AARC Adolescent Recovery Centre

(a not-for-profit organization)

Financial Statements

March 31, 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of AARC Adolescent Recovery Centre

Qualified Opinion

We have audited the financial statements of AARC Adolescent Recovery Centre (the "Organization"), which comprise the statement of financial position as at March 31, 2021 and the statements of operations, changes in net assets 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 March 31, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many not-for-profit Organizations, the entity 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 entity. Therefore, we were not able to determine whether any adjustments might be necessary to donation and fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended March 31, 2021 and 2020, current assets as at March 31, 2021 and 2020, and net assets as of April 1 and March 31 for both the 2021 and 2020 years. Our audit opinion on the financial statements for the year ended March 31, 2021 was modified accordingly because of the possible effects of this limitation in scope.

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.

RSM Alberta LLP

Chartered Professional Accountants
August 10, 2021
Calgary, Alberta

AARC Adolescent Recovery Centre

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Statement of Financial Position
March 31, 2021

	2021	2020
Assets		
Current assets		
Cash	$ 105,089	$ 199,740
Restricted cash (note 3)	274,983	-
Accounts receivable	80,579	109,622
Prepaid expenses	65,672	79,488
Marketable securities (note 4)	35,504	37,000
	561,827	425,850
Legal fee fund (note 4)	-	125,245
Tangible capital assets (note 5)	4,179,524	4,337,635
Intangible capital asset, at cost	100,000	100,000
	$ 4,841,351	$ 4,988,730
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 819,029	$ 538,442
Deferred revenue (note 6)	461,580	126,742
	1,280,609	665,184
Retirement obligation (note 7)	227,460	222,960
Deferred contributions related to tangible capital assets (note 8)	3,457,749	3,612,622
Deferred contributions - legal fee fund (note 9)	-	125,245
	4,965,818	4,626,011
Net assets (Deficiency)		
Invested in tangible capital assets and copyright	821,775	825,013
Unrestricted	(946,242)	(462,294)
	(124,467)	362,719
	$ 4,841,351	$ 4,988,730

Subsequent event (notes 3 and 11)

Approved by the Board,

______________________, Director

______________________, Director

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Statement of Operations

Year Ended March 31, 2021

	2021	2020
Revenue		
Donations	$ 1,489,115	$ 1,269,214
Grants (note 12)	1,081,926	-
Fundraising	203,916	811,987
Legal fee fund (note 9)	199,500	33,000
Fees (note 10)	173,955	347,130
Amortization of deferred contributions related to tangible capital assets (note 8)	154,873	161,486
Investment and other (note 17)	48,013	44,514
Fundraising in-kind (note 14)	17,566	44,302
Donations in-kind (note 14)	-	14,932
Clinical development fund	-	705,761
	3,368,864	3,432,326
Expenses		
Clinical	2,139,498	1,860,648
Legal and consulting (note 11)	932,646	385,920
Administration	289,003	388,065
Community relations and fund development	195,672	410,796
Building	187,941	252,569
Amortization	166,392	175,705
In-kind (note 14)	17,566	59,234
	3,928,718	3,532,937
Deficiency of revenue over expenses before the following	(559,854)	(100,611)
Other income (losses)		
Change in fair market value of marketable securities and reinvested investment income (note 13)	825,172	(325,292)
Gain (loss) on disposal of marketable securities	(748,004)	91,958
Foreign exchange loss	-	(1,856)
	77,168	(235,190)
Deficiency of revenue over expenses	(482,686)	(335,801)
Net assets, beginning of year	362,719	692,690
Revaluation of retirement obligation (note 7)	(4,500)	5,830
Net assets (deficiency), end of year	$ (124,467)	$ 362,719

AARC Adolescent Recovery Centre

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Statement of Changes in Net Assets

Year Ended March 31, 2021

	Invested in Tangible Capital Assets and Copyright	Unrestricted	Total 2021	Total 2020
Balance, beginning of year	$ 825,013	$ (462,294)	$ 362,719	$ 692,690
Acquisition of tangible capital assets	8,280	(8,280)	-	-
Deficiency of revenue over expenses	(11,518)	(471,168)	(482,686)	(335,801)
Revaluation of retirement obligation	-	(4,500)	(4,500)	5,830
Balance, end of year	$ 821,775	$ (946,242)	$ (124,467)	$ 362,719

