

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Financial Statements**  
**For the Year Ended December 31, 2019**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements for the year ended December 31, 2019 are the responsibility of management and have been reviewed and approved by senior management. The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and of necessity, include some amounts that are based on estimates and judgment.

To discharge its responsibility for the integrity and objectivity of financial reporting, management maintains systems of financial management and internal control which give consideration to costs, benefits and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of donations and other revenue.
- safeguard the assets and properties under Habitat for Humanity - Edmonton Society's administration.

Habitat for Humanity - Edmonton Society carries out its responsibility for the financial statements through its Board of Directors. The Board of Directors meets with management and KPMG LLP to review financial matters, and to approve the financial statements upon finalization of the audit. KPMG LLP has free access to the Board of Directors.

KPMG LLP provides an independent audit of the financial statements. Their examination is conducted in accordance with Canadian Generally Accepted Auditing Standards and includes tests and procedures, which allow them to report on the fairness of the financial statements prepared by management.



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Karen Stone  
President and Chief Executive Officer  
Habitat for Humanity – Edmonton Society

March 27, 2020



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## INDEPENDENT AUDITORS' REPORT

To the Directors of Habitat for Humanity – Edmonton Society

### **Opinion**

We have audited the financial statements of Habitat for Humanity – Edmonton Society (the Entity), which comprise:

- the statement of financial position as at December 31, 2019
- 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 flow 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019, and its results of its operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### **Basis for Opinion**

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 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 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 public sector accounting standards, 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.

### ***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 represents 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.

*KPMG LLP*

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Chartered Professional Accountants

Edmonton, Canada  
March 27, 2020

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
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**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Statement of Financial Position**  
**Year Ended December 31, 2019 with comparative information for 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 5,627	\$ 43,490
Investments (Note 3)	631,298	-
Accounts receivable (Note 4)	725,544	1,176,718
Other current assets (Note 5)	530,502	863,165
First mortgages receivable, current portion (Note 6)	1,464,723	1,587,362
Second mortgages receivable, current portion (Note 7)	22,744	-
Homes held for sale (Note 9)	40,459,671	33,533,229
Construction in progress (Note 9)	86,223	6,955,316
Land for future builds (Note 9)	2,428,909	1,300,005
	<u>46,355,241</u>	<u>45,459,285</u>
First mortgages receivable (Note 6)	38,309,550	45,184,422
Second mortgage receivables (Note 7)	1,089,960	-
Capital assets (Note 10)	1,818,873	1,790,036
	<u>\$ 87,573,624</u>	<u>\$ 92,433,743</u>

**LIABILITIES AND NET ASSETS**

Current liabilities		
Bank overdraft (Note 11)	\$ 3,341,025	\$ 3,377,465
Accounts payable and accrued liabilities (Note 21)	744,741	788,523
Amounts held on behalf of Partner Families	511,711	504,560
Tenancy deposits	1,486,291	858,348
Due to Habitat for Humanity affiliates (Note 12)	22,808	-
Debt (Note 11)	22,913,860	21,575,836
Deferred contributions (Note 13)	1,346,155	792,708
Deferred capital contributions (Note 14)	-	18,882
	<u>30,366,591</u>	<u>27,916,322</u>

**NET ASSETS**

Internally restricted investments	631,298	-
Invested in capital assets	1,818,873	1,771,154
Invested in programs	54,756,862	62,746,267
	<u>57,207,033</u>	<u>64,517,421</u>

\$ 87,573,624      \$ 92,433,743

Commitments (Note 15)  
 See accompanying notes to the financial statements.



Chair, Board of Directors



Chair, Audit & Risk Committee

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Statement of Operations**  
**Year Ended December 31, 2019 with comparative information for 2018**

	2019	2018
<b>REVENUE</b>		
Other donations and fundraising	\$ 1,968,474	\$ 2,499,766
In kind donations ( <i>Note 16</i> )	1,929,046	832,480
Government grants ( <i>Note 17</i> )	754,935	3,537,841
Other income	207,565	204,294
	<u>4,860,020</u>	<u>7,074,381</u>
<b>SALES AND COST OF SALES</b>		
Home sales	3,568,997	12,223,315
Mortgage discount income ( <i>Note 6,7</i> )	2,488,244	1,780,614
Cost of home sales and building operations	(8,113,131)	(14,537,755)
Loss on transfer of homes ( <i>Note 19</i> )	(5,212,151)	-
Mortgage discount expense ( <i>Note 6,7</i> )	(582,608)	(2,705,561)
	<u>(7,850,649)</u>	<u>(3,239,387)</u>
<b>PROGRAM EXPENSES</b> <i>Schedule 2</i>		
Family and community support	(1,123,124)	(817,951)
Interest on bank overdraft and debt	(1,087,666)	(890,887)
Capacity building	(514,569)	(575,357)
Volunteer support	(444,962)	(445,472)
	<u>(3,170,321)</u>	<u>(2,729,667)</u>
<b>NET PROGRAM ACTIVITY</b>	<b>\$ (6,160,950)</b>	<b>\$ 1,105,327</b>
<b>RESTORE OPERATIONS</b> <i>Schedule 3</i>		
Revenue	4,639,614	4,609,363
Expenses	(3,188,115)	(3,129,579)
	<u>1,451,499</u>	<u>1,479,784</u>
<b>PREFAB CONTRIBUTION CENTRE</b>		
Revenue	97,059	154,052
Expenses	(68,233)	(91,954)
	<u>28,826</u>	<u>62,098</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> <i>Schedule 4</i>	(2,629,763)	(2,579,542)
<b>(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES</b>	<b>\$ (7,310,388)</b>	<b>\$ 67,667</b>

See accompanying notes to the financial statements.



