AARC Adolescent Recovery Centre

Financial Statements

March 31, 2023

RSM

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, 2023 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, 2023, 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 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, 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 year ended March 31, 2023, and net assets as at March 31, 2023.

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 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.

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 Canada LLP

Chartered Professional Accountants
August 22, 2023
Calgary, Alberta

AARC Adolescent Recovery Centre
Statement of Financial Position
March 31, 2023

	2023	2022
Assets		
Current assets		
Cash	$ 213,251	$ 131,921
Restricted cash	-	26,676
Short-term investment	-	100,000
Accounts receivable	107,280	90,685
Prepaid expenses	94,724	59,762
Marketable securities (note 3)	4,161,087	4,506,129
	4,576,342	4,915,173
Tangible capital assets (note 4)	4,048,534	4,055,485
Intangible capital asset, at cost	100,000	100,000
	$ 8,724,876	$ 9,070,658
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 373,077	$ 377,461
Deferred revenue (note 5)	115,698	75,869
Margin account loan	-	487,653
Current portion of retirement obligation (note 6)	268,800	32,880
	757,575	973,863
Retirement obligation (note 6)	-	199,171
Deferred contributions related to tangible capital assets (note 7)	3,177,272	3,313,825
	3,934,847	4,486,859
Net Assets		
Invested in tangible and intangible capital assets	971,262	841,660
Unrestricted	3,818,767	3,742,139
	4,790,029	4,583,799
	$ 8,724,876	$ 9,070,658

Subsequent event (note 12)

Approved by the Board,

_______________, Director

_______________, Director

AARC Adolescent Recovery Centre
Statement of Operations
Year Ended March 31, 2023

	2023	2022
Revenue		
Donations	$ 705,001	$ 1,628,054
Grants	1,196,248	536,002
Fundraising	557,810	495,373
Fees	130,777	262,593
Amortization of deferred contributions related to tangible capital assets (note 7)	137,553	145,722
Investment and other (note 8)	206,969	3,064,339
Fundraising in-kind (note 9)	15,594	58,877
	2,949,952	6,190,960
Expenses		
Clinical	1,957,151	2,138,972
Legal and consulting (recovery)	1,250	(7,608)
Administration	466,375	396,340
Community relations and fund development	425,271	341,106
Building	277,818	311,304
Amortization	171,813	163,696
Fundraising in-kind (note 9)	15,594	58,877
	3,315,272	3,402,687
(Deficiency) excess of revenue over expenses before other income (losses)	(365,320)	2,788,273
Other income (losses)		
Unrealized (loss) gain on marketable securities	(638,654)	1,896,708
Gain on disposal of marketable securities	1,246,953	27,876
	608,299	1,924,584
Excess of revenue over expenses	$ 242,979	$ 4,712,857

AARC Adolescent Recovery Centre
Statement of Changes in Net Assets
Year Ended March 31, 2023

	Invested in Tangible and Intangible Capital Assets	Unrestricted	Total 2023	Total 2022
Balance, beginning of year	$ 841,660	$ 3,742,139	$ 4,583,799	$ (124,467)
Acquisition of tangible capital assets	163,862	(163,862)	-	-
Excess of revenue over expenses	(34,260)	277,239	242,979	4,712,857
Revaluation of retirement obligation (note 6)	-	(36,749)	(36,749)	(4,591)
Balance, end of year	$ 971,262	$ 3,818,767	$ 4,790,029	$ 4,583,799

AARC Adolescent Recovery Centre
Statement of Cash Flows
Year Ended March 31, 2023

	2023	2022
Operating activities		
Fee receipts	$ 111,529	$ 215,653
Donation receipts	705,001	1,628,054
Fundraising and grant receipts	1,793,887	645,665
Proceeds on legal settlement	-	3,000,000
Investment and other receipts	190,390	31,306
Operating payments	(3,165,046)	(3,317,845)
Endowment grant receipts (note 8)	16,579	13,478
	(347,660)	2,216,311
Financing activity		
Repayment of margin account loan	(487,653)	-
Investing activities		
Acquisition of tangible capital assets	(163,862)	(37,859)
Proceeds on disposal of marketable securities	2,445,616	63,380
Redemption of short-term investment	100,000	-
Purchase of short-term investment	-	(100,000)
Purchase of marketable securities	(1,491,787)	(2,115,000)
Change in restricted cash	26,676	-
	916,643	(2,189,479)
Cash inflow	81,330	26,832
Cash, beginning of year	131,921	105,089
Cash, end of year	$ 213,251	$ 131,921

Non-cash transactions (note 9)

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) 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 transactions are recognized on the transaction date and resulting revenue is recognized on an accrual basis.

