

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

Financial Statements
for the Year Ended December 31, 2019
and Independent Auditor's Report to the Directors

HABITAT FOR HUMANITY HALTON/MISSISSAUGA
FINANCIAL STATEMENTS
DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Directors of
Habitat for Humanity Halton/Mississauga:

Qualified Opinion

We have audited the accompanying financial statements of Habitat for Humanity Halton/Mississauga (the Entity), 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 the 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 financial statements present fairly, in all material respects, the financial position of the Entity 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, the Entity derives revenue from certain activities, including donations and ReStore sales, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to revenue, expenses, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2019 and 2018, 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.

Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

June 4, 2020

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2019

	<u>2019</u>			<u>2018</u>
	Housing Fund	Operating Fund	Total	Total
REVENUE				
Amortization of deferred donations (Note 9)	\$ -	\$ 10,594	\$ 10,594	\$ 14,152
Amortization of deferred grants (Note 10)	-	32,107	32,107	8,290
Donations - cash	2,386,930	229,736	2,616,666	2,926,859
Donations - in kind	77,141	1,356	78,497	7,351
Interest and other income	-	12,201	12,201	10,873
Rental	-	39,744	39,744	21,944
ReStore operations - page 18	-	1,304,887	1,304,887	1,452,158
	2,464,071	1,630,625	4,094,696	4,441,627
EXPENSES				
Amortization	-	9,251	9,251	9,251
Bad debts	-	-	-	2,707
Bank charges and interest	-	14,467	14,467	94,111
Community awareness and education	-	34,108	34,108	88,722
Depreciation	47,598	27,849	75,447	61,664
Facilities	-	54,478	54,478	54,207
Family partnering program	126,327	87,861	214,188	133,166
Global village	-	-	-	5,357
Habitat for Humanity Canada affiliation fees	-	37,500	37,500	37,500
Handyman program	190,851	-	190,851	12,813
Insurance	-	43,894	43,894	27,744
Interest on obligation under capital leases	234	644	878	845
Office and miscellaneous	-	26,085	26,085	42,640
Personnel (program and administration)	-	971,445	971,445	1,023,678
Professional fees	-	135,762	135,762	55,302
Resource development	129,265	501,682	630,947	637,027
Sales tax not recovered	-	94,555	94,555	71,356
Tithe for international projects	134,908	14,357	149,265	79,789
Vehicle	43,639	-	43,639	48,624
Volunteer expenses	-	76,641	76,641	50,172
	672,822	2,130,579	2,803,401	2,536,675
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE OTHER REVENUE (EXPENSES)	1,791,249	(499,954)	1,291,295	1,904,952
OTHER REVENUE (EXPENSES)				
Adjustment of mortgages receivable discount	15,805	-	15,805	193,114
Discount on new mortgages receivable	-	-	-	(174,608)
Excess of proceeds received over carrying value of properties (Note 3)	299,916	-	299,916	221,984
Gain on repayment of mortgages receivable	197,322	-	197,322	-
Unrealized change in value of marketable securities	1,812	-	1,812	(882)
	514,855	-	514,855	239,608
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ 2,306,104	\$ (499,954)	\$ 1,806,150	\$ 2,144,560

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2019

	<u>2019</u>			<u>2018</u>
	<u>Housing Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$12,409,817	\$ (328,389)	\$12,081,428	\$ 9,936,868
Excess (deficiency) revenue over expenses	<u>2,306,104</u>	<u>(499,954)</u>	<u>1,806,150</u>	<u>2,144,560</u>
Balance, end of year	\$14,715,921	\$ (828,343)	\$13,887,578	\$12,081,428