**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Statement of Changes in Net Assets**  
**Year Ended December 31, 2019 with comparative information for 2018**

	Internally Restricted Investments	Invested in Capital Assets	Invested in Programs	2019	2018
Balance, beginning of year	\$ -	\$ 1,771,154	\$ 62,746,267	\$ 64,517,421	\$ 64,449,754
Excess of revenue over expenses		18,882	(7,329,270)	(7,310,388)	67,667
Investment in internally restricted funds	631,298	-	(631,298)	-	-
Investment in capital assets		213,024	(213,024)	-	-
Amortization of capital assets		(184,187)	184,187	-	-
<b>Balance, end of year</b>	<b>\$ 631,298</b>	<b>\$ 1,818,873</b>	<b>\$ 54,756,862</b>	<b>\$ 57,207,033</b>	<b>\$ 64,517,421</b>

See accompanying notes to the financial statements.

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Statement of Cash Flows**  
**Year Ended December 31, 2019 with comparative information for 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATIONS:</b>		
Excess of revenue over expenses	\$ (7,310,388)	\$ 67,667
Non-cash items:		
Amortization of capital assets	184,187	322,280
Amortization of deferred capital contributions	(18,882)	(35,122)
	<u>(7,145,083)</u>	<u>354,825</u>
Change in non-cash working capital:		
Decrease in accounts receivable	451,174	577,209
Decrease in other current assets	332,663	224,169
Increase in homes held for sale	(6,926,442)	(1,696,062)
Decrease in construction in progress	6,869,093	4,287,081
(Increase) decrease in land for future builds	(1,128,904)	81,551
(Decrease) accounts payable and accrued liabilities	(43,782)	(196,884)
Increase in amounts held on behalf of Partner Families	7,151	23,461
Increase in tenancy deposits	627,943	231,275
Increase (decrease) in due to affiliates	22,808	(164,063)
Increase (decrease) increase in deferred contributions	553,447	(346,964)
	<u>(6,379,932)</u>	<u>3,375,598</u>
<b>INVESTMENTS:</b>		
(Increase) in investments	(631,298)	-
Decrease (increase) in first mortgage receivable	6,997,511	(3,057,544)
(Increase) in second mortgage receivable	(1,112,704)	-
Purchase of capital assets	(213,024)	(16,543)
	<u>5,040,485</u>	<u>(3,074,087)</u>
<b>FINANCING:</b>		
(Repayment) proceeds of bank overdraft	(36,440)	1,392,927
Proceeds from debt	2,100,664	-
Repayments of debt principal	(762,640)	(1,698,849)
	<u>1,301,584</u>	<u>(305,922)</u>
<b>Decrease in cash</b>	<b>(37,863)</b>	<b>(4,411)</b>
Cash, beginning of year	43,490	47,901
<b>Cash, end of year</b>	<b>\$ 5,627</b>	<b>\$ 43,490</b>

See accompanying notes to the financial statements.

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Notes to Financial Statements**  
**Year ended December 31, 2019**

**1. PURPOSE OF THE SOCIETY**

Habitat for Humanity – Edmonton Society (the “Society”) is a housing charity operating in affiliation with Habitat for Humanity Canada and Habitat for Humanity International. The Society’s vision is to see a world where everyone has a safe and decent place to live.

The Society operates throughout northern Alberta with a mission to mobilize volunteers and community partners in building affordable housing and promoting home ownership as a means to breaking the cycle of poverty. In order to support administrative and fundraising efforts, the Society also sells donated goods and materials at stores called ReStore. The Society has an additional social enterprise through the Prefab Contribution Centre whereby excess capacity is mobilized to build walls and floors for third parties.

The Society is incorporated under the *Societies Act* of the Province of Alberta, is a registered charity with Canada Revenue Agency and is not subject to income taxes.

