HABITAT FOR HUMANITY WATERLOO REGION INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2022

Approved on behalf of the Board:

INDEPENDENT AUDITOR'S REPORT

To the Directors of Habitat for Humanity Waterloo Region Inc.

Qualified Opinion

I have audited the financial statements of **Habitat for Humanity Waterloo Region Inc.**, which comprise the statement of financial position as at **December 31, 2022**, and the statement of operations and change in net assets, and the statement of cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the possible effects of the matter described in the Basis of Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of **Habitat for Humanity Waterloo Region Inc.** as at **December 31, 2022** and its results of operations, changes in net assets, and 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 charitable organizations, Habitat for Humanity Waterloo Region Inc. derives a portion of its revenues from the general public in the form of donations, and from the sale of donated materials (ReStore revenues), the completeness of which is not susceptible to satisfactory audit verification. Accordingly, my verification of revenues from these sources was limited to accounting for the amounts recorded in the records of Habitat for Humanity Waterloo Region Inc. Therefore, I was not able to determine whether any adjustments might be necessary to revenues, excess (deficit) of revenues over expenses, and cash flows for the years ended December 31, 2022 and 2021, current assets as at December 31, 2022 and 2021, and net assets as at January 1, 2021 and December 31, 2022 and 2021. My audit opinion on the financial statements for the year ended December 31, 2021 was also modified because of the possible effects of the same limitation in scope.

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the entity in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 consolidated 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 organization'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 organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 organization'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 organization's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the organization 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 an events in a manner that achieves fair presentation.

I 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 I identify during my audit.

E.M. Simon CPA

Professional Corporation
May 4, 2023
Waterloo, ON

HABITAT FOR HUMANITY WATERLOO REGION INC.

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022
(with comparative figures as at December 31, 2021)
(the accompanying notes are an integral part of the financial statements)

ASSETS	2022	2021
CURRENT		
Cash and cash equivalents	1,140,777	1,670,620
Investments (note 14)	2,000,000	-
Accounts receivable	170,235	523,659
Finished homes and construction in progress (note 3)	1,790,335	2,461,319
Prepaid expense	45,188	49,073
Current portion of mortgages receivable (note 4)	622,125	575,033
	5,768,660	5,279,704
NON-CURRENT		
Mortgages receivable (note 4)	6,527,866	6,470,645
Property and equipment (note 5)	60,061	85,733
Properties held for development (note 6)	971,935	783,619
	7,559,862	7,339,997
	$13,328,522	$12,619,701
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	337,709	343,864
Accrued HST payable, pending condominium registration	250,534	175,336
Deferred revenue (note 8)	1,111,688	1,234,280
Current portion of long-term debt (note 7)	40,000	204,663
	1,739,931	1,958,143
LONG-TERM (note 7)	-	251,587
TOTAL LIABILITIES	1,739,931	2,209,730
NET ASSETS		
Investment in homeownership program (note 13)	8,800,573	9,056,336
Investment in property and equipment	60,061	85,733
Unrestricted	2,727,957	1,267,902
	11,588,591	10,409,971
	$13,328,522	$12,619,701

HABITAT FOR HUMANITY WATERLOO REGION INC.

STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022

(with comparative figures for the year ended December 31, 2021)
(the accompanying notes are an integral part of the financial statements)

	2022	2021
HOME OWNERSHIP PROGRAM		
Revenue		
Home sales and related income (note 2)	2,089,391	1,305,645
Present value adjustment on new mortgages issued (note 4)	(891,070)	(715,461)
Present value of home sales and related income	1,198,321	590,184
Designated donations (note 2)	649,517	646,553
	1,847,838	1,236,737
Expenses		
Construction costs	1,162,557	717,691
Program expenses (note 10)	773,660	794,404
	1,936,217	1,512,095
	(88,379)	(275,358)
FUNDRAISING		
Donations received (note 2)	864,940	1,394,538
Expenses (note 10)	370,124	408,160
	494,816	986,378
Donations deferred to future years	(526,451)	(274,384)
	(31,635)	711,994
RESTORE		
Revenue (note 2)	2,097,984	1,630,219
Expenses (note 10)	1,357,066	1,263,132
	740,918	367,087
MORTGAGE DISCOUNT ACCRETION (note 4)	587,184	494,859
ADMINISTRATION		
Subsidies, Grants, interest, other income	353,586	559,691
Expenses	(348,495)	(312,244)
Amortization of property and equipment	(34,559)	(66,758)
	(29,468)	180,689
INCREASE IN NET ASSETS	1,178,620	1,479,271
NET ASSETS - beginning of the period	10,409,971	8,930,700
NET ASSETS - end of the period	$11,588,591	$10,409,971

HABITAT FOR HUMANITY WATERLOO REGION INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)
(the accompanying notes are an integral part of the financial statements)

