

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

Financial Statements
for the Year Ended December 31, 2018
and Independent Auditor's Report to the Directors

HABITAT FOR HUMANITY HALTON/MISSISSAUGA
FINANCIAL STATEMENTS
DECEMBER 31, 2018

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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, 2018 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, 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, 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, 2018 and 2017, 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.

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

May 29, 2019

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>			<u>2017</u> (restated) (Note 2)
	Housing Fund	Operating Fund	Total	Total
REVENUE				
Amortization of deferred donations (Note 10)	\$ -	\$ 14,152	\$ 14,152	\$ 74,578
Amortization of deferred grants (Note 11)	-	8,290	8,290	11,964
Donations - cash	2,631,029	295,830	2,926,859	911,795
Donations - in kind	5,176	2,175	7,351	16,845
Interest and other income	-	10,873	10,873	1,309
Rental	-	21,944	21,944	6,972
ReStore operations - page 19	-	1,452,158	1,452,158	1,872,800
	2,636,205	1,805,422	4,441,627	2,896,263
EXPENSES				
Amortization	-	9,251	9,251	7,518
Bad debts	-	2,707	2,707	15,927
Bank charges and interest	-	94,111	94,111	29,329
Community awareness and education	-	88,722	88,722	50,916
Depreciation	31,434	30,230	61,664	35,302
Facilities	-	54,207	54,207	60,623
Family partnering program	77,469	55,697	133,166	61,876
Global village	-	5,357	5,357	740
Habitat for Humanity Canada affiliation fees	-	37,500	37,500	30,000
Handyman program	12,813	-	12,813	1,680
Insurance	-	27,744	27,744	18,348
Interest on obligation under capital lease	-	845	845	698
Office and miscellaneous	-	42,640	42,640	64,654
Personnel (program and administration)	-	1,023,678	1,023,678	845,095
Professional fees	-	55,302	55,302	90,443
Resource development	135,217	501,810	637,027	484,495
Sales tax not recovered	-	71,356	71,356	57,559
Tithe for international projects	76,480	3,309	79,789	59,666
Vehicle	48,624	-	48,624	35,596
Volunteer expenses	-	50,172	50,172	49,170
	382,037	2,154,638	2,536,675	1,999,635
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE OTHER REVENUE (EXPENSES)	2,254,168	(349,216)	1,904,952	
896,628				
OTHER REVENUE (EXPENSES)				
Adjustment of mortgages receivable discount	193,114	-	193,114	103,412
Discount on new mortgages receivable	(174,608)	-	(174,608)	-
Excess of proceeds received over carrying value of properties (Note 4)	221,984	-	221,984	123,295
Unrealized change in value of marketable securities	(882)	-	(882)	(234)
	239,608	-	239,608	226,473
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ 2,493,776	\$ (349,216)	\$ 2,144,560	\$ 1,123,101

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018

	2018 Operating Fund			Total	2017 (restated) (Note 2)
	Housing Fund	Invested in Capital Assets	Unrestricted		Total
Balance, beginning of year - as previously reported	\$ 9,636,633	\$ 162,794	\$(2,074,351)	\$ 7,725,076	\$ 6,793,123
Impact of change in accounting policy (Note 2)	279,408	(73,427)	2,005,811	2,211,792	2,020,644
Balance, beginning of year - as restated	9,916,041	89,367	(68,540)	9,936,868	8,813,767
Excess (deficiency) revenue over expenses	2,493,776	(47,837)	(301,379)	2,144,560	1,123,101
Investment in capital assets	-	93,319	(93,319)	-	-
Balance, end of year	\$12,409,817	\$ 134,849	\$ (463,238)	\$12,081,428	\$ 9,936,868

