HABITAT FOR HUMANITY LONDON INC.

Financial Statements

Years Ended December 31, 2012 and 2011

HABITAT FOR HUMANITY LONDON INC.

Index to Financial Statements

Years Ended December 31, 2012 and 2011

NPT+ LLP
CHARTERED ACCOUNTANTS
Adding value. Finding balance.

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INDEPENDENT AUDITOR'S REPORT

To the Members of Habitat for Humanity London Inc.

We have audited the accompanying financial statements of Habitat for Humanity London Inc., which comprise the statements of financial positions as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

In common with many charitable organizations, the organization derives revenue from donations and contributions, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to contributions, excess of revenue over expenses, current assets and net assets. This issue also resulted in a qualification on the financial statements for the year ended December 31, 2011.

(continues)

Qualified Opinion

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the contributions referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of Habitat for Humanity London Inc. as at December 31, 2012 and 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

NPT LLP

London, Canada
May 16, 2013

NPT LLP
Chartered Accountants
Licensed Public Accountants

HABITAT FOR HUMANITY LONDON INC.

Statements of Financial Position

December 31, 2012 and 2011 and January 1, 2011

		December 31 **2012**		*December 31* 2011 *(Note 3)*		*January 1* 2011
ASSETS						
CURRENT						
Cash	**$**	**69,651**	$	81,949	$	203,638
Amounts receivable		**61,878**		46,772		22,060
Inventory *(Note 5)*		**183,021**		66,541		261,359
Current portion of first mortgages receivable *(Note 7)*		**172,631**		137,736		158,700
Taxes other than income taxes recoverable		**23,166**		54,529		60,839
Prepaid expenses		**20,730**		19,005		15,493
		531,077		406,532		722,089
Capital assets *(Note 6)*		**115,264**		46,491		11,760
First mortgages receivable *(Note 7)*		**1,726,522**		1,636,579		1,310,304
	$	**2,372,863**	$	2,089,602	$	2,044,153
LIABILITIES AND NET ASSETS						
CURRENT						
Line of credit *(Note 9)*	**$**	**25,000**	$	-	$	-
Accounts payable and accrued liabilities		**63,493**		81,133		114,655
Deferred contributions		**177,105**		92,820		88,212
		265,598		173,953		202,867
Deferred contributions related to capital assets *(Note 10)*		**67,500**		-		-
		333,098		173,953		202,867
NET ASSETS		**2,039,765**		1,915,649		1,841,286
	$	**2,372,863**	$	2,089,602	$	2,044,153

SECOND MORTGAGES RECEIVABLE *(Note 8)*

LEASE COMMITMENTS *(Note 12)*

ON BEHALF OF THE BOARD

______________________________ *Director*

______________________________ *Director*

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY LONDON INC.
Statements of Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012	2011 *(Note 3)*
NET ASSETS - BEGINNING OF YEAR	**$ 1,915,649**	$ 1,841,286
Excess of revenue over expenses	**124,116**	74,363
NET ASSETS - END OF YEAR	**$ 2,039,765**	$ 1,915,649

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY LONDON INC.

Statements of Operations

Years Ended December 31, 2012 and 2011

	2012	2011 *(Note 3)*
REVENUE		
Schedules of ReStore Operations *(Schedule 1)*	**$ 1,093,536**	$ 901,237
Home sales *(Note 4)*	**216,542**	450,735
Build donations	**190,432**	307,976
Donations, grants and other	**108,684**	115,879
Accretion income on mortgages *(Note 4)*	**65,336**	59,923
Other revenue *(Note 4)*	**4,737**	9,794
	1,679,267	1,845,544
EXPENSES		
Schedules of ReStore Operations *(Schedule 1)*	**763,199**	670,722
Salaries, wages and benefits	**342,203**	326,599
House costs - build *(Notes 4, 5)*	**184,468**	399,129
Land costs - build *(Notes 4, 5)*	**79,374**	198,160
Build acquisition and site management	**34,709**	51,899
Office	**32,798**	25,506
Office rent	**30,295**	14,185
Amortization of capital assets	**10,771**	3,067
Telephone	**18,951**	14,534
Advertising, promotion & public relations	**16,389**	13,456
International build	**11,232**	10,668
Vehicle	**5,598**	7,053
Committee	**5,322**	9,218
Contributions to Habitat for Humanity Canada Inc.	**5,065**	3,424
Professional fees	**4,721**	12,993
Insurance	**3,469**	4,590
Volunteer expenses	**3,367**	3,136
Bank charges	**1,598**	1,764
Repairs and maintenance	**1,369**	897
Miscellaneous	**253**	181
	1,555,151	1,771,181
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	**$ 124,116**	$ 74,363

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY LONDON INC.

