

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION

FINANCIAL STATEMENTS

December 31, 2020

INDEPENDENT AUDITOR'S REPORT

To the Members of
HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION

Qualified Opinion

We have audited the financial statements of **HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION** (the "Organization"), which comprise the statement of financial position as at December 31, 2020, and the statements of changes in net assets, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2020, 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 for Qualified Opinion

In common with many not-for-profit organizations, the Organization 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 Organization. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2020 and 2019, current assets as at December 31, 2020 and 2019, and net assets as at January 1 and December 31 for both the 2020 and 2019 years. The audit opinion on the financial statements for the year ended December 31, 2019 was modified 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 report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Management is responsible for the preparation and fair presentation of 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 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.

INDEPENDENT AUDITOR'S REPORT (continued)

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 these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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 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 and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Belleville, Ontario
June 29, 2021



CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION

(Incorporated under the laws of Ontario)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash	\$ 175,027	\$ 166,891
Accounts receivable	69,945	95,599
Prepaid expenses	7,645	2,789
Construction in progress - note 4	1,739,856	1,211,820
Government remittance recoverable	50,870	25,368
Current portion of first mortgages receivable - note 7	61,149	86,984
Current portion of second mortgages receivable	-	10,739
	<u>2,104,492</u>	<u>1,600,190</u>
PROPERTY AND EQUIPMENT - note 5	181,177	18,636
FIRST MORTGAGES RECEIVABLE - note 7	690,356	656,470
GOODWILL - note 6	106,712	-
	<u>\$ 3,082,737</u>	<u>\$ 2,275,296</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES		
Note payable - note 8	\$ 32,000	\$ 32,000
Accounts payable and accrued liabilities	116,553	107,656
Deferred revenue - note 9	270,000	270,000
Amounts held on behalf of future homeowners	13,279	8,846
Government remittances payable	3,777	-
Payable to HFHC - note 20	66,000	-
	<u>501,609</u>	<u>418,502</u>
LONG-TERM DEBT - note 10	25,163	-
LOAN PAYABLE - note 11	29,492	-
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL - note 12	131,694	-
	<u>687,958</u>	<u>418,502</u>
FUND BALANCES		
Invested in tangible capital assets	156,195	18,636
Unrestricted	955,253	688,450
Invested in housing	1,283,331	1,149,708
	<u>2,394,779</u>	<u>1,856,794</u>
	<u>\$ 3,082,737</u>	<u>\$ 2,275,296</u>

Approved by the Board of Directors:

_____ Member

_____ Member

(See accompanying notes)

**HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2020**

	Invested in Tangible <u>Capital Assets</u>	<u>Unrestricted</u>	Invested in <u>Housing</u>	<u>2020 Total</u>	<u>2019 Total</u>
BALANCE , beginning of year	\$ 18,636	\$ 688,450	\$ 1,149,708	\$ 1,856,794	\$ 1,646,557
Excess of revenues over expenses	-	363,649	133,623	497,272	210,237
Net change in invested in tangible capital assets	96,846	(96,846)	-	-	-
Contribution related to goodwill - note 20	<u>40,713</u>	<u>-</u>	<u>-</u>	<u>40,713</u>	<u>-</u>
BALANCE , end of year	<u>\$ 156,195</u>	<u>\$ 955,253</u>	<u>\$ 1,283,331</u>	<u>\$ 2,394,779</u>	<u>\$ 1,856,794</u>

(See accompanying notes)