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

	<u>2018</u>			<u>2017</u> (restated) (Note 2)
	Housing Fund	Operating Fund	Total	Total
ASSETS				
Current assets				
Cash	\$ -	\$ -	\$ -	\$ 77,702
Marketable securities	15,816	-	15,816	13,163
Accounts receivable (Note 3)	20,568	138,012	158,580	136,106
Properties in progress and held for sale (Note 4)	12,771,904	-	12,771,904	10,700,417
Prepaid expenses and deposits	57,348	218,188	275,536	190,626
Current portion of mortgages receivable	594,667	-	594,667	144,066
	13,460,303	356,200	13,816,503	11,262,080
Mortgages receivable (Note 5)	2,383,598	-	2,383,598	2,280,987
Capital assets (Note 6)	819,138	224,848	1,043,986	279,979
Intangible asset (Note 7)	-	12,594	12,594	21,844
	\$16,663,039	\$ 593,642	\$17,256,681	\$13,844,890
LIABILITIES				
Current liabilities				
Bank indebtedness (Note 8)	\$ 1,901,462	\$ 492,140	\$ 2,393,602	\$ 1,993,786
Accounts payable and accrued liabilities (Note 9)	280,154	335,592	615,746	482,766
Deferred contributions from partner families (Note 4)	247,640	-	247,640	109,986
Current portion of deferred donations	-	6,550	6,550	14,505
Current portion of deferred grants	-	4,089	4,089	8,290
Current portion of obligation under capital lease	-	4,882	4,882	4,682
Current portion of vendor-take-back mortgage payable	-	-	-	1,200,000
Current portion of mortgage payable	41,877	-	41,877	-
	2,471,133	843,253	3,314,386	3,814,015
Deferred donations (Note 10)	-	20,295	20,295	26,492
Deferred grants (Note 11)	-	45,848	45,848	49,937
Obligation under capital lease (Note 12)	-	12,635	12,635	17,578
Mortgage payable (Note 14)	1,782,089	-	1,782,089	-
Contingencies (Note 15)	-	-	-	-
	4,253,222	922,031	5,175,253	3,908,022
NET ASSETS				
Housing fund	12,409,817	-	12,409,817	9,916,041
Operating fund - invested in capital assets	-	134,849	134,849	89,367
Operating fund - unrestricted	-	(463,238)	(463,238)	(68,540)
	12,409,817	(328,389)	12,081,428	9,936,868
	\$16,663,039	\$ 593,642	\$17,256,681	\$13,844,890

Approved by the Board:

..... Director Director

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

	2018			2017
	Housing Fund	Operating Fund	Total	(restated) (Note 2) Total
OPERATING ACTIVITIES				
Excess (deficiency) of revenue over expenses	\$ 2,493,776	\$ (349,216)	\$ 2,144,560	\$ 1,123,101
Items not affecting cash				
Amortization of deferred donations	-	(14,152)	(14,152)	(22,570)
Amortization of deferred grants	-	(8,290)	(8,290)	(11,964)
Donations of marketable securities	(2,204)	-	(2,204)	(1,114)
Donations - in kind	(5,176)	(2,175)	(7,351)	(16,845)
Amortization	-	9,251	9,251	7,518
Depreciation	31,530	68,544	100,074	83,144
Expenses - in kind	5,176	2,175	7,351	16,845
Adjustment of mortgages receivable discount	(193,114)	-	(193,114)	(103,412)
Discount on new mortgages receivable	174,608	-	174,608	-
Excess of proceeds received over carrying value of properties	(221,984)	-	(221,984)	(123,295)
Unrealized change in value of marketable securities	882	-	882	234
	2,283,494	(293,863)	1,989,631	951,642
Changes in non-cash operating assets and liabilities				
Accounts receivable	4,676	(27,150)	(22,474)	(33,607)
Prepaid expenses and deposits	(22,828)	(62,082)	(84,910)	(19,562)
Accounts payable and accrued liabilities	228,142	(95,162)	132,980	(78,826)
Deferred contributions from partner families	137,654	-	137,654	99,923
	2,631,138	(478,257)	2,152,881	919,570
INVESTING ACTIVITIES				
Net increase in marketable securities	(1,331)	-	(1,331)	(576)
Properties in progress and held for sale	(3,212,298)	-	(3,212,298)	(1,885,775)
Proceeds on sale of properties	594,917	-	594,917	203,859
Advances of mortgages receivable	(692,094)	-	(692,094)	-
Repayments of mortgages receivable	157,388	-	157,388	145,600
Purchase of capital assets	(9,362)	(86,842)	(96,204)	(98,093)
Purchase of intangible asset	-	-	-	(10,393)
	(3,162,780)	(86,842)	(3,249,622)	(1,645,378)
FINANCING ACTIVITIES				
Repayments of obligation under capital lease	-	(4,743)	(4,743)	(6,455)
Repayments of vendor-take-back mortgage payable	(1,200,000)	-	(1,200,000)	-
Advance of mortgage payable	1,850,000	-	1,850,000	-
Repayments of mortgage payable	(26,034)	-	(26,034)	(300,000)
	623,966	(4,743)	619,223	(306,455)
INCREASE IN CASH (BANK INDEBTEDNESS)	92,324	(569,842)	(477,518)	(1,032,263)
CASH (BANK INDEBTEDNESS), BEGINNING OF YEAR	(1,993,786)	77,702	(1,916,084)	(883,821)
CASH (BANK INDEBTEDNESS), END OF YEAR	\$(1,901,462)	\$(492,140)	\$(2,393,602)	\$(1,916,084)

