

Financial Statements of

**HABITAT FOR HUMANITY
WINDSOR-ESSEX INC.**

And Independent Auditor's Report thereon

Year ended December 31, 2022

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Financial Statements

Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Habitat for Humanity Windsor-Essex Inc.

Qualified Opinion

We have audited the financial statements of Habitat for Humanity Windsor-Essex Inc. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our auditor's report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2022 and its results of operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-For-Profit Organizations.

Basis of Qualified Opinion

In common with many not-for-profit organizations, the Entity derives revenue from 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 the Entity.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets reported in the statements of financial position as at end of December 31, 2022 and December 31, 2021
- the fundraising revenues and excess of revenues over expenses reported in the statements of operations for the years ended December 31, 2022 and December 31, 2021



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- the unrestricted net assets, at the beginning and end of the year, reported in the statements of changes in net assets for the years ended December 31, 2022 and December 31, 2021
- the excess of revenues over expenses reported in the statements of cash flows for the years ended December 31, 2022 and December 31, 2021

Our opinion on the financial statements for year ended December 31, 2021 was also qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

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

In preparing the financial statements, management is responsible for assessing the 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 the 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.



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- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Windsor Canada

May 25, 2023

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Statement of Financial Position

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash (note 2)	\$ 1,156,163	\$ 781,784
Investments (note 3)	175,210	172,441
Accounts receivable	124,363	204,769
Prepaid expenses	34,598	32,135
Mortgages receivable - current portion (note 4)	179,460	195,522
Property held for sale and development (note 5)	1,314,467	1,846,366
	<u>2,984,261</u>	<u>3,233,017</u>
Investments - long term (note 3)	45,375	43,968
Mortgages receivable (note 4)	2,451,486	2,421,444
Capital assets (note 6)	210,855	175,487
	<u>\$ 5,691,977</u>	<u>\$ 5,873,916</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 607,813	\$ 384,793
Deferred contributions (note 8)	836,190	1,277,109
	<u>1,444,003</u>	<u>1,661,902</u>
Deferred capital contributions (note 8)	4,500	28,300
Net assets		
Unrestricted	1,406,173	1,419,561
Internally restricted funds (note 10)	2,630,946	2,616,966
Invested in capital assets (note 11)	206,355	147,187
	<u>4,243,474</u>	<u>4,183,714</u>
Contingencies (note 13)		
Commitments (note 14)		
	<u>\$ 5,691,977</u>	<u>\$ 5,873,916</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Statement of Operations

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Revenue:		
Fundraising and donations	\$ 153,418	\$ 115,590
Restore	2,042,920	1,621,874
Grants	775,167	143,497
Amortization of deferred capital contributions (note 8)	28,800	28,300
Other income (note 9)	160,227	318,946
	<u>3,160,532</u>	<u>2,228,207</u>
Expenses:		
Advertising and promotion	34,859	30,206
Amortization of capital assets	94,191	62,475
Interest and bank charges	25,206	22,029
Office	96,493	75,824
Professional services	36,357	22,921
Tithing	272,800	192,028
Facility	365,520	349,400
Special projects	47,887	37,260
Truck	151,984	129,795
Volunteer	7,331	2,634
Wages and benefits	1,296,654	1,095,456
Meetings and committee expenses	6,487	4,678
	<u>2,435,769</u>	<u>2,024,706</u>
Excess of revenue over expenses before the undernoted	724,763	203,501
Home sales and cost of sales:		
Home sales	2,468,973	432,800
HFHC distribution	471,823	158,950
Mortgage discount adjustment	(239,305)	228,845
Other	(19,478)	-
Cost of home sales and building operations	(1,877,026)	(413,321)
New mortgage discount expense	(1,469,990)	(207,069)
	<u>(665,003)</u>	<u>200,205</u>
Excess of revenue over expenses	\$ 59,760	\$ 403,706

See accompanying notes to financial statements.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Statement of Changes in Net Assets

Year ended December 31, 2022, with comparative information for 2021

	Unrestricted	Internally restricted funds (note 10)	Invested in capital assets (note 11)	2022 Total	2021 Total
Balance, beginning of year	\$ 1,419,561	\$ 2,616,966	\$ 147,187	\$ 4,183,714	\$ 3,780,008
Excess of revenue over expenses	125,151	-	(65,391)	59,760	403,706
Interfund transfers	(138,539)	13,980	124,559	-	-
Balance, end of year	\$ 1,406,173	\$ 2,630,946	\$ 206,355	\$ 4,243,474	\$ 4,183,714

