

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Financial Statements

Year Ended March 31, 2022

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Index to Financial Statements

Year Ended March 31, 2022

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Operations	4 - 5
Statement of Changes in Net Assets	6
Statement of Cash Flow	7
Notes to Financial Statements	8 - 14



Chartered Professional Accountant

1 Duffy Place

St. John's, NL A1B 4M6

(p) (709) 682-2307/(e) nigel@nigelacose.ca

INDEPENDENT AUDITOR'S REPORT

To the Members of Canadian Mental Health Association NL Division Corporation

Qualified Opinion

I have audited the financial statements of Canadian Mental Health Association NL Division Corporation (the organization), which comprise the statement of financial position as at March 31, 2022, and the statements of operations, changes in net assets and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of my report, the accompanying financial statements present fairly, in all material respects, the financial position of the organization as at March 31, 2022, and the results of its operations and cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

Basis for Qualified Opinion

In common with many not-for-profit organizations, the organization derives revenue from donations and fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the organization. Therefore, I was not able to determine whether any adjustments might be necessary to fundraising and donations revenues, excess (deficiency) of revenues over expenses, and cash flows from operations for the year ended March 31, 2022, current assets and net assets as at March 31, 2022. My audit opinion on the financial statements for the year ended March 31, 2021 was modified accordingly because of the possible effects of this limitation of scope.

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

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and the auditor's report thereon, included in the 2021-2022 annual report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. I have the obtained the information, other than the financial statements and the auditor's report thereon, included in the annual report for 2021-2022 as at the date of this auditor's report. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

(continues)

*Independent Auditor's Report to the Members of the Canadian Mental Health Association NL Division Corporation
(continued)*

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 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

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my 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.

I 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 I identify during my audit.



St. John's, NL
December 8, 2022

CHARTERED PROFESSIONAL ACCOUNTANT

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Statement of Financial Position

March 31, 2022

	2022	2021
ASSETS		
CURRENT		
Cash	\$ 397,709	\$ 555,533
Accounts receivable (Note 5)	50,974	114,831
Harmonized sales tax recoverable (Note 2)	23,283	19,173
Prepaid expenses	19,567	18,533
Gift cards on hand	9,111	-
	500,644	708,070
CAPITAL ASSETS (Notes 2 and 6)	538,232	564,125
INVESTMENTS (Note 2)	38,654	37,909
RESTRICTED CASH	100	100
	\$ 1,077,630	\$ 1,310,204
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable	\$ 43,241	\$ 76,544
Current portion of long term debt (Note 9)	18,253	284,460
Wages payable	129,552	106,270
Employee deductions payable	-	29,681
Deferred revenue (Note 8)	401,250	449,055
	592,296	946,010
LONG TERM DEBT (Note 9)	287,953	40,000
FORGIVABLE LOANS (Note 10)	107,374	111,848
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 11)	80,974	89,980
	1,068,597	1,187,838
NET ASSETS	9,033	122,366
	\$ 1,077,630	\$ 1,310,204