The Society’s homeownership program is established as follows:

- a) A family who meets the eligibility criteria is given occupancy to a Society owned home, making them a Partner Family;
- b) A Partner Family is considered a tenant in the first year of occupancy until they complete the requirements to become a home owner. During this phase, monthly tenancy deposits are paid to the Society. Tenancy deposits become Partner Family home equity when all requirements for home ownership are fulfilled and a mortgage is offered. Prior to 2019, this first mortgage was held by the Society for each Partner Family;
- c) Starting in 2019, the Society partnered with a third party financial institution to offer families preferred rate interest bearing first mortgages of between 30% and 50% of the home sales value, with the initial first mortgage proceeds being paid directly to the Society. These first mortgages are strictly between the family and the financial institution, and thus are arms-length to the Society. The remaining cash balance owing to the Society at the time of sale are held by the Society in a non-interest bearing second mortgage. Discussions are ongoing with other financial institutions to provide Partner Families with options as to where to hold the required first mortgage.
- d) A Partner Family’s monthly payments of no more than 30 percent of annual income to the Society include amounts for home insurance, condo fees and property taxes which are remitted annually by the Society. An additional program fee of \$125 per month is also charged to new families taking occupancy in homes which are not a part of a condo. Similar to a condo capital reserve, on a portfolio basis, this fee is to be used to help cover future repairs for major structural components of non-condo properties owned by the Society.

For any new mortgage signed in 2019 where the first mortgage was fifty percent of the sales price, any excess monthly payment after covering the monthly expenses against this home are applied evenly to the first and second mortgage balances. Where first mortgages are less than fifty percent, the full excess payment is applied against the second mortgage.

- e) If a Partner Family leaves the program, the Society holds a right of first refusal to purchase the home sold to a Partner Family in the cases when the home was purchased in 2006 or later. Depending on when the mortgage was originally signed, there are two approaches by the Society to repurchase homes:

# HABITAT FOR HUMANITY – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 1. PURPOSE OF THE SOCIETY (Continued)

- i) For mortgages signed between 2006 and 2018, all home equity earned (tenancy deposits, mortgage payments and security deposits) is repaid to the Partner Family, less any legal fees or excessive damage costs associated with the home;
- ii) For mortgages signed after 2018, the Society holds an up to 12 months option to exercise its first right of refusal. Each year the Society will establish the maximum number of home repurchases the Society will undertake within a given calendar year. Equity paid by the Society will be calculated based on the difference between the opening sales price of the home and the current first and second mortgage balances outstanding, less any term cancellation penalties charged by the third party financial institution as well as legal fees and excessive damage costs associated with the home.

Depending on their tenure under mortgage, families may also be entitled to share in both the market home appreciation and depreciation which is capped at a cumulative three percent per annum. All home appreciation is proportionate to the original interest bearing first mortgage as a percentage of the original sales price. The following home appreciation periods have been established:

- (1) Families in mortgage for less than five years are entitled to 0% market appreciation or depreciation;
  - (2) Families in mortgage between five and ten years, are entitled to fifty percent of their opening proportionate first mortgage share of the home;
  - (3) Families in mortgage greater than ten years are entitled to eighty percent of their opening proportionate first mortgage share of the home.
- f) The cumulative payments made by Partner Families either in tenancy or in mortgage, excluding home operating expenses and any contractual first mortgage loan payments made directly to a third party financial institution, are considered to be part of the Fund for Humanity. For mortgages prior to 2019, these funds received directly from families, less any amounts used to repay Partner Family equity on repurchased homes are reinvested in the program to build or renovate homes.

The Society incurs various costs, which are expensed as incurred, as part of both its construction and complementary programs to support the homeownership mission as follows:

- g) As our primary mission to serve families, the Society operates a Family Services department which supports Partner Families from selection through the duration of the mortgages. This department is responsible for numerous family related services such as family selection, homeownership training (covering budgeting, home maintenance and other related aspects of homeownership to ensure families are ready for home ownership) and collection of payments to the Fund for Humanity;
- h) In rural communities, committees are formed to facilitate the family selection process, the day-to-day build activities and local fundraising;
- i) For each family served in a year, \$2,500 is allocated through Habitat for Humanity Canada ("HfHC") as a tithe to build a home elsewhere in the world. The Society uses HfHC's definition of family served which includes new homes and repurchased homes where the original family was in the home for more than two years;
- j) As part of the Society's strategic plan to serve more families, debt was previously used to help fund the construction of new homes.

# HABITAT FOR HUMANITY – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 1. PURPOSE OF THE SOCIETY (Continued)

- k) Volunteers are mobilized in all facets of the organization including the building of homes, the operation of two social enterprises (Prefab Contribution Centre and ReStore), the Partner Family selection process and other ancillary tasks such as administration;
- l) The Society's Prefab Shop provides a safe and efficient environment where trained construction staff led volunteers in the construction of walls, floors and other wood based home components. Costs of using the facility are directly allocated to builds and any excess capacity is expensed as incurred.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of Presentation

The financial statements are prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

#### b) Controlled Entities

The eleven condominium corporations controlled by the Society are not consolidated in these statements.

#### c) Cash

Cash consists of cash on hand.

#### d) Mortgages Receivable

Prior to 2019, interest free first mortgages were provided to Partner Families.

First mortgages were originally recognized at fair market value based on the Society's borrowing rate in the year of inception. In subsequent years, first mortgage receivables are recognized at amortized cost by means of the recognition of a deemed interest income, calculated using a declining balance method over the life of the mortgage.

