Habitat for Humanity Thousand Islands

Financial Statements

December 31, 2019

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, 2019, 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 matters 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, 2019, 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 to 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, 2019 and 2018, current assets as at December 31, 2019 and 2018 and net assets as at January 1 and December 31 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended December 31, 2018 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.

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.

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, 2019

	2019	2018
Assets		
Current		
Cash	**118,918**	181,373
Guaranteed investment certificates *(Note 4)*	**101,450**	100,000
Accounts receivable *(Note 14)*	**9,770**	-
Accrued interest	**986**	1,081
Prepaid expenses	**2,078**	2,882
Current portion of mortgages receivable *(Note 5)*	**39,482**	59,454
	272,684	344,790
Mortgages receivable *(Note 5)*	**924,384**	998,946
Land and housing projects under development *(Note 6)*	**959,311**	764,145
Capital assets *(Note 7)*	**18,035**	29,104
	2,174,414	2,136,985
Liabilities		
Current		
Accounts payable and accrued liabilities *(Note 14)*	**105,934**	105,781
Government remittances payable	**6,272**	16,624
Sales taxes payable	**25,800**	1,525
Deposits received	**13,534**	8,400
	151,540	132,330
	151,540	132,330
Deferred contributions related to capital assets *(Note 8)*	**15,180**	22,769
	166,720	155,099
Contingencies *(Note 10) (Note 15)*		
Subsequent events *(Note 16)*		
Net Assets		
Investment in housing *(Note 9)*	**1,909,643**	1,814,145
Investment in capital assets	**2,855**	6,335
Unrestricted	**95,196**	161,406
	2,007,694	1,981,886
	2,174,414	2,136,985

Approved on behalf of the Board

R Little

Director

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, 2019

	2019	*2018*
Revenue		
ReStore sales	**815,577**	828,383
Contributions from Habitat for Humanity Canada *(Note 14)*	**33,197**	27,091
Amortization of mortgage discounts	**20,126**	23,184
Amortization of deferred contributions for capital assets *(Note 8)*	**7,589**	7,589
Donations	**2,682**	16,168
Fundraising	**2,687**	3,339
Interest	**1,518**	1,595
Grants	**840**	14,377
Miscellaneous	**-**	60
	884,216	921,786
Expenses		
ReStore operations *(Note 14)*	**523,457**	486,254
ReStore occupancy	**166,860**	158,286
Administration	**60,448**	67,972
ReStore vehicle operations	**27,039**	25,315
Professional fees	**17,413**	14,002
Amortization of capital assets	**11,069**	7,991
Insurance	**4,665**	3,132
Promotion	**1,254**	1,266
	812,205	764,218
Excess of revenue over expenses before other items	**72,011**	157,568
Other items		
Write-down of mortgages receivable *(Note 11)*	**(46,205)**	(199,054)
Development costs of homes sold	**-**	(312,692)
Proceeds from sale of properties	**-**	390,378
	(46,205)	(121,368)
Excess of revenue over expenses	**25,806**	36,200

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, 2019

	Investment in housing	*Investment in capital assets*	*Unrestricted*	***2019***	*2018*
Net assets, beginning of year	**1,814,145**	**6,335**	**161,406**	**1,981,886**	1,945,689
Excess of revenue over expenses	**(26,079)**	**(3,480)**	**55,365**	**25,806**	36,200
Net change in investment in housing	**121,577**	**-**	**(121,575)**	**2**	(3)
Net assets, end of year	**1,909,643**	**2,855**	**95,196**	**2,007,694**	1,981,886

Habitat for Humanity Thousand Islands
Statement of Cash Flows
For the year ended December 31, 2019

	2019	*2018*
Cash provided by (used for) the following activities		
Operating		
Excess of revenue over expenses	**25,806**	36,200
Amortization of capital assets	**11,069**	7,991
Amortization of deferred contributions related to capital assets	**(7,589)**	(7,589)
Amortization of mortgage discounts	**(20,126)**	(23,184)
Gain (loss) on disposal of housing projects	**-**	(77,686)
Write-down of mortgage receivable	**46,205**	199,054
	55,365	134,786
Changes in working capital accounts		
Accounts receivable	**(9,770)**	-
Accrued interest	**95**	(1,081)
Sales taxes payable	**24,275**	17,046
Prepaid expenses	**804**	(352)
Accounts payable and accrued liabilities	**153**	34,888
Government remittances payable	**(10,352)**	9,548
Deposits received	**5,134**	4,600
	65,704	199,435
Investing		
Purchase of capital assets	**-**	(5,599)
Payments received on mortgages receivable	**68,457**	104,870
Redemption of guaranteed investment certificate	**100,000**	25,000
Purchase of guaranteed investment certificate	**(101,450)**	(100,000)
Additions to land and housing projects under development	**(195,166)**	(200,182)
	(128,159)	(175,911)
Increase (decrease) in cash	**(62,455)**	23,524
Cash, beginning of year	**181,373**	157,849
Cash, end of year	**118,918**	181,373

The accompanying notes are an integral part of these financial statements

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 its 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 revenues 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 excess in the year the reversal occurs.

