Financial Statements of

HARVEST HOUSE MINISTRIES OF OTTAWA-CARLETON

And Independent Auditors' Report thereon

Year ended March 31, 2021

KPMG LLP
750 Palladium Drive, Suite 101
Kanata ON K2V 1C7
Canada
Tel 613-212-5764
Fax 613-591-7607

INDEPENDENT AUDITORS' REPORT

To the Members of Harvest House Ministries of Ottawa-Carleton

Opinion

We have audited the financial statements of Harvest House Ministries of Ottawa-Carleton (the Entity), which comprise:

- the statement of financial position as at March 31, 2021
- the statement of operations for the year then ended
- the statement of changes net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2021 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 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 accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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 represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kanata, Canada

February 15, 2022

HARVEST HOUSE MINISTRIES OF OTTAWA-CARLETON

Statement of Financial Position

March 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash	$ 420,845	$ 181,793
Accounts receivable (note 2)	18,740	23,165
HST recoverable	9,288	12,949
Inventory	1,000	1,000
Prepaid expenses	10,663	10,663
	460,536	229,570
Capital assets (note 3)	1,164,895	1,175,442
	$ 1,625,431	$ 1,405,012
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 168,974	$ 70,757
Accrued retirement benefits	31,478	35,140
Current portion of long-term debt (note 5)	4,811	4,454
	205,263	110,351
Long-term debt (note 5)	32,333	13,230
Deferred government grant	2,862	-
	240,458	123,581
Net assets:		
Capital asset fund (note 6)		
Invested in capital assets	1,127,751	1,157,758
Externally restricted (note 7)	40,292	30,292
	1,168,043	1,188,050
General fund:		
Net assets	216,930	93,381
	1,384,973	1,281,431
Contingent liability (note 11)		
	$ 1,625,431	$ 1,405,012

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director

____________________ Director

HARVEST HOUSE MINISTRIES OF OTTAWA-CARLETON

Statement of Operations

Year ended March 31, 2021, with comparative information for 2020

	General Fund	Capital Asset Fund	2021	2020
Revenue:				
Donations	$ 819,430	$ 41,822	$ 861,252	$ 954,975
Fundraising	404,506	-	404,506	645,523
Room and board	132,204	-	132,204	220,412
Manufacturing	10,504	-	10,504	7,949
	1,366,644	41,822	1,408,466	1,828,859
Expenditures:				
Salaries and benefits (note 8)	1,002,888	-	1,002,888	1,084,477
Professional fees	90,015	-	90,015	31,793
Utilities	79,026	-	79,026	84,511
Fundraising	76,619	-	76,619	133,556
Amortization	-	73,985	73,985	69,652
Rent	73,448	-	73,448	102,089
Maintenance and repairs	64,661	-	64,661	53,624
Food	44,759	-	44,759	60,955
Bonuses and stipends	38,067	-	38,067	50,339
Telephone	37,587	-	37,587	47,891
Automobile	23,366	-	23,366	45,131
Interest and bank charges	18,633	-	18,633	24,692
Equipment leasing	15,128	-	15,128	14,025
Insurance	14,873	-	14,873	10,396
Waste removal	14,225	-	14,225	16,867
Training and education	13,467	-	13,467	7,009
Office supplies	13,452	-	13,452	13,501
Personal needs allowance	12,778	-	12,778	31,300
Miscellaneous and other	4,209	-	4,209	8,955
Interest on long-term debt	-	2,747	2,747	604
Memberships and dues	2,332	-	2,332	2,737
Resident care	1,993	-	1,993	1,879
Travel	1,574	-	1,574	6,844
Bad debts	657	-	657	783
Books and tapes	375	-	375	4,880
Loss on sale of capital assets	-	-	-	1,608
	1,644,132	76,732	1,720,864	1,910,098
Deficiency of revenue over expenditures before the undernoted item	(277,488)	(34,910)	(312,398)	(81,239)
Other income:				
Government assistance (note 10)	415,940	-	415,940	-
Excess (deficiency) of revenue over expenditures	$ 138,452	$ (34,910)	$ 103,542	$ (81,239)

See accompanying notes to financial statements.

HARVEST HOUSE MINISTRIES OF OTTAWA-CARLETON

Statement of Changes Net Assets

Year ended March 31, 2021, with comparative information for 2020

	General Fund	Capital Asset Fund	2021	2020
Balance, beginning of year	$ 93,381	$ 1,188,050	$ 1,281,431	$ 1,362,670
Excess (deficiency) of revenue over expenditures	138,452	(34,910)	103,542	(81,239)
Interfund transfers (note 9)	(14,903)	14,903	-	-
Balance, end of year	$ 216,930	$ 1,168,043	$ 1,384,973	$ 1,281,431

See accompanying notes to financial statements.

