

**HABITAT FOR HUMANITY
BRANT-NORFOLK**

FINANCIAL STATEMENTS

For the year ended December 31, 2020

DRAFT

**HABITAT FOR HUMANITY
BRANT-NORFOLK**

For the year ended December 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Directors of
Habitat for Humanity Brant-Norfolk

Qualified Opinion

We have audited the financial statements of Habitat for Humanity Brant-Norfolk, which comprise the statement of financial position as at December 31, 2020, and the statement of operations, statement of changes in net assets, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity Brant-Norfolk as at December 31, 2020, 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 Brant-Norfolk derives revenue from general donations and fundraising activities, 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 Habitat for Humanity Brant-Norfolk. Therefore, we were not able to determine whether any adjustments might be necessary to general donation and fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2020 and 2019, current assets as at December 31, 2020 and 2019, and net assets as at January 1 and December 31 for both the 2020 and 2019 years.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Financial Statements* section of our report. We are independent of Habitat for Humanity Brant-Norfolk 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 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 Habitat for Humanity Brant-Norfolk's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate Habitat for Humanity Brant-Norfolk or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Habitat for Humanity Brant-Norfolk's financial reporting process.

Auditors' 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 auditors' 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 Habitat for Humanity Brant-Norfolk'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 Habitat for Humanity Brant-Norfolk's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause Habitat for Humanity Brant-Norfolk 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.

APPROVAL DATE
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

HABITAT FOR HUMANITY BRANT-NORFOLK

STATEMENT OF FINANCIAL POSITION

As at December 31	2020	2019
ASSETS		
Current Assets		
Cash and bank - unrestricted	35,675	204,771
Cash and bank - restricted Fund for Humanity	-	169,090
HST recoverable	8,578	23,783
Inventory	1,234,631	476,337
Accounts receivable	30,418	14,972
Prepaid expenses	23,068	23,068
Current portion of mortgages receivable (Notes 2(d) and 4)	88,800	102,000
	1,421,170	1,014,021
Property, Plant and Equipment (Note 3)	61,372	88,100
Mortgages Receivable (Notes 2(d) and 4)	876,655	926,727
	2,359,197	2,028,848
LIABILITIES		
Current Liabilities		
Operating loan (Note 5)	126,660	-
Accounts payable and accrued liabilities	95,775	146,591
Government remittances payable	1,302	17,899
Deferred revenue (Note 8)	154,500	17,974
	378,237	182,464
Long Term Liability (Note 10)	40,000	-
	418,237	182,464
NET ASSETS		
Invested in property, plant and equipment	61,372	88,100
Restricted - Fund for Humanity (Note 6)	-	169,090
Unrestricted	1,879,588	1,589,194
	1,940,960	1,846,384
	2,359,197	2,028,848

On behalf of the Board:

C.E.O.

Director

See accompanying notes

HABITAT FOR HUMANITY BRANT-NORFOLK

STATEMENT OF OPERATIONS

For the year ended December 31	2020	2019
Revenue		
Donations and other fundraising	205,044	145,977
Goods in Kind donations (Note 12)	794,473	1,128,246
Renovation income	60,209	36,000
Habitat for Humanity Canada Grant	35,385	32,550
Proceeds from sale of property	-	204,655
ReStore sales	822,035	1,100,065
Interest and other income	29,310	23,784
	1,946,456	2,671,277
Expenses		
Program expenses (Page 6)	368,556	532,989
ReStore expenses (Page 6)	823,128	874,751
ReStore purchases - goods in kind donations	794,473	1,128,246
Mortgage (income) discount expense (Note 2(d))	(67,463)	808
	1,918,694	2,536,794
Excess of Expnses over Revenue - before undernoted items	27,762	134,483
Canadian emergency wage subsidy (Note 10)	59,387	-
Temporary emergency wage subsidy (Note 10)	7,427	-
Excess of Revenue over Expenses	94,576	134,483