ON BEHALF OF THE BOARD

_____ Director

_____ Director

See notes to financial statements

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

**Statement of Operations
Year Ended March 31, 2022**

	2022	2021
REVENUES <i>(Note 2)</i>		
Provincial government grants and funding	\$ 753,805	\$ 723,700
Other fundraising and events	185,931	70,310
Donations from corporations and other	172,121	122,969
TD Ready Challenge Funding	124,660	16,064
Training	105,522	52,142
Employment program	93,919	65,260
United way	92,065	57,755
Donations from individuals	67,819	73,657
Housing supports project	60,248	484
Community Food Centers of Canada Funding	45,991	69,844
Bequests	10,884	11,268
Amortization of deferred contributions relating to capital assets <i>(Note 11)</i>	9,007	10,790
Community Food Foundation Funding	7,856	4,271
Municipal government grants	5,000	6,250
NLHC loan forgiveness relating to capital funding <i>(Note 10)</i>	4,474	4,660
Memberships	1,059	1,596
Changing minds training	40	-
Rental income	-	3,500
	1,740,402	1,294,520
EXPENSES		
Salaries and wages	1,186,608	1,051,259
Program materials, supplies and other expenses	175,755	121,568
Projects and events	87,164	25,555
Training and development	80,861	42,803
Professional fees	65,139	39,091
Wage subsidies	36,952	3,780
Amortization expense	31,322	32,071
Advertising and promotion	30,368	42,013
Telephone and internet	26,528	24,602
Repairs and maintenance	22,337	22,686
Rental	19,350	25,263
Insurance	14,489	13,744
Supplies	13,044	11,416
Interest on long term debt	10,900	11,634
Equipment	8,683	8,920
Utilities	6,915	8,793
Travel	6,853	17,339
Interest and bank charges	6,741	5,086
Office	6,737	17,934
Consulting fees	6,177	3,533
National premiums	5,575	5,575
Bad debts	5,460	23,248
Municipal taxes	522	501
Miscellaneous	-	1
	1,854,480	1,558,415
DEFICIENCY OF REVENUES OVER EXPENSES BEFORE OTHER INCOME	(114,078)	(263,895)

(continues)

See notes to financial statements

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Statement of Operations (continued)

Year Ended March 31, 2022

	2022	2021
OTHER INCOME		
Interest	745	249
Government of Newfoundland COVID-19 relief grant	-	10,000
Government of Canada COVID-19 wage subsidies	-	151,210
CEBA loan forgiveness	-	20,000
	745	181,459
DEFICIENCY OF REVENUES OVER EXPENSES	\$ (113,333)	\$ (82,436)

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Statement of Changes in Net Assets

Year Ended March 31, 2022

	2022	2021
NET ASSETS - BEGINNING OF YEAR	\$ 122,366	\$ 204,802
DEFICIENCY OF REVENUES OVER EXPENSES	(113,333)	(82,436)
NET ASSETS - END OF YEAR	\$ 9,033	\$ 122,366

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Statement of Cash Flow

Year Ended March 31, 2022

	2022	2021
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	\$ (113,333)	\$ (82,436)
Items not affecting cash:		
Amortization expense	31,322	32,071
Amortization of deferred contributions relating to capital assets	(9,007)	(10,790)
NLHC loan forgiveness relating to capital funding	(4,474)	(4,660)
Re-invested interest income	(745)	(249)
CEBA loan forgiveness	-	(20,000)
	(96,237)	(86,064)
Changes in non-cash working capital:		
Accounts receivable	63,857	(54,416)
Accounts payable	(33,302)	53,200
Deferred revenue	(47,805)	433,455
Prepaid expenses	(1,034)	(4,410)
Harmonized sales tax recoverable	(4,110)	(1,518)
Gift cards on hand	(9,111)	-
Wages payable	23,282	27,808
Employee deductions payable	(29,681)	7,421
	(37,904)	461,540
Cash flow from (used by) operating activities	(134,141)	375,476
INVESTING ACTIVITY		
Purchase of capital assets	(5,430)	(20,772)
FINANCING ACTIVITIES		
Proceeds from long term financing	-	60,000
Repayment of long term debt	(18,253)	(10,633)
Cash flow from (used by) financing activities	(18,253)	49,367
INCREASE (DECREASE) IN CASH FLOW	(157,824)	404,071
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	555,533	151,462
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 397,709	\$ 555,533
CASH FLOW SUPPLEMENTARY INFORMATION		
Interest on long term debt	\$ 10,900	\$ 11,634
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	\$ 397,709	\$ 555,533

See notes to financial statements

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Notes to Financial Statements

Year Ended March 31, 2022

1. PURPOSE OF THE ORGANIZATION

Canadian Mental Health Association NL Division Corporation (the "organization") is a registered charity incorporated provincially under the Corporations Act of Newfoundland and Labrador. The organization is exempt from income tax under section 149 (1) of the Income Tax Act.

