

Financial Statements of

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

Year ended December 31, 2018

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Financial Statements

Year ended December 31, 2018

	Page
Independent Auditors' Report	1
Statement of Financial Position	4
Statement of Operations	5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8



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INDEPENDENT AUDITORS' 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, 2018
- 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 auditors' report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 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, 2018 and December 31, 2017
- the fundraising revenues and excess of revenues over expenses reported in the statements of operations for the years ended December 31, 2018 and December 31, 2017



- 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, 2018 and December 31, 2017
- the excess of revenues over expenses reported in the statements of cash flows for the years ended December 31, 2018 and December 31, 2017.

Our opinion on the financial statements for year ended December 31, 2017 was 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 "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' 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 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.

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 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 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 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that tapers at both ends, serving as a decorative underline.

Chartered Professional Accountants, Licensed Public Accountants

Windsor Canada

April 17, 2019

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash (note 2)	\$ 859,626	\$ 854,464
Investments (note 3)	40,000	-
Accounts receivable	63,184	36,874
Prepaid expenses	35,595	-
Mortgages receivable - current portion (note 4)	165,513	165,079
Property held for sale and development (note 5)	672,625	562,994
	<u>1,836,543</u>	<u>1,619,411</u>
Investments - long term (note 3)	160,000	-
Mortgages receivable (note 4)	3,357,893	3,527,179
Capital assets (note 6)	205,338	16,150
	<u>\$ 5,559,774</u>	<u>\$ 5,162,740</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 208,409	\$ 58,745
Deferred contributions (note 8)	147,597	25,054
	<u>356,006</u>	<u>83,799</u>
Deferred revenue (note 9)	909,500	1,111,375
Deferred capital contributions (note 8)	99,050	8,286
	<u>1,364,556</u>	<u>1,203,460</u>
Net assets		
Unrestricted	1,324,244	1,254,749
Invested in capital assets (note 11)	106,288	7,864
Internally restricted funds (note 10)	2,764,686	2,696,667
	<u>4,195,218</u>	<u>3,959,280</u>
Contingencies (note 13)		
Commitments (note 14)		
	<u>\$ 5,559,774</u>	<u>\$ 5,162,740</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, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Fundraising and donations	\$ 140,451	\$ 24,232
Restore	1,183,450	1,267,271
Grants	146,527	41,194
Amortization of deferred capital contributions (note 8)	50,736	6,629
Other income	5,244	38,368
	<u>1,526,408</u>	<u>1,377,694</u>
Expenses:		
Advertising and promotion	52,481	20,814
Amortization of capital assets	78,775	17,401
Interest and bank charges	11,815	11,774
Office	89,679	124,476
Professional services	37,736	42,811
Tithing	107,043	86,260
Facility	182,471	191,596
Special projects	56,975	48,418
Truck	75,618	59,347
Volunteer	2,975	524
Wages and benefits	719,031	617,184
Meetings and committee expenses	12,085	7,902
	<u>1,426,684</u>	<u>1,228,507</u>
Excess of revenue over expenses before the undernoted	99,724	149,187
Net home builds income	136,214	78,038
Excess of revenue over expenses	<u>\$ 235,938</u>	<u>\$ 227,225</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Statement of Changes in Net Assets

Year ended December 31, 2018, with comparative information for 2017

	Internally restricted funds (note 10)	Invested in capital assets (note 11)	Unrestricted	2018 Total	2017 Total
Balance, beginning of year	\$ 2,696,667	\$ 7,864	\$ 1,254,749	\$ 3,959,280	\$ 3,732,055
Excess (deficiency) of revenue over expenses	-	(28,039)	263,977	235,938	227,225
Interfund transfers	68,019	126,463	(194,482)	-	-
Balance, end of year	\$ 2,764,686	\$ 106,288	\$ 1,324,244	\$ 4,195,218	\$ 3,959,280

See accompanying notes to financial statements.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 235,938	\$ 227,225
Amortization of capital assets	78,775	17,401
Amortization of deferred capital contributions	(50,736)	(6,629)
Change in non-cash operating working capital:		
Increase (decrease) in accounts receivable	(26,310)	14,359
Decrease (increase) in prepaid expenses	(35,595)	7,560
Increase (decrease) in accounts payable and accrued liabilities	149,664	(17,867)
Increase in deferred contributions	122,543	18,243
Decrease in deferred revenue	(201,875)	(11,875)
	<u>272,404</u>	<u>248,417</u>
Investing activities:		
Increase in mortgages receivable	(397,189)	(90,000)
Repayment of mortgages receivable	566,041	381,483
Increase in property held for sale	(109,631)	(214,601)
Increase in deferred capital contributions	141,500	
Increase in investments	(200,000)	-
Purchases of capital assets	(267,963)	-
	<u>(267,242)</u>	<u>76,882</u>
Increase in cash	5,162	325,299
Cash, beginning of year	854,464	529,165
Cash, end of year	<u>\$ 859,626</u>	<u>\$ 854,464</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements

Year ended December 31, 2018

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.