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Statement of Cash Flows

Year Ended March 31, 2021

	2021	2020
Operating activities		
Fee receipts	$ 204,883	$ 350,034
Donation receipts	1,688,615	828,886
Fundraising and grant receipts	1,620,680	1,273,794
Operating payments	(3,727,224)	(3,411,222)
Interest and other receipts	34,908	32,434
Endowment grant receipts (note 17)	13,103	12,080
Retirement obligation payments	-	(124,062)
	(165,035)	(1,038,056)
Investing activities		
Acquisition of tangible capital assets	(8,280)	-
Proceeds on disposal of marketable securities	78,664	727,427
	70,384	727,427
Cash outflow	(94,651)	(310,629)
Cash, beginning of year	199,740	510,369
Cash, end of year	$ 105,089	$ 199,740

Non-cash transactions (note 14)

1. Nature of operations

AARC Adolescent Recovery Centre (the "organization") is an organization operating a treatment centre for adolescents suffering from the disease of alcoholism and/or drug addiction, and their families. The centre is based on a cost effective, research-based, clinically validated treatment model. The organization also provides current, relevant information and perspectives on adolescent chemical dependency to as many individuals and institutions as possible throughout the community.

The organization is a registered charitable organization for purposes of the *Income Tax Act* and is exempt from Part I tax under Section 149(1)(f). Accordingly, no provision for income taxes has been made in these financial statements.

2. Accounting policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following accounting policies:

(a) Tangible capital assets

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair value at the date of their contribution. All tangible capital assets, including donated assets and their related contribution, are amortized using the declining balance method at the following annual rates:

Building	4%
Furniture and fixtures	20%
Office equipment	20 - 30%
Outdoor equipment	20%
Computer equipment	30%
Passenger vehicles	30%

No amortization is taken on land or artwork.

Donations for the acquisition of tangible capital assets that will not be amortized and contributions of tangible capital assets that will not be amortized are recognized as direct increases in net assets invested in tangible capital assets.

When conditions indicate a tangible capital asset is impaired, the carrying value of the asset is written down to the fair value or replacement cost. The write down of the assets is recorded as an expense in the statement of operations. A write-down is not reversed.

(b) Intangible capital asset

The intangible capital asset consists of a copyright for the treatment program with an indefinite life and is recorded at cost.

When conditions indicate an intangible capital asset is impaired, the carrying value of the asset is written down to the fair value or replacement cost. The write down of the asset is recorded as an expense in the statement of operations. A write-down is not reversed.

(c) Retirement obligation

The organization uses an accounting valuation to measure the defined contribution obligation. The retirement obligation is determined using the projected benefit method.

(d) 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 as revenue when received or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income includes the realized gains and losses on disposal of investments and the unrealized gains and losses at the fair value of investments held at year end. Investment transactions are recognized on the transaction date and resulting revenue is recognized on an accrual basis.

Other revenue consists of sign rental, lawsuit settlement amounts and other miscellaneous receipts which are recognized as revenue when received or when collection is reasonably assured.

The organization sets fees by assessing each client's financial situation and ability to pay. Fees are recognized as revenue evenly over the treatment period.

(e) Donated materials and services

The organization records donated materials and services only if the fair value can be reasonably estimated.

The organization does not recognize the hours of volunteer services received in the year from individuals.

(f) Financial instruments

The organization initially measures its financial assets and liabilities at fair value, except for certain non-arm’s length transactions that are measured at the exchange amount.

The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at their estimated fair values. Changes in fair value of investments in equity instruments are recognized in deficiency of revenue over expenses.

Financial assets measured at amortized cost include cash, restricted cash and accounts receivable. The organization’s financial assets measured at fair value include marketable securities.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and the retirement obligation.

Financial assets measured at cost or amortized cost are tested for impairment, at the end of each year, to determine whether there are indicators that the asset may be impaired. The amount of the write-down, if any, is recognized in deficiency of revenue over expenses. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account. The reversal may be recorded provided it is no greater than the amount that had been previously reported as a reduction in the asset and it does not exceed original cost. The amount of the reversal is recognized in deficiency of revenue over expenses.