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Cash receipts from customers, donors and other operations	**$ 1,668,876**	$ 1,463,262
Cash paid to suppliers, employees and others	**(1,645,789)**	(1,542,356)
HST rebate recovered	**31,364**	6,310
Cash flow from (used by) operating activities	**54,451**	(72,784)
INVESTING ACTIVITY		
Purchase of capital assets	**(91,749)**	(48,905)
FINANCING ACTIVITY		
Line of credit advances	**25,000**	-
DECREASE IN CASH	**(12,298)**	(121,689)
CASH - BEGINNING OF YEAR	**81,949**	203,638
CASH - END OF YEAR	**$ 69,651**	$ 81,949

Cash Flows - Supplemental Information

Cash receipts from customers, donors and other operations		
Donations received	**$ 407,861**	$ 344,471
ReStore income received	**1,093,536**	901,237
Mortgage payments and downpayments received	**167,479**	217,554
	$ 1,668,876	$ 1,463,262
Cash paid to suppliers, employees and others		
Expenses from operations	**$ 1,291,804**	$ 1,205,652
Purchase of land	**111,765**	133,745
Costs incurred in construction	**240,623**	201,193
Interest paid	**1,597**	1,766
	$ 1,645,789	$ 1,542,356

See accompanying notes to the financial statements.

1. ORGANIZATION

Habitat for Humanity London Inc. is incorporated, without share capital, under the Corporations Act of Ontario.

The primary objective of Habitat for Humanity London Inc. is to work within London and area to advance the interest of the economically disadvantaged by providing, through constructing or renovating, safe, decent and affordable homes with an interest free mortgage. The prospective homeowners contribute "sweat equity" rather than a normal down payment.

Habitat for Humanity London Inc. also operates 2 stores, operating as ReStore, for the sale of donated building materials and household furnishings the net proceeds of which are deployed to assist in the above objective. Its second ReStore began operating at the end of June, 2011. The organization is planning for its third ReStore to be in operations by March, 2013.

Habitat for Humanity London Inc. is a charitable organization registered under the Income Tax Act and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.

2. BASIS OF PRESENTATION

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO). ASNPO are part of Canadian generally accepted accounting principles (GAAP).

3. PRIOR PERIOD ADJUSTMENT

During the year, the organization determined that it had miscalculated the net present value discount on the homes sold during the year ending December 31, 2011 which required adjustment. As a result of this adjustment, the excess of revenue over expenses and first mortgages receivable decreased by $107,969 to reflect the adjustment to net present value as at December 31, 2011.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition - Home Sales

Revenue is recognized on the sale of the house at the net present value of the expected future cash flows from the mortgage at that time. For homes sold in 2009 and beyond, the new homeowner provides a first mortgage at the time the house is sold. The first mortgage value is determined based on the selling price of the home (based on appraised value) less any downpayments made by the new homeowner.

For homes sold prior to 2009, revenue was recognized as follows: at the time a house is sold, the new homeowner provides a first mortgage, which is based on a formula that uses the cost of construction of the home. The home is then appraised and the difference between the appraised value and the first mortgage is the amount of value assigned to the second mortgage given by the homeowner at that time. As repayment of the second mortgage is contingent upon the occurrence of certain events, no revenue or asset is recorded in the accounts of the organization with respect to the second mortgages at the time of sale. Any amount that is subsequently realized will be recorded as income in the period received.

On an annual basis the deemed income earned (accretion), which is based upon the discount rate used to calculate the net present value, is included in income. The organization also recognizes changes in the net present value of each mortgage on an annual basis, based upon any changes to the expected future mortgage payments.

Revenue recognition - Other

The organization operates 2 retail stores known as the ReStore. Revenue from the ReStore is recognized when the customer takes possession of the goods and payment is received.

Revenue recognition - Contributions

The organization uses the deferral method of accounting for contributions. In accordance with this method, the organization recognizes donations and other revenue at the time it is received, unless the donation is externally restricted. Restricted donations or grants are recognized as revenue when the expenses to which the donation or grant is intended to fund is incurred. Restricted contributions related directly to capital assets are deferred and amortized into revenue on the same basis as the related capital asset.

Cash

Cash consists of cash on hand and bank account balances, with adjustments for outstanding cheques and deposits at year-end.

Inventory

Inventory of land held for development and under development is valued at the lower of cost and net realizable value. Cost is determined as the acquisition cost of the property, plus carrying charges and development and construction expenses. Net realizable value is the estimated selling price of the property less selling expenses.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital assets

Capital assets are stated at cost less accumulated amortization. Capital assets are amortized on a straight line basis over their estimated useful lives as follows:

Computer equipment	1-3 years
Leasehold improvements	5 years
Office equipment	5 years
Store equipment	3 years
Vehicles	3-5 years

Donated land, building materials and services

Donated land and building materials for constructing homes, which would otherwise be paid for by Habitat for Humanity London Inc., are included in the cost of the project at fair market value. The value of new and used materials donated to ReStore are not reflected in these financial statements.