Legacy forgivable second mortgages initiated prior to 2005 include terms for forgiveness, which are contingent upon the occurrence of certain future events, including the length of occupancy by the Partner Family. Due to the uncertainty of collection, 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 as revenue.

#### e) Second Mortgages

Second mortgages (starting in 2019) are originally recognized at fair market value based on the associated first mortgage rate of the Partner Family at the time of mortgage signing. In subsequent years, second mortgage receivables are recognized at amortized cost by means of the recognition of a deemed interest income, calculated using a straight line balance method over the life of the mortgage.

# HABITAT FOR HUMANITY – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Homes Held for Sale

Homes held for sale are reported at the lower of cost or net realizable value. Net realizable value is determined as market value (appraised value). Any excess costs over net realizable value is expensed in the year in which the impairment is identified.

g) Construction in Progress

Construction in progress comprises land, materials, labour, and other manufacturing costs accumulated to date for homes not yet completed. Construction in progress is valued at the lower of cost or net realizable value and any excess costs over net realizable value is expensed in the year in which the impairment is identified.

h) Land for Future Builds

Land for future builds includes fully serviced lots and raw land purchased for development. Land is valued at the lower of cost or net realizable value and includes lot costs, undeveloped land costs, underground servicing, and rezoning fees.

i) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over the assets' estimated useful lives as follows:

Building, Habitat Centre	25 years
Construction equipment	5 years
Leasehold improvements	lease term
Automotive equipment	5 years
Office equipment	5 years
Retail equipment	5 years

j) Amounts Held on Behalf of Partner Families

Property tax and home insurance premiums are collected monthly in advance from Partner Families and remitted annually by the Society.

k) Tenant Deposits

Security deposits and monthly tenancy payments received from Partner Families while in the tenancy phase are offset against the sales price of the home at the time a first mortgage is granted by the Society.

# HABITAT FOR HUMANITY – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### l) Revenue Recognition

The Society follows the deferral method of accounting for contributions, which include donations and government grants. Restricted contributions are recognized as revenue during the year in which the related construction costs are incurred for projects under development. Unrestricted contributions and pledges 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 capital contributions are deferred and amortized into revenue at the corresponding amortization rate of the related capital assets.

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

ReStore sales consist entirely of donated merchandise. Revenue is recognized when the merchandise is sold.

Prefab Contribution Centre sales are recognized when the merchandise is sold.

#### m) Donated Goods and Services

Goods donated to ReStore are not recorded as inventory in these financial statements because fair value cannot be reasonably determined.

Other donated goods or services are recorded when fair value can be reasonably estimated.

A substantial number of volunteers make significant contributions of their time to the Society; the fair value of this contributed time is not quantifiable and thus is not reflected in these financial statements.

#### n) Internally restricted net assets

The board has approved the restriction of certain net assets to be used in the future to fund home repurchases.

#### o) 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.

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 – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets are assessed for impairment at the end of the fiscal year. Where an impairment is identified, the Society 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 Society 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.

#### p) Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the year. Actual results could differ from these estimates.

### 3. INVESTMENTS

Investments are currently comprised of the following:

	2019	2018
Cash	\$ 175,908	\$ -
Equity fund	151,235	-
Bond fund	304,155	-
	<u>\$ 631,298</u>	<u>\$ -</u>

### 4. ACCOUNTS RECEIVABLE

	2019	2018
Grants receivable	\$ 432,552	\$ 862,663
Trade receivables	111,320	178,771
Other receivables	97,630	103,637
Due from Condominium Corporations (Note 20)	84,042	31,647
	<u>\$ 725,544</u>	<u>\$ 1,176,718</u>

### 5. OTHER CURRENT ASSETS

	2019	2018
Laurel land deposit	\$ 200,000	\$ 200,000
Consumable inventory	159,755	380,162
Prepaid rent and insurance	136,077	200,856
Other deposits	34,670	82,147
	<u>\$ 530,502</u>	<u>\$ 863,165</u>



## HABITAT FOR HUMANITY – EDMONTON SOCIETY

### Notes to Financial Statements

Year ended December 31, 2019

#### 6. FIRST MORTGAGES RECEIVABLE

	<u>2019</u>	<u>2018</u>
Gross mortgages receivable	\$ 50,015,666	\$ 59,499,711
Unamortized mortgage discount	<u>(10,241,393)</u>	<u>(12,727,927)</u>
Present value of mortgages receivable	39,774,273	46,771,784
Less: Current portion	<u>(1,464,723)</u>	<u>(1,587,362)</u>
Long-term portion	<u>\$ 38,309,550</u>	<u>\$ 45,184,422</u>

During 2019, 0 new mortgages (2018 - 42 new mortgages) were signed with associated home costs of \$0 (2018 – \$10,652,032).

At December 31, 2019, 265 (2018 - 302) first mortgages remain outstanding.

A mortgage discount expense of \$0 (2018 - \$2,705,561) was recognized on new mortgages during the year. Mortgage interest income during the year is \$2,486,534 (2018 - \$1,780,614).