	2022	2021
Cash flows provided (used):		
OPERATIONS		
Increase in net assets	1,178,620	1,479,271
Items not requiring or providing cash:		
Home sales and related income (note 2)	(2,089,391)	(1,305,645)
Present value adjustment on new mortgages issued (note 4)	891,070	715,461
Mortgage portfolio accretion (note 4)	(587,184)	(494,859)
Amortization of property and equipment	34,559	66,758
	(572,326)	460,986
Net change in non-cash current assets and liabilities:		
Investments (note 14)	(2,000,000)	-
Accounts receivable	353,424	(353,750)
Prepaid expense	3,885	(6,558)
Finished homes and construction in progress	670,984	(1,240,442)
Accounts payable and accrued liabilities	(6,155)	2,633
Accrued HST payable, pending condominium registration	75,198	68,334
Deferred revenues received	526,451	274,384
Deferred revenues recognized as income	(649,043)	(646,554)
	(1,597,582)	(1,440,967)
INVESTING		
Purchases of property and equipment	(8,887)	(61,620)
Properties held for development - purchases and additional costs	(247,631)	(110,593)
Properties held for development - transferred to development	59,315	781,869
HST collected, closing costs and additional mortgage financing on new home sales	567,993	(72,084)
Receipts from mortgages receivable	1,113,199	1,060,714
	1,483,989	1,598,286
FINANCING		
Repayment of mortgage payable	(416,250)	(7,610)
CHANGE IN CASH	(529,843)	149,709
CASH AND EQUIVALENTS - beginning of the period	1,670,620	1,520,911
CASH AND EQUIVALENTS - end of the period	$1,140,777	$1,670,620

1. STATUS AND NATURE OF ACTIVITIES

The organization is incorporated without share capital by letters patent issued under the Ontario Corporations Act. It is a registered charitable organization as defined by the Income Tax Act, and as such does not pay income tax. The organization provides access to safe, decent and affordable homeownership to families in need by constructing or renovating homes, and providing interest free mortgages to qualified families.

What we do: Habitat for Humanity Waterloo Region Inc. partners with lower-income families to help them build strength, stability and independence through affordable homeownership.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared using Canadian Accounting Standards for Not-for-profit Organizations.

Revenue recognition

Fundraising

The organization uses the deferral method of accounting for donations. Restricted donations are recognized as revenue in the year in which the related expenses are incurred. Unrestricted donations are recognized as revenue when received or receivable provided the amount can be reasonably estimated and collection is reasonably assured.

ReStore

ReStore revenues consist of revenues from the sale of donated building materials and other household products. ReStore revenues are not recorded when donated materials are received, as determination of fair values is not practical, and consequently, ReStore revenues are recorded at the time the donated materials are sold.

Home ownership program

Revenue from the sale of homes is recognized at the time the owner moves into the property, provided there is no uncertainty regarding the transfer of title and mortgage registration for the home. Because mortgages are issued to homeowners at 0% interest for an indefinite term based on geared-to-income principal payments, the mortgage receivable is discounted to reflect the fair value of these mortgages. The related mortgage receivable is discounted based on the rate for a 5 year conventional mortgage at the time of sale, plus 2%. The discount is also calculated assuming an expected average 25 year amortization at the time of issuance, regardless of the actual repayment terms. All discounts are subsequently recognized as income on a prorata basis as the mortgages are repaid. Restricted donations which have been designated for construction projects are recognized as revenue when the sale of the related units is recognized. Donations in kind for construction or the renovation of homes are recorded at estimated fair values when they can be reasonably determined. Program operating expenses are recognized in the period incurred.

Donations and grants for the purpose of acquiring property and equipment

Donations and grants that are restricted for the purpose of acquiring property and equipment are deferred and recognized in revenue on the same basis as amortization is calculated on the related assets.

Contributed services

Volunteers contribute a significant amount of time assisting the organization in providing its services. Due to the difficulty in establishing fair values, contributed services are not recognized in these financial statements.

HABITAT FOR HUMANITY WATERLOO REGION INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at original cost and amortized using the straight-line method, taking 50% of the rate in the first year. Computer software is amortized at 100%, equipment and furniture at 20%, leasehold improvements over the remaining life of the lease, and vehicles at 30%.

Finished homes and construction in progress

Finished homes and construction in progress includes finished properties for which sales have not yet finalized. These properties are valued at the lower of cost and net realizable value. Overhead costs allocated to the building program are expensed annually.

Property held for future development

Property held for future development is valued at the lower of cost and net realizable value.

