

Habitat For Humanity Ontario Gateway North

Financial Statements

December 31, 2015

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Independent Auditor's Report

To the Members of Habitat For Humanity Ontario Gateway North

I have audited the accompanying financial statements of Habitat For Humanity Ontario Gateway North which comprise the statement of financial position as at December 31, 2015 and the statements of operations and changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, Habitat For Humanity Ontario Gateway North derives revenue from donations and fundraising, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, my verification of these revenues was limited to the amounts recorded in the records of the organization, and I was not able to determine whether any adjustments might be necessary to donation and fundraising revenues, excess of revenues over expenses for the year, assets and net assets.

Qualified Opinion

In my opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of Habitat For Humanity Ontario Gateway North as at December 31, 2015 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.

Dave Stevenson

CPA, CA, Licensed Public Accountant

May 28, 2016

Bracebridge, Ontario

Habitat For Humanity Ontario Gateway North

Statement of Financial Position

December 31	2015	2014
Assets		
Current		
Cash	\$ 167,358	\$ 238,904
Cash - restricted	571,299	412,569
HST and other accounts receivable	97,576	70,403
Current portion of mortgages receivable	126,070	117,507
Prepaid expenses	41,285	27,937
Land held for development	427,580	470,874
Homes under construction	559,011	392,999
	<u>1,990,179</u>	<u>1,731,193</u>
Mortgages receivable (Note 2)	2,637,714	2,511,149
Capital assets (Note 3)	475,615	522,710
	<u>\$ 5,103,508</u>	<u>\$ 4,765,052</u>

Liabilities

Current		
Accounts payable and accrued liabilities	\$ 297,849	\$ 126,994
Government remittances payable	31,218	21,435
Deferred revenues	571,299	412,569
Mortgages and loans payable (Note 4)	223,088	342,982
	<u>1,123,454</u>	<u>903,980</u>
Deferred contributions relating to capital assets	116,927	149,554
	<u>1,240,381</u>	<u>1,053,534</u>

Commitments (Note 5)

Net Assets

Net assets invested in capital assets, properties and mortgages	3,314,676	3,110,134
Restricted net assets	571,299	412,569
Unrestricted net assets	(22,848)	188,815
	<u>3,863,127</u>	<u>3,711,518</u>
	<u>\$ 5,103,508</u>	<u>\$ 4,765,052</u>

Approved on behalf of the Board:

_____ Director

_____ Director

Habitat For Humanity Ontario Gateway North

Statement of Operations and Changes in Net Assets

For the year ended December 31	2015	2014
Revenues		
Donations, grants and fundraising	\$ 111,944	\$ 133,893
ReStore revenues	1,722,303	1,061,215
Less - ReStore expenses	(1,310,436)	(882,227)
Wage subsidies, rebates and other income	30,459	55,782
House sales	616,498	355,000
Present value adjustment on first mortgages (Note 2)		
Current year projects	(154,283)	(125,964)
Prior years' projects	179,893	84,511
	<u>1,196,378</u>	<u>682,210</u>
Building costs	<u>371,801</u>	<u>323,385</u>
Excess of revenues over expenses before administrative expenses	<u>824,577</u>	<u>358,825</u>
Administrative expenses		
Amortization of capital assets	48,416	20,614
Amortization of capital grants	(32,627)	(9,276)
Fundraising	35,527	30,875
Insurance	1,965	3,789
Office and general	47,812	34,366
Program expenses	38,388	22,069
Professional fees	17,873	18,581
Public awareness	5,605	2,455
Salaries and benefits	510,009	221,600
	<u>672,968</u>	<u>345,073</u>
Excess of revenues over expenses for the year	<u>151,609</u>	<u>13,752</u>
Net assets - beginning of year	<u>3,711,518</u>	<u>1,646,601</u>
Net assets transferred from other affiliates (Note 6)	<u>-</u>	<u>2,051,165</u>
Net assets - end of year	<u>\$ 3,863,127</u>	<u>\$ 3,711,518</u>
Represented by		
Net assets invested in capital assets, properties and mortgages	\$ 3,314,676	\$ 3,110,134
Restricted net assets	571,299	412,569
Unrestricted net assets	<u>(22,848)</u>	<u>188,815</u>
	<u>\$ 3,863,127</u>	<u>\$ 3,711,518</u>