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 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 6. 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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION - continued

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.

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 asset is depreciated using the declining-balance method over the useful life of the asset at the rates indicated in Note 6. In the year of acquisition, depreciation is recorded at one half the normal rate.

Intangible asset

Intangible asset is stated at cost and amortized on a straight-line basis at the rate indicated in Note 7.

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, 2018

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION - continued

(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. CHANGE IN ACCOUNTING POLICY

During the year, the Organization changed its policy of accounting for contributions from the deferral method to the restricted fund method. The change was made as it is believed that the restricted fund method provides a more relevant accounting of the assets, liabilities and net assets of the organization, and results in more appropriate timing of revenue recognition.

The change in accounting policy is applied on a retrospective basis, and accordingly net assets at the beginning of the prior year, at January 1, 2017, have been restated and increased by \$2,020,644, from \$6,793,123 to \$8,813,767.

The impact of the change in accounting policy and necessary restated figures for the prior year ended and as at December 31, 2017, are as follows:

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>
For the year ended December 31, 2017			
Amortization of deferred donations	\$ 159,943	\$ (85,365)	\$ 74,578
Donations - cash	\$ 635,282	\$ <u>276,513</u>	\$ 911,795
Excess of revenue over expenses	\$ 931,953	\$ <u>191,148</u>	\$ 1,123,101
At December 31, 2017			
Properties in progress and held for sale	\$ 8,521,566	\$ 2,178,851	\$10,700,417
Deferred donations	\$ 73,938	\$ <u>32,941</u>	\$ 40,997
Net assets	\$ 7,725,076	\$ <u>2,211,792</u>	\$ 9,936,868

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

3. ACCOUNTS RECEIVABLE

	2018			2017
	Housing Fund	Operating Fund	Total	Total
Accounts receivable	\$ 3,856	\$ -	\$ 3,856	\$ 47,765
Sales tax recoverable	16,712	138,012	154,724	88,341
	\$ 20,568	\$ 138,012	\$ 158,580	\$ 136,106

4. PROPERTIES IN PROGRESS AND HELD FOR SALE

At December 31, 2018, six 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, and one property is completed and subject to the new rent-to-own policy described below. 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. Four properties were in progress at December 31, 2018.

Beginning in 2017, the Organization adopted a new 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, 2018, total payments received under the rent-to-own agreements, presented as deferred contributions from partner families, amounted to \$247,640 (2017 - \$109,986).

During the year, one property was sold for total consideration of \$614,159 with excess of proceeds over carrying value of \$221,984. The first mortgage issued on the sale of the property amounted to \$650,824.

During the year, one property was transferred to capital assets upon completion as it is being used as a rental property. The property is not held for sale under the rent-to-own policy.

During the year, interest capitalized to properties in progress amounted to \$89,127 (2017 - \$102,775).