Financial Instruments

A financial instrument is a contract that creates a financial asset for one entity and a financial liability or equity instrument of another. Financial assets and liabilities are initially measured at fair value, except for non-arm's length transactions, if any. The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments with quoted fair values in an active market, if any, which are measured at fair value. Changes in fair value are recognized in net income. Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of any write-down is recognized on the statement of operations and changes in net assets. Any previously recognized impairment losses may be reversed and reflected as income to the extent of improvement. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Cash and cash equivalents

The organization defines cash as cash on hand or contained in bank accounts, and cash equivalents as short-term investments maturing within 90 days.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Actual results could differ from those estimates. In particular, the organization makes estimates with respect to the fair value of **materials and services donated for the construction of homes**. While suppliers are sometimes able and willing to provide quotes, management is sometimes forced to make their own estimates, based on prior experience. The actual fair value of donated material and services could differ from those reflected in inventory and the cost of constructed homes. In addition, management must estimate the fair value of the interest-free **mortgages receivable** issued to new homeowners at the time of sale (see note 4 below). While discounts calculated to estimate the fair value at the time of sale are made on a reasonable basis, the actual fair value could vary from the amounts reflected in these financial statements.

HABITAT FOR HUMANITY WATERLOO REGION INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

3. FINISHED HOMES AND CONSTRUCTION IN PROGRESS

	2022	2021
Donley / Ottawa / Kehl and Cherry St.	$1,790,335	$2,461,319

4. MORTGAGES RECEIVABLE

	Expected Maturity	2022	2021
First Mortgages:			
Face value:	2027	7,397	21,160
	2028	52,039	69,751
	2029	186,723	286,158
	2030	352,706	551,082
	2032	184,823	191,781
	2033	439,111	564,144
	2035	151,275	178,113
	2037	271,471	286,208
	2038	1,340,972	1,453,785
	2039	288,441	303,854
	2040	1,118,880	1,183,595
	2041	1,726,277	1,826,780
	2042	1,709,515	1,819,327
	2043	1,762,096	1,835,881
	2044	1,618,940	1,664,209
	2045	1,346,539	1,385,403
	2046	1,342,404	1,367,423
	2047	1,497,244	-
Total face value		15,396,853	14,988,654
Present value adjustment:			
Opening balance		(7,942,976)	(7,722,374)
Discount on new mortgages issued		(891,070)	(715,461)
Discount accretion		587,184	494,859
Closing present value adjustment		(8,246,862)	(7,942,976)
Present value of mortgages receivable		7,149,991	7,045,678
Current portion		622,125	575,033
Present value of mortgages receivable - non-current		$6,527,866	$6,470,645

The present value adjustments are calculated assuming an expected average 25 year amortization at the time of issuance, regardless of actual repayment terms. All mortgages are interest-free and have been discounted using the Bank of Canada five year conventional mortgage rate at the time of issuance of the mortgage plus 2%. Monthly principal payments are reviewed annually and adjusted accordingly based on a means test. The discount rate used for mortgages issued related to current year's sales was 8.49% (6.79% in the prior year). Discount accretion is recognized annually on a prorata basis with principal payments.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	2022 Net	2021 Net
Computer software	14,013	12,043	1,970	5,036
Equipment and furniture	138,061	91,752	46,309	58,369
Leasehold improvements	97,594	85,812	11,782	22,328
Vehicles	122,684	122,684	-	-
	$372,352	$312,291	$60,061	$85,733

HABITAT FOR HUMANITY WATERLOO REGION INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

6. PROPERTIES HELD FOR DEVELOPMENT

	2022	2021
St. George St., Kitchener development	172,548	165,750
Cambridge land	799,387	617,869
	$971,935	$783,619

7. LONG-TERM DEBT

	2022	2021
Mortgage payable - due on demand, blended monthly payments of $1,129, interest at 3.2%, see note 9 for security.	-	196,409
Mortgage payable - due April 2025, blended monthly payments of $1,264, interest at 3.2%, see note 9 for security.	-	219,841
Canada Emergency Business Account loan - interest free until December 2023 when $20,000 is forgiven upon repayment of $40,000, unsecured.	40,000	40,000
	40,000	456,250
Due within one year	40,000	204,663
	$0	$251,587

8. DEFERRED REVENUE

	2022	2021
Donations designated for future homes	108,402	108,402
Donations designated for in process or completed, unsold homes	958,055	1,100,647
Other designated donations	45,231	25,231
	$1,111,688	$1,234,280

9. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The organization has a credit facility which includes a line of credit of $170,000 and two letters of credit totaling approximately $234,000. The line of credit, if used, requires monthly payments of interest only at prime rate plus .75%. The credit facility is secured by mortgages receivable with a current value of approximately $915,000, plus a first position on land held for development known as Cambridge land for not less than $300,000. The credit facility agreement requires the organization to maintain a debt service coverage ratio of 1.2 to 1. This covenant was met as at the organization's current fiscal yearend.