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
REVENUES		
Donations and contributions	\$ 57,717	\$ 64,205
ReStore transfers from national office	59,222	329,329
Fundraising, bingo and other income	94,767	55,375
Grants - note 14	95,576	18,789
ReStore sales - Schedule 1	849,320	-
Amortization of deferred contributions related to capital assets	<u>11,593</u>	<u>-</u>
	<u>1,168,195</u>	<u>467,698</u>
EXPENSES		
Advertising	2,260	3,330
Amortization	11,216	8,906
Bad debts	30,690	-
Bank charges and interest	3,680	1,350
Fundraising	270	11,928
HFHC fees	46,638	24,802
ReStore operations - Schedule 1	564,599	-
Insurance	4,263	4,349
Occupancy costs	20,844	19,462
Office and administration	5,167	9,996
Professional fees	8,973	11,739
Repairs and warranty	72	1,055
Telephone and utilities	2,151	3,839
Travel	782	128
Vehicle	7,509	16,485
Wages and benefits	<u>281,963</u>	<u>239,463</u>
	<u>991,077</u>	<u>356,832</u>
Excess of revenues over expenses before other items	<u>177,118</u>	<u>110,866</u>
Other income		
Adjustment to fair value of mortgages receivable - note 15	133,623	99,371
Adjustment to fair value of interest free loans	55,346	-
Forgiveable portion of CEBA loan	10,000	-
Canada Emergency Wage and Temporary Wage Subsidies	72,873	-
Canada Emergency Rent Subsidies	<u>48,312</u>	<u>-</u>
	<u>320,154</u>	<u>99,371</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 497,272</u>	<u>\$ 210,237</u>

(See accompanying notes)

**HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
SCHEDULE TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020**

RESTORE OPERATIONS

Schedule 1

REVENUE	\$ 849,320
EXPENSES	
Advertising	1,594
Amortization	11,592
Bank charges and interest	11,849
HFHC fees	62,566
Insurance	25,242
Office and administration	16,264
Professional fees	625
Repairs and maintenance	16,308
Rent	187,597
Telephone and utilities	19,362
Travel	1,505
Wages and benefits	198,407
Vehicles	<u>11,688</u>
	<u>564,599</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 284,721</u>

(See accompanying notes)

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 497,272	\$ 210,237
Adjustments for:		
Amortization of tangible capital assets	22,809	8,906
Amortization of deferred contributions related to capital assets	(11,593)	-
Adjustment to fair value of mortgages receivable	(133,623)	(99,371)
Adjustment to fair value of interest free loans	(55,346)	-
Forgiveable portion of long-term debt	<u>(10,000)</u>	<u>-</u>
	309,519	119,772
Change in non-cash working capital components:		
Accounts receivable	25,654	(394)
Prepaid expenses	(4,856)	(586)
Government remittance recoverable	(25,502)	53,058
Accounts payable and accrued liabilities	8,897	(48,787)
Amounts held on behalf of future homeowners	4,433	8,846
Government remittances payable	<u>3,777</u>	<u>(9,784)</u>
	<u>321,922</u>	<u>122,125</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Short term investments	-	203,000
Purchase of property and equipment	(42,060)	(1,393)
Payments received on mortgages receivable	136,310	123,759
Expenditures on properties held for resale	<u>(528,036)</u>	<u>(282,779)</u>
	<u>(433,786)</u>	<u>42,587</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in loan payable	80,000	-
Increase in long-term debt	40,000	-
Increase (decrease) in bank line of credit	<u>-</u>	<u>(75,058)</u>
	<u>120,000</u>	<u>(75,058)</u>
INCREASE IN CASH	8,136	89,654
CASH, beginning of year	<u>166,891</u>	<u>77,237</u>
CASH, end of year	<u>\$ 175,027</u>	<u>\$ 166,891</u>

(See accompanying notes)

**HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020**

1. NATURE OF OPERATIONS

Habitat for Humanity Kingston Limestone Region ("the Organization") was incorporated as a corporation without share capital by letters patent, dated June 1, 1994, under the Ontario Corporations Act as Habitat for Humanity Greater Kingston and Frontenac. In 2016, the Organization's service area was expanded to include the County of Lennox & Addington and the name was changed to Habitat for Humanity Kingston Limestone Region.

