

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.
Financial Statements
Year Ended December 31, 2021

HARRIS RYAN

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

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Year Ended December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Members of Municipalities Newfoundland and Labrador Inc.

Opinion

We have audited the financial statements of Municipalities Newfoundland and Labrador Inc. (the association), which comprise the statement of financial position as at December 31, 2021, and the statements of changes in net assets, revenues and expenditures 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 association as at December 31, 2021, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

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 association in accordance with 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 ASNPO, 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 association'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 association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the association'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:

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Independent Auditor's Report to the Members of Municipalities Newfoundland and Labrador Inc.
(continued)

- 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 association'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 association'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 association 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.

St. John's, Newfoundland and Labrador
August 24, 2022

CHARTERED PROFESSIONAL ACCOUNTANTS

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Statement of Financial Position

December 31, 2021

	2021	2020
ASSETS		
CURRENT		
Cash	\$ 367,914	\$ 37,998
Term deposits	96,442	95,764
Accounts receivable <i>(Note 3)</i>	<u>775,647</u>	<u>877,305</u>
	1,240,003	1,011,067
PROPERTY, PLANT AND EQUIPMENT <i>(Note 4)</i>	3,077,190	3,198,738
	\$ 4,317,193	\$ 4,209,805
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable <i>(Note 6)</i>	\$ 280,025	\$ 572,260
Callable debt due in one year <i>(Note 7)</i>	118,713	98,904
Current portion of obligations under capital lease <i>(Note 8)</i>	4,813	4,628
Deferred income <i>(Note 9)</i>	<u>612,882</u>	<u>693,651</u>
	1,016,433	1,369,443
Callable debt due thereafter <i>(Note 7)</i>	<u>2,513,383</u>	<u>2,195,926</u>
	3,529,816	3,565,369
OBLIGATIONS UNDER CAPITAL LEASE <i>(Note 8)</i>	12,113	16,798
	3,541,929	3,582,167
NET ASSETS	775,264	627,638
	\$ 4,317,193	\$ 4,209,805

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Statement of Changes in Net Assets

Year Ended December 31, 2021

	2021	2020
NET ASSETS - BEGINNING OF YEAR	\$ 627,638	\$ 142,152
EXCESS OF REVENUES OVER EXPENSES	147,626	485,486
NET ASSETS - END OF YEAR	\$ 775,264	\$ 627,638

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Statement of Revenues and Expenditures

Year Ended December 31, 2021

	2021	2020
REVENUES		
Meetings and Events (<i>Schedule 2</i>)	\$ 480,910	\$ 221,263
Membership assessments	472,370	470,367
Projects (<i>Schedule 1</i>)	379,518	369,112
Rental	206,884	214,014
Sponsorship	126,655	125,231
Administrative fees	2,088	307
Food first commission	2,290	2,948
Miscellaneous	112	1,200
	1,670,827	1,404,442
EXPENSES		
Salaries and wages	712,592	739,143
Meetings and Events (<i>Schedule 2</i>)	320,052	72,030
Projects (<i>Schedule 1</i>)	256,789	300,083
Amortization	127,553	133,496
Interest on long term debt	84,483	110,135
Professional fees	50,169	74,625
Office	34,166	42,511
Repairs and maintenance	29,492	44,046
Business taxes, licenses and memberships	21,625	9,443
Interest and bank charges	19,397	6,165
Membership services	16,538	-
Travel	12,471	43,110
Insurance	11,932	14,503
President's honorarium	8,000	12,000
Scholarships	3,000	2,000
Communications	2,066	4,299
Interest on obligations under capital lease	1,147	180
Business development	449	119
Bad debts	-	13,503
Property taxes	-	40,386
	1,711,921	1,661,777
DEFICIENCY OF REVENUES OVER EXPENSES FROM OPERATIONS	(41,094)	(257,335)
OTHER INCOME		
Gain on disposal of property, plant and equipment	-	452,701
Interest income	678	2,308
Commission income	531	32,087
Temporary wage subsidy	-	11,000
Canada Emergency Wage Subsidy	177,511	244,725
Small Business Assistance Program	10,000	-
	188,720	742,821
EXCESS OF REVENUES OVER EXPENSES	\$ 147,626	\$ 485,486