The accompanying notes are an integral part of these financial statements

Habitat For Humanity Ontario Gateway North

Statement of Cash Flows

For the year ended December 31	2015	2014
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	\$ 151,609	\$ 13,752
Adjustment for		
Amortization of capital assets	48,416	20,614
Amortization of capital grants	(32,627)	(9,276)
Present value adjustment on first mortgages	(25,610)	774,201
Net assets transferred from other affiliates	-	2,051,165
	141,788	2,850,456
Changes in non-cash working capital balances		
HST and other accounts receivables	(27,173)	(31,363)
Prepaid expenses	(13,348)	(10,843)
Land held for development	43,294	(39,226)
Homes under construction	(166,012)	(188,127)
Accounts payable and accrued liabilities	170,854	87,504
Government remittances payable	9,783	12,395
Deferred revenues	158,730	245,857
	317,916	2,926,653
Investing activities		
Increase in mortgages receivable	(413,614)	(2,505,443)
Repayments on mortgages receivable	304,096	163,930
Increase in capital assets	(1,320)	(524,386)
	(110,838)	(2,865,899)
Financing activities		
Increase (decrease) in mortgages and loans payable	(119,894)	232,982
Increase in deferred contributions relating to capital assets	-	158,830
	(119,894)	391,812
Increase in cash during the year	87,184	452,566
Cash - beginning of year	651,473	198,907
Cash - end of year	\$ 738,657	\$ 651,473
Represented by		
Cash	\$ 167,358	\$ 238,904
Cash - restricted	571,299	412,569
	\$ 738,657	\$ 651,473

The accompanying notes are an integral part of these financial statements

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2015

1. Significant Accounting Policies

Nature of Operations

Habitat For Humanity Ontario Gateway North is a not-for-profit organization that was formed to assist in providing affordable housing in the Ontario Gateway North region. The organization is exempt from income tax in Canada as a registered charitable organization under the Income Tax Act.

The organization is an affiliate of Habitat For Humanity Canada (HFHC). There is a covenant agreement between HFHC and all Canadian affiliates setting out the general operating principles for every autonomous affiliate. Currently, HFHC provides affiliates across the country with administrative and marketing support, training opportunities and gift-in-kind coordination.

Basis of Presentation

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

The accrual basis of accounting is followed. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

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 the reported amounts of revenues and expenses during the reported period. The principal estimates used in the preparation of these financial statements are the determination of the discount rate used to calculate the present value adjustments on the mortgages receivable and the estimated useful life of the tangible capital assets. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in operations in the year in which they become known.

Properties Under Development

Land held for development and homes under construction, including property taxes and interest, are capitalized on a project by project basis until the project is complete and the house is sold. Land held for development and homes under construction are recorded at the lower of cost and net realizable value. Net realizable value is defined as the estimated costs to be recovered from partner families upon the sale of the property.

