

FRESH START RECOVERY CENTRE
Financial Statements
Year Ended December 31, 2018

FRESH START RECOVERY CENTRE

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Year Ended December 31, 2018

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CREMERS & ELLIOTT

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Directors of Fresh Start Recovery Centre

Qualified Opinion

We have audited the financial statements of Fresh Start Recovery Centre (the Centre), which comprise the statement of financial position as at December 31, 2018, and the statements of revenues and expenditures, 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 Centre as at December 31, 2018, and the results of its 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 Centre derives revenue from 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 Centre. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising and donations revenue, excess of revenues over expenses, and cash flows from operations for the year ended December 31, 2018, current assets, and net assets as at December 31, 2018. Our audit opinion on the financial statements for the year ended December 31, 2017 was similarly modified because of the possible effects of this limitation of 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 Centre 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 those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit 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.

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Independent Auditor's Report to the Directors of Fresh Start Recovery Centre *(continued)*

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

Those charged with governance are responsible for overseeing the Centre'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 Centre'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 Centre'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 Centre 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.

Calgary, Alberta
March 31, 2019


Cremers & Co. Chartered Accountants LLP

FRESH START RECOVERY CENTRE**Statement of Financial Position****December 31, 2018**

	2018	2017
ASSETS		
CURRENT		
Cash	\$ 392,111	\$ 306,594
Restricted cash	522,806	4,241,750
Accounts receivable	601,778	165,460
Goods and services tax recoverable	17,432	-
Prepaid expenses	158,910	10,089
Deposits on property and equipment	57,000	57,000
	<u>1,750,037</u>	<u>4,780,893</u>
PROPERTY AND EQUIPMENT (Notes 3, 4)	<u>18,784,404</u>	<u>17,482,790</u>
	<u>\$ 20,534,441</u>	<u>\$ 22,263,683</u>
LIABILITIES AND NET ASSETS		
CURRENT		
Bank indebtedness (Note 5)	\$ 539,501	\$ 914,501
Accounts payable	158,600	90,699
Accrued liabilities for capital projects (Note 4)	645,647	3,742,721
Current portion of long term debt (Note 7)	1,191	6,842
Goods and services tax payable	-	26,834
	<u>1,344,939</u>	<u>4,781,597</u>
LONG TERM DEBT (Note 7)	<u>-</u>	<u>1,249</u>
	<u>1,344,939</u>	<u>4,782,846</u>
NET ASSETS		
Operating Fund	702,483	378,066
Property and Equipment Fund	18,487,019	17,102,771
	<u>19,189,502</u>	<u>17,480,837</u>
	<u>\$ 20,534,441</u>	<u>\$ 22,263,683</u>

ON BEHALF OF THE BOARD

Director

Director

CREMERS & ELLIOTT

CHARTERED ACCOUNTANTS

See notes to financial statements

FRESH START RECOVERY CENTRE
Statement of Revenues and Expenditures
Year Ended December 31, 2018

	2018	2017
OPERATING FUND REVENUES		
Accommodation	\$ 1,400,423	\$ 1,364,086
Fundraising and donations	1,055,726	1,043,381
Alberta Health Services - Addiction and Mental Health funding	113,286	41,706
Restaurant and food truck sales	19,723	-
Interest	162	412
Municipal funding	-	114,267
Alberta Culture and Tourism - operations funding	-	45,000
	<u>2,589,320</u>	<u>2,608,852</u>
OPERATING FUND EXPENDITURES		
Salaries and wages	2,014,969	1,742,783
Program supplies	224,839	207,564
Fundraising expenses	179,140	125,122
Office and administrative	134,055	91,504
Utilities, phone and internet	125,586	101,373
Repairs and maintenance	88,486	57,905
Travel and vehicle	75,353	66,781
Interest and bank charges	44,737	54,201
Insurance	39,261	36,247
Consultant fees	20,310	-
Professional fees	10,506	8,195
	<u>2,957,242</u>	<u>2,491,675</u>
OPERATING FUND EXCESS (DEFICIENCY)	<u>(367,922)</u>	<u>117,177</u>
PROPERTY AND EQUIPMENT FUND REVENUES		
Alberta Social Housing funding	1,649,484	5,424,330
Other property and equipment funding	375,000	400,000
Restricted contributions for Memorial Cafe	250,000	750,000
Gain on disposal of property and equipment	2,834	-
Interest	1,220	2,797
	<u>2,278,538</u>	<u>6,577,127</u>
PROPERTY AND EQUIPMENT FUND EXPENDITURES		
Amortization of property and equipment	199,765	193,818
Interest expense	2,186	-
	<u>201,951</u>	<u>193,818</u>
PROPERTY AND EQUIPMENT FUND EXCESS	<u>2,076,587</u>	<u>6,383,309</u>
TOTAL EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 1,708,665</u>	<u>\$ 6,500,486</u>

FRESH START RECOVERY CENTRE
Statement of Changes in Net Assets
Year Ended December 31, 2018