The organization operates to promote a better understanding of mental health and mental illness in the province of Newfoundland and Labrador ("NL"). The organization operates from premises in three locations: St. John's, NL, Grand Falls-Windsor, NL and Stephenville, NL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) in Part III of the *CPA Canada Handbook* and include the following significant accounting policies:

Use of estimates

The preparation of financial statements in conformity with Canadian ASNPO requires management and the board of directors 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 revenues and expenses during the period. Such estimates, including interest accrued on investments, the estimated useful life and amortization of capital assets, and accrued liabilities, are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Cash and cash equivalents

Cash is defined as cash on hand, cash on deposit and short-term deposits with maturity dates of less than 90 days, net of cheques issued and outstanding at the reporting date.

Investments

Investments consisting of Guaranteed Investment Certificates (GICs), are pledged as security for the land and building held by the organization (to a limit of \$35,000). The GICs carry interest at 1.4% and 2.4% per annum respectively. Management does not intend to liquidate the balance of investments not pledged as security within the twelve month period following the statement of financial position date. As such, investments are presented as long term assets.

Harmonized sales tax

Where taxable, Harmonized Sales Tax on acquired materials and services are recoverable at 50% as a rebate. The unrecoverable portion is recorded as a corresponding asset or expense as applicable with the rebate treated as receivable.

(continues)

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Notes to Financial Statements

Year Ended March 31, 2022

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

Capital assets

Capital assets are stated at cost or deemed cost less accumulated amortization. Capital assets are amortized over their estimated useful lives at the following rates and methods:

Land	N/A	
Buildings	4%	declining balance method
Computer equipment and software	30%	declining balance method
Furniture and equipment	20%	declining balance method
Security system	20%	declining balance method
Signs	20%	declining balance method
Parking areas	8%	declining balance method

The organization regularly reviews its capital assets to eliminate obsolete items.

Capital assets acquired during the year but not placed into use are not amortized until they are placed into use. In the year of acquisition, capital assets are amortized at one half of their normal rates. Capital assets are not amortized in the year of disposal.

Revenue recognition

The organization 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 when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions pertaining to the acquisition of depreciable capital assets are deferred and recognized as revenue on the same basis as the related amortization expense pertaining the assets. Contributions pertaining to the acquisition of non depreciable capital assets are recognized directly in the statement of changes in net assets in the period in which the assets were acquired.

Revenues related to training services and other sources are recognized in the period in which the training services are provided if the amount to be received can be reasonably estimated and collection is reasonably assured.

Other government assistance relating to the funding of current expenses is recorded as revenue in the period in which the related expenses are incurred.

Contributed services

The organization is governed by board members that provide their services on a volunteer basis. The fair value of these services cannot be reasonably determined and are therefore not reflected in these financial statements.

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. Investments are measured at principal plus accrued interest.

Financial liabilities measured at amortized cost include accounts payable and long term debt.

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Notes to Financial Statements

Year Ended March 31, 2022

3. COMPARATIVE FIGURES

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

4. ECONOMIC DEPENDENCE

The organization is considered to be economically dependent on the Government of the Province of Newfoundland and Labrador for ongoing financial assistance.

5. ACCOUNTS RECEIVABLE

	2022	2021
Employment program	\$ 32,041	\$ -
Training	18,550	22,299
Donations from individuals	9,462	19,359
Other	7,493	6,784
Municipal government grants	5,000	1,250
Other fundraising and events	3,686	36,287
Donations from corporations and other	700	2,100
Provincial government grants and funding	-	50,000
	76,932	138,079
Allowance for doubtful accounts	(25,958)	(23,248)
	\$ 50,974	\$ 114,831

6. CAPITAL ASSETS

	Cost	Accumulated amortization	2022 Net book value	2021 Net book value
Land	\$ 141,383	\$ -	\$ 141,383	\$ 141,383
Buildings	417,959	83,983	333,976	347,892
Computer equipment and software	78,490	55,663	22,827	26,017
Furniture and equipment	151,541	120,727	30,814	38,518
Security system	3,305	1,869	1,436	1,795
Signs	962	678	284	355
Parking areas	9,245	1,733	7,512	8,165
	\$ 802,885	\$ 264,653	\$ 538,232	\$ 564,125