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2015

1. Significant Accounting Policies (continued)

Capital Assets	<p>Capital assets are recorded at cost. Amortization based on the estimated useful life of the asset is as follows:</p> <table><tr><td>Building</td><td>- 5%</td><td>diminishing balance</td></tr><tr><td>Computer equipment</td><td>- 30%</td><td>diminishing balance</td></tr><tr><td>Furniture and equipment</td><td>- 20%</td><td>diminishing balance</td></tr><tr><td>Transportation equipment</td><td>- 30%</td><td>diminishing balance</td></tr></table> <p>Leasehold improvements are recorded at cost and amortized on a straight line basis over the term of the premises lease.</p>	Building	- 5%	diminishing balance	Computer equipment	- 30%	diminishing balance	Furniture and equipment	- 20%	diminishing balance	Transportation equipment	- 30%	diminishing balance
Building	- 5%	diminishing balance											
Computer equipment	- 30%	diminishing balance											
Furniture and equipment	- 20%	diminishing balance											
Transportation equipment	- 30%	diminishing balance											
Capital Grants	<p>Grants received for the purchase of capital assets are deferred and amortized in the statement of operations on the same basis as the related assets.</p>												
Revenue Recognition	<p>Contributions received for specific building projects are deferred and recognized as revenue upon completion of the project. Operating grants received are deferred and recognized as revenue as the related expenses are incurred. Unrestricted contributions are recognized as revenue in the year received.</p> <p>House sales are recognized as revenue on the date that title to the home is transferred to the partner family.</p> <p>Sale of products at the ReStore are on a non-credit basis only. Revenues are recognized at the time payment is received.</p> <p>Interest income is recognized as revenue when earned.</p>												
Contributed Materials	<p>Donations in kind received by the organization for the purpose of constructing homes and for sale in the ReStores are not recognized in the financial statements.</p>												
Contributed Services	<p>A number of volunteers contribute a significant amount of time each year to the organization. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.</p>												

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2015

1. Significant Accounting Policies (continued)

Financial Instruments The organization's financial instruments consist of cash, HST and other accounts receivable, mortgages receivable, accounts payable, government remittances payable and mortgages and loans payable. Financial instruments are recorded at fair value on initial recognition. The carrying values of the mortgages receivable are adjusted annually as explained in Note 2. HST and other accounts receivable, accounts payable, government remittances payable and mortgages and loans payable are subsequently measured at amortized cost. Financial instruments measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of any write down or subsequent recovery is recognized in net revenue (expense).

2. Mortgages Receivable

	<u>2015</u>	<u>2014</u>
First mortgages receivable at face values	\$ 4,065,525	\$ 3,951,260
Less present value adjustments on first mortgages	<u>1,301,741</u>	<u>1,322,604</u>
Present value of first mortgages receivable	2,763,784	2,628,656
Less current portion	<u>126,070</u>	<u>117,507</u>
	<u>\$ 2,637,714</u>	<u>\$ 2,511,149</u>

First mortgages receivable are repayable over periods of up to 30 years. The first mortgages are interest-free. Monthly repayments are reviewed annually and adjusted accordingly based on a means test. The first mortgages receivable have been discounted for accounting presentation purposes at 3.75% (2014 - 3.98%) which is based on the estimated interest rate in effect at year-end on similar term, arms-length mortgages.

	<u>2015</u>	<u>2014</u>
Second mortgages receivable at face values	\$ 588,579	\$ 634,548
Less present value adjustments on second mortgages	<u>588,579</u>	<u>634,548</u>
Present value of second mortgages receivable	<u>\$ -</u>	<u>\$ -</u>

The second mortgages are also interest-free and the principal amounts are forgivable in the future provided certain conditions are met.

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2015

3. Capital Assets

	2015		2014	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 112,438	\$ -	\$ 112,438	\$ -
Building	332,991	24,558	332,991	8,325
Computer equipment	14,498	12,375	3,569	536
Furniture and equipment	13,871	8,988	12,550	7,933
Leasehold improvements	44,111	26,857	44,111	9,704
Transportation equipment	52,967	22,483	52,967	9,418
	\$ 570,876	\$ 95,261	\$ 558,626	\$ 35,916
Net book value		\$ 475,615		\$ 522,710

4. Mortgages and Loans Payable

	2015	2014
Mortgage payable, secured by land in Huntsville, Ontario, interest only payable annually at 5%, principal due in full upon the earlier of June 20, 2015 or the commencement of any excavation, construction of other improvement on the property	\$ -	\$ 110,000
Mortgage payable, secured by land and building in Midland, Ontario and a general security agreement, repayable \$1,472 monthly including interest at the bank's prime rate + 1.75%, due on demand	186,088	195,982
Mortgage payable, secured by land in Penetanguishene, Ontario, bearing interest at 5% per annum, due on demand	20,000	20,000
Loan payable, interest free, due on demand	17,000	17,000
	\$ 223,088	\$ 342,982

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2015

5. Commitments

The organization has leased its Bracebridge, Ontario premises for a term of ten years ending March 31, 2018. The minimum lease payments are \$121,000 plus HST per annum.

