items	**157,568**	271,519
Other items		
Proceeds from sale of homes	**390,378**	152,537
Write-down of housing projects under development	**-**	(32,730)
Write-down of mortgages receivable *(Note 10)*	**(199,054)**	(62,161)
Development costs of homes sold	**(312,692)**	(237,541)
	(121,368)	(179,895)
Excess of revenue over expenses	**36,200**	91,624

The accompanying notes are an integral part of these financial statements

Habitat for Humanity Thousand Islands
Statement of Changes in Net Assets
For the year ended December 31, 2018

	Investment in housing	*Investment in capital assets*	*Unrestricted*	*2018*	*2017*
Net assets beginning of year, as previously stated	**1,874,024**	**1,138**	**122,931**	**1,998,093**	1,804,281
Correction of an error *(Note 15)*	**(52,404)**	**-**	**-**	**(52,404)**	49,784
Net assets, beginning of year, as restated	**1,821,620**	**1,138**	**122,931**	**1,945,689**	1,854,065
Excess of revenue over expenses	**(98,184)**	**(402)**	**134,786**	**36,200**	91,624
Net change in investment in housing	**90,709**	**-**	**(90,712)**	**(3)**	-
Net change in investment in capital assets	**-**	**5,599**	**(5,599)**	**-**	-
Net assets, end of year	**1,814,145**	**6,335**	**161,406**	**1,981,886**	1,945,689

Habitat for Humanity Thousand Islands
Statement of Cash Flows
For the year ended December 31, 2018

	2018	2017 (Restated) Note 15
Cash provided by (used for) the following activities		
Operating		
Excess of revenue over expenses	**36,200**	91,624
Amortization of capital assets	**7,991**	7,694
Amortization of deferred contributions related to capital assets	**(7,589)**	(7,589)
Amortization of mortgage discounts	**(23,184)**	(13,803)
Loss (gain) on sale of homes	**(77,686)**	85,004
Write-down of mortgage receivable	**199,054**	62,161
	134,786	225,091
Changes in working capital accounts		
Accounts receivable	**-**	8,595
Accrued interest	**(1,081)**	-
Sales taxes recoverable/payable	**17,046**	4,486
Prepaid expenses	**(352)**	66
Accounts payable and accrued liabilities	**34,888**	5,331
Government remittances payable	**9,548**	2,096
Deposits received	**4,600**	3,800
	199,435	249,465
Investing		
Purchase of capital assets	**(5,599)**	-
Payments received on mortgages receivable	**104,870**	74,835
Redemption of guaranteed investment certificate	**25,000**	200,000
Purchase of guaranteed investment certificate	**(100,000)**	(25,000)
Additions to land and housing projects under development	**(200,182)**	(366,580)
	(175,911)	(116,745)
Increase in cash	**23,524**	132,720
Cash, beginning of year	**157,849**	25,129
Cash, end of year	**181,373**	157,849

1. Incorporation and nature of the organization

Habitat for Humanity Thousand Islands (the “Organization”) is incorporated without share capital under the Corporations Act of Ontario. Habitat for Humanity Thousand Islands is a registered charitable organization and is exempt from income taxes provided certain requirements of the Income Tax Act (Canada) are met.

The primary objective of the Organization is to provide housing for persons in Leeds and Grenville who do not qualify for a traditional mortgage by constructing homes and providing interest free loans to enable them to purchase such homes.

The Organization operates the "ReStore", a retail operation that accepts donations of and sells new and used hardware, building supplies, furniture and appliances.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations set out in Part III of the CPA Canada Handbook - Accounting, as issued by the Accounting Standards Board in Canada and include the following significant accounting policies:

Revenue recognition

The Organization follows the deferral method of accounting for contributions, which include donations and government grants.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions which are restricted by the donor for the cost of constructing a home are recognized as revenue as construction costs are incurred. Other externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Revenue from the sale of a home is recognized upon transfer of property title, with proceeds recognized equal to the principal value of the first mortgages.

Revenue from sales at the ReStore are recognized upon delivery of goods to the customer.

Unrestricted investment income is recognized as revenue when earned.

Capital assets

Capital assets are recorded at cost, less accumulated amortization which is determined on a straight-line basis over the estimated useful lives of the capital assets as follows:

Automotive	6 to 10 years
Computer equipment	2 years
Leasehold improvements	5 years
Sign	5 years
Build tools	5 years

Mortgages receivable

Mortgages receivable from sales of homes are interest free and repayable over periods of time generally ranging from twenty to thirty years.

The Organization also holds second mortgages on certain properties. These second mortgages are not recognized in the Financial Statements and represent a contingent asset to the organization.