7. CREDIT FACILITY

The organization has a credit facility with the Canadian Imperial Bank of Commerce (CIBC), which includes an approved operating line that can be drawn upon to a maximum of \$40,000, which bears interest at prime plus 1.5% and is secured by a Borrowing Resolution signed by the executive officers of the organization. At the statement of financial position date, the amount owing, which is due on demand, is \$0 (2021: \$0).

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Notes to Financial Statements

Year Ended March 31, 2022

8. DEFERRED REVENUE

Deferred revenue represents project funding for the next fiscal year.

	2022	2021
TD Ready Challenge Project	\$ 259,276	\$ 183,936
Canadian Womens' Foundation: Newfoundland and Labrador		
Aboriginal Women's Network project	50,000	-
Community Food Centers of Canada	32,202	38,193
Government of Newfoundland and Labrador: Mental Health First Aid and ASIST Training	19,895	50,000
Community Foundation of Canada	9,943	17,799
Bell Let's Talk Mental Health First Aid for Seniors	9,510	18,000
Reaching Home Indigenous Newfoundland and Labrador project	8,868	-
United Way BIPOC project	4,807	-
Event, training and other revenues received in advance	3,750	14,070
Employment project	2,899	21,970
Bequests, use restricted by the board of directors.	100	100
End Homelessness St. John's Housing Support Worker Funding	-	31,116
United Way Emergency Community Support Funding	-	73,871
	\$ 401,250	\$ 449,055

9. LONG TERM DEBT

	2022	2021
Bank loan bearing interest at prime plus 1.50% per annum, repayable in monthly principal payments of \$1,521 plus interest. The loan matures in September 2023 and is secured by land and building with a net carrying amount of \$475,359 and investments limited to \$35,000. The bank also holds first charge rights on the land and building.	\$ 266,206	\$ 284,460
CIBC Canada Emergency Business Account loan bearing interest at 0% until December 31, 2023, at which time it is converted to a two-year term loan bearing interest at 5% per annum. Repayment on or before December 31, 2023 will result in one-third of the balance being forgiven.	40,000	40,000
	306,206	324,460
Amounts payable within one year	(18,253)	(284,460)
	\$ 287,953	\$ 40,000

Principal repayment terms are approximately:

2023	\$ 18,253
2024	287,953
	<u>306,206</u>
	\$ 306,206

(continues)

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Notes to Financial Statements

Year Ended March 31, 2022

9. LONG TERM DEBT *(continued)*

The loan with CIBC is being reviewed and renewed by the bank on an annual basis. As at the date of the Independent Auditor's Report, the loan has been renewed to September 2023.

In management's opinion, the non-forgivable portion of the Canada Emergency Business Account loan is expected to be fully repaid by December 31, 2023. Since there is reasonable assurance the organization will repay \$40,000 by December 31, 2023, the loan is measured at the principal amount borrowed less the forgiveness portion. At the statement of financial position date, no repayments have been made on the loan.

10. FORGIVABLE LOANS

The organization obtained two forgivable loans from Newfoundland and Labrador Housing Corporation (NLHC) during the years ended March 31, 2017 and March 31, 2018 to assist with the purchase of real estate and related improvements to the property. The property is utilized as the organization's headquarters located in St. John's, NL. The reduction in the principal of forgivable loans is recognized in the statement of operations as revenue on the same basis as the amortization expense applicable to the building.

	2022	2021
Balances, beginning of year	\$ 111,848	\$ 116,508
Amounts amortized to revenue during year	(4,474)	(4,660)
Balances, end of year	\$ 107,374	\$ 111,848

The total loan balance left to be forgiven by NLHC at March 31, 2022 is \$75,625.