The organization has leased its Huntsville, Ontario ReStore location for a term of five years ending July 31, 2017. The minimum lease payments are \$52,052 plus HST per annum. The organization can renew the lease for an additional five year term at the same annual amount.

The organization has leased its Orillia, Ontario ReStore location for a term of five years ending June 30, 2016. The minimum lease payments are \$50,000 plus HST per annum in the first year and increasing by 2% each year thereafter. The organization can renew the lease for an additional five year term at the fair market rent rate in effect at the time of renewal.

The organization has leased its Sudbury, Ontario premises for a term of five years ending July 31, 2017. The minimum lease payments are \$44,772 plus HST per annum. The lease also requires the payment of additional rent in the amount of \$25,584 plus HST per annum in the first year subsequent to annual adjustment thereafter.

The organization has leased a vehicle for a term of sixty months ending March 23, 2018. The minimum annual lease payments until expiry of the lease are \$7,892.

6. Net Assets Transferred From Other Affiliates and Comparative Figures

During the prior year, based on a collective desire to help more families in the region, the Habitat affiliates of Muskoka, North Bay and Blue Sky Region, North Simcoe, Orillia/Lake Country, and Sudbury District agreed to combine their organizations into a singular Regional Affiliate, while at the same time retaining an active Habitat program in each community. Pursuant to the terms of a merger agreement with an effective date of August 31, 2014 the Habitat affiliates of North Bay and Blue Sky Region, North Simcoe, Orillia/Lake Country, and Sudbury District dissolved and transferred all of their assets and liabilities to Habitat For Humanity Muskoka which concurrently changed its name to Habitat For Humanity Ontario Gateway North in order to reflect its greater area of service. The transferred assets and liabilities were recorded at their carrying values.

Accordingly, the comparative figures in the statements of operations and cash flows and schedules of ReStore operations only include the operations of the North Bay and Blue Sky Region, North Simcoe, Orillia/Lake Country, and Sudbury District affiliates for the four month period of September 1 to December 31, 2014.

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

Habitat For Humanity Ontario Gateway North

Notes to the Financial Statements

December 31, 2015

7. Financial Instrument Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk arising from its cash and mortgages receivable. The organization reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. The organization reduces its credit risks on mortgages receivable by regularly meeting with the mortgagors and adjusting the mortgage payments based on the mortgagors incomes and ability to pay. There has been no change in the risk from the prior year.

Liquidity Risk

Liquidity risk is the risk that the organization will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements the organization will not have sufficient funds to settle a transaction on the due date or will be forced to sell financial assets at amounts less than their worth or may be unable to settle or recover a financial asset. The organization is exposed to liquidity risk arising from its accounts payable, government remittances payable and mortgages payable. There has been no change in the risk from the prior year.

Cash Flow Risk

The organization receives a substantial portion of its cash flow from various donors and fundraisers and can be subject to significant fluctuations in cash flow. The organization manages these cash flow fluctuations by maintaining adequate cash reserves and by following approved budgets. There has been no change in the risk from the prior year.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest on one of the organization's mortgages payable is variable based on bank prime rates. This exposes the organization to the risk of changing interest rates that may have an effect on its cash flows in future periods. The organization does not use derivative investments to reduce its exposure to interest rate risk.