The Organization was formed with the objective of advancing the interest of economically disadvantaged people by constructing or renovating homes at cost and to provide interest-free loans to enable them to pay for such home or renovations. The Organization is a registered charity and is exempt from income taxes under the Income Tax Act.

The Organization is an affiliate of Habitat for Humanity Canada ("HFHC"). There is an affiliation agreement between HFHC and all Canadian affiliates that sets the general operating principles for every autonomous affiliate. Currently HFHC provides affiliates across the country with administrative and marketing support, training opportunities, funding and gift-in-kind coordination.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies are detailed as follows:

Revenue recognition

The Organization follows the deferral method in accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and its collection is reasonably assured.

Revenue from home sales is recognized in the period in which title to the house is transferred to the applicable family and the mortgage is registered.

Grants, fundraising, bingo, ReStore sales and other income are recognized when received or receivable, if collection is reasonably assured.

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets invested in housing

Net assets invested in housing are equal to the carrying value of the mortgages receivable and the properties held for resale.

Tangible Capital Assets and Amortization

Tangible capital assets are stated at acquisition cost. Contributed capital assets are recognized at fair value at the date of contribution. If fair value cannot be reasonably determined, such contributions are not recorded. 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 at the following methods and amortization rates:

Computer equipment	3 years straight-line
Equipment	3 years straight-line
Furniture and fixtures	3 years straight-line
Vehicles	5 years straight-line
Leasehold improvements	10 years straight-line

Goodwill

Goodwill is not amortized but is instead tested for impairment if events or changes in circumstances indicate that an impairment loss may have occurred. In the impairment test, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the carrying amount of the reporting unit exceeds its fair value, a goodwill impairment loss is recognized, up to a maximum amount of the recorded goodwill related to the reporting unit. Goodwill impairment losses are not reversed.

Contributed materials and services

Contributions of materials and services are recognized in the financial statements at fair value at the date of contribution, but only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of operations, and would otherwise have been purchased. No recognition is made in the financial statements for time spent by individual volunteers in fundraising, administration or constructing homes.

Cash and cash equivalents

Cash and cash equivalents include cash and short term investments with maturities of three months or less from their date of acquisition, which are readily convertible into a known amount of cash, and are subject to an insignificant risk to changes in their fair value.

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting 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 amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically and are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Mortgages receivable

First mortgages bear no interest, are secured by a charge on the specific property and are receivable in monthly payments with a term matched to the amortization period of the loan. Monthly payments are set annually based on the gross household income of the homeowner.

Prior to 2010 there were second mortgages issued that bear no interest and include terms for forgiveness. Forgiveness is contingent upon the occurrence of certain future events including the length of the occupancy by the homeowner. The forgivable portion of any mortgage is valued at \$Nil as the likelihood of collection is remote considering the above forgivable feature. In the year that the forgivable portions are required to be paid or the right to forgiveness has been forfeited, the previously forgivable portion would be recognized as revenue.

The mortgages receivable were adjusted to amortized cost due to the fact that the mortgages are non-interest bearing; resulting in income of \$121,413 (2019 - \$99,317). The rate used to discount the mortgages was 4.79% (2019 - 5.10%). During the year \$Nil (2019 - \$Nil) was permanently forgiven.

In 2018, the Organization determined that one second mortgage was no longer eligible for forgiveness. This mortgage was paid out in June 2020.

Since January 1 2010, the Organization's policy was changed whereby a completed home will be appraised and the appraised fair market value will be assigned as the full amount of the mortgage to the homeowner.

Government assistance

Government assistance for operating expenses received as a result of the Government of Canada COVID response programs are recorded as deferred revenue and is amortized to income as eligible expenditures are incurred. Government assistance related to interest free loans is recorded as revenue over the interest free period based on the present value of the loan. Government assistance related to loan forgiveness is recorded as revenue in the period that it is determined the forgivable portion of the loan will be forgiven. No government assistance was deferred at year end.