	Operating Fund	Property and Equipment Fund	2018	2017
NET ASSETS - BEGINNING OF YEAR	\$ 378,066	\$ 17,102,771	\$ 17,480,837	\$ 10,980,351
Excess (deficiency) of revenues over expenditures	(367,922)	2,076,587	1,708,665	6,500,486
Interfund transfer <i>(Note 10)</i>	692,339	(692,339)	-	-
NET ASSETS - END OF YEAR	\$ 702,483	\$ 18,487,019	\$ 19,189,502	\$ 17,480,837

FRESH START RECOVERY CENTRE**Statement of Cash Flows****Year Ended December 31, 2018**

	2018	2017
OPERATING ACTIVITIES		
Total excess of revenues over expenditures	\$ 1,708,665	\$ 6,500,486
Items not affecting cash:		
Amortization of property and equipment	199,765	193,818
Gain on disposal of property and equipment	(2,834)	-
	<u>1,905,596</u>	<u>6,694,304</u>
Changes in non-cash working capital:		
Accounts receivable	(436,318)	(56,766)
Accounts payable	67,900	2,821
Accrued liabilities for capital projects	(3,097,074)	3,742,721
Prepaid expenses	(148,821)	5,187
Goods and services tax payable	(44,266)	31,934
	<u>(3,658,579)</u>	<u>3,725,897</u>
Cash flow from (used by) operating activities	<u>(1,752,983)</u>	<u>10,420,201</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,016,115)	(6,119,985)
Proceeds on disposal of property and equipment	517,571	-
Deposits on property and equipment	-	430,923
	<u>(1,498,544)</u>	<u>(5,689,062)</u>
Cash flow used by investing activities	<u>(1,498,544)</u>	<u>(5,689,062)</u>
FINANCING ACTIVITIES		
Repayment of bank indebtedness	(375,000)	(374,402)
Repayment of long term debt	(6,900)	(6,531)
	<u>(381,900)</u>	<u>(380,933)</u>
Cash flow used by financing activities	<u>(381,900)</u>	<u>(380,933)</u>
INCREASE (DECREASE) IN CASH FLOW	<u>(3,633,427)</u>	<u>4,350,206</u>
Cash - beginning of year	<u>4,548,344</u>	<u>198,138</u>
CASH - END OF YEAR	<u>\$ 914,917</u>	<u>\$ 4,548,344</u>
CASH CONSISTS OF:		
Cash	\$ 392,111	\$ 306,594
Restricted cash	<u>522,806</u>	<u>4,241,750</u>
	<u>\$ 914,917</u>	<u>\$ 4,548,344</u>

FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2018

1. DESCRIPTION OF OPERATIONS

Fresh Start Recovery Centre (the Centre) is a not-for-profit organization providing rehabilitation services to the community. The Centre is registered as a charity and is incorporated under the Societies Act of the Province of Alberta. The Centre is exempt from income taxes pursuant to section 149(1)(l) of the Income Tax Act; accordingly, no provision for income taxes has been provided for in these financial statements.

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 (ASNPO).

Fund accounting

Fresh Start Recovery Centre follows the restricted fund method of accounting for contributions.

The Operating Fund accounts for the Centre's program delivery and administrative activities. This fund reports unrestricted resources and restricted contributions intended only for operations.

The Property and Equipment Fund reports the assets, liabilities, revenues and expenditures related to the Centre's capital assets and building expansion campaigns.

Revenue recognition

Restricted contributions intended only for general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the Property and Equipment Fund.

Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income earned on building campaign resources is recognized as revenue of the Property and Equipment Fund. Other investment income is recognized as revenue of the Operating Fund when earned.

The Centre recognizes earned revenues in the Operating Fund when all the following conditions are met:

- services are provided to customers
- there is clear evidence that an arrangement exists
- amounts are fixed or can be determined
- the ability to collect is reasonably assured.

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FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2018

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

Donated services and materials

The value of donated materials and services is recorded only when the value of such contributions can be reasonably determined, and only when the materials and services would normally have been purchased by the Centre in the course of operations.

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Assets are amortized over their estimated useful lives at the following rates and methods:

Leasehold improvements	5 years	straight-line method
Buildings	1%	declining balance method
Motor vehicles	30%	declining balance method
Computer equipment	30%	declining balance method
Furniture and equipment	20%	declining balance method

The Centre regularly reviews its property and equipment to eliminate obsolete items. Capital additions over \$2,500 are capitalized.

Financial instruments policy

The Centre initially measures its financial assets and liabilities at fair value, with the exception of non-arm's length transactions that are measured at the exchange amount.

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.

The Centre recognizes its transaction costs as an expense in the period incurred for equity investments and all other financial instruments subsequently measured at fair value. Financial instruments that are subsequently measured at amortized cost are adjusted by the transaction costs and financing fees that are directly attributable to their organization, issuance or assumption.

Measurement uncertainty

When preparing financial statements according to ASNPO, management makes estimates and assumptions relating to:

- reported amounts of revenues and expenses
- reported amounts of assets and liabilities
- disclosure of contingent assets and liabilities.

