

**Muskoka North Good Food
Co-Operative Inc.
Financial Statements
For the year ended December 31, 2018**

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Independent Auditor's Report

To the Board of Directors of Muskoka North Good Food Co-Operative Inc.

Qualified Opinion

We have audited the financial statements of Muskoka North Good Food Co-Operative Inc. (the Organization), which comprise the statement of financial position as at December 31, 2018, the statements of operations and deficit and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

Because we were appointed auditors of the Organization during 2019, we were not able to observe the counting of physical inventories at the beginning of 2018 or 2017 or at the end of 2018 or satisfy ourselves concerning those inventory quantities by alternative means.

Since opening and closing inventories affect the determination of the results of operations and cash flows, we were unable to determine whether adjustments to the results of operations and cash flows might be necessary for the year ended December 31, 2018 and December 31, 2017 and to determine whether adjustments might be necessary to the inventory recorded on the statement of financial position as at December 31, 2018. Our audit opinion on the financial statements for the year ended December 31, 2018 is modified accordingly because of the possible effects of this limitation in scope. As a result, our opinion on the current year's statement of financial position, results of operations and cash flows is modified because of the possible effects of this matter on the comparability of the current period's figures and the comparative information.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which describes that the Organization adopted Canadian accounting standards for not-for-profit organizations on January 1, 2017 with a transition date of January 1, 2016. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2017 and January 1, 2017, statement of operations and deficit and statement of cash flows for the year ended December 31, 2017 and related disclosures. Our opinion is not modified in respect of this matter.

We were not engaged to report on the restated comparative information, and as such, it is

unaudited.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

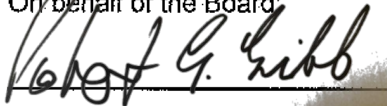
Huntsville, Ontario

April 21, 2020

Muskoka North Good Food Co-Operative Inc.
Statement of Financial Position

	December 31 2018	(Note 3) (Unaudited) December 31 2017	(Notes 2 & 3) (Unaudited) January 1 2017
Assets			
Current			
Cash	\$ 12,666	\$ 14,883	\$ 9,069
Accounts receivable	65,346	5,094	15,306
Contributions receivable	25,957	-	5,897
Inventory	30,055	27,181	12,316
Prepaid expenses	2,198	1,548	1,548
	<u>136,222</u>	<u>48,706</u>	<u>44,136</u>
Capital assets (Note 4)	<u>353,337</u>	<u>12,013</u>	<u>12,910</u>
	<u>\$ 489,559</u>	<u>\$ 60,719</u>	<u>\$ 57,046</u>
Liabilities and Members' Equity (Deficiency)			
Current			
Accounts payable and accrued liabilities	\$ 135,531	\$ 61,472	\$ 15,828
Deferred revenue	63,225	-	-
Current portion of long-term debt (Note 5)	50,000	-	-
	<u>248,756</u>	<u>61,472</u>	<u>15,828</u>
Long-term debt (Note 5)	<u>102,532</u>	<u>15,000</u>	<u>18,250</u>
Deferred contributions related to capital assets (Note 6)	<u>214,877</u>	<u>-</u>	<u>-</u>
	<u>566,165</u>	<u>76,472</u>	<u>34,078</u>
Members' equity (deficiency)			
Surplus (deficit)	<u>(76,606)</u>	<u>(15,753)</u>	<u>22,968</u>
	<u>\$ 489,559</u>	<u>\$ 60,719</u>	<u>\$ 57,046</u>

On behalf of the Board:



Director

Muskoka North Good Food Co-Operative Inc.
Statement of Operations and Deficit

		(Note 3) (Unaudited)
For the year ended December 31	2018	2017
Revenue		
Sales	\$ 432,129	\$ 181,003
Grants (Note 8)	360,893	23,103
Membership fees	6,325	4,774
Events and fundraising	16,361	2,064
	<u>815,708</u>	<u>210,944</u>
Less contributions deferred (Note 6)	(238,752)	-
Amortization of deferred contributions (Note 6)	23,875	-
	<u>600,831</u>	<u>210,944</u>
Expenses		
Advertising	15,228	1,658
Amortization of capital assets	42,868	2,769
Bank charges and interest	5,891	2,845
Dues, fees and licences	1,505	-
General and office	21,616	5,152
Insurance	4,786	3,796
Interest on long-term debt	2,533	-
Operations manager	51,553	-
Professional fees	6,000	1,481
Rent	21,267	4,473
Repairs and maintenance	246	-
Store cost of goods sold (Note 7)	329,900	196,796
Utilities	2,449	-
Wages and benefits	155,842	30,695
	<u>661,684</u>	<u>249,665</u>
Net deficit for the year	(60,853)	(38,721)
Surplus (deficit), beginning of year	(15,753)	22,968
Deficit, end of year	\$ (76,606)	\$ (15,753)

The accompanying notes are an integral part of these financial statements

Muskoka North Good Food Co-Operative Inc.
Statement of Cash Flows

		(Note 3) (Unaudited)
For the year ended December 31	2018	2017
Cash provided by (used in)		
Operating activities		
Net deficit for the year	\$ (60,853)	\$ (38,721)
Adjustments for		
Amortization of capital assets	42,868	2,769
Amortization of deferred contributions related to capital assets	(23,875)	-
	(41,860)	(35,952)
Changes in non-cash working capital balances		
Accounts receivable	(60,252)	10,212
Contributions receivable	(25,957)	5,897
Inventory	(2,874)	(14,865)
Prepaid expenses	(650)	-
Accounts payable and accrued liabilities	74,059	45,644
Deferred revenue	63,225	-
	5,691	10,936
Investing activities		
Purchase of capital assets	(384,192)	(1,872)
Deferred contributions related to capital assets	238,752	-
	(145,440)	(1,872)
Financing activities		
Additional long-term debt	137,532	-
Repayment of long-term debt	-	(3,250)
	137,532	(3,250)
Increase (decrease) in cash during the year	(2,217)	5,814
Cash, beginning of year	14,883	9,069
Cash, end of year	\$ 12,666	\$ 14,883

The accompanying notes are an integral part of these financial statements

Muskoka North Good Food Co-Operative Inc. Notes to Financial Statements

December 31, 2018

1. Summary of Significant Accounting Policies

Nature of Business	The company is incorporated under the laws of Ontario. Muskoka North Good Food Co-Operative Inc. (the Organization) is a not-for-profit, social enterprise with the mission to provide our region access to the best regional, sustainable, safe and environmentally conscious foods through the development of a community-owned grocery store and community food centre. The Organization is a not-for-profit organization and, as such, is exempt from income tax.						
Basis of Accounting	These financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations.						
Inventory	Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis. Cost represents direct costs plus any related shipping and freight costs.						
Capital Assets	Capital assets are recorded at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is as follows: <table><tr><td>Equipment</td><td>- 20% diminishing balance basis</td></tr><tr><td>Leasehold improvements</td><td>- 20% straight line basis</td></tr><tr><td>Computer equipment</td><td>- 55% diminishing balance basis</td></tr></table>	Equipment	- 20% diminishing balance basis	Leasehold improvements	- 20% straight line basis	Computer equipment	- 55% diminishing balance basis
Equipment	- 20% diminishing balance basis						
Leasehold improvements	- 20% straight line basis						
Computer equipment	- 55% diminishing balance basis						
Impairment of Long-lived Assets	In the event that facts and circumstances indicate that the Organization's long-lived assets may be impaired, a test of recoverability would be performed. Such a test entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.						

Muskoka North Good Food Co-Operative Inc.
Notes to Financial Statements

December 31, 2018

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition The Organization follows the deferral method of accounting for contributions.

Revenue is recorded for retail store sales upon the purchase of merchandise by customers.

Revenue is not recorded on the purchase of gift cards. Upon purchase, a current liability is recorded as deferred revenue and revenue is recognized when the gift card is redeemed for merchandise. The organization recognizes revenue on unredeemed gift cards based on an estimate of the amounts that will not be redeemed determined through historical redemption trends.

Membership fees and donations from fundraising are recognized upon receipt.

Events revenues are recognized upon completion of the event.

**Contributed Materials
and Services**

Volunteers contribute many hours per year to assist the Organization in carrying out its activities. Due to the difficulty of determining their fair value, these contributed services are not recognized in the financial statements.

Contributed materials and services which are used in the normal course of the Organization's operations and would otherwise have been purchased are recorded at their fair value at the date of contribution, if fair value can be reasonably estimated.

Financial Instruments Financial Instruments are recorded at fair value at initial recognition.

In subsequent periods, financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist.

Muskoka North Good Food Co-Operative Inc.
Notes to Financial Statements

December 31, 2018

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit enterprises 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 revenues and expenses during the reporting period. The principal estimates used in the preparation of these financial statements are the determination of impairment allowance (if any), the estimated useful life of capital assets and accrued liabilities. Actual results could differ from management's best estimates as additional information becomes available in the future.

Muskoka North Good Food Co-Operative Inc.

Notes to Financial Statements

December 31, 2018

2. First-time Adoption

Effective January 1, 2018, the Organization adopted the requirements of the accounting framework, Canadian Accounting Standards for Not-for-Profit Enterprises (ASNPO) or Part III of the requirements of the Chartered Professional Accountants of Canada (CPA Canada) Handbook - Accounting. These are the Organization's first financial statements prepared in accordance with this framework and the transitional provisions of Section 1501, *First-time Adoption* by Not-for-Profit Organizations, have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and retrospective exceptions. The accounting policies set out in Note 1 - Significant Accounting Policies have been applied in preparing the financial statements for the year ended December 31, 2018, the comparative information presented in these financial statements for the year ended December 31, 2017 and in the preparation of an opening ASNPO statement of financial position at the date of transition of January 1, 2017.

The Organization issued notice to reader financial statements for the year ended December 2017. The adoption of ASNPO resulted in adjustments to the previously reported liabilities and members' equity and net surplus (deficit) of the Organization. All adjustments were charged to opening members' equity. The charges to opening members' equity at the date of transition of January 1, 2017 were as follows:

Opening surplus	\$ 26,521
Change to deficit for payroll accrual	<u>(3,553)</u>
Opening surplus, ASNPO	<u>\$ 22,968</u>

First-time adoption of this basis of accounting has no impact on the Organization's net deficit for the year ended December 31, 2017.

These changes did not result in material adjustments to the statement of cash flows.

No exemptions were used at the date of transition to ASNPO.

3. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

Muskoka North Good Food Co-Operative Inc.
Notes to Financial Statements

December 31, 2018

4. Capital Assets

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Equipment	\$ 248,723	\$ 30,249	\$ 16,653	\$ 4,640
Leasehold improvements	140,430	14,043	-	-
Computer equipment	11,691	3,215	-	-
	<u>\$ 400,844</u>	<u>\$ 47,507</u>	<u>\$ 16,653</u>	<u>\$ 4,640</u>
Net book value		<u>\$ 353,337</u>		<u>\$ 12,013</u>

5. Long-term Debt

	2018	2017
Community bonds, unsecured, repayable at maturity, including interest between 3% and 6% per annum, maturing between March 2021 and April 2026	\$ 52,368	\$ 15,000
Member loans, secured by HST receivable, non-interest bearing, maturing February 2019	50,000	-
Muskoka Futures loan, interest only, repayable monthly at 4% per annum, maturing September 2020	50,164	-
	<u>152,532</u>	<u>15,000</u>
Less current portion	<u>50,000</u>	<u>-</u>
	<u>\$ 102,532</u>	<u>\$ 15,000</u>

Principal payments required on long-term debt for the next five years and thereafter are due as follows:

Year	Amount
2019	\$ 50,000
2020	50,164
2021	3,027
2022	-
2023	32,334
Thereafter	<u>17,007</u>
	<u>\$ 152,532</u>

Muskoka North Good Food Co-Operative Inc.

Notes to Financial Statements

December 31, 2018

6. Deferred Contributions Related to Capital Assets

Deferred contributions represent the unamortized portion of capital assets purchased using operating grants received from Industry Canada (FedNor) and the Ontario Minister of Agriculture, Food and Rural Affairs. The changes for the year in the deferred contributions balance are as follows:

	2018	2017
Balance , beginning of year	\$ -	\$ -
Contributions deferred for purchase of capital assets	238,752	-
Amortization of deferred contributions	(23,875)	-
Balance , end of year	<u>\$ 214,877</u>	<u>\$ -</u>

7. Inventory

Inventories of \$324,555 (2017 - \$145,218) are recognized as an expense and included in store cost of goods sold.

8. Grants

Sources of grant revenue recognized as revenue in the year are as follows:

	2018	2017
Federal	\$ 268,810	\$ 23,103
Provincial	89,548	-
Private	2,535	-
	<u>\$ 360,893</u>	<u>\$ 23,103</u>

9. Commitments

The Organization has leased premises for which the minimum annual lease payments over the next three years are approximately as follows:

Year	Amount
2019	\$ 12,800
2020	12,800
2021	3,200

The Organization has entered into a operations management agreement for which the minimum payments in 2019 total \$25,216.

Muskoka North Good Food Co-Operative Inc.

Notes to Financial Statements

December 31, 2018

10. Subsequent Events

The global pandemic has disrupted economic activities and supply chains. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. The Organization's ability to continue to service debt and meet obligations as they come due is dependent on the continued ability to generate earnings and cash flows.

11. Financial Instrument Risks

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 resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Organization's financial instruments that are exposed to concentrations of credit risk relate primarily to its accounts and contributions receivable. The majority of the Organization's receivables are from government sources and the Organization works to ensure it meets all eligibility criteria in order to qualify to receive the funding.

Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Organization will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. The Organization is exposed to this risk mainly in respect of its accounts payable and long-term debt obligations that become due between 2019 and 2026.

The Organization's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash flows to fund its operations and to meet its liabilities when due, under both normal and stressed conditions.