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

3. FINANCIAL INSTRUMENTS

Financial instruments consist of accounts receivable, mortgages receivables, accounts payable and accrued liabilities, government remittances payable and the long-term debt. The carrying amounts approximate their fair value due to the immediate or short-term maturity of these financial instruments.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Credit risk

Credit risk is the risk of financial loss to the Organization if a party to the Organization's financial instruments fails to discharge an obligation or make payments of interest and principal when due. The Organization mitigates this risk through the right to repossess the mortgaged home. The Organization is exposed to this risk relating to its debt holdings and in mortgages receivable.

Liquidity risk

Liquidity risk is the risk that the Organization will not be able to meet all cash outflow obligations as they come due. The Organization mitigates this risk by monitoring cash activities and expected outflows.

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

4. CONSTRUCTION IN PROGRESS

	2020	2019
Semi-detached home builds in progress and/or held for resale	\$ 1,216,108	\$ 688,072
Land acquisition costs	523,748	523,748
	\$ 1,739,856	\$ 1,211,820

In 2016, land held at 46 Cowdy Street was received in exchange for demolishing the decommissioned Church and constructing a new community centre/meeting space. Building construction on this land commenced in 2017. In 2018, land held at Rose Abbey Drive was contributed by the City of Kingston at a value of \$265,000 and has been held for development. The corresponding donation has been deferred and will be recognized into revenues when the property is sold. The City of Kingston has the option to repurchase the Rose Abbey Lands or any portion of the Lands on the terms and conditions set out in the agreement for a value of \$1. In 2020, property at 1131 Montreal Street was purchased and has been held for development.

Construction in progress is recorded at the lesser of the cost and the estimate sale price to the prospective homeowner. Cost is comprised of land, land development, material and sub-contractor costs.

5. PROPERTY AND EQUIPMENT

	2020		2019	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Computer equipment	\$ 13,753	\$ 10,878	\$ 11,017	\$ 9,203
Equipment	12,081	11,443	12,081	8,793
Furniture and fixtures	19,978	4,064	1,102	551
Vehicles	110,652	36,599	28,371	27,287
Leasehold improvements	97,322	9,625	15,865	3,966
	253,786	72,609	68,436	49,800
Net book value	\$ 181,177		\$ 18,636	

See Note 20 for the detail of contributed assets in the year.

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

6. GOODWILL

	2020		2019	
	Cost	Accumulated amortization	Net	Net
Goodwill	<u>\$ 106,712</u>	<u>\$ -</u>	<u>\$ 106,712</u>	<u>\$ -</u>

Goodwill represents the cost of the ReStore in excess of fair value of net identifiable assets acquired. Goodwill is tested for impairment only when an event or circumstance occurs indicating that the fair value may be lower than its carrying amount. See Note 19 for the purchase of the ReStore details.

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. FIRST MORTGAGES RECEIVABLE

	2020		2019	
	Fair value	Book value	Fair value	Book value
First mortgage, non-interest bearing, monthly payments of \$587, maturing May 2039	\$ 81,573	\$ 119,312	\$ 79,924	\$ 126,066
First mortgage, non-interest bearing, monthly payments of \$474	-	-	23,161	25,881
First mortgage, non-interest bearing, monthly payments of \$401, maturing August 2040.	64,859	104,419	59,203	108,773
First mortgage, non-interest bearing, monthly payments of \$505, maturing March 2033	64,711	90,774	67,452	97,132
First mortgage, non-interest bearing, monthly payments of \$414, maturing November 2031	63,412	98,232	60,203	102,893
First mortgage, non-interest bearing, monthly payments of \$607, maturing December 2034	63,639	82,888	65,213	89,862
First mortgage, non-interest bearing, monthly payments of \$133, maturing July 2036	32,172	109,750	60,384	112,371
First mortgage, non-interest bearing, monthly payments of \$717, maturing January 2038	101,827	150,583	102,196	159,188
First mortgage, non-interest bearing, monthly payments of \$330, maturing February 2038	67,996	143,132	35,197	101,489
First mortgage, non-interest bearing, monthly payments of \$660, maturing August 2038	127,349	243,601	118,634	251,522
First mortgage, non-interest bearing, monthly payments of \$355, maturing August 2038	83,967	255,768	71,887	259,312