See accompanying notes

HABITAT FOR HUMANITY BRANT-NORFOLK

STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, 2020

	Unrestricted	Fund for Humanity	Property, Plant and Equipment	Total 2020
Opening	1,589,194	169,090	88,100	1,846,384
Excess of revenue over expenses	94,576	-	-	94,576
Allocation from Fund for Humanity	169,090	(169,090)	-	-
Amortization	27,911	-	(27,911)	-
Purchase of property, plant and equipment	(1,183)	-	1,183	-
Closing	1,879,588	-	61,372	1,940,960

	Unrestricted	Fund for Humanity	Property, Plant and Equipment	Total 2019
Opening	1,425,739	168,682	117,480	1,711,901
Excess of expenses over revenue	134,483	-	-	134,483
Allocation to Fund for Humanity	(408)	408	-	-
Amortization	29,380	-	(29,380)	-
Closing	1,589,194	169,090	88,100	1,846,384

HABITAT FOR HUMANITY BRANT-NORFOLK

SCHEDULE OF EXPENSES

For the year ended December 31	2020	2019
Program Expenses		
Accounting and legal	24,765	31,621
Advertising and promotions	2,154	6,493
Amortization	27,911	29,380
Appreciation	742	1,220
Bank charges and interest	7,584	2,744
Construction costs	-	163,706
Consulting	5,243	-
Insurance	6,242	1,215
Miscellaneous	2,378	1,335
Office	83,280	114,401
Renovation	30,369	6,476
Rent	36,585	34,107
Telephone	2,353	2,564
Training	287	1,166
Travel	1,187	4,209
Utilities	5,008	5,379
Wages and benefits	132,468	126,973
	368,556	532,989
ReStore Expenses		
Accounting and legal	24,151	16,604
Advertising and promotion	9,917	11,879
Appreciation	1,854	5,083
Bank charges and interest	1,168	1,184
Habitat for Humanity Canada - ReStore fee (Note 7)	26,494	14,319
Insurance	6,344	7,989
Office	25,536	28,835
Property taxes	24,598	24,009
Rent	222,822	213,179
Repairs and maintenance	28,538	35,410
Supplies and equipment	3,573	2,907
Telephone	4,159	4,069
Training	-	1,616
Travel	1,352	4,174
Utilities	35,023	35,377
Vehicle	28,272	32,635
Wages and benefits	379,327	435,482
	823,128	874,751

See accompanying notes

HABITAT FOR HUMANITY BRANT-NORFOLK

STATEMENT OF CASH FLOWS

For the year ended December 31	2020	2019
Cash Flows From Operating Activities		
Excess of revenue over expenses	94,576	134,483
Charges (credits) to income not involving cash		
Amortization	27,911	29,380
Mortgage discount	(67,463)	808
	55,024	164,671
Changes in non-cash working capital balances related to operations:		
HST recoverable	15,205	(12,136)
Inventory	(758,294)	(279,076)
Accounts receivable	(15,446)	7,078
Prepaid expenses	-	619
Accounts payable	(50,816)	87,197
Government remittances payable	(16,597)	5,017
Deferred revenue	136,526	(1,829)
Renovation deposits	-	17,974
	(634,398)	(10,485)
Cash Flows From Financing Activities		
Operating loan	126,660	-
Canadian emergency business account loan	40,000	-
	166,660	-
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(1,183)	-
Mortgages receivable	130,735	(7,997)
	129,552	(7,997)
Net Decrease in Cash and Bank	(338,186)	(18,482)
Opening Cash and Bank	373,861	392,343
Closing Cash and Bank	35,675	373,861
Cash and Bank		
Cash and bank - unrestricted	35,675	204,771
Cash and bank - restricted Fund for Humanity	-	169,090
Closing Cash and Bank	35,675	373,861

See accompanying notes

HABITAT FOR HUMANITY BRANT-NORFOLK

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

1. PURPOSE AND STATUS OF THE ORGANIZATION

Habitat for Humanity Brant is incorporated under the laws of Ontario without share capital for the purpose of providing a path to affordable home ownership to qualifying persons. The organization operates as Habitat for Humanity Brant-Norfolk. It is affiliated with Habitat for Humanity Canada and is registered as a Not for Profit Charity under the Income Tax Act, Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies.

(a) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure or contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the unamortized mortgage discount and donated inventory and materials. Actual results could differ from those estimates.

(b) Revenue Recognition

Contributions are recognized by the organization using the deferral method.