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Statement of Cash Flows

Year Ended December 31, 2021

	2021	2020
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 147,626	\$ 485,486
Items not affecting cash:		
Amortization of property, plant and equipment	127,553	133,496
Gain on disposal of property, plant and equipment	-	(452,701)
	275,179	166,281
Changes in non-cash working capital:		
Accounts receivable	101,658	11,344
Accounts payable	(292,234)	(115,579)
Deferred income	(80,769)	(107,704)
Prepaid expenses	-	1,439
	(271,345)	(210,500)
Cash flow from (used by) operating activities	3,834	(44,219)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,005)	(10,307)
Proceeds on disposal of property, plant and equipment	-	806,022
Cash flow from (used by) investing activities	(6,005)	795,715
FINANCING ACTIVITIES		
Proceeds from callable debt financing	449,000	-
Repayment of callable debt	(111,735)	(882,170)
Repayment of obligations under capital lease	(4,500)	(2,436)
Cash flow from (used by) financing activities	332,765	(884,606)
INCREASE (DECREASE) IN CASH FLOW	330,594	(133,110)
Cash - beginning of year	133,762	266,872
CASH - END OF YEAR	\$ 464,356	\$ 133,762

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Notes to Financial Statements

Year Ended December 31, 2021

1. DESCRIPTION OF THE ASSOCIATION

Municipalities Newfoundland and Labrador Inc. (the "association") is a not-for-profit organization incorporated provincially under the Corporations Act of Newfoundland and Labrador. As a registered charity the association is exempt from the payment of income tax under Section 149(1) of the Income Tax Act.

The association operates to assist communities in their endeavour to achieve and sustain strong and effective local government, thereby improving the quality of life for all people of this province. The association has mandated to provide programs and services of common interest to the members; provide a united approach on issues affecting local governance; advance the ambitions and goals of its member communities by developing a shared common vision of the future; effectively serve as local government spokesperson; represent its members in matters affecting them or the welfare of their communities; and to further the establishment of responsible government at the local level.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO).

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated amortization and is amortized over its estimated useful life on a declining balance basis at the following rates and methods:

Land	non-depreciable
Buildings	4% declining balance method
Equipment	20% declining balance method
Computer equipment	30% declining balance method
Furniture and fixtures	20% declining balance method

The association regularly reviews its Property, plant and equipment to eliminate obsolete items. Government grants are treated as a reduction of Property, plant and equipment cost.

Property, plant and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

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.

Financial assets measured at amortized cost include cash and accounts receivable

Financial liabilities measured at amortized cost include accounts payable and callable debt

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MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Notes to Financial Statements

Year Ended December 31, 2021

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

Revenue recognition

Municipalities Newfoundland and Labrador Inc. follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Seminar fees are recognized as revenue when the seminars are held.

3. ACCOUNTS RECEIVABLE

	2021	2020
Trade receivable	\$ 581,668	\$ 736,703
Public service bodies rebate	32,509	22,633
MAMP	54,392	43,653
MSCNL	14,837	14,837
Sponsorships	22,524	-
Receivables from employees	-	1,381
WIL	44,750	-
ACOA	24,967	58,098
	<hr/> \$ 775,647	<hr/> \$ 877,305

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Notes to Financial Statements

Year Ended December 31, 2021

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Land	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
Buildings	2,843,150	363,943	2,479,207	2,582,507
Equipment	47,479	19,886	27,593	27,736
Computer equipment	96,329	93,484	2,845	4,064
Furniture and fixtures	160,934	93,389	67,545	84,431
	\$ 3,647,892	\$ 570,702	\$ 3,077,190	\$ 3,198,738

The following assets included above are held under capital lease Note 8:

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Equipment	\$ 23,862	\$ 6,681	\$ 17,181	\$ 21,476

5. CREDIT FACILITY

The Association has an operating line of credit in the amount of \$100,000 of which \$nil (2020 - \$nil) was used at year end. The facility is secured as outlined in note 7 and bears interest at prime plus 1.00% per annum.

6. ACCOUNTS PAYABLE

	2021	2020
Trade payable	\$ 147,700	\$ 289,644
PMA membership fees	58,434	58,495
MUN engineering payable	31,653	52,414
Vacation pay payable	17,096	20,450
Employee deductions	9,748	134,807
Accrued liabilities	5,999	6,000
HST payable	3,743	2,791
WCB Payable	3,431	-
Staff social fund	2,221	1,379
Refund liability	-	6,280
	\$ 280,025	\$ 572,260

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Notes to Financial Statements

Year Ended December 31, 2021

7. CALLABLE DEBT

	2021	2020
CIBC loan bearing interest at prime plus 1% per annum, repayable in monthly principal payments of \$8,242 plus accrued interest. The loan matures on April 7, 2044 and is secured by building located at 79 Mews Place, St. John's NL which has a carrying value of \$2,979,207. Loan is callable on demand.	\$ 2,193,000	\$ 2,294,830
CIBC loan bearing interest at 3.45% per annum, repayable in monthly blended payments of \$1,651. The loan matures on March 7, 2044 and is secured by building located at 79 Mews Place, St. John's NL which has a carrying value of \$2,979,207 . Loan is callable on demand.	439,096	-
Principal due in one year	2,632,096	2,294,830
	(118,713)	(98,904)
	\$ 2,513,383	\$ 2,195,926

Principal repayment terms are approximately:

2022	\$ 118,713
2023	118,713
2024	118,713
2025	118,713
2026	118,713
Thereafter	<u>2,038,531</u>
	\$ 2,632,096

The CIBC loan and credit facilities are secured by:

First security interest in all present and after acquired personal property.