HARVEST HOUSE MINISTRIES OF OTTAWA-CARLETON

Statement of Cash Flows

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenditures	$ 103,542	$ (81,239)
Items not involving cash:		
Amortization	73,985	69,652
Government grant	(10,459)	-
Interest expense	1,534	-
Deferral of loan payable interest free benefit	(2,862)	-
Loss on disposal of capital assets	-	1,608
Changes in non-cash operating working capital:		
Decrease in accounts receivable	4,425	30,644
Increase in prepaid expenses	-	(5,583)
Increase (decrease) in accounts payable and accrued liabilities	98,217	(39,010)
Decrease in accrued retirement benefits	(3,662)	(135,218)
Decrease (increase) in HST recoverable	3,661	(427)
Increase in deferred government grant	2,862	-
	271,243	(159,573)
Financing activities:		
Proceeds from long-term debt	35,700	19,441
Repayment of long-term debt	(4,453)	(1,757)
Repayment of obligations under capital leases	-	(11,438)
Increase (decrease) in deferred contributions	-	(10,000)
	31,247	(3,754)
Investing activities:		
Purchase of capital assets	(63,438)	(57,053)
Proceeds from disposal of capital assets	-	10,162
	(63,438)	(46,891)
Increase (decrease) in cash	239,052	(210,218)
Cash, beginning of year	181,793	392,011
Cash, end of year	$ 420,845	$ 181,793

See accompanying notes to financial statements.

Harvest House Ministries of Ottawa-Carleton (the "Ministry") is a non-profit organization created to operate a recovery program for young men suffering from drug and alcohol abuse, criminal behaviour and other problems that require charitable assistance. Harvest House Ministries of Ottawa-Carleton is a registered charity within the meaning of the Income Tax Act (Canada) and is exempt from income taxes.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies.

(a) Basis of accounting:

The Ministry follows the restricted fund method of accounting for contributions.

The general fund supports continuing education, life skills training, recovery education, fundraising, vocational skills development and general administration.

The capital asset fund reports the assets, liabilities, revenues and expenditures related to the Ministry's capital assets.

(b) Revenue recognition:

Restricted contributions related to general operations are recognized as revenue of the general fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund. Unrestricted contributions are recognized as revenue of the general fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(c) Capital assets:

Capital assets are stated at cost, less accumulated amortization. Amortization is provided using the declining balance method and following annual rates:

Asset	Rate
Building	4%
Furniture and equipment	20%
Vehicles	30%
Computer hardware	30%

1. Significant accounting policies (continued):

(c) Capital assets (continued):

The carrying amount of an item of tangible capital assets is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

(d) Gifts-in-kind:

Gifts-in-kind have not been recorded in the financial statements.

(e) Inventory:

Inventory of materials and finished goods is valued at the lower of cost and net realizable value. Finished goods cost includes the cost of materials.

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Ministry has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs and are amortized on a straight-line basis.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Ministry determines if there is a significant adverse change in the expected amount or timing of future 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 Ministry 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.

1. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the determination of the useful life of capital assets and the provision for impairment of accounts receivable. Actual results could differ from those estimates.

(h) Government assistance:

Government assistance related to current expenses and revenue is included in the determination of net income for the period. Government assistance related to capital expenditures is recorded as a reduction of the cost of the related item of property and equipment. Government assistance is recognized when there is a reasonable assurance the Company has met the requirements of the funding agreement. Any liability to repay government assistance is recorded in the period in which conditions arise that cause government assistance to be repayable.

2. Accounts receivable:

Included in accounts receivable are pledges of $7,365 (2020 - $11,970). Pledges receivable consist of monthly post-dated cheques and pre-authorized donations that have been pledged by donors. The amount of revenue recognized from pledges during the current year is $12,840 (2020 - $58,663).

3. Capital assets:

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Land	$ 25,000	$ -	$ 25,000	$ 25,000
Building	1,769,610	744,854	1,024,756	1,052,818
Furniture and equipment	623,015	578,076	44,939	49,961
Vehicles	108,052	64,415	43,637	41,478
Computer hardware	228,137	201,574	26,563	5,891
Computer software	57,772	57,772	-	294
Musical instruments	1,852	1,852	-	-
	$ 2,813,438	$ 1,648,543	$ 1,164,895	$ 1,175,442

Cost and accumulated amortization at March 31, 2020 amounted to $2,750,000 and $1,574,558, respectively.