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Notes to Financial Statements

Year Ended March 31, 2022

11. DEFERRED CONTRIBUTIONS RELATING TO CAPITAL ASSETS

During 2017, the organization acquired real estate situated in St. John's, NL, consisting of land and a building. The property serves as the organization's head office.

In 2016, the organization received a contribution of \$90,000 from the Government of Newfoundland and Labrador utilized by the organization to assist in acquiring land and a building. Upon acquiring the property in 2017, the portion of the contribution allocated to the land (\$22,500) was recognized in the statement of changes in net assets with the remaining portion (\$67,500), applicable to the building, being deferred and recognized as a liability. This allocation was determined on the basis of the market values of the land and building at the time of purchase. Annually, revenue is recognized in the statement of operations on the same basis as the amortization expense applicable to the building. During 2022, \$2,247 was recognized as revenue (2021- \$2,341).

During 2017, the organization received a contribution of \$22,744 from the Government of Newfoundland and Labrador for capital upgrades consisting of equipment to make the building more accessible. This contribution was deferred and recognized as a liability. Annually, revenue is recognized in the statement of operations on the same basis as the amortization expense applicable to the equipment (classified as furniture and equipment) acquired improved upon. During 2022, \$2,096 was recognized as revenue (2021- \$2,620).

During 2017, the organization received a contribution of furniture and equipment valued at \$7,000 from a private corporation. This contribution was deferred and recognized as a liability. Annually, revenue is recognized in the statement of operations on the same basis as the amortization expense applicable to the furniture and equipment. During 2022, \$516 was recognized as revenue (2021- \$645).

During 2018, the organization received a contribution of \$45,000 from the City of St. John's for capital upgrades consisting of equipment to make the building more accessible. This contribution was deferred and recognized as a liability. Annually, revenue is recognized in the statement of operations on the same basis as the amortization expense applicable to the equipment (classified as furniture and equipment). During 2022, \$4,147 was recognized as revenue (2021- \$5,184).

The balance of deferred contributions relating to capital assets is summarized below:

Contribution from Government of Newfoundland and Labrador for acquisition of land and building	\$	53,937	\$	56,184
Contribution from Government of Newfoundland and Labrador for accessibility enhancements		8,384		10,480
Contribution of furniture and fixtures from private corporation		2,064		2,580
Contribution from City of St. John's for accessibility enhancements		16,589		20,736
	\$	80,974	\$	89,980

12. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments. Risk management is used by the organization to monitor and manage its risk arising from financial instruments. The following analysis provides information about the organization's risk exposure and concentration as of March 31, 2022.

(continues)

CANADIAN MENTAL HEALTH ASSOCIATION NL DIVISION CORPORATION

Notes to Financial Statements

Year Ended March 31, 2022

12. FINANCIAL INSTRUMENTS (*continued*)

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The organization is exposed to credit risk from cash and cash equivalents, accounts receivable and investments. In order to reduce its credit risk, the organization deposits its cash and cash equivalents with reputable, major financial institutions. Accounts receivable consists of revenues receivable from government departments and reputable organizations and, as such, collectibility is considered to be likely. Where applicable, the organization records an allowance for doubtful accounts for receivables that it deems uncollectible. The investments include guaranteed investment certificates held with a chartered bank.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The organization is exposed to this risk mainly in respect of its receipt of funds from the Government of the Province of Newfoundland and Labrador (see Note 4).

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 rate risk, interest rate risk and other price risk. The organization is mainly exposed to interest rate risk.

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 organization manages exposure through its normal operating and financing activities. The organization is exposed to interest rate risk primarily through its cash and cash equivalents, investments in interest bearing securities and its long term financing.

13. COVID-19

In March 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which as resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. These emergency measures, including periodic lockdowns and ongoing restrictions, in conjunction with increased costs associated with personal protective equipment, working remotely and other safety measures, have impacted the Organization's operations.

While the Organization has been able to mitigate the short term of impact of COVID-19 on its operations, it is not possible to reliably estimate the severity and long term impact COVID-19 may have on the Organization's financial results, conditions and cash flows.