3. Change in accounting policy

Capital Assets Held by Not-for-Profit Organizations

Effective January 1, 2019, the Organization adopted the Accounting Standard Board's (AcSB) new accounting standards improvements for not-for-profit organizations related to capital assets under Section 4433 *Tangible Assets Held by Not-for-Profit Organizations*. Applying this new Section results in changes to the determination of impairment and write-downs of capital assets and allows for the recognition of partial impairments of these assets. .

There was no material impact on the financial statements from the application of the new accounting recommendations.

4. Guaranteed investment certificates

Guaranteed investment certificates bear interest at a rate of 1.30% (2018 - 1.45%) and mature in April 2020 (2018 - April 2019).

5. 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 $1,422,096 (2018 - $1,490,769). Mortgage payments are adjusted annually, based upon the purchaser's income.

	2019	*2018*
Secured by a charge on property in Newboro, with monthly principal payments of $531 (2018 - $1,545) and maturing in 2029	**54,299**	65,879
Secured by a charge on property in Athens, repaid during the year	**-**	6,392
Secured by a charge on property in Prescott, with monthly principal payments of $711 (2018 - $638) and maturing in 2035	**106,992**	113,242
Secured by a charge on property in Prescott, with monthly principal payments of $212 (2018 - $346) and maturing in 2071	**73,866**	92,530
Secured by a charge on property in Prescott, with monthly principal payments of $250 (2018 - $428) and maturing in 2066	**82,197**	103,036
Secured by a charge on property in Kemptville, with monthly principal payments of $275 (2018 - $249) and maturing in 2095	**111,784**	105,015
Secured by a charge on property in Lansdowne, with monthly principal payments of $327 (2018 - $311) and maturing in 2049	**81,003**	83,397
Secured by a charge on property in Lansdowne, with monthly principal payments of $609 (2018 - $447) and maturing in 2036	**97,054**	94,143
Secured by a charge on property in Oxford Mills, with monthly principal payments of $880 and maturing in 2032	**107,453**	114,642
Secured by a charge on property in Brockville, with monthly principal payments of $800 and maturing in 2039	**135,125**	144,082
Secured by a charge on property in Brockville, with monthly principal payments of $363 (2018 - $550) and maturing in 2062	**114,093**	136,042
	963,866	1,058,400
Less current portion	**(39,482)**	(59,454)
	924,384	998,946

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% for 2019 and 2018 has been applied for these mortgages, being Management's estimate of future long-term inflation rates.

6. Land and housing projects under development

	2019	*2018*
Land	**590,920**	549,396
Construction in progress	**368,391**	214,749
	959,311	764,145

7. Capital assets

	Cost	***Accumulated amortization***	***2019 Net book value***	*2018 Net book value*
Automotive	**85,434**	**68,463**	**16,971**	26,950
Computer equipment	**9,678**	**9,493**	**185**	556
Leasehold improvements	**4,748**	**4,748**	**-**	-
Sign	**1,350**	**1,350**	**-**	-
Build tools	**3,594**	**2,715**	**879**	1,598
	104,804	**86,769**	**18,035**	29,104

8. 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.

	2019	*2018*
Balance, beginning of year	**22,769**	30,358
Less amounts amortized to revenue	**(7,589)**	(7,589)
Balance, end of year	**15,180**	22,769

9. Investment in housing

Investment in housing is calculated as follows:

	2019	*2018*
Land and housing projects under development	**963,866**	764,145
Mortgages receivable	**959,311**	1,058,400
Deposits for house sale	**(13,534)**	(8,400)
	1,909,643	1,814,145

10. 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, 2019, the following non-interest bearing forgivable second mortgages have not been reflected in the Organization's accounts:

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

11. Write-down of mortgages receivable

The write-down of mortgages receivable in 2019 resulted from the following:

	2019	*2018*
Initial adjustment of new mortgages to amortized cost	**-**	**90,146**
Change in discount rate (Note 3)	**-**	**19,283**
Change in scheduled payments of mortgages	**42,484**	**89,625**
Other	**3,721**	**-**
	46,205	**199,054**

12. 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 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:

2020	95,370
2021	106,920
2022	127,710
2023	142,560
2024 to 2028	558,360
	1,030,920

13. 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 concentration

Accounts receivable from Habitat for Humanity Canada ("HFHC") represents 100% (2018 - 0%) of total accounts receivable as at December 31, 2019. The Organization believes that there is minimal risk associated with the collection of this amount. Habitat for Humanity Thousand Islands is an affiliate of HFHC, so there is virtually no risk of collection from its parent organization.Therefore, the credit risk exposure may be assessed as $NIL.

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 eleven (2018 - 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.

14. 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 a quarterly affiliation fees and a percentage of gross ReStore sales which during the year, amounted to $54,622 (2018 - $54,413) and is included in ReStore operations on the Statement of Operations. During the year, HFHC distributed $33,197 (2018 - $27,091) of funds to the Organization. At year end, amounts due to HFHC amounted to $15,731 (2018 - $12,537) and is included in accounts payable and accrued liabilties. Included in accounts receivables are amounts due from HFHC totaling $9,770 (2018 - $nil). The above transactions are measured at the exchange amount agreed upon between parties.

15. Contingent liabilities

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 counselt, final determination of these other litigations will not materially affect the Organizations financial position or results of its operations.

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.