(g) Measurement uncertainty

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

The valuation of tangible capital assets and the copyright is based on management's best estimates of the future recoverability of these assets and the determination of costs subject to classification as tangible capital assets. The amounts recorded for amortization of the tangible capital assets are based on management's best estimates of the remaining useful lives and period of future benefit of the related assets.

The valuation of donated goods and services is based on management's best estimate of the fair value of the goods and services at the time of donation.

The impact that the ongoing COVID-19 pandemic may have on the organization's operations is based on management's best assessment of existing and potential government interventions both at a federal and provincial level which will determine if there is any impact on contributions received. Due to the ongoing changes and development with COVID-19, it is not possible to reliably estimate the length and severity of these developments and the impact of the financial results and conditions of the organization in future periods.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(h) Government assistance

The organization has adopted the policy to account for government assistance/subsidies as income when received or receivable when there is reasonable assurance of collection from the government agency.

3. Restricted cash

During the year, the organization entered into a grant funding agreement with the Province of Alberta which required the organization to deposit and maintain the funding in an interest bearing account separate from all other monies (note 6). At March 31, 2021, the restricted cash balance was overdrawn by $138,940 however, the amount was replenished subsequent to year-end.

4. Marketable securities and legal fee fund

The organization's securities consist of equity instruments with a cost of $74,290 (2020 - $1,106,591). The fair market value of the securities has been allocated to the Legal Fee Fund in respect of contributions to that fund, with the remainder allocated to marketable securities, as follows:

	2021	**2020**
Total fair market value of securities	$ 35,504	$ 162,245
Less: Legal fee fund	-	125,245
Marketable securities	$ 35,504	$ 37,000

The legal fee fund represents donated shares to fund costs associated with the legal proceedings with CBC Television (note 11). The shares within the fund are measured at fair market value and changes in fair value are recognized as a restricted contribution.

5. Tangible capital assets

	Cost	Accumulated Amortization	Net Book Value 2021	Net Book Value 2020
Land	$ 484,639	$ -	$ 484,639	$ 484,639
Building	6,939,818	3,338,007	3,601,811	3,751,887
Furniture and fixtures	554,040	529,042	24,998	26,642
Office equipment	143,741	134,383	9,358	6,531
Outdoor equipment	275,868	263,008	12,860	16,075
Computer equipment	281,555	272,367	9,188	13,126
Passenger vehicles	112,883	104,313	8,570	10,635
Artwork	28,100	-	28,100	28,100
	$ 8,820,644	$ 4,641,120	$ 4,179,524	$ 4,337,635

6. Deferred revenue

Deferred revenue represents the unspent portion of restricted funding for operating programs as well as fundraising events and other revenues received for the next fiscal year.

	Beginning balance April 1, 2020	Additions	Utilizations	Ending Balance March 31, 2021
Gala event	$ 73,446	$ -	$ 73,446	$ -
4Boys Fund	18,516	-	5,639	12,877
Restricted government funding (note 3)	-	475,000	61,077	413,923
Restricted funding for operating programs	34,780	-	-	34,780
	$ 126,742	$ 475,000	$ 140,162	$ 461,580

7. Retirement obligation

During 2015, an employment agreement was signed with a key employee that requires the organization to provide a retiring allowance upon termination of the agreement. The employment agreement expired on December 31, 2017 which was superseded by a transition agreement expiring on December 31, 2019, which was superseded by a new employment agreement for the period of January 1, 2020 to December 31, 2022. As at December 31, 2019, $240,800 of the retiring allowance that was required from the original 2015 agreement remained payable to the employee; however, the new agreement has deferred the payment of the balance to commence on January 1, 2023 in 24 equal monthly instalments. The retirement obligation arose on execution of the original agreement and is not subject to any further requirements of the employee. As a result, the present value of the obligation was estimated and included in clinical expenses of a prior year and the revaluation of the obligation is included in net assets. The organization will remeasure its accrued retirement obligation as at March 31 of each year based on the expected amount due and discount the amount based on an expected rate of return. The discount rate used in the current period was 2.32% per annum (2020 - 2.32%). Effective January 1, 2018, the balance owed as the retiring allowance is secured by the organization allowing the employee to register a caveat on the title that the organization has to its existing buildings and land.