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

5. MORTGAGES RECEIVABLE

	<u>2018</u>	<u>2017</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.	\$ 3,481,318	\$ 2,946,611
Less: unamortized discount (Note 1)	(624,447)	(639,772)
	2,856,871	2,306,839
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)	(35,966)	(36,207)
	9,194	8,953
Non-interest bearing third mortgages receivable, secured by various properties, repayable when the home changes title or ninety-nine years from registration	544,777	544,777
Less: unamortized discount (Note 1)	(432,577)	(435,516)
	112,200	109,261
	2,978,265	2,425,053
Less: current portion	(594,667)	(144,066)
Long-term portion	\$ 2,383,598	\$ 2,280,987

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 that is determined 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 equal to the initial sale price and, at the time of repurchase, the Organization must repay the total mortgage payments received from the partner family.

In prior years, 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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

5. MORTGAGES RECEIVABLE - continued

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>2018</u>	<u>2017</u>
Second mortgages	\$ 543,690	\$ 543,690

6. CAPITAL ASSETS

	Annual Depreciation Rates	<u>2018</u>		<u>2017</u>	
		Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Operating Fund					
Office equipment	20%-30%	\$ 205,517	\$ 123,504	\$ 154,783	\$ 105,737
Office equipment - donated	20%	95,354	73,635	95,354	66,678
Equipment under capital lease	20%	40,156	17,734	40,156	12,129
Computer equipment	30%	144,772	106,862	128,622	94,123
Computer equipment - donated	30%	1,050	900	1,050	836
Computer software	30%	23,482	23,176	23,482	23,046
Computer software - donated	30%	10,980	8,739	10,980	7,779
Vehicles	30%	59,922	53,930	59,922	51,362
Leasehold improvements	5 Yr S.L.	175,015	124,409	155,058	110,040
Leasehold improvements - donated	5 Yr S.L.	58,958	57,469	58,958	50,084
		815,206	590,358	728,365	521,814
Net book value - operating fund			\$ 224,848		\$ 206,551
Housing Fund					
92 Mill Street - land		\$ 232,627	\$ -	\$ -	\$ -
92 Mill Street - building	4%	535,251	10,705	-	-
Office equipment	20%	52,179	28,275	47,764	22,702
Vehicles	30%	101,072	63,011	96,125	47,759
		921,129	101,991	143,889	70,461
Net book value - housing fund			\$ 819,138		\$ 73,428

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
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7. INTANGIBLE ASSET

	Annual Amortization Rates	<u>2018</u>		<u>2017</u>	
		Cost	Accumulated Amortization	Cost	Accumulated Amortization
Website	5 Yr S.L.	\$ 46,253	\$ 33,659	\$ 46,253	\$ 24,409
Net book value			\$ 12,594		\$ 21,844

8. 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, 2018, the line of credit balance outstanding amounted to \$1,392,921. 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, 2018, 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, 2018, 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, 2018, the overdraft balance amounted to \$999.

During the year, the Organization used the above facilities to replace and repay the previous credit facilities with another financial institution and a vendor-take-back mortgage payable.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2018</u>			<u>2017</u>
	Housing Fund	Operating Fund	Total	Total
Trade payables and accrued liabilities	\$ 280,154	\$ 335,592	\$ 615,746	\$ 474,906
Government remittances payable	-	-	-	7,860
	\$ 280,154	\$ 335,592	\$ 615,746	\$ 482,766

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10. 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 6. The changes in the deferred donations balance is as follows:

	<u>2018</u>	<u>2017</u> (restated) (Note 2)
Balance, beginning of year	\$ 40,997	\$ 63,567
Less: amount amortized and included in revenue in the year	<u>(14,152)</u>	<u>(22,570)</u>
Balance, end of year	26,845	40,997
Less: current portion	<u>(6,550)</u>	<u>(14,505)</u>
Long-term portion	<u>\$ 20,295</u>	<u>\$ 26,492</u>

11. DEFERRED GRANTS

Deferred grants pertain to grants received and restricted for the purchase of a vehicle, to assist with leasehold improvements and certain other operating expenses. 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 6. 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>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 58,227	\$ 70,191
Less: amount amortized and included in revenue in the year	<u>(8,290)</u>	<u>(11,964)</u>
Balance, end of year	49,937	58,227
Less: current portion	<u>(4,089)</u>	<u>(8,290)</u>
Long-term portion	<u>\$ 45,848</u>	<u>\$ 49,937</u>

At December 31, 2018, deferred grants related to capital assets amounted to \$45,637 (2017 - \$53,927).