   Other revenue consists of sign rental, 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.

   (b) 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 excess of revenue over expenses.

Financial assets measured at amortized cost include 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 excess 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 excess of revenue over expenses.

(c) 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.

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.

(d) 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.

(e) Retirement obligation

The retirement obligation is determined based on the present value of the future payments, according to the agreement.

(f) 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.

(g) 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.

(h) 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 intangible assets are 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. Similarly, the useful life of intangible assets is based on the enduring nature of the treatment program and management's expectation that it will continue indefinitely. 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.

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.

3. Marketable securities

Marketable securities consists of shares in Canadian publicly traded stocks with a cost of $2,902,546 (2022 - $2,609,421). The fair market value of the securities is as follows:

	2023	**2022**
Total fair market value of securities	$ 4,161,087	$ 4,506,129

4. Tangible capital assets

	Cost	Accumulated Amortization	Net Book Value 2023	Net Book Value 2022
Land	$ 484,639	$ -	$ 484,639	$ 484,639
Building	7,013,220	3,621,857	3,391,363	3,457,739
Furniture and fixtures	586,350	541,830	44,520	20,798
Office equipment	233,503	157,869	75,634	39,595
Outdoor equipment	276,418	267,792	8,626	10,783
Computer equipment	289,052	278,298	10,754	6,833
Passenger vehicles	113,882	108,984	4,898	6,998
Artwork	28,100	-	28,100	28,100
	$ 9,025,164	$ 4,976,630	$ 4,048,534	$ 4,055,485

5. 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, 2022	Additions	Utilizations	Ending Balance March 31, 2023
Gala event	$ -	$ 44,100	$ -	$ 44,100
4Boys Fund	14,841	-	3,023	11,818
Restricted government funding	26,248	-	26,248	-
Restricted funding for operating programs	34,780	25,000	-	59,780
	$ 75,869	$ 69,100	$ 29,271	$ 115,698

6. 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 original employment agreement has been superseded. The current agreement in place is for the period January 1, 2023 to December 31, 2024. According to the current agreement, all accrued retirement benefits are to be repaid by December 31, 2023.

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

	2023	2022
Balance, beginning of year	$ 232,051	$ 227,460
Revaluation of retirement obligation	36,749	4,591
Balance, end of year	268,800	232,051
Portion due within one year	268,800	32,880
Long-term retirement obligation	$ -	$ 199,171

7. 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:

	2023	2022
Balance, beginning of year	$ 3,313,825	$ 3,457,749
Donated tangible capital assets (note 9)	1,000	1,798
Amount amortized to revenue	(137,553)	(145,722)
Balance, end of year	$ 3,177,272	$ 3,313,825

8. The Calgary Foundation and other income

The Calgary Foundation holds and administers $341,630 (2022 - $356,067) 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 $16,579 (2022 - $13,478) have been paid to the organization and are included in investment and other income.

9. Non-cash transactions

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

	2023	2022
Fundraising	$ 15,594	$ 58,877
Operating payments	$ 15,594	$ 58,877
Donated tangible capital assets	$ 1,000	$ 1,798

10. 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 and accounts receivable. The organization mitigates its exposure to credit loss by placing its 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 available to meet operational and financial obligations.

11. Supplementary expense information

    The total compensation to organization employees whose principal duties were fundraising amounted to $80,000 (2022 - $70,000).

12. Subsequent event

    On June 1, 2023, the organization received the second installment of the Government of Alberta grant funding in the amount of $1,170,000 related to the AARC Adolescent Recovery Centre - Base Program for the upcoming fiscal year. Funding is restricted and to be recognized for applicable expenditures under the grant agreement.