The organization has a lease commitment relating to its Waterloo premise which expires October 31, 2024, and a lease commitment with respect to its Cambridge ReStore which expires August 31, 2028.

The organization has a commitment with respect to a truck lease which bears interest at 1.3%, requires monthly payments of $1,501 plus a kilometer charge, and matures in March 2025

The organization has a commitment with respect to a truck lease which bears interest at 1.6%, requires monthly payments of $1,384 plus a kilometer charge, and matures in June 2025

Minimum base annual lease payments are as follows:

Fiscal Year	Amount
2023	281,126
2024	338,741
2025	224,897
2026	219,395
2027	226,177
2028	153,805

HABITAT FOR HUMANITY WATERLOO REGION INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

10. ALLOCATION OF ADMINISTRATIVE EXPENSES

The organization allocates certain administrative expenses to its programs based on management's estimated usage of these expenses, as follows:

Year ended December 31, 2022	Home Ownership	Fundraising	Restore
Indirect salaries and benefits	160,625	97,745	45,684
Travel, mileage and training	1,314	723	295
Office and administration	76,531	13,212	140,104
	238,470	111,680	186,083
Direct program expenses	535,190	258,444	1,170,983
Total program expenses	$773,660	$370,124	$1,357,066

Year ended December 31, 2021	Home Ownership	Fundraising	Restore
Indirect salaries and benefits	164,484	100,414	46,906
Travel, mileage and training	976	515	231
Office and administration	72,504	12,793	131,120
	237,964	113,722	178,257
Direct program expenses	556,440	294,438	1,084,875
Total program expenses	$794,404	$408,160	$1,263,132

11. RELATED PARTY TRANSACTIONS

Habitat for Humanity Waterloo Region Inc. is affiliated with Habitat for Humanity Canada. Habitat for Humanity Waterloo Region Inc. had transactions with Habitat for Humanity Canada as follows:

	2022	2021
Payments:		
Affiliation fees	25,000	37,500
ReStore license fees	82,537	64,753
ReStore gift-in-kind fees	19,672	14,657
Build gift-in-kind fees	4,295	180
Donation fees	51,297	22,475
Tithe to support homebuilding in developing nations	12,000	16,000
Government relations	-	5,000
	$194,801	$160,565
Receipts:		
Donations from Habitat for Humanity Canada	$244,982	$72,196
Covid-19 mortgage receipts shortfall from Habitat for Humanity Canada	$0	$84,635

HABITAT FOR HUMANITY WATERLOO REGION INC.

NOTES TO THE FINANCIAL STATEMENTS
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12. FINANCIAL INSTRUMENTS

	2022	2021
Financial assets reflected at amortized cost (cash, accounts receivable, mortgages receivable)	$8,415,623	$9,171,993

The organization has no financial instruments which are equities, which would be adjusted to fair value annually. Other than mortgages receivable, which are discounted upon issuance as described in the significant accounting policies under revenue recognition, the organization has no financial assets measured at amortized cost less a reduction for impairment.

Unless indicated otherwise in these financial statements, as in the prior year, management believes the organization does not face any significant credit, currency, interest rate, liquidity or market risk with respect to any of its financial instruments.

13. NET ASSETS INVESTED IN HOME OWNERSHIP PROGRAM

	2022	2021
Finished homes and construction in progress (note 3)	1,790,335	2,461,319
Mortgages receivable (note 4)	7,149,991	7,045,678
Properties held for development (note 6)	971,935	783,619
Deferred revenue (note 8)	(1,111,688)	(1,234,280)
	$8,800,573	$9,056,336

14. INVESTMENTS

Kindred Credit Union Guaranteed Investment Certificate - 3.95% due December 2023	1,000,000	-
Kindred Credit Union Guaranteed Investment Certificate - 3.95% due December 2023	1,000,000	-
	$2,000,000	$0

note - both guaranteed investment certificates are cashable within 90 days.

15. CONTINGENT LIABILITY

The organization has been approved for CMHC funding, through Habitat for Humanity Canada, for the last block of homes being built on Kehl Street. Funding, in the form of forgivable loans, for 20% of costs incurred to a maximum of $390,000 was approved, and the first advance of $156,000 was received in February, 2022. As the units to which the funding relates were not completed and sold in the current year, the funds received have been reflected as deferred income.

The loan is granted on the conditions that the affordability of the housing will be maintained for a minimum of 20 years and the loan can only be used to fund the build project. The loan is interest free for so long as the conditions specified in the Agreement are met and the loan is not in default. The loan is forgivable over a twenty year period, provided that all the requirements of the loan documents are fulfilled. However, if the organization breaches any conditions of the funding agreement, prior to the twenty year period, the principal, plus interest calculated at 5% per annum will become due and payable