In 2019 the Society sold 0 (2018 – 6) homes on the open market for \$0 (2018 – \$1,427,000) with associated cost of sales of \$0 (2018 – \$1,507,000).

#### 7. SECOND MORTGAGES RECEIVABLE

	<u>2019</u>	<u>2018</u>
Gross second mortgages receivable	\$ 1,693,602	\$ -
Unamortized mortgage discount	<u>(580,898)</u>	<u>-</u>
Present value of second mortgages receivable	1,112,704	-
Less: Current portion	<u>(22,744)</u>	<u>-</u>
Long-term portion	<u>\$ 1,089,960</u>	<u>\$ -</u>

During 2018, 13 new second mortgages (2018 - 0) were signed with associated home costs of \$3,529,803 (2018 – \$0).

At December 31, 2019, 13 (2018 - 0) second mortgages remain outstanding.

A mortgage discount expense of \$582,608 (2018 - \$0) was recognized on new mortgages during the year. Mortgage interest income during the year is \$1,710 (2018 - \$0).

## HABITAT FOR HUMANITY – EDMONTON SOCIETY

### Notes to Financial Statements

Year ended December 31, 2019

#### 8. FORGIVABLE MORTGAGES

Forgivable second mortgages, representing 20% of the appraised value of homes sold, relate to properties sold by the Society from 1998 to 2005. Repayments of second mortgages, based on the resale of the home, are governed by the following terms: within the first 12 years of issuance, full repayment is required; from 12 years to 25 years a predetermined discounted repayment is required; and after 25 years the mortgage is fully forgiven.

At December 31, 2019, 38 (2018 - 41) second mortgages remain totaling \$1,447,887 (2018 - \$1,498,094). These balances are reflected at a fair value of \$0.

During 2019 there was 2 (2018 - 0) second mortgage repayments and 1 (2018 - 3) forgiven second mortgage.

#### 9. HOME ASSET INVENTORY

	2019	2018
Houses held for sale ( <i>Schedule 1</i> )	167 units	138 units
Homes under construction	- units	30 units
Land for future builds	27 units	21 units

#### 10. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
			2019	2018
Land	\$ 235,000	\$ -	\$ 235,000	\$ 235,000
Building, Habitat Centre	2,360,533	939,531	1,421,002	1,361,048
Construction equipment	663,212	639,895	23,317	48,100
Leasehold improvements	464,221	451,766	12,455	42,739
Automotive equipment	593,913	523,842	70,071	35,772
Office equipment	501,573	473,150	28,423	29,954
Retail equipment	199,710	171,105	28,605	37,423
	<u>\$ 5,018,162</u>	<u>\$ 3,199,289</u>	<u>\$ 1,818,873</u>	<u>\$ 1,790,036</u>

Amortization of construction equipment and equipment under capital lease during the year of \$31,245 (2018 - \$73,672) is recognized as part of the total cost of home sales and building operations and thus is not separately reflected in the Statement of Operations. Total amortization recognized during the year is \$184,187 (2018 - \$322,280).

# HABITAT FOR HUMANITY – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 11. BANK OVERDRAFT AND DEBT

In March 2019, the Society moved its bank overdraft and debt facilities from the Canadian Western Bank to Toronto-Dominion Bank. Amounts outstanding on authorized loan facilities with the Toronto-Dominion Bank ("TD") for 2019 and the Canadian Western Bank ("CWB") for 2018, totaling \$34,000,000 (2018 - \$34,000,000) are as follows:

Demand revolving reducing fixed term loans, authorized \$27,500,000, amortized to a maximum of 20 years, secured by demand promissory notes and assignment of general mortgage and homes held for sale excluding properties located on Crown, Metis, or leased land in addition to a general security agreement covering all property. Various variable and fixed term interest rate advances outstanding are as follows:

	2019	2018
TD floating rate term loan, interest at 0.15% per annum above TD's prime lending rate; due March 30, 2039.	\$ 485,283	\$ -
TD fixed term loan, interest at 3.4% per annum locked into March 30, 2020.	5,358,331	-
TD fixed term loan, interest at 3.3% per annum locked into June 30, 2020.	981,889	-
TD fixed term loan, interest at 3.5% per annum locked into March 30, 2021.	5,360,015	-
TD fixed term loan, interest at 3.7% per annum locked into March 30, 2022.	5,363,347	-
TD fixed term loan, interest at 3.8% per annum locked into March 30, 2023	5,364,995	-
Demand revolving reducing fixed term loan, authorized \$27,500,000, interest at 0.50% per annum above CWB's prime lending rate, amortization to a maximum of 20 years, secured by demand promissory notes and assignment of specific Partner Family mortgages and by a General Security Agreement covering all property.	-	\$ 21,575,836
Subtotal fixed term loans	\$ 22,913,860	\$ 21,575,836
TD demand overdraft, authorized \$6,500,000, interest at 0.15% per annum above TD's prime lending rate paid monthly, secured assignment of assignment of general mortgage and homes held for sale excluding properties located on Crown, Metis, or leased land in addition to a general security agreement covering all property.	3,341,025	-

## HABITAT FOR HUMANITY – EDMONTON SOCIETY

### Notes to Financial Statements

Year ended December 31, 2019

#### 11. BANK OVERDRAFT AND DEBT (Continued)

CWB demand overdraft, authorized \$6,500,000, interest at 0.50% per annum above CWB's prime lending rate paid monthly, secured assignment of specific Partner Family mortgages and by a General Security Agreement covering all property.