See accompanying notes to financial statements.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 59,760	\$ 403,706
Amortization of capital assets	94,191	62,475
Amortization of deferred capital contributions	(28,800)	(28,300)
Mortgage discount adjustment	239,305	(228,845)
Mortgage discount expense	1,469,990	207,069
Gain on sale of capital assets	-	(6,913)
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	80,406	(132,689)
(Increase) decrease in prepaid expenses	(2,463)	831
Increase in accounts payable and accrued liabilities	223,020	281,954
(Decrease) increase in deferred contributions	(440,919)	999,376
	<u>1,694,490</u>	<u>1,558,664</u>
Investing activities:		
Increase in mortgages receivable	(2,211,729)	(432,800)
Repayment of mortgages receivable	488,454	273,507
Decrease (increase) in property held for sale	531,899	(1,674,604)
Increase in investments	(4,176)	(4,975)
Purchases of capital assets	(124,559)	(44,750)
Proceeds on sale of capital assets	-	25,000
	<u>(1,320,111)</u>	<u>(1,858,622)</u>
Increase (decrease) in cash	374,379	(299,958)
Cash, beginning of year	781,784	1,081,742
Cash, end of year	<u>\$ 1,156,163</u>	<u>\$ 781,784</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements

Year ended December 31, 2022

Habitat for Humanity Windsor-Essex Inc. (the "Organization") is incorporated without share capital under the Corporation Act of Ontario. The Organization is a non-profit organization dedicated to improving the lives of economically disadvantaged persons by constructing or renovating homes for the working poor and providing interest free mortgages to enable them to pay for such homes or renovations. Mortgages on homes are non-interest bearing.

The Organization is a charitable organization registered under the Income Tax Act and as such is exempt from income taxes and able to issue donation receipts for income tax purposes.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CPA Canada Handbook.

(a) Revenue recognition:

The Organization follows the deferral method of accounting for contributions which include donations and government grants.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Home sales are recognized at the date the mortgage is entered into, at which time all the rights and responsibilities of ownership are transferred to partner families.

Restore sales consist entirely of donated merchandise. Revenue from sales of restore goods is recognized when the goods are sold.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

1. Significant accounting policies (continued):

(b) Capital assets:

Capital assets are recorded at cost. Repairs and maintenance costs are charged to expense. When a capital asset no longer contributes to the Organization's ability to provide services, its carrying amount is written down to its residual value.

Amortization is provided over the estimated useful lives of the assets using the straight-line method at the following rates:

Asset	Rate
Computer Equipment	3 years
Vehicles	5 years
Furniture and fixtures	5 years
Leasehold improvements	10 years

(c) Property held for sale:

Property held for sale, which includes land and buildings and building materials, both purchased and donated, is recorded at the lower of cost and net realizable value.

(d) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Donated goods and services are recorded when a fair value can be reasonably estimated and they would otherwise be purchased if not donated.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

1. Significant accounting policies (continued):

(e) Mortgages receivable:

The Organization provides non-interest bearing mortgages to its Partner Families. Mortgage receivables are initially measured at the fair value of the consideration given when the Organization becomes party to the signed mortgage and are subsequently recognized at amortized cost.

Prior to December 31, 2009, when a house was sold or renovation was completed, the new homeowner provided a first mortgage which was determined based on a formula using the cost of construction of the home. The home was then appraised and the difference between the appraised value and the first mortgage was the amount of value assigned to the second mortgage given to the homeowner. Subsequent to 2009, mortgages are based solely on the appraised value of the home. The second mortgages are forgivable to the Partner Families if certain conditions are met. Due to the uncertainty of collection, the second mortgages are recognized at a fair value of zero. If conditions arise that require forgivable portions to be repaid, or the right to forgiveness has been forfeited, the previously forgivable portion will be recognized in revenue.

(f) Government assistance:

Government assistance related to current expenses and revenue is included in the determination of net income for the period. Government assistance related to capital expenditures is recorded as a reduction of the cost of the related item of capital assets, fixed assets, property, plant and equipment.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Items subject to estimates and assumptions include the carrying value of mortgages receivable, value of donated goods, and net realizable value of properties held for sale. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

1. Significant accounting policies (continued):

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. The Organization has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Organization determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Organization expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Cash:

Included in cash are amounts totaling \$706,513 (2021 - \$327,661) designated for home builds.

3. Investments:

Investments consist of guaranteed investment certificates with redemption terms between November 2023 and December 2023.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

4. Mortgages receivable:

	2022	2021
Gross mortgages receivable	\$ 6,034,627	\$ 4,385,228
Less: Unamortized mortgage discount	(3,403,681)	(1,768,262)
Present value of mortgages receivable	2,630,946	2,616,966
Less: Current portion	(179,460)	(195,522)
	\$ 2,451,486	\$ 2,421,444

(i) During 2022, 4 mortgages (2021 - 1) were signed with associated home costs of \$1,894,500 (2021 - \$432,800). At December 31, 2022, 42 (2021 - 40) mortgages remain outstanding. A mortgage discount expense of \$1,469,990 (2021 - \$207,069) was recognized on mortgages during the year.

(ii) First mortgages bear no interest, are secured by a charge on the specific property, and are receivable in monthly instalments with varying term.

(iii) Up to 2009, the second mortgage was calculated by taking the difference between the actual cost of the home and the appraised value of each home at the time it is sold to the recipient.

The terms are as follows:

- The second mortgage may be reduced by a maximum of 25% after a period of 12 years.
- The remaining 75% may be forgiven once the first mortgage is paid off or the mortgage is discharged.