HABITAT FOR HUMANITY HALTON/MISSISSAUGA

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

	<u>2019</u>			<u>2018</u>
	Housing Fund	Operating Fund	Total	Total
ASSETS				
Current assets				
Marketable securities	\$ 19,375	\$ -	\$ 19,375	\$ 15,816
Accounts receivable (Note 2)	87,306	122,838	210,144	158,580
Properties in progress and held for sale (Note 3)	16,430,798	-	16,430,798	12,771,904
Prepaid expenses and deposits	74,436	78,746	153,182	275,536
Current portion of mortgages receivable	164,632	-	164,632	594,667
	16,776,547	201,584	16,978,131	13,816,503
Mortgages receivable (Note 4)	1,929,928	-	1,929,928	2,383,598
Capital assets (Note 5)	870,540	182,892	1,053,432	1,043,986
Intangible asset (Note 6)	-	3,343	3,343	12,594
	\$19,577,015	\$ 387,819	\$19,964,834	\$17,256,681
LIABILITIES				
Current liabilities				
Bank indebtedness (Note 7)	\$ 1,818,530	\$ 721,917	\$ 2,540,447	\$ 2,393,602
Accounts payable and accrued liabilities	532,985	447,590	980,575	615,746
Deferred contributions from partner families (Note 3)	397,258	-	397,258	247,640
Current portion of deferred development charges	26,108	-	26,108	-
Current portion of deferred donations	-	3,807	3,807	6,550
Current portion of deferred grants	-	2,196	2,196	4,089
Current portion of obligation under capital leases	16,916	5,092	22,008	4,882
Current portion of mortgage payable	43,801	-	43,801	41,877
	2,835,598	1,180,602	4,016,200	3,314,386
Deferred development charges (Note 8)	208,862	-	208,862	-
Deferred donations (Note 9)	-	12,444	12,444	20,295
Deferred grants (Note 10)	-	15,634	15,634	45,848
Obligation under capital leases (Note 11)	78,346	7,482	85,828	12,635
Mortgage payable (Note 12)	1,738,288	-	1,738,288	1,782,089
Contingencies (Note 13) and Commitments (Note 14)	4,861,094	1,216,162	6,077,256	5,175,253
NET ASSETS				
Housing fund	14,715,921	-	14,715,921	12,409,817
Operating fund	-	(828,343)	(828,343)	(328,389)
	14,715,921	(828,343)	13,887,578	12,081,428
	\$19,577,015	\$ 387,819	\$19,964,834	\$17,256,681

Approved by the Board:

 Director

 Director

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

	Housing Fund	2019 Operating Fund	Total	2018 Total
OPERATING ACTIVITIES				
Excess (deficiency) of revenue over expenses	\$ 2,306,104	\$ (499,954)	\$ 1,806,150	\$ 2,144,560
Items not affecting cash				
Amortization of deferred donations	-	(10,594)	(10,594)	(14,152)
Amortization of deferred grants	-	(32,107)	(32,107)	(8,290)
Donations of marketable securities	-	-	-	(2,204)
Donations - in kind	(77,141)	(1,356)	(78,497)	(7,351)
Amortization	-	9,251	9,251	9,251
Depreciation	47,598	92,338	139,936	100,074
Expenses - in kind	77,141	1,356	78,497	7,351
Adjustment of mortgages receivable discount	(15,805)	-	(15,805)	(193,114)
Discount on new mortgages receivable	-	-	-	174,608
Excess of proceeds received over carrying value of properties	(299,916)	-	(299,916)	(221,984)
Gain on repayment of mortgages receivable	(197,322)	-	(197,322)	-
Unrealized change in value of marketable securities	(1,812)	-	(1,812)	882
	1,838,847	(441,066)	1,397,781	1,989,631
Changes in non-cash operating assets and liabilities				
Accounts receivable	(66,738)	15,174	(51,564)	(22,474)
Prepaid expenses and deposits	(17,088)	139,442	122,354	(84,910)
Accounts payable and accrued liabilities	252,831	111,998	364,829	132,980
Deferred contributions from partner families	149,618	-	149,618	137,654
	2,157,470	(174,452)	1,983,018	2,152,881
INVESTING ACTIVITIES				
Net increase in marketable securities	(1,747)	-	(1,747)	(1,331)
Properties in progress and held for sale	(3,744,900)	-	(3,744,900)	(3,212,298)
Proceeds on sale of properties	647,000	-	647,000	594,917
Advances of mortgages receivable	-	-	-	(692,094)
Repayments of mortgages receivable	1,096,832	-	1,096,832	157,388
Purchase of capital assets	-	(50,382)	(50,382)	(96,204)
	(2,002,815)	(50,382)	(2,053,197)	(3,249,622)
FINANCING ACTIVITIES				
Repayment of deferred development charges	(26,108)	-	(26,108)	-
Repayments of obligation under capital leases	(3,738)	(4,943)	(8,681)	(4,743)
Repayments of vendor-take-back mortgage payable	-	-	-	(1,200,000)
Advance of mortgage payable	-	-	-	1,850,000
Repayments of mortgage payable	(41,877)	-	(41,877)	(26,034)
	(71,723)	(4,943)	(76,666)	619,223
INCREASE (DECREASE) IN BANK INDEBTEDNESS	82,932	(229,777)	(146,845)	(477,518)
BANK INDEBTEDNESS, BEGINNING OF YEAR	(1,901,462)	(492,140)	(2,393,602)	(1,916,084)
BANK INDEBTEDNESS, END OF YEAR	\$ (1,818,530)	\$ (721,917)	\$ (2,540,447)	\$ (2,393,602)