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, 2018

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
Equipment	3 years
Vehicles	5 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.

(e) Mortgages receivable:

Mortgages receivable are initially measured at the fair value of the consideration given when the Organization becomes party to the signed mortgage.

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.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(f) Deferred revenue:

Deferred revenue relates to the second mortgages. Any amounts subsequently received will be recorded as revenue in the period received.

(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.

(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.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(h) Financial instruments (continued):

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 \$333,778 (2017 - \$235,513) designated for home builds.

3. Investments:

Investments consist of guaranteed investment certificates with redemption terms between November 2019 and November 2023.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2018

4. Mortgages receivable:

	2018	2017
Total mortgages receivable	\$ 3,523,406	\$ 3,692,258
Less current portion	165,513	165,079
	<u>\$ 3,357,893</u>	<u>\$ 3,527,179</u>

- (i) First mortgages bear no interest, are secured by a charge on the specific property, and are receivable in monthly instalments with a twenty, twenty-five or thirty year term.
- (ii) 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.
- (iii) As of 2010, the affiliate policy is that a home will be sold to a partner family at fair market value, as determined by a qualified independent appraiser.

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2018

5. Property held for sale and development:

	2018	2017
Rickway Avenue	\$ -	\$ 224,522
Stoney Point land	90,549	87,750
Armanda Road	14,000	184,500
Birch Road	60,469	57,107
Askew Road	191,030	9,115
Janette Road	212,880	-
St. Luke Property	103,697	-
	<u>\$ 672,625</u>	<u>\$ 562,994</u>

6. Capital assets:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	\$ 126,878	\$ 93,037	\$ 33,841	\$ 5,292
Vehicles	247,739	123,781	123,958	10,858
Furniture and Fixtures	37,700	3,637	34,063	-
Leasehold Improvements	16,517	3,041	13,476	-
	<u>\$ 428,834</u>	<u>\$ 223,496</u>	<u>\$ 205,338</u>	<u>\$ 16,150</u>

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$3,960 (2017 - \$1,855), 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, 2018

8. Deferred contributions:

Expenses of future periods:

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

	2018	2017
Balance, beginning of year	\$ 25,054	\$ 6,811
Less: amount recognized as revenue	25,054	6,811
Add: amount received related to future periods	147,597	25,054
	<u>\$ 147,597</u>	<u>\$ 25,054</u>

Capital assets:

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

	2018	2017
Balance, beginning of year	\$ 8,286	\$ 14,915
Add: Capital grants received	141,500	-
Less: amount amortized	50,736	6,629
	<u>\$ 99,050</u>	<u>\$ 8,286</u>

9. Deferred revenue:

Deferred revenue consists of the following:

	2018	2017
Second mortgages	\$ 909,500	\$ 1,111,375
	<u>\$ 909,500</u>	<u>\$ 1,111,375</u>

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2018

10. Internally restricted funds:

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

	2018	2017
Reserved for property taxes	\$ 15,000	\$ 15,000
Reserved for future builds	333,882	265,863
Fund for Humanity	2,415,804	2,415,804
Balance, end of year	\$ 2,764,686	\$ 2,696,667

11. Invested in capital assets:

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

	2018	2017
Capital assets	\$ 205,338	\$ 16,150
Amounts financed by:		
Deferred capital contributions	99,050	(8,286)
	\$ 106,288	\$ 7,864

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

	2018	2017
Excess (deficiency) of revenue over expenses:		
Amortization of capital assets	\$ (78,775)	\$ (17,401)
Amortization of deferred capital contributions	50,736	6,629
	(28,039)	(10,772)
Purchase of capital assets	267,963	-
Capital grant received	(141,500)	-
	\$ 98,424	\$ (10,772)

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2018

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 exposures from 2017.

(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.

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 Company leases buildings for the stores located in Windsor and Leamington and a vehicle under long-term operating leases. The future minimum payments for leases are as follows:

2019	\$	147,656
2020		185,160
2021		185,160
2022		185,160
2023		185,160
Beyond		1,110,960
	\$	1,999,256

HABITAT FOR HUMANITY WINDSOR-ESSEX INC.

Notes to Financial Statements (continued)

Year ended December 31, 2018

14. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial presentation adopted for the current year.