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

7. FIRST MORTGAGES RECEIVABLE (continued)

	751,505	1,398,459	743,454	1,434,489
Less current portion	<u>61,149</u>	<u>61,149</u>	<u>86,984</u>	<u>86,984</u>
	<u>\$ 690,356</u>	<u>\$ 1,337,310</u>	<u>\$ 656,470</u>	<u>\$ 1,347,505</u>

8. NOTE PAYABLE

Note payable consists of a seed loan for a construction project at Cowdy Street. The seed loan is unsecured, with no terms of repayment and is non-interest bearing until either the borrower obtains project financing, the project is completed, the project is terminated, or five years from February 2, 2017, whichever is earlier.

9. DEFERRED REVENUE

Deferred revenue consists of the following:

	<u>2020</u>	<u>2019</u>
Fundraising revenue - Build Day	\$ 5,000	\$ 5,000
Donation related to Rose Abbey land	<u>265,000</u>	<u>265,000</u>
	<u>\$ 270,000</u>	<u>\$ 270,000</u>

10. LONG-TERM DEBT

	<u>2020</u>	<u>2019</u>
Canada Emergency Business Account (CEBA) from Kawartha Credit Union, interest at 0% during initial term, initial term ending December 31, 2022, interest owing at 5% during extended term ending on December 31, 2025, first payment date is January 31, 2023, \$10,000 is forgivable if 75% repaid before initial term date.	<u>\$ 25,163</u>	<u>\$ -</u>

The book value of the loan at December 31, 2020 is \$40,000. The loan has been discounted to reflect the below market interest over the interest free period at a rate of 5%. The fair value of the adjustment on the loan is \$4,837 and is included in other income. The loan forgiveness adjustment is \$10,000 and is included in other revenue.

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

11. LOAN PAYABLE

	<u>2020</u>	<u>2019</u>
Forgiveable construction loan, interest at 0%, forgivable if the Organization meets the conditions specified by Canada Mortgage and Housing Corporation	<u>\$ 29,492</u>	<u>\$ -</u>

The book value of the loan at December 31, 2020 is \$80,000. The loan has been discounted to reflect the below market interest over the interest free period at a rate of 5%. The fair value of the adjustment on the loan is \$50,508 and is included in other income. The loan will be forgiven by 2041, therefore, the loan forgiveness is expected to be brought into revenues over a 20 year period beginning in 2022.

12. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions consist of the following:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ -	\$ -
Contributions received in the year	143,287	-
Amounts recognized into revenue in the year	<u>(11,593)</u>	<u>-</u>
Balance at end of year	<u>\$ 131,694</u>	<u>\$ -</u>

13. LINE OF CREDIT

A line of credit is approved with a limit of \$500,000 (2019 - \$500,000) bearing interest at 3.20% (2019 - 3.20%) per annum, to be used towards home build costs. Of the approved limit, \$62,142 (2019 - \$304,848) has been used to secure the letters of credit issued to the City of Kingston (note 18), leaving an accessible balance of \$437,858 (2019 - \$195,152). The balance of funds borrowed on this line of credit as at December 31, 2020 is Nil (2019 - \$Nil).

HABITAT FOR HUMANITY KINGSTON LIMESTONE REGION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

14. GRANTS RECEIVED

Grants received consists of:

	2020	2019
Community Foundation for Kingston & Area (Restricted)	\$ -	\$ 1,900
Nissan Canada	45,850	-
My Tribute Gift Foundation	-	2,000
John Howard Society	7,404	1,624
Raymond James Foundation	1,000	-
Employment and Social Development Canada	31,322	13,265
University of Waterloo	10,000	-
	\$ 95,576	\$ 18,789

15. ADJUSTMENT TO FAIR VALUE OF MORTGAGES

Mortgages receivable are remeasured at year-end based on the 25 year Bank of Canada zero-coupon bond yield and a risk premium to account for the risk nature of the mortgages receivable. Adjustments to the fair value of mortgages are shown on the Statement of Operations. The rate used in 2020 is 4.79% (2019 - 5.10%).