Supplemental information is provided in Note 15.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Purpose of the organization

The Organization was incorporated as a corporation without share capital and is subject to the provisions of the Charities Accounting Act. The Organization qualifies for tax exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act.

The primary objective of the Organization is to work within the Region of Halton and the City of Mississauga in advancing the interests of the economically disadvantaged by constructing homes and providing safe and affordable housing solutions to qualified families.

Fund accounting

The Organization follows the restricted fund method of accounting for contributions. Under this method, restricted contributions are recorded as revenue in the appropriate Restricted Fund in the year received or receivable. Unrestricted contributions are recognized as revenue of the Operating Fund when the contribution is received or receivable.

For financial reporting purposes, the accounts have been classified in the following funds:

The Housing Fund reports the revenue, expenses, assets and liabilities related to the housing activities of the Organization.

The Operating Fund reports the revenue, expenses, assets and liabilities, of all non-housing activities of the Organization, including administration, resource development, ReStore operations and all other general activities.

Revenue recognition

Contributions are considered unrestricted unless a donor specifies otherwise. The Organization ensures that all contributions received with a restricted purpose are used for that purpose. Restricted contributions for housing activities are recorded in the Housing Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonable assured. Unrestricted contributions, such as general donations, fundraising and ReStore sales, are recorded in the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonable assured.

Donated materials and services

The Organization receives donations of materials and services. Materials which would otherwise be paid for by the Organization are recorded at fair value when reasonably determinable. Donated ReStore items are not recorded as inventory in these financial statements, however, the revenue generated by donated ReStore items is recognized at the selling price at the time of sale. The value of services provided by the Organization's many volunteers are not reflected in these financial statements.

Properties in progress and held for sale

Properties in progress and held for sale, including land, buildings, and building materials, both purchased and donated, are recorded at the lower of cost and net realizable value. Interest costs during the development and construction periods are capitalized as incurred.

Capital assets

Capital assets are recorded at cost. Depreciation is calculated using the declining balance method over their estimated useful lives at the rates indicated in Note 5. Leasehold improvements are depreciated on a straight-line basis over five years. In the year of acquisition, net additions are depreciated at one-half the normal rate.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

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Leased equipment

Long-term leases in which the Organization acquires substantially all the benefits and risks incident to ownership are accounted for as additions to equipment or leasehold improvements under capital lease. The asset value and related obligation are recorded at the present value of the future minimum lease payments using an appropriate discount rate. The assets are depreciated using the declining-balance method over the useful lives of the assets at the rates indicated in Note 5. In the year of acquisition, depreciation is recorded at one half the normal rate.

Long-lived assets

Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of the long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Intangible asset

Intangible asset is stated at cost and amortized on a straight-line basis at the rate indicated in Note 6.

Use of estimates

The preparation of financial statements in accordance 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 at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates, as additional information becomes available in the future. Significant estimates and assumptions are used when accounting for items such as revenue recognition, allowances for accounts receivable, collectibility of first, second and third mortgages receivable, amortization of mortgages receivable, determination of property write-down, determination of useful lives of capital assets, impairment of capital assets and accrued liabilities.

Financial instruments

(a) Measurement of financial instruments

The Organization initially measures its financial assets and financial liabilities at their fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributed to the instrument.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments, which are subsequently measured at fair value. Changes in fair value are recognized in excess of revenue over expenses.