The changes in the retirement obligation balance for the year are as follows:

	2021	**2020**
Balance, beginning of year	$ 222,960	$ 352,852
Revaluation of retirement obligation	4,500	(5,830)
Amount paid	-	(124,062)
Balance, end of year	227,460	222,960
Portion due within one year	-	-
Long-term retirement obligation	$ 227,460	$ 222,960

8. Deferred contributions related to tangible capital assets

Deferred contributions related to tangible capital assets represent the unamortized portion of restricted contributions and contributed tangible capital assets received from private and government donors.

The changes in the deferred contributions balance for the year are as follows:

	2021	2020
Balance, beginning of year	$ 3,612,622	$ 3,766,608
Donated tangible capital assets	-	7,500
Amount amortized to revenue	(154,873)	(161,486)
Balance, end of year	$ 3,457,749	$ 3,612,622

9. Deferred contributions - legal fee fund

The legal fee fund consists of marketable securities held with financial institutions (note 4).

The changes in deferred contributions - legal fee fund for the year are as follows:

	2021	2020
Balance, beginning of year	$ 125,245	$ 316,820
Contributions	-	365,000
Amount recognized as revenue in the year	(199,500)	(33,000)
Fair market value adjustment	74,255	(523,575)
Balance, end of year	$ -	$ 125,245

10. Fees

	2021	2020
Clients	$ 165,955	$ 336,680
Assessment fees	8,000	10,450
	$ 173,955	$ 347,130

11. Subsequent event

The legal and consulting expense represents the costs associated with legal proceedings taken by the organization as Plaintiff against CBC Television ("CBC") and four interviewees ("Interviewees") as defendants for defamation. The defamatory acts arose out of the CBC production called “Powerless” which first aired on CBC on February 13, 2009. The defamatory statements caused significant reputational and financial injury to AARC. Subsequent to year-end, the legal proceedings related to this matter have been resolved to the mutual satisfaction of the parties and the settlement is subject to confidentiality.

12. Canada Emergency Wage Subsidy

During the year, the organization received $826,180 (2020 - $NIL) included in grants revenue as a part of the COVID-19 relief initiatives provided by the Federal Government for the Canada Emergency Wage Subsidy ("CEWS"). The organization has maintained compliance with all requirements under the CEWS program to be eligible to receive payments.

13. Change in unrealized gain on marketable securities and reinvested investment income

	2021	**2020**
Increase (decrease) in fair market value	$ 825,172	$ (327,397)
Reinvested investment income	-	4,775
Broker fees	-	(2,670)
	$ 825,172	$ (325,292)

14. Non-cash transactions

The statement of cash flows does not include the following in-kind donated materials and services:

	2021	**2020**
Donations	$ -	$ 14,932
Fundraising	17,566	44,302
	$ 17,566	$ 59,234
Operating payments	$ 17,566	$ 59,234
Passenger vehicles	$ -	$ 7,500

15. Financial instruments

The organization is exposed to the following significant financial risks:

(a) 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 financial instruments that potentially subject the organization to a significant concentration of credit risk consist primarily of cash, restricted cash and accounts receivable. The organization mitigates its exposure to credit loss by placing its cash and restricted cash with major financial institutions.

Accounts receivable has no significant concentration of credit risk with any one party or industry. As such, credit risk of accounts receivable is considered low.

(b) 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. The organization's investments in public company securities expose the organization to price risks as equity investments are subject to price changes in an open market. The organization does not use derivative financial instruments to mitigate the effects of this risk.

(c) Liquidity risk

Liquidity risk is the risk that the organization will encounter difficulty in meeting obligations associated with financial liabilities. Management closely monitors cash flow requirements to ensure that it has sufficient cash or credit facilities available to meet operational and financial obligations.

16. Supplementary expense information

The total compensation to organization employees whose principal duties were fundraising amounted to $65,000 (2020 - $96,420).

17. The Calgary Foundation and interest and other income

The Calgary Foundation holds and administers $348,416 (2020 - $304,574) on behalf of the organization. The principal amount is not available for withdrawal by the organization and, as such, is not included in these financial statements. However, endowment grants from the funds in the amount of $13,103 (2020 - $12,080) have been paid to the organization and are included in investment and other income.