Land and housing projects under development

Land and housing projects under development are recorded at the lower of cost and realizable value. They do not include the value of volunteer labour.

2. Significant accounting policies *(Continued from previous page)*

Deferred contributions related to capital assets

Deferred contributions related to capital assets represent the unamortized portion of contributed capital assets and restricted contributions that were used to purchase the Organization's trucks. Recognition of these amounts as revenue is deferred to periods when the related capital assets are amortized.

Contributed materials and services

Contributed materials and services are recorded at fair market value when a fair value of the contributions can be reasonably estimated, the contributed materials and services are used in the normal course of operations, and they would have been purchased by the Organization if they had not been contributed.

The value of contributed volunteer services is not recognized in the financial statements.

Measurement uncertainty (use of estimates)

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Estimates are used in determining the fair value of mortgages receivable, including the appropriateness of discount rates. Amortization is based on the estimated useful lives of capital assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

Financial instruments

The Organization recognizes its financial instruments when the Organization becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value.

The Organization subsequently measures all financial assets and liabilities at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

Financial asset impairment

The Organization assesses impairment of all of its financial assets measured at cost or amortized cost. The Organization groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group; there are numerous assets affected by the same factors; no asset is individually significant. Management considers whether the issuer is having significant financial difficulty; whether there has been a breach in contract, such as a default or delinquency in interest or principal payments; in determining whether objective evidence of impairment exists. When there is an indication of impairment, the Organization determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Organization reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year excess of revenue over expenses.

The Organization reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the excess of revenue over expenses in the year the reversal occurs.

3. Guaranteed investment certificates

Guaranteed investment certificates bear interest at a rate of 1.45% (2017 - 0.55%) and mature in April 2019 (2017 - February 2018).

4. Mortgages receivable

The carrying value of the discounted non-interest bearing mortgages receivable are as set out below.
The face value of the mortgages amounts to $1,490,769 (2017 - $1,208,539). Mortgage payments are adjusted annually, based upon the purchaser's income.

	2018	2017 (Restated) Note 13
Secured by a charge on property in Brockville, repaid during the year	**-**	3,492
Secured by a charge on property in Newboro, with monthly principal payments of $1,545 (2017 - $1,166) and maturing in 2022	**65,879**	76,849
Secured by a charge on property in Athens, with monthly principal payments of $1,261 and maturing in 2019	**6,392**	21,463
Secured by a charge on property in Prescott, with monthly principal payments of $851 (2017 - $768) and maturing in 2031	**113,242**	122,501
Secured by a charge on property in Prescott, with monthly principal payments of $346 (2017 - $620) and maturing in 2051	**92,530**	114,626
Secured by a charge on property in Prescott, with monthly principal payments of $428 (2017 - $354) and maturing in 2046	**103,036**	101,607
Secured by a charge on property in Kemptville, with monthly principal payment of $249 (2017 - $726) and maturing in 2102	**105,015**	187,692
Secured by a charge on property in Lansdowne, with monthly principal payments of $311 (2017 - $294) and maturing in 2051	**83,397**	87,545
Secured by a charge on property in Lansdowne, with monthly principal payments of $447 (2017 - $570) and maturing in 2042	**94,143**	105,735
Secured by a charge on property in Oxford Mills, with monthly principal payments of $880 and maturing in 2031	**114,642**	126,491
Secured by a charge on property in Brockville, with monthly principal payment of $800 and maturing in 2037	**144,082**	-
Secured by a charge on property in Brockville, with monthly principal payments of $550 and maturing in 2047	**136,042**	-
	1,058,400	948,001
Less current portion	**(59,454)**	(55,476)
	998,946	892,525

The mortgages are all non-interest bearing and are presented at amortized cost. As the Organization intends to use the cash flow from the repayment of these mortgages for future construction of homes, the rate of inflation is considered to be an appropriate discount rate. A discount rate of 2.5% (2017 - 2.3%) has been applied for these mortgages, being the Organization's estimate of future long-term inflation rates.