	\$	-	\$	3,377,465
	\$	26,254,885	\$	24,953,301
Bank overdraft	\$	3,341,025	\$	3,377,465
Current portion of debt	\$	22,913,860	\$	21,575,836
	\$	26,254,885	\$	24,953,301

The funds available under the demand revolving fixed term loan facility are reduced by any outstanding letters of credit issued pursuant to this facility agreement. At December 31, 2019, the Society had outstanding letters of credit, totaling \$826,370 (2018 - \$1,098,435).

The following financial covenants must be maintained:

The Society must maintain a Debt Service Coverage (DSC) ratio of not less than 100% at all times. The DSC is adjusted by certain non-recurring or unusual items that may occur during the period. At December 31, 2019, the Society's lender has acknowledged that the Society is in compliance with the DSC ratio.

The level of financing under the demand revolving loan and the demand overdraft will at all times be the lesser of:

- A. Authorized Credit Limits and
- B. The total of:
  - i. 60% of the principal balance of first position mortgages on eligible first position mortgages in good standing plus;
  - ii. 60% of the value of eligible properties held for resale.

#### 12. DUE TO HABITAT FOR HUMANITY AFFILIATES

Government of Alberta – *Affordable Housing Program* funding is administered by the Society for all Habitat for Humanity affiliates in Alberta. Other than acting as administrator of these funds, there are no financial transactions between the Society and other Habitat for Humanity affiliates in Alberta. The assets, liabilities, net assets, and results of operations for affiliates are not included in these financial statements.

# HABITAT FOR HUMANITY – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 13. DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted contributions and grants that were unspent at the year-end.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 792,708	\$ 1,139,672
Contributions	1,308,382	3,220,877
Recognized as revenue (government grants) (Note 17)	(754,935)	(3,537,841)
Recognized as revenue (other donations and fundraising)	<u>-</u>	<u>(30,000)</u>
Balance, end of year	<u>\$ 1,346,155</u>	<u>\$ 792,708</u>

### 14. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent designated donations and grants for capital purchases that were unamortized at the year-end.

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 18,882	\$ 54,004
Recognized as other revenue	<u>(18,882)</u>	<u>(35,122)</u>
Balance, end of year	-	\$ 18,882
Less: Current portion	<u>-</u>	<u>(18,882)</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

### 15. COMMITMENTS

Minimum annual base lease payments on five facilities are as follows:

2020	\$ 851,142
2021	814,480
2022	599,663
2023	530,760
2024	365,982
Thereafter	<u>318,573</u>
	<u>\$ 3,480,600</u>

## HABITAT FOR HUMANITY – EDMONTON SOCIETY

### Notes to Financial Statements

Year ended December 31, 2019

#### 16. IN KIND DONATIONS

	<u>2019</u>	<u>2018</u>
Land donations	\$ 1,106,500	\$ -
Build donations	<u>822,546</u>	<u>832,480</u>
	<u>\$ 1,929,046</u>	<u>\$ 832,480</u>

At the end of 2019, the Society received a land donation of six lots from the City of Edmonton valued at \$1,106,500.

#### 17. GOVERNMENT GRANT PROGRAM REVENUE

	<u>2019</u>	<u>2018</u>
Government of Alberta grants	\$ 373,727	\$ 3,536,042
Government of Alberta Energy Efficiency grant	320,208	-
Municipal grants	<u>61,000</u>	<u>1,799</u>
	<u>\$ 754,935</u>	<u>\$ 3,537,841</u>

#### 18. RIGHT OF FIRST REFUSAL

Beginning in 2006, the Society included a clause in mortgage agreements which allows the Society the right of first refusal to repurchase homes should the Partner Family decide to sell their home. The required buyback payment is calculated as the difference between the original sale price of the home to the Partner Family less any outstanding balances on the related mortgage.

During 2019, there were 33 (2018 – 20) homes repurchased from Partner Families with total accumulated equity of \$1,221,448 (2018 - \$837,169) paid to Partner Families.

#### 19. LOSS ON TRANSFER OF HOMES

	<u>2019</u>	<u>2018</u>
Metis Settlement homes divestiture	\$ (5,212,151)	\$ -
	<u>\$ (5,212,151)</u>	<u>\$ -</u>

# HABITAT FOR HUMANITY – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 19. LOSS ON TRANSFER OF HOMES (continued)

In June 2019, in consultation with the Province of Alberta and the Metis Settlements General Council (MSGC), the Society transferred the ownership of 24 homes built on Alberta Metis Settlement lands to the MSGC. These homes were originally constructed using funding provided from the trilateral agreement with both the Province and the MSGC. The resulting write-down on the 10 First Mortgage Receivables and 14 Homes Held for Sale equated to \$5,212,151. \$524,997 of Mortgage Discount Income was also recognized based on the elimination of the 10 First Mortgages.