A substantial number of volunteers have made significant contributions of their time to the organization's program and supporting services. The value of this contributed time is not reflected in these statements.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian ASNPO 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 amounts of revenue and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in income in the period in which they become known. Actual results could differ from these estimates.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost and tested for impairment at each reporting date. Transaction costs on the acquisition, sale or issue of financial instruments are expensed when incurred.

Changes in accounting policies - Accounting standards for not-for-profit organizations

With regard to the organization's transition from former Canadian GAAP to Canadian ASNPO, the organization has made the following elections available under Canadian Institute of Chartered Accountants (CICA) Handbook Section 1501 of Canadian ASNPO:

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Changes in accounting policies - Accounting standards for not-for-profit organizations *(continued)*

Financial instruments

The organization has applied Handbook Section 3856, “Financial instruments”, to the opening statement of financial position for the first year presented in the financial statements for the year of adoption of ASNPO. Any difference between the recognition and measurement of financial instruments at that date, in accordance with Handbook Section 3856, and the prior year's closing statement of financial position is recorded as an adjustment to opening net assets at the date of transition to ASNPO.

Related party transactions

Handbook Section 3840, “Related party transactions”, specifies that certain related party transactions shall be measured at the carrying amount and some at the exchange amount. However, under Handbook Section 1501 of Canadian ASNPO, the organization is not required to restate assets or liabilities related to transactions with related parties when the related party transaction occurred prior to the date of transition to ASNPO. The organization has used this election.

5. INVENTORY

	2012	2011
Land inventory (2 lots; 2011 - 1 lot)	**$ 89,136**	$ 45,500
Homes under construction (1 home; 2011 - 1 home)	**93,885**	21,041
	$ 183,021	$ 66,541

Included in expenses are the costs associated with the construction of 2 homes (2011 - 4 homes) sold during the year as well as the land cost for those homes.

Inventory includes build in progress costs associated with a build on Redan St., London, which is, expected to be completed in 2013.

6. CAPITAL ASSETS

	Cost	Accumulated amortization	**2012 Net book value**
Computer equipment	$ 46,869	$ 41,793	**$ 5,076**
Leasehold improvements	95,925	17,685	**78,240**
Office equipment	34,144	7,158	**26,986**
Store equipment	31,495	27,157	**4,338**
Vehicles	26,858	26,234	**624**
	$ 235,291	$ 120,027	**$ 115,264**

	Cost	Accumulated amortization	2011 Net book value
Computer equipment	$ 42,025	$ 39,600	$ 2,425
Leasehold improvements	40,463	4,046	36,417
Office equipment	4,090	4,090	-
Store equipment	30,107	24,806	5,301
Vehicles	26,858	24,510	2,348
	$ 143,543	$ 97,052	$ 46,491

7. FIRST MORTGAGES RECEIVABLE

The organization has a number of first mortgages on the houses they have sold. These mortgages are provided to the mortgagors on an interest free basis. The organization reviews the payment terms on an annual basis based on the mortgagor's income and may adjust the payments accordingly. However, mortgages are fully open without penalty for prepayment at the option of the mortgagor. The payments and dates below reflect the current payment by each mortgagor. The annual adjustments to the payments based on income will effect the actual term of the mortgage.

	2012
The expected repayments are as follows:	
2013	$ 172,631
2014	164,620
2015	154,752
2016	148,814
2017	144,948
2018	144,948
2019	138,826
2020	138,048
2021	138,048
2022	133,070
2023	121,216
2024	108,530
2025	98,160
2026	98,160
2027	108,570
2028	139,054
2029	104,783
2030	95,527
2031	59,023
2032	33,624
2033	237,473
Total face value of mortgages	2,682,825
Less: Present value discount	(783,672)
Net book value of first mortgages receivable	1,899,153
Less: Current portion of first mortgages receivable	(172,631)
Long term portion of first mortgages receivable	$ 1,726,522

8. SECOND MORTGAGES RECEIVABLE

The organization holds a number of second mortgages on the houses they have sold. These second mortgages are non-interest bearing and have no set monthly repayment terms. The mortgage may be reduced if certain conditions are met as per the following terms listed from each mortgage:

For mortgages entered into prior to 2008, "provided the mortgagors have completed the 'sweat equity' required and has not been in default of any conditions of the mortgage during the term of the mortgage, 25% of the original principal amount will be forgiven after a period of 12 years. Thereafter mortgage balances outstanding are forgiven in one of 2 ways as specified in their individual mortgage documents:

1. An additional 12.5% of the mortgage is forgiven each year thereafter until the full amount of the mortgage is forgiven, so long as the mortgagors have not defaulted at any point during this time and they have continued to occupy the mortgaged premises as their principal place of residence; or

2. At maturity, the balance of the original principal amount then outstanding shall be deducted and the mortgage deemed to be paid in full at the maturity date provided the mortgagors have not defaulted at any point during this time and they have continued to occupy the mortgaged premises as their principal place of residence.