The carrying values of mortgages receivable amount to the net present value of future anticipated cash flows calculated using the effective interest method. The net present value, or amortized cost, has been calculated using a discount rate equal to 2%. As the Organization is not seeking a rate of return on its investment in mortgages receivable, the only concern is the impact of inflation on its future cash receipts from repayment of the mortgages receivable and therefore, 2% is considered to be an appropriate discount rate.

Financial assets measured at amortized cost include cash, accounts receivable and mortgages receivable.

Financial assets measured at fair value include marketable securities.

Financial liabilities measured at amortized cost include bank indebtedness, accounts payable and accrued liabilities and mortgages payable.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

(b) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in the statement of operations. The write-down reflects the difference between the carrying amount and the higher of:

- (a) the present value of the cash flows expected to be generated by the asset or group of assets;
- (b) the amount that could be realized by selling the asset or group of assets;
- (c) the net realizable value of any collateral held to secure repayment of the asset or group of assets.

When events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in the statement of operations up to the amount of the previously recognized impairment.

2. ACCOUNTS RECEIVABLE

	<u>2019</u>			<u>2018</u>
	Housing Fund	Operating Fund	Total	Total
Accounts receivable	\$ 4,722	\$ 1,109	\$ 5,831	\$ 3,856
Sales tax recoverable	82,584	121,729	204,313	154,724
	\$ 87,306	\$ 122,838	\$ 210,144	\$ 158,580

3. PROPERTIES IN PROGRESS AND HELD FOR SALE

As at December 31, 2019, seven properties are held, one of which is completed and pending ownership transfer on a rent-to-own basis due to restrictions on the timing of title transfer, one of which is completed and subject to the rent-to-own policy described below, and two of which have been purchased and are to be sold in subsequent years. The completed property pending ownership on a rent-to-own basis was received in 2014 as part of a contribution agreement between the Government of Canada and Habitat for Humanity Halton/Mississauga. As part of the agreement, the Organization cannot transfer title of the property to the partner family until 2028. Three other properties were in progress at December 31, 2019.

During the year, one property was sold for total consideration of \$647,000 with excess of proceeds over carrying value of \$299,916. There was no mortgage issued on the sale of the property.

Beginning in 2017, the Organization adopted a rent-to-own policy. Under this policy, the Organization enters into residential lease with option to purchase agreements with partner families as tenants. The partner families obtain ownership of their home once the total payments made amount to the fair market value of the home at the beginning of the lease. If the tenant chooses to vacate before they obtain ownership, the Organization is required to repay all payments received from the tenant from the beginning of the lease.

The Organization's policy is to defer payments received from tenants on a rent-to-own basis and recognize the revenue in the same period that ownership of the unit is transferred. At December 31, 2019, total payments received under the rent-to-own agreements, presented as deferred contributions from partner families, amounted to \$397,258 (2018 - \$247,640).

During the year, interest capitalized to properties in progress amounted to \$215,458 (2018 - \$89,127).

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

4. MORTGAGES RECEIVABLE

	<u>2019</u>	<u>2018</u>
Non-interest bearing first mortgages receivable, secured by various properties, repayable in monthly instalments and maturing on various dates between January 2039 and November 2051.	\$ 2,428,216	\$ 3,481,318
Less: unamortized discount (Note 1)	(405,288)	(624,447)
	2,022,928	2,856,871
Non-interest bearing second mortgage receivable, secured by a specific property, repayable when the home changes title or ninety-nine years from registration	45,160	45,160
Less: unamortized discount (Note 1)	(38,227)	(35,966)
	6,933	9,194
Non-interest bearing third mortgages receivable, secured by various properties, repayable when the home changes title or ninety-nine years from registration	407,466	544,777
Less: unamortized discount (Note 1)	(342,767)	(432,577)
	64,699	112,200
	2,094,560	2,978,265
Less: current portion	(164,632)	(594,667)
Long-term portion	\$ 1,929,928	\$ 2,383,598

Beginning in 2016, the Organization adopted a new mortgage policy. Under the new policy, at the time a house is sold, the new homeowner receives a first mortgage based on the fair market value of the home. Included in each sale agreement is a clause which allows the Organization the right of first refusal to repurchase the home should the partner family decide to sell the home. The repurchase price is based only on the equity already invested by the total monthly mortgage payments received from the partner family up to the date of sale back to the Organization. There is no appreciation value or additional equity offered.