### 20. CONTROLLED ENTITIES

The revenue and expenses of the eleven condominium corporations controlled by the Society are collected and paid respectively by the Society and reimbursed by each condominium corporation. If one of the condominium corporations does not have sufficient cash to reimburse the Society, the balance remains until sufficient funds exist; interest of 1% is payable on designated balances.

Required maintenance work performed by the Society's construction employees is recorded at cost.

At December 31, 2019, the Society's receivables include \$84,042 due from condominium corporations (2018 - \$31,647).

Combined financial summaries of these controlled entities as at December 31, 2019 and 2018 and for the years then ended are as follows:

	2019	2018
<b>Financial Position</b>		
Total assets	\$ 737,454	\$ 573,667
Total liabilities	84,799	31,647
Total net assets	652,655	542,020
	\$ 737,454	\$ 573,667
<b>Results from Operations</b>		
Total revenue	\$ 885,890	\$ 682,911
Total expenses	(775,255)	(635,050)
Excess of revenue over expenses	\$ 110,635	\$ 47,861
	2019	2018
<b>Cash Flows</b>		
Cash from operations	\$ 146,257	\$ 387,084
Cash used in financing and investing activities	-	-
Increase (decrease) in cash	\$ 146,257	\$ 387,084

## HABITAT FOR HUMANITY – EDMONTON SOCIETY

### Notes to Financial Statements

Year ended December 31, 2019

#### 21. GOVERNMENT REMITTANCES

Included in accounts payable and accrued liabilities at year-end are government remittances payable of \$52,403 (2018 - \$55,528).

#### 22. MORTGAGE AND TENANCY RECEIPTS

Mortgage and Tenancy receipts (internally known as the Fund for Humanity) represents funds collected from Partner Families through mortgage payments and tenancy prepayments. These funds are used as follows: 1) reinvested in building or acquiring additional homes, 2) repaying debt, and 3) funding an investment reserve to fund future buybacks. The following amounts were paid into the Fund for Humanity during the year:

	2019	2018
First mortgage payments (pre-2019 mortgages)	\$ 2,620,869	\$ 2,679,558
Proceeds from first mortgages held by third party financial institutions (2019 mortgages)	1,689,379	-
Tenancy payments	1,188,895	854,700
Rental payments recognized as income	52,800	55,300
Forgivable second mortgage payments	30,750	-
Second mortgage payments	16,910	-
	<u>\$ 5,599,603</u>	<u>\$ 3,589,558</u>

#### 23. HABITAT FOR HUMANITY CANADA FEES

The Society remits payments for national programs and initiatives based on the number of builds, ReStore sales and nationally administrated gifts in kind. The Society expensed a tithe fee of \$2,500 for 52 (2018 – 53) families served. Fees incurred during the year consists of the following:

	2019	2018
ReStore fees	\$ 184,539	\$ 198,757
Tithe fees	130,000	132,500
Annual Fee	50,000	50,000
Build gift in kind fees	18,201	108,665
	<u>\$ 382,740</u>	<u>\$ 489,922</u>

Construction related gift in kind fees are included in the cost of the builds and are not reflected in the Statement of Operations.



# HABITAT FOR HUMANITY – EDMONTON SOCIETY

## Notes to Financial Statements

Year ended December 31, 2019

### 24. FINANCIAL RISK

a) Credit Risk

The Society is exposed to credit risk in the event of non-payment of mortgages by Partner Families or from non-collection of accounts receivable. Management believes that the credit risk from non-collection of mortgages is mitigated as the carrying value of the mortgages is secured by the value of the underlying homes. Further, the credit risk arising from non-payment of accounts receivable balances is minimal as the amounts are due primarily from government bodies.

The Society is exposed to real estate fluctuation risks on repurchased homes. The repurchase price is based on the fair market value at the time of the original Partner Family's move in date, while the subsequent sales price to the new Partner Family is based on the current market value.

b) Liquidity Risk

The Society manages its liquidity risk by monitoring forecasted and actual cash flows and financial liabilities.

c) Market Rate Risk

Market risk is comprised of currency risk, interest rate risk and other price risk. The Society is exposed to fluctuations in interest rates as the banking facilities bear interest at variable rates. The mortgages receivable do not bear interest rate risk given that they are non-interest bearing. The Society is not exposed to significant currency risk or other price risk.

### 25. OUTSTANDING LEGAL CLAIM

The Society is named in two legal claims that have arisen in the ordinary course of business. The outcome of these claims against the Society is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Society and after consultation with legal counsel, management believes that the future outcomes are indeterminable as at year end. No provision has been recorded by the Society in the financial statements.

### 26. SUBSEQUENT EVENT

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, the Society has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic.