Present and future collateral mortgage for CDN\$ 2,900,000, giving CIBC a first charge over 79 Mew's Place, St. John's, plus acknowledged assignment of fire and other perils insurance, with loss payable to CIBC as first mortgagee

A Borrowing Resolution of Municipalities Newfoundland and Labrador Inc authorizing borrowings.

Third Party Legal Opinion from Bank-appointed solicitor confirming that the Borrower's Articles of Incorporation, Borrowing Resolution, Officers Certificate and By-Laws have been reviewed and that:

1. The Borrower has the authority to borrow for the subject purchase
2. The Borrower's mandate permits their increasing revenues via membership, conventions and provision of other services, & that
3. CIBC's security is adequate and enforceable

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.**Notes to Financial Statements****Year Ended December 31, 2021**

8. OBLIGATIONS UNDER CAPITAL LEASE

	2021	2020
Steelcase Financial Services Ltd. lease bearing interest at 4.08% per annum, repayable in monthly blended payments of \$437. The lease matures on June 24, 2025.	\$ 16,926	\$ 21,426
Amounts payable within one year	<u>(4,813)</u>	<u>(4,628)</u>
	\$ 12,113	\$ 16,798

Future minimum capital lease payments are approximately:

2022	\$ 5,423
2023	5,423
2024	5,423
2025	<u>1,933</u>
Total minimum lease payments	18,202
Less: amount representing interest at 4.08%	<u>(1,276)</u>
	<u>\$ 16,926</u>

9. DEFERRED INCOME

	2020 Balance	Income	Expenses	2021 Balance
Membership fees	\$ 471,630	\$ 470,521	\$ 471,630	\$ 470,521
Welcoming phase II	115,219	-	115,219	-
NEAR	106,802	-	-	106,802
WIL	-	35,559	-	35,559
	\$ 693,651	\$ 506,080	\$ 586,849	\$ 612,882

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.

Notes to Financial Statements

Year Ended December 31, 2021

10. FINANCIAL INSTRUMENTS

The association is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the association's risk exposure and concentration as of December 31, 2021.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The association is exposed to credit risk from members. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The association has a significant number of members which minimizes concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The association is exposed to this risk mainly in respect of its receipt of funds from its members and other related sources, long-term debt, obligations under capital leases, contributions to the pension plan, and accounts payable.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the association manages exposure through its normal operating and financing activities. The association is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

11. COMPARATIVE FIGURES

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

12. PRIOR PERIOD ADJUSTMENTS

Management has identified material misstatements in the prior year financial statements. These misstatements have been accounted for in the comparative figures of these financial statements. The first adjustment resulted in an increase in prior year accounts receivable of \$43,653, and an increase in prior year revenue of \$43,653. The second adjustment resulted in a decrease in prior year accounts receivable of \$6,049, and a decrease in prior year revenue of \$6,049.

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.**Schedule of Revenues and Expenditures****Projects****(Schedule 1)****Year Ended December 31, 2021**

	2021	2020
REVENUES		
Economic development	\$ -	\$ 15,777
MAMP	54,392	53,770
MUN engineering	134,780	74,988
Make your mark	35,000	-
RanLab	-	131,951
Regional recovery project	60,155	-
WIL project	89,441	-
Welcoming communities	5,750	92,626
	379,518	369,112
EXPENSES		
MAMP	68,046	6,619
MUN engineering	102,272	68,350
Make your mark	33,483	574
RanLab	-	138,000
Regional recovery project	46,739	-
WIL project	499	-
Welcoming communities	5,750	86,540
	\$ 256,789	\$ 300,083

Projects that Municipalities Newfoundland and Labrador Inc. perform often have funding components which are based on time spent on the project by staff of the organization. The staffing costs associated with these projects has not been reclassified from salaries and wages to the individual projects.

MUNICIPALITIES NEWFOUNDLAND AND LABRADOR INC.**Schedule of Revenues and Expenditures****Meetings and Events****(Schedule 2)****Year Ended December 31, 2021**

	2021	2020
REVENUES		
Convention	\$ 337,590	\$ 219,393
Municipal budgeting seminar	1,340	1,870
Municipal elections	28,443	-
Municipal symposium	111,000	-
Women in leadership	2,537	-
	480,910	221,263
EXPENSES		
Convention	253,940	68,296
Municipal elections	20,314	-
Municipal symposium	36,725	-
Premier's forum	4,558	-
UMC	-	3,734
Women in leadership	4,515	-
	\$ 320,052	\$ 72,030