In years prior to 2016, at the time a house was sold, the new homeowner provided a first mortgage that was determined based on the fair market value of the home and the ability of the homeowner to pay. The difference between the appraised value and the amount of the first mortgage was the amount assigned to any additional Habitat mortgages given by the homeowner.

Some previous Habitat second mortgages are forgivable after an extended period of time. Other than these previous Habitat second mortgages and the COAHP/IAH mortgages noted below, any second or subsequent mortgage provided by the homeowner to Habitat is repayable at the time title to the property is transferred or in 99 years from registration. All forgivable mortgages are not shown on the statement of financial position given that it is more likely than not that the mortgage will be forgiven.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

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Beginning in 2011, Habitat has been successful in obtaining interest-free loans of \$50,000 for Habitat homeowners through the Canada-Ontario Affordable Housing Program/Investment in Affordable Housing (COAHP/IAH) program. Loans granted in 2011 were positioned as third mortgages. Any new loans will be positioned as second mortgages, with any additional Habitat mortgage positioned as a third mortgage, if necessary. The COAHP/IAH mortgages are forgivable after 20 years.

All mortgages provided to Habitat are interest free.

The total amount of forgivable second mortgages receivable not included in the financial statements are:

	<u>2019</u>	<u>2018</u>
Second mortgages	\$ 405,940	\$ 543,690

5. CAPITAL ASSETS

	Annual Depreciation Rates	<u>2019</u>		<u>2018</u>	
		Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Operating Fund					
Office equipment	20%-30%	\$ 213,959	\$ 145,448	\$ 205,517	\$ 123,504
Office equipment - donated	20%	95,354	78,835	95,354	73,635
Equipment under capital lease	20%	40,156	22,219	40,156	17,734
Computer equipment	30%	156,036	119,860	144,772	106,862
Computer equipment - donated	30%	1,050	945	1,050	900
Computer software	30%	23,482	23,268	23,482	23,176
Computer software - donated	30%	10,980	9,411	10,980	8,739
Vehicles	30%	59,922	55,727	59,922	53,930
Leasehold improvements	5 Yr S.L.	205,691	168,025	175,015	124,409
Leasehold improvements - donated	5 Yr S.L.	58,958	58,958	58,958	57,469
		865,588	682,696	815,206	590,358
Net book value - operating fund			\$ 182,892		\$ 224,848
Housing Fund					
92 Mill Street - land		\$ 232,627	\$ -	\$ 232,627	\$ -
92 Mill Street - building	4%	535,251	31,687	535,251	10,705
Equipment under capital lease	20%	99,000	9,900	-	-
Office equipment	20%	52,179	33,573	52,179	28,275
Vehicles	30%	101,072	74,429	101,072	63,011
		1,020,129	149,589	921,129	101,991
Net book value - housing fund			\$ 870,540		\$ 819,138

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

6. INTANGIBLE ASSET

	Annual Amortization Rates	2019		2018	
		Cost	Accumulated Amortization	Cost	Accumulated Amortization
Website	5 Yr S.L.	\$ 46,253	\$ 42,910	\$ 46,253	\$ 33,659
Net book value			\$ 3,343		\$ 12,594

7. BANK INDEBTEDNESS

The Organization has access to credit facilities from a financial institution consisting of one revolving line of credit, with a credit limit of \$1,750,000 and bearing interest at prime plus 1%, and one non-revolving credit land loan, with a credit limit of \$1,500,000 and bearing interest at prime plus 1%. The revolving line of credit is secured by a general security agreement creating a first fixed and floating charge over all present and after acquired personal property, and an assignment of mortgages receivable made by the Organization. As at December 31, 2019, the line of credit balance outstanding amounted to \$1,492,921. The non-revolving land loan is secured by a \$4,550,000 business promissory note made by the Organization, first mortgage and assignment of rents in the amount of \$9,300,000 made by the Organization over all legal and beneficial interest in a specific property, and a general security agreement creating a first fixed and floating charge over all present and after acquired personal property. As at December 31, 2019, the land loan balance outstanding amounted to \$1,400,000.