- All ReStore retail locations have been closed to the public to the date of the auditor's report based on public health recommendations
- All facilities have been closed to volunteers (both to the general public and partner families)
- Where feasible, staff have been encouraged to work from home.

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Schedule of Homes Held for Sale**  
**Year ended December 31, 2019**

**SCHEDULE 1**

	Number of Homes		2019
<b>NEW HOMES COMPLETED IN 2019</b>			
Edmonton	25	\$	6,409,000
Fort Saskatchewan	4		1,305,000
Devon	1		302,519
Slave Lake	1		266,000
Rocky Mountain House	1		215,000
	<u>32</u>		<u>8,497,519</u>
<b>OTHER HOMES</b>			
Edmonton	57		14,962,840
Fort Saskatchewan	14		4,467,676
St Albert	14		3,383,317
Edson	9		1,973,479
Cold Lake	18		1,945,100
Stony Plain	9		1,676,673
Lloydminster	4		810,000
Spruce Grove	2		592,000
Sherwood Park	2		560,093
Leduc	1		358,806
Slave Lake	1		314,000
Whitecourt	1		260,168
Vermillion	1		255,000
Wetaskiwin	1		223,000
Fairview	1		180,000
	<u>135</u>		<u>31,962,152</u>
	<u>167</u>	<u>\$</u>	<u>40,459,671</u>

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Schedule of Program Expenses**  
**Year ended December 31, 2019**

**SCHEDULE 2**

	<u>2019</u>	<u>2018</u>
<b>FAMILY AND COMMUNITY SUPPORT</b>		
Salaries and benefits	\$ 638,319	\$ 549,824
Alberta Energy Efficiency Grant Expenditures	285,641	-
Habitat for Humanity Canada tithe	130,000	132,500
Partner Family home expenses	40,630	105,444
Other	19,625	14,971
Travel	8,809	10,660
Amortization	<u>100</u>	<u>4,552</u>
	<u>1,123,124</u>	<u>817,951</u>
<b>INTEREST ON BANK OVERDRAFT AND DEBT</b>		
Interest on debt	936,435	819,247
Interest on bank overdraft	<u>151,231</u>	<u>71,640</u>
	<u>1,087,666</u>	<u>890,887</u>
<b>CAPACITY BUILDING</b>		
Facilities	467,718	438,062
Salaries and benefits	155,536	216,611
Amortization	5,901	69,230
Allocations to builds	<u>(114,586)</u>	<u>(148,546)</u>
	<u>514,569</u>	<u>575,357</u>
<b>VOLUNTEER SUPPORT</b>		
Salaries and benefits	324,564	330,209
Volunteer meals and other expenses	<u>120,398</u>	<u>115,263</u>
	<u>444,962</u>	<u>445,472</u>
	<u>\$ 3,170,321</u>	<u>\$ 2,729,667</u>

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Schedule of ReStore Operations**  
**Year ended December 31, 2019**

**SCHEDULE 3**

	<u>2019</u>	<u>2018</u>
<b>REVENUE</b>		
Sales	\$ 4,566,372	\$ 4,524,042
Donation revenue	46,126	46,483
STEP Grant Revenue	20,335	24,875
Other income	<u>6,781</u>	<u>13,963</u>
	<u>4,639,614</u>	<u>4,609,363</u>
<b>EXPENSES</b>		
Salaries and benefits	2,041,792	1,894,477
Facilities	734,717	806,153
Fees and dues	188,671	200,765
Other	58,408	57,233
Amortization	56,819	77,009
Travel	41,519	25,396
Bank charges	39,305	48,805
Advertising and promotion	<u>26,884</u>	<u>19,741</u>
	<u>3,188,115</u>	<u>3,129,579</u>
<b>RESTORE CONTRIBUTION</b>	<u>\$ 1,451,499</u>	<u>\$ 1,479,784</u>
<b>GROSS MARGIN</b>	<u>31%</u>	<u>32%</u>

**HABITAT FOR HUMANITY – EDMONTON SOCIETY**  
**Schedule of General and Administrative Expenses**  
**Year ended December 31, 2019**

	<b>SCHEDULE 4</b>	
	<u>2019</u>	<u>2018</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salaries and benefits	\$ 1,925,155	\$ 1,745,366
Professional fees	124,579	105,394
Advertising and promotion	119,373	166,695
Amortization	90,122	97,817
Facilities	75,118	79,931
Contracted services	74,592	177,504
Office	61,782	64,866
Habitat for Humanity Canada fees	50,000	50,000
Bank charges	56,649	43,897
Travel	29,456	26,644
Insurance	<u>22,937</u>	<u>21,428</u>
	<u>\$ 2,629,763</u>	<u>\$ 2,579,542</u>

Total 2019 costs of fundraising of \$535,967 (2018 - \$551,411) are included in General and Administrative Expenses. Excluding salaries and benefits of \$416,594 (2018 - \$384,716), a portion of these costs represent in-kind donations. \$0 (2018 - \$0) was paid as remuneration to a fund-raising business, including any expense or fees paid by the Society on behalf of the fund-raising business.