From 2019 forward, properties were sold to home owners at the fair market value. Home owners are able to finance the purchase with a first mortgage from a financial institution, such as a Bank or a Credit Union, and a second mortgage from the organization for the difference between the fair market value and the first mortgage. Revenue from these sales is recognized when the sale closes.

Between 2012 and 2018, properties were sold to home owners at the fair market value. Home owners are able to finance the purchase with a first mortgage for the cost of the home and a second mortgage for the difference between the fair market value and the cost of the property. Alternatively, home owners can choose to finance the purchase with a first mortgage for the fair market value of the home. Revenue from these sales is recognized when the sale closes.

Prior to 2012, properties were sold to home owners at the fair market value of the property. In the normal course of events, it was not anticipated that any proceeds would be received from the second mortgages and thus no revenue was recognized.

Except for material donated for re-sale at the ReStore retail outlet, donated materials and services, which would otherwise be paid by the organization, are recognized in the financial statements at fair market value when fair market value can be reasonably estimated and revenue from a charitable donation is recognized in an equal amount. ReStore merchandise is not valued.

Revenues from ReStore operations are recognized at the point of sale, if collection is reasonably assured.

(c) Inventories

Inventory is valued at the lower of cost and net realizable value, where cost includes the cost of materials for builds in progress.

HABITAT FOR HUMANITY BRANT-NORFOLK

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Amortization is provided for in the accounts as follows:

Equipment	20% declining balance
Vehicles	30% declining balance
Leasehold improvements	5 years straight line
Furniture and fixtures	20% declining balance
Computer equipment	30% declining balance
Leased equipment	20% declining balance

In the year of acquisition, amortization is provided for at one-half of the above rates. No amortization is provided for in the year of disposal.

(e) Mortgages Receivable

The organization has elected that its investment in non-interest bearing mortgages are to be measured at fair value. Fair value is calculated by using the net present value to determine future expected cash flows from each mortgage. The future cash flows are discounted using the prime rate at year end, the 2020 rate is 5.75% (December 31, 2019 - 5.75%).

(f) Financial Instruments Measurement

The organization initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and financial liabilities at amortized cost, other than its investments in mortgages.

The financial assets subsequently measured at amortized cost include cash and bank, accounts receivable and prepaid expenses. The financial liabilities measured at amortized cost include accounts payable and accrued liabilities, and deferred revenue.

PROPERTY, PLANT AND EQUIPMENT	Cost	Accumulated Amortization	2020	2019
Equipment	16,628	12,088	4,540	4,344
Vehicles	98,329	92,598	5,731	8,188
Leasehold improvements	135,713	89,138	46,575	69,860
Furniture and fixtures	16,359	15,757	602	753
Computer equipment	9,741	9,462	279	398
Leased equipment	24,141	20,496	3,645	4,557
	300,911	239,539	61,372	88,100

HABITAT FOR HUMANITY BRANT-NORFOLK

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

4. MORTGAGES RECEIVABLE	2020	2019
First mortgages receivable, due in aggregate monthly installments of \$9,380 on account of principal and realty taxes, due between July 2021 and October 2044	1,440,287	1,571,022
Second mortgages receivable, due in aggregate monthly installments of \$1,774 on account of principal, due between September 2041 and October 2049	234,350	234,350
Less: unamortized mortgage discount (Note 2 (d))	(709,182)	(776,645)
	965,455	1,028,727
Amounts due in current year	88,800	102,000
	876,655	926,727

- (a) The first mortgages represent the aggregate of mortgages on fourteen properties (December 31, 2019 - fifteen).
- (b) The first mortgages bear no interest and are secured by property. Monthly installments are adjusted annually to be not less than 25% of the mortgagees' gross family income.
- (c) In addition to the first mortgage, the organization issues a number of second mortgages. There are different types of second mortgages.

- (i) There are eleven (December 31, 2019 - eleven) second mortgages that were issued prior to the 2012 fiscal year. The maturity date of these second mortgages are the same as the related first mortgage. No payments are made on these second mortgages.