The banking agreement requires maintaining of financial covenants; debt service coverage ratio of a minimum of 1.20 and leverage ratio not exceeding 2:1. As at December 31, 2019, the Organization is in compliance with its bank covenants.

The Organization also has access to an overdraft with another financial institution to a maximum of \$107,655. As at December 31, 2019, the overdraft balance amounted to \$2,273.

8. DEFERRED DEVELOPMENT CHARGES

As part of a government funding program agreement, the Organization is liable to The Regional Municipality of Halton for development charges on a particular property in the amount of \$261,078. The amount owing is payable without interest over a term of 10 years, in equal annual payments of \$26,108.

As at December 31, 2019, deferred development charges remaining payable amounted to \$234,970, with \$26,108 payable prior to January 1, 2021, and the remaining balance of \$208,862 payable thereafter.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

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9. DEFERRED DONATIONS

Deferred donations pertain to specific restricted donations related to contributed capital assets. The restricted deferred donations related to capital assets are amortized into revenue on the same basis as the related capital assets contributed are depreciated at the rates indicated in Note 5. The changes in the deferred donations balance is as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 26,845	\$ 40,997
Less: amount amortized and included in revenue in the year	<u>(10,594)</u>	<u>(14,152)</u>
Balance, end of year	16,251	26,845
Less: current portion	<u>(3,807)</u>	<u>(6,550)</u>
Long-term portion	<u>\$ 12,444</u>	<u>\$ 20,295</u>

As at December 31, 2019, deferred grants related to capital assets amounted to \$16,251 (2018 - \$26,845).

10. DEFERRED GRANTS

Deferred grants pertain to grants received and restricted for the purchase of a vehicle, to assist with leasehold improvements and certain other capital assets. The grant amounts are amortized into revenue on the same basis as the related capital assets purchased are depreciated at the rates indicated in Note 5. Deferred grants related to expenses will be recognized in revenue when the expenses occur. The changes in the deferred grant revenue balance is as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 49,937	\$ 58,227
Less: amount amortized and included in revenue in the year	<u>(32,107)</u>	<u>(8,290)</u>
Balance, end of year	17,830	49,937
Less: current portion	<u>(2,196)</u>	<u>(4,089)</u>
Long-term portion	<u>\$ 15,634</u>	<u>\$ 45,848</u>

As at December 31, 2019, deferred grants related to capital assets amounted to \$17,830 (2018 - \$49,937).

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
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11. OBLIGATION UNDER CAPITAL LEASES

The following is a schedule of minimum lease payments under the capital lease relating to the operating fund expiring in May 2022, together with the balance of the obligation:

Year ending December 31,	2020	\$	5,527
	2021		5,527
	2022		<u>2,303</u>
Total minimum lease payments			13,357
Less amount representing interest at 4.2%			<u>(783)</u>
			12,574
Less current portion			<u>(5,092)</u>
		\$	<u>7,482</u>

The following is a schedule of minimum lease payments under the capital lease relating to the housing fund expiring in November 2024, together with the balance of the obligation:

Year ending December 31,	2020	\$	23,833
	2021		23,833
	2022		23,833
	2023		23,833
	2024		<u>21,847</u>
Total minimum lease payments			117,179
Less amount representing interest at 7.845%			<u>(21,917)</u>
			95,262
Less current portion			<u>(16,916)</u>
		\$	<u>78,346</u>

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

12. MORTGAGE PAYABLE

	2019	2018
Mortgage payable - interest at 4.6%, payable in monthly instalments of \$10,343 including principal and interest, maturing March 2023	\$ 1,782,089	\$ 1,823,966
Less: current portion	(43,801)	(41,877)
Long-term portion	\$ 1,738,288	\$ 1,782,089

Principal repayments required until maturity are as follows:

2020	\$ 43,801
2021	45,883
2022	47,999
2023	1,644,406
	<u>\$ 1,782,089</u>

13. CONTINGENCIES

The Organization is contingently liable for standby letters of credit totaling \$117,020 (2018 - \$117,020).