For 2009 and beyond, no new second mortgages will be issued.

As the cash flow to be received from these second mortgages cannot be reasonably determined given the nature of the terms of these mortgages, no revenue or asset is recognized at the time the mortgage is issued. Revenue, if any, from a second mortgage would be realized at such time as it is determined that the mortgage is or will be collected, and it is likely that the amount is collectible from the mortgagor.

Maturity dates and outstanding balances of the second mortgages are as follows:

2016	$ 8,750
2018	17,500
2019	30,000
2021	60,710
2023	59,439
Thereafter	444,572
	$ 620,971

9. LINE OF CREDIT

The organization has available to it a line of credit in the amount of $250,000. Interest is charged on any funds utilized at prime rate plus 1% per annum. The amount of the line of credit outstanding at December 31, 2012 was $25,000 (2011 - $nil). The line of credit is secured by a general security agreement covering accounts receivable, inventory, and equipment as well as an assignment of certain of the first mortgages receivable with a carrying value of $287,706 (face value of $395,605).

10. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

	2012	2011
Contributions received during the year	**$ 75,000**	$ -
Amounts amortized to revenue during the year	**(7,500)**	-
Balance - end of the year	**$ 67,500**	$ -

11. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments. The following analysis provides information about the organization's risk exposure and concentration at December 31, 2012. There have been no significant changes in the nature or concentration of the risk exposures from the prior year, unless otherwise noted.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The organization is exposed to credit risk from customers and mortgagors. In order to reduce its credit risk, the organization reviews a new customer's or mortgagor's credit history before extending credit and conducts regular reviews of its existing customers' credit performance and monitors its mortgagors' monthly payment history and their annual incomes. The organization also reduces credit risk by securing the mortgages receivable against the property that the mortgage was issued for, which allows the organization to recover the property in the case that the mortgagor defaults.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The organization manages its liquidity risk by forecasting its cash needs on a regular basis and seeking additional information based on those forecasts.

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.

Currency risk

Currency risk is the risk to the organization's earnings that arise from fluctuations of foreign exchange rates. The organization is not exposed to significant currency risk as it does not hold any financial instruments denominated in a foreign currency.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The organization is exposed to interest rate risk primarily through its mortgage receivables and line of credit.

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11. FINANCIAL INSTRUMENTS *(continued)*

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. In management's opinion, the organization is not exposed to significant other price risk.

12. LEASE COMMITMENTS

The organization has 4 leases with respect to its premises, which expire in November 2016 and August 2021. Future minimum lease payments as at December 31, 2012 are as follows:

2013	$ 245,930
2014	253,263
2015	253,263
2016	249,555
2017	163,317
Thereafter	490,829
	$ 1,656,157

13. FIRST TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective January 1, 2012, the organization adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting, electing to adopt the new accounting framework: ASNPO. These are the organization's first financial statements prepared in accordance with ASNPO which has been applied retrospectively. The accounting policies set out in the significant accounting policies note have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information for the year ended December 31, 2011 and in the preparation of the opening ASNPO statement of financial position at January 1, 2011 (the organization's date of transition).

The organization issued financial statements for the year ended December 31, 2011 using Canadian generally accepted accounting principles prescribed by CICA Handbook - Accounting. The adoption of ASNPO has no impact on previously reported assets, liabilities and net assets of the organization, and accordingly, no adjustments have been recorded in the comparative statement of financial position, statement of operations, statement of changes in net assets and the cash flow statement. Certain of the organization's disclosures included in these financial statements reflect the new disclosure requirements of ASNPO.

14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

HABITAT FOR HUMANITY LONDON INC.

Schedules of ReStore Operations *(Schedule 1)*

Years Ended December 31, 2012 and 2011

	2012	2011
REVENUE		
Sales	**$ 1,078,412**	$ 873,196
Other revenue	**15,124**	28,041
	1,093,536	901,237
EXPENSES		
Salaries, wages and benefits	**437,139**	362,604
Rent	**141,894**	106,799
Vehicle	**59,096**	43,111
Contributions to Habitat for Humanity Canada Inc.	**26,450**	25,480
Repairs and maintenance	**26,098**	36,126
Utilities	**21,264**	38,998
Office	**15,956**	12,629
Amortization of capital assets	**12,203**	11,107
Telephone	**11,121**	9,240
Advertising, promotion & public relations	**5,280**	14,493
Volunteer expenses	**4,961**	8,444
Insurance	**877**	698
Miscellaneous	**648**	809
Bank charges	**212**	184
	763,199	670,722
INCOME FROM OPERATIONS	**$ 330,337**	$ 230,515

See accompanying notes to the financial statements.