(iv) At December 31, 2022, 29 (2021 - 31) second mortgages remain, totaling \$815,406 (2021 - \$889,281). Included in this amount is \$416,531 (2021 - \$490,406) of forgivable second mortgages. These balances are reflected at a fair value of \$nil. During 2022 there were two second mortgages forgiven (2021 - nil). The remaining second mortgages are not due until the Partner family sells the home, refinances, transfers title or defaults on the mortgage agreement.

(v) As of 2021, the affiliate policy states that should a family wish to sell their home, the increase in value of the property shall be provided to the family and the organization in such a manner depending on the number of years that the family has occupied the home.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

5. Property held for sale and development:

	2022	2021
Stoney Point Property	\$ 95,400	\$ 92,199
St. Luke Road Property	–	845,333
Henry Ford Centre Drive Property	718,744	272,662
Brock Street Property	101,427	101,427
Baby Street Property	199,132	199,134
Peter Street Property	199,764	199,764
3D Printing Project	–	135,847
	<u>\$ 1,314,467</u>	<u>\$ 1,846,366</u>

6. Capital assets:

			2022	2021
	Cost	Accumulated amortization	Net book value	Net book value
Computer equipment	\$ 140,618	\$ 136,400	\$ 4,218	\$ –
Vehicles	450,683	310,039	140,644	82,252
Furniture and Fixtures	100,606	83,607	16,999	36,262
Leasehold Improvements	84,990	35,996	48,994	56,973
	<u>\$ 776,897</u>	<u>\$ 566,042</u>	<u>\$ 210,855</u>	<u>\$ 175,487</u>

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$18,126 (2021 - \$13,214), which includes amounts payable for WSIB and payroll-related remittances.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

8. Deferred contributions:

Expenses of future periods:

Deferred contributions related to expenses of future periods represent unspent resources restricted for specific future expenditures:

	2022	2021
Balance, beginning of year	\$ 1,277,109	\$ 277,733
Less: amount recognized as revenue	508,419	48,597
Add: amount received related to future periods	67,500	1,047,973
	<u>\$ 836,190</u>	<u>\$ 1,277,109</u>

Capital assets:

Deferred contributions related to capital assets represent the unamortized amount of contributions received for the purchase of capital assets:

	2022	2021
Balance, beginning of year	\$ 28,300	\$ 56,600
Add: additions	5,000	-
Less: amount amortized	28,800	28,300
	<u>\$ 4,500</u>	<u>\$ 28,300</u>

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

9. Government assistance:

In March 2020, in response to the COVID-19 pandemic, the Government of Canada introduced the Canada Emergency Wage Subsidy program. The program aids those companies that experienced a reduction in revenues as a result of the pandemic and the measures taken to prevent its spread. Under the program, an eligible company could apply for the subsidy and receive a portion of each employees' wage, up to a maximum predetermined amount. During 2022, the Organization received a subsidy of \$nil (2021 - \$195,095).

In November 2020, the Government of Canada introduced the Canada Emergency Rent Subsidy program. The program aids those companies that experienced a reduction in revenues as a result of the pandemic and the measures taken to prevent its spread. Under the program, an eligible company could apply for the subsidy and receive an amount to cover part of their commercial rent or property expenses, up to a maximum predetermined amount. During 2022, the Organization received a subsidy of \$nil (2021 - \$86,760).

10. Internally restricted funds:

The following are funds which have been set aside for specific purposes by the Board of Directors:

	2022	2021
Reserved for property taxes	\$ 15,000	\$ 15,000
Reserved for future builds	706,513	327,661
Fund for Humanity	1,909,433	2,274,305
Balance, end of year	\$ 2,630,946	\$ 2,616,966

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

11. Invested in capital assets:

(a) Invested in capital assets is calculated as follows:

	2022	2021
Capital assets	\$ 210,855	\$ 175,487
Amounts financed by:		
Deferred capital contributions	4,500	28,300
	\$ 206,355	\$ 147,187

(b) Change in net assets invested in capital assets is calculated as follows:

	2022	2021
Excess (deficiency) of revenue over expenses:		
Amortization of capital assets	\$ (94,191)	\$ (62,475)
Amortization of deferred capital contributions	28,800	28,300
Gain on sale of capital assets	–	6,913
	(65,391)	(27,262)
Purchase of capital assets	124,559	44,750
Proceeds on sale of capital assets	–	(25,000)
	\$ 59,168	\$ (7,512)

12. Financial risks and concentration of credit risk:

(a) Liquidity risk:

Liquidity risk is the risk that the Organization will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Organization manages its liquidity risk by monitoring its operating requirements. The Organization prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposure from 2021.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

12. Financial risks and concentration of credit risk (continued):

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Organization is exposed to credit risk with respect to the accounts receivable and mortgages receivable. The Organization assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. There has been no change to the risk exposure from 2021.

13. Contingencies:

From time to time, the Organization is involved in various litigation matters arising in the ordinary course of its business. The Organization has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Organization's financial position, results of operations or its ability to carry on any of its business activities.

14. Commitments:

The Organization leases a building for the store located in Windsor. The future minimum payments for leases are as follows:

2023	\$	352,481
2024		352,481
2025		352,481
2026		352,481
Beyond		1,057,443
		<hr/>
	\$	2,467,367