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
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12. OBLIGATION UNDER CAPITAL LEASE

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

Year ending December 31,	2019	\$	5,527
	2020		5,527
	2021		5,527
	2022		<u>2,303</u>
Total minimum lease payments			18,884
Less amount representing interest at 4.2%			<u>(1,367)</u>
			17,517
Less current portion			<u>(4,882)</u>
		\$	<u>12,635</u>

13. VENDOR-TAKE-BACK MORTGAGE PAYABLE

	<u>2018</u>	<u>2017</u>
Mortgage payable - interest at 4%	\$ -	\$ 1,200,000
Less: current portion	-	<u>(1,200,000)</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

During the year, as described in Note 8, the Organization entered into credit facilities with a financial institution which were used to repay the vendor-take-back mortgage payable.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

14. MORTGAGE PAYABLE

	<u>2018</u>	<u>2017</u>
Mortgage payable - interest at 4.6%, payable in monthly instalments of \$10,343 including principal and interest, maturing March 2023	\$ 1,823,966	\$ -
Less: current portion	(41,877)	-
Long-term portion	<u>\$ 1,782,089</u>	<u>\$ -</u>

The mortgage payable is secured by a \$1,850,000 business promissory note made by the Organization, and 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.

Principal repayments required in each of the next five years is as follows:

2019	\$ 41,877
2020	43,801
2021	45,883
2022	47,999
2023	<u>1,644,406</u>
	<u>\$ 1,823,966</u>

15. CONTINGENCIES

The Organization is contingently liable for standby letters of credit totaling \$117,020 (2017 - \$117,020). These letters of credit expire September 2019.

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. At December 31, 2018, total mortgage payments received under these agreements amounted to \$33,548 (2017 - \$16,853).

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS
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16. COMMITMENTS

The Organization has entered into lease agreements for its facilities. These leases expire between March 2019 and February 2026 and require the following annual payments:

2019	\$ 573,879
2020	530,677
2021	543,528
2022	491,478
2023	348,507
thereafter; from 2024 to 2026	<u>474,984</u>
	<u>\$ 2,963,053</u>

The Organization has entered into operating lease agreements for specific vehicles. The leases expire between April 2019 and November 2020 and require the following annual payments:

2019	\$ 144,825
2020	<u>78,137</u>
	<u>\$ 222,962</u>

17. SUBSEQUENT EVENTS

During the year, the Organization entered into agreements to purchase two residential units. The purchase prices of these units are \$275,000 and \$250,000, for which total deposits of \$11,000 were paid at December 31, 2018. Subsequent to year end, the purchases of the condo units closed.

Subsequent to year end, the Organization recovered property upon default of a first mortgage receivable. At December 31, 2018, the mortgage receivable amounted to \$222,085 and the fair market value of the property recovered exceeded the mortgage receivable.

HABITAT FOR HUMANITY HALTON/MISSISSAUGA

NOTES TO THE FINANCIAL STATEMENTS

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18. 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. 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.

19. CAPITAL MANAGEMENT

The Organization defines its capital as the net assets invested in housing, invested in capital assets and unrestricted. This definition remains unchanged from prior years.

The Organization's objective in managing its capital is to safeguard its ability to continue as a going concern so that it can continue to provide the appropriate level of benefits to its beneficiaries and stakeholders.

20. INCOME TAXES

The Organization qualifies for tax exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act.

21. 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

SCHEDULE OF RESTORE OPERATIONS
YEARS ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE	\$ 4,647,729	\$ 4,724,238
EXPENSES		
Advertising and promotion	32,801	3,738
Bank charges and interest	89,377	63,020
Depreciation	40,049	45,847
Facilities	1,057,229	1,031,704
Habitat for Humanity Canada affiliation fees	175,187	184,005
Insurance	9,902	3,572
Office and miscellaneous	70,687	53,798
Personnel	1,463,728	1,305,540
Vehicle expenses	227,882	135,328
Volunteer expenses	28,729	24,886
	3,195,571	2,851,438
EXCESS OF REVENUE OVER EXPENSES	\$ 1,452,158	\$ 1,872,800