Habitat For Humanity Ontario Gateway North

Schedule 1 - ReStore Operations - Bracebridge

For the year ended December 31	2015	2014
Revenues		
Sales	\$ 677,259	\$ 546,996
Other	11,523	-
	<u>688,782</u>	<u>546,996</u>
Expenses		
Advertising	1,538	4,886
Bank charges and credit card fees	7,957	4,966
Habitat for Humanity Canada sales fees	23,844	10,430
Office, general and insurance	10,259	9,955
Rent	125,768	125,768
Repairs and maintenance	15,581	16,380
Telephone and utilities	15,536	14,927
Transportation	17,885	16,731
Wages, benefits and consulting	213,069	178,430
	<u>431,437</u>	<u>382,473</u>
Excess of revenues over expenses for the year	\$ 257,345	\$ 164,523

Schedule 2 - ReStore Operations - Huntsville

For the year ended December 31	2015	2014
Revenues		
Sales	\$ 383,262	\$ 344,364
Other	1,996	-
	<u>385,258</u>	<u>344,364</u>
Expenses		
Advertising	1,473	4,102
Bank charges and credit card fees	2,501	2,942
Habitat for Humanity Canada sales fees	12,509	8,066
Office, general and insurance	7,519	11,606
Rent	76,954	76,954
Repairs and maintenance	8,979	5,282
Telephone and utilities	30,469	21,054
Transportation	5,303	7,249
Wages, benefits and consulting	143,131	153,532
	<u>288,838</u>	<u>290,787</u>
Excess of revenues over expenses for the year	\$ 96,420	\$ 53,577

Habitat For Humanity Ontario Gateway North

Schedule 3 - ReStore Operations - Orillia

For the year ended December 31	2015	2014
Revenues		
Sales	\$ 218,541	\$ 59,593
Other	2,164	3,921
	220,705	63,514
Expenses		
Advertising	890	1,087
Bank charges and credit card fees	2,328	1,040
Habitat for Humanity Canada sales fees	5,318	623
Office, general and insurance	6,092	2,228
Rent	72,971	25,657
Repairs and maintenance	1,628	962
Telephone and utilities	11,241	4,207
Transportation	4,216	1,796
Wages, benefits and consulting	96,829	32,552
	201,513	70,152
Excess (deficiency) of revenues over expenses for the year	\$ 19,192	\$ (6,638)

Schedule 4 - ReStore Operations - Sudbury

For the year ended December 31	2015	2014
Revenues		
Sales	\$ 202,596	\$ 59,358
Other	22,641	-
	225,237	59,358
Expenses		
Advertising	669	1,242
Bank charges and credit card fees	2,083	801
Habitat for Humanity Canada sales fees	6,788	603
Office, general and insurance	6,460	2,549
Rent	73,142	28,816
Repairs and maintenance	11,531	1,054
Telephone and utilities	3,358	1,506
Transportation	8,612	2,666
Utilities	7,648	3,489
Wages, benefits and consulting	111,243	36,989
	231,534	79,715
Excess (deficiency) of revenues over expenses for the year	\$ (6,297)	\$ (20,357)

Habitat For Humanity Ontario Gateway North

Schedule 5 - ReStore Operations - Midland

For the year ended December 31	2015	2014
Revenues		
Sales	\$ 199,637	\$ 46,983
Other	2,684	-
	202,321	46,983
Expenses		
Advertising	2,902	1,397
Bank charges and credit card fees	2,702	519
Habitat for Humanity Canada sales fees	6,566	478
Interest on long-term debt	590	2,766
Office, general and insurance	7,388	1,066
Property taxes	6,246	3,537
Repairs and maintenance	11,802	2,753
Telephone and utilities	5,054	944
Transportation	6,059	2,057
Utilities	6,131	1,721
Wages, benefits and consulting	101,674	41,862
	157,114	59,100
Excess (deficiency) of revenues over expenses for the year	\$ 45,207	\$ (12,117)

Schedule 6 - ReStore Operations - Total

For the year ended December 31	2015	2014
Revenues		
Bracebridge	688,782	546,996
Huntsville	385,258	344,364
Orillia	220,705	63,514
Sudbury	225,237	59,358
Midland	202,321	46,983
	1,722,303	1,061,215
Expenses		
Bracebridge	431,437	382,473
Huntsville	288,838	290,787
Orillia	201,513	70,152
Sudbury	231,534	79,715
Midland	157,114	59,100
	1,310,436	882,227
Excess of revenues over expenses for the year	\$ 411,867	\$ 178,988