Estimates are based on a number of factors including historical experience, current events and actions that the Centre may undertake in the future, and other assumptions that management believes are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. In particular, estimates are used in accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of property and equipment, asset impairments, and legal contingencies.

FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2018

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Land	\$ 3,162,730	\$ -	\$ 3,162,730	\$ 3,401,730
Construction in progress	4,141,756	-	4,141,756	2,358,088
Leasehold improvements in progress	322,970	-	322,970	277,252
Buildings	11,319,228	593,738	10,725,490	11,094,186
Furniture and equipment	900,998	599,918	301,080	274,565
Motor vehicles	190,163	90,871	99,292	32,560
Computer equipment	157,014	125,928	31,086	44,409
	<u>\$ 20,194,859</u>	<u>\$ 1,410,455</u>	<u>\$ 18,784,404</u>	<u>\$ 17,482,790</u>

4. NEW FACILITY FUNDING

During the 2017 fiscal year the Centre began construction on three major capital projects.

The first was the renovation and leasing of a building that will include a cafe intended to provide employment and training opportunities for people in recovery.

In addition, two residential facilities have been constructed that will provide secure and affordable housing to those recovering from addiction. One building is complete and provides 18 additional recovery spaces. The second building will provide 26 additional recovery spaces, and was substantially completed shortly after the Centre's 2018 fiscal year end.

Alberta Social Housing has committed \$7.5 million in total to the two residential facilities. Funding received relating to these projects is reported in the Property and Equipment Fund. The Government of Alberta has moved from grant to investment funding. In 2019, ownership of the two residential facilities will transfer to the Government of Alberta, with a lease agreement expected to be in place between the Centre and the Government of Alberta to ensure the properties maintain their stated use for a minimum number of years.

5. BANK INDEBTEDNESS

Bank indebtedness consists of one revolving loan, repayable on demand and bearing interest at prime plus 1%. The credit facility is secured by specific capital assets of the Centre.

6. FINANCIAL INSTRUMENTS

The Centre 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 Centre's risk exposure and concentration as of December 31, 2018.

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FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2018

6. FINANCIAL INSTRUMENTS *(continued)*

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Centre is exposed to credit risk from customers. In order to reduce its credit risk, the Centre reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Centre has a significant number of customers 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 Centre is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, bank indebtedness, long-term debt, and accounts payable.

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 Centre 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 Centre manages exposure through its normal operating and financing activities. The Centre is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

Unless otherwise noted, it is management's opinion that the Centre is not exposed to other significant risks arising from these financial instruments.

7. LONG TERM DEBT

	2018	2017
Automotive loan bearing interest at 5.49% per annum, repayable in monthly blended payments of \$598. The loan matures on February 14, 2019 and is secured by a vehicle.	\$ 1,191	\$ 8,091
Amounts payable within one year	(1,191)	(6,842)
	<u>\$ -</u>	<u>\$ 1,249</u>
Principal repayment terms are approximately:		
2019	<u>\$ 1,191</u>	
	<u>\$ 1,191</u>	

FRESH START RECOVERY CENTRE**Notes to Financial Statements****Year Ended December 31, 2018****8. RESTAURANT AND FOOD TRUCK OPERATIONS**

The financial statement figures reported below are attributable to the Centre's Memorial Cafe and Food Truck operations. These amounts are also reported in the financial statements on an aggregated basis with the other financial results of the Centre's Operating Fund.

	2018	2017
REVENUES		
Restaurant and food truck sales	\$ 19,723	\$ -
EXPENDITURES		
Salaries and wages - food	48,915	826
Consultant fees	20,310	-
Office and administrative - cafe	16,100	7,139
Restaurant Supplies	8,145	-
Travel and vehicle - cafe	7,876	-
Insurance - cafe	4,877	-
Professional fees - cafe	1,538	-
Utilities, phone and internet	622	-
Repairs and maintenance	329	-
	<u>108,712</u>	<u>7,965</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>\$ (88,989)</u>	<u>\$ (7,965)</u>
OPENING CASH BALANCE	\$ 439,817	\$ -
Deficiency of revenues over expenses	(88,989)	(7,965)
Changes in non-cash working capital		
Deposits	-	(57,000)
Accounts payable	(47,321)	44,403
GST payable	2,023	(6,322)
Purchases of property and equipment	(217,145)	(283,299)
Contributions	<u>250,000</u>	<u>750,000</u>
ENDING CASH BALANCE	<u>\$ 338,385</u>	<u>\$ 439,817</u>

9. COMPARATIVE FIGURES

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

10. INTERFUND TRANSFER

An interfund transfer was made in order to fund expenditures presented in the Operating Fund which meet the spending restrictions associated with contributions that have been recognized as revenue of the Property and Equipment Fund. These contributions have been recognized as revenue of the Property and Equipment Fund because they primarily relate to the Centre's building expansion campaigns.