4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $88,389 (2020 - $22,805), which include payroll-related taxes and Canada Emergency Wage Subsidy.

5. Long-term debt:

	2021	2020
Canada Emergency Business Account (CEBA), forgivable loan	$ 23,913	$ -
Loan payable, bearing interest at 7.74%, per annum, payable monthly	13,231	17,684
	37,144	17,684
Current portion of long-term debt	4,811	4,454
	$ 32,333	$ 13,230

5. Long-term debt (continued):

In April 2020, Harvest House was approved and received a $37,500 term loan with RBC Bank under the Canada Emergency Business Account (''CEBA Term Loan'') program funded by the Government of Canada. The CEBA Term Loan is non-interest and can be repaid at any time without penalty. Harvest House has recorded a fair value of $31,304 at inception, discounted using its incremental borrowing rate of 5%. The difference of $8,925 between the fair value and the total amount of CEBA Term Loan received has been recorded as a government grant.

The loan payable relates to the purchase of a vehicle required for business use. The loan bears an interest rate of 7.74% and repayment terms of $472 per month. The loan matures on October 16, 2023.

6. Capital asset fund:

	2021	2020
Capital assets	$ 1,164,895	$ 1,175,442
Externally restricted contributions	40,292	30,292
Long-term debt	(37,144)	(17,684)
	$ 1,168,043	$ 1,188,050

7. Externally restricted net assets:

At March 31, 2020, the Ministry had $37,114 (2019 - $18,000) of externally restricted net assets related to capital assets to be used for the renovation project. During the year, $45,000 (2020 - $32,000) was contributed to the project, and $41,822 (2020 - $19,708) was spent on related capital expenditures. The remaining amount of $40,292 (2020 - $30,292) has been externally restricted for use in replacing the dormitory windows.

8. Salaries and benefits:

Salaries and benefits are broken down as follows:

	2021	2020
Administration	$ 234,095	$ 208,979
Fundraising	59,858	138,025
Programs	447,356	462,356
General	261,579	275,117
	$ 1,002,888	$ 1,084,477

9. Interfund transfers:

A transfer of $14,903 (2020 - $21,541) was made from the general fund to the capital asset fund to cover outlays for capital asset acquisitions, loan principal and interest payments in excess of new borrowing.

10. Government assistance:

During the year, the Ministry received $453,190 (2020 - $Nil) in funding from the Government of Canada for the Canada Emergency Wage Subsidy. The Ministry also received $37,500 (2020 - $Nil) in funding from the Government of Canada for the Canada Emergency Business Account.

11. Contingent liability:

In 2007, the Ministry received a forgivable loan in the amount of $384,000 which bears interest at a rate of 7.38% annually, and is secured by a first mortgage on land and building. Under the terms of the agreement, $43,165 including principal and interest is forgivable every year for 15 years provided that the Ministry complies with the terms of the agreement, under which, the Ministry must not sell the property and must maintain sufficient insurance coverage. As at March 31, 2021, the unforgiven principal balance is approximately $10,000 (2020 - $50,000).

No liability has been accrued as the Ministry is in compliance with the terms of the agreement.

12. Financial risks:

In the normal course of business, the Ministry uses various financial instruments which by their nature involve risk, including credit risk, liquidity risk and market risk. Market risk consists of currency risk and interest rate risk. These financial instruments are subject to normal credit conditions, financial controls, risk management as well as monitoring procedures.

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Ministry deals with creditworthy counterparties to mitigate the risk of financial loss from defaults.

(b) Liquidity risk:

Liquidity risk is the risk that the Ministry will encounter difficulty in meeting obligations associated with financial liabilities. The Ministry is exposed to liquidity risk arising primarily from accounts payable and accrued liabilities. The Ministry's ability to meet obligations depends on the receipt of funds from its operating activities.

(c) 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. The Ministry believes it is not subject to significant other price and interest rate risks.

(d) Currency risk:

Currency risk is the risk that the fair value of a financial instrument or the related future cash flows will fluctuate due to changes in foreign exchange rates. The Ministry is not exposed to currency risk.

13. Impact of COVID-19:

In March 2020, 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 Ministry has experienced the following indicators of financial implications and undertaken the following activities in relation to the pandemic:

- Temporary declines in fundraising income
- Temporary closure of administrative offices based on public health recommendations
- Implemented mandatory work-from-home arrangements for those able to do so

Financial statements are required to be adjusted for events occurring between the date of the financial statements and the date of the auditors' report that provide additional evidence relating to conditions that existed as at year-end. Management has assessed the financial impacts and there are no additional adjustments required to the financial statements at this time.