16. COMMITMENTS

The Organization has entered into a lease agreement commencing December 1, 2016 and ending October 31, 2026. The minimum payments under the lease are as follows:

2021	\$ 200,740
2022	200,740
2023	200,740
2024	200,740
2025	200,740
Subsequent years	167,283
	\$ 1,170,983

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17. AFFILIATE AGREEMENT

The Organization is an affiliate of Habitat for Humanity Canada (“HFHC”). There is an affiliate agreement between HFHC and all other Canadian affiliates whereby HFHC provides administrative and marketing support, training opportunities, funding and gift-in-kind coordination. Pursuant to its affiliate agreement with HFHC, the Organization contributes a tithe for international work in the amount of 10% of its donations, excluding donations designated by a donor for local building.

18. CONTINGENT LIABILITIES

During 2017 the Organization issued two letters of credit totalling \$304,848, reduced in 2020 to \$62,142, reflecting work completed on the site. These may become payable to the City of Kingston if work on a current construction project is not fully completed. The likelihood of such an event is not measurable and no amount has been recorded in the financial statements.

19. CAPITAL DISCLOSURE

The Organization is required to meet a specified debt to net worth ratio under its lending agreement and the financial institution requires postponement of the advances to the shareholder. The Organization is in compliance with these covenants as of the balance sheet date.

20. RESTORE PURCHASE

During the year, the Organization purchased the Kingston ReStore operation for \$250,000. Of the total purchase, \$184,000 was contributed by HFHC while the remaining \$66,000 is payable to HFHC. The net identifiable assets are as follows:

Leasehold improvements	\$ 81,458
Furniture and fixtures	17,317
Computer equipment	2,735
Vehicles	41,778
Goodwill	<u>106,712</u>
	<u>\$ 250,000</u>

The total value of property and equipment was recorded as a deferred contribution related capital assets and will be amortized into revenues over the useful life of the assets. \$40,713 of the contribution related to goodwill, and as a result, is recorded as a direct increase to net assets.

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21. SUBSEQUENT EVENTS

Subsequent to the year end, a letter of credit for \$84,280 was issued to the Organization for the Rose Abbey construction project.

22. UNCERTAINTY DUE TO THE ECONOMIC CONSEQUENCES OF THE CORONAVIRUS DISEASE (COVID-19) OUTBREAK

The Organization's operations have been negatively impacted by the novel Coronavirus or COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and consequently, the Organization is unable to reliably measure the potential impact of this uncertainty on future financial results.

As at December 31, 2020, the Organization was entitled to \$72,873 under the Canada Emergency Wage Subsidy (CEWS) and Temporary Wage Subsidy (TWS). There are no unfulfilled conditions attached to the CEWS/TWS, and as such the Organization has recorded the full amount of this subsidy as other income.

As at December 31, 2020 the Organization was entitled to \$48,312 under the Canada Emergency Rent Subsidy (CERS). The Organization received \$38,914 from the CERS program and recorded the additional \$9,398 under accounts receivable. There are no unfulfilled conditions attached to the CERS, and as such the Organization has recorded the full amount of this subsidy as other income.

23. PRIOR PERIOD ADJUSTMENT

The Organization has determined that a land contribution from the City of Kingston in 2018 (see note 4) has been understated. Consequently, the balances of Construction in progress and Deferred revenue as at January 1, 2019 have both increased by \$265,000 and the 2019 financial statements have been restated. There was no effect on prior year earnings or net assets as a result of this transaction.

24. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.