5. Land and housing projects under development

	2018	2017
Land	**549,396**	569,396
Construction in progress	**214,749**	-
Homes constructed	**-**	308,024
	764,145	877,420

6. Capital assets

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Automotive	**91,374**	**64,424**	**26,950**	29,119
Computer equipment	**9,678**	**9,122**	**556**	60
Leasehold improvements	**4,748**	**4,748**	**-**	-
Sign	**1,350**	**1,350**	**-**	-
Build tools	**3,594**	**1,996**	**1,598**	2,317
	110,744	**81,640**	**29,104**	31,496

7. Deferred contributions related to capital assets

Deferred contributions related to capital assets represent contributions received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2018	2017
Balance, beginning of year	**30,358**	37,947
Less amounts amortized to revenue	**(7,589)**	(7,589)
Balance, end of year	**22,769**	30,358

8. Investment in housing

Investment in housing is calculated as follows:

	2018	2017 (Restated) Note 15
Land and housing projects under development	**764,145**	877,420
Mortgages receivable	**1,058,400**	948,001
Deposits received	**(8,400)**	(3,800)
	1,814,145	1,821,621

9. Contingencies

Prior to May 2010, when Habitat for Humanity Canada changed its national mortgage policy, the proceeds for the sale of homes included a forgivable second mortgage which reflected the difference between fair market value and the costs of land and construction.

As at December 31, 2018, the following non-interest bearing forgivable second mortgages have not been reflected in the Organization's accounts:

In the amount of $25,123 (forgiven in 2019)

In the amount of $15,150 (forgiven in 2019)

In the amount of $42,500 (declining by $8,500 in 2021 and then $4,250 annually until 2029)

10. Write-down of mortgages receivable:

The write-down of mortgages receivable resulted from the following:

	2018	*2017 (Restated) Note 15*
Initial adjustment of new mortgages to amortized cost	**90,146**	**18,706**
Change in discount rate (Note 3)	**19,283**	**22,417**
Change in scheduled payments of mortgages	**89,625**	**14,413**
Other	**-**	**6,625**
	199,054	**62,161**

11. Commitments

The Organization leases two buildings for the Brockville ReStore operations and one building for the Kemptville ReStore operation. Both Brockville buildings are leased under a long-term lease that expires at the end of May 2020. A subsequent lease was signed for July 2020 to June 2028. The Kemptville ReStore building is leased under a long-term lease that expired at the end of December 2018; going forward, all lease contracts for the Kemptville building are on an annual renewable basis.

Future minimum lease payments, by fiscal year and in aggregate, are as follows:

2019	79,200
2020	95,370
2021	106,920
2022	127,710
2023 to 2028	700,920
	1,110,120

12. Financial instruments

The Organization, as part of its operations, carries a number of financial instruments. It is management's opinion that the Organization is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization manages its liquidity requirements by monitoring its cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash.

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 with respect to its accounts receivable and its mortgages receivable with twelve homeowners. The Organization believes that the credit risk from non-collection of mortgages is minimal as the carrying value of the mortgages is substantially less than the value of the underlying homes.

13. Habitat for Humanity Canada

The Organization is an affiliate of Habitat for Humanity Canada ("HFHC"). HFHC provides administrative, marketing and training support to the individual affiliates across the country. HFHC also coordinates gifts in kind to affiliates and makes contributions to the affiliate for each home constructed. In exchange for these services and support, the Organization pays a base affiliation fee of $17,500. The Organization also pays quarterly affiliation fees and a percentage of gross ReStore sales which during the year, amounted to $54,413 (2017 - $65,443) and is included in ReStore operations on the Statement of Operations. During the year, HFHC distributed $27,091 (2017 - $25,083) of funds to the Organization. At year end, amounts due to HFHC amounted to $12,537 (2017 - $17,587) and is included in accounts payable and accrued liabilities. The above transactions are measured at the exchange amount agreed upon between parties.

14. Contingent liability

In the normal conduct of operations, there are other pending claims by and against the Organization. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these other litigations will not materially affect the Organization's financial position or results of operations.

15. Correction of an error

During the year the Organization determined that adjustments were required to the mortgages receivable in order to accurately reflect the prevailing terms and agreements. These corrections have been applied retrospectively and prior years have been restated. The impact on the amounts previously reported for the year ended December 31, 2017 are as follows:

As at December 31, 2017	As previously reported	Restatement	**As restated**
Land and housing projects under development	1,114,196	(236,776)	877,420
Mortgages receivable	771,728	176,273	948,001
Deposits received	11,900	(8,100)	3,800
Net assets - invested in housing	1,874,025	(52,404)	1,821,621
Net assets - unrestricted	122,930	-	122,930

For the year ended December 31, 2017	As previously reported	Restatement	**As restated**
Revenue	998,404	1,524	999,928
Write-downs of mortgages receivable	(43,454)	(18,707)	62,161
Loss on disposal of housing projects	-	(85,004)	(85,004)
Excess of revenue over expenses	193,811	(102,187)	91,624

16. Subsequent event

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Organization as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

While the full extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Organization's operations and financial condition. The ReStores were closed from mid March through June 2020 as a result. The Organization has accessed available government support.