Provided the mortgagor has completed 'sweat equity' obligations, the mortgagor has not been in default and has continued to occupy the house for 12 years, 25% of the original principal is deducted from the second mortgage. The balance of the second mortgage is deemed to be paid in full if the mortgagor continues to occupy the house for an additional 8 years and the first mortgage is discharged.

In the unlikely event that the forgivable portions are required to be paid, the amounts will be recognized as revenue in the period in which the amount is to be received, can be reasonably estimated and ultimate collection is reasonably assured.

- (ii) There are three second mortgages issued after the 2011 fiscal year. Payments on these second mortgages commences when the first mortgage is repaid, or concurrently with the first mortgage.
- (d) The principal of the second mortgages, not recorded in the accounts at December 31, 2020, amounted to \$531,701 (December 2019 - \$531,701).
- (e) Repayments of first mortgages, net of the property tax component, are estimated to be \$88,800 (December 31, 2019 - \$102,000) in the following year.

HABITAT FOR HUMANITY BRANT-NORFOLK

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

5. OPERATING LOAN

The operating loan of \$500,000 bears interest at libro prime plus 1.45%. The operating loan is secured by a general security agreement covering all of the organizations assets.

Under an agreement with the bank, the organization is required, among other things, to maintain a minimum level of debt service coverage ratio at year end. As at December 31, 2020 the company had not maintained the required level of debt service coverage ratio of a minimum of 1.25:1.

6. FUND FOR HUMANITY	2020	2019
Balance - beginning of year	169,090	168,682
Allocations by Board of Directors	(169,090)	408
	-	169,090

7. RELATED PARTY TRANSACTIONS

Habitat for Humanity Brant is affiliated with Habitat for Humanity Canada. Commencing in 2008, affiliates became responsible for paying an annual affiliate fee, and assessments based on sales at the ReStore and homes built. In 2020, Habitat for Humanity Brant paid fees assessed on ReStore sales of \$26,494 (December 31, 2019 - \$14,319).

8. DEFERRED REVENUE	2020	2019
Donations designated to builds in future periods	42,500	17,974
CMHC grant	112,000	-
	154,500	17,974

9. FINANCIAL INSTRUMENTS

The significant risks to which the organization is exposed are liquidity risk, interest rate risk and credit risk.

Liquidity Risk

Liquidity risk is the risk that the organization will encounter difficulty in meeting obligations associated with financial liabilities. The company is exposed to liquidity risk arising primarily from the bank operating loan.

Interest Rate Risk

The organization's exposure to interest rate risk relates to its floating bank rate indebtedness (Note 5).

Credit Risk

The organization's exposure to credit risk relates to mortgages held. The risk of significant credit loss is considered remote due to a first charge on the related properties.

HABITAT FOR HUMANITY BRANT-NORFOLK

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

10. COVID-19

During and subsequent to year end, the outbreak of a novel strain of coronavirus has resulted in the global declaration of a pandemic. Measures in place to combat the health threat of the virus have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the outbreak is unknown at this time, as are the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of the measures nor their impact on the future financial results and condition of the organization.

During the year the organization received \$59,387 in government assistance in the form of the the Canada Emergency Wage Subsidy (CEWS). In order to receive the CEWS, the organization had to meet certain terms and conditions and in particular had to have experienced an eligible reduction in revenue. The organization also received government assistance in the form of the Temporary Wage Subsidy for Employers (TWSE) which resulted in a reduction of the April, May and June 2020 payroll remittances of \$7,427.

During the year, the organization received the \$40,000 Canada Emergency Business Account Loan (CEBA). This is an interest free loan that, if repaid on or before December 31, 2022, will result in loan forgiveness of 25 percent (up to \$10,000). No repayments are required or expected prior to December 31, 2021 and as a result the debt is presented as long-term. The loan is expected to be repaid in full in the December 31, 2022 year end.

11. COMMITMENT

The organization is committed to the lease of business premises in Brantford, that expires March 2023, and Simcoe, that expires June 2022. The estimated rents and common area charges are as follows:

2021	-	198,999
2022	-	146,232
2023	-	32,058

12. DONATED INVENTORY AND MATERIALS

ReStore inventory is 100% donated and is, therefore, reported at a cost of \$nil. At year end, the market value of items in stock was \$192,349 (December 31, 2019 - \$190,917).