The Organization is contingently liable for mortgage receivable payments received from homeowners under the new first mortgage policy adopted in 2016, since the payments are refundable if the homeowner decides to sell the home and the Organization exercises its right of first refusal to repurchase the home for the initial sale price. As at December 31, 2019, total mortgage payments received under this agreement amounted to \$30,560 (2018 - \$33,548).

During the year, the Organization exercised its right of first refusal and repurchased a home. At the time of repurchase, the payments on the related mortgage were refunded to the homeowner.

14. COMMITMENTS

The Organization has entered into lease agreements for its facilities. These leases expire between December 2020 and February 2026 and require the following annual payments:

2020	\$ 578,564
2021	543,528
2022	491,478
2023	348,507
2024	215,678
thereafter; from 2025 to 2026	<u>259,306</u>
	<u>\$ 2,437,061</u>

The Organization has entered into operating lease agreements for specific vehicles. The leases expire between April and November 2020 and require remaining payments of \$29,064.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

15. SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS

During the year, the Organization incurred deferred development charges in the amount of \$261,078, representing an increase in properties in progress and held for sale and deferred development charges.

During the year, the Organization acquired equipment under capital lease in the amount of \$99,000, with a corresponding increase in obligation under capital lease of the same amount.

16. FINANCIAL RISK MANAGEMENT

The Organization has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transacting financial instruments include interest rate risk, market (other price) risk, currency risk, credit risk, and liquidity risk. Price risk arises from changes in interest rates, foreign currency exchange rates and market prices.

(a) 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 since changes in interest rates may impact the Organization's future borrowing costs. As at December 31, 2019, total debt subject to floating interest rates amounted to \$2,892,921. The Organization does not use any derivative instrument to reduce its exposure to interest rate risk.

(b) 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. The Organization's market risk relates to its investment in marketable securities as these investments are subject to price changes in an open market. The Organization does not use derivative financial instruments to alter the effects of this risk due to the insignificant amount invested in marketable securities.

(c) 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's main credit risks relate to its accounts receivable and mortgages receivable. The Organization is not exposed to significant credit risk as it only invests in highly rated investments, monitors credit to its clients in the normal course of operations and mortgages receivable are secured by the property for which the mortgage is held.

(d) Other risks:

It is management's opinion that the Organization is not exposed to significant currency or liquidity risks arising from its financial instruments.

17. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's financial statement presentation.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

18. SUBSEQUENT EVENTS

During the 2018 fiscal year, the Organization entered into an agreement to purchase a residential unit. The purchase price of the unit is \$250,000, for which a deposit of \$27,500 has been paid at December 31, 2019. Subsequent to year end, the purchase has not yet closed.

Subsequent to year end, the Organization sold a property held for sale for total consideration of \$621,000. As at December 31, 2019, the cost of the property held for sale amounted to \$290,545.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Subsequently, the Province of Ontario issued a state of emergency banning all gatherings of more than five people and requiring the closure of non-essential businesses. As a result of the state of emergency, and in an effort to protect staff, volunteers, vendors, donors, and community stakeholders, the Organization decided to temporarily suspend all operations subsequent to March 17, 2020. The dynamic nature of the COVID-19 crisis makes it impossible to predict the impact this will have on the Organization's operations, cash flows and financial position. The Board of Directors will continue to monitor the situation and reflect the impact in the financial statements as appropriate.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

SCHEDULE OF RESTORE OPERATIONS
YEARS ENDED DECEMBER 31, 2019

	2019	2018
REVENUE	\$ 4,654,282	\$ 4,647,729
EXPENSES		
Advertising and promotion	8,928	32,801
Bank charges and interest	104,704	89,377
Depreciation	67,741	40,049
Facilities	1,064,552	1,057,229
Habitat for Humanity Canada affiliation fees	181,012	175,187
Insurance	9,744	9,902
Office and miscellaneous	124,428	70,687
Personnel	1,552,893	1,463,728
Vehicle expenses	214,695	227,882
Volunteer expenses	20,698	28,729
	3,349,395	3,195,571
EXCESS OF REVENUE OVER EXPENSES	\$ 1,304,887	\$ 1,452,158