

**Muskoka North Good Food
Co-Operative Inc.
Financial Statements
For the year ended December 31, 2020**

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Independent Auditor's Report

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

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, 2020, 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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

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

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

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

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

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
May 20, 2021

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

December 31	2020	2019
Assets		
Current		
Cash	\$ 21,537	\$ 11,164
Short-term deposits	9,033	9,033
Accounts receivable	1,682	899
Contributions receivable	-	1,928
Inventory	70,433	31,185
Prepaid expenses	1,908	1,898
	<u>104,593</u>	<u>56,107</u>
Capital assets (Note 2)	<u>290,955</u>	<u>370,380</u>
	<u>\$ 395,548</u>	<u>\$ 426,487</u>
Liabilities and Members' Deficiency		
Current		
Accounts payable and accrued liabilities (Note 3)	\$ 177,289	\$ 104,372
Deferred revenue	-	3,601
Current portion of long-term debt (Note 4)	73,346	22,142
	<u>250,635</u>	<u>130,115</u>
Long-term debt (Note 4)	<u>150,428</u>	<u>176,162</u>
Deferred contributions related to capital assets (Note 5)	<u>132,664</u>	<u>170,623</u>
	<u>533,727</u>	<u>476,900</u>
Members' deficiency		
Deficit	<u>(138,179)</u>	<u>(50,413)</u>
	<u>\$ 395,548</u>	<u>\$ 426,487</u>

On behalf of the Board:

 Director

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

For the year ended December 31	2020	2019
Revenue		
Sales	\$ 924,246	\$ 795,014
Grants (Note 7)	45,509	123,275
Membership fees	8,408	1,160
Events and fundraising	5,000	5,682
	<u>983,163</u>	<u>925,131</u>
Amortization of deferred contributions (Note 5)	37,959	44,254
	<u>1,021,122</u>	<u>969,385</u>
Expenses		
Advertising	8,217	3,460
Amortization of capital assets	86,549	86,830
Bank charges and interest	14,912	10,517
Dues, fees and licences	39	233
General and office	10,062	14,387
Insurance	10,710	10,772
Interest on long-term debt	2,736	3,769
Operations manager	-	23,258
Professional fees	18,732	10,700
Rent	45,637	19,767
Repairs and maintenance	3,704	3,729
Store cost of goods sold (Note 6)	580,746	481,878
Utilities	25,277	16,229
Wages and benefits	301,567	257,663
	<u>1,108,888</u>	<u>943,192</u>
Net income (loss) for the year	(87,766)	26,193
Deficit, beginning of year	(50,413)	(76,606)
Deficit, end of year	\$ (138,179)	\$ (50,413)

The accompanying notes are an integral part of these financial statements

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

For the year ended December 31	2020	2019
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	\$ (87,766)	\$ 26,193
Adjustments for		
Amortization of capital assets	86,549	86,830
Amortization of deferred contributions related to capital assets	(37,959)	(44,254)
	(39,176)	68,769
Changes in non-cash working capital balances		
Accounts receivable	(783)	64,447
Contributions receivable	1,928	24,029
Inventory	(39,248)	(1,130)
Prepaid expenses	(10)	300
Accounts payable and accrued liabilities	72,917	(31,159)
Deferred revenue	(3,601)	(59,624)
	(7,973)	65,632
Investing activities		
Purchase of capital assets	(7,124)	(103,873)
Financing activities		
Additional long-term debt	33,736	97,368
Repayment of long-term debt	(8,266)	(51,596)
	25,470	45,772
Increase in cash during the year	10,373	7,531
Cash, beginning of year	20,197	12,666
Cash, end of year	\$ 30,570	\$ 20,197
Represented by		
Cash	\$ 21,537	\$ 11,164
Short-term deposits	9,033	9,033
	\$ 30,570	\$ 20,197

The accompanying notes are an integral part of these financial statements

Muskoka North Good Food Co-Operative Inc.

Notes to Financial Statements

December 31, 2020

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, 2020

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 and services revenues are recognized upon completion of the event or services.

**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, 2020

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.

2. Capital Assets

	2020		2019	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Equipment	\$ 259,721	\$ 110,697	\$ 252,596	\$ 74,331
Leasehold improvements	240,430	100,215	240,430	52,129
Computer equipment	11,691	9,975	11,691	7,877
	\$ 511,842	\$ 220,887	\$ 504,717	\$ 134,337
Net book value		\$ 290,955		\$ 370,380

3. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is \$1,410 (2019 - \$Nil) in government remittances payable.

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

December 31, 2020

4. Long-term Debt

	<u>2020</u>	<u>2019</u>
Loan, secured by general security agreement, repayable between \$2,000 monthly, non-interest bearing, maturing February 2024	\$ 88,000	\$ 94,000
Community bonds, unsecured, repayable at maturity, including interest between 3% and 6% per annum, maturing between March 2021 and March 2028	59,636	55,900
Muskoka Futures term loan, unsecured, repayable \$250 bi-weekly including interest at 4% per annum, maturing July 2021	46,138	48,404
Canada Emergency Business Account (CEBA) loan	<u>30,000</u>	<u>-</u>
	223,774	198,304
Less current portion	<u>73,346</u>	<u>22,142</u>
	<u>\$ 150,428</u>	<u>\$ 176,162</u>

During the year, the Organization applied for and received the Canada Emergency Business Account (CEBA) loan. The loan was provided by the Government of Canada to provide capital to organizations to see them through the current challenges and better position them to return to providing services and creating employment. The loan is unsecured.

The loan is interest free to December 31, 2022. If the loan is paid back by December 31, 2022, \$10,000 of the loan will be forgiven. If the loan is not paid back by December 31, 2022, the full \$40,000 loan will be converted to a loan repayable over three years with a 5% interest rate.

Since the Organization expects to repay the loan by December 31, 2022, it has recognized the forgivable portion as grant revenue in the current year.

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

Year	Amount
2021	\$ 73,346
2022	55,040
2023	49,196
2024	16,000
Thereafter	<u>30,192</u>
	<u>\$ 223,774</u>

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

December 31, 2020

5. 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:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ (170,623)	\$ (214,877)
Amortization of deferred contributions	<u>37,959</u>	<u>44,254</u>
Balance, end of year	<u>\$ (132,664)</u>	<u>\$ (170,623)</u>

6. Inventory

Inventories of \$580,746 (2019 - \$481,878) are recognized as an expense and included in store cost of goods sold.

7. Grants

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

	<u>2020</u>	<u>2019</u>
Federal (includes \$10,000 forgiveness of CEBA loan)	\$ 35,509	\$ 117,919
Municipal	10,000	-
Provincial	-	731
Private	-	4,625
	<u>\$ 45,509</u>	<u>\$ 123,275</u>

8. Commitments

The Organization has leased premises for which the minimum annual lease payments over the next year is approximately \$24,210.

Muskoka North Good Food Co-Operative Inc.

Notes to Financial Statements

December 31, 2020

9. Impacts of COVID-19

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 fully estimated at this time. The Organization has been able to maintain its operations, albeit in a slightly different form with curbside delivery. Government assistance was secured with the CEBA and wage subsidies. 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.

10. 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 2021 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.

There